



Océ

Quarterly
report 2007/3

Results third quarter 2007



Océ N.V.

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**Printing for
Professionals**

Océ reports strong growth in printer sales

Results third quarter 2007^{1]}

Salient figures <i>In million €</i>	Third quarter			Nine months		
	2007	2006 ^{2]}	Δ	2007	2006 ^{2]}	Δ
Total revenues	753.5	740.6	1.7%	2,259.8	2,278.3	-0.8%
EBITDA	71.3	66.7	6.9%	222.5	208.7	6.6%
Operating income [EBIT]	21.2	16.7	26.9%	71.4	58.5	22.1%
Net income	12.6	6.4	96.9%	43.1	30.4	41.5%
<i>In € per share</i>						
EBITDA	0.84	0.79	6.3%	2.64	2.49	6.2%
Earnings per ordinary share for net income attributable to shareholders	0.14	0.06	125%	0.47	0.34	40.5%

1] The figures in this report are unaudited.

2] For 2006 reporting of the gross margin and operating expenses of Océ Imagistics was brought into line with the accounting standards used within the Océ Group [see press release dated January 15, 2007, page 11].

Highlights third quarter:

- Organic revenues growth of 5.1%
- Sales of printing systems [non-recurring revenues] 17.9% higher on organic basis
- Strong growth in share of color in revenues
- Recurring revenues excluding fax increased by 1.4% on organic basis
- Gross margin up from 40.4% to 40.7%
- Operating income for full-year 2007 expected to be at least € 110 million

Comments by Rokus van Iperen, chairman of the Board of Executive Directors:

'Customers are responding enthusiastically to our new, innovative products and services. That was one of the reasons why printer sales – especially color – were significantly higher than in the third quarter of 2006. As a result, revenues increased by 5% on an organic basis. We also gained a number of large document management orders. These developments strengthen the basis for growth of the recurring revenues.'

The Strategic Business Unit DDS grew by more than 4% on an organic basis, but operating income is still far from the desired level. WFPS grew by almost 7% and showed an excellent operating income.

We are continuing to invest in strengthening our distribution power, as well as in the development of competitive products and services, in which we are working together with leading partners. In addition, we will with high priority reduce total costs and working capital, especially inventories. We are making good progress with the execution of our Strategic Plan 2007-2010.'

Océ revenues increase organically by 5.1%

Revenues increased to € 753.5 million in the third quarter. On an organic basis, growth was 5.1%. The share of color rose to 20% of revenues [2006: 14%] by strong sales of both Océ and OEM printing systems and by an increase in the recurring revenues including color toners and inks.

Non-recurring revenues increased organically by 17.9% [including exchange rate effects by 14.4%]. This increased the number of printing systems installed in the market.

Recurring revenues excluding fax increased by 1.4% on an organic basis [including fax 0.1%]. The decline in the Imagistics fax business and exchange rate effects adversely influenced the development of recurring revenues. As a result, recurring revenues declined by 3.2%.

The gross margin increased by 0.3 percent points to 40.7% of revenues [2006: 40.4%]. The gross margin on both products and services developed positively.

Operating expenses declined by 0.3 percent points to 37.8% of revenues [2006: 38.1%].

Through the improved gross margin and only slightly higher operating expenses, Océ increased its operating income by 26.9% to € 21.2 million [2006: € 16.7 million].

The operating income was adversely affected by increased costs of share-based compensation [Δ € 2.9 million] as a result of the increase in the Océ share price in the third quarter. Under IFRS, fluctuations in the value of option and share plans are shown in the income statement.

In million €	Third quarter	
	2007	2006
Operating income	21.2	16.7
Reorganization costs	–	1.8
Normalized operating income*	21.2	18.5
Capitalized R&D costs [net]	3.6	8.1
Costs of share-based compensation	4.9	2.0

* adjusted for exceptional items.

Financial expenses [net] amounted to € 10.1 million [2006: € 14.0 million], and were positively influenced by exceptional results of approximately € 3 million.

Taxation contributed € 1.3 million to the result [2006: € 3.4 million contribution].

On balance, net income increased by 97% to € 12.6 million [2006: € 6.4 million].

Earnings per ordinary share for net income attributable to shareholders increased to € 0.14 per share [2006: € 0.06].

DDS revenues: organic growth of 4.3%

Revenues in DDS increased to € 531.5 million. On an organic basis, growth was 4.3%. As expected, the organic decline in the fax business continued [41% decrease compared to the third quarter of 2006]. Revenues in DDS excluding fax increased by 5.9% on an organic basis. The share of color increased to 17% of revenues [2006: 12%].

The operating income of DDS was –€ 0.8 million [2006: –€ 4.3 million]. The results of DDS are still far from the desired level.

Non-recurring revenues increased organically by 16.5%. DDS achieved this increase in three important market segments. First of all DDS grew

in the office segment. A further contribution to the increase in the non-recurring revenues was made by the printing systems of the Océ VarioPrint 6000 series as well as the Continuous Feed printing systems in the [ultra] high volume black and white segment. And finally the strong color product portfolio was the basis for a significant increase in revenues in the color segment. DDS increased its order book at the end of the third quarter of 2007 compared with the position a year earlier.

In the third quarter Océ announced a further strengthening of its product range. At the recent Graph Expo show in the USA, DDS announced a number of new printers, including the Océ VarioStream 9710 HS [High Speed], a continuous feed printer in the Océ VarioStream 9000 series that produces 1515 black and white prints per minute. For the graphics market DDS announced the Océ ColorStream 10000, a continuous feed printing system that produces 172 color prints per minute. And thirdly DDS introduced the Océ CS550, a new OEM cutsheet printer that can print up to 55 color prints per minute and is used in commercial printshops and repro departments.

These developments enlarge the competitive strength of the DDS product portfolio. The increased sales of new printers strengthen the basis for future growth of recurring revenues.

Recurring revenues excluding the fax business increased organically by 1.7% in the third quarter compared to the third quarter of 2006 [including fax unchanged]. The share of the Océ VarioPrint 6000 series and the color printers in recurring revenues was still limited in the third quarter, but will increase in the coming quarters.

Océ Business Services [OBS] achieved an increase in organic revenues of 6.6%. In addition, OBS gained a number of large new customers. In Germany, a seven-year contract was concluded with a major company in the financial industry, with expected total revenues of more than € 60 million. OBS will take care of the central printing departments for this customer.

In Spain OBS strengthened its good position in healthcare through contracts with hospitals for the supply of all document related services such as scanning, printing and print management. These contracts will contribute to revenues in 2008.

WFPS revenues: organic growth of 6.9%

Revenues in WFPS increased to € 222.0 million. On an organic basis, growth was 6.9%. The share of color increased to 28% of revenues [2006: 21%].

The operating income of WFPS was € 22.0 million [2006: € 21.0 million].

The business groups Technical Document Systems and Display Graphics Systems had excellent sales, as a result of which the non-recurring revenues increased organically by 20.8%. In the third quarter Display Graphics Systems completed the production ramp-up of the Océ Arizona 250 GT. Both Océ and its strategic partner Fujifilm had good sales of this printer which is developed and produced by Océ.

Recurring revenues in WFPS increased organically by 0.4%. The influence of the Océ Arizona 250 GT on the recurring revenues was still limited in the third quarter, but will increase in the coming quarters. As in the second quarter, Imaging Supplies strengthened its focus on margins. This led to a decline in the revenues of the A4 tender business. Excluding this effect, recurring revenues grew by 1.4%.

Balance sheet and cash flow

The *balance sheet total* was € 2,573 million, a decline of € 34 million compared to the end of the 2006 financial year [€ 2,607 million]. Apart from exchange rate effects, this decline was caused primarily by a reduction in trade and finance lease receivables. Inventories were higher, particularly due to the introduction of new printers and to unbilled printing systems.

Net Capital Employed declined by € 88 million to € 1,371 million compared to the end of the third

quarter 2006. The Return on Capital Employed rose to 6.6% [full-year 2006: 5.6%].

Cash flow from operating activities in the first nine months was € 70 million, which is at the same level as in 2006 [€ 69 million].

The *free cash flow* for the quarter was € 23 million [2006: € 22 million]. For the first nine months the free cash flow at – € 17 million was somewhat lower than in 2006 [2006: – € 9 million] mainly due to higher sales of the finance lease portfolio and tax refunds in 2006.

Voluntary termination of NASDAQ listing

The process of voluntary termination of the listing on the NASDAQ and registration with the SEC in the United States has been completed. As stated in the quarterly report 2007/2 [July 3, 2007], Océ will continue to host its investor and analyst meetings and roadshows in the USA unchanged.

Interim dividend

For 2007 Océ will pay an interim dividend of € 0.15 per ordinary share outstanding [2006: € 0.15]. The ex-dividend date is October 3, 2007. The interim dividend will be payable in cash from October 22, 2007.

Outlook for 2007

Océ is on track with the execution of its Strategic Plan 2007-2010 which is expressed in the strengthening of its distribution power and the introduction of competitive products and services.

The organic growth in the past quarter gives confidence for the fourth quarter of 2007. Based on stable economic and exchange-rate developments, we expect an improvement in the operating income for the year 2007 to at least € 110 million [2006: € 102.2 million].

Board of Executive Directors Océ N.V.
October 2, 2007

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Keys to terminology:

Non-recurring revenues: revenues from the sale of machines, software and professional services.

Recurring revenues: revenues from maintenance, media, toner/ink, rental, interest and business services.

Organic growth: the development of results after adjustment for exchange rate effects and major acquisitions.

Cutsheet printing: printing on separate sheets of paper.

Continuous feed printing: printing on rolls of paper or on pinfeed forms.

OEM Original Equipment Manufacturer: refers to the producer of a machine that is used in the sales process of another producer or distributor.

Wide Format printing: printing on formats bigger than A3.

Quarterly report 2007/3

Consolidated Income Statement

Period December 1, 2006 to August 31, 2007

In million €

	Third quarter		Nine months	
	2007	2006 ¹⁾	2007	2006 ¹⁾
Total revenues	753.5	740.6	2,259.8	2,278.3
Cost of sales	-447.2	-441.7	-1,328.8	-1,352.4
Gross margin	306.3	298.9	931.0	925.9
Selling and marketing expenses	-177.3	-174.0	-541.5	-549.3
Research and development expenses	-61.4	-52.5	-175.7	-171.1
General and administrative expenses	-46.4	-55.7	-142.4	-147.0
Operating expenses	-285.1	-282.2	-859.6	-867.4
Operating income	21.2	16.7	71.4	58.5
Financial income	5.1	2.3	14.7	10.5
Financial expenses	-15.2	-16.3	-43.5	-43.7
Share in income of associates	0.2	0.3	0.4	0.5
Income before income taxes	11.3	3.0	43.0	25.8
Income taxes	1.3	3.4	0.1	4.6
Net income	12.6	6.4	43.1	30.4
Net income attributable to				
Shareholders	12.2	5.8	41.8	29.3
Minority interest	0.4	0.6	1.3	1.1
	12.6	6.4	43.1	30.4
Free cash flow	23.2	21.7	-17.3	-8.7
Average number of ordinary shares outstanding [x 1,000]	84,441	83,956	84,183	83,874
Earnings per ordinary share for net income attributable to shareholders in €				
Basic	0.14	0.06	0.47	0.34

¹⁾ Based on the accounting principles used in the annual report for 2006 and described in the press release of January 15, 2007 [page 11].

Consolidated Balance Sheet

In million €

Before net income appropriation

Non-current assets

Assets

Intangible assets
Property, plant and equipment
Rental equipment
Investments in associates
Deferred income tax assets
Available-for-sale financial assets
Derivative financial instruments
Trade and other receivables

Current assets

Inventories
Derivative financial instruments
Trade and other receivables
Current income tax receivables
Cash and cash equivalents

Total

Non-current assets held for sale

Equity and Liabilities

Equity

Share capital
Share premium
Other reserves
Retained earnings
Net income attributable to shareholders
Equity attributable to shareholders
Minority interest

Non-current liabilities

Borrowings
Derivative financial instruments
Retirement benefit obligations
Trade and other liabilities
Deferred income tax liabilities
Provisions for other liabilities and charges

Current liabilities

Borrowings
Derivative financial instruments
Current income tax liabilities
Trade and other liabilities
Provisions for other liabilities and charges

Total

End of third quarter 2007	End of financial year 2006
539	549
413	428
111	112
2	2
83	84
9	9
10	7
192	209
1,359	1,400
384	341
5	10
698	729
35	33
83	85
1,205	1,198
9	9
2,573	2,607
54	54
512	511
-156	-164
232	228
42	55
684	684
35	37
719	721
664	533
9	5
416	421
15	15
37	51
49	54
1,190	1,079
75	180
2	4
20	2
552	592
15	29
664	807
2,573	2,607

Quarterly report 2007/3

Changes in Equity attributable to shareholders

In million €

	Nine months 2007	Financial year 2006
Balance at November 30, 2005		711
Transition to IAS 32 and IAS 39		-63
Balance at December 1, 2006 / 2005	684	648
Net income	42	55
Dividend	-38	-51
Share-based compensation	12	6
Purchase of treasury shares	-	-
Reclassification of financing preference shares	-	59
Cash flow hedges	-4	10
Currency translation differences	-12	-43
Amount at August 31, 2007 / November 30, 2006	684	684

Organic growth in revenues

As percentage

	Third quarter 2007		Nine months 2007	
	excluding fax	including fax	excluding fax	including fax
Non-recurring revenues				
Digital Document Systems	16.5	16.5	6.9	6.9
Wide Format Printing Systems	20.8	20.8	13.6	13.6
Total	17.9	17.9	9.0	9.0
Recurring revenues				
Digital Document Systems	1.7	0.0	1.8	0.0
Wide Format Printing Systems	0.4	0.4	0.6	0.6
Total	1.4	0.1	1.5	0.1
Revenues growth				
Digital Document Systems	5.9	4.3	3.3	1.8
Wide Format Printing Systems	6.9	6.9	4.8	4.8
Total	6.2	5.1	3.7	2.6

Quarterly report 2007/3

Consolidated Statement of Cash Flow

Period December 1, 2006 to August 31, 2007 <i>In million €</i>	Nine months 2007	Nine months 2006
Income before income taxes	43	26
<i>Adjustments for:</i>		
Depreciation and amortization	151	150
Impairment	–	–
Share-based compensation	5	2
Share in income of associates	–	–
Other	–1	–3
<i>Changes in provisions, rental equipment and working capital:</i>		
Retirement benefit obligations	–4	–9
Provision for other liabilities and charges	–18	–19
Other provisions [for inventories, finance lease and trade receivables]	18	24
Rental equipment	–54	–50
Inventories	–57	–33
Finance lease receivables	22	8
Trade and other receivables [excluding finance lease receivables]	4	9
Trade and other liabilities	–43	–68
Income taxes	4	32
Cash flow from operating activities	70	69
Expenditure in intangible assets	–33	–46
Expenditure in property, plant and equipment	–63	–61
Divestment of intangible assets	1	1
Divestment of property, plant and equipment	7	7
Change in other non-current assets	–4	–1
Change in investments in associates	–	–
Sale finance lease portfolio	7	22
Sale/acquisitions [net of cash]	–2	–
Cash flow from investing activities	–87	–78
Free cash flow	–17	–9
Proceeds from borrowings	78	530
Repayments of borrowings	–30	–557
Dividend	–38	–36
Change in equity related to shares	10	3
Change in minority interest	–3	–3
Cash flow from financing activities	17	–63
Translation differences	–2	8
Changes in cash and cash equivalents	–2	–64

Profile

Océ: innovative by nature Océ is one of the world's leading suppliers of professional printing and document management systems. A business that is innovative by nature, both commercially and technologically.

Océ develops and manufactures systems for the production, distribution and management of documents, in color and black and white, in small format and in wide format for offices, educational institutions, industry and the graphics market. Its products offerings comprise printers, scanners, peripheral equipment and printing media but also document management software and innovative products in the areas of system integration, outsourcing of document management activities and leasing of printing systems. Océ's core product range, developed and manufactured by the company itself, is focused on small format and wide format and, as far as small format is concerned, on the [highly] productive segments. To supplement this, Océ offers its customers selected machines made by Original Equipment Manufacturers [OEMs], mostly as part of total solutions.

Océ's reputation is founded on productivity and reliability, ease of use and a favorable 'total cost of ownership'.

Océ is commercially active in over 90 countries and has its own sales and services organization in more than 30 of these countries. It also operates research and manufacturing facilities in Europe, the United States and Canada. In 2006 Océ, which has almost 24,000 employees, achieved revenues of € 3.1 billion and a net income of € 57.1 million.

Business model Océ is one of the few suppliers that is active in the entire chain of printing systems; from development via manufacturing, sales and financing to service. Because of constant feedback within the chain Océ is able at all times to anticipate and respond alertly to changing market requirements and new market opportunities.

Océ's policy in the various sub-markets is steered by two Strategic Business Units, Digital Document Systems [DDS] for small format and Wide Format Printing Systems [WFPS] for wide format in close

cooperation with Research & Development on the one hand, and Marketing & Sales on the other. Digital Document Systems serves the market via the business groups Corporate Printing Systems, Commercial Printing Systems and Océ Business Services. Wide Format Printing Systems serves the market via the business groups Technical Document Systems, Display Graphics Systems and Imaging Supplies.

A separate activity, Software & Professional Services, focuses on the development and implementation of software in printing systems and therefore supports all business groups.

In a number of countries in which Océ itself is not represented the business makes part of the product range available via specialized distributors.

Through its own Research & Development Océ develops its basic technologies and majority of its products concepts. The direct feedback of customer experiences serves here as an important source of solutions for concrete, current and future needs. Océ also broadens and strengthens its innovative capacity through alliances with strategic partners and cooperation with co-developers and with OEMs for printing systems in the high, medium and low volume segment markets.

The publicly listed holding company of the Group is Océ N.V. The issued share capital amounts to about € 53.7 million divided into € 43.7 million ordinary shares, € 10 million financing preference shares and € 1,500.- priority shares. The ordinary and financing preference shares have a nominal value of € 0.50. Ordinary shares in Océ are listed on the stock exchanges in Amsterdam [Euronext], Düsseldorf, Frankfurt/Main and on the electronic stock exchange [EBS] in Switzerland. Options to Océ shares are traded on the Euronext Options Exchange.

Forward-looking statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements refer to future events and may be expressed in a variety of ways, including the use of future or present tense language such as 'expects', 'projects', 'anticipates', 'intends' or other similar words.

Océ has based these forward-looking statements on its current expectations and projections about future events.

Océ's expectations and projections may change and Océ's actual results, performance or achievements could be significantly different from the results expressed in or implied by these forward-looking statements based on various important factors, risks and uncertainties which are neither manageable nor foreseeable by Océ and some of which are beyond Océ's control.

When considering these forward-looking statements, one should keep in mind these risks, uncertainties and other cautionary statements made in this report or in Océ's other annual or periodic filings made with the United States Securities and Exchange Commission.

These factors, risks and uncertainties include, but are not limited to changes in economic and business conditions, customer demand in competitive markets, the successful introduction of new products and services into markets, developments in technology, adequate pricing of products and services, competitive pricing pressures within Océ's markets, the financing of Océ's business activities, efficient and cost-effective operations, changes in foreign currency exchange rates, fluctuations in interest rates, political uncertainties, changes in governmental regulations and laws, tax rates, successful acquisitions, joint ventures and disposals and the effects of recent or further terrorist attacks and the war on terrorism.

For a more detailed discussion of the factors, risks and uncertainties that may affect Océ's actual results, performance or achievements, reference is made to pages 62 to 71 of the annual report part 2 for 2006, Océ's Annual Report on Form 20-F and any other filings made by Océ with the United States Securities and Exchange Commission.

Océ's forward-looking statements speak only as of the date on which the statements are made, and Océ is under no obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

Océ enables its customers to manage their documents efficiently and effectively by offering innovative print and document management products and services for professional environments.