



Océ

Quarterly
report 2009/3

Results third quarter 2009



Océ N.V.

June 2009 – August 2009

Océ N.V.

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**Printing for
Professionals**

Océ mitigates decline in revenues by cutting costs

Highlights third quarter:

- Revenues declined 10% to € 631 million
- Normalized operating income: € 1 million
- Restructuring costs € 32 million
- Net loss of € 25 million
- Free cash flow improved to € 19 million
- Net debt further reduced by € 18 million
- Accelerated cost-cutting measures delivered results

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

'Due to market developments, our revenues declined in the third quarter of 2009. The European markets weakened further compared with the first half of the year. Nevertheless, we performed better than the printing industry average, where revenues declined by 19% over the first half of 2009. We strengthened our competitive position by launching a range of new systems and services during the recent industry trade show Print 09 in Chicago.

In the third quarter of 2009 color revenues in the office market were under pressure, as customers implemented cost reduction programs. At the same time, in the wide format and graphic arts markets color revenues increased considerably, thanks to customers implementing new color products, such as the Océ ColorWave, Océ Arizona and Océ JetStream printers.

Outsourcing of document management services continued to grow, as companies looked to improve efficiency and cut costs.

We have achieved good progress in implementing our cost-cutting program. The headcount reduction is on-track, as a consequence of which we faced substantial restructuring costs in the third quarter.

For the fourth quarter we anticipate markets will remain challenging, although we are noticing early indications of bottoming out in some US markets. In the current economic climate we will continue to cut costs aggressively, in order to regain profitability. Our stringent cost-cutting programs, innovative product portfolio and distribution strengths will help to weather the economic storm.'

Summary third quarter 2009*

Key figures <i>In million € / as %</i>	Third quarter			Nine months		
	2009	2008	Δ	2009	2008	Δ
Total revenues	631	700	-10%	1,964	2,107	-7%
Normalized operating income**	1	17	-16	9	54	-45
Normalization items	-26	-28	2	-17	-24	7
Operating income (EBIT)	-25	-11	-14	-8	30	-38
Net income	-25	-24	-1	-24	3	-27
Free cash flow	19	-17	36	-29	-123	94

* The figures in this report are unaudited.

** Adjusted for normalization items, representing continuing business.

Highlights

Markets remained challenging

A broad range of market sectors remained challenging in the third quarter of 2009.

The markets in Europe experienced further decline.

As in the first half of 2009 the continued decline of key market sectors affected the digital printing industry and its performance. Customers are looking for increased cash flow and reduced costs and as a result equipment sales environment remained weak and print volumes were still under pressure throughout the print industry. In addition customers are looking to decrease the use of color where not business critical, for instance in the office environment.

Document management services continued to grow, as companies continue to seek outsourcing of their document related activities.

Océ revenues decline due to market developments

Following these market developments, Océ revenues showed an organic decline of 12%. Océ believes the company improved its position in key markets as its revenue developments outperform the reported industry average. Océ further strengthened its competitive position due to

innovative products such as the new members of the Océ JetStream® and Océ VarioPrint® series.

Actions delivered results

<i>In million € / as %</i>	Third quarter	Second quarter
Normalized EBIT	1	-15
Normalized gross margin	36.8%	35.5%
Free cash flow	19	16
Net debt¹	566	584

Our actions deliver results. This is reflected in the above key financial parameters when compared with the second quarter of 2009.

Océ made good progress on the actions. In the third quarter Océ realized a cost reduction of € 38 million. The total cost reduction achieved year to date is € 110 million. The full year 2009 target amounts to € 124 million. All savings are exclusive of inflation and restructuring costs. In the third quarter Océ realized a headcount reduction of 508 FTEs. The total headcount reduction achieved year to date is 1170 FTEs, ahead of target.

Océ also realized year to date € 153 million balance sheet reductions. The 2009 full year target amounts to € 100 million. Excluding the

¹ According to financial covenants.

effect of the lower business activity levels, total reductions amounted to € 72 million.

Océ Group results third quarter 2009

Revenues

Total revenues in the third quarter amounted to € 631 million, a decrease of 10%. The organic decrease was 12% compared with the third quarter of 2008.

The share of color in Océ total revenues continues to grow and now accounts for 31%, up from 26% over the same period last year.

Non-recurring revenues amounted to € 172 million, a decrease of 22%. The organic decline was 23%.

Recurring revenues amounted to € 459 million, a decrease of 5%. The organic decline was 7%.

Overview normalization items

<i>In million €</i>	Third quarter	
	2009	2008
Operating income	-25	-11
Divestment Arkwright	-	18
Restructuring costs	32	10
Capitalized R&D	-6	-
Normalized operating income	1	17
Total capitalized R&D costs (net)	14	4
Charge for share-based compensation	-	1

In the third quarter of 2008 Océ realized a book loss and a charge from currency translation differences of in total € 18 million as a result of the divestment of Arkwright in the US.

As part of the aforementioned headcount reduction Océ incurred € 32 million in restructuring costs in the third quarter of 2009.

As announced in the first quarter report, from financial year 2009, capitalization of R&D costs is

aligned with the start of investments in product industrialization, which is earlier in the R&D process than previously. This resulted in € 6 million lower costs in the third quarter.

In total, the impact of normalization amounted to net € 26 million of which € 14 million relate to gross margin (2008: € 5 million) and € 12 million relate to operating expenses (2008: € 23 million).

Gross margin and operating income

In the third quarter of 2009 normalized *gross margin* was 36.8% (2008: 38.1%). Compared with the normalized gross margin of 35.5% in the second quarter of 2009, an improvement of 1.3 percentage point was achieved.

The year on year decline was the result of three elements. First, compared to the third quarter of 2008, the changes in currency exchange rates caused a negative hedge variance of € 4 million, leading to a gross margin decline of 0.6 percentage point. Second, the difference in business mix at group level, mainly due to the growth of OBS, resulted in a gross margin decline of 0.9 percentage point (OBS is a services business with a different margin profile). Third, the business development resulted in a gross margin increase of 0.2 percentage point, which is the net effect of several factors.

Normalized *operating expenses* amounted to 36.6% (2008: 35.7%). In constant currencies operating expenses declined by € 23 million.

On balance, normalized *operating income* amounted to € 1 million (2008: € 17 million). Compared to the normalized operating income in the second quarter of 2009, an improvement of € 16 million was achieved.

Operating income amounted to - € 25 million (2008: - € 11 million).

Finance expenses and net income

Finance expenses (net) amounted to € 14 million (2008: € 11 million).

Taxation was € 14 million (2008: – € 1 million).

On balance, *net income* amounted – € 25 million (2008: – € 24 million).

Balance sheet and RoCE

The balance sheet total was € 2,397 million, compared to € 2,378 million at the end of the third quarter of 2008.

Net Capital Employed was € 1,171 million, compared to € 1,292 million at the end of the third quarter of 2008. In relation to normalized operating income, RoCE amounted to 2.3% (2008: 6.6%).

Free cash flow and financial covenants

Free cash flow in the third quarter increased to € 19 million (2008: – € 17 million) due to improvements in inventories and trade and other receivables. Cash flow from operating activities improved to € 47 million (2008: € 11 million). The cash flow from investing activities was – € 28 million (2008: – € 28 million).

The net debt/EBITDA ratio amounted to 2.5 (financial covenants maximum of 3.5) and EBITDA/interest (net) ratio amounted to 5.3 (financial covenants minimum of 3.5).

Key figures per Strategic Business Unit third quarter 2009

<i>In million € / as %</i>	DDS	WFPS	OBS	Total
Revenues	354	166	111	631
<i>Organic development in revenues</i>	-13%	-19%	7%	-12%
Non-recurring revenues	116	56	-	172
<i>Organic development in non-recurring revenues</i>	-22%	-25%	-	-23%
Recurring revenues	238	110	111	459
<i>Organic development in recurring revenues</i>	-7%	-16%	7%	-7%
Normalized operating income*	-6	5	2	1
Normalization items	-21	-2	-3	-26
Operating income	-27	3	-1	-25

* Adjusted for normalization items, representing continuing business. Normalization items comprise divestments, restructuring costs and R&D capitalization.

SBU results third quarter 2009

Digital Document Systems (DDS)

Markets declined in multiple sectors, especially in Europe. Although still weak, some US markets showed early indications that they might have bottomed out.

Revenues in DDS amounted to € 354 million. Organically, revenues declined by 13%. The share of color was 24% of revenues (2008: 23%). Growth was held back by customers looking to decrease the use of color where not business critical.

Non-recurring revenues amounted to € 116 million. Organically, revenues declined by 22%. As a result of the decline in multiple market sectors equipment sales in Office, Printroom as well as black & white continuous feed systems were lower compared to the third quarter of 2008. DDS showed good sales in TransPromo and Graphic Arts through the Océ JetStream® and Océ ColorStream® continuous feed color printers.

Recurring revenues amounted to € 238 million. Organically, revenues declined by 7%. The market deterioration resulted in lower print volumes and subsequently lower revenues in Office and black & white continuous feed. The production cutsheet revenue growth slowed down. DDS grew its revenues in continuous feed color.

Normalized operating income amounted to - € 6 million (2008: € 2 million).

Wide Format Printing Systems (WFPS)

The construction and manufacturing market sectors declined, especially in Europe. The climate in the display graphics market deteriorated further.

Revenues in WFPS amounted to € 166 million. Organically, revenues declined by 19%. The share of color increased to 48% (2008: 34%).

Non-recurring revenues amounted to € 56 million. Organically, revenues declined by 25%, mainly due to significantly lower equipment sales in Technical Document Systems as a result of the decline in the

construction and manufacturing market sectors. The US business benefitted from the rollout of the successful Océ PlotWave 300®.

Recurring revenues amounted to € 110 million. Organically, recurring revenues declined by 16%. The main driver was the decline in print volumes in market sectors served by Technical Document Systems and Imaging Supplies. Imaging Supplies revenue declined organically by 28%; one third of this decline was due to the divestment of Arkwright and two third was mainly due to lower print volumes. Thanks to the success of the Océ Arizona® series WFPS increased the revenues in Display Graphics Systems, despite the deteriorated market climate.

Normalized *operating income* was € 5 million (2008: € 14 million) and was impacted by the strong decline in market demand for Technical Document Systems equipment as well as print volumes.

Océ Business Services (OBS)

The document outsourcing market continued to encounter two distinct drivers. On the one hand, organizations are showing an increasing willingness to outsource document related processes and activities. On the other hand, business at existing customers is experiencing declining activity levels in many market segments.

Revenues in OBS amounted to € 111 million. Organically, revenues increased by 7%. Revenue growth in Europe continued to be strong.

In a number of areas OBS reduced the number of direct personnel to adjust for the business contraction at customers. To further reduce costs OBS also reduced indirect personnel. As a result, OBS incurred restructuring costs of € 3 million.

Normalized *operating income* amounted to € 2 million (2008: € 1 million). The improvement in operating income is the result of effective cost management.

Outlook

For the fourth quarter 2009 we anticipate markets to remain challenging although we note some early indications of bottoming out in some US markets. We anticipate our cost cutting measures to mitigate the impact of the expected revenue decline and support our key financial parameters as in the third quarter.

Board of Executive Directors Océ N.V.

October 2, 2009

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Key to terminology:

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

Organic growth: the development of the results after adjustment for exchange rate effects and the impact of substantial acquisitions or disposals.

Recurring revenues: revenues from services, inks, toners, media, rentals, interest and business services.

RoCE: Return on Capital Employed: operating income on an annual basis after normalized taxes (20%) as a percentage of average Net Capital Employed (total assets excluding cash and cash equivalents, less non-interest bearing liabilities adjusted for derivatives).

Wide Format printing: wide format printing (larger than A3.)

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Consolidated Income Statement

<i>In million €</i>	Third quarter		Nine months	
	2009	2008	2009	2008
Total revenues	630.8	700.1	1,964.5	2,107.0
Cost of sales	-413.2	-437.8	-1,250.4	-1,294.9
Gross margin	217.6	262.3	714.1	812.1
Selling and marketing expenses	-137.7	-153.1	-439.3	-472.4
Research and development expenses	-41.7	-54.6	-125.1	-165.0
General and administrative expenses	-63.6	-48.0	-159.7	-147.5
Other income, (net)	0.1	-17.8	1.8	2.9
Operating expenses	-242.9	-273.5	-722.3	-782.0
Operating income	-25.3	-11.2	-8.2	30.1
Finance income	1.1	1.2	6.8	9.4
Finance expenses	-15.0	-12.5	-40.0	-38.5
Share in income of associates	-	0.1	2.0	0.3
Income before income taxes	-39.2	-22.4	-39.4	1.3
Income taxes	14.0	-1.3	15.2	1.7
Net income	-25.2	-23.7	-24.2	3.0
Net income attributable to				
Shareholders	-25.7	-24.2	-25.5	1.7
Minority interest	0.5	0.5	1.3	1.3
	-25.2	-23.7	-24.2	3.0
Dividend preference shares	0.6	0.6	1.9	1.9
Free cash flow	18.6	-17.1	-29.0	-123.3
Average number of ordinary shares outstanding (x 1,000)	84,871	84,813	84,853	84,777
Earnings per ordinary share for net income attributable to shareholders in €				
Basic	-0.31	-0.29	-0.32	0.00

Consolidated Balance Sheet

In million €

		Nine months 2009	End of financial year 2008
Assets			
Non-current assets	Intangible assets	581	593
	Property, plant and equipment	325	354
	Rental equipment	90	110
	Associates	4	2
	Derivative financial instruments	1	1
	Trade and other receivables	187	217
	Deferred income tax assets	104	106
	Available-for-sale financial assets	8	9
		1,300	1,392
Current assets	Inventories	306	353
	Derivative financial instruments	14	22
	Trade and other receivables	568	681
	Current income tax receivables	26	19
	Cash and cash equivalents	176	79
		1,090	1,154
	Non-current assets held for sale	7	3
Total		2,397	2,549
Equity and Liabilities			
Equity	Share capital	54	54
	Share premium	512	512
	Other reserves	-81	-92
	Retained earnings	132	170
	Net income attributable to shareholders	-26	2
	Equity attributable to shareholders	591	646
	Minority interest	35	35
		626	681
Non-current liabilities	Borrowings	646	574
	Derivative financial instruments	27	28
	Retirement benefit obligations	384	389
	Trade and other liabilities	3	5
	Deferred income tax liabilities	17	25
	Provisions for other liabilities and charges	42	42
		1,119	1,063
Current liabilities	Borrowings	58	37
	Derivative financial instruments	5	25
	Trade and other liabilities	549	696
	Current income tax liabilities	13	25
	Provisions for other liabilities and charges	27	22
		652	805
Total		2,397	2,549

Consolidated Statement of Changes in Equity attributable to shareholders

In million €

	Nine months 2009	Financial year 2008
Balance at December 1, 2008 / 2007	646	677
Net income attributable to shareholder	-26	2
Dividend	-2	-57
Share-based compensation	1	2
Cash flow hedges	8	-15
Currency translation differences	-36	37
Balance at August 31, 2009 / November 30, 2008	591	646

Organic growth in revenues

As percentage

	Third quarter 2009	Nine months 2009
Non-recurring revenues		
Digital Document Systems	-22.1%	-16.1%
Océ Business Services	-	-
Wide Format Printing Systems	-25.0%	-21.2%
Total	-23.1%	-17.9%
Recurring revenues		
Digital Document Systems	-7.4%	-6.2%
Océ Business Services	6.8%	7.1%
Wide Format Printing Systems	-15.6%	-14.7%
Total	-6.6%	-5.7%
Total revenues		
Digital Document Systems	-12.8%	-9.6%
Océ Business Services	6.8%	7.1%
Wide Format Printing Systems	-19.0%	-17.0%
Total	-11.8%	-9.3%

Consolidated Cash Flow Statement

<i>In million €</i>	Nine months 2009	Nine months 2008
Operating income	-8	30
<i>Adjustments for:</i>		
Depreciation, amortization and impairment	138	136
Share-based compensation	1	-4
Result on divestments, disposals	-1	-3
Unrealized gains/losses on financial instruments	-2	2
<i>Changes in:</i>		
Retirement benefit obligations	-3	-5
Provision for other liabilities and charges	4	-4
Rental equipment	-30	-43
Inventories	36	-51
Trade and other receivables	100	14
Trade and other liabilities	-126	-78
<i>Operating cash flows:</i>		
Interest received	6	15
Interest paid	-49	-38
Income taxes	-14	-10
Cash flow from operating activities	52	-39
Investment in intangible assets	-66	-45
Investment in property, plant and equipment	-36	-61
Divestment of intangible assets	-	-
Divestment of property, plant and equipment	5	6
Payments/receipts regarding other non-current assets	-1	-1
Capital increase/decrease in associates	-	-
Dividend from associates	-	-
Sale of finance lease portfolio	14	6
Sale of subsidiaries (net of cash)	3	24
Acquisitions (net of cash)	-	-13
Cash flow from investing activities	-81	-84
Free cash flow	-29	-123
Proceeds from borrowings	186	60
Repayments of borrowings	-54	-10
Dividend paid to shareholders	-2	-44
Repurchase of/proceeds from treasury shares	1	1
Capital decrease/dividend paid to minority interest	-2	-2
Cash flow from financing activities	129	5
Currency translation differences	-3	-10
Changes in cash and cash equivalents	97	-128
Cash and cash equivalents at start of financial year	79	167
Cash and cash equivalents at end of reporting period	176	39

Profile

Océ innovative by nature Océ develops and supplies digital printing systems, software and services for the production, reproduction, distribution and management of documents, in color and black & white, in small format and in wide format, for professional users in offices, educational institutions, industry, construction, architectural firms, advertising and the graphic arts market. Océ is the only European producer of printing systems and a leading supplier of these systems worldwide.

The product offerings comprise printers, copiers, scanners, software, services, imaging supplies, services for systems integration and outsourcing of document management activities and leasing of printing systems. The broad and very complete product portfolio consists of products developed by the company itself for wide format and for the (very) high volume segments of small format, supplemented by selected machines from Original Equipment Manufacturers (OEMs). Océ supplies its equipment as part of total solutions, ranging from the provision of initial advice through to the maintenance of the systems.

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 100 countries; in more than 30 of these it has its own sales and service organization. In Europe, the United States, Canada and Singapore Océ has research and manufacturing facilities.

In 2008 Océ achieved revenues of € 2.9 billion.

Business model

Océ is active in the entire value chain of printing systems: from development via manufacturing, sales, services and maintenance to the provision of business services and financing.

The commercial organization is coordinated by three Strategic Business Units: Digital Documents Systems (small format), Wide Format Printing Systems (wide format) and Océ Business Services.

In a number of countries and market segments in which Océ itself does not have a sufficiently large market presence, part of the product range is made available via specialized distributors.

Through its own Research & Development (R&D) Océ itself develops its basic technologies and the majority of its product concepts. The direct feedback of customer experiences serves as an important source of inspiration for new products.

In the Océ business model cooperation with partners plays a major role in all sorts of fields. These partnerships cover such areas as R&D, manufacturing, sales (OEM), distribution and financing.

Sustainability is a constantly present factor in the conduct of the Océ business.

The publicly listed holding company of the Group is Océ N.V. The issued share capital amounts to around € 53.7 million, divided into € 43.7 million ordinary shares and € 10 million financing preference shares with a nominal value of € 0.50 each.

The ordinary shares of Océ are listed on the stock exchange in Amsterdam (NYSE Euronext). Options to Océ shares are traded on the Euronext Options Exchange.

Forward-looking statements

This report contains information as referred in article 5:59 jo. 5:53 of the Dutch Financial Supervision Act (Wet op het financieel toezicht).

Forward-looking statements, which can form a part of this report refer to future events and may be expressed in a variety of ways, such as 'expects', 'projects', 'anticipates', 'intends' or other similar words ("Forward-looking statements").

Océ N.V. ("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 differ significantly from the results expressed in or implied by these forward-looking statements due to possible risks and uncertainties and other important factors which are neither manageable nor foreseeable by Océ and some of which are beyond Océ's control.

When considering these forward-looking statements, you should bear in mind these risks, uncertainties and other important factors described in this report or in Océ's other annual or periodic filings.

For a non-limitative discussion of the risks, uncertainties and other factors that may affect Océ's actual results, performance or achievements, we refer you to the annual report and any other publications issued by Océ.

In view of these uncertainties no certainty can be given about Océ's future results or financial position. We advise you to treat Océ's forward-looking statements with caution, as they speak only as of the date on which the statements are made. 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, except as may be required under applicable (securities) legislation.

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