# Connected


ANNUAL REPORT

2017

Because we have been making multiple connections with our customers for over 40 years, we know the needs of professional chefs around the world, which now makes us the world market leader in hot food preparation.

Our success story begins with a revolutionary connection: steam and hot air, combined in a single appliance! We have scrupulously pursued this idea by making our appliances more and more intelligent, but at the same time, simple, and by developing new technologies.

We are convinced that only those who seek connection and build networks, and know how to use them to provide maximum customer benefit, will be the ones to generate enthusiasm.

With ConnectedCooking, arguably the most modern digital network solution for professional kitchens, we have created a new service era. Or, as we like to say, a limitless connection.

# Local. Global. Connected.

### Thermal food preparation with RATIONAL and FRIMA

We are the global market and technology leaders in innovative solutions for thermal food preparation with a market share of around 50%. A key factor in our success is uncompromising customer orientation. Our primary corporate objective is as follows: "We offer the greatest possible benefit to the people preparing hot food in the professional kitchens of the world."

Our appliances are ideal for any organisation in which at least 20 warm meals a day are prepared. Our customer base ranges from restaurants and hotels to large-scale catering operations, such as company canteens, hospitals, schools, universities, military facilities, prisons and retirement homes, to quick service restaurants, caterers, supermarkets, bakeries, snack outlets, butchers' shops and service stations.

Expenditure on eating out has risen by 3 to 4% p.a. in recent years. Similar growth rates are also expected in the future. Consequently, the prospects for the catering industry are extremely promising. By being aligned to the basic human need to eat, the food service industry as a whole, and RATIONAL as its market leader, are less dependent on economic conditions than other sectors and companies.

The potential global market comprises more than 3 million customers, of which only around 30% use combi-steamers. 70% of all potential customers use traditional cooking equipment. The SelfCookingCenter® replaces conventional cooking technology and, thanks to its cooking intelligence, standard combi-steamers as well, thus providing additional market potential. There is similar market potential for the VarioCooking Center®. As the product has only been on the market for a few years, market penetration is still low. This huge untapped market potential will allow us to grow based on further market penetration and a rising demand for replacements.

It is part of our corporate philosophy to exploit this potential organically. We are frequently the trailblazers in developing new markets. This leads to increasing brand recognition and makes a lasting contribution to consolidating and building on our position as the global market leader. In the meantime, we maintain a presence in over 100 countries through our own sales companies and independent sales partners.

In addition to powerful high-quality products, we offer our customers a comprehensive service offering for the entire duration of the business relationship, enabling them to use their appliances in the best possible way at all times. ConnectedCooking provides an online portal for professional chefs and a cloud-based networking solution offered free of charge. Customers can use it to connect their appliances, control them remotely, update their software, and transfer cooking programs. With more than 120,000 members, ConnectedCooking is the biggest online platform for professional chefs.

One key foundation of our company's success is our focus on professional kitchens and on their core activity: cooking. Through this specialisation, we can offer our customers ever better solutions and thereby continuously increase their benefit. Our products set standards for cooking intelligence, cooking quality, user-friendliness, and resource efficiency. They can perform practically all cooking processes. They can grill, steam, gratinate, bake, proof, roast, braise, simmer, stew, poach, blanch, deep-fry, cook at low temperatures, and much more. Thus, they replace virtually all conventional cooking equipment in the professional kitchen and are winning over ever more customers worldwide.

Today, the RATIONAL combi-steamer is considered one of the most important cooking appliances in a professional kitchen. We are perceived as a provider of innovative solutions, supplying high-quality, reliable products accompanied by an outstanding level of service quality. According to our latest customer satisfaction survey conducted by TNS Infratest, 93% of our customers have confirmed that we offer them the greatest benefit. As a result, we continue to enjoy a significant market lead.

Another key factor in our success is the principle of the "Entrepreneur in the Company" (U.i.U.®). The U.i.U.® entrepreneurs operate as independent business people within their own area of responsibility, make the necessary decisions independently and take responsibility for them. At the end of 2017, we employed around 1,900 people, over 1,000 of whom are in Germany.

We are confident that we will be able to continue our success story in the coming years with the moderate growth trend of the past years and high profitability.

## Global presence

### Sales revenues by region in 2017

# Our products

## Maximum customer benefit due to easy handling, best cooking quality and efficiency

### Uniquely intelligent
### SelfCookingCenter®

The SelfCookingCenter® is a combi-steamer with intelligent cooking processes. The heat during cooking is transferred via steam, hot air or a combination of the two. SelfCookingControl® detects the size and consistency of the food and automatically determines the optimum cooking process, so that the desired result can be achieved with perfect precision every time and without any need for the cooking process to be supervised. Alongside cooking intelligence, the main unique selling points of the SelfCookingCenter® are high resource efficiency, ease and flexibility of use, as well as minimal cleaning and care effort. That leaves the cook time for the essentials: creativity and the well-being of his guests. With seven different appliance sizes, we can always offer the right product for all markets and customer groups.

### Smart cooking
### VarioCooking Center®

The VarioCooking Center® is a multifunctional cooking appliance. It cooks in liquids or in direct contact with heat and is up to four times faster than comparable products, with 40% less energy consumption. The cooking intelligence controls the cooking process fully automatically and perfectly matches it to the desired results for the dishes. The chef is notified as soon as he needs to take action himself. Nothing boils over, nothing burns. From restaurant businesses to communal catering establishments, we offer the optimum solution for all markets and customer groups with the five different models in the Vario-Cooking Center® range.

# Key figures

m EUR

| Sales and earnings | 2017 | 2016 | Change absolute | Change in % |
|---|---|---|---|---|
| Sales revenues | 702.1 | 613.0 | +89.1 | +15 |
| Sales revenues abroad (in %) | 87 | 87 | 0 | – |
| Cost of sales | 275.7 | 234.2 | +41.5 | +18 |
| Gross profit | 426.4 | 378.8 | +47.6 | +13 |
| as a percentage of sales revenues | 60.7 | 61.8 | –1.1 | – |
| Sales and service expenses | 171.5 | 155.6 | +15.9 | +10 |
| Research and development expenses | 33.2 | 28.8 | +4.4 | +15 |
| General administration expenses | 29.8 | 26.4 | +3.4 | +13 |
| Earnings before interest and taxes (EBIT) | 187.6 | 166.5 | +21.1 | +13 |
| as a percentage of sales revenues | 26.7 | 27.2 | –0.5 | – |
| Net income | 143.0 | 127.1 | +15.9 | +13 |
| **Balance sheet** | | | | |
| Balance sheet total | 570.7 | 539.8 | +30.9 | +6 |
| Equity | 424.5 | 397.0 | +27.5 | +7 |
| Equity ratio (in %) | 74.4 | 73.5 | +0.9 | – |
| **Cash flow** | | | | |
| Cash flow from operating activities | 145.9 | 129.5 | +16.4 | +13 |
| Cash-effective investments | 34.2 | 24.6 | +9.6 | +39 |
| Free cash flow[1] | 111.7 | 104.9 | +6.8 | +6 |
| **Employees** | | | | |
| Number of employees as at 31 Dec | 1,884 | 1,713 | +171 | +10 |
| Number of employees (average) | 1,836 | 1,653 | +183 | +11 |
| **Key figures RATIONAL shares** | | | | |
| Earnings per share (in EUR) | 12.58 | 11.18 | +1.40 | +13 |
| Year-end closing price[2] (in EUR) | 537.20 | 424.00 | +113.20 | +27 |
| Market capitalisation | 6,108.0 | 4,820.9 | +1,287.1 | +27 |

[1] Cash flow from operating activities less investments [2] Xetra

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Infinitely
smart.

Page
12

Automatically
easier.

# Connected

Page
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Update
successful.



Page
24

Contact
equals joy.

# “I was convinced from day one that, if you focus on a good idea and keep improving it, economic success will follow automatically.”

**In memory of**
**Siegfried Meister**
7.10.1938 — 28.7.2017
Founder of
RATIONAL AG

Customer focus

the outset, Siegfried Meister's was to do things better than lse. To this day, our prime con- we can use innovative cooking to make life easier for people professional kitchens. As the of chefs, we believe that their nore important to us than profit, nthusiasm more rewarding than th. We have maintained this as ny philosophy right up to the , while continuing to further op- ombi-steamer.

orld of our customers is chang- already asking today what will businesses tomorrow. It has al- our aim to know the challenges etter than anyone else. This is nefs are in regular contact with ers, and we are deeply convinced ill continue to give them the ers. The measure of our success remain in future our ability to expectations of the chefs time

with our employees, we will Siegfried Meister's legacy and is life's work with the deepest nt. And it is also thanks to their nt and creativity that we will write the success story of the Group.

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AL AG

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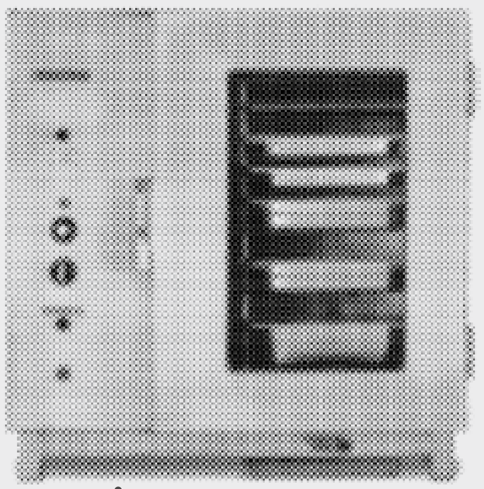
**In memory**
**Siegfried**
7.10.1938
Founder o
RATIONAL



“The first RATIONAL combi-steamer — a huge pioneering initiative and the beginning of a new era in hot food preparation.”

# Foreword by the Supervisory Board

**Dear Ladies and Gentlemen,**

Pioneers are people who are always ahead of their time, driven by a brilliant idea that they put into action and thereby inspire the whole world.

That's the kind of outstanding personality that Siegfried Meister was. Not only did he found our company, he was also Chairman of the Supervisory Board of RATIONAL AG right to the end. Last year, we had to bid farewell to him with great sadness but also with profound gratitude.

Like no other, he shaped innovation in professional kitchens over the past 40 years. Siegfried Meister came up with the idea for the combi-steamer as he was looking over his mother's shoulder while she was preparing a goose. Nobody imagined at the time just how big his idea would become one day. An appliance was created that combines many functions of traditional kitchen appliances, such as stoves, ovens and steamers, into one single appliance.

The benefits for chefs soon became apparent. It made their work easier, more plannable and more efficient. And most important, the cooking quality exceeded everything available on the market at the time. From a small founding team of 18 employees emerged today's global market leader in thermal food preparation.

Right from the outset, Siegfried Meister's aspiration was to do things better than everyone else. To this day, our prime concern is how we can use innovative cooking technology to make life easier for people working in professional kitchens. As the company of chefs, we believe that their needs are more important to us than profit, and their enthusiasm more rewarding than rapid growth. We have maintained this as our company philosophy right up to the present day, while continuing to further optimise the combi-steamer.

Customer focus

Since the world of our customers is changing, we are already asking today what will shape their businesses tomorrow. It has always been our aim to know the challenges they face better than anyone else. This is why our chefs are in regular contact with our customers, and we are deeply convinced that we will continue to give them the right answers. The measure of our success is and will remain in future our ability to exceed the expectations of the chefs time and again.

Together with our employees, we will preserve Siegfried Meister's legacy and continue his life's work with the deepest commitment. And it is also thanks to their commitment and creativity that we will continue to write the success story of the RATIONAL Group.

**Walter Kurtz**
Chairman of the Supervisory Board
of RATIONAL AG

**Dr Peter Stadelmann**
Chief Executive Officer

Born in 1965, Dr Peter Stadelmann has been a member of the Executive Board at RATIONAL since 2012. He has been CEO since January 2014. He previously spent over 20 years in a variety of managerial positions at the Malik Management Centre St. Gallen. Between 2006 and 2012, he held the position of CEO for the entire Malik corporate group. //

**Dr Axel Kaufmann**
Chief Financial Officer

Born in 1969, Dr Axel Kaufmann has been Chief Financial Officer at RATIONAL since October 2015. After completing training and studies, he joined Deutsche Bank, and was then at Siemens AG for over ten years before moving to Nokia Networks, where he took up managerial positions in the areas of finance and strategy. From 2010, he was Chief Financial Officer at Koenig & Bauer AG. //

**Peter Wiedemann**
Chief Technology Officer

Born in 1959, Peter Wiedemann joined RATIONAL GmbH in 1988 as an engineer. He went on to work as a product manager, supported the development of the American subsidiary and took over the technical division as a member of the management team in January 1996. Since September 1999, he has had the same responsibility as a member of the Executive Board. //

**Markus Paschmann**
Chief Sales Officer

Born in 1966, Markus Paschmann has been Chief Sales Officer at RATIONAL since December 2013. After graduating in industrial engineering, Markus Paschmann launched his career at Siemens AG. He then joined the Harting Technologiegruppe to manage the Electronics Global Business Unit and was CEO. In 2006, he joined the Executive Board of Sick AG. //

# Letter from the Executive Board

**Dear Shareholders,
Customers and Business Partners,**

We ask ourselves every day what else we can do to make daily working life easier for our customers. Around 1,000 chefs visit customers in professional kitchens all over the world around the clock on our behalf. They listen, ask questions, try things, advise, test, and, of course, cook and eat. Through this network, we have developed very personal relationships with our customers; therefore, we know their needs and the challenges they face, down to the smallest detail. This helps us to develop innovative products and services that provide support for our customers wherever they need it. By taking care of the tedious tasks and improving the workflows in the kitchen, our appliances give them more time to try out new ideas.

In 2017, we once again were able to positively surprise our customers with ConnectedCooking, despite the high expectations placed on us. In ConnectedCooking, we have created the most modern digital networking solution for the professional kitchen.

ConnectedCooking provides an extensive library with thousands of international recipes free of charge. Our customers can download them to their devices with a simple click of the mouse. Numerous tips and tricks from experts, suggestions and videos on how to optimise the kitchen round out the offering. From now on, RATIONAL and FRIMA appliances can be easily networked, managed and remote-controlled by smartphone. Users can transfer and manage cooking programs with great ease, while legally required food hygiene data is documented automatically (HACCP documentation). ConnectedCooking can be used on PCs, tablets and smartphones. And it goes without saying that it meets the highest security standards.

### Corporate quality through employee quality

In order to continue to strengthen our close ties with our customers and give them the best products and services available in the market in future, we need the kind of employees and managers that are best for our business. We are proud to have such people in our company already. Our committed employees think and act like Entrepreneurs in the Company (U.i.U.®). They know their jobs and complete the respective tasks; they enhance their own working methods; they take responsibility for the work they do; and they make the necessary decisions. And of course they always have one question at the back of their minds: will this benefit our customers? In this way they make a significant contribution to securing the company's long-term success.

"As a company of chefs for chefs, we are closely connected to our customers. Because we are part of their world, we can surprise them time and again with new innovations that will improve their daily working lives."

Connectivity is the key.

Our employees and managers feel closely connected to RATIONAL, as this impressive statistic reveals: 89% of our employees are proud to work at RATIONAL. I want to thank all our colleagues and managers for their commitment, because a company can only ever be as good as its employees. They deserve credit for the continued success of the company, and I want to express my profound appreciation to them.

### Close customer proximity and business success

Although the 2017 fiscal year was also marked by many uncertainties and mixed economic performance in the most important markets, global economic output rose again by more than 3%.

By virtue of their close relationships with our customers, our employees succeeded again in the past fiscal year in setting new records for sales revenues and profit, despite the continuing economic uncertainty. We generated a 15% increase in sales revenues, establishing a new record of 702 million euros. Adjusted for negative currency effects, our organic sales revenue growth was 16%. It is especially encouraging that virtually all regions around the world contributed to this increase. Developments in the North and Latin America and Asia regions were particularly positive.

EBIT (earnings before interest and taxes) was up significantly from last year's very good level, at 188 million euros. The EBIT margin was 27% (2016: 27%), thus remaining at a high level within the defined target range of 26% to 28%.

### Dividend of 11.00 euros proposed

Through lively exchanges and in a spirit of partnership, we remain keenly aware of our shareholders' views. We will again let them have an adequate share of the company's success this year. The Executive Board and Supervisory Board will therefore propose a dividend of 8.80 euros per share and a special dividend of 2.20 euros per share for the 2017 fiscal year to the General Meeting of Shareholders to be held on 9 May 2018. Based on the net profit for the year, this translates into a distribution ratio of 87%.

### Into 2018 with confidence and commitment

According to the latest forecasts, the global economy is set to grow moderately in 2018. Nevertheless, we will keep a watchful eye on developments in our markets in order to be able to take action if conditions change.

**89%** of our employees are proud to work with us.

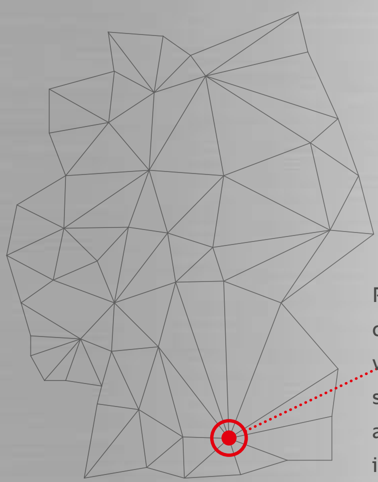
As in the previous year, we surveyed our customers in 2017 to find out how satisfied they were with us. 93% of them have confirmed that we offer them the greatest benefit. They would therefore buy one of our products again at any time and also recommend them to their colleagues. In order to increase our competitive advantage and the high level of customer satisfaction even further in future, we will make targeted investments in our innovation and global sales capabilities.

In view of the wide acceptance of our appliances and the large global market potential, we believe we can continue our successful growth policy for sales revenues and profit in 2018.

We thank our customers and business partners and you, our shareholders, for placing your confidence in us in the past fiscal year.

**Dr Peter Stadelmann**
CEO of RATIONAL AG

# Local. Global. Connected.



Sales
Germany


RATIONAL appliances are distributed around the world from the Bavarian site in Landsberg am Lech and from the French site in Wittenheim.

"RATIONAL combines the very best employees and experts at all times for the success of its customers. It is because we remain in a lifelong partnership with our customers around the world, and work tirelessly to put the very latest technology into our products, that we are able to develop products that set standards."


**7.6** billion

people live on earth.

**80**

million are added every year.

**120,000,000**

dishes are prepared in RATIONAL appliances every day.

**1,900**

employees worldwide.

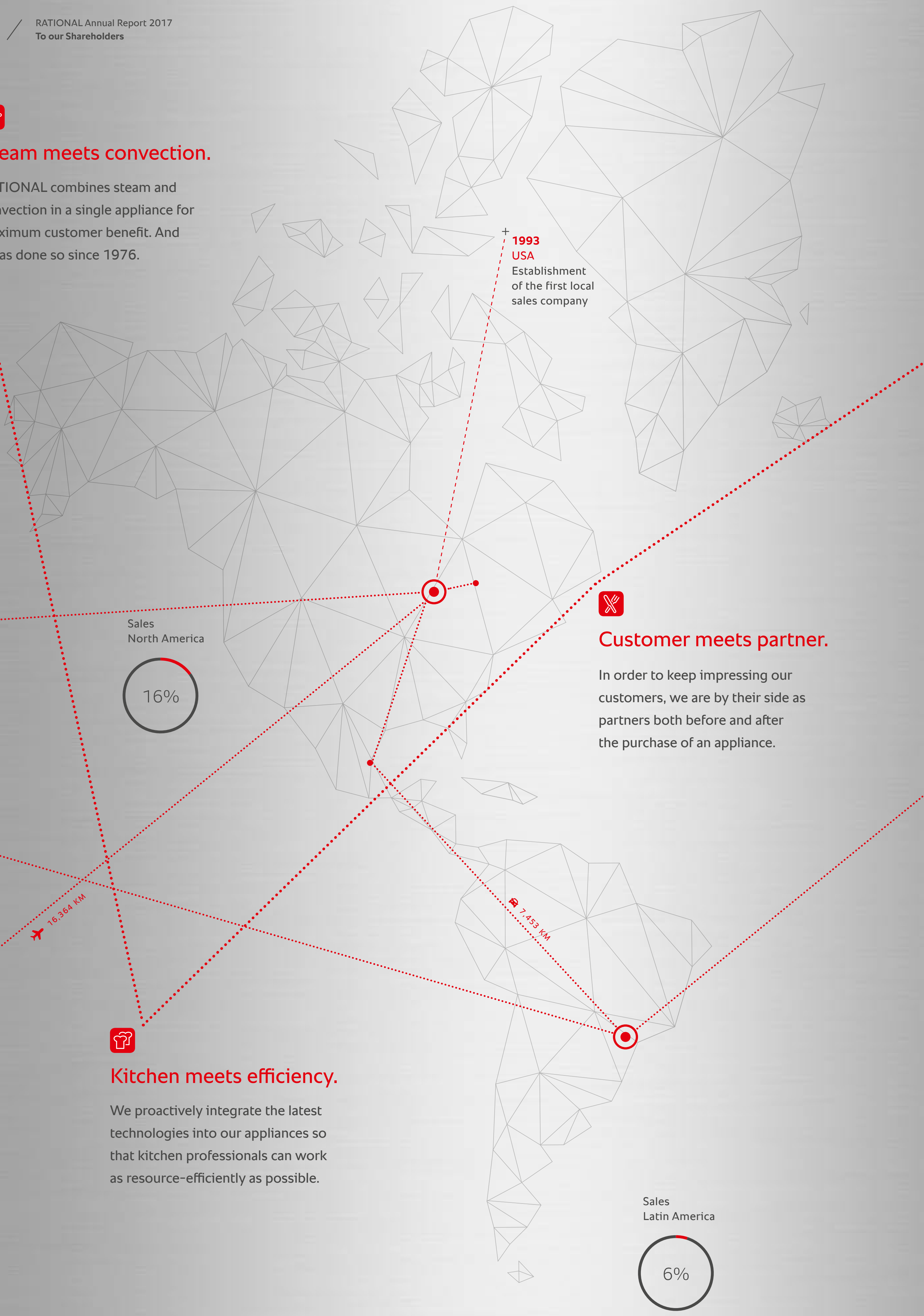
**93%**

very satisfied customers.

The world population keeps on growing. More and more people are living in cities and going out to eat. A challenge for any commercial kitchen. Thanks to our international sales and service structure, we are able to meet the growing worldwide demand for our products and services while making the working day easier for chefs around the world.

## Steam meets convection.

RATIONAL combines steam and convection in a single appliance for maximum customer benefit. And it has done so since 1976.




## Customer meets partner.

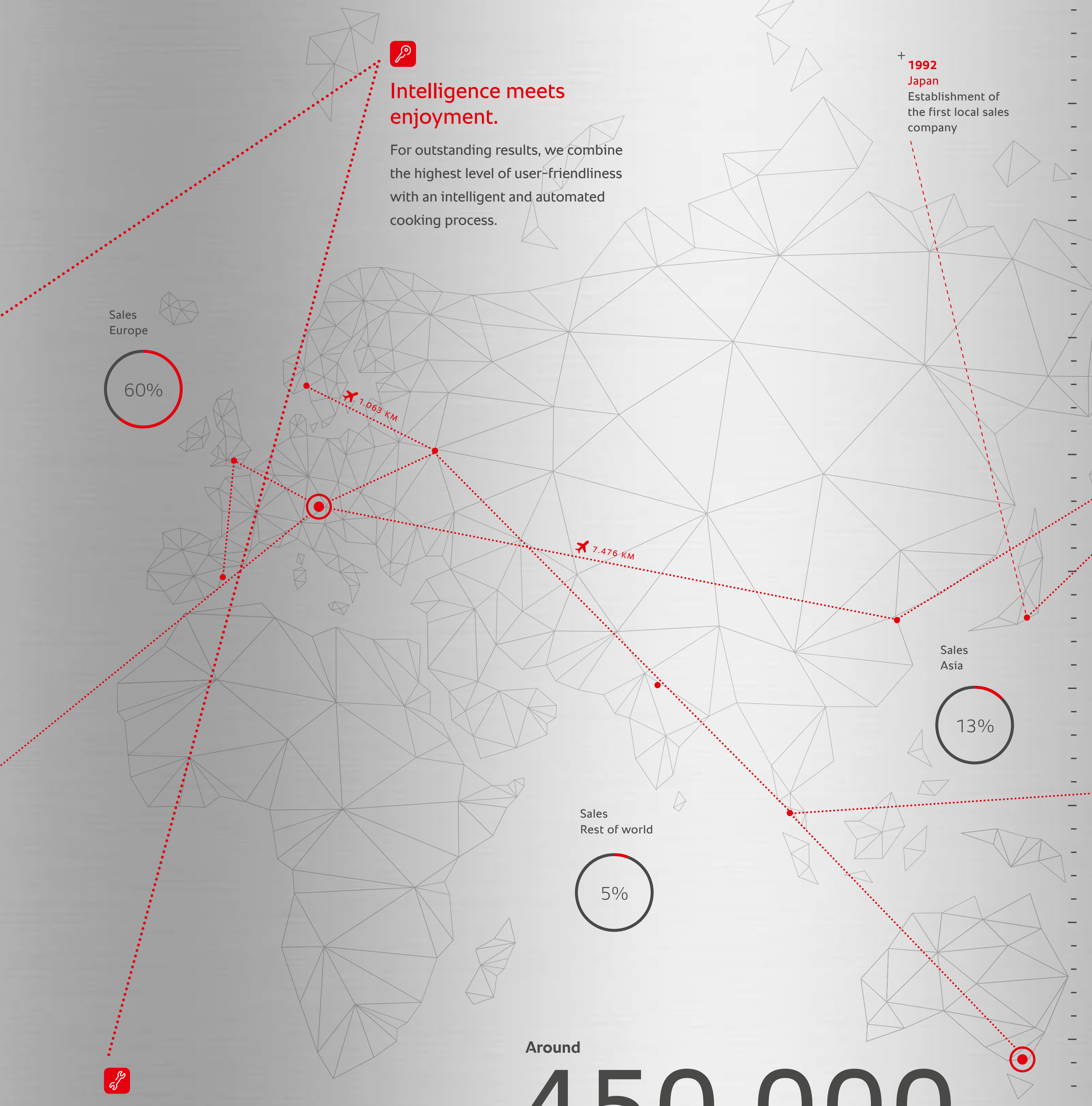
In order to keep impressing our customers, we are by their side as partners both before and after the purchase of an appliance.

## Kitchen meets efficiency.

We proactively integrate the latest technologies into our appliances so that kitchen professionals can work as resource-efficiently as possible.

## Intelligence meets enjoyment.

For outstanding results, we combine the highest level of user-friendliness with an intelligent and automated cooking process.




## Thinking ahead meets action.

For our unique power of innovation, we combine the technical know-how of physicists, food scientists and engineers with the practical expertise of our master chefs.

**Around**

# 450,000

SelfCookingCenter® units with integrated iCookingControl® sold.

**Growth by almost**

# 4%

The takeaway market is growing every year.

**More than**

# 4,000

partners worldwide.

# Automatically easier.

What really matters in
a professional kitchen

**Connected through progress.**
Markus Paschmann and Peter Wiedemann talk about the future of hot food preparation.

Since the company was established, the RATIONAL name has stood for crucial innovations in hot food preparation. How does clever digitalisation of work make things even easier for chefs? An interview with Peter Wiedemann, Chief Technical Officer, and Markus Paschmann, Chief Sales Officer.

**In 1976, RATIONAL revolutionised commercial kitchens with the combi-steamer. In 2017, you created the biggest digital platform for kitchens with ConnectedCooking. How are these two innovations connected?**

**Paschmann:** Looking back, the combi-steamer has remained the greatest invention in the professional kitchen for many decades. 40 years have passed between the launch of the combi-steamer and the launch of ConnectedCooking. What clearly connects these two innovations is the consistent orientation towards maximum benefit for our customers.

**Wiedemann:** Technologies also underscore the high demands we place on ourselves. We consistently offer the technically very best of products and services available on the market. With ConnectedCooking, we have created arguably the most modern network solution for kitchens. In its development, we have stayed true to our basic principle: we use new technologies where they further simplify processes in the kitchen.

**Automation and digitalisation have long been significant components of the RATIONAL Group strategy. What role does connectivity play now?**

**Wiedemann:** Connectivity is the logical continuation of our path. Ever since the launch of the SelfCookingCenter® in 2004, we have been the digitalisation leaders in hot food preparation. Our integrated cooking intelligence enables the perfect cooking result without any supervision, and it is consistently reproducible. This represents progress which has not been achieved by any of our competitors so far. It is only through the appropriate use of the latest technology that we can continually surpass the expectations of our customers.

"With ConnectedCooking, we have created arguably the most modern network solution for kitchens. Connectivity is the logical continuation of our path."

**Peter Wiedemann**
Chief Technical Officer

**Paschmann:** We have been connected with our customers since long before the invention of ConnectedCooking. Personally, but also digitally: through Club RATIONAL we have been connected with 125,000 chefs around the world since 2006. ConnectedCooking is the next logical step. It offers completely new services for even more customer benefit.

**The RATIONAL Group employs over 1,000 master chefs. They understand the challenges of professional chefs first hand. Which problems does a kitchen network resolve?**

**Paschmann:** The greatest challenges of our customers are the acute skills shortage and the increasing time and cost pressure. And the expectation of customers for perfection in a dish is much higher today. Because wealth is increasing in many parts of the world, there are also more and more people in restaurants and canteens. With a kitchen network, we are helping our customers to face the skills shortage, to further optimise their kitchen processes, and to offer their customers a greater variety of dishes and better food quality.

**Wiedemann:** Professional chefs rely on excellent technical service to meet their challenges, even in remote regions. ConnectedCooking opens up many new possibilities to support them in this effort. Our Service Partners are now able to diagnose errors remotely and sometimes even fix them immediately. So if an error occurs, this means appliances can be put back into operation much more quickly.

**What other benefits do customers enjoy with ConnectedCooking?**

**Wiedemann:** One innovation, for example, is remote operation: chefs can operate or monitor their RATIONAL or FRIMA appliances from anywhere via their smartphone and receive real-time push notifications on everything that is happening in and on the appliances. Installation is very simple. The RATIONAL appliance or FRIMA VarioCookingCenter® is simply connected to a network.

**Paschmann:** Another benefit is that we have integrated Club RATIONAL and My FRIMA in ConnectedCooking. This allows for transparency in the kitchen and simplifies the operation of the appliances, especially for customers who own both RATIONAL and FRIMA appliances. All SelfCookingCenter® appliances can very easily be operated via smartphone. This gives our customers more time for what's important, cooking.

"Because only if we know the wants and needs of chefs will we be able to handle their challenges in the best possible way."

**Markus Paschmann**
Chief Sales Officer

**Could digital networking replace personal contact one day?**

**Paschmann:** Our business would never function without personal contact with our customers. The close connection with them has always been the foundation for the success of our company and will continue to be so in the future. Because only if we know the wants and needs of chefs will we be able to handle their challenges in the best possible way.

**Wiedemann:** When it comes to the subject of connectivity, human beings are often replaced by technology. We are doing the exact opposite: ConnectedCooking is another tool with which we support our customers. And so we connect with chefs, chefs with their appliances and chefs amongst one another. All with a clear objective of making working in kitchens easier.


## Always one step ahead. Automated. Digital. Connected.

**1976**

**Invention of the RATIONAL combi-steamer**

The combi-steamer combines steam and convection in a single appliance with the automation of precise cooking.

**2004**

**Invention of the RATIONAL SelfCookingCenter®**

The power of the combi-steamer combined with our unique digital cooking intelligence iCookingControl®. As the first, and so far only, of its kind, the SelfCookingCenter® can cook fully automatically.

**2006**

**Introduction of Club RATIONAL**

The most successful digital database in the industry connects professional chefs worldwide. With over 10,000 recipes, how-to videos, and useful tips.

**2013**

**Presentation of the RATIONAL KitchenManagement System (KMS)**

For the first time, our customers were able to connect, control remotely, monitor, and update up to 30 SelfCookingCenter® appliances with KMS. This was the first step into the world of kitchen networks.

**2017**

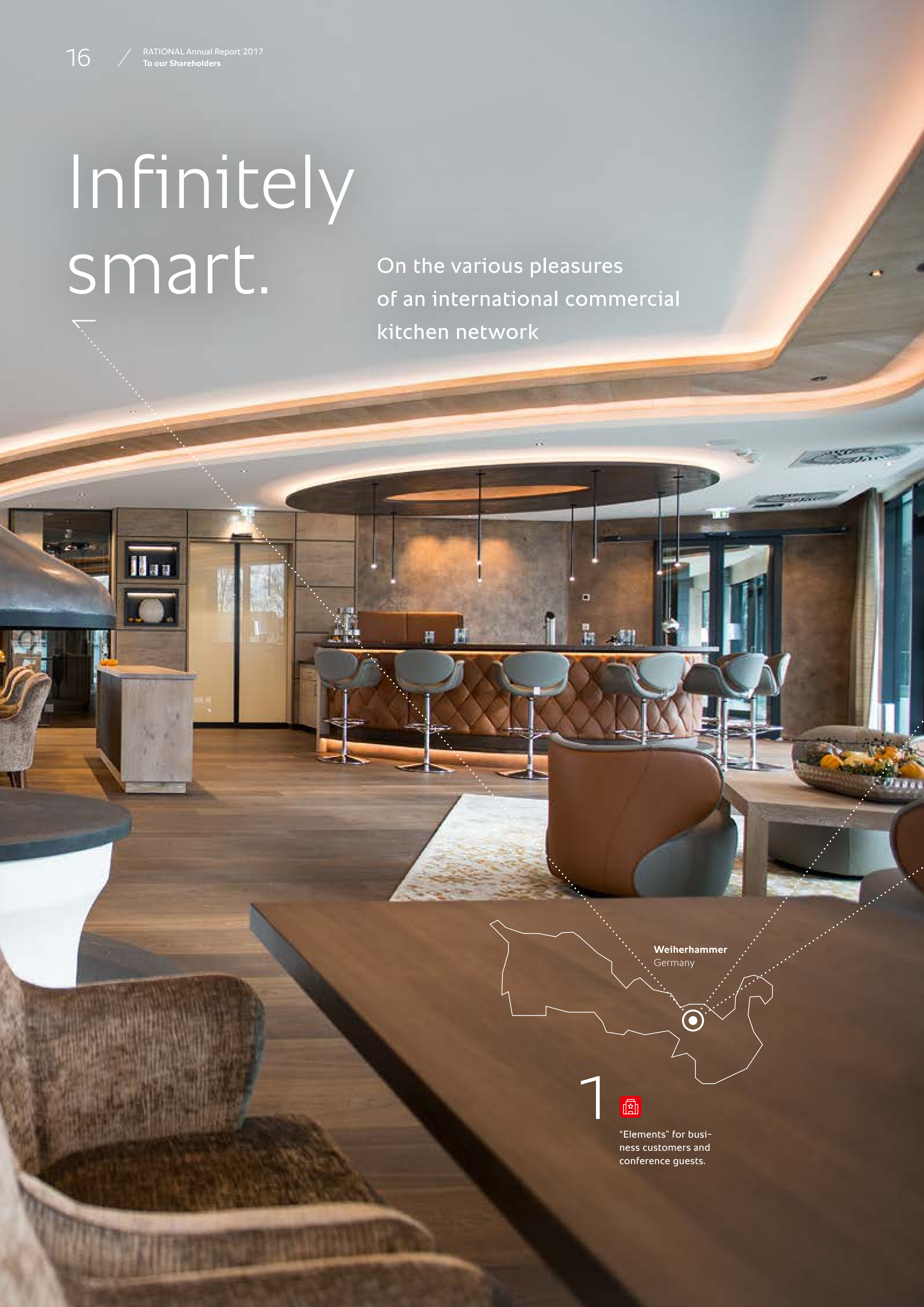
**Introduction of ConnectedCooking**

Arguably the most modern network solution for professional kitchens combines the advantages of Club RATIONAL and My FRIMA with unlimited possibilities for connectivity.

You can find out more about our innovations at www.rational-online.com.

# Infinitely smart.

On the various pleasures of an international commercial kitchen network

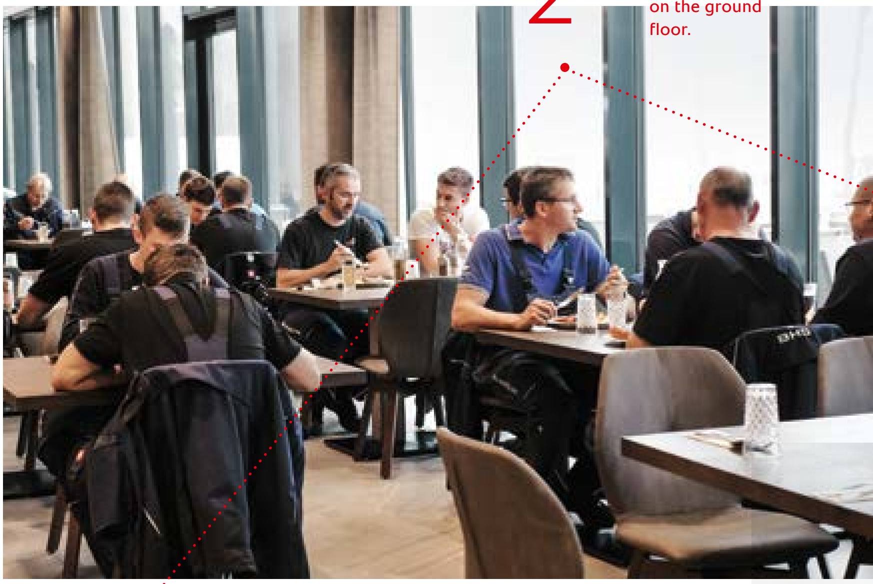



1

"Elements" for business customers and conference guests.

2

Experience lunch — “News” on the ground floor.



3

He attaches great importance to every customer finding the right dish on the menu.

**4 yachts**
The Mediterranean

“Welcome”, says master chef Thomas Wenger cheerfully. He welcomes us inside the newly established company restaurants at BHS Corrugated in Weiherhammer, in the Upper Palatinate district. The 44-year-old co-designed the two restaurants according to his own ideas. “News” on the ground floor for the employees and “Elements” for business customers and conference guests one floor above. His commercial kitchen is equipped with the latest RATIONAL and FRIMA appliances, which are connected with the worldwide sites of the company through the digital platform ConnectedCooking.

At the helm of an international kitchen network with multiple locations, Mr Wenger is himself often surprised at the new possibilities offered by connectivity. Within seconds, he can cross the Atlantic digitally to give his colleagues in the USA culinary advice. And in the next moment, he can be dialling into his team in China. At the push of a button, he knows what is happening in and on the appliances at all locations. All that Mr Wenger needs for this is a smartphone.

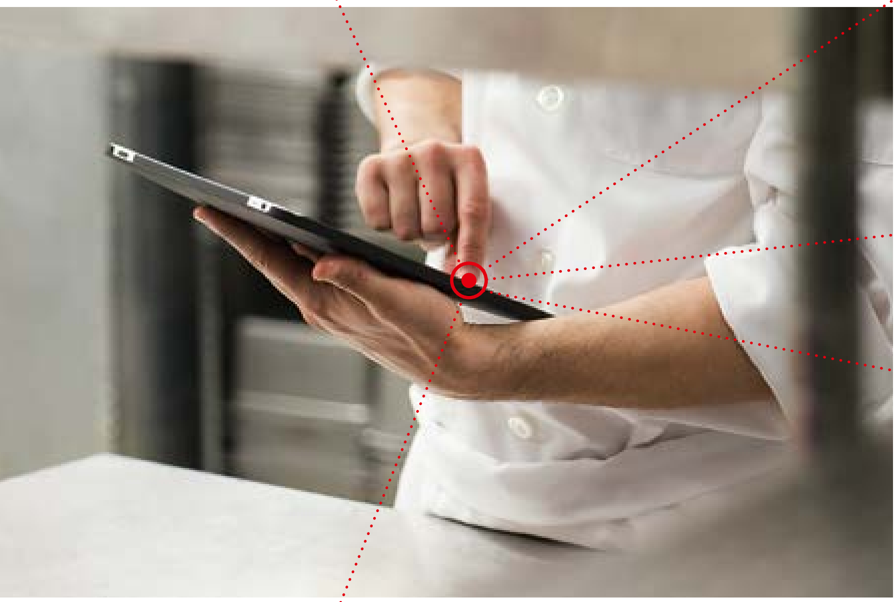
Within seconds, Mr Wenger can cross the Atlantic digitally to give his colleagues in the USA culinary advice. And in the next moment, he can be dialling into his team in China.

**Trnovec Bartolovecki**
Croatia

**Tachov**
Czech Republic

4

Control the entire RATIONAL world at the push of a button.



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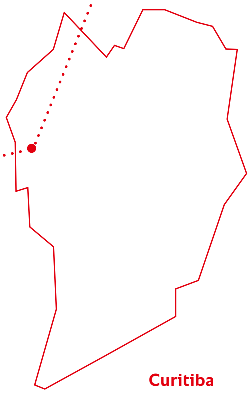
Never has net-working across Mr Wenger's kitchens been easier.



**Curitiba**
Brazil

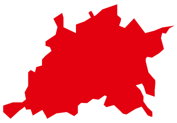
If chefs from other countries are visiting, Mr Wenger invites them to his kitchen. They surprise customers in the restaurant by serving regional specialties that offer more variety. The guest chefs bring the appropriate cooking programs with them or they can simply download them from the RATIONAL database via Connected-Cooking. Once saved, the programs can be run on all appliances at the same time.

“Thanks to new technology, I can guarantee our customers in all company restaurants around the world a wide variety of dishes at the same level of quality,” says Mr Wenger, “even if one of the chefs is absent for a while.”

From grilled salmon to curried sausage with chips, it is all on Mr Wenger's menu. He attaches great importance to every customer finding the right dish on the menu, because it is not just the technical capabilities of his commercial kitchen that have changed but the expectations of his customers too. Today, it is not simply variety in the dishes that they desire, but also different dietary requirements, such as gluten-free, vegan and vegetarian options. With the many possibilities opened up by a kitchen network, it is easier to meet all the different requirements of customers at the same time.

Every dish is prepared perfectly hygienical-ly, and full evidence of this is provided by the automatic HACCP documentation,





which can be retrieved at any time in an easy-to-read format. “Because we no longer have to do many time-consuming routine tasks, this has given us a lot of new freedom”, says Mr Wenger.

At lunchtime, you can smell the aromas of Italian herbs. Many customers have preordered their meals from the App, stated their dietary restrictions, and have already reserved a table. Once the customer comes into the restaurant, the kitchen is automatically informed.

Mr Wenger takes his mobile and scans new delicious recipes. RATIONAL creates room for what’s important: “We have more time to try out new ideas. And customers have more time to eat together, chat and come up with ideas.”

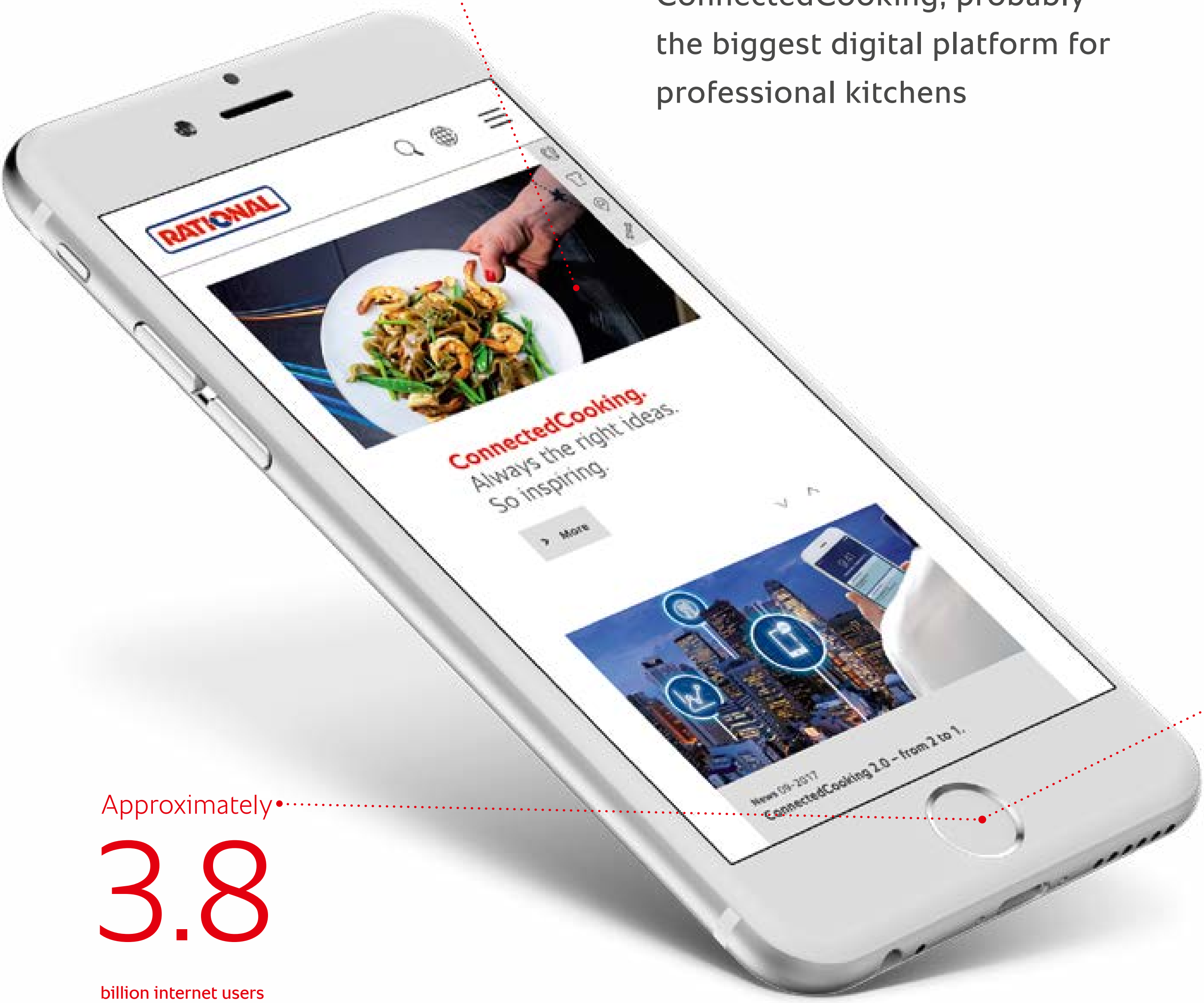
“Intelligent networking makes cooking in our company kitchens around the world much more convenient.
It creates room for what we love about our profession: impressing our customers.”

**Thomas Wenger**
Master Chef,
BHS Corrugated

You will find the video on the story at www.rational-online.com.

# Update successful.

The future of cooking is called ConnectedCooking, probably the biggest digital platform for professional kitchens




Approximately

3.8

billion internet users worldwide, which is 50% of the total population.

ConnectedCooking won the “Smart Label Award” in the “Interaction, Connectivity and Internet of Things” category.

Some innovations sound a little futuristic. Yet they are already a reality today, just like ConnectedCooking, arguably the most modern network solution for professional kitchens. Regardless of how many RATIONAL or FRIMA appliances the customer owns, or how many branches they operate in various parts of the world. Thanks to ConnectedCooking, all appliances to be controlled centrally and managed digitally, anywhere and at any time using a smartphone, tablet, or PC. This makes it possible for kitchen professionals to have everything under control.

With the kitchen network, the RATIONAL Group supports its customers in all their challenges. This creates room for more convenience, more inspiration and unprecedented process reliability. In order to benefit from the various advantages, customers can simply connect their RATIONAL appliance or VarioCookingCenter® to a network.

**From 3 to 1: use all the benefits.**
The best of three worlds bundled in a single digital platform: ConnectedCooking, Club RATIONAL and My FRIMA are now one. Both RATIONAL and FRIMA appliances can now be connected quickly and simply and operated centrally.

Once registered on ConnectedCooking, professional chefs can access all services, such as the more than 10,000 international recipes and numerous practical how-to videos.

Easy to control via smartphone or tablet.

**Operate appliances remotely.**
With remote access, professional chefs can easily operate all connected appliances via their smartphone or PC. They can view all data at a glance, and can change the settings on the appliances as they wish. Current climate? Remaining cooking time? The transparent appliance overview makes it easier to find a unit and add the appropriate food product.

**Improved service.**
Is something wrong with an appliance? ConnectedCooking will immediately send a message to the user or to the Service Partner if desired. Based on the service data reading, the right decision for quick troubleshooting can be taken immediately.

Have a look yourself at www.rational-online.com.

**Simpler updates.**
Previously, software updates had to be transferred with a memory stick to RATIONAL and FRIMA appliances. Those days are over! With ConnectedCooking, the latest updates are provided automatically and free of charge. Simply start update and the appliances will be brought up to date in no time.

Even cooking programs can be easily transferred to all appliances. Simply select the desired cooking program and send. And everything gets sent to where it belongs, on every appliance wherever it may be. This saves time and money.


**Receive push notifications.**
Thanks to ConnectedCooking, professional chefs always know what is happening on and in their units. Whether it is a load, finished or service notification, you will receive messages with all the relevant information in real time. Whether out and about or at another branch: it doesn't matter where the master chef is.

2.3 billion smartphone users worldwide. This means there are more smartphones than toothbrushes in the world.

# Contact equals joy.

## How we impress our customers at every opportunity

Common goals create closeness. The goals of our customers are also ours: less stress, more efficiency, and most important: the fun in cooking. That's why we meet professional chefs where they are and accompany them throughout the product life cycle. Our common journey begins long before the purchase of an appliance and lasts until long after the purchase. Our aspiration is to impress our customers at every point of contact.

About 1,000 master chefs make new connections with our customers every day. They listen. They provide on-site consultancy. And of course cook and eat with them. Only those who really know chefs and their challenges around the world can know today what the professional kitchens of tomorrow will need. That is why we always stay in contact through new channels and never stop listening to our customers better than anyone else.

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"Thanks to RATIONAL, we are always with the times in our cooking and always up to date on how we can further optimise our kitchen processes."

**Julia Carmen Desa & Chef Jatin Malick**
Co-owners,
Tres Restaurant & Bar,
Delhi, India

# Quality speaks for itself.

"If professional chefs are not yet familiar with RATIONAL, they usually hear about us through recommendations. We are fortunate that our customers share with their colleagues their positive experiences with us as much as they do. Simply because they are impressed by RATIONAL."

**Kai Wozinski**
Vice President Sales Excellence, RATIONAL

"We saw the SelfCookingCenter® in action for the first time at the RATIONAL CookingLive. When I tried the food there, and experienced how much time could be saved and how easy it was to use, then I knew that I needed this equipment for my kitchen."

**Raghavendra Rao**
Owner, Kadamba, Bangalore, India

# Around 400,000 customer contacts in 2017

**Experience the benefits live.**
Potential customers can visit us worldwide at more than 100 regional, national and international trade fairs. They can cook and eat with our master chefs. Visitors can experience live how RATIONAL improves the daily routines in a kitchen. At our 17,000 CookingLive events and RATIONAL Academy demonstrations in 2017, they experienced this in more detail.

**Start immediately — personal consultancy.**
After the purchase, our technical Service Partners will quickly and reliably install the appliances. Our master chefs will personally show professional chefs how to use them to meet their requirements in the best possible way, whenever customers require the necessary support.

**Always there for the customer — technical service around the clock.**
In the event that something goes wrong, a dense network of Service Partners is there for our customers, in more than 100 countries with a guaranteed supply of spare parts, even at weekends.


"RATIONAL Service Partners are a part of our catering team. We have a great relationship with them: nothing is too much effort for them and they are always there when we need them."

**Bev Spencer**
Head of Catering, Epsom College

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**Chefs become fans.**

**Roland Haase, Head of Marketing Communication, RATIONAL:** "Facebook, Twitter and YouTube are important points of contact for us. Our customers and partners are very active and they appreciate the contact with us. With ConnectedCooking, we have created another option: here our customers can connect to a network with their appliances, with each other, and can also upload recipes to ConnectedCooking."

More than

# 1,200

certified Service Partners worldwide

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"We got so many useful tips and no question remained open. It is just amazing what the SelfCookingCenter® can do!"

**Academy RATIONAL participant Michael Lutteropp**
Head Chef, Kassel Fire Station,
Kassel, Germany

# RATIONAL Shares

Compared to the issue price at the time of the IPO in March 2000, RATIONAL shares have increased by a factor of around 22 (+2,236%). Shareholders of the first hour, therefore, can be delighted about an average annual price appreciation of more than 19%. Taking into account paid out dividends, this results in an average annual return of even just under 23%.

23%

Average annual return* for RATIONAL shareholders since the IPO (including dividends)

* Based on the 2017 year-end closing price

## RATIONAL shares hit a new all-time high

On the back of robust global economic growth, stock markets worldwide followed an upwards trend throughout 2017. In addition, the continuing expansionary monetary policies of the central banks tended to have a positive effect on share price performance.

Driven by these circumstances, the DAX, MDAX and SDAX—the key German indexes for RATIONAL—were on an upwards trajectory in the first half of the year. In the second half of the year, the DAX lost some of its momentum, while the SDAX continued on its clear upwards trend. The DAX ended the year at 12,918 points, and the SDAX finished at 11,887 points, slightly below its all-time high reached in October. For the year as a whole, both indexes were significantly higher than in the previous year: the DAX was up 13% and the SDAX rose by 25%.

Despite their high starting level, RATIONAL shares once again outperformed their comparative indexes in 2017. After tracking the general market trend in the first half of the year, the share price for the first time breached the 500 euro barrier in the third quarter, following the increase in the growth outlook announced on 11 July 2017. In the following months, the shares continued their strong rally, reaching a new all-time high of 596.35 euros in intraday trading on 4 October. Following the publication of the business figures for the third quarter of 2017, our analysts revised their price targets for RATIONAL shares. They range between 540 and 550 euros on average. In the fourth quarter of 2017, our share price retreated again to end the year 2017 at 537.20 euros.

Compared to the 2016 year-end closing price of 424.00 euros, this equates to a rise of 27%. Including the dividend distribution of 10.00 euros, this represents an overall return of 29% for RATIONAL shareholders in 2017. As at the balance sheet date, RATIONAL AG's market capitalisation stood at around 6.1 billion euros.

### Performance of RATIONAL shares since IPO in 2000

Index (issue price 23.00 EUR = 100) in %


## Stable share performance thanks to sustainable corporate strategy

Our shareholders' confidence is founded on our Company's strategy, which is geared toward sustainability over the long term. That is also the foundation for our growth and profitability. This is evidenced by the traditionally high valuation—measured by the price-earnings (P/E) ratio—compared to the relevant reference indexes.

Compared to the issue price at the time of the IPO in March 2000, the share price has increased by a factor of 22 (+2,236%). This corresponds to an average annual price increase of 19%. Furthermore, dividends of 76.05 euros per share have been paid out to shareholders since the time of the IPO. This means that shareholders who invested in the Company right from the start are now receiving an overall return of just under 23% per annum.

### Historical development of RATIONAL shares and relevant benchmark indices on 30 December 2017

in %

| | 1 year | 3 years | 5 years | Since IPO |
|---|---|---|---|---|
| RATIONAL AG (share price development) | +27 | +107 | +146 | +2,236 |
| RATIONAL AG (incl. dividends)* | +29 | +119 | +175 | +3,660 |
| DAX 30 | +13 | +32 | +70 | +62 |
| SDAX | +25 | +65 | +126 | +274 |

* Assumption: reinvestment of dividends at the opening price of the ex-dividend date

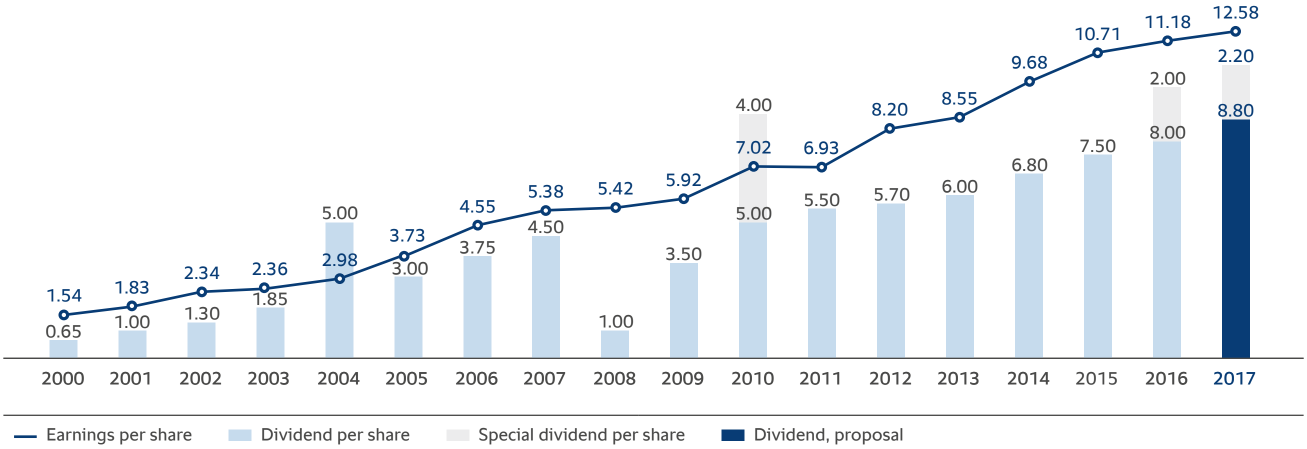
## RATIONAL on the SDAX

Our shares have been listed in the "Prime Standard" since the IPO, and are traded in all German stock exchange centres. In September 2017, the shares were assigned back to the SDAX after one year in the MDAX. This was attributable to the order-book criterion, where we ranked in 61st place in Deutsche Börse's MDAX/SDAX ranking in September, thus narrowly missing the threshold for inclusion. As at December, we were in 58th place in this ranking. In terms of market capitalisation, RATIONAL was in 46th place, thus meeting this criterion if considered separately.

The average daily trading volume on Xetra was 6,824 shares in 2017 (previous year: 6,222 shares). To support the liquidity of the shares, HSBC Trinkaus & Burkhardt AG acts as the designated sponsor.

Since September 2013, the tradability of RATIONAL shares has been upgraded in the form of ADRs (American Depositary Receipts) for investors in the US capital market. ADRs are depositary receipts for non-US shares, which can be traded on US equity markets via a depositary bank instead of the original securities. No depositary agreement exists between

## Earnings/dividend per share since the IPO




RATIONAL and the Citigroup depositary bank ("unsponsored ADRs"), so the arrangement does not give rise to any follow-up obligations for RATIONAL.

### Earnings per share

At 12.58 euros, earnings per share in 2017 exceeded the previous year's figure of 11.18 euros. This was thanks to sales revenue growth over the past fiscal year and the high earnings power of the Company. The number of shares issued remains unchanged at 11,370,000. No dilution effects occurred.

### Dividend of 11.00 euros proposed

We would like to continue our course of stable and rising dividends this year and once again let our shareholders have an adequate share of our successful business performance.

## RATIONAL shares — key figures

| | **2017** | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| Number of shares[1] (in millions) | **11.37** | 11.37 | 11.37 | 11.37 | 11.37 | 11.37 | 11.37 | 11.37 | 11.37 | 11.37 |
| Year-end closing price[2] (in EUR) | **537.20** | 424.00 | 419.90 | 259.75 | 241.10 | 218.00 | 168.20 | 161.89 | 115.99 | 82.61 |
| Market capitalisation[1 2] (in m EUR) | **6,108.0** | 4,820.9 | 4,774.3 | 2,953.4 | 2,741.3 | 2,478.7 | 1,912.4 | 1,840.7 | 1,318.8 | 939.3 |
| Free float market capitalisation[1 2] (in m EUR) | **1,777.6** | 1,403.5 | 1,391.6 | 860.9 | 799.5 | 722.9 | 546.7 | 524.5 | 374.8 | 266.9 |
| Average trading volume[2] (in shares) | **6,824** | 6,222 | 5,449 | 6,883 | 6,746 | 6,085 | 9,479 | 7,994 | 10,962 | 18,176 |
| Dividend per share for fiscal year[4] (in EUR) | **11.00** | 10.00 | 7.50 | 6.80 | 6.00 | 5.70 | 5.50 | 9.00 | 3.50 | 1.00 |
| Dividend yield[3] (in %) | **2.0** | 2.4 | 1.8 | 2.6 | 2.5 | 2.6 | 3.3 | 5.6 | 3.0 | 1.2 |
| Annual performance excluding dividend (in %) | **26.7** | 1.0 | 61.7 | 7.7 | 10.6 | 29.6 | 3.9 | 39.6 | 40.4 | –39.9 |
| Annual performance including dividend (in %) | **29.1** | 2.8 | 64.3 | 10.2 | 13.2 | 32.9 | 9.5 | 42.6 | 41.6 | –36.7 |
| Price-to-sales ratio[1] | **8.7** | 7.9 | 8.5 | 5.9 | 5.9 | 5.7 | 4.9 | 5.3 | 4.2 | 2.7 |
| Price-earnings ratio[1] | **42.7** | 37.9 | 39.2 | 26.8 | 28.2 | 26.6 | 24.3 | 23.1 | 19.6 | 15.2 |
| Price-cash flow ratio[1] | **41.9** | 37.2 | 33.4 | 26.3 | 26.7 | 22.2 | 28.2 | 21.2 | 15.9 | 13.2 |

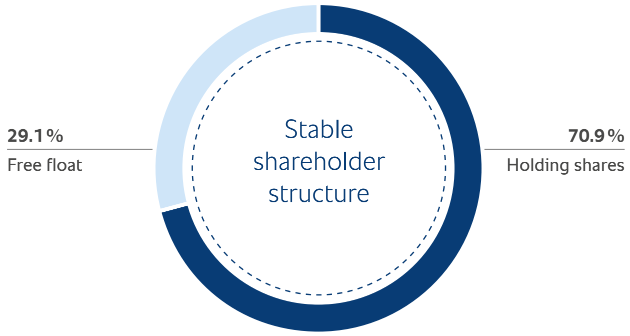
[1] As of balance sheet date [2] Xetra [3] In relation to the year-end closing price [4] Payout in the following year; dividend 2017 subject to approval by the 2018 General Meeting of Shareholders; 2011, 2016 and 2017 include a special dividend of 4.00 euros/2.00 euros/2.20 euros respectively Source: vwd, RATIONAL

The Executive Board and the Supervisory Board propose to the General Meeting of Shareholders to distribute a dividend of 11.00 euros per share (8.80 euros plus a special dividend of 2.20 euros per share) for fiscal year 2017. A total amount of 125.1 million euros has been set aside for the distribution.

The dividend yield (based on the 2017 closing price) is 2.0%. In the autumn of 2016, we won the DividendenAdel Award, which was presented for the first time by the independent research platform DividendenAdel in cooperation with Deutsche Börse AG, in acknowledgement of our traditionally high dividend payout ratio and sustainable dividend policy.

## Stable shareholder structure

### Shareholder structure




Status: 30 January 2018

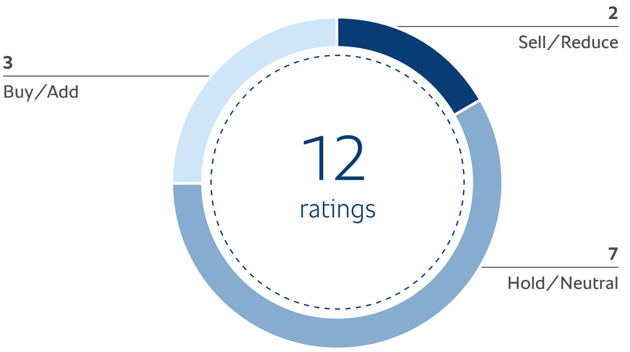
On 28 July 2017, Mr Siegfried Meister, company founder, majority shareholder and Supervisory Board chairman of RATIONAL AG, died at the age of 78. Siegfried Meister was the majority shareholder of RATIONAL AG, holding 7,161,311 shares. As notified in the mandatory disclosures published on 1 August 2017 and 3 August 2017, these shares were transferred to the community of heirs of Siegfried Meister.

As of the balance sheet date, 70.9% of the share capital was held in fixed ownership and 29.1% was in free float.

There are no outstanding stock option schemes or convertible bonds that could dilute the shareholding.

## Current analysts' comments on the RATIONAL corporate website

### Analysts' ratings




Status: 30 January 2018

At present, twelve institutes publish detailed analyses on RATIONAL AG. All equity analysts are convinced of the Company's exceptional earnings power and quality. Most analysts recommend holding the shares at the current valuation level.

Interested investors can find the latest ratings and investment recommendations under Investor Relations / Analysts' Ratings at www.rational-online.com.

## Award for capital market communication

The demand for information on the part of the capital markets, in particular among professional and private investors, is especially high in times of stock market turbulence. Our own mission is to work together with our shareholders in a spirit of partnership at all times. For the previous year's annual report, we finished third in the "SDAX" category in the contest "Best 2016 Annual Report" held by the business magazine BILANZ. This is confirmation for us that we live up to the high standards demanded by the capital market as regards making financial information available in a transparent and open manner.

In 2017, management spent 33 days at roadshows and capital market conferences, both in Germany and abroad. After the release of our annual figures, we informed the public about them at an annual results press conference and an analysts' conference.

For the first time, an analyst day was held in the past fiscal year at our French location in Wittenheim, where the VarioCooking Center® is produced. At this event, capital market and media representatives had the opportunity to familiarise themselves with FRIMA through direct dialogue and an informative programme.

Our Investor Relations specialists, as well as members of the Executive Board, are available at all times to answer questions from professional and private investors and all interested parties.

### RATIONAL shares — key figures

| | |
|---|---|
| ISIN (International Security Identification Number) | DE0007010803 |
| Security identification code | 701 080 |
| Market abbreviation | RAA |
| Stock exchange centres | Frankfurt, Munich, Stuttgart, Berlin / Bremen, Düsseldorf, Hamburg / Hanover |
| Market segment | Regulated Market |
| Transparency level | Prime Standard |
| Membership of indices | SDAX, CDAX, Classic All Share, DAX International Mid 100, DAXglobal Sarasin Sustainability Germany Index, DAXplus Export Strategy, DAXPLUS FAMILY 30, DAXPLUS FAMILY, DAXsector All Industrial, DAXsector Industrial, DAXsubsector All Industrial Products & Services, DAXsubsector Industrial Products & Services, MIDCAP MKT, Prime All Share (Deutsche Börse), BayX30 (Munich Stock Exchange) |
| Unsponsored ADR (American Depositary Receipts) | Custodian: Citigroup Global Markets DR ticker: RATIY / DR ISIN: US75410B1017 |
| End of fiscal year | 31 December |
| Accounting principles | IFRS |
| Flotation | 3 March 2000 |
| Designated sponsor | HSBC Trinkaus & Burkhardt AG |

# Corporate Governance Report and Declaration of Corporate Governance pursuant to section 289f of the HGB

Responsible corporate governance that is geared to sustained value creation and preservation is the benchmark of all actions of the Executive Board and Supervisory Board of RATIONAL AG and the cornerstone of the Company's success. The following is the Executive Board's and Supervisory Boards' report on corporate governance at RATIONAL in accordance with our corporate governance principles, number 3.10 of the German Corporate Governance Code and section 289f of the Handelsgesetzbuch (HGB, German Commercial Code). The report is supplemented by the remuneration report, which is part of the Company's management report.

### Key corporate governance practices and compliance

Responsible, sustainable, and socially aware actions have always been a basic element of the corporate culture of RATIONAL AG. This also includes integrity in dealings with customers, employees, business partners, shareholders, and the public.

By compliance, RATIONAL understands adherence to legislation, laws and the Articles of Association, together with observance of other internal regulations. In addition, RATIONAL AG continued to develop its own corporate governance in fiscal year 2017, which largely complies with the rules of the Code as amended and published in the Federal Gazette on 24 April 2017. There are no other voluntary commitments to comply with external codes and regulations. The Company has developed a comprehensive philosophy and has management principles that are set down in writing. It also has a Code of Conduct that applies throughout the Group. The corporate philosophy stresses the self-image of the Company, its executive bodies and its employees. It can be found on the RATIONAL website under "Company/About_us/Corporate_philosophy". There are also recommendations on how to behave in dealings with customers, partners and colleagues.

To ensure compliance throughout the Group with the requirements of the law and with the Company's internal guidelines, RATIONAL AG began to set up a compliance organisation in fiscal year 2012. The starting point for compliance activities is the RATIONAL AG Code of Conduct, which has been summarised in the form of RATIONAL Rules of Conduct in Business and communicated throughout the Company.

The RATIONAL compliance team was set up in 2013, and a Compliance Officer was appointed for the entire RATIONAL Group. On the basis of the results of compliance risk analyses carried out in different company divisions, actions were defined to counter all material compliance risks. In addition to applicable internal compliance rules, these measures also include cooperation with qualified local partners. Moreover, the local requirements for a compliance programme are continuously monitored in countries where RATIONAL has its own subsidiaries and employees and, where necessary, adapted to the existing compliance programme.

In 2015, an independent auditing company was commissioned by RATIONAL AG to audit the risk management system as well as the design of the compliance management system in accordance with the auditing standards of the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland, IDW). The functional capability of both systems was hereby confirmed. The compliance management system and the risk management system were strategically continued in fiscal year 2017 on the basis of the existing concepts.

In addition, an e-learning tool for compliance topics specifically developed for the requirements of the RATIONAL Group was implemented in fiscal year 2016 and enhanced in 2017. All employees of the RATIONAL Group have to successfully complete a course using this tool once a year.

### Shareholders and General Meeting of Shareholders

The General Meeting of Shareholders is chaired by the Chairman of the Supervisory Board or another member of the Supervisory Board appointed by the Chairman.

Around 600 shareholders, representatives of the press and guests attended the General Meeting of Shareholders in Augsburg on 3 May 2017. An imputed 93% of the share capital was represented. All resolutions on the agenda were approved by the General Meeting of Shareholders with a large majority.

### Management bodies of the Company

RATIONAL AG is an Aktiengesellschaft (joint stock corporation) under German law. A basic principle of German corporation law is the dual system of management, comprising an executive board and a supervisory board, each of which has its own autonomous areas of responsibility.

### Cooperation between Executive Board and Supervisory Board

The Executive Board and Supervisory Board of RATIONAL AG cooperate closely and on a basis of trust in the management and monitoring of the Company. Full details of the cooperation between the Executive Board and the Supervisory Board are given in the Supervisory Board's report.

### The Executive Board and its working methods

The members of the Executive Board bear joint responsibility for the overall management of the Company. They cooperate closely with one another and exchange information about important actions and procedures taking place within their divisions. Each member of the Executive Board is responsible for the divisions assigned to them on the basis of Executive Board resolutions. The Executive Board generally reaches decisions in meetings, which are held every two weeks. In addition, every member of the Executive Board can call a meeting by announcing the item on the agenda. Likewise, every member can request that a topic be included in the agenda for a meeting. The Executive Board reaches decisions in meetings by a simple majority of votes cast or, outside of meetings, by a simple majority of its members.

The Executive Board keeps the Supervisory Board comprehensively informed in good time, verbally and in writing as well as in regular meetings about planning, business development and the position of the Company, including risk management.

### Composition of the Executive Board

The Executive Board of RATIONAL AG can consist of one or more persons. It had four members as at the balance sheet date. The assignment of division responsibility to the individual members is detailed in the executive organisation chart. The members of the Executive Board are Dr Peter Stadelmann (Chief Executive Officer, Chief Human Resources Officer), Peter Wiedemann (Chief Technical Officer), Dr Axel Kaufmann (Chief Financial Officer) and Markus Paschmann (Chief Sales Officer).

The members of the Executive Board do not perform any Supervisory Board duties in other listed companies.

No conflicts of interest occurred in the past fiscal year.

### The Supervisory Board and its working methods

The Supervisory Board advises and monitors the Executive Board in the management of the Company. It is involved in strategy and planning as well as in all matters of fundamental importance for the Company. For significant business transactions — such as the annual planning and major investments — the Supervisory Board may exercise its right to veto stipulated in the rules of procedure for the Executive Board. The Chairman of the Supervisory Board coordinates the work in the Supervisory Board, chairs its meetings and looks after the interests of the Board in its external dealings.

In the case of significant events, an extraordinary meeting of the Supervisory Board is convened if necessary. For its work, the Supervisory Board has set itself rules of procedure.

Details of the focus of the Supervisory Board's activities and advice in the year under review are given in the Report by the Supervisory Board.

### Formation of Supervisory Board committees

Following its enlargement to six members by resolution of the 2015 General Meeting of Shareholders, the Supervisory Board has established an Audit Committee. Its members are Mr Walter Kurtz, Dr Hans Maerz and Mr Erich Baumgärtner. The Supervisory Board does not believe that the establishment of a nomination committee is necessary. With a six-member Supervisory Board, efficient discussions and intense exchanges of views on suitable candidates for nomination by the Supervisory Board to the General Meeting of Shareholders can also be held in the plenary session. Moreover, the fact that the Supervisory Board of RATIONAL AG is not subject to co-determination obviates the need to form a nomination committee that consists exclusively of shareholder representatives.

### Right to appoint for members of the Supervisory Board

By resolution of the General Meeting of Shareholders on 29 April 2015, article 8 (6) sentence 1 of the Articles of Association of RATIONAL AG was amended. The wording of the resolution is as follows: “For as long as Mr Siegfried Meister and Mr Walter Kurtz are shareholders of the company they shall have the joint right to appoint up to two members of the Supervisory Board. If one of the two holders of the right to appoint ceases to be a shareholder of the company, the remaining shareholder shall have the sole right to appoint. The right to appoint shall be exercised by submitting a written declaration to the Executive Board of the company.”

### Composition of the Supervisory Board

Under the Articles of Association, as amended by resolution of the General Meeting of Shareholders on 29 April 2015, the Supervisory Board of RATIONAL AG has six members, who are elected by the shareholders.

The Supervisory Board of RATIONAL AG has unanimously elected Walter Kurtz as its new Chairman. The election was necessary since the company founder and former Supervisory Board Chairman Siegfried Meister died on 28 July 2017 at the age of 78.

Mr Walter Kurtz is the Chairman of the Supervisory Board and Dr Hans Maerz is his deputy. Also on the Supervisory Board are Mr Erich Baumgärtner, Dr Gerd Lintz and Mr Werner Schwind, proven experts in finance, business law and sales.

In accordance with his right of delegation under the Articles of Association, Mr Walter Kurtz appointed Dr Georg Sick to the Supervisory Board of RATIONAL AG with effect from 18 October 2017 until the next Supervisory Board elections by the General Meeting of Shareholders in 2019. The Company has thus filled the Supervisory Board position that became vacant due to the death of Siegfried Meister within the specified period. With his many years of experience in managerial technical positions for a family-managed, medium-sized company, he will complement the Supervisory Board of RATIONAL AG as a proven technical expert, thus rounding out its skills profile.

This body has five independent members (Dr Hans Maerz, Mr Erich Baumgärtner, Dr Gerd Lintz, Mr Werner Schwind and Dr Georg Sick) who have no material business or personal relationship with the Company or its Executive Board, and the Supervisory Board considers this to be a sufficient number. The term of office of the Supervisory Board is five years. The current term of office will expire at the ordinary General Meeting of Shareholders in 2019.

Supervisory Board members are proposed for election exclusively on the basis of their special skills and qualifications. Other attributes, such as gender, age, nationality or length of membership of the Supervisory Board of RATIONAL AG, have not been and will not be of any consequence for this decision. The Supervisory Board of RATIONAL AG has set itself a target concerning the proportion of women in the Supervisory Board within the meaning of the German Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst) and has published this target in this report (see below). Beyond that, the Supervisory Board of RATIONAL AG will not set any concrete objectives for its composition in accordance with number 5.4.1 (2) of the German Corporate Governance Code and will not report on this in the Declaration of Corporate Governance in accordance with number 5.4.1 (3) of the Code.

No conflicts of interest occurred in the past fiscal year.

### Definition relating to the participation of women in executive positions in accordance with sections 76 (4) and 111 (5) of the German Stock Corporation Act (Aktiengesetz)

RATIONAL AG is a listed company, but is not subject to parity co-determination. This means that, under the German Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector, the introduction of a 30% ratio for women in the Supervisory Board of RATIONAL AG is not binding. However, the Company's listing on the stock exchange requires the Company to specify targets for increasing the percentage of women in the Supervisory Board, Executive Board and on the two management levels below the Executive Board as well as to set deadlines for attaining these targets.

The review of whether the target for the percentage of women in executive positions has been met as at the deadline on 30 June 2017 revealed that, at 11.1%, the target quota of 12.5% women on the first management level below the Executive Board had not been met. In all other respects, RATIONAL AG met the set target quotas by the deadline on 30 June 2017.

The reason for falling short of the target quota on the first management level below the Executive Board is that, as a result of the changes in the Executive Board in 2016, the Finance division was restructured. This reorganisation has resulted in two more male managers reporting directly to the Chief Financial Officer. The positions and functions of the two female managers have not changed, while the total number of managers on the first level below the Executive Board has increased. As a result, the target quota of 12.5% women, which corresponded to the status quo at the time the target was set, was not met.

The Executive Board and Supervisory Board of RATIONAL AG have set themselves the following new targets for the proportion of women in executive positions, thereby meeting their legal obligations:

- For the Supervisory Board, a target of 0% has been specified for the proportion of women.
- For the Executive Board, a target of 0% has been specified for the proportion of women.
- For the first management level below the Executive Board, a target of 16.7% (previously 12.5%) has been specified for the proportion of women.
- For the second management level below the Executive Board, a target of 30.0% has been specified for the proportion of women.
- The deadline for meeting these targets is 30 June 2022.

### Accounting and auditing

On 3 May 2017, the General Meeting of Shareholders appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, as auditors of the financial statements and the consolidated financial statements for fiscal year 2017. The audit contract was awarded by the Supervisory Board.

Prior to the proposal being submitted to the General Meeting of Shareholders, the Supervisory Board obtained a declaration from the auditors on their personal and business relationships with the Company. This gave no rise to any objections. The Supervisory Board agreed with the auditors that the Chairman of the Supervisory Board would be notified immediately about disqualification or reasons for bias during the audit.

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

The responsible auditor of the 2017 annual financial statements was Mr Dietmar Eglauer.

### Dependent company report

The Executive Board issued a dependent company report pursuant to section 312 of the German Stock Corporation Act (Aktiengesetz, AktG). The auditors raised no objections to the dependent company report following the audit. Likewise, the Supervisory Board stated after examining the dependent company report that there are no objections to the declaration by the Executive Board at the end of the dependent company report.

# Declaration in accordance with section 161 of the AktG and declaration of conformity with the German Corporate Governance Code

The Executive Board and the Supervisory Board of RATIONAL AG, Landsberg am Lech, hereby declare in accordance with section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) that, since the last declaration of conformity was submitted in January 2017, the recommendations of the Government Commission for a German Corporate Governance Code (as amended and published in the Federal Gazette on 24 April 2017) have been and are being complied with, with the following exceptions:

### Number 4.2.3 (2) sentence 3 of the Code:

Number 4.2.3: "Variable remuneration components generally have a multiple-year assessment basis that shall have essentially forward-looking characteristics."

The variable components of Executive Board remuneration as agreed in the existing employment contracts with members of the Executive Board comprise various elements of the company's long-term success, but do not specifically stipulate a multi-year assessment basis. The Supervisory Board of RATIONAL AG regards sustainable company development as a matter of course. In a continuous process, a medium-term plan is prepared on the basis of the corporate strategy, and the annual benchmarks for determining the variable remuneration components of the members of the Executive Board are derived from this plan.

### Numbers 4.2.4 and 4.2.5 of the Code:

Number 4.2.4: "The total remuneration of every Management Board member is to be disclosed, indicating their name, and classified by fixed and variable remuneration components. The same applies to benefit commitments granted to Management Board members in the event of early or regular termination of Management Board activity, and to benefit commitments amended during the respective financial year. There is no disclosure, if the General Meeting resolves this with a three-quarters majority."

Number 4.2.5: "Management Board remuneration is disclosed in the notes to the financial statements or the management report. The remuneration report, which is part of the management report, describes the principal features of the Management Board remuneration system. The description shall be made in a generally comprehensible way.

The remuneration report shall also include information on the nature of the fringe benefits provided by the corporation.

In addition, the remuneration report shall present the following information for every Management Board member:

> the benefits granted for the reporting period, including fringe benefits, supplemented in the case of variable remuneration components by the maximum and minimum remuneration achievable,
> the benefits received for the reporting period, consisting of fixed remuneration, short-term variable remuneration and long-term variable remuneration, broken down by the relevant reference years,
> the service cost incurred in/for the reporting period for pension benefits and other commitments.

The model tables provided as appendices to this document shall be used to disclose this information."

On 4 May 2016 the General Meeting of Shareholders of RATIONAL AG resolved to dispense with the publication of individualised figures for Executive Board remuneration in accordance with section 286 (5) of the Handelsgesetzbuch (HGB, German Commercial Code). This resolution of the General Meeting will be in effect for five years. Disclosure of the variable remuneration broken down by short-term and long-term components will not be made.

### Numbers 5.1.2 (1) sentence 2 and 5.1.2 (2) sentence 3 of the Code:

Number 5.1.2 (1) sentence 2: "When appointing Management Board members, the Supervisory Board shall take diversity into account."

Number 5.1.2 (2) sentence 3: "The Supervisory Board shall specify an age limit for the members of the Management Board."

The Supervisory Board and Executive Board expressly welcome all efforts to counter any form of discrimination and to promote diversity in a reasonable manner. When appointing members of the Executive Board, the special skills and qualifications of the candidate are the only decisive criterion for the Supervisory Board. Other attributes such as gender or national identity have not been and will not be of any consequence for this decision.

No age limit has been specified for members of the Executive Board, and the Supervisory Board believes that this would not be in the interest of the Company. Executive Board members are appointed solely on the basis of their ability to run the Company successfully. Just because someone reaches a specific age does not generally mean that he or she loses this ability. Moreover, a rigid age limit could be discriminatory.

### Number 5.3.3 of the Code (Formation of committees):

"The Supervisory Board shall form a Nomination Committee, composed exclusively of shareholder representatives, which proposes suitable candidates to the Supervisory Board for its recommendations to the General Meeting."

Following its enlargement to six members by resolution of the 2015 General Meeting of Shareholders, the Supervisory Board has established an Audit Committee. The Supervisory Board does not believe that the establishment of a nomination committee is necessary. With a six-member Supervisory Board, efficient discussions and intense exchanges of views on suitable candidates for nomination by the Supervisory Board to the General Meeting of Shareholders can also be held in the plenary session. Moreover, the fact that the Supervisory Board of RATIONAL AG is not subject to co-determination obviates the need to form a nomination committee that consists exclusively of shareholder representatives.

**Number 5.4.1 (2) sentences 1 and 2 and (4) sentences 1 and 2 of the Code:**

Number 5.4.1 (2) sentence 1: "The Supervisory Board shall determine concrete objectives regarding its composition, and shall prepare a profile of skills and expertise for the entire Board."

Number 5.4.1 (2) sentence 2: "Within the company-specific situation the composition of the Supervisory Board shall reflect appropriately the international activities of the company, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of number 5.4.2, an age limit and a regular limit to Supervisory Board members' term of office, both to be specified, as well as diversity."

Number 5.4.1 (4) sentence 1: "Proposals by the Supervisory Board to the General Meeting shall take these targets into account, while simultaneously aiming at fulfilling the overall profile of required skills and expertise of the Supervisory Board."

Number 5.4.1 (4) sentence 2: "The implementation status shall be published in the Corporate Governance Report."

The composition of the Supervisory Board of RATIONAL AG is guided by the Company's interests and guarantees that the Executive Board is effectively monitored and advised. The candidates for election to the Supervisory Board are selected exclusively on the basis of knowledge, skills and experience. Other attributes such as gender or national identity have not been and will not be of any consequence. No age limit has been specified for Supervisory Board members, nor has a regular limit of length of membership of the Supervisory Board. Nominations to the General Meeting of Shareholders are based exclusively on the knowledge, skills and experience of the candidates in question. The intention is to continue to abide by this policy in future in order to retain experience and skills for the benefit of the Company.

Landsberg, February 2018

RATIONAL Aktiengesellschaft

Walter Kurtz
for the Supervisory Board

Dr Peter Stadelmann
for the Executive Board

# Report by the Supervisory Board

**Dear Shareholders,**

On 28 July 2017, Mr Siegfried Meister, company founder, majority shareholder and Supervisory Board chairman of RATIONAL AG, died at the age of 78. The Supervisory Board, Executive Board and employees of RATIONAL AG mourn the loss of an eminent entrepreneur and will continue to manage the company as Mr Meister intended.

The position of Chairman of the Supervisory Board, which was left vacant as a result, was taken over by Mr Walter Kurtz, until then Deputy Chairman of the Supervisory Board, on an acting basis on 29 July 2017. Mr Walter Kurtz was elected Chairman of the Supervisory Board with effect from 11 August 2017. Dr Georg Sick was appointed to the vacant Supervisory Board position with effect from 18 October 2017.

Siegfried Meister was the majority shareholder of RATIONAL AG, holding 7,161,311 shares. As stated in the mandatory disclosures published on 1 August 2017 and 3 August 2017, these shares were transferred to the community of heirs of Siegfried Meister.

In fiscal 2017, RATIONAL AG once again continued on its long-term growth path. The focus in the year under review remained on the stability of the Company as a whole and on sustained improvement of the quality of the business.

## Dialogue and communication as a basis for advice and monitoring

In fiscal year 2017, we performed the tasks incumbent on the Supervisory Board by law and by the Articles of Association. We regularly advised the Executive Board on the management of the Company and monitored its activities. The Supervisory Board was directly involved in all decisions of strategic importance to the RATIONAL Group. Cooperation between the Executive Board and the Supervisory Board was characterised by comprehensive, timely and regular communication, both written and verbal. The Executive Board also reported on major transactions outside the regular meetings. The Supervisory Board received monthly and quarterly reports on market developments, the competitive situation, and the Company's marketing, sales and profit trends. In addition, the Supervisory Board and the Chairman of the Supervisory Board took steps to ensure that at all times it was informed about the current business situation, significant transactions and important decisions by the Executive Board. With this aim in mind, the Supervisory Board maintained close and regular contact with all members of the Executive Board to exchange information and ideas.

Where called for by law, the Articles of Association or the rules of procedure, the Supervisory Board voted on the reports and draft resolutions of the Executive Board, after detailed consultation and careful scrutiny. All operations requiring consent were approved. In fiscal 2017 and in 2018 to date, these included, in particular, decisions concerning product development, expansion and optimisation of the sales and marketing organisation, further development of the management structure, global HR development, risk management, and planning and approval of construction work at the Landsberg site.

### Consultations in the Supervisory Board

The Supervisory Board had eleven meetings in 2017. In 2018, one further meeting was held before of the meeting of the Supervisory Board on 28 February 2018 in order to adopt the financial statements. The members of the Supervisory Board also consulted each other in writing and by telephone, and held eight other internal consultative meetings and four meetings of the Audit Committee in fiscal 2017. Where applicable, the Supervisory Board also passed resolutions outside the ordinary meetings. During the past fiscal year, the Supervisory Board regularly examined and further improved the efficiency of its activities, in particular the procedures and the timely provision of sufficient information. According to a review carried out by the Supervisory Board itself, its members are, as a whole, familiar with the sector in which the Company is active.

### Key areas of consultation

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

> The appropriation of earnings and proposed dividend
> Business planning for fiscal year 2018
> The realignment of the investment strategy
> The election of the Chairman and Deputy Chairman of the Supervisory Board
> The appointment of Dr Sick to the vacant Supervisory Board position
> The change in the Audit Committee, where Mr Werner Schwind was replaced by Mr Erich Baumgärtner
> The definition of a target quota for women on the Supervisory Board
> The development strategy for new markets
> Further development in the focus market USA
> Key points in product development
> Launch of the new CombiMaster® Plus generation of appliances
> Enhancement of the RATIONAL Compliance Programme
> Construction projects at the Landsberg and Wittenheim locations
> Enhancement of the medium-term strategy, including the product portfolio and sales and marketing strategy
> Resolution to make a special U.i.U.® special payment
> Further networking of the sales activities for combi-steamers and the VarioCooking Center®

At the Supervisory Board meeting to adopt the financial statements on 28 February 2018, the principal topics included not only the audit and adoption or approval of the annual and consolidated financial statements, but also, in particular, the draft resolutions to be proposed to the 2018 General Meeting of Shareholders.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, will be proposed as auditors for the 2018 fiscal year. We also adopted the remaining draft resolutions for the ordinary General Meeting of Shareholders.

Our duties in 2017, and, in particular, at the meeting held on 28 February 2018 to adopt the financial statements, included not only the audit plus the entire accounting process in RATIONAL AG and the Group, but also the monitoring of the internal control system and the effectiveness of the internal audit and the risk management system.

### Committee activities

The Supervisory Board has formed an Audit Committee. Its members are Mr Walter Kurtz, Dr Hans Maerz and Mr Erich Baumgärtner. On 11 August 2017, the members of the Supervisory Board elected Mr Baumgärtner as a member of the Audit Committee, following Mr Werner Schwind's resignation from the Audit Committee for personal reasons. The Audit Committee met four times in the 2017 fiscal year. At its meetings, it dealt, in particular, with the Half-Year Report and the annual and consolidated financial statements, as well as the monitoring of accounting, the accounting processes, the effectiveness of the internal control system, of the risk management system and the internal audit system, and the selection and independence of the auditors. The Audit Committee reported regularly to the Supervisory Board.

### Corporate governance

After the death of Mr Siegfried Meister on 28 July 2017, Mr Walter Kurtz was elected Chairman of the Supervisory Board and Dr Hans Maerz was confirmed in his office of Deputy Chairman of the Supervisory Board. No second Deputy Chairman was elected. Dr Georg Sick was appointed to the vacant Supervisory Board position on 18 October 2017. He was delegated by the shareholder Mr Walter Kurtz in accordance with his right of delegation as stated in the Articles of Association. Dr Sick will hold this position until the next regular Supervisory Board elections by the General Meeting of Shareholders in 2019.

In fiscal year 2017, the composition of the Supervisory Board of RATIONAL AG is fully in accordance with the German Corporate Governance Code recommendation that the Supervisory Board should include what it considers to be an adequate number of independent members.

No conflicts of interest in respect of individual Supervisory Board members occurred in the 2017 reporting year in connection with consultations, draft resolutions and the audit engagement.

On 9 March 2017, the German government passed the implementing act that transposes the European CSR Directive (2014/95/EU) into national law. The act takes retrospective effect from 1 January 2017. As a result, non-financial reporting in accordance with sections 289b and 315b respectively of the Handelsgesetzbuch (HGB, German Commercial Code) has been a mandatory requirement since the 2017 fiscal year. RATIONAL AG will publish the 2017 sustainability report, including the disclosures required in this regard, in time for the deadline of 30 April 2018.

The last amendment to the German Corporate Governance Code entered into force on 24 April 2017. Together with the Executive Board, an account was rendered for the fiscal year 2017 in the Corporate Governance Report and Declaration of Corporate Governance pursuant to section 289f of the HGB. RATIONAL AG largely complies with the recommendations and suggestions set out in the German Corporate Governance Code. This resulted in the submission of the declaration of conformity of February 2018. This was resolved at the meeting of the Supervisory Board on 31 January 2018 pursuant to section 161 of the Aktiengesetz (AktG, German Stock Corporation Act) and published in the 2017 Annual Report. The declarations of conformity of recent years can also be found under Investor Relations on the RATIONAL website (www.rational-online.com).

### Audit of the annual financial statements and consolidated financial statements

As proposed by the Supervisory Board and elected by the General Meeting of Shareholders on 3 May 2017, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, audited the financial statements of RATIONAL AG and of the Group for fiscal year 2017. The audit contract was awarded by the Supervisory Board. Prior to the proposal for election, the Supervisory Board obtained a declaration of independence from the auditors. No reasons were apparent to doubt the independence of the auditors. The auditors were additionally obliged to provide information immediately of any circumstances which could give rise to a lack of impartiality on their part and, where appropriate, to notify us of services which they have performed in addition to the audit. With regard to the audit reform, the Supervisory Board is adhering to the existing in-house rule on the strict separation of consulting and auditing services. The Supervisory Board and the Audit Committee reported, prior to and during the audit in discussions with the auditor, on the latter's approach to the audit and the progress of the audit.

The annual financial statements for the fiscal year from 1 January to 31 December 2017, prepared by the Executive Board in accordance with the provisions of the Handelsgesetzbuch (HGB, German Commercial Code), and the Company's management report, which also refers to the Declaration of Corporate Governance on the Company's website, were audited by the auditors and given an unqualified audit opinion. The Executive Board prepared consolidated financial statements for the Group in accordance with the International Financial Reporting Standards (IFRSs), supplemented by the commercial law provisions applicable under section 315a (1) of the HGB. In addition, a Group management report was prepared. The auditors audited the consolidated financial statements and the Group management report and issued an unqualified audit opinion.

The annual financial statements, the consolidated financial statements, the management reports, the auditors' reports, and the Executive Board's proposal on the appropriation of unappropriated profits were forwarded in good time to the Audit Committee and all Supervisory Board members for examination. They were the subject of intensive deliberations at the meeting of the Supervisory Board held on 28 February 2018. In particular, the Supervisory Board carefully reviewed the findings of the audit by the auditors.

The auditors took part in the discussion of the Company's annual financial statements and the consolidated financial statements. They reported on the results of the audits, in particular on the points on which it was agreed the audit would focus, and were available to the Supervisory Board for questions and supplementary information. One area on which the auditors' explanations concentrated was the assessment of the accounts-related internal control and risk management system. Both the Executive Board and the auditors answered all our questions comprehensively and to our satisfaction.

The Supervisory Board raises no objections beyond its own final results of the deliberations and its own examination. The Supervisory Board approves the results of the audit. At its meeting held on 28 February 2018, the Supervisory Board approved the annual financial statements, prepared by the Executive Board, for RATIONAL AG as of 31 December 2017, including the certified version, dated 27 February 2017, of the management report for fiscal year 2017, as well as the consolidated financial statements as of 31 December 2017 and the certified version, dated 27 February 2017, of the group management report for fiscal year 2017. The 2017 annual financial statements for RATIONAL AG, including the management report, are thereby adopted in accordance with section 172 sentence 1 of the AktG.

**Dependent company report**

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

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

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

**Appropriation of profits**

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

From RATIONAL AG's net retained earnings of 297.4 million euros, a dividend of 11.00 euros per share (8.80 euros plus a special dividend of 2.20 euros per share) or a total of 125.1 million euros is to be distributed and the remainder is to be carried forward to new account.

The Supervisory Board would like to thank all managers for their close and constructive cooperation, and for the trust they have placed in us. But our very special thanks go to all employees. Once again in 2017, they succeeded in convincing our customers of the high added value of RATIONAL's products and services, and thus in making outstanding use of the market opportunities open to us.

Landsberg am Lech, 1 March 2018

Walter Kurtz

**Walter Kurtz**
Chairman of the Supervisory
Board of RATIONAL AG

# RATIONAL AG:
# Group Management Report for Fiscal Year 2017

## Contents



# Group Management Report

## Fundamental information about the Group

### The Group's business model

#### The Group's organisational structure and sites

The RATIONAL Group provides products and solutions for thermal food preparation to large and industrial kitchens worldwide. Sales revenues are generated through the sale of cooking appliances, accessories, care products and service parts.

The Group's parent company is RATIONAL Aktiengesellschaft (RATIONAL AG), whose registered office is located in Landsberg am Lech, Germany. Through 33 subsidiaries — of which 26 are sales companies — and local trading partners, the Company markets its products in all regions of the world. A list of all Group companies can be found in the notes to the consolidated financial statements.

The RATIONAL Group is divided into two operating segments: RATIONAL and FRIMA.

#### RATIONAL segment

We generate most of our revenues with the SelfCookingCenter®, a combi-steamer with intelligent cooking processes. Combi-steamer technology involves transferring the heat during cooking via steam, hot air or a combination of the two. This greatly improves and facilitates the cooking process. The software integrated into the SelfCookingCenter® recognises the size and consistency of the food and controls the cooking process until the desired cooking result is attained. In addition, we offer our customers two basic combi-steamer models called CombiMaster® and CombiMaster® Plus. All models are produced at the Company's headquarters in Landsberg am Lech and distributed worldwide. In addition to sales of combi-steamers, the RATIONAL segment also generates revenues with care products, service parts and accessories for these appliances.

#### FRIMA segment

Since 2005, we have also offered the VarioCooking Center®, a product that complements the combi-steamer technology. This product cooks with direct contact heat or in liquid. It targets the same customer groups and can replace even more traditional cooking appliances, such as deep-fat fryers, boiling pans or tilting frying pans. The products are manufactured in Wittenheim, France, and still primarily distributed in Europe. However, through selected partners, we are also active in some overseas markets, such as Japan or Australia. In addition to sales of the VarioCooking Center®, the FRIMA segment also generates revenues with service parts and accessories for these appliances.

We also collaborate closely across segments in order to make the very best use of the strengths and potential of both segments throughout the Group. For example, since 2017, we have made increasing use of the RATIONAL sales infrastructure to make the market entry of the VarioCooking Center® efficient and successful. In this process, it is important to us that development, production and all related areas can focus on their respective technologies — while collaborating in a spirit of partnership.

ConnectedCooking, which was launched in March 2017, provides an online portal for professional kitchens and a cloud-based networking solution offered free of charge. Our customers can use it to network their appliances, control them remotely, update their software, and transfer cooking programs. By combining ConnectedCooking, the old Club RATIONAL — with its more than 120,000 members — and

"My FRIMA", we have bundled all our digital customer platforms. In this way, we are connecting not only the appliances of our customers — SelfCookingCenter® and VarioCooking Center® — but also our two product groups and segments.

### Markets, customers and competitive situation

Our products are targeted at businesses that prepare at least 20 hot meals a day. The customer base ranges from restaurants and hotels to large-scale catering operations, such as company canteens, hospitals, schools, universities, military facilities, prisons and retirement homes, to quick service restaurants and caterers to supermarkets, bakeries, snack outlets, butchers' shops, and service stations.

In order to begin exploiting the untapped potential in the global market, we are expanding our global sales, marketing and service network organically, step by step. In addition to deeper penetration of already well-developed markets, we are increasingly addressing the growing potential presented by emerging markets.

Our core market is Europe, where we generate around 60% of our revenues. New markets in the Americas and Asia — such as the United States, Canada, Mexico, Brazil, China and India — are growing in importance for us.

We estimate that there are around 100 manufacturers of competitor products worldwide. The market and competitive structures and the competitive situation vary considerably from country to country.

## Strategy and objectives

Our success story stands on four main pillars:

1. Focusing on professional kitchens
2. Specialising in thermal food preparation
3. Maximising customer benefit as the primary corporate objective
4. U.i.U.® (Entrepreneur in the Company) as a factor of success

These sources of success have been firmly entrenched in our corporate philosophy for many decades.

### Focusing on professional kitchens

We focus on a clearly defined target group, namely all the people preparing hot food in professional kitchens around the globe. With around 400 chefs now working in these customer-oriented functions, we are the company of chefs for chefs. We are part of their world, so we have first-hand knowledge of what they want and need.

### Specialising in thermal food preparation

By specialising in thermal food preparation, we can offer our customers ever better solutions and thus continuously increase their benefit. We see our role in this primarily as a solution provider rather than an appliance manufacturer. Our aim is to provide innovative products and services that lighten the daily workload of our customers.

### Maximising customer benefit as the primary corporate objective

Our primary corporate aim is to offer our customers the maximum benefit for the duration of the entire business relationship. In addition to powerful high-quality products, we offer our customers a comprehensive range of services for the duration of the entire business relationship, enabling customers to use their appliances in the best possible way at all times.

### U.i.U.® (Entrepreneur in the Company) stands for success

A key factor in the high levels of motivation and satisfaction of our employees has been the principle of the Entrepreneur in the Company (U.i.U.®). The U.i.U.® entrepreneurs operate as independent business people within their own area of responsibility.

## Planning and control system

### Financial key performance indicators

The table below shows the financial key performance indicators for the two segments of the RATIONAL Group. With these indicators, we can identify inefficiencies and make the necessary adjustments at an early stage.

**Financial key performance indicators**

| | |
|---|---|
| Sales volume/revenue trends | EBIT/EBIT margin |
| Gross margin | Receivables management (DSO) |
| Operating costs | Equity ratio |

### Non-financial key performance indicators

The key performance indicator (KPI) for our customers' interest in our products and their satisfaction is the number of participants in our CookingLive seminars. This is an important early indicator for our future business performance.

The KPI for employee satisfaction is the staff turnover rate, which is determined monthly. In 2018, we will also introduce a global employee survey for the first time.

## Research and development

We place a special emphasis on research and development and keep launching innovative technologies onto the market at regular intervals. Alongside engineers in various disciplines, physicists work on basic research while chefs and nutritionists work on applied research and development. As of the balance sheet date, we employed 144 people in this area.

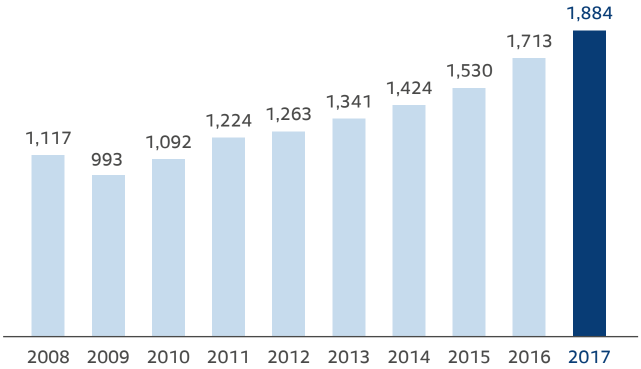
In 2017, we spent 33.8 million euros (2016: 30.6 million euros), or 5% of sales revenues (2016: 5%) on developing new solutions and improving the performance of our products and services. Of this total, 33.2 million euros (2016: 28.8 million euros) was recognised as an expense in the income statement. 0.6 million euros (2016: 1.8 million euros) was capitalised as intangible assets as the requirements of IAS 38.57 were met. These are explained in the notes to the consolidated financial statements under accounting and valuation methods. The capitalised development services are depreciated over the useful lives of the respective products and services after the start of their production. In fiscal year 2017, amortisation charges on capitalised development costs totalled 0.9 million euros.

Our innovations are protected by more than 600 patents, patent applications and registered designs.

## Employees and human resources development

The total number of employees in the Group rose in 2017 by 171 from 1,713 to 1,884 (as of 31 December 2017). Of these, 1,031 were employed in Germany (2016: 958).

**Number of employees**




Status: 31 December of each year

The focused, sustained promotion of young, talented employees is an important building block for the Company's successful development and fitness for the future. Qualified vocational training, therefore, gets a very high priority at RATIONAL. Currently we employ 73 apprentices in the fields of industrial business managers, industrial technicians, mechatronics engineers, and IT specialists. 13 employees are in dual courses of study, combining studies with practical experience in mechatronics, engineering, international business, and hotel and lifecycle catering.

We encourage the professional development of all employees in accordance with their strengths, delegate a great deal of responsibility, and promote self-determination and co-determination. This is in line with our U.i.U.® concept.

Employees showing great potential are individually fostered and developed as part of our structured succession planning process for university graduates. These employees are deployed in various targeted processes and assume real responsibility at an early stage, enabling them to build up a broad base of expertise, identify their strengths, and develop their character in a purposeful manner. During this process, they receive close support from the Executive Board and their line managers. As at the balance sheet date, 34 junior employees were involved in various programmes.

Staff loyalty and satisfaction are at a high level, a fact that reflects the strong feeling of loyalty among our workforce. Staff turnover was just 8% worldwide (2016: 9%).

The health and safety of all employees is a matter of great importance for RATIONAL. To prevent accidents at work and promote the health of employees, safety instruction and training are carried out at regular intervals, and the company doctor is available for regular check-ups.

### Remuneration and employee benefits

We reward above-average performance with above-average pay and benefits. Wage and salary adjustments are based on or exceed the wage increases negotiated by the IG Metall union. We pay an additional Christmas bonus, holiday allowance, and provide a voluntary bonus and additional benefits, such as meal and travel allowances and long-service bonuses.

### Equality as the norm

All employees are equally valued, are given the same respect, and have comparable opportunities. By signing the employment contract, each employee has a written commitment to refrain from and act against discrimination of any kind, as well as sexual harassment or other personal attacks against individuals. Four confidential contact persons are available to employees in the Group at all times. Any problems can be voiced and solved anonymously. Skills, qualifications and experience are the only factors in deciding appointments, promotions and remuneration levels.

Information on the targets for the percentage of women in the Supervisory Board and Executive Board of RATIONAL AG and on the two management levels below the Executive Board in accordance with sections 76 (4) and 111 (5) of the Aktiengesetz (AktG, German Stock Corporation Act) as well as on deadlines for attaining these targets is provided in the Corporate Governance Report/Declaration of Corporate Governance pursuant to sections 289f and 315d of the German Commercial Code (HGB, Handelsgesetzbuch) and on the RATIONAL website.

### Active environmental protection

We want to extract the maximum benefit from every resource used, thereby minimising the negative impact on the environment. We achieve this, for example, by using recoverable components and running environmentally certified production facilities. For our customers, too, resource efficiency is becoming an increasingly significant criterion for investment decisions. For this reason, high resource efficiency is very important in the daily use of our appliances in the kitchen. The use of our technology reduces the consumption of raw ingredients, energy, water, and cleaning products. With our products, we help our customers achieve significant resource savings.

As a sustainability-focused, international company, we include ecological aspects in all business decisions. We also maintain an environmental management system certified according to ISO 14001 and an energy management system certified according to ISO 50001.

All processes are continuously optimised to ensure that the volume of waste is kept as low as possible and, for any waste that is produced, to ensure that as much of this waste as possible is transferred to recycling systems or used as a source of energy. The low quantities of hazardous matter that we generate are disposed of by a specialist company in compliance with ISO 14001. An audit is carried out each year to verify our compliance with standards.

### Non-financial report in accordance with sections 315b and 315c in conjunction with 289c to 289e of the HGB

Disclosures on environmental issues, employee interests, social issues, customer concerns, respect for human rights, combatting corruption and bribery over and above the information provided in this management report can be found in the 2017 Sustainability Report of RATIONAL AG. The non-financial group report is subject to an ISAE 3000 (Revised) voluntary business audit with limited assurance by an independent auditor; it can be found under the Sustainability Report tab on the RATIONAL website under “Investor Relations/Reports” timely until 30 April 2018. The report meets the requirements of the Global Reporting Initiative (GRI) Standards, Core variant.

## Significant events in fiscal year 2017

### Death of Mr Siegfried Meister

On 28 July 2017, Mr Siegfried Meister, company founder, majority shareholder and Supervisory Board chairman of RATIONAL AG, died at the age of 78. The management and employees of RATIONAL AG mourn the loss of an eminent entrepreneur and will continue to manage the Company in Mr Meister's spirit.

The position of Chairman of the Supervisory Board, which was left vacant as a result, was assumed by Mr Walter Kurtz — until then Deputy Chairman of the Supervisory Board — on an acting basis with effect from 11 August 2017. Mr Georg Sick was appointed to the vacant Supervisory Board position with effect from 18 October 2017, and thus in time for the deadline.

Siegfried Meister was the majority shareholder of RATIONAL AG, holding 7,161,311 shares. As notified in the mandatory disclosures published on 1 August 2017 and 3 August 2017, these shares were transferred to the community of heirs of Siegfried Meister.

### Enlargement of production capacity at the Company's headquarters in Landsberg

On 19 July 2017, RATIONAL AG laid the foundation stone for the expansion of Plant 3 at Frauenwald in Landsberg am Lech. The production capacity will be increased significantly by adding 16,000 square metres of space to the north of the existing halls, thus creating the conditions for the expected further growth of the Company.

### Launch of CombiMaster® Plus

In May, we launched the latest generation of the CombiMaster® Plus range. Our basic model now also has a self-cleaning function, which consumes fewer resources and ensures higher hygiene levels in day-to-day food preparation. What is more, following the SelfCookingCenter® XS, we have added the compactly-sized CombiMaster® Plus XS to complement our product range.

### Special repayment of bank loans amounting to 9.5 million euros

In addition to the regular repayments of the outstanding real estate financing, we repaid loans amounting to 9.5 million euros prematurely in the year under review for which the fixed interest rate had expired. As a result, liabilities to banks fell by 13.6 million euros in fiscal year 2017, from 27.8 million euros to 14.2 million euros.

## Economic report

### Macroeconomic and sector-related framework conditions

### Global economy grew by 3.6% in 2017

The global economy was on a growth trajectory in 2017, with the International Monetary Fund estimating growth of 3.6% for the fiscal year under review. Emerging economies are expected to expand by 4.6%, while growth of 2.2% is forecast for industrialised countries. (Source: Warburg, January 2018)

### Good prospects for the future for the catering and food service sector

The mood in the German catering and food service sector was again positive in the past year. In a survey at the leading international trade fair Internorga, 59% (2016: 57%) of the mass catering businesses surveyed rated the investment climate in the industry as good, i.e. there continues to be a strong appetite to plan and implement investment projects. (Source: Internorga GV Barometer 2017)

The willingness to invest also continued to be positive in the hospitality industry. 70% of the hospitality and 80% of the hotel businesses surveyed were planning to invest at least the same amount in 2017 as in the previous year. (Source: DEHOGA industry report, spring 2017)

Important trends contributing to this development continue undiminished. They include the growing average prosperity of the world's population, the rising number of single households in developed markets, and increasing demands for better food quality and variety, international foods and better food presentation. For this reason, expenditure on eating out is expected to continue its upwards trend in future years.

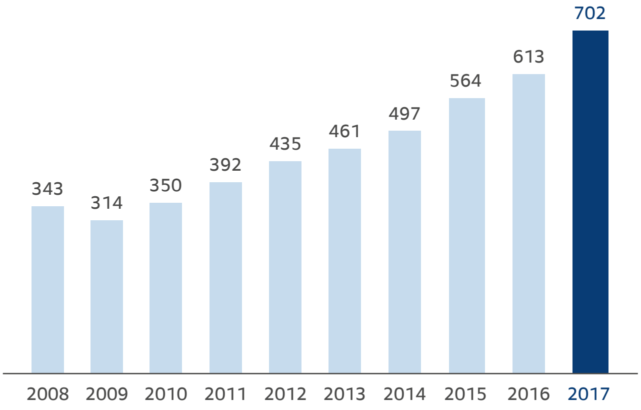
The suppliers of commercial kitchen equipment in the various areas also benefited from the good business of their end customers and trading partners. The combi-steamer segment performed well, continuing the previous year's development. According to the industry's main trade association, Industrieverband Haus-, Heiz- und Küchentechnik e.V. (HKI), manufacturers sold significantly more appliances than in the prior-year period. (Source: HKI statistics, November 2017)

### Business in 2017 — the Executive Board's assessment of the economic situation

Operating conditions for the business remain good in terms of the state of the market, the performance of our products and our general financial position. In the past fiscal year, RATIONAL AG benefited from the generally favourable business situation as well as from orders placed by major customers, especially in North and South America. Against this background, the Executive Board classes the Company's business performance in 2017 as exceptionally good.

In the year under review, sales revenues increased to a new record high, expanding by 15% up to 702.1 million euros (2016: 613.0 million euros), and thus faster than originally expected. This increase is primarily attributable to the rise in unit sales volume compared with the previous year.

**Development of sales revenues** in m EUR



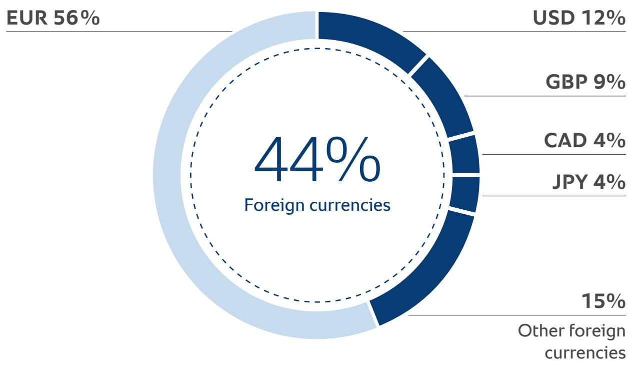

The table below shows the breakdown of sales revenues by quarter.

**Sales revenues by quarter** in m EUR

| | 2017 | 2016 | Growth in % |
|---|---|---|---|
| 1st quarter | 165.7 | 135.7 | +22 |
| 2nd quarter | 165.4 | 147.4 | +12 |
| 3rd quarter | 178.1 | 153.1 | +16 |
| 4th quarter | 192.9 | 176.9 | +9 |
| **Fiscal year** | **702.1** | **613.0** | **+15** |

The growth in sales revenues was, however, negatively impacted by currency effects. In the 2017 fiscal year, we generated 44% of our sales revenues in foreign currency. The most important currencies other than the euro are the US dollar (12% share of sales revenues), pound sterling (9%), the Japanese yen (4%) and the Canadian dollar (4%). On average, the euro was significantly stronger year on year against the currencies relevant to us, and this resulted in a decline in sales revenues. Adjusted for the negative currency effects, sales revenues expanded by 16%.

**Share of foreign currencies in 2017**



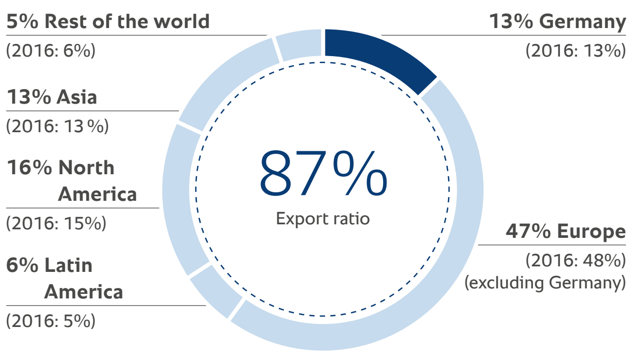

## Earnings situation

### Worldwide growth — driven by the Americas

Sales revenues increased 24% year on year in North America. Here, business with chain customers, in particular, was very successful, while street business also performed well. Adjusted for exchange rate movements, sales revenues in the region grew by 27%.

Sales revenues in the Latin America region were also considerably higher than in the prior-year period, expanding by 31%. In addition to a very good performance in general, orders from major customers and the recovery of the Brazilian market had a particularly positive impact on sales revenues.

**Sales revenues by region in 2017**




In Europe (excluding Germany), sales revenues were up by a total of 12%. Key growth drivers were the southern European markets, especially France, Spain and Italy. Moreover, developments were positive in markets that had been weighed down by political uncertainties in recent years. For example, Russia, Greece and Turkey experienced faster-than-average growth. Following a decline in the previous year, sales revenues generated in the UK were up slightly on the prior-year level, despite persistently significant currency effects. Adjusted for the negative currency effects, sales revenues in Europe increased by 14%.

Sales revenues in the Asia region increased by 19%. All the region's markets recorded increases in sales revenues, and, in particular, business with local regional customers in the Chinese market developed well. After exchange rate adjustments, sales revenues in Asia rose by 21%.

Our home market of Germany delivered growth of 7%. VarioCooking Center® business continued to be extremely successful in Germany, expanding by 20%.

Business volumes in the rest of the world grew by 4%.

### 61% gross margin

Compared to sales revenue growth, gross profit improved slightly more slowly, increasing by 13% to 426.4 million euros (2016: 378.8 million euros). The gross margin of 60.7% (2016: 61.8%) was around one percentage point lower than the previous year's level. Negative factors affecting the gross margin included lower sales revenues due to currency effects and the negative impact of commodity prices.

### EBIT margin of 27%

In 2017, operating expenses (sales and service, research and development and general administration) rose slightly more slowly than sales revenues.

The cost increase was largely attributable to sales and service. Expenses in this area increased by 10% to 171.5 million euros (2016: 155.6 million euros). In particular, the global sales and service organisations received a boost from increases in capacity and support provided by the extension of central marketing and service processes.

The cost of enhancing our technologies and products in research and development amounted to 33.2 million euros in the past fiscal year (2016: 28.8 million euros). This represents a cost increase of 15%. In addition, we recognised development costs of 0.6 million euros (2016: 1.8 million euros) as an asset. This amount is reported under intangible assets.

General administration expenses rose by 13% from 26.4 million euros to 29.8 million euros.

**Cost and earnings structure** in m EUR

| | 2017 | in % of sales revenues | 2016 | in % of sales revenues |
|---|---|---|---|---|
| Sales revenues | 702 | | 613 | |
| Cost of sales | 276 | 39 | 234 | 38 |
| Sales and service | 171 | 24 | 156 | 25 |
| Research and development | 33 | 5 | 29 | 5 |
| Administration & others* | 34 | 5 | 28 | 5 |
| EBIT | 188 | 27 | 167 | 27 |

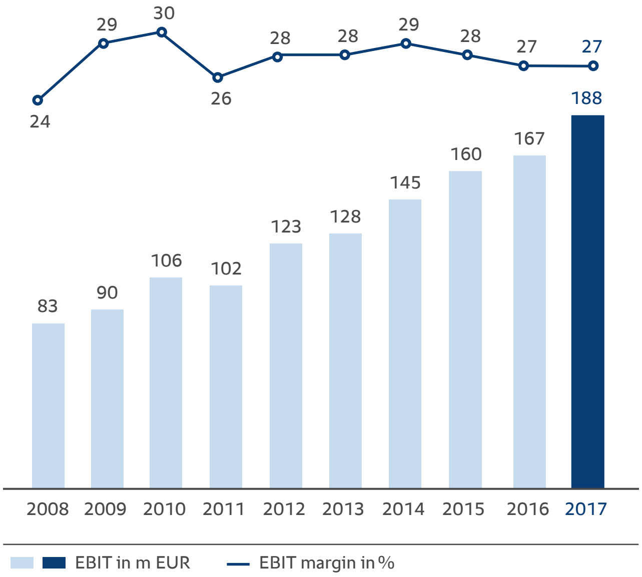
* Contains currency result

We incurred total operating expenses of 234.5 million euros, an increase of 11% (2016: 210.9 million euros).

In addition, effects due to the translation of items denominated in foreign currency had a negative impact on EBIT, reducing other operating income/expenses by an amount of 5.1 million euros. In the previous year, this led to a decrease of 2.1 million euros in earnings.

At 187.6 million euros (2016: 166.5 million euros), EBIT was 13% above the previous year's level. The EBIT margin was 26.7% (2016: 27.2%). Adjusted for the currency losses, the EBIT margin was just over 27%.

**EBIT margin and EBIT development**




Profit before tax was 187.0 million euros (2016: 165.9 million euros). The absolute tax expense was 44.0 million euros (2016: 38.8 million euros). The consolidated tax rate was 23.5% (2016: 23.4%). This resulted in consolidated net profit for the year of 143.0 million euros (2016: 127.1 million euros) and a net margin of 20.4% (2016: 20.7%).

### RATIONAL segment

In the year under review, the RATIONAL segment increased its sales revenues by 14% to 646.3 million euros (2016: 567.4 million euros). EBIT amounted to 178.4 million euros (2016: 160.4 million euros), 11% up on the previous year. This equates to an EBIT margin of 27.6% (2016: 28.3%). The factors driving these developments are largely the same as those described for the Group.

### FRIMA segment

Sales revenues in the FRIMA segment increased by 22% to 57.6 million euros in 2017 (2016: 47.3 million euros), in particular because of the good business performance in Germany and in individual European markets.

EBIT increased by 54% to 9.3 million euros (2016: 6.0 million euros). The above-average increase in EBIT is mainly due to economies of scale in the form of higher margins in the FRIMA segment. The EBIT margin was 16.1% (2016: 12.8%).

**Operating segments 2017** in m EUR

| | RATIONAL | FRIMA |
|---|---|---|
| Segment sales revenues | 646 | 58 |
| Segment result | 178 | 9 |
| Sales growth | +14% | +22% |
| EBIT margin | 28% | 16% |

**Operating segments 2016** in m EUR

| | RATIONAL | FRIMA |
|---|---|---|
| Segment sales revenues | 567 | 47 |
| Segment result | 160 | 6 |
| Sales growth | +7% | +22% |
| EBIT margin | 28% | 13% |

## Net assets and financial position

### Financial strategy: putting security before return

The core objective of RATIONAL's financial strategy is financial independence and short-term capacity to react to market changes. We put security before return. The key components of financial management are the management of capital structure, financial assets and money deposits, currency risk management, receivables management, and the management of liquidity for the Group as a whole.

Because we always have sufficient liquidity, we are not dependent on lenders. This enables us to make rapid business decisions, even in uncertain economic times. We finance our growth almost exclusively from our own resources and keep liquidity in reserve at all times in case of unexpected developments in the global economy.

When it comes to investing liquid assets, we put capital maintenance before return. We deliberately forego higher returns and avoid risky cash investments. For this reason, we primarily invest in euro-denominated fixed-term and demand deposits with short maturities at banks with an investment grade rating. In addition, from 2018 onwards, we invest smaller amounts in a special fund, which may contain investment grade bonds and high-quality stocks according to our guidelines. The special fund is set up as a value guarantee mandate. The goal of the investment is capital preservation. The initial investment in the special fund took place in February 2018.

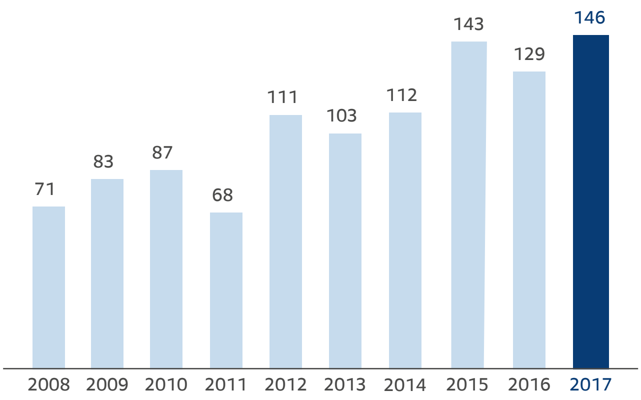
We also ensure that our shareholders substantially participate in the success of the Company. In recent years, we have on average distributed more than 70% of our net profits as dividends.

### High level of operating cash flow

Because of our profitable business model with a low level of capital intensity along with little vertical integration and efficient receivables management, we are able to maintain our operating cash flow at a consistently high level.

In fiscal year 2017, this reached 145.9 million euros, a year-on-year increase of 16.4 million euros (2016: 129.5 million euros). The increase was mainly attributable to the rise in earnings and the comparatively larger expansion in provisions.

**Operating cash flow** in m EUR



Cash outflows from investing activities amounting to 76.9 million euros (2016: −96.7 million euros) include investments in property, plant and equipment and intangible assets. In 2017, these stood at 43.4 million euros, a new record in the Company's history (2016: 24.6 million euros). They include investments in real estate, the extension and modernisation of our machinery, purchased software and software licences, and capitalised development costs. Around 9 million euros of these investments were non-cash transactions in fiscal year 2017 and are therefore not included in cash flows from investing activities.

Free cash flow is calculated by deducting the cash flow for investments in non-current assets from the cash flow from operating activities; it amounted to 111.7 million euros (2016: 104.9 million euros).

In the year under review, we also recorded net cash inflows of 110.5 million euros for deposits (2016: cash outflows of 72.8 million euros).

The cash flow from financing activities reflects the dividend distribution and the repayment of principal and interest in connection with bank loans. In the year under review, we paid dividends of 113.7 million euros to our shareholders for the 2016 fiscal year. Furthermore, we reduced our liabilities to banks by a total of 14.7 million euros and paid interest amounting to 0.8 million euros. This includes the early repayment of loans with a remaining liability of 9.5 million euros for which the fixed interest period had expired. In total, there was a cash flow from financing activities of −127.8 million euros (2016: −86.7 million euros).

**Cash flow 2017** (in m EUR)

| | 2017 | 2016 | Change |
|---|---|---|---|
| Cash flow from operating activities | +146 | +129 | +17 |
| Cash flow from investing activities | +77 | −97 | +174 |
| Cash flow from financing activities | −128 | −87 | −41 |

### High level of liquidity

The balance of cash, cash equivalents and deposits fell by 11.3 million euros during the year under review to 266.9 million euros (2016: 278.2 million euros). In addition, we hold financial assets due after one year of 2.5 million euros (2016: 8.0 million euros). Cash and cash equivalents and deposits represented 47% of total assets (2016: 52%). In addition, we had unused credit lines amounting to 29.7 million euros as of the balance sheet date (2016: 29.2 million euros).

Information on restricted items can be found in note 13 under "cash and cash equivalents".

### Dividend of 11.00 euros proposed

The global economy is forecast to develop steadily in 2018. In view of the good business development and the good liquidity situation, the Supervisory Board will propose to the 2018 General Meeting of Shareholders the distribution of a dividend of 8.80 euros per share (2016: 8.00 euros) and a special dividend of 2.20 euros per share (2016: 2.00 euros). This represents a dividend yield of 2.0% based on the year-end closing price on 31 December 2017. The dividend proposed entails distributing a total of 125.1 million euros (2016: 113.7 million euros). Even after the dividend payment, the Company will retain an adequate liquidity reserve.

### Off-balance-sheet financing instruments

RATIONAL does not transfer liabilities to special-purpose vehicles. However, we did make very limited use of operating lease arrangements for technical equipment, company cars and IT systems, and entered into leases for office space. Over the next five years, contractually fixed payments in connection with these will amount to 14.3 million euros (2016: 11.5 million euros). Off-balance-sheet financing has no material impact on the net assets.

### Long-term financing measures

We normally use our own resources to finance investments in property, plant and equipment, although we also make use of long-term bank loans in exceptional cases. In the year under review, we extinguished loans with an outstanding liability of 9.5 million euros whose fixed interest period had expired. The table below shows the financing structure:

**Residual terms up to** (in m EUR)

| | Residual liabilities |
|---|---|
| 2018 | 2.5 |
| 2020 | 3.0 |
| 2021 | 1.0 |
| 2022 | 2.1 |
| 2023 | 5.7 |

### High credit rating from banks and credit insurer

Our company has been given a very good credit rating of A to AAA by all lending banks as well as by our credit insurer. We have not done any borrowing on the capital market, so we do not have any external rating from a ratings agency.

### High equity ratio

As at 31 December 2017, the balance sheet total had risen by 6% from 539.8 million euros to 570.7 million euros. The principal reason behind this increase was the dividend distribution of 113.7 million euros out of consolidated net profit of 143.0 million euros. As a result, equity increased by 7% to 424.5 million euros (2016: 397.0 million euros). At 74%, the equity ratio at the balance sheet date remained at the previous year's level (2016: 74%).

### Capital tied up in the short term

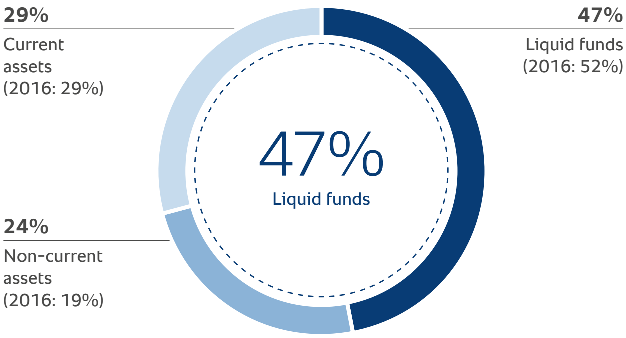
Current assets grew in 2017 by 5.8 million euros. The main drivers of the increase were trade receivables (+9.5 million euros) and inventories (+6.5 million euros), while cash and cash equivalents declined (–11.2 million euros). Current assets accounted for 76% of total assets at the balance sheet date (2016: 79%).

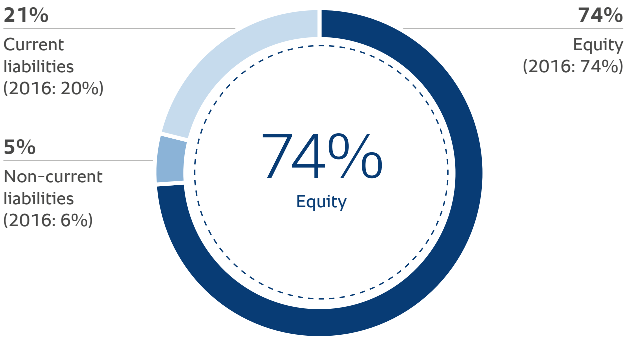
We strategically optimise the amount of capital tied up in trade receivables. We aim to strike a balance between providing the best possible support for our dealers and having as little capital tie-up as possible. Against our expectations, we held the average days sales outstanding (DSO) at 46 days in 2017, the same as in the previous year (46 days). This was made possible in particular by the agreement to payment terms with prepayment proportion in Asian markets.

Using global trade credit insurance and confirmed, irrevocable letters of credit and bank guarantees, we achieved a receivables coverage ratio of 85% as of the balance sheet date, taking into account the trade credit insurance deductibles (2016: 84%).

Property, plant and equipment increased by around 31.3 million euros in 2017, especially as a result of new investments in real estate and machinery. Intangible assets were on a par with the previous year as at the balance sheet date.

### Balance sheet structure 2017



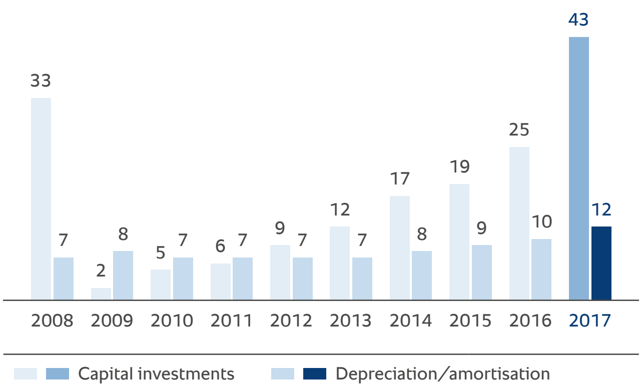
## Capital expenditure

In the year under review, we invested 43.4 million euros in non-current assets (2016: 24.6 million euros). This figure includes investments in real estate as well as in technical equipment amounting to 37.3 million euros, and capitalised development costs of 0.6 million euros. 41.8 million euros related to the RATIONAL segment, and 1.6 million euros to the FRIMA segment.

In 2018, we expect maintenance, replacement and new investments to total around 50 million euros. The contractually agreed investments for 2018 amount to around 27 million euros. Beyond that, there are no significant investment commitments that are contractually fixed or contingent upon economic considerations.

### Capital investments and depreciation/amortisation

in m EUR




## Outlook/actual comparison

In the 2016 annual report, we forecast that sales volume, sales revenues and EBIT would continue their moderate growth trend. With a 14% increase in sales and 702.1 million euros (+15%) in sales revenues, we exceeded our expectations. EBIT rose by 13% to 187.6 million euros, thus clearly exceeding our expectations. The EBIT margin was 26.7% and hence within the forecast range. DSO stood at 46 days, significantly better than expected. At 74%, the equity ratio was in the expected range.

In the year under review, employee satisfaction remained at the expected high level. Staff turnover was 8% worldwide (2016: 9%). As expected, we were able to keep customer satisfaction at a similar level to the previous year. In the past fiscal year, a large number of existing and potential customers were able to learn about the advantages of our products by watching live demonstrations and trying them out for themselves. 107,000 people took part in our CookingLive seminars (2016: 100,000), thus matching our expectations about the rate of increase. The seminars had very good attendance figures and there has been positive feedback from customers, dealers, planners and the trade press following the launch of the new SelfCookingCenter® at the end of 2016, as well as of CombiMaster® Plus and ConnectedCooking in the year under review. This can be taken as solid evidence that customers are satisfied with our products and services.

### Outlook/actual comparison

| | Actual 2016 in % | Outlook 2017 | Actual 2017 in % |
|---|---|---|---|
| **Financial KPIs** | | | |
| Sales volume growth | +11 | Moderate growth expected to continue | +14 |
| Sales revenue growth | +9 | Moderate growth expected to continue | +15 |
| Gross margin | 62 | Just over 60 | 61 |
| Operating costs | +11 | Outlook to rise faster than sales revenues | +11 |
| EBIT growth | +4 | Moderate growth | +13 |
| EBIT margin | 27 | 26 – 27 | 27 |
| DSO (days) | 46 | Around 50 days | 46 |
| Equity ratio | 74 | Approx. 70 | 74 |
| **Non-financial KPIs** | | | |
| CookingLive participants | +5 | +7 | +7 |
| Staff turnover worldwide | 9 | Previous year's level | 8 |

## Legal framework

In the year under review, there were no changes in the legal framework with any material impact on our business.

# Outlook and report on opportunities and risks

## Outlook

### Outlook assumptions

Our outlook takes into account all factors affecting business performance known at the time that this report was prepared. Such factors include general market indicators as well as sector- and company-specific matters. The market-specific parameters are growth of the global economy and movements in exchange rates and commodity prices. Sector-specific matters involve the users of our products, dealers and the competitive situation. Company-specific matters have to do with customer and employee satisfaction. The outlook takes into account activities that have already been implemented as well as measures planned for the future.

### Global economy on growth trajectory

Economists expect global economic growth of 4.0% for 2018. A significant economic upturn (5.2%) is anticipated in particular for emerging economies in 2018. This positive development is above all driven by recovering commodity prices. Economic development in industrialised countries is also forecast to accelerate, driven above all by stronger growth in the USA, where a rate of 2.6% is expected. The outlook for the Eurozone is 2.4% (source: Warburg Research, January 2018).

## Financial key performance indicators

### Sales volume, sales revenues and profit forecast for 2018

The trends relevant to our business performance continue unchanged. Given that expenditure in the eating out market is expected to increase in future years, we also expect demand for innovative thermal food preparation products to continue to rise. Our survey shows that most of our customers are so satisfied that they would buy one of our products again at any time and also recommend them to colleagues.

Exchange rates have become increasingly volatile in recent years. For 2018, we expect that changes in exchange rates will again have a slightly negative effect on our sales and earnings performance.

All in all, we expect the long-term moderate growth trends in sales volume and sales revenues to continue in 2018, meaning high single-digit growth rates.

We expect Group-wide cost of sales to increase roughly in proportion to sales revenues. Moreover, thanks to our hedging measures, commodity costs will remain largely stable and will not have a material impact on earnings. For this reason, we expect gross profit to increase in line with sales revenues, resulting in a gross margin on a par with fiscal year 2017.

Due to continuing investments in research and development, the expansion of sales capacities, investments in corporate infrastructure as well as the reinforcement of central support processes in sales, marketing, technical service and IT, operating costs will increase somewhat faster than sales revenues.

We expect this to result in an increase in EBIT roughly in line with the rise in sales revenues, corresponding to an expected EBIT margin of between 26% and 27% in fiscal year 2018. For the medium to long term, we continue to assume that our EBIT margin will range from 26% to 28%.

Since the VarioCooking Center® is still at an early stage on the market, we expect especially high growth in sales volume, sales revenues and EBIT in the FRIMA segment.

### Sustainably solid underlying financial position

Throughout 2018, we are expecting an equity ratio at the same level of around 70%.

As for average days sales outstanding (DSO), we expect a slight increase to around 48 days in 2018, caused primarily by more generous payment terms in emerging markets and new markets, which continue to be characterised by a reluctance to lend on the part of banks.

### Non-financial key performance indicators

We want to continue to improve employee satisfaction, which is already at a high level, by initiating targeted activities and support measures in 2018. We expect the staff turnover rate to be at a similarly low level as in 2017.

The number of participants in CookingLive seminars is expected to be 10% higher in 2018 than in the previous year.

## Report on opportunities and risks

The risk and opportunity policy adopted at RATIONAL aims to detect and minimise potential risks at an early stage, thus securing the continued existence of the Company. Identifying new opportunities at an early stage also ensures that the Company can continue to develop in a sustainably profitable way and meet financial and strategic objectives.

The following presented opportunities and risks are equally relevant for the RATIONAL and FRIMA segments.

### Overall assessment of opportunities and risks by the Executive Board

Opportunities for the future success of our company include the innovation-induced need to replace existing equipment, the winning of new customer groups in established markets, and the growing prosperity in emerging countries. Given the great potential in the market and our high-quality products, the Executive Board believes that the opportunities for maintaining our history of success are positive.

In addition to the above-mentioned opportunities, there are risks that may lead to an adverse variance from the forecasts. In addition to insurable risks, there are risks such as economic turmoil, political developments, changes in the competitive environment, financial developments as well as product and other operational risks.

Overall, the Executive Board believes that these risks can be controlled. In other words, these risks do not constitute a threat to the existence of the business as a going concern. Nevertheless, should any one or a combination of these risk factors materialise, the Company may fail to achieve its corporate objectives.

## Opportunities report

### RATIONAL opportunities management

Opportunities include, in particular, external factors and trends that have a positive influence on the Company's future prospects. In order to ensure sustainable and profitable growth, it is necessary to identify these opportunities at an early stage and consistently exploit them, while at the same time avoiding unnecessary risks. Since we do not believe that the opportunities shown below are quantifiable, they are presented here according to their significance to the future development of the Company.

### Eating out as a basic human need

We focus on a basic human need, namely eating away from home. This provides us with security, even in times of crisis. As prosperity increases, the restaurant and catering sector grows in significance. Per capita income in the emerging markets is rising and therefore the buying power of the growing population is increasing noticeably, leading to the emergence of a new middle class and a higher standard of living. This in turn has a positive impact on demand for our products in these markets.

### Huge available potential in the global market

According to our estimates, only around 30% of the over three million end customers that we can address are already cooking with combi-steamer technology. The remaining 70% are still relying on conventional cooking technologies. The SelfCookingCenter® can replace not only conventional cooking technology but, thanks to its cooking intelligence, also standard combi-steamers. We therefore see additional untapped market potential. Moreover, we believe that the opportunities for the VarioCooking Center® are even higher, as the product has only been on the market for a few years and market penetration is therefore still relatively low.

### Trend towards healthier eating and greater variety of food

Both individuals and hot food providers, particularly in developed industrialised nations, have recognised the importance of healthy, balanced eating. This has given rise to initiatives to offer healthier food in public facilities, such as schools and universities. A trend towards healthier and more varied dishes is also apparent in the hospitality sector. When our products are used to prepare food, vitamins are conserved as well as fat is reduced, so the resulting dishes are very healthy.

### Shortage of professionals

Cooking as a profession is increasingly losing its appeal. As a result, kitchens are finding it more and more difficult to find qualified staff. Intelligent cooking processes can help chefs to work around these bottlenecks, because they guarantee a consistently high cooking quality even for untrained personnel.

## Risk report

Business risk can be defined as the danger of not meeting strategic, operational or financial targets. In order to meet these targets and assure the Company's success, it is essential to identify risks at an early stage, analyse their causes and impact, and take suitable action to prevent or contain them.

### The RATIONAL risk management system

Risk management is a core task of the entire Executive Board. The Chief Financial Officer coordinates the process. The RATIONAL risk management system is structured to ensure that key risks are systematically identified, evaluated, aggregated, monitored, and reported to the respective decision-maker. In order to maintain the effectiveness of the risk management system at a sustainably high level, there are uniform standards that apply throughout the Group.

The internal and external opportunities and risks of all business units in the Company are recorded and assessed over a horizon of three years. The results of the previous year's risk inventory were updated in 2017. This exercise did not identify any risks, either individual or combined risks, which could represent a threat to the continued existence of the business as a going concern. If the Company identifies risks — that, if they were to materialise, could affect the achievement of corporate objectives — suitable corrective action is taken.

The RATIONAL risk early detection system allows senior management to identify material risks at an early stage, take corrective action and monitor implementation of this action. The internal audit department regularly updates the risk management system. In addition, the risk early detection system is reviewed by the independent auditors to ensure that it is capable of identifying and eliminating any developments that could constitute a threat to the continued existence of the Company as a going concern.

If it makes strategic and financial sense, the main insurable business risks are covered by a global insurance strategy drawn up in concert with external insurance brokers. The associated Group insurance policies transfer the risk to the insurer. An insurance deductible may still apply in each case, depending on the provisions agreed. Changing risk situations for the Group are examined regularly and insurance coverage is adjusted accordingly.

The compliance management system implemented in the RATIONAL Group was subjected to a reasonable assurance engagement in accordance with IDW AuS 980 in fiscal year 2015. The system was further enhanced in the following fiscal years in accordance with legal requirements.

### Risk assessment and mitigation

In order to categorise the existing risks, we assess them according to their probability and in terms of their financial impact on the Company's net assets and results of operations. We have implemented appropriate measures to reduce their probability and any loss or damage to a minimum. These are described in more detail below.

The following presentation of the probability of occurrence and the EBIT risk already incorporates the measures that have been implemented to mitigate the risk (net view). We use the following classifications:

### Risk assessment

| Probability | Description |
|---|---|
| ≦ 10% | Very low |
| > 10% to 30% | Low |
| > 30% to 60% | High |
| > 60% | Very high |

| Risk impact | Description | EBIT risk |
|---|---|---|
| Very low | Limited negative impact on the net assets, financial position and results of operations | ≦ 2% |
| Low | Low negative impact on the net assets, financial position and results of operations | >2% to 5% |
| Medium | Some negative impact on the net assets, financial position and results of operations | >5% to 10% |
| High | Considerable negative impact on the net assets, financial position and results of operations | >10% to 20% |
| Very high | Very negative impact on the net assets, financial position and results of operations | >20% |

## Risks

In the table below, the business risks seen as material for RATIONAL by the Executive Board are categorised according to their impact and probability in accordance with the above-mentioned definitions. They are presented in ascending order by risk impact and probability.

### Business risks

| | Risk impact | Probability |
|---|---|---|
| Market and competitive risks | Low | Low |
| Production and product risks | Low | Low |
| Operational risks | Low | Low |
| Political and legal risks | Low | High |
| Financial and capital market risks | Medium | Very high |

The following sections describe the respective risks and countermeasures or indicate where the details are presented in the annual financial statements.

The assessment of the financial and capital market risks has changed since the last risk report. In order to categorise the risk impact more accurately, we have added a "medium" category for a negative impact on net assets, financial position and profit or loss of 5% to 10%. Capital market risk, which was classified as "low" in the previous year, is now rated in this category.

## Market and competitive risks

### Risks from competition and substitution

There is a risk that new, larger competitors with high innovation and sales capacities could emerge as a result of mergers or the acquisition of major competitors. In addition, new competitors may enter the market, and therefore increase the intensity of competition and have a negative impact on RATIONAL's earning power. Besides that, there is a risk that a competitor may be able to catch up in terms of technology or develop a new superior technology and launch it onto the market.

We monitor developments and trends in the sector and the market strategies of our competitors constantly and factor them into our corporate planning.

### Non-acceptance of our technologies

There is a general risk of our products or services not achieving the level of market acceptance that we expect.

With a special emphasis on customer benefit in mind and with around 400 chefs working in sales and application research, development and consulting, we focus closely on the needs and wishes of our customers and strive to develop and offer the best possible solutions for them.

### Impact of the economy on our customers' willingness to invest

The purchase of our appliances represents a significant investment for customers. A weak economy or uncertainty about future economic conditions can have a negative impact on our end customers' willingness to invest.

We monitor economic developments in our principal markets very carefully. Thanks to our needs-driven cost planning and our large liquidity reserve, which gives us adequate room to manoeuvre as well as the flexibility and independence to take all necessary business decisions, we are well prepared for currently conceivable macroeconomic scenarios.

## Production and product risks

### Procurement risks

Our procurement strategy involves working in partnership with key component and module suppliers. This leads to continuous quality and product improvements, but also produces a certain degree of interdependency, which means that the complete loss of a supplier could lead to short-term interruptions in production. In addition, there are potential supply shortages due to the economic boom in many markets. We therefore keep a particularly sharp eye on business developments at our suppliers and on the production processes of relevance to our own operations. These include regular risk assessments of our key suppliers and a system for auditing upstream suppliers.

### Production disruption risk

Alongside procurement risks, there is the risk that force majeure may cause production machinery to fail. The financial risk that would arise as a result of disrupted production is adequately covered by business disruption insurance. Redundant systems are in place for production machines that are important for the existence of the Company. They can be commissioned at short notice if necessary.

### Product quality

There is a risk of quality problems in the products we supply. Possible consequences include damage to property and injury to persons as well as harm to our image.

To mitigate these risks, we subject all appliances to testing before they leave our factory. In addition to comprehensive tests on every single appliance, a random sample of appliances undergoes additional detailed inspections. In this way, we ensure the reliability of our products and can also identify any possible sources of defects at an early stage. If complaints are, nevertheless, received from customers — or from internal sources — the problems are analysed and immediate solutions are sought as part of our urgent quality improvement system. Damage to property or injury to persons occurring on customer premises are adequately covered by the existing product liability insurance. We avoid any possible damage to the image by making every effort to overcompensate for any errors and resulting damages.

## Operational risks

### Human resources risks

Skilled and motivated employees and managers are the cornerstone of the Company's success, and it is extremely important that we are able both to attract new competent personnel and to retain existing high achievers over the long term. The harm resulting from low employee commitment and significant staff turnover would adversely affect business performance in the long term.

RATIONAL is an attractive employer, both in the region and internationally. In order to recruit suitable employees, the Company undertakes various activities, such as scouting at university campuses or visiting vocational training fairs. In order to motivate and retain employees in the long term, RATIONAL offers appropriate levels of pay as well as targeted measures to develop and promote its employees. In addition, our U.i.U.® philosophy fosters a special corporate culture that encourages employees to be loyal and stay for the long term.

In order to avoid work accidents and high sickness rates, regular check-ups and preventive measures are conducted by the company doctor. Annual employee instructions on health and safety at work are conducted as part of the RATIONAL Safety Initiative. Employees are in this way made aware of and taught about general safety rules and accident prevention measures.

### IT risks

IT risks can arise as a result of the ever-increasing integration of IT systems. Networks can go down, data can be corrupted or destroyed by operating or program errors or as a result of external factors, and system failures can cause work to be delayed. Inadequate security systems could allow unauthorised outsiders to access critical information.

We counter information technology risks by investing continuously in hardware and software, using virus scanners, encrypting e-mail and data transfers, installing firewall systems and admission and access controls as well as by housing our systems in a specially protected data centre. Many of our systems have redundant backup facilities to counteract failures quickly. Regular information security training is carried out to ensure the Company's data is protected.

### Environmental risks

Manufacturing companies like ours are always subject to the risk that accidents involving oil, chemicals or other hazardous substances used during the production process damage the environment. We counter this risk by taking appropriate safety measures and conducting training and regular audits.

## Political and legal risks

### Political instability or crises

The impact of political uncertainty or crises can put product sales in the affected countries at risk. Possible consequences could be, for example, a reluctance to invest or the imposition of import restrictions.

However, the international reach of RATIONAL's operations and the fact that we sell our products in many regions of the world allow us to compensate for regional downturns through growth in other markets.

### Infringement of intellectual property rights

Both active and passive infringements of patents can give rise to costs for litigation and damages.

A team of patent specialists meticulously monitors new competitive products and cooperates closely with our product development. Checks against international patent databases thus help to avoid patent infringements by our own company and allow us to identify and pursue patent infringements by our competitors at an early stage.

### Legal risks from local laws and regulations

The increasingly international nature of our business activities entails numerous legal risks. These include in particular:

> Country-specific product requirements or safety regulations affecting the sales of our products
> Customs or import/export regulations restricting product imports
> Different tax systems, tax obstacles affecting business transactions, and changing tax systems or tax rates with a negative impact on the results of operations
> Business arrangements that infringe local competition or antitrust law
> Compliance risks, in other words possible infringements of local legislation by employees

In order to minimise such risks, we work — where necessary — with experts in the respective local legal requirements in all markets that are of importance to us.

## Financial and capital market risks

Risks arising from defaults, liquidity, prices and changes in interest and exchange rates have been identified as relevant financial and capital market risks for RATIONAL AG.

44% of sales revenues are generated in foreign currencies. If the euro had been an average of 10% weaker (stronger) in 2017, consolidated sales revenues would have been around 4% higher (lower). EBIT would have been around 14% to 15% higher (lower) if the euro had depreciated (appreciated) by 10%.

## Reduced cover of credit risks

Negative developments in the economy and the resultant financial situation of our customers make trade credit insurers less willing to accept credit risks and may consequently increase the risk of customer defaults (see section on financial and capital market risks).

Details of other financial and capital market risks pursuant to German Accounting Standard (GAS) 20 are provided in note 20 under "Financial instruments".

## Internal control and risk management system in relation to the accounting process

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

> The accounting processes in place at the parent company and its subsidiaries are clearly structured in relation to areas of responsibility and management.
> Standardised accounting practice is assured across the Group through constantly updated guidelines that are applied Group-wide.
> The functions of the main units (Finance, Accounting and Controlling) involved in the accounting process are clearly demarcated in respect of the preparation of the financial statements, and responsibilities are unambiguously assigned.
> The actual bookkeeping process is handled centrally in Landsberg where possible. This ensures a high level of quality throughout the Group in respect of the recording and processing of data relevant to accounting.
> Standard software is employed wherever possible for the financial systems used in accounting. Appropriate security and authorisation concepts are deployed to protect these systems against unauthorised access.
> The units involved in the accounting process are properly equipped to meet requirements. The staff involved have the necessary skills and qualifications and receive further training on a continuous basis. The parties involved closely coordinate their activities at regular meetings of representatives from across the Group.

> Accounting-related data is subject to regular random sample checks to ensure the data is complete and accurate.
> All key processes relevant to accounting are subject to the universal dual-control principle.
> The annual financial statements of all companies relevant to the consolidated financial statements are audited by an auditor or reviewed by the Group auditor in order to ensure that accounting practice is consistent and complies with the law.
> All of the Group processes relevant to accounting are regularly checked by the Internal Audit function as part of the audit process for subsidiaries. The processes involved at the Landsberg site are also regularly checked.

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

## Remuneration report

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

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

The total remuneration paid to the Executive Board for the performance of its duties within the parent company and its subsidiaries in fiscal year 2017 was 5.1 million euros (2016: 5.2 million euros). This amount included performance-related pay components of 2.1 million euros (2016: 1.9 million euros) and payments to former members of the Executive Board of 10 thousand euros (2016: 0.8 million euros). In addition, payments totalling 0.4 million euros (2016: 0.5 million euros) were also made into the pension scheme for Executive Board members.

The level of the variable remuneration components is determined both on the basis of business performance and primarily also on the basis of employee satisfaction, the efficiency of the organisation and the extent to which the Company has extended its technological leadership and improved its quality.

In addition, Executive Board members receive incidental benefits in kind, relating primarily to the use of a company car, telephone, and insurance premiums. The incidental benefits are part of their remuneration package, and the individual Executive Board members therefore have to pay tax on them.

No stock options were issued in 2017.

The General Meeting of Shareholders held on 4 May 2016 decided not to publish an individual breakdown of Executive Board remuneration.

The total remuneration paid to the Supervisory Board for 2017 amounted to 1.1 million euros (2016: 1.2 million euros). Pursuant to a resolution of the 2015 General Meeting of Shareholders, a fixed remuneration system was implemented for the Supervisory Board as in fiscal year 2015.

## Takeover-related disclosures

Pursuant to section 315a (1) of the German Commercial Code (HGB, Handelsgesetzbuch), companies must provide and explain information relating to takeovers.

Details of the composition of the share capital pursuant to GAS 20 are given in note 14 “Equity”.

As at 31 December 2017, the community of heirs of Siegfried Meister (who died on 28 July 2017) held 7,161,311 shares of RATIONAL AG, thus exceeding the threshold of 10% of the voting rights.

By resolution of the General Meeting of Shareholders on 29 April 2015, article 8 (6) sentence 1 of the Articles of Association of RATIONAL AG was amended. The wording of the resolution is as follows: “For as long as Mr Siegfried Meister and Mr Walter Kurtz are shareholders of the company they shall have the joint right to appoint up to two members of the Supervisory Board. If one of the two holders of the right to appoint ceases to be a shareholder of the company, the remaining shareholder shall have the sole right to appoint. The right to appoint shall be exercised by submitting a written declaration to the Executive Board of the company.”

In accordance with his right of delegation under the Articles of Association, Mr Walter Kurtz appointed Dr Georg Sick with effect from 18 October 2017 until the next Supervisory Board elections by the General Meeting of Shareholders in 2019. The Supervisory Board vacancy caused by Mr Meister’s death was therefore filled within the three-month deadline specified in section 104 (2) of the AktG.

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

Section 84 of the AktG (Aktiengesetz, German Stock Corporation Act) stipulates that the Supervisory Board is responsible for the appointment and removal of members of the Executive Board. In relation to these powers, article 6 (2) of the Articles of Association of RATIONAL AG states in more detail that the Supervisory Board appoints the members of the Executive Board, determines their number and allocates their duties. The Executive Board manages the Company and represents it vis-à-vis third parties.

According to article 11 (2) of the Articles of Association of RATIONAL AG, the Supervisory Board is entitled to make amendments and additions to the Articles of Association provided these are to the wording only. All other amendments to the Articles of Association are to be made by resolution of the General Meeting of Shareholders passed with a simple majority of the votes unless a greater majority is required by law. Sections 179 et seqq. of the AktG apply accordingly. The Supervisory Board made no amendments to the Articles of Association in 2017.

The Company does not hold any treasury shares. The Company does not currently have authorisation from the General Meeting of Shareholders to repurchase its own shares or to issue new shares.

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

No agreements have been entered into with members of the Executive Board or other employees of the Company that provide for any particular compensation or additional remuneration in the event of a change of control, that is to say the assumption of the majority of voting rights in the company by either an individual shareholder or by shareholders acting jointly.

## Declaration of Corporate Governance

The Corporate Governance Report and the Declaration of Corporate Governance pursuant to sections 289f and 315d of the German Commercial Code (HGB, Handelsgesetzbuch) are presented under “Corporate Governance” in the “Investor Relations” section of the RATIONAL website.

Landsberg am Lech, 27 February 2018

RATIONAL AG
The Executive Board

**Dr Peter Stadelmann**
Chief Executive Officer

**Dr Axel Kaufmann**
Chief Financial Officer

**Peter Wiedemann**
Chief Technical Officer

**Markus Paschmann**
Chief Sales Officer

# Consolidated Financial Statements

## Contents

# Statement of Comprehensive Income RATIONAL Group

for the period 1 January – 31 December

| | Note | 2017 | in kEUR 2016 |
|---|---|---|---|
| Sales revenues | 1 | 702,100 | 613,010 |
| Cost of sales | | –275,712 | –234,188 |
| **Gross profit** | | **426,388** | **378,822** |
| Sales and service expenses | | –171,498 | –155,588 |
| Research and development expenses | | –33,200 | –28,842 |
| General administration expenses | | –29,813 | –26,424 |
| Other operating income | 2 | 8,386 | 12,376 |
| Other operating expenses | 3 | –12,695 | –13,833 |
| **Earnings before interest and taxes (EBIT)** | | **187,568** | **166,511** |
| Interest and similar income | | 353 | 398 |
| Interest and similar expenses | | –873 | –1,041 |
| **Earnings before taxes (EBT)** | | **187,048** | **165,868** |
| Income taxes | 4 | –44,047 | –38,761 |
| **Profit or loss after taxes** | | **143,001** | **127,107** |
| Items that may be reclassified to profit and loss in the future: | | | |
| Differences from currency translation | 14 | –1,757 | –373 |
| Items that will not be reclassified to profit and loss: | | | |
| Actuarial gains and losses from defined benefit obligations | 14,15 | 25 | –608 |
| **Other comprehensive income** | | **–1,732** | **–981** |
| **Total comprehensive income** | | **141,269** | **126,126** |
| Average number of shares (undiluted/diluted) | | 11,370,000 | 11,370,000 |
| Earnings per share (undiluted/diluted) in euros, based on profit or loss after taxes and the number of shares | 5 | 12.58 | 11.18 |

# Balance Sheet
# RATIONAL Group

## Assets

in kEUR

| | Note | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|---|
| **Non-current assets** | | **137,353** | **112,276** |
| Intangible assets | 7 | 8,525 | 8,803 |
| Property, plant and equipment | 8 | 116,413 | 85,067 |
| Financial assets | 9 | 2,500 | 8,000 |
| Deferred tax assets | 4 | 7,475 | 8,273 |
| Other non-current assets | 12 | 2440 | 2,133 |
| **Current assets** | | **433,346** | **427,525** |
| Inventories | 10 | 45,682 | 39,214 |
| Trade accounts receivable | 11 | 109,657 | 100,180 |
| Income tax receivables | 4 | 416 | 749 |
| Other current assets | 12 | 10,643 | 9,230 |
| Deposits | 9 | 70,734 | 175,700 |
| Cash and cash equivalents | 13 | 196,214 | 102,452 |
| **Total assets** | | **570,699** | **539,801** |

## Equity and liabilities

in kEUR

| | Note | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|---|
| **Equity** | | **424,527** | **396,958** |
| Subscribed capital | 14 | 11,370 | 11,370 |
| Capital reserves | 14 | 28,058 | 28,058 |
| Retained earnings | 14 | 389,443 | 360,142 |
| Other components of equity | 14 | –4,344 | –2,612 |
| **Non-current liabilities** | | **28,350** | **34,888** |
| Provisions for pensions | 15 | 3,000 | 3,223 |
| Other non-current provisions | 16 | 10,905 | 9,203 |
| Non-current liabilities to banks | 17 | 8,937 | 20,747 |
| Deferred tax liabilities | 4 | 663 | 578 |
| Income tax liabilities | 4 | 1,489 | 1,078 |
| Other non-current liabilities | 18, 4 | 3,356 | 59 |
| **Current liabilities** | | **117,822** | **107,955** |
| Income tax liabilities | 4 | 7,996 | 8,340 |
| Current provisions | 16 | 44,414 | 38,518 |
| Current liabilities to banks | 17 | 5,310 | 7,046 |
| Trade accounts payable | 18 | 31,314 | 25,000 |
| Other current liabilities | 18 | 28,788 | 29,051 |
| **Liabilities** | | **146,172** | **142,843** |
| **Total equity and liabilities** | | **570,699** | **539,801** |

# Cash Flow Statement RATIONAL Group

for the period 1 January – 31 December

| in kEUR | Note | 2017 | 2016 |
|---|---|---|---|
| Earnings before taxes (EBT) | 7, 8 | 187,048 | 165,868 |
| Depreciation and amortisation | | 11,827 | 9,900 |
| Other non-cash income and expenses | | −1,558 | −8 |
| Net interest | | 520 | 643 |
| Changes in | | | |
| Inventories | | −6,469 | −8,265 |
| Trade accounts receivable and other assets | | −10,877 | −12,898 |
| Provisions | | 7,316 | 3,767 |
| Trade accounts payable and other liabilities | | 926 | 12,131 |
| Income taxes paid | | −42,797 | −41,648 |
| **Cash flow from operating activities** | 19 | **145,936** | **129,490** |
| Capital expenditures in intangible assets and property, plant and equipment | 7, 8 | −34,224 | −24,592 |
| Proceeds from asset disposals | | 217 | 266 |
| Change in fixed deposits | | 110,532 | −72,800 |
| Interest received | | 348 | 434 |
| **Cash flow from investing activities** | 19 | **76,873** | **−96,692** |
| Dividends paid | 6 | −113,700 | −85,275 |
| Proceeds from liabilities to banks | 17 | 1,060 | 4,500 |
| Repayment of liabilities to banks | 17 | −14,674 | −5,145 |
| Change in other liabilities to banks | 17 | 238 | 3 |
| Interest paid | | −765 | −826 |
| **Cash flow from financing activities** | 19 | **−127,841** | **−86,743** |
| Effects of exchange rate fluctuations in cash and cash equivalents | | −1,206 | 275 |
| **Change in cash and cash equivalents** | | **93,762** | **−53,670** |
| **Cash and cash equivalents as at 1 January** | 13 | **102,452** | **156,122** |
| **Cash and cash equivalents as at 31 December** | 13 | **196,214** | **102,452** |

# Statement of Changes in Equity RATIONAL Group

in kEUR

| | Subscribed capital | Capital reserves | Retained earnings | Other components of equity | | Total |
|---|---|---|---|---|---|---|
| | | | | Differences from currency translation | Actuarial gains and losses | |
| Note | 14 | 14 | 6, 14 | 14 | 4, 14, 15 | |
| **Balance as at 1 January 2016** | **11,370** | **28,058** | **318,310** | **–1,211** | **–420** | **356,107** |
| Dividend | – | – | –85,275 | – | – | –85,275 |
| Profit or loss after taxes | – | – | 127,107 | – | – | 127,107 |
| Other comprehensive income | – | – | – | –373 | –608 | –981 |
| **Balance as at 31 December 2016** | **11,370** | **28,058** | **360,142** | **–1,584** | **–1,028** | **396,958** |
| Dividend | – | – | –113,700 | – | – | –113,700 |
| Profit or loss after taxes | – | – | 143,001 | – | – | 143,001 |
| Other comprehensive income | – | – | – | –1,757 | 25 | –1,732 |
| **Balance as at 31 December 2017** | **11,370** | **28,058** | **389,443** | **–3,341** | **–1,003** | **424,527** |

# Notes

## Fundamentals

### Description and explanation of business activities

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

The RATIONAL Group (referred to as "RATIONAL" or "Group" in the following text) is a worldwide market and technology leader in the field of the thermal preparation of food in professional kitchens. Since its formation in 1973, the company's sole activities have been the development, production and sale of professional cooking appliances for industrial kitchens. RATIONAL sells its products worldwide through its own subsidiaries and through independent distribution partners.

The shares of the company, which has been listed on the Frankfurt Stock Exchange since March 2000, have been admitted to the Prime Standard and are traded on the Regulated Market. Since 18 September 2017, RATIONAL is included in the SDAX selection index.

### Presentation of financial statements

The functional currency and the currency used in the consolidated financial statements is the euro. For the sake of clarity, figures are shown in thousands of euros (kEUR). The structure of the balance sheet complies with the IAS 1 guidance regarding classification and format. The presentation for the fiscal year ending 31 December 2017 and for the previous year is classified into maturities of "twelve months or less" (current) and "more than twelve months" (non-current). The consolidated financial statements are prepared on the basis of historical cost with the exception of derivative financial instruments, which are measured at fair value.

The disclosures in the notes to the consolidated financial statements are intended to allow a comprehensive assessment of the company's net assets, financial position and profit or loss, as well as to facilitate a full evaluation of the opportunities open to the company and the risks to which it is exposed. For RATIONAL, the key components of its consolidated financial statements are the statement of comprehensive income, the balance sheet, the statement of cash flows and the statement of changes in equity. The specific notes relate to the respective captions of these financial statements. Information on accounting and consolidation methods can be found under "Basis of preparation", "Consolidation methods" and "Significant accounting policies". A description of financial instruments and information not relating to specific items in the financial statements can be found in "Other notes to the consolidated financial statements".

The consolidated financial statements were approved by the Executive Board of RATIONAL AG on 27 February 2018. The publication date is 15 March 2018.

### Basis of preparation

The consolidated financial statements for fiscal year 2017 (including prior-year figures) have been prepared in accordance with the International Financial Reporting Standards (IFRSs) promulgated and published by the International Accounting Standards Board (IASB), as adopted in the EU, and in accordance with the supplementary rules applicable under section 315e (1) of the HGB (Handelsgesetzbuch, German Commercial Code).

All the effective and mandatory standards for fiscal year 2017 have been taken into account, with the result that a true and fair view of the Group's net assets, financial position and profit or loss has been reported.

The following revised standards were applied on a mandatory basis for the first time in fiscal year 2017; RATIONAL had not applied them voluntarily in previous years.

| | | Effective date |
|---|---|---|
| Amendment | IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses" | 1 January 2017 |
| Amendment | IAS 7 "Disclosure Initiative" | 1 January 2017 |
| Amendment | Annual Improvement to IFRS 2014 – 2016 (Amendments to IFRS 12) | 1 January 2017 |

These changes have no material effect on the consolidated financial statements of RATIONAL.

The following new or revised standards and interpretations did not yet apply on a mandatory basis in fiscal year 2017 and have not been applied early.

| | | Effective date |
|---|---|---|
| New | IFRS 9 "Financial Instruments" | 1 January 2018 |
| New | IFRS 15 "Revenue from Contracts with Customers" | 1 January 2018 |
| Amendment | Clarifications to IFRS 15 "Revenue from Contracts with Customers" | 1 January 2018 |
| Amendment | IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | 1 January 2018 |
| Amendment | Annual Improvement to IFRS 2014 – 2016 (Amendments to IAS 28 and IFRS 1) | 1 January 2018 |
| New | IFRS 16 "Leases" | 1 January 2019 |

The new IFRS 9 "Financial Instruments" will replace IAS 39 "Financial Instruments: Recognition and Measurement". The standard has three fundamentally revised areas of regulation. New guidance has been set out for the classification and measurement of financial instruments, especially for financial assets. In future, the classification and measurement of financial assets will depend on the allocated business model and the cash flow characteristics. In addition, the new guidance for the recognition of impairment will lead to changes in the way impairment losses are recognized. The guidance on the recognition of hedges has also been completely revised with the aim of aligning hedge accounting more closely with a company's economic risk management.

IFRS 9 must be applied for the first time for the fiscal year starting on 1 January 2018. The new standard has not been applied early in RATIONAL's consolidated financial statements.

While the application of IFRS 9 to the classification and measurement of financial liabilities will not lead to material changes compared with the existing requirements under IAS 39, the initial and subsequent measurement of financial assets will now depend on the individual result of the initial classification under IFRS 9. Critical aspects in this regard are the company's business model (business model assumption) and the characteristics of the contractual cash flows to be collected (cash flow assumption). The business model and cash flows of the original debt instruments held by RATIONAL continue to support subsequent measurement at amortised cost. The derivative debt instruments held by RATIONAL meet neither the business model nor the cash flow condition, which means that they have to be measured at fair value through profit or loss — in the same way as under the requirements of IAS 39. The measurement criteria for the different types of financial assets have therefore not changed as compared with IAS 39. This means that the new requirements of IFRS 9 for the classification and measurement of financial instruments will not have any impact on RATIONAL's consolidated financial statements.

RATIONAL does not use hedge accounting. The new hedge accounting requirements of IFRS 9 will therefore not have any impact on RATIONAL's consolidated financial statements as at 1 January 2018.

There will, however, be an effect on RATIONAL's consolidated financial statements in terms of the recognition of impairment losses on financial assets. To date, losses on financial assets not measured at fair value through profit or loss have been recognised when there is objective evidence of impairment (incurred loss model). The new impairment model of IFRS 9 requires the recognition of expected losses to reflect the current and the future situation (expected loss model). According to this model, the present value of 12-month expected credit losses must be recognised at initial recognition. If there is a significant increase in credit risk or there is objective evidence of impairment, a risk allowance must be recognised in the amount of the lifetime expected credit losses. The new impairment rules affect in particular trade accounts receivable and deposits. The application of the new impairment model is expected to result in expected losses on the corresponding instruments being recognised sooner and therefore lead to higher impairment losses. The Group will apply the simplified approach to impairment losses on trade accounts receivable. Accordingly, the risk allowance on trade accounts receivable will be recognised in the amount of the lifetime expected credit losses, irrespective of credit quality. For deposits, the 12-month expected credit losses under IFRS 9 will be determined on the basis of the corresponding credit default swap. As at 1 January 2018, the transition to IFRS 9 will have an effect of 217 thousand euros resulting from the increase in the risk allowance on financial assets. Although IFRS 9 is applied retrospectively in principle, there are modifications in this regard, which RATIONAL will apply. Prior-year figures will therefore not be restated in the 2018 financial statements. Transition effects from the initial application of IFRS 9 will be recognised directly in equity as at 1 January 2018.

In addition, the extended disclosure requirements will mean that more comprehensive disclosures than previously will be required in the notes from fiscal year 2018 onwards, especially for impairment losses on financial assets.

Under the new IFRS 15 “Revenue from Contracts with Customers” and the related clarifications to IFRS 15, revenue must be recognised when control of the agreed goods or services passes to the customer and the customer can obtain benefits from them. To determine revenue recognition, the new standard specifies the new five-step model, which requires that the contract with the customer and the performance obligations in that contract must first be identified. Then the transaction price of the contract must be determined and allocated to the respective performance obligations. As soon as the agreed good or service has been provided and control has passed to the customer, the new model requires revenue to be recognised for each performance obligation in the amount of the pro rata transaction price allocated to that obligation. Specified criteria must be used to distinguish between performance obligations satisfied at a point in time or over time.

IFRS 15 must be applied for the first time for the fiscal year starting on 1 January 2018. The new standard has not been applied early in RATIONAL's consolidated financial statements. RATIONAL's business model generally entails short order lead times, and sales revenues are mostly recognised at a particular point in time. For the recognition of revenue for products, such as appliances, accessories, spare parts and care products, IFRS 15 will not have a material impact on the consolidated financial statements, because the supply is immediate. In terms of services, however, there will be an impact on the timing of revenue recognition. The transition effect on revenues as at 1 January 2018 will amount to about 327 thousand euros; of this, 135 thousand euros will be recognised in profit or loss. This figure is based on contracts not yet fully fulfilled, as at 31 December 2017; from 2018 onwards, this will be reported as a “contract liability”. RATIONAL will choose the modified retrospective approach for its initial application of IFRS 15. For this reason, comparative periods will not be restated in accordance with IFRS 15. IFRS 15 will only have to be applied to new contracts and to contracts not yet fulfilled as from 1 January 2018. On initial application, the transition effect from existing contracts will have to be recognised as an accumulated figure in the opening balance of equity. In addition, from fiscal year 2018 onwards, IFRS 15 requires more comprehensive disclosures on revenue recognition than previously in the notes to the consolidated financial statements.

The amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" and the amendments to "Annual Improvements to IFRSs 2014 – 2016" are not expected to have any impact on RATIONAL's consolidated financial statements.

IFRS 16 will have to be applied for the first time to fiscal years beginning on or after 1 January 2019; it replaces the existing IAS 17 and the related interpretations. There are no plans to apply IFRS 16 early.

For lessees, the new standard specifies an accounting model that no longer distinguishes between finance and operating leases. In future, IFRS 16 will require all leases to be recognised in the balance sheet, if they give rise to a right-of-use asset at the lessee. The only exceptions are short-term leases and leases of low-value assets, although recognition in the balance sheet is allowed as an option for both exceptions. For lessors, on the other hand, leases continue to be accounted for in the same way as before under IAS 17, with a distinction between finance and operating leases.

Our examination of the impact of the new IFRS 16 has not yet been finalised. According to the analysis conducted so far, the initial application of the new standard will not have a material effect on RATIONAL's income statement. The recognition of usage rights and lease liabilities will increase total assets by an amount in the low double-digit million range. The equity ratio will decline by few percentage points as a result of this measure.

The following amended or new standards have been published by the IASB but not yet adopted by the EU, and are therefore not applied to the consolidated financial statements.

| | | **Effective date in accordance to Standard** |
|---|---|---|
| Amendment | IAS 40 "Transfers of Investment Property" | 1 January 2018 |
| Amendment | IFRIC 22 "Foreign Currency Transactions and Advance Consideration" | 1 January 2018 |
| Amendment | IFRS 2 "Classification and Measurement of Share-based Payment Transactions" | 1 January 2018 |
| Amendment | IFRIC 23 "Uncertainty over Income Tax Treatments" | 1 January 2019 |
| Amendment | IFRS 9 "Prepayment Features with Negative Compensation" | 1 January 2019 |
| Amendment | IAS 28 "Long-term Interests in Associates and Joint Ventures" | 1 January 2019 |
| Amendment | Annual Improvement to IFRS 2015 – 2017 | 1 January 2019 |
| Amendment | IAS 19 "Plan Amendment, Curtailment or Settlement" | 1 January 2019 |
| New | IFRS 17 "Insurance Contracts" | 1 January 2021 |

RATIONAL AG will apply these standards, interpretations and amendments once they have been adopted as mandatory by the European Union. They are not expected to have any material effect on RATIONAL's future consolidated financial statements.

## Consolidation methods

In addition to RATIONAL AG as the ultimate parent company, all material domestic and foreign subsidiaries under the direct or indirect control of RATIONAL AG have been included in the consolidated financial statements of RATIONAL. The consolidation of an investee begins on the day on which RATIONAL AG gains control over the entity and ends when it no longer has control over the investee.

Initial consolidation of the investment account is performed using the acquisition method in accordance with IFRS 3. Any remaining positive differences are capitalised as goodwill.

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

The consolidation methods remain unchanged from those used last year.

## Scope of consolidation

As at the balance sheet date (31 December 2017), eight domestic (2016: eight) and 25 foreign subsidiaries (2016: 25) in addition to the parent company were included in the consolidated financial statements in accordance with IFRS 10. Compared to the balance sheet date as at 31 December 2016, there have been no changes in the scope of consolidation.

As at 31 December 2017 the consolidated companies were as shown in the adjacent table.

TOPINOX S.A.R.L., Nantes, France, an operationally inactive subsidiary of FRIMA - T S.A.S., is not included in the consolidation. This is of minor importance in providing a true and fair view of the Group's net assets, financial position and profit or loss. As in the previous year, the investment is reported with a carrying amount of 0 thousand euros. This corresponds to the fair value.

The fiscal year of RATIONAL AG and its subsidiaries, with the exception of RATIONAL International India Private Ltd., corresponds to the calendar year. In accordance with local legal requirements, the Indian subsidiary has a fiscal year from 1 April to 31 March, but for consolidation purposes the figures are prepared on a calendar-year basis. The balance sheet date of the consolidated financial statements is the balance sheet date of the parent company in accordance with IFRS 10.

The domestic subsidiaries LechMetall GmbH, RATIONAL Großküchentechnik GmbH, RATIONAL Technical Services GmbH, RATIONAL Dienstleistungsgesellschaft mbH, RATIONAL Montage GmbH, RATIONAL Komponenten GmbH and RATIONAL F & E GmbH have exercised all available exemption options provided in section 264 (3) of the HGB (Handelsgesetzbuch, German Commercial Code) for fiscal year 2017.

### Corporate structure

| Name and registered office of RATIONAL AG subsidiaries | | | % share of capital/ % share of voting rights |
|---|---|---|---|
| **Germany** | | | |
| LechMetall GmbH | Landsberg am Lech | Germany | 100.0 |
| RATIONAL Komponenten GmbH | Landsberg am Lech | Germany | 100.0 |
| RATIONAL Technical Services GmbH | Landsberg am Lech | Germany | 100.0 |
| RATIONAL Dienstleistungsgesellschaft mbH | Landsberg am Lech | Germany | 100.0 |
| RATIONAL Montage GmbH | Landsberg am Lech | Germany | 100.0 |
| RATIONAL Großküchentechnik GmbH | Landsberg am Lech | Germany | 100.0 |
| RATIONAL F & E GmbH | Landsberg am Lech | Germany | 100.0 |
| FRIMA Deutschland GmbH | Frankfurt am Main | Germany | 100.0 |
| **Europe** | | | |
| RATIONAL UK Ltd. | Luton | United Kingdom | 100.0 |
| FRIMA UK Ltd. (in liquidation) | London | United Kingdom | 100.0 |
| RATIONAL France S.A.S. | Wittenheim | France | 100.0 |
| FRIMA - T S.A.S. | Wittenheim | France | 100.0 |
| FRIMA France S.A.S. | Wittenheim | France | 100.0 |
| RATIONAL Italia s.r.l. | Mestre | Italy | 100.0 |
| RATIONAL Ibérica Cooking Systems S.L. | Barcelona | Spain | 100.0 |
| RATIONAL Austria GmbH | Salzburg | Austria | 100.0 |
| RATIONAL International AG | Balgach | Switzerland | 100.0 |
| RATIONAL Schweiz AG | Balgach | Switzerland | 100.0 |
| FRIMA International AG | Balgach | Switzerland | 100.0 |
| RATIONAL Sp. z o.o. | Warsaw | Poland | 100.0 |
| RATIONAL Scandinavia AB | Malmö | Sweden | 100.0 |
| RATIONAL RUS OOO | Moscow | Russia | 100.0 |
| RATIONAL Endüstriyel Mutfak Ekipmanları Ticaret Limited Sirketi | Istanbul | Turkey | 100.0 |
| **Americas** | | | |
| RATIONAL Cooking Systems. Inc. | Rolling Meadows | USA | 100.0 |
| RATIONAL Canada Inc. | Mississauga | Canada | 100.0 |
| RATIONAL México. S.A. DE C.V. | Mexico City | Mexico | 100.0 |
| RATIONAL Brasil Comércio E Distribuição de Sistemas De Cocção Ltda. | São Paulo | Brazil | 99.9 |
| RATIONAL Colombia - America Central SAS | Bogotá | Colombia | 100.0 |
| **Asia** | | | |
| RATIONAL Japan Co. Ltd. | Tokyo | Japan | 100.0 |
| RATIONAL Trading (Shanghai) Co. Ltd. | Shanghai | China | 100.0 |
| RATIONAL International India Private Ltd. | Gurgaon | India | 100.0 |
| RATIONAL Cooking Systems PTE. LTD. | Singapore | Singapore | 100.0 |
| RATIONAL Kitchen and Catering Equipment Trading FZCO | Dubai | United Arab Emirates | 100.0 |

## Foreign currency translation

In the separate financial statements of the subsidiaries, foreign currency transactions are translated into the functional currency at the exchange rate prevailing at the time of the transaction. Profits and losses resulting from the settlement of such transactions and from the translation at the spot rate of monetary foreign currency assets and liabilities are recognised in the income statement.

For the consolidated financial statements, the financial statements of the foreign subsidiaries are translated into euros in accordance with the concept of functional currency. The local currency in each country is the functional currency for the entities based in the country concerned. RATIONAL International AG and FRIMA International AG, both of which have registered offices in Switzerland, as well as RATIONAL Kitchen and Catering Equipment Trading FZCO, which has its registered office in the United Arab Emirates, are exceptions to this rule and use the euro as their functional currency, because most sales revenues are generated in euros. Assets and liabilities are translated at the spot rate as at the balance sheet date and the items in the income statement at the annual average rate. The portions of equity to be included in the consolidation of the investment account and the accumulated profit or loss brought forward are translated at historical rates. If this gives rise to differences as a result of changes in rates, the differences are recognised under "Differences from currency translation" in the statement of comprehensive income.

The following table shows the exchange rates in relation to the euro used in the consolidated financial statements:

| | Annual average exchange rate | | Exchange rate on 31 Dec | |
|---|---|---|---|---|
| **1 euro =** | **2017** | **2016** | **2017** | **2016** |
| BRL = Brazilian real | 3.6406 | 3.8260 | 3.9707 | 3.4368 |
| CAD = Canadian dollar | 1.4719 | 1.4592 | 1.5024 | 1.4223 |
| CHF = Swiss franc | 1.1161 | 1.0911 | 1.1693 | 1.0750 |
| CNY = Chinese yuan | 7.6614 | 7.3399 | 7.8327 | 7.3252 |
| COP = Colombian peso | 3,366.9 | 3,362.2 | 3,577.6 | 3,170.0 |
| GBP = Pound sterling | 0.8765 | 0.8228 | 0.8874 | 0.8586 |
| INR = Indian rupee | 73.818 | 74.216 | 76.560 | 71.639 |
| JPY = Japanese yen | 127.34 | 120.43 | 134.88 | 123.51 |
| MXN = Mexican peso | 21.414 | 20.705 | 23.607 | 21.841 |
| PLN = Polish zloty | 4.2439 | 4.3761 | 4.1752 | 4.4140 |
| RUB = Russian rouble | 66.116 | 73.375 | 69.325 | 64.682 |
| SEK = Swedish krona | 9.6432 | 9.4709 | 9.8300 | 9.5670 |
| SGD = Singapore dollar | 1.5612 | 1.5245 | 1.6012 | 1.5259 |
| TRY = Turkish lira | 4.1391 | 3.3451 | 4.5343 | 3.7269 |
| USD = US dollar | 1.1371 | 1.1037 | 1.1988 | 1.0560 |

## Significant accounting policies

### Intangible assets and property, plant and equipment

Purchased intangible assets are recognised at cost and amortised over three to five years using the straight-line method.

Development costs are recognised as internally generated intangible assets if the requirements of IAS 38.57 are met. Among other things, these include the technical and economic realisability of the asset, reliable measurement of the expenditure attributable to it and adequate resources to complete the development project. Development activities that are directly related to the specific development of new technologies qualify for capitalisation. Capitalised development costs include all attributable direct costs and a proportion of indirect costs. The assets are amortised over their useful lives using the straight-line method (usually 5 years), starting when they are available for commercial use. Amortisation charges on capitalised development costs are reported under cost of sales in the statement of comprehensive income. Development projects that have been capitalised but not yet completed are tested annually for impairment.

Goodwill arising from the consolidation of the investment account and other company acquisitions is tested at least annually for impairment in compliance with IAS 36. If the fair value less disposal costs or the value in use is below the carrying amount of the cash-generating unit or the group of cash-generating units, an impairment loss is recognised in the income statement.

Property, plant and equipment is measured at cost less depreciation. Cost includes all directly attributable costs and appropriate portions of production-related overheads. Depreciation is calculated on the basis of the useful lives of the assets. Administration and production buildings are depreciated over a period of between 20 and 36 years, while items of technical equipment and machinery as well as operating and office equipment are depreciated over their useful lives, which range between 2 and 15 years. The straight-line method is normally used. Depreciation is charged pro rata in the year the asset is purchased.

As at each balance sheet date, the Group has to assess whether there are any indications that the carrying amount of an intangible asset or item of property, plant and equipment may be impaired. If impairment is identified in excess of depreciation, the asset is written down to its recoverable amount. The recoverable amount is either the fair value less costs to sell or the value in use of an asset, whichever is higher.

### Leasing

According to IAS 17, leasing transactions are classified as operating leases if the lessor retains substantially all the risks and rewards incidental to the ownership of the leased item. The lease payments are recognised as expense in the income statement over the lease term.

### Inventories

Inventories are measured either at cost or at the net realisable value, whichever is lower. Raw materials, consumables, supplies and merchandise are measured at cost using the moving weighted average cost method. Price reductions such as volume and cash discounts and other comparable amounts are taken into account when measuring cost. Work in progress and finished goods are measured at production costs.

### Financial instruments

In the course of normal operating activities, companies can enter into a large number of contractual agreements that lead to the creation of financial assets for one company and, at the same time, financial liabilities for another. These are financial instruments.

Financial assets and liabilities, with the exception of derivative financial instruments, are recognised at fair value on the settlement date, taking into account any transaction costs directly attributable to the acquisition. The settlement date is the date on which an asset is delivered to or by the company.

Their subsequent measurement is determined on the basis of the following classification categories under IAS 39:

| Classification category under IAS 39 | Subsequent measurement |
|---|---|
| Financial assets/liabilities at fair value through profit or loss<br>– Held for trading<br>– Fair value option | At fair value through profit or loss |
| Held-to-maturity financial investments | At amortised cost using the effective interest method |
| Loans and receivables | At amortised cost using the effective interest method |
| Available-for-sale financial assets | Recognised directly in equity at fair value |
| Financial liabilities measured at amortised cost | At amortised cost using the effective interest method |

The assignment of the respective financial instruments within the balance sheet items to the categories is summarised in "Other notes to the consolidated financial statements" under note 20. RATIONAL makes no use of the fair value option.

A financial asset is derecognised if the contractual right to payments from the financial asset has lapsed or if the financial asset has been transferred and RATIONAL has for the most part relinquished all risks and rewards associated with its ownership. A receivable is also derecognised if it is irrecoverable. A financial liability is derecognised if the corresponding obligation has been settled or rescinded, or has lapsed. The gains and losses arising from the derecognition of financial assets and financial liabilities are recognised in the income statement for the period.

On the day of trading, derivative financial instruments are recognised at fair value and reported under other assets or other liabilities in the balance sheet. Derivative financial instruments are classified as "held for trading" because they do not meet the IAS 39 requirements for hedge accounting. They are therefore measured subsequently at fair value. Changes in fair value between reporting dates are recognised under other operating income or expenses in the consolidated statement of comprehensive income.

### Allowances for accounts receivable

Allowances must be recognised for receivables that are to be classified as doubtful on the basis of objective criteria, especially if the receivable has been transferred to an external debt collection agency following sustained, unsuccessful dunning activities, if insolvency proceedings have been applied for or are ongoing, or if the receivable is being disputed in court, and there are no indications that would justify an alternative assessment. Any allowances that are required are held in an allowance account. If there are no realistic prospects of recovering a receivable that has been written down, the amount is derecognised.

### Cash and cash equivalents

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

### Current tax assets and tax liabilities

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

### Deferred taxes

Deferred tax assets are recognised in accordance with IAS 12, using the liability method for temporary differences between the value of an asset or liability as shown on the balance sheet and the tax base. Deferred tax assets and liabilities are calculated at the tax rates expected to be effective in the period in which the asset is realised or liability settled. The tax rates used to calculate deferred taxes for the subsidiaries are between 8% and 34% (2016: 8% and 39%). The tax rate used to calculate deferred taxes for RATIONAL AG is 28% (2016: 28%). Deferred taxes recognised at Group level have been measured on the basis of each country-specific income tax rate.

Deferred tax assets and deferred tax liabilities are reported on a net basis if there is an enforceable legal right to offset them and if the deferred tax assets and deferred tax liabilities relate to taxes on income that are levied on the same taxable entity and by the same tax authority.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced by the amount by which it is no longer probable that sufficient taxable income will be available against which at least part of the deferred tax asset can be used.

### Provisions

The measurement of defined benefit provisions for pensions is based on the projected unit credit method stipulated in IAS19. The actuarial gains and losses are directly recognised in other comprehensive income. The interest paid is immediately recognised in the income statement under "Interest and similar expenses". The pension provisions in Germany are recognised in the balance sheet in amount of the defined benefit obligation. The pension provisions in Switzerland are calculated on the basis of the difference between the defined benefit obligation and the fair value of the plan assets.

Other provisions are recognised if there is an obligation to a third party as a result of a past event, it is probable that the obligation will have to be settled in the future, and the amount required to settle the obligation can be reliably estimated. The carrying amount of provisions is reviewed at each balance sheet date. If the effect of discounting is material, the provision is discounted.

### Government grants

Government grants are recognised at fair value if there is reasonable assurance that RATIONAL will comply with any conditions attached to the grant and the grant will be received.

Government grants paid as compensation for expenses already incurred are recognised in profit or loss in the period in which the claim arises.

Government grants for assets reduce the carrying amounts of the corresponding assets reported in the balance sheet. The income is recognised in profit or loss by way of reduced depreciation or amortisation charges over the useful life of the asset.

### Cost of sales and other functional costs

Cost of sales comprises the manufacturing costs of the products sold, the cost of merchandise sold, warranty expenses, allowances on inventories and the cost of providing services sold. Sales and service expenses include sales organisation costs for office-based and field sales, shipping costs, costs for marketing, application consultancy and after-sales service. Research and development expenses comprise the cost of basic and application research and development costs not eligible for capitalisation. General administration expenses are made up of business administration costs, such as human resources, finance, IT, accounting and controlling as well as a certain proportion of executive management costs. Amortisation and depreciation charges are allocated to cost of sales as well as functional costs according to cost drivers.

### Recognition of income and expense

Sales revenues are recognised once goods or services have been provided, i.e. on transfer of ownership and risk to the customer, if it is sufficiently likely that economic benefits will accrue to the consolidated group and the amount of the sales revenues can be reliably determined. The sales revenues include the consideration received or receivable at fair value, and are reported excluding value-added tax, returns, rebates and discounts. Operating expenses are recognised in the income statement when the goods or services are utilised or on the date the expenses are incurred. Provisions for warranties are recognised on an individual basis or when the corresponding sales revenues are recognised. Interest income and expenses are recognised in the period in which they accrue or are incurred. Research expenses and development costs not eligible for capitalisation are expensed as incurred. Finance costs are expensed in the period in which they are incurred, unless they can be directly allocated to the acquisition, construction or manufacture of a qualifying asset.

### Use of estimates and assumptions and significant use of management judgement

In preparing the consolidated financial statements, company management must make certain estimates and assumptions, particularly for intangible assets including goodwill and for property, plant and equipment, deferred tax assets and provisions. These estimates and assumptions may influence the amounts reported for assets, liabilities and financial obligations as at the balance sheet date, as well as income and expenses for the year under review. The carrying amounts of the items in question are disclosed individually in the relevant notes.

For intangible assets and property, plant and equipment, the assumptions and estimates made by management relate in particular to the expected useful life, whether there are indications of impairment, and the estimated recoverable amount of an impaired asset. Management is confident that the assumptions and estimates made are appropriate. Any changes to the specified assumptions and estimates would change the company's net assets, financial position and profit or loss.

When goodwill and capitalised uncompleted development projects are subjected to the annual impairment test, assumptions must be made about future profit or loss levels and the resulting cash flow to be expected in the underlying cash-generating unit or group of cash-generating units in order to determine the recoverable amount. Projects still under development additionally require assumptions about costs still to be incurred and the period to completion. The actual cash flows can differ significantly from the cash flows based on these estimates. This could lead to a change in the company's net assets, financial position and profit or loss.

When testing financial assets for impairment, the assumptions and estimates also relate to the future sale price and volume, as well as the costs and discount rates. Although management is confident that the assumptions and estimates are appropriate, a change in the assumptions or circumstances could result in an additional requirement to recognise impairment losses or to reverse such losses.

To calculate deferred tax assets, management must assess the tax benefits arising from the available tax strategies and future taxable income. The reported amount of deferred tax could decline if the estimates of planned taxable income and the achievable tax benefits are reduced or current tax legislation limits the period during which, or the extent to which, future tax benefits can be utilised.

The material sources of uncertainty in respect of provisions relate to forward-looking measurement factors, such as the assumed rate of interest, including assumptions about the risk situation and changes in interest rates. Any changes to these assumptions have an effect on the carrying amounts of these items.

The warranty provision covers the Group companies' liability to ensure that their products are fully functioning. To determine this provision, it is necessary to make assumptions about the future expense that we may incur as a result of warranty claims or goodwill gestures. The provision is essentially determined in respect of historical claims and unit sales. A standard warranty period of two years is taken into account. If future development differs significantly from expectations, this will affect RATIONAL's net assets, financial position and profit or loss.

Provisions for legal proceedings, as well as the risk of losing legal cases and risk of liability to pay damages, are recognised if the corresponding requirements are met. The recognition and amount of the provisions are subject to management judgement. Because such cases usually extend over a longer period and involve complex issues, the determination of provisions for legal proceedings, as well as the risk of losing legal cases and the risk of liability to pay damages is subject to uncertainty. Management regularly assesses their current status, sometimes with the involvement of external lawyers, in order to estimate the provisions reliably. It is nevertheless possible that an estimate must be adjusted, resulting in an increased provision or a negative impact on profit or loss.

Actual developments may, under certain circumstances, differ from the estimates and assumptions made. The principle of the "true and fair view" is applied unreservedly when using estimates.

Other than to form estimates and assumptions, there was no significant use of management judgement in the application of accounting policies.

# Notes to the consolidated statement of comprehensive income

## 1. Sales revenues

The regional breakdown of sales revenues by customer location was as follows:

### Sales revenues by region

in kEUR

| | 2017 | % of total | 2016 | % of total |
|---|---|---|---|---|
| Germany | 88,262 | 13 | 82,279 | 13 |
| Europe (excluding Germany) | 330,590 | 47 | 295,026 | 48 |
| North America | 113,881 | 16 | 91,964 | 15 |
| Latin America | 41,455 | 6 | 31,655 | 5 |
| Asia | 91,632 | 13 | 77,294 | 13 |
| Rest of the world* | 36,280 | 5 | 34,792 | 6 |
| **Total** | **702,100** | **100** | **613,010** | **100** |

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

With sales revenues of 86,385 thousand euros (2016: 71,970 thousand euros) in the USA and 65,979 thousand euros (2016: 63,861 thousand euros) in the UK, a significant share of sales revenues was generated in these countries. As in the previous year, no more than 10% of sales revenues were generated with any one customer, 75% (2016: 75%) of sales revenues was attributable to appliance sales. The remaining 25% (2016: 25%) was generated from the sale of accessories, spare parts and care products.

Further sales revenue breakdowns appear in the section on segment reporting.

## 2. Other operating income

in kEUR

| | 2017 | 2016 |
|---|---|---|
| Exchange gains | 5,967 | 10,332 |
| Further income | 2,419 | 2,044 |
| **Total** | **8,386** | **12,376** |

Exchange gains were primarily generated by fluctuations in the exchange rate between origination and payment dates, and by measuring balance sheet items at the spot rate.

Income from government grants amounting to 738 thousand euros, (2016: 543 thousand euros) are reported under “Other income” and includes grants for research and development services. The claim arose in the reporting period.

## 3. Other operating expenses

in kEUR

| | 2017 | 2016 |
|---|---|---|
| Exchange losses | 11,089 | 12,445 |
| Further expenses | 1,606 | 1,388 |
| **Total** | **12,695** | **13,833** |

Exchange losses were primarily generated by fluctuations in the exchange rate between origination and payment dates, and by measuring balance sheet items at the spot rate.

## 4. Income taxes

The following table shows the reconciliation from expected to reported tax expense. This figure includes both current and deferred taxes included in the calculation of profit or loss for the period. A combined income tax rate of 27.73% (2016: 27.73%) was applied to earnings before taxes to calculate expected tax expense for 2017. This tax rate is composed of a corporate income tax rate of 15.0% and a solidarity surcharge of 5.5% levied on corporate income tax, as well as a municipal trade tax multiplier of 340%, which is applied to the parent company.

in kEUR

| | 2017 | 2016 |
|---|---|---|
| Earnings before taxes (EBT) | 187,048 | 165,868 |
| Expected tax rate in % | 27.73 | 27.73 |
| **Expected income tax expense** | **51,868** | **45,995** |
| Variations in local tax rates in the subsidiaries | −9,279 | −8,891 |
| Tax revenue from previous years | −13 | −92 |
| Tax expenses relating to previous years | 280 | 184 |
| Non-tax-deductible expenses and other amounts | 1,191 | 1,565 |
| **Reported income tax expense** | **44,047** | **38,761** |

In 2017, the non-deductible expenses and other amounts include 1,015 thousand euros because of the change in the deferred tax rate in the US (due to the tax reform).

The deferred tax expense in the income statement attributable to 2017 was 859 thousand euros (2016: 1,900 thousand euros deferred tax income). The current income tax expense, excluding deferred taxes, thus amounted to 43,188 thousand euros (2016: 40,661 thousand euros).

The deferred taxes recognised for fiscal years 2017 and 2016 are attributable to the following balance sheet items:

in kEUR

| | Deferred tax asset | | Deferred tax liability | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Intangible assets | 13 | 10 | −1,126 | −1,221 |
| Inventories | 6,503 | 7,323 | – | – |
| Provisions | 2,390 | 2,182 | – | – |
| Trade receivables | 32 | 80 | −1 | – |
| Other | 277 | 422 | −1,276 | −1,101 |
| **Total of deferred tax assets/liabilities** | **9,215** | **10,017** | **−2,403** | **−2,322** |
| Tax offset | −1,740 | −1,744 | 1,740 | 1,744 |
| **Total recognized under assets/liabilities** | **7,475** | **8,273** | **−663** | **−578** |

This includes deferred tax assets of 198 thousand euros (2016: 222 thousand euros) recognised on actuarial gains and losses and taken directly to equity.

6,927 thousand euros (2016: 8,083 thousand euros) of the total amount of deferred tax assets and liabilities is classified as current. Of the reported amounts, −115 thousand euros (2016: −388 thousand euros), are non-current. Current deferred taxes result from various temporary differences between the IFRS values and the tax base as well as from consolidation measures, while non-current deferred taxes are based on measurement differences for pension provisions as well as intangible assets and property, plant and equipment.

On 31 December 2017, there were temporary differences of 1,640 thousand euros (2016: 1,358 thousand euros) in connection with shares in subsidiaries for which no deferred taxes were recognised, because there is no intention to distribute these profits.

In addition, there are unused tax losses of 1,664 thousand euros (2016: 2,219 thousand euros). No deferred tax assets were recognised for this amount, because it is not reasonably certain that taxable income will be available in the future against which the Group could use the deferred tax assets.

As at the balance sheet date, current income tax receivables amounted to 416 thousand euros; they are reported in the balance sheet item “Income tax receivables”. In the 2016 consolidated financial statements, they had been reported under “Other current assets” in an amount of 749 thousand euros.

As at the balance sheet date, income tax liabilities amounted to 9,485 thousand euros (2016: 9,418 thousand euros); they are reported in the balance sheet under "Income tax liabilities”. In the 2016 consolidated financial statements, the non-current portion had been reported under “Other non-current liabilities” in an amount of 1,078 thousand euros.

## 5. Earnings per share

Earnings per share are calculated as stipulated by IAS 33 by dividing profit or loss after tax by the weighted average number of shares outstanding during the fiscal year.

Calculated on the basis of 11,370,000 shares (2016: 11,370,000 shares) and profit after tax of 143,001 thousand euros (2016: 127,107 thousand euros), basic and diluted earnings per share for fiscal year 2017 were 12.58 euros (2016: 11.18 euros).

## 6. Dividend per share

For fiscal year 2016, the dividend of 10.00 euros per share (8.00 euros plus a special dividend of 2.00 euros per share) proposed by the Executive Board and Supervisory Board of RATIONAL AG were approved by a majority at the General Meeting of Shareholders on 3 May 2017. Total dividends of 113,700 thousand euros were paid in May 2017.

The Executive Board and Supervisory Board will propose to the General Meeting of Shareholders on 9 May 2018 that a dividend of 11.00 euros per share (8.80 euros plus a special dividend of 2.20 euros per share) be paid for fiscal year 2017, the total distribution being 125,070 thousand euros.

# Notes to the consolidated balance sheet — assets

## 7. Intangible assets

in kEUR

| | Industrial and similar rights | Goodwill | Capitalised deve-lopment expenditure | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance on 1 Jan 2017 | 11,865 | 424 | 4,716 | **17,005** |
| Exchange rate differences | –20 | – | – | **–20** |
| Additions | 1,834 | – | 600 | **2,434** |
| Disposals | –675 | – | – | **–675** |
| **Balance on 31 Dec 2017** | **13,004** | **424** | **5,316** | **18,744** |
| **Amortisation** | | | | |
| Balance on 1 Jan 2017 | 7,888 | – | 314 | **8,202** |
| Exchange rate differences | –13 | – | – | **–13** |
| Additions | 1,762 | – | 943 | **2,705** |
| Disposals | –675 | – | – | **–675** |
| **Balance on 31 Dec 2017** | **8,962** | **–** | **1,257** | **10,219** |
| **Carrying amounts** | | | | |
| **Balance on 31 Dec 2017** | **4,042** | **424** | **4,059** | **8,525** |
| **Cost** | | | | |
| Balance on 1 Jan 2016 | 8,758 | 424 | 2,878 | **12,060** |
| Exchange rate differences | 28 | – | – | 28 |
| Additions | 3,079 | – | 1,838 | **4,917** |
| Disposals | – | – | – | **0** |
| **Balance on 31 Dec 2016** | **11,865** | **424** | **4,716** | **17,005** |
| **Amortisation** | | | | |
| Balance on 1 Jan 2016 | 6,616 | – | – | **6,616** |
| Exchange rate differences | 13 | – | – | **13** |
| Additions | 1,259 | – | 314 | **1,573** |
| Disposals | – | – | – | **0** |
| **Balance on 31 Dec 2016** | **7,888** | – | **314** | **8,202** |
| **Carrying amounts** | | | | |
| **Balance on 31 Dec 2016** | **3,977** | **424** | **4,402** | **8,803** |

The reported goodwill arose from the acquisition of FRIMA - T SAS, Wittenheim, in 1993; it is allocated to the FRIMA segment. At the end of 2017, this goodwill was subjected to an impairment test using the discounted cash flow method. The calculated present value was substantially higher than the carrying amount.

In fiscal year 2017, as in the previous year, no impairment losses were recognised on intangible assets. There are no pledges or restrictions on disposal. Exchange rate differences can occur when foreign-currency-denominated intangible assets held by the subsidiaries are translated into the functional currency. Amortisation expenses are allocated to the costs of the functional areas.

## 8. Property, plant and equipment

in kEUR

| | Land and buildings | Technical equipment, machinery | Operating and office equipment | Assets under constructions | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance on 1 Jan 2017 | 90,442 | 40,687 | 28,491 | 432 | **160,052** |
| Exchange rate differences | –258 | –5 | –281 | – | **–544** |
| Additions | 6,015 | 1,774 | 4,712 | 28,493 | **40,994** |
| Reclassifications | 117 | 236 | 55 | –408 | **0** |
| Disposals | –789 | –931 | –3,096 | – | **–4,816** |
| **Balance on 31 Dec 2017** | **95,527** | **41,761** | **29,881** | **28,517** | **195,686** |
| **Depreciation** | | | | | |
| Balance on 1 Jan 2017 | 31,107 | 24,785 | 19,093 | – | **74,985** |
| Exchange rate differences | –111 | –5 | –182 | – | **–298** |
| Additions | 2,943 | 3,059 | 3,120 | – | **9,122** |
| Disposals | –727 | –869 | –2,940 | – | **–4,536** |
| **Balance on 31 Dec 2017** | **33,212** | **26,970** | **19,091** | – | **79,273** |
| **Carrying amounts** | | | | | |
| **Balance on 31 Dec 2017** | **62,315** | **14,791** | **10,790** | **28,517** | **116,413** |
| **Cost** | | | | | |
| Balance on 1 Jan 2016 | 81,361 | 32,713 | 24,501 | 3,644 | **142,219** |
| Exchange rate differences | 110 | 2 | 73 | – | **185** |
| Additions | 7,850 | 7,515 | 4,137 | 173 | **19,675** |
| Additions | 2,209 | 1,159 | 17 | –3,385 | **0** |
| Disposals | –1,088 | –702 | –237 | – | **–2,027** |
| **Balance on 31 Dec 2016** | **90,442** | **40,687** | **28,491** | **432** | **160,052** |
| **Depreciation** | | | | | |
| Balance on 1 Jan 2016 | 29,592 | 22,537 | 16,394 | – | **68,523** |
| Exchange rate differences | 21 | 1 | 39 | – | **61** |
| Additions | 2,511 | 2,943 | 2,873 | – | **8,327** |
| Disposals | –1,017 | –696 | –213 | – | **–1,926** |
| **Balance on 31 Dec 2016** | **31,107** | **24,785** | **19,093** | – | **74,985** |
| **Carrying amounts** | | | | | |
| **Balance on 31 Dec 2016** | **59,335** | **15,902** | **9,398** | **432** | **85,067** |

As in the previous year, no impairment losses were recognised in fiscal year 2017. Additions to land and buildings were reduced by government subsidies of 185 thousand euros (2016: 0 thousand euros). A land charge of 33,500 thousand euros (2016: 33,500 thousand euros) is registered for land and buildings in Landsberg. There are no other restrictions on disposal. Exchange rate differences can occur when foreign-currency-denominated carrying amounts for property, plant and equipment held by the subsidiaries are translated into the functional currency. Depreciation expenses are allocated to the costs of the functional areas.

## 9. Financial assets and deposits

In addition to an equity investment, which has been fully written down, the “Financial assets” balance sheet item contains deposits with remaining maturities of more than twelve months. The current portion of deposits is reported in the balance sheet under “Deposits”.

| | | in kEUR |
|---|---|---|
| | 31 Dec 2017 | 31 Dec 2016 |
| Current | 70,734 | 175,700 |
| Non-current | 2,500 | 8,000 |
| **Total** | **73,234** | **183,700** |

Over half of the volume of fixed-term deposits at the end of the year is protected by the German deposit protection fund (for details, see the section on financial risks in note 20). None of these deposits has been pledged as collateral.

Deposits are financial instruments classified as “loans and receivables”.

## 10. Inventories

| | | in kEUR |
|---|---|---|
| | 31 Dec 2017 | 31 Dec 2016 |
| Raw materials, consumables and supplies | 14,255 | 12,894 |
| Work in progress | 763 | 640 |
| Finished goods and goods for resale | 30,664 | 25,680 |
| **Total** | **45,682** | **39,214** |

The year-on-year increase in inventories is primarily due to a rise in business volume.

The carrying amount of the inventories measured at fair value less selling costs is 1,815 thousand euros (2016: 1,824 thousand euros). In fiscal year 2017, write-downs on inventories of 1,404 thousand euros (2016: 740 thousand euros) were expensed as cost of sales.

In total, inventories of 258,155 thousand euros (2016: 224,271 thousand euros) were recognised as expenses in the period under review.

As in the previous year, the inventories were not subject to any restrictions on disposal or pledges as at the balance sheet date.

## 11. Trade receivables

All trade accounts receivable are due within one year. The year-on-year increase is mainly due to sales revenue growth. Trade receivables break down as follows:

| | | in kEUR |
|---|---|---|
| | 31 Dec 2017 | 31 Dec 2016 |
| Trade accounts receivable, not impaired | 109,519 | 99,670 |
| Trade accounts receivable, impaired | 720 | 904 |
| Impairment | −582 | −394 |
| **Total** | **109,657** | **100,180** |

The non-impaired trade receivables are broken down by days overdue as follows:

## Trade accounts receivable not impaired

in kEUR

| | Total | Not due | Overdue for | | | |
|---|---|---|---|---|---|---|
| | | | 1–60 days | 61–90 days | 91–120 days | >120 days |
| **Balance on 31 Dec 2017** | **109,519** | 94,061 | 14,752 | 265 | 98 | 343 |
| **Balance on 31 Dec 2016** | **99,670** | 91,054 | 7,876 | 174 | 100 | 466 |

For trade receivables that are neither due nor subject to impairment, there are no indications as at the balance sheet date that the customers will be unable to meet their payment obligations.

Information on the credit risk on trade receivables can be found in the sections on financial risks and credit risk in note 20.

Adequate allowances are recognised for identifiable credit risk on receivables. The following table shows the changes in impairment allowances on trade receivables:

## Impairment of trade accounts receivable

in kEUR

| | Balance on 1 Jan | Currency effects | Use | Reversal | Additions | Balance on 31 Dec |
|---|---|---|---|---|---|---|
| **2017** | **394** | –15 | –115 | –116 | 434 | 582 |
| **2016** | **468** | 8 | –165 | –296 | 379 | 394 |

Receivables written off in fiscal year 2017 amounted to 403 thousand euros (2016: 620 thousand euros). This figure does not include any claims settled by or payments expected from the credit insurer, which amounted to 242 thousand euros (2016: 404 thousand euros).

The trade accounts receivable are financial instruments classified as “Loans and receivables”.

## 12. Other assets

in kEUR

| | Current | | Non-current | |
|---|---|---|---|---|
| | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2017 | 31 Dec 2016 |
| **Total other financial assets** | **1,285** | **588** | **739** | **654** |
| Value added tax refund claims | 5,895 | 5,427 | – | – |
| Receivables from government grants | 571 | 850 | 1,685 | 1,479 |
| Accrued and deferred items | 1,668 | 1,415 | – | – |
| Other | 1,224 | 950 | 16 | – |
| **Total other non financial assets** | **9,358** | **8,642** | **1,701** | **1,479** |
| **Total other assets** | **10,643** | **9,230** | **2,440** | **2,133** |

The “Other” item of the 2016 consolidated financial statements had included current income tax receivables of 749 thousand euros; these are now reported in a separate item of the balance sheet.

The other financial assets include derivatives without a hedge relationship totalling 377 thousand euros (2016: 192 thousand euros). They are classified as “financial assets/liabilities at fair value through profit or loss — held for trading”. The remaining amount of the other financial assets is classified in the category “Loans and receivables.”

## 13. Cash and cash equivalents

in kEUR

| | Currency | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|---|
| Deposits incl. demand deposits | EUR | 153,621 | 74,532 |
| Deposits incl. demand deposits | USD | 7,059 | 4,447 |
| Deposits incl. demand deposits | GBP | 6,376 | 4,831 |
| Deposits | JPY | 4,782 | 2,907 |
| Deposits | CHF | 4,729 | 3,651 |
| Deposits incl. demand deposits | SEK | 4,524 | 2,096 |
| Deposits incl. demand deposits | CAD | 3,222 | 2,714 |
| Deposits incl. demand deposits | RUB | 3,108 | 1,827 |
| Deposits incl. demand deposits | CNY | 2,606 | 988 |
| Deposits | BRL | 1,756 | 844 |
| Deposits incl. demand deposits | TRY | 1,254 | 1,557 |
| Deposits incl. demand deposits | MXN | 1,020 | 958 |
| Deposits incl. demand deposits | PLN | 1,016 | 514 |
| Deposits in other currencies and cash in hand | various | 1,141 | 586 |
| **Total** | | **196,214** | **102,452** |

Deposits in foreign currencies are measured at the rate applicable on the balance sheet date. Information on credit risks can be found in the section on financial risks in note 20.

Cash and cash equivalents include restricted items relating to a total amount of 4,815 thousand euros (2016: 2,757 thousand euros). Further information on currency restrictions can be found in the section "Financial risks" in note 20.

Cash and cash equivalents are financial instruments classified as "Loans and receivables".

# Notes to the consolidated balance sheet — equity and liabilities

## 14. Equity

Changes in equity are reported in the statement of changes in equity.

### Subscribed capital

RATIONAL AG's share capital as at 31 December 2017 was unchanged at 11,370 thousand euros, divided into 11,370,000 no-par-value bearer shares, each with a notional value of 1.00 euro. Each share carries one vote and is necessary for calculating the share of the profits. There are currently no restrictions affecting voting rights or the transfer of shares. The subscribed capital is fully paid in.

Conditional capital amounts to 200 thousand euros and relates to option rights for members of the Executive Board to purchase up to 200,000 shares. The stock option plan is described in note 26, "Share-based payment".

### Capital reserves

Capital reserves consist mainly of the premium from the initial public offering less the costs associated with the initial public offering. Capital reserves also include income and expenses taken directly to equity; they resulted primarily from the entitlements of members of the Executive Board under the stock option plan dated 3 February 2000 and were settled in cash.

### Retained earnings

The legal reserves included under revenue reserves and recognised in accordance with section 150 of the AktG (Aktiengesetz, German Stock Corporation Act) amount to 514 thousand euros, as in the previous year. The profit or loss after tax and past profits or losses of companies included in the consolidated financial statements ae also included in revenue reserves unless they have been distributed as dividends.

### Other components of equity

Other components of equity are divided into differences from currency translation, actuarial gains and losses and the income tax payable on these items (see note 4).

### Capital management disclosures

RATIONAL's capital management is aimed at ensuring the company's continued existence on a sustainable basis and maintaining its capital structure with a high equity base. In addition, RATIONAL wants to let its shareholders have an adequate share of the company's success. In this context, RATIONAL is not bound by any capital requirements under its articles of association.

The capital structure is monitored through the company's reporting process with a particular focus on the equity ratio, and the prevailing economic situation is the key determining factor in its management. The equity ratio indicates the ratio of equity shown on the balance sheet to the company's total capital. RATIONAL's equity ratio as at 31 December 2017 was 74% (2016: 74%).

To ensure adequate shareholder participation, the Group adjusts the dividend payments to shareholders in line with the profit situation.

## 15. Provisions for pensions

The pension provisions for employees of the RATIONAL Group comprise benefit entitlements of active and former employees in Germany and Switzerland. The two countries have different pension systems. The amount of pension provisions is primarily determined by the length of service, level of remuneration, life expectancy and current interest rates.

### Germany

RATIONAL AG has given pension commitments to two former employees. They are financed exclusively through pension provisions. Both pension recipients are already receiving benefits, which are expected to amount to 51 thousand euros (2016: 51 thousand euros) in 2018.

In addition, there are individual commitments and commitments for members of the Executive Board and selected employees, which are implemented through a provident fund. The individual commitments are basic pension commitments and defined contribution commitments, for which the benefits depend on how the contributions have been used in the insurance arrangements. The commitments relate to members of the Executive Board and retired former managers. The pension commitments implemented through the provident fund are reinsured with matching cover, which means that the benefits paid are reimbursed in full by an insurance undertaking. Therefore, there is no net obligation (pension provision) for these commitments at RATIONAL AG.

### Switzerland

The old age pension plan arrangements in Switzerland cover a total of 60 (2016: 53) active employees with pension entitlements. As at the balance sheet date, none of these individuals received any benefits. Old age pension, surviving dependents' protection and disability insurance in Switzerland are based on a three-pillar system with different funding arrangements. Under the BVG (Gesetz über die berufliche Vorsorge, Swiss Occupational Pensions Act), the second pillar provides cover for employees and their dependents in case of death or disability. From the age of 25, there is an additional mandatory pension cover, which is funded on the basis of income-related contributions by the employer and employee into a pension fund that is fully reinsured. The plan assets exclusively reflect insurance claims. The Act specifies minimum benefit levels. The benefit obligation and the benefit costs are calculated using the projected unit credit method. This means that the projected accrued benefit is based on the pension plan and the length of service, with future salary increases included. The retirement pension is determined on the basis of the units of benefit accrued, the interest rate, and the conversion rate at retirement age. The risk benefits are dependent on salary.

Employer contributions into the pension plans are expected to amount to 333 thousand euros in 2018 (2017: 236 thousand euros).

The average maturity of the pension obligations is 16 years (2016: 17 years) in Germany and 22 years (2016: 22 years) in Switzerland.

The present values of the defined benefit obligations are as follows:

in kEUR

| | Defined benefit obligation (DBO) | | Fair value of plan assets | | Provisions | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| **Value as at 1 Jan** | **5,852** | **4,419** | **2,629** | **1,771** | **3,223** | **2,648** |
| Currency differences | −405 | 24 | −212 | 12 | −193 | 12 |
| Interest expense | 39 | 43 | – | – | 39 | 43 |
| Interest income | – | – | 15 | 15 | -15 | −15 |
| Current service cost | 520 | 518 | – | – | 520 | 518 |
| Actuarial losses/gains due to changes in financial assumptions | −238 | 116 | – | – | −238 | 116 |
| Actuarial losses/gains due to changes in demographic assumptions | – | −61 | – | – | – | −61 |
| Actuarial losses/gains due to experience | 81 | 331 | – | – | 81 | 331 |
| Return on plan assets excluding amounts included in interest income | – | – | −58 | −118 | 58 | 118 |
| Employer contributions | – | – | 228 | 233 | −228 | −233 |
| Employee contributions | – | – | 228 | 233 | −228 | −233 |
| Benefits received/paid | −268 | 462 | −249 | 483 | −19 | −21 |
| **Value as at 31 Dec** | **5,581** | **5,852** | **2,581** | **2,629** | **3,000** | **3,223** |
| thereof Germany | 814 | 838 | – | – | 814 | 838 |
| thereof Switzerland | 4,767 | 5,014 | 2,581 | 2,629 | 2,186 | 2,385 |

The calculations were based on the following actuarial assumptions:

| | Germany | Switzerland |
|---|---|---|
| Discount rate | 1.30% (2016: 1.50%) | 0.75% (2016: 0.60%) |
| Salary progression rate | – | 1.50% (2016: 1.50%) |
| Pension progression rate | 1.75% (2016: 1.75%) | 0.00% (2016: 0.00%) |

For Germany, the biometric calculations were based on Prof K. Heubeck's mortality tables (2005 G version), while the BVG-2015 generational tables were used for Switzerland. The valuation is based on actuarial expert opinions.

The sensitivity analysis presented below shows how possible changes in the relevant assumptions would impact on pension provisions as at the balance sheet date. The sensitivity analysis does not take into account the fact that dependencies exist between the actuarial assumptions. Only one factor is changed, while the others remain the same for the purpose of the analysis. The sensitivity analysis is therefore not expected to represent the actual change in the defined benefit obligation.

| in kEUR | 2017 | 2016 |
|---|---|---|
| Discount rate −0.5% | +612 | +649 |
| Discount rate +0.5% | −522 | −554 |
| Salary progression rate −0.5% | −44 | −41 |
| Salary progression rate +0.5% | +37 | +41 |
| Pension progression rate −0.5% (Germany only) | −37 | −38 |
| Pension progression rate +0.5% | +299 | +299 |
| Life expectancy +1 year | +97 | +106 |

## 16. Other provisions

| 2017 (in kEUR) | Balance on 1 Jan | Currency differences | Use | Additions | Interest rate effects | Balance on 31 Dec | of which non-current |
|---|---|---|---|---|---|---|---|
| Personnel | 18,876 | −447 | −13,721 | 16,354 | 60 | 21,122 | 5,039 |
| Trade bonuses | 12,002 | −807 | −11,195 | 11,635 | – | 11,635 | – |
| Warranty | 12,171 | −54 | −7,168 | 12,135 | 22 | 17,106 | 5,403 |
| Others | 4,672 | −244 | −3,848 | 4,876 | – | 5,456 | 463 |
| **Total** | **47,721** | **−1,552** | **−35,932** | **45,000** | **82** | **55,319** | **10,905** |

| 2016 (in kEUR) | Balance on 1 Jan | Currency differences | Use | Additions | Interest rate effects | Balance on 31 Dec | of which non-current |
|---|---|---|---|---|---|---|---|
| Personnel | 16,981 | −30 | −13,708 | 15,530 | 103 | 18,876 | 4,502 |
| Trade bonuses | 11,114 | 210 | −11,285 | 11,963 | – | 12,002 | – |
| Warranty | 11,001 | 10 | −7,422 | 8,506 | 76 | 12,171 | 4,272 |
| Others | 4,519 | 183 | −4,461 | 4,431 | – | 4,672 | 429 |
| **Total** | **43,615** | **373** | **−36,876** | **40,430** | **179** | **47,721** | **9,203** |

Provisions for personnel obligations primarily comprise estimated expenses for variable remuneration components and future long-service benefits. The provision for trade bonuses is recognised for outstanding discounts yet to be granted as at the balance sheet date. The warranty provision covers the Group companies' liability for ensuring that its products are fully functioning; it is normally utilised within two years. The “Other” item includes provisions for a number of items, each of which is measured at an amount below the materiality threshold.

## 17. Liabilities to banks

The following table breaks down the changes in liabilities to banks into a cash-effective and a non-cash-effective part:

**2017** in kEUR

| | Carrying amounts 1 Jan 2017 | Cash changes | Non-cash changes through currency effects | Carrying amounts 31 Dec 2017 | of which non-current |
|---|---|---|---|---|---|
| Liabilities to banks | **27,793** | **−13,376** | **−170** | **14,247** | **8,937** |

In 2017, a new loan of 1,060 thousand euros was raised to finance the redevelopment at the company's Landsberg location. At the end of December 2017, two financing liabilities were extinguished in full following the expiry of the fixed interest period (repayment of the residual principal totalling 9,546 thousand euros).

The liabilities to banks include loan agreements for real estate financing that is secured by land charges. As at 31 December 2017, fixed rates apply to the entire term of all of these agreements. The assignment of rights to third parties has been contractually restricted.

In relation to the loan agreements, the following interest payments and repayments of principal will become due in subsequent periods:

in kEUR

| | 2018 | 2019-2022 | from 2023 |
|---|---|---|---|
| Payments as of 31 Dec 2017 | 3,386 | 8,298 | 956 |

in kEUR

| | 2017 | 2018-2021 | from 2022 |
|---|---|---|---|
| Payments as of 31 Dec 2016 | 5,716 | 17,316 | 4,122 |

In addition, other current liabilities to banks amounted to 2,091 thousand euros (2016: 2,024 thousand euros).

Both the current and non-current liabilities to banks are classified as “financial liabilities measured at amortised cost”.

## 18. Other liabilities and trade accounts payable

### Other liabilities

in kEUR

| | Current | | Non-current | |
|---|---|---|---|---|
| | **31 Dec 2017** | 31 Dec 2016 | **31 Dec 2017** | 31 Dec 2016 |
| Liabilities to business partners | 6,318 | 6,032 | – | – |
| Liabilities from purchase of property | 2,771 | 3,214 | 3,214 | – |
| Fair value of derivative financial instruments | 157 | 1,126 | – | – |
| Other | 786 | 652 | – | 59 |
| **Total other financial liabilities** | **10,032** | **11,024** | **3,214** | **59** |
| Liabilities from value added tax | 6,376 | 7,666 | – | – |
| Holiday claims | 5,436 | 4,975 | – | – |
| Liabilities from wage and church taxes | 3,540 | 3,077 | – | – |
| Social security liabilities | 2,059 | 1,422 | – | – |
| Other | 1,345 | 887 | 142 | – |
| **Total other non financial liabilities** | **18,756** | **18,027** | **142** | **0** |
| **Total other liabilities** | **28,788** | **29,051** | **3,356** | **59** |

In the 2016 consolidated financial statements, “Other non-financial liabilities” had included non-current income tax liabilities of 1,078 thousand euros; these are now reported in a separate item of the balance sheet.

The increase in trade payables results in particular from investments in property, plant and equipment not yet settled at the balance sheet date.

Current other liabilities as well as trade payables are usually settled within a few months of the balance sheet date.

Other financial assets include derivatives without a hedge relationship totalling 157 thousand euros (2016: 1,126 thousand euros). They are classified as “financial assets/liabilities at fair value through profit or loss — held for trading”. The remaining amount under other financial liabilities as well as under trade accounts payable has been assigned to the “financial liabilities measured at amortised cost” measurement category.

## Notes to the cash flow statement

### 19. Cash Flow Statement

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

Cash flows from operating activities are determined using the indirect method. To this end, earnings before taxes (EBT) are adjusted for non-cash items (depreciation and amortisation charges, changes in inventories, receivables, provisions and liabilities) as well as net interest income/expense, and income tax payments are deducted.

Cash flows from investing activities are determined on the basis of actual cash inflows or outflows. They essentially result from already cash-effective investments in intangible assets and property, plant and equipment as well as fixed-term deposits made or withdrawn.

Cash flows from financing activities are also determined on the basis of actual cash inflows or outflows. They mainly include dividend payments to shareholders and the drawdown and repayment of bank loans (for a reconciliation to balance sheet item “Liabilities to banks” see note 17).

Cash and cash equivalents increased from 102,452 thousand euros at the start of the fiscal year to 196,214 thousand euros as at 31 December 2017.

## Other notes to the consolidated financial statements

### 20. Financial instruments

Based on the classification categories in IAS 39, financial assets and liabilities are in general recognised subsequently at amortised cost in the balance sheet. The only exception is derivative financial instruments, which are recognised at fair value in the balance sheet.

The table below shows the carrying amounts of financial instruments as well as their fair values, which require additional disclosure in accordance with IFRS 7.29. If no fair value is stated in the table for a financial instrument, the specified carrying amount of the financial instrument is a reasonable approximation of its fair value.

All financial instruments for which a fair value had been determined were allocated to Level 2 of the fair value hierarchy of IFRS 13. During the reporting period there were no reclassifications between the fair value hierarchy levels. If circumstances occur which necessitate a different classification, the financial instruments will be reclassified at the end of the reporting period.

## Categories of financial instruments acc. to IAS 39

in kEUR

| | Carrying amount 31 Dec 2017 | Fair value 31 Dec 2017 | Carrying amount 31 Dec 2016 | Fair value 31 Dec 2016 |
|---|---|---|---|---|
| **Loans and receivables** | **380,752** | | **387,382** | |
| Non-current Deposits[1] | 2,500 | 2,501 | 8,000 | 8,005 |
| Other non-current financial assets[2] | 739 | 742 | 654 | 654 |
| Trade accounts receivable | 109,657 | | 100,180 | |
| Other current financial assets[3] | 908 | | 396 | |
| Current Deposits | 70,734 | 70,749 | 175,700 | 175,613 |
| Cash and cash equivalents | 196,214 | | 102,452 | |
| **Financial assets at fair value through profit or loss (held for trading)** | **377** | | **192** | |
| Derivatives not in a hedging relationship[3] | 377 | 377 | 192 | 192 |
| **Financial liabilities measured at amortised cost** | **58,650** | | **62,750** | |
| Non-current liabilities to banks | 8,937 | 9,340 | 20,747 | 22,853 |
| Other non-current financial liabilities[4] | 3,214 | | 59 | |
| Current liabilities to banks | 5,310 | 5,341 | 7,046 | 7,114 |
| Trade accounts payable | 31,314 | | 25,000 | |
| Other current financial liabilities[5] | 9,875 | | 9,898 | |
| **Financial liabilities at fair value through profit or loss (held for trading)** | **157** | | **1,126** | |
| Derivatives not in a hedging relationship[5] | 157 | 157 | 1,126 | 1,126 |

[1] Included in balance sheet item “Financial assets” [2] Included in balance sheet item “Other non-current assets”
[3] Included in balance sheet item “Other current assets” [4] Included in balance sheet item “Other non-current liabilities”
[5] Included in balance sheet item “Other current liabilities”

Fair value is measured using the following techniques:

### Deposits

For deposits, fair value is determined using the discounted cash flow method. To this end, the redemption amounts on the maturity date have been discounted at the respective maturity-matched discount rates, taking the credit risk of contracting parties into account.

### Other non-current financial assets

Other non-current financial assets mainly include outstanding security deposits with a residual maturity of more than one year. The fair value is calculated using the discounted cash flow method by discounting the outstanding amounts matching the relevant maturity. For reasons of materiality, the credit risks of contracting parties are not taken into account here.

### Derivative financial instruments

The derivative financial instruments recognised at the balance sheet date are forward exchange contracts and currency options. The calculation of fair value is based on the measurement supplied by the relevant counterparty bank for the measurement date in question, with zero impact on credit-rating. The banks measure fair value on the basis of market data available as at the measurement date using recognised mathematical methods (discounted cash flow method for futures and swaps, the Black-Scholes method for options). Any offsetting effects from underlying transactions are disregarded when determining the measurement with zero impact on credit rating.

The risk of non-performance (CVA = credit value adjustment and DVA = debit value adjustment) is also taken into account in measuring fair value in addition to the measurements with zero impact on credit rating.

### Liabilities to banks

The fair value of liabilities to banks is determined using the discounted cash flow method. To this end, the cash flows of the annuity loans at the different interest and repayment dates have been discounted using the relevant maturity-matched discount rates, taking own credit risk into account.

### Other non-current financial liabilities

The fair value of other non-current financial liabilities is calculated using the discounted cash flow method by discounting the outstanding amount, applying the relevant maturity and taking the company's own credit risk into account.

## Net gain or loss on financial instruments

The table below shows the net gain or loss on financial instruments for each measurement category. The interest income/expense is not included in this amount.

**Net gains or net losses excl. interest**

| in kEUR | 2017 | 2016 |
|---|---|---|
| Loans and receivables | −8,642 | −2,360 |
| Held-to-maturity investments | 0 | 0 |
| Financial assets/liabilities at fair value through profit or loss (held for trading) | +1,972 | −428 |
| Financial liabilities measured at amortised cost | +166 | +141 |

The net gains and losses include amounts from currency translation. In addition, the net gains and losses on loans and receivables include trade receivables written of or derecognised. These are carried under “Other operating expenses” and “Other operating income”.

## Total interest income and expense

The following total interest income and expense resulted from financial assets and financial liabilities not measured at fair value through profit or loss; the items are carried in the financial result:

| in kEUR | 2017 | 2016 |
|---|---|---|
| Total interest income | 327 | 364 |
| Total interest expense | 738 | 835 |

### Offsetting of financial instruments

The following financial assets and liabilities are either offset against each other in the balance sheet or are subject to a legally enforceable global netting agreement or similar agreements; this means that offsetting is only possible in the event of insolvency of one of the parties.

**2017** — in kEUR

| | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities | Net amounts presented in the balance sheet | Related amounts not set off in the balance sheet | Net amounts |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Derivatives | 377 | – | 377 | 151 | 226 |
| Deposits, Cash and cash equivalents | 269,448 | – | 269,448 | 5,613 | 263,835 |
| Trade accounts receivable | 112,910 | 3,253 | 109,657 | – | 109,657 |
| **Total** | **382,735** | **3,253** | **379,482** | **5,764** | **373,718** |
| **Financial liabilities** | | | | | |
| Derivatives | – | 157 | 157 | 151 | 6 |
| Liabilities to banks | – | 14.247 | 14,247 | 5,613 | 8,634 |
| Liabilities to business partners | 3,253 | 9,571 | 6,318 | – | 6,318 |
| **Total** | **3,253** | **23,975** | **20,722** | **5,764** | **14,958** |

**2016** — in kEUR

| | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities | Net amounts presented in the balance sheet | Related amounts not set off in the balance sheet | Net amounts |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Derivatives | 192 | – | 192 | 192 | 0 |
| Deposits, Cash and cash equivalents | 286,152 | – | 286,152 | 25,769 | 260,383 |
| Trade accounts receivable | 103,052 | 2,872 | 100,180 | – | 100,180 |
| **Total** | **389,396** | **2,872** | **386,524** | **25,961** | **360,563** |
| **Financial liabilities** | | | | | |
| Derivatives | – | 1,126 | 1,126 | 192 | 934 |
| Liabilities to banks | – | 27,793 | 27,793 | 25,769 | 2,024 |
| Liabilities to business partners | 2,872 | 8,904 | 6,032 | – | 6,032 |
| **Total** | **2,872** | **37,823** | **34,951** | **25,961** | **8,990** |

## Financial risks

The financial instruments include specific risks, such as credit risk, liquidity risk and market risk, which consists of currency risk, interest rate risk and price risk.

RATIONAL has a risk management system which is implemented worldwide, enabling it to identify and analyse opportunities and risks at an early stage, and so take appropriate preventive action. The following elements of the RATIONAL risk management system have particular relevance for the opportunities and risks connected with financial instruments (see also the report on opportunities and risks in the Group Management Report):

> The integrated planning process defines specific sales and financial targets, as well as detailed measures to ensure those targets are met.
> The reporting process ensures that the degree to which targets are achieved in all corporate divisions is reliably and continuously measured, analysed and commented on. This guarantees that corrective action can be taken quickly and flexibly if things start to go wrong.
> Benchmarks and thresholds in the area of finance help managers to identify undesirable developments at an early stage, so that appropriate countermeasures can be taken.
> To minimise the risk arising in connection with our receivables, RATIONAL collaborates worldwide with one of the largest trade credit insurers.
> All business processes and internal control systems are clearly defined. Quality and compliance are assured through regular training and checks.
> Internal Audit independently and objectively records and assesses any variances from targets. Undesirable developments are identified at an early stage.
> A globally integrated treasury management system is implemented to provide quality cash management worldwide.
> The comprehensive insurance strategy is reviewed annually and adapted to the new risk environment.

The RATIONAL Group met all applicable legal requirements arising from the EMIR Regulation by the respective deadlines. The special audit required for 2016 in accordance with section 20 (1) of the Wertpapierhandelsgesetz (WpHG, German Securities Trading Act) was concluded without any objections being raised. RATIONAL AG will also have to be audited for the year 2017. The audit will be conducted as legally required in 2018.

The specific risks at the RATIONAL Group are explained in the following:

## Credit risks

### Trade receivables

RATIONAL supplies customers on all continents and in almost all regions of the world. Products are marketed through specialised retailers. The end customers mainly come from the hospitality, hotel and mass catering segments. The trade accounts receivable are usually due from specialised retailers. Credit risk can arise as a result of customers not fulfilling their payment obligations.

A credit policy valid for the entire Group sets out clear rules that apply from the beginning to the end of the order process. Training, prompt reporting and IT support ensure that the policy is properly implemented. The credit policy combines the “minimum credit management requirements” (MaCM) of the Bundesverband Credit Management (German Credit Management Association, BvCM) with the RATIONAL-specific “one-piece flow” process organisation.

In order to avoid or reduce credit risk, which could lead to potential liquidity risk and a risk to the RATIONAL Group's credit rating, we submit customers to credit checks and permanent credit monitoring performed by the credit insurance provider and its local partner companies. The RATIONAL customer portfolio is rated as “low risk” by it.

As far as possible, customer receivables are insured on the basis of this credit check. Under the existing arrangements, the trade credit insurance covers not only the risk of customer insolvency, but also protracted default (non-payment as the insured event). In the event of a claim, 90% of the credit loss on insured receivables is usually met by the credit insurer.

As an alternative to trade credit insurance cover, other collateral (such as confirmed, irrevocable letters of credit, bank guarantees and other customary bank collateral) or advance payments are requested, depending on the type and value of the goods or services to be provided. The supply of goods or services to a customer on the basis of open payment terms without adequate collateral is only considered in clearly defined exceptional cases.

Trade receivables from public-sector customers are not subject to credit checks or collateralisation, provided that the respective country rating is sufficiently high.

The following table shows how the credit risk on trade receivables not covered by the securities is calculated:

| in kEUR | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Trade accounts receivable | 109,657 | 100,180 |
| of which refundable value-added tax[1] | 9,287 | 8,562 |
| of which potential refund by credit insurance | 79,851 | 73,118 |
| of which receivables secured by letters of credit/bank guarantees | 3,797 | 1,882 |
| of which receivables from public-sector entities[1] | 302 | 278 |
| **Unsecured credit risk** | **16,420** | **16,340** |
| **Risk coverage ratio** | **85%** | **84%** |

[1] If country rating meets requirements

The residual credit risk not covered by the securities shown includes concentration risk amounting to 550 thousand euros (2016: 983 thousand euros), distributed over two (2016: three) customers. Unsecured receivables with a nominal value of more than 200 thousand euros (2016: 200 thousand euros) per individual customer are considered when assessing concentration risk. Annual sales well into the seven-digit euro range can be assumed for customers from whom accounts receivable of more than 200 thousand euros are regularly due. These customers can thus be classified as A customers and are a direct focus of management based on internal competency arrangements, among others.

### Receivables from banks

Credit risk exists in relation to deposits and derivative financial instruments with a positive fair value, namely from the possible failure of the contract partner to fulfil its obligations.

The following table indicates the securitisation of deposits with banks and the residual maximum net risk in the event of default of the banks:

**31 Dec 2017**

| in kEUR | Carrying amount | Protected by deposit protection fund | Credit risk |
|---|---|---|---|
| Deposits | 73,234 | 43,331 | 29,903 |
| Cash and cash equivalents | 196,214 | 170,737 | 25,477 |
| **Total** | **269,448** | **214,068** | **55,380** |

**31 Dec 2016**

| in kEUR | Carrying amount | Protected by deposit protection fund | Credit risk |
|---|---|---|---|
| Deposits | 183,700 | 158,800 | 24,900 |
| Cash and cash equivalents | 102,452 | 82,025 | 20,427 |
| **Total** | **286,152** | **240,825** | **45,327** |

RATIONAL only makes deposits with banks that have at least a Standard & Poor's long-term investment-grade rating. To diversify the risk, the deposits were distributed over several banks at the end of the year.

### Other financial assets

The maximum credit risk for other financial assets corresponds to the values recognised in the balance sheet.

## Liquidity risks

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

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

As of the balance sheet date, the liquidity reserve from own resources (including all existing fixed-term deposits) amount to a total of 266,882 thousand euros (2016: 278,152 thousand euros). In addition, there were fixed deposits amounting to 2,500 thousand euros (2016: 8,000 thousand euros) with remaining maturities of more than twelve months as at the balance sheet date. Due to the long-term nature of the deposits, they do not count towards the liquidity reserve from own resources.

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

RATIONAL enjoys a first-class credit rating with banks. The existing credit lines are not subject to any covenants that could require the credit lines to be renegotiated in the event of non-compliance. The Group has not assigned any collateral to the banks in connection with the existing credit line agreements; instead, a negative covenant or a banks' "pari passu" clause has been agreed. Under this clause, RATIONAL undertakes to treat all banks equally in relation to the provision of any collateral for comparable loans. As of the balance sheet date, the total amount of the contractually agreed credit lines was 35,000 thousand euros (2016: 35,000 thousand euros). After taking into account assignments for subsidiaries and sureties, this leaves unused credit lines amounting to 29,661 thousand euros (2016: 29,245 thousand euros).

Most trade accounts payable and other financial liabilities are settled within one year. Specific information on the interest payments and repayments of principal due to banks can be found in note 17 "Liabilities to banks".

### Market risk

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

One of the functions of Corporate Treasury, which is a department within the parent company, is to counter the currency and interest risks to which transactions are exposed with suitable instruments and corrective action. Its activities are governed by corporate guidelines, and are supported, controlled and monitored by a treasury management system. Identified risks are countered by the use of derivative financial instruments, provided that this approach is deemed appropriate and effective hedging instruments are available. Contractual partners in derivative financial instrument transactions are always banks with investment-grade ratings, i.e. with a Standard & Poor's BBB rating as a minimum.

#### Currency risk

One of the factors giving rise to currency risk is exchange rate fluctuations at the balance sheet and consequently the possible change in the fair value of existing balance sheet items denominated in foreign currencies (translation risk). This affects the "Trade accounts receivable", "Other assets", "Cash and cash equivalents" as well as "Trade accounts payable" and "Other liabilities" items at the balance sheet date. At RATIONAL, translation risk is not hedged. Another factor giving rise to currency risk is that the future cash flows resulting from a financial instrument in a foreign currency may differ significantly from the recoverable values as at the balance sheet date owing to changes in exchange rates (transaction risk). Transaction risk has an impact on both liquidity and the income statement.

The global transaction risks faced by the Group is determined, centrally pooled and managed monthly with a rolling six-month horizon. Where necessary, any identified transaction risks are hedged by means of derivative financial instruments. Such hedges relate to recognised and anticipated transactions. This applies in particular to transactions in the freely convertible currencies of our companies in Sweden, the UK, the United States, Canada, Mexico and Japan. RATIONAL uses currency options and forward exchange contracts to hedge foreign currency transactions in freely convertible currencies.

The following table shows the contract values and fair values of the derivative financial instruments, by category, as of the balance sheet date. The contract values correspond to the total of all purchase and selling amounts of the currency derivatives and so provide information on the volume of transactions outstanding on the balance sheet date.

in kEUR

| | | Contract value | | Positive fair value (assets) | | Negative fair value (liabilities) | |
|---|---|---|---|---|---|---|---|
| | Currency | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2017 | 31 Dec 2016 |
| **Maturity < 1 Year** | | | | | | | |
| Forward exchange contracts | GBP | 678 | 1,946 | 2 | 0 | 0 | 43 |
| Forward exchange contracts | USD | – | 1,438 | – | 27 | – | 0 |
| Forward exchange contracts | SEK | 1,202 | – | 18 | – | 0 | – |
| Currency options | GBP | 46,454 | 40,181 | 82 | 92 | 123 | 692 |
| Currency options | USD | 19,081 | 22,338 | 126 | 58 | 23 | 331 |
| Currency options | JPY | 4,840 | – | 75 | – | 6 | – |
| Currency options | CAD | 7,181 | 5,983 | 41 | 15 | 5 | 61 |
| Currency options | MXN | 1,455 | – | 33 | – | 0 | – |
| **Total** | | **80,891** | **71,886** | **377** | **192** | **157** | **1,127** |

There were no derivatives due after one year at the balance sheet date.

The local currencies of companies that are subject to tight currency restrictions are either not freely convertible (e.g. Brazil and India) or are available only for verified commercial transactions (e.g. China). To settle receivables that cannot be settled in the local currency under the restrictions, the local currency must be exchanged for euros. This is possible only within the country concerned and subject to the approval of the competent authorities. Because of the low volume and the comparatively high costs, currently hedging of foreign currency transactions in currencies that are not freely convertible or are convertible only to a limited extent does not take place.

By partially settling amounts payable to suppliers in the same foreign currencies that foreign sales companies use to recognise sales revenues, it is possible to reduce the existing currency risk within the Group (natural hedge).

In connection with financial instruments, changes in the exchange rate would have the following hypothetical effects on earnings and other components of equity:

### Hypothetical impact on profit 2017

in kEUR

| | Value of euro 10% higher | Value of euro 10% lower |
|---|---|---|
| EUR/USD | –1,440 | 1,536 |
| EUR/GBP | –849 | –814 |
| EUR/SEK | –775 | 946 |
| EUR/JPY | –603 | 755 |
| EUR/BRL | –467 | 571 |
| EUR/CHF | –464 | 567 |
| Others | –1,972 | 2,319 |
| **Total** | **–6,570** | **5,880** |

### Hypothetical impact on profit 2016

in kEUR

| | Value of euro 10% higher | Value of euro 10% lower |
|---|---|---|
| EUR/USD | –644 | 228 |
| EUR/GBP | –276 | –780 |
| EUR/SEK | –424 | 518 |
| EUR/JPY | –752 | 919 |
| EUR/CHF | –382 | 467 |
| Others | –1,750 | 1,979 |
| **Total** | **–4,228** | **3,331** |

### Interest rate risk

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

RATIONAL counteracts the risk of changed interest rates for future payments by agreeing fixed interest rates. Interest rates have been fixed for the entire term of the outstanding loans.

### Price risks

Price risk may arise primarily in relation to the purchase of raw materials for the manufacture of products.

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

Neither the basic price of steel nor that of alloy metals is hedged by the use of derivative financial instruments. Concerning the basic price of steel, however, RATIONAL does have fixed contracts with suppliers, under which the purchase price is set about one year in advance. For a small proportion of alloys, purchase prices were also hedged in 2017.

Fluctuations in the unhedged alloy surcharge have a direct impact on the cost of sales and so on total earnings. If the unhedged alloy surcharge had been an average of 10% higher (lower) in 2017, earnings in 2017 would have declined (increased) by approximately 1,013 thousand euros (2016: 807 thousand euros).

## 21. Employees and personnel costs

**Average number of employees**

| | 2017 | % of total | 2016 | % of total |
|---|---|---|---|---|
| Production and Dispatch | 431 | 23 | 397 | 24 |
| Sales and Marketing | 814 | 44 | 726 | 44 |
| Technical Service | 195 | 11 | 163 | 10 |
| Research and Development | 141 | 8 | 130 | 8 |
| Administration | 255 | 14 | 237 | 14 |
| **Total** | **1,836** | **100** | **1,653** | **100** |
| of which outside Germany | 825 | 45 | 730 | 44 |

Personnel costs comprise the following items:

**Personnel costs** (in kEUR)

| | 2017 | 2016 |
|---|---|---|
| Salaries and wages | 124,889 | 111,743 |
| Social security | 23,571 | 20,736 |
| of which expenses for defined contribution plans | 9,897 | 9,043 |
| **Total** | **148,460** | **132,479** |

## 22. Contingent liabilities and other financial obligations

Operating leases are entered into primarily for office space, production facilities, vehicles, IT equipment and other office equipment. Some of the leases have fixed terms, others are for an indefinite period. They include the following future minimum lease payments:

**Future operating lease obligations** (in kEUR)

| | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Up to 1 year | 6,283 | 5,192 |
| 1—5 years | 7,984 | 6,316 |
| > 5 years | 0 | 85 |
| **Total** | **14,267** | **11,593** |
| **Fair Value** | **14,271** | **11,583** |

There are no restrictions included in any of the lease agreements. The lease and leasing expenses recognised in the income statement for fiscal year 2017 amount to 7,278 thousand euros (2016: 6,388 thousand euros).

The obligations to purchase property, plant and equipment amount to 27,143 thousand euros (2016: 3,505 thousand euros) and those to purchase intangible assets amount to 168 thousand euros (2016: 291 thousand euros). This mainly includes construction investments as well as investments in technical equipment and machinery.

There were no contingent liabilities in fiscal years 2017 and 2016.

## 23. Operating segments

The Group is divided into two segments, RATIONAL and FRIMA. Internal control and reporting to the Executive Board are based on these segments and reflect the Group's organisational structure. Earnings before interest and taxes are used as a measure of success. The accounting policies for the segments correspond to those of the Group.

### 2017

in kEUR

| | RATIONAL | FRIMA | Total of segments | Reconciliation | Group |
|---|---|---|---|---|---|
| External sales revenues | 644,466 | 57,634 | 702,100 | – | 702,100 |
| Intercompany sales revenues | 1,869 | – | 1,869 | −1,869 | – |
| Segment sales revenues | 646,335 | 57,634 | 703,969 | −1,869 | 702,100 |
| **Segment profit or loss** | **178,384** | **9,307** | **187,691** | **−123** | **187,568** |
| Financial result | – | – | – | – | −520 |
| **Earnings before taxes** | **–** | **–** | **–** | **–** | **187,048** |
| Segment investments | 41,787 | 1,642 | 43,429 | – | 43,429 |
| Segment depreciation | 11,213 | 614 | 11,827 | – | 11,827 |

### 2016

in kEUR

| | RATIONAL | FRIMA | Total of segments | Reconciliation | Group |
|---|---|---|---|---|---|
| External sales revenues | 565,697 | 47,313 | 613,010 | – | 613,010 |
| Intercompany sales revenues | 1,654 | – | 1,654 | −1,654 | – |
| Segment sales revenues | 567,351 | 47,313 | 614,664 | −1,654 | 613,010 |
| **Segment profit or loss** | **160,369** | **6,043** | **166,412** | **+99** | **166,511** |
| Financial result | – | – | – | – | −643 |
| **Earnings before taxes** | – | – | – | – | 165,868 |
| Segment investments | 21,996 | 2,596 | 24,592 | – | 24,592 |
| Segment depreciation | 9,418 | 482 | 9,900 | – | 9,900 |

As from fiscal year 2017, the definition of the segments reported to management has been changed. Up until then, the reporting structure of the Group was based on the legal entities, RATIONAL and FRIMA. The focus of the new reporting method has changed from the legal perspective in a product perspective. To make it easier to make comparisons, the prior-year figures have been restated in line with the new segment definition.

The RATIONAL segment concentrates on cooking processes in which heat is transferred by means of steam, hot air or a combination of the two. It generates most of its sales revenues from sales of the SelfCookingCenter® and CombiMaster® Plus.

FRIMA focuses on cooking applications in which cooking is carried out in liquid or with direct contact heat. Most of its sales revenues are generated from sales of the VarioCooking Center®.

Both segments incorporate departments with responsibility for research and development, production, sales and marketing, service and administration.

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

Segment investments, amortisation and depreciation relate to intangible assets and property, plant and equipment. No material non-cash expenses reportable under IFRS 8.23 were incurred in either 2017 or the previous year. Assets and liabilities are not reported at segment level.

The reconciliation column essentially reflects the effects of consolidation.

Of the property, plant and equipment and intangible assets, 114,480 thousand euros (2016: 85,314 thousand euros) are reported in Germany, while 10,458 thousand euros (2016: 8,556 thousand euros) are attributable to third countries.

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

## 24. Related parties

Related parties of RATIONAL AG include the subsidiaries, major shareholders, the members of the Executive Board and the members of the Supervisory Board, as well as persons associated with them and companies in which these persons own shares. Siegfried Meister, who died on 28 July 2017, was the majority shareholder of RATIONAL AG. As notified in the mandatory disclosures published on 1 August 2017 and 3 August 2017, the shares were transferred to the community of heirs of Siegfried Meister.

Transactions with consolidated subsidiaries are eliminated during consolidation.

Members of the Supervisory Board hold shares in companies from which the company purchases goods or services. The expense for these goods and services amounted to 2,395 thousand euros in 2017 (2016: 1,996 thousand euros). As of 31 December 2017, outstanding trade accounts payable to these companies amounted to 44 thousand euros (2016: 55 thousand euros).

All of the transactions described were entered into at arm's length. No further material transactions occurred during the year under review with companies or individuals in any way related to RATIONAL AG.

## 25. Supervisory Board and Executive Board

The members of the Supervisory Board are as follows:

**Siegfried Meister** (until 28 July 2017), Chairman
Businessman

**Walter Kurtz**, Chairman
Businessman

**Dr Hans Maerz**, Deputy Chairman
Auditor

**Dr Gerd Lintz**,
Retired notary, independent lawyer

**Werner Schwind**,
Businessman

**Erich Baumgärtner**,
Businessman

**Dr Georg Sick** (since 18 October 2017),
Businessman

Mr Siegfried Meister died on 28 July 2017. Mr Walter Kurtz took over as Chairman of the Supervisory Board with effect from 11 August 2017. In accordance with his right of delegation under the articles of association, Mr Walter Kurtz appointed Dr Georg Sick with effect from 18 October 2017 until the next Supervisory Board elections by the General Meeting of Shareholders in 2019.

The remuneration of Supervisory Board members breaks down as follows:

**2017** in kEUR

| | Fixed | Others | Total |
|---|---|---|---|
| Siegfried Meister | 144 | 13 | 157 |
| Walter Kurtz | 219 | 18 | 237 |
| Dr Hans Maerz | 200 | 12 | 212 |
| Dr Gerd Lintz | 150 | – | 150 |
| Werner Schwind | 150 | – | 150 |
| Erich Baumgärtner | 150 | – | 150 |
| Dr Georg Sick | 31 | – | 31 |
| **Total** | **1,044** | **43** | **1,087** |

**2016** in kEUR

| | Fixed | Others | Total |
|---|---|---|---|
| Siegfried Meister | 250 | 22 | 272 |
| Walter Kurtz | 200 | 17 | 217 |
| Dr Hans Maerz | 200 | 12 | 212 |
| Dr Hermann Garbers | 150 | – | 150 |
| Dr Gerd Lintz | 150 | – | 150 |
| Werner Schwind | 150 | – | 150 |
| **Total** | **1,100** | **51** | **1,151** |

As of the balance sheet date, Supervisory Board compensation of 994 thousand euros (2016: 1,100 thousand euros) was included in current liabilities.

The Executive Board had the following members at the balance sheet date (31 December 2017):

**Dr Peter Stadelmann**, Chief Executive Officer
Dipl.-Volkswirt (Economics Graduate)

**Peter Wiedemann**, Chief Technical Officer
Dipl.-Ingenieur (Engineering Graduate)

**Markus Paschmann**, Chief Sales Officer
Dipl.-Wirtschaftsingenieur (Industrial Engineering Graduate)

**Dr Axel Kaufmann**, Chief Financial Officer
Dipl.-Kaufmann (Business Administration Graduate)

The General Meeting of Shareholders held on 4 May 2016 resolved in accordance with section 314 (3) sentence 1 of the HGB (Handelsgesetzbuch, German Commercial Code) not to disclose separately the remuneration paid to individual members of the Executive Board.

The total compensation paid to the Executive Board for the performance of its duties within the parent company and its subsidiaries in fiscal year 2017 was 5,140 thousand euros (2016: 5,189 thousand euros). This amount includes performance-related components of 2,124 thousand euros (2016: 1,927 thousand euros), which are classified as current liabilities. The above compensation also includes payments of 10 thousand euros to former Executive Board members (2016: 821 thousand euros). Payments into the pension scheme totalling 432 thousand euros (2016: 474 thousand euros) were also made.

### 26. Share-based payment

On 3 February 2000, RATIONAL AG launched a stock option plan comprising 200,000 shares for the company's Executive Board members. The plan is designed to offer Board members additional incentives, secure the company's economic success in the medium and long term and, in the interests of the shareholders, work towards increasing the value of the company.

To date, two tranches have been issued with a total of 69,000 option rights, which were settled in 2002 and 2006 in the form of cash payments equivalent to 100% of the value of a company share minus the exercise price.

There was no share-based payment agreement in 2017, so at the balance sheet date (31 December 2017) option rights to a maximum of 131,000 shares of RATIONAL AG remain in the stock option plan.

### 27. Declaration of compliance with the German Corporate Governance Code

The Executive Board and the Supervisory Board of RATIONAL AG have issued a declaration in accordance with section 161 of the AktG (Aktiengesetz, German Stock Corporation Act) detailing which recommendations of the "Government Commission for a German Corporate Governance Code" were and are being complied with. This declaration was based on the German Corporate Governance Code as amended on 7 February 2017. The declaration is permanently available on RATIONAL AG's website: www.rational-online.com.

### 28. Significant events after the balance sheet date

In February 2018, RATIONAL AG entered into agreements with Landesbank Baden-Württemberg to set up a special fund. The special fund is set up as a value guarantee mandate. The goal of the investment is capital preservation. The initial investment in the special fund took place in February 2018. In addition, no events have occurred since the close of fiscal year 2017 that are of particular significance for the assessment of RATIONAL AG's and the Group's net assets, financial position and profit or loss as stipulated by IAS 10.

### 29. Auditor's fee

By resolution of the General Meeting of Shareholders held on 3 May 2017, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed as auditor for fiscal year 2017. The responsible auditor of the 2017 consolidated financial statements was Mr Dietmar Eglauer.

The auditor's fee, including reimbursement of expenses, amounted to a total of 241 thousand euros (2016: 245 thousand euros) and comprises the auditing of separate and consolidated financial statements. Other services provided in fiscal year 2017 amounted to 11 thousand euros (2016: 0 thousand euros).

Landsberg am Lech, 27 February 2018

RATIONAL AG
The Executive Board

**Dr Peter Stadelmann**
Chief Executive Officer

**Dr Axel Kaufmann**
Chief Financial Officer

**Peter Wiedemann**
Chief Technical Officer

**Markus Paschmann**
Chief Sales Officer

# Statement of Responsibility

**Statement of Responsibility**

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

Landsberg am Lech, 27 February 2018

RATIONAL AG
The Executive Board

**Dr Peter Stadelmann**
Chief Executive Officer

**Dr Axel Kaufmann**
Chief Financial Officer

**Peter Wiedemann**
Chief Technical Officer

**Markus Paschmann**
Chief Sales Officer

# Auditor's Report

## Independent Auditor's Report

To RATIONAL AG, Landsberg am Lech

### Report on the audit of the consolidated financial statements and of the group management report

#### Audit Opinions

We have audited the consolidated financial statements of RATIONAL AG, Landsberg am Lech, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of RATIONAL AG for the financial year from 1 January to 31 December 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

> the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and

> the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to §322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

#### Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with §317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and

German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

### Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

**1. Capitalisation of development costs**
**2. Provisions for warranties**

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

### 1. Capitalisation of development costs

#### 1.1. Matter and issue

In the consolidated financial statements of the Company, 4.1 million euros in internally generated intangible assets resulting from development activities are reported under the “Intangible assets” balance sheet item as of 31 December 2017. Of this amount, 0.6 million euros are attributable to development costs newly capitalised in 2017. Total development costs (including capitalised development costs) amounted to 33.8 million euros in fiscal year 2017. Development costs for new product innovations are recognised as internally generated intangible assets if the requirements of IAS 38.57 are met. In addition to the technical feasibility of completing the intangible asset, these include the generation of probable future economic benefits from the intangible asset, the availability of technical and financial resources to complete the development and to use or sell the intangible asset, and the ability to measure reliably the expenditure attributable to development. The capitalised development costs include direct costs and shared overhead expenditure. After initial recognition, the asset is measured using the cost model. Once the asset is available for use, it is amortised over five years. In our view, this matter was of particular importance for our audit since the capitalisation of development costs is based to a large extent on the Executive Board's estimates and assumptions with respect to recognition, and is therefore subject to corresponding uncertainties.

#### 1.2. Audit approach and findings

As part of our audit, we evaluated, among other things, whether the recognition criteria set out in IAS 38.57 are met. In doing so, we assessed management's assumptions with respect to fulfillment of the recognition criteria by inspecting project manuals and the development department's internal records. In addition, we assessed the methodology used to determine the costs eligible for capitalisation, and used appropriate evidence such as project cost overviews and budget figures to assess the amount of the capitalised development costs, their planned useful lives and recoverability. We also assessed the progress of the respective projects based on interviews with project managers and by inspecting project documentation. In our view, the methodology applied by the Company to capitalise development costs is appropriate and the percentage of completion and capitalised development costs have been sufficiently documented.

#### 1.3. Reference to further information

The Company's disclosures on capitalisation of development costs are contained in note 7 and in the "Significant accounting policies" of the consolidated financial statements.

## 2. Provisions for warranties

### 2.1. Matter and issue

In the consolidated financial statements of the Company 17.1 million euros in provisions for warranties are reported under the "Current provisions" and "Other non-current provisions" balance sheet items as of 31 December 2017. The Company recognises provisions for expected claims under liability for defects in the products sold. In this context, the Executive Board makes assumptions about future claims. The provisions are recognised and measured based on historical data and unit sales in the fiscal year. Due to the associated estimation uncertainty and given the amounts reported under these material items, we consider these matters to be of particular importance.

### 2.2. Audit approach and findings

With the knowledge that estimated values result in an increased risk of accounting misstatements and that the measurement decisions made by management have a direct and significant effect on consolidated net profit/loss, we assessed the appropriateness of the carrying amounts, including by means of the measurement bases presented to us. With respect to the recognition and measurement of provisions, among other things we assessed the current agreements, cost estimates and the calculated historical data on unit sales and warranty claims. In addition, we assessed the measurement model for provisions and the expected timing for utilisation of the provisions. In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by management were sufficiently documented and supported to justify the recognition and measurement of the material provisions for warranties.

### 2.3. Reference to further information

The Company's disclosures relating to these provisions are contained in note 16 and in the "Significant accounting policies" of the consolidated financial statements.

## Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report, which we obtained prior of the date of our auditor's report:

> the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section 7 of the group management report
> the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code

The separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB and the remaining parts of the annual report are expected to be made available to us after the date of the auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

> is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
> otherwise appears to be materially misstated.

### Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

> Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

> Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

> Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Other legal and regulatory requirements

### Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 3 May 2017. We were engaged by the supervisory board on 28 August 2017. We have been the group auditor of the RATIONAL AG, Landsberg am Lech, without interruption since the financial year 2011.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

## German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Dietmar Eglauer.

Munich, 27 February 2018

PriceWaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

**Dietmar Eglauer**
Wirtschaftsprüfer
(German Public Auditor)

**ppa. Patrick Konhäuser**
Wirtschaftsprüfer
(German Public Auditor)

# Imprint

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# Key figures regarding RATIONAL shares

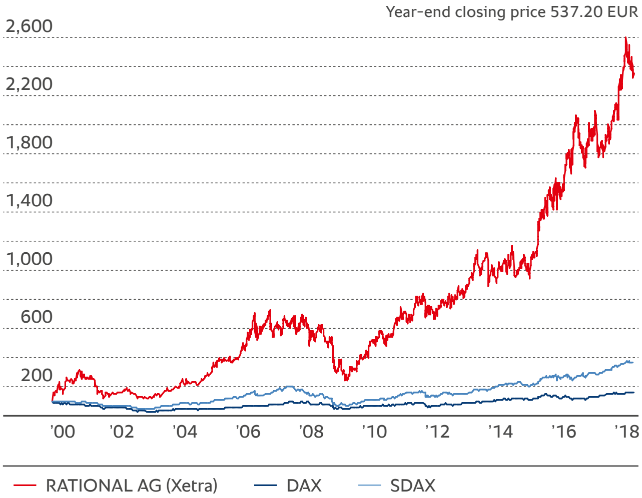
## Key figures

| | | 2017 | 2016 |
|---|---|---|---|
| Maximum price last 12 months[2] | EUR | 596.35 | 482.25 |
| Minimum price last 12 months[2] | EUR | 405.35 | 365.00 |
| Year-end closing price[2] | EUR | 537.20 | 424.00 |
| Market capitalisation[1] | m EUR | 6,108.0 | 4,820.9 |
| Dividend yield[4] | % | 2.0 | 2.4 |
| Beta factor (one year) as at Dec. 30[3] | % | 0.79 | 0.74 |
| Sales revenues per share | EUR | 61.75 | 53.91 |
| Price-to-sales ratio[1] | | 8.7 | 7.9 |
| Earnings per share | EUR | 12.58 | 11.18 |
| Price-earnings ratio[1] | | 42.7 | 37.9 |
| Cash flow per share | EUR | 12.84 | 11.39 |
| Price-cash flow ratio[1] | | 41.9 | 37.2 |

[1] As at balance sheet date [2] Xetra [3] In relation to the SDAX
[4] In relation to the year-end closing price

## Performance of RATIONAL shares since the IPO in 2000

Index (issue price 23.00 EUR = 100) in %




## RATIONAL shares—basic information

| | |
|---|---|
| Number of outstanding shares | 11,370,000 |
| Shareholder structure | Holding shares 70.9%, Free float 29.1% |
| ISIN | DE0007010803 |
| WKN | 701 080 |
| Market abbreviation | RAA |

Status: 27 February 2018

## Financial calendar 2018

| | | |
|---|---|---|
| Financial Figures Fiscal Year 2017 | Landsberg | 15 Mar '18 |
| Balance Sheet Press Conference Fiscal Year 2017 | Munich | 15 Mar '18 |
| Telephone Conference Fiscal Year 2017 | Landsberg | 15 Mar '18 |
| Financial Figures Q1 2018 | Landsberg | 3 May '18 |
| General Shareholders' Meeting 2018 | Augsburg | 9 May '18 |
| Financial Figures Half Year 2018 | Landsberg | 9 Aug '18 |
| RATIONAL Analysts' Day 2018 | Landsberg | 12 Sep '18 |
| Financial Figures 9 Months 2018 | Landsberg | 30 Oct '18 |

**23%** Average annual return for RATIONAL shareholders since the IPO (including dividends)

## The Executive Board

Dr Peter Stadelmann, CEO

Dr Axel Kaufmann, CFO

Peter Wiedemann, CTO

Markus Paschmann, CSO

## The Supervisory Board

Walter Kurtz, Chairman

Dr Hans Maerz, Deputy Chairman

Dr Gerd Lintz

Werner Schwind

Erich Baumgärtner

Dr Georg Sick

## Contact

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# 10-year overview

## Key figures

| Earnings situation | | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales revenues | m EUR | 702 | 613 | 564 | 497 | 461 | 435 | 392 | 350 | 314 | 343 |
| Sales revenues abroad | % | 87 | 87 | 87 | 87 | 87 | 86 | 85 | 84 | 83 | 84 |
| Sales revenues RATIONAL segment[1,2,3] | m EUR | 646 | 567 | 529 | 467 | 436 | 413 | 372 | – | – | – |
| Sales revenues FRIMA segment[1,2,3] | m EUR | 58 | 47 | 39 | 33 | 28 | 26 | 23 | – | – | – |
| Gross profit | m EUR | 426 | 379 | 349 | 304 | 281 | 262 | 234 | 217 | 192 | 204 |
| as a percentage of sales revenues | % | 61 | 62 | 62 | 61 | 61 | 60 | 60 | 62 | 61 | 59 |
| EBIT | m EUR | 188 | 167 | 160 | 145 | 128 | 123 | 102 | 106 | 90 | 83 |
| as a percentage of sales revenues | % | 27 | 27 | 28 | 29 | 28 | 28 | 26 | 30 | 29 | 24 |
| Profit or loss after taxes | m EUR | 143 | 127 | 122 | 110 | 97 | 93 | 79 | 80 | 67 | 62 |
| as a percentage of sales revenues | % | 20 | 21 | 22 | 22 | 21 | 21 | 20 | 23 | 21 | 18 |
| Earnings per share (undiluted) | EUR | 12.58 | 11.18 | 10.71 | 9.68 | 8.55 | 8.20 | 6.93 | 7.02 | 5.92 | 5.42 |
| Return on equity (after taxes)[4] | % | 35 | 34 | 37 | 38 | 38 | 42 | 35 | 38 | 42 | 48 |
| Return on invested capital (ROIC)[5] | % | 33 | 31 | 34 | 34 | 35 | 38 | 33 | 34 | 35 | 41 |
| **Asset situation** | | | | | | | | | | | |
| Total assets | m EUR | 571 | 540 | 483 | 423 | 377 | 326 | 283 | 306 | 266 | 209 |
| Equity | m EUR | 425 | 397 | 356 | 311 | 269 | 237 | 207 | 230 | 190 | 134 |
| Equity ratio | % | 74 | 74 | 74 | 73 | 71 | 73 | 73 | 75 | 71 | 64 |
| Liabilities to banks | m EUR | 14 | 28 | 28 | 33 | 34 | 25 | 19 | 21 | 32 | 26 |
| Cash and cash equivalents (incl. fixed deposits) | m EUR | 267 | 278 | 267 | 225 | 200 | 166 | 121 | 163 | 132 | 57 |
| Net financial position[6] | m EUR | 253 | 250 | 239 | 193 | 166 | 141 | 102 | 142 | 100 | 31 |
| Fixed assets | m EUR | 127 | 102 | 79 | 69 | 61 | 56 | 54 | 55 | 58 | 63 |
| Investments | m EUR | 43 | 25 | 19 | 17 | 12 | 9 | 6 | 5 | 2 | 33 |
| Working capital[7] (excluding liquid funds) | m EUR | 117 | 108 | 99 | 93 | 84 | 75 | 79 | 65 | 59 | 63 |
| as a percentage of sales revenues | % | 17 | 18 | 17 | 19 | 18 | 17 | 20 | 19 | 19 | 18 |
| **Cash flow/investments** | | | | | | | | | | | |
| Cash flow from operating activities | m EUR | 146 | 129 | 143 | 112 | 103 | 111 | 68 | 87 | 83 | 71 |
| Cash flow from investing activities | m EUR | 77 | –97 | –11 | –39 | –28 | –38 | 61 | –23 | –72 | –38 |
| Cash flow from financing activities | m EUR | –128 | –87 | –83 | –71 | –57 | –57 | –106 | –52 | –8 | –45 |
| **Employees** | | | | | | | | | | | |
| Number of employees (average) | | 1,884 | 1,713 | 1,530 | 1,424 | 1,341 | 1,263 | 1,224 | 1,092 | 993 | 1,117 |
| **RATIONAL shares** | | | | | | | | | | | |
| Year-end closing price[8] | EUR | 537.20 | 424.00 | 419.90 | 259.75 | 241.10 | 218.00 | 168.20 | 161.89 | 115.99 | 82.61 |
| Year-end market capitalisation | m EUR | 6,108 | 4,821 | 4,774 | 2,953 | 2,741 | 2,479 | 1,912 | 1,841 | 1,319 | 939 |
| Dividend[9] | m EUR | 125 | 114 | 85 | 77 | 68 | 65 | 63 | 102 | 40 | 11 |
| Dividend per share[9] | EUR | 11.00 | 10.00 | 7.50 | 6.80 | 6.00 | 5.70 | 5.50 | 9.00 | 3.50 | 1.00 |

[1] 2017 Conversion for product-related segment view (previously related to the legal subsidiary structure); 2016 was adjusted accordingly [2] Introduction of the RATIONAL/FRIMA segment structure in 2011 [3] Includes sales revenues between the segments, segment sales revenue total does not correspond to the consolidated sales revenues [4] Earnings after tax in relation to the average equity for the respective fiscal year [5] Profit after tax less finance costs divided by the invested capital (equity + interest-bearing borrowings) [6] Liquid funds less liabilities to banks [7] Total inventories and trade receivables less trade accounts payable and advance payments received [8] Xetra [9] Payout in the following year; dividend 2017 subject to approval by General Meeting of Shareholders 2018; 2011, 2016 and 2017 include a special dividend of 4.00 euros/2.00 euros/2.20 euros respectively

**7.6 bn**

people live on earth.

“Thanks to our international sales and service structure we can optimally meet the growing global demand for our products and services.”


120
million
dishes
are prepared in RATIONAL appliances every day.

“We are convinced that only those who seek connection and build networks, and know how to use them to provide maximum customer benefit, will be the ones to generate enthusiasm.”

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