



Océ

Quarterly
report 2010/1

Results first quarter 2010



Océ N.V.

December 2009 – February 2010

Océ N.V.

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**Printing for
Professionals**

Océ reports recovery in some markets

Highlights first quarter:

- Some markets showed signs of recovery
- Revenues € 614 million (-5% organically)
- Operating income € 7 million
- Free cash flow - € 64 million
- Net loss € 5 million
- Canon transaction closed successfully
- Priority on cross-selling opportunities with Canon

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

'Although our revenues were still declining in first quarter 2010, the decrease was less significant than in each of the three previous quarters. Some of our key markets are showing signs of either stabilizing or even picking up.'

Europe remained very weak in all segments but customers in the United States and Asia appeared to gain confidence and cautiously started buying again. Our cost savings program continued to be well on track but could only partly mitigate the effects of the revenue decline.

Between January and March 2010, a total of 85% outstanding Océ common shares were acquired by Canon, enabling this compelling combination to close successfully. Our priority and focus in the short term is cross-selling of Canon products in Océ channels and vice versa. Integration activities will be carefully considered, taking the current shareholding structure into account.'

Key figures*	First quarter		
	2010	2009	Δ
<i>In million € / as %</i>			
Total revenues	614	658	-7%
Normalized operating income**	7	30	-23
Normalization items	-	-	-
Operating income (EBIT)	7	30	-23
Net income	-5	15	-20
Free cash flow	-64	-64	0

*The figures in this report are unaudited.

**Adjusted for normalization items, representing continuing business

Highlights

Some markets showed signs of recovery; printing industry decline bottomed out

Some markets showed signs of recovery. For example, the corporate markets including the Financial Services segment improved. Other markets, like the construction sector and the Graphic Arts market remained weak.

As in 2009 the markets continued to impact the printing industry. The decline in the industry bottomed out, mainly driven by growth in sales of low-end equipment. Sales of other equipment continued to be impacted by the lower activity levels in key market sectors compared to the first quarter of 2009.

Document management services slowed down as existing business showed lower customer activity levels in many sectors. In addition new contracts were delayed and smaller, as customers chose to use the available free internal capacity.

Océ revenues declined in line with printing industry development

Following these market developments, Océ revenues showed an organic decline of 5% versus the first quarter of 2009. This decline bottomed out compared to the organic revenue decline in the third and fourth quarter of 2009 which amounted to 12% and 11% respectively. Océ believes the company holds strong positions in key markets

based on innovative products such as the printing systems of the Océ JetStream®, the Océ VarioPrint® and the Océ ColorWave® series.

Savings program

Our action program continued to be well on track but could only partly mitigate the effects of the revenue decline, as reflected in the above table. In the first quarter Océ realized a cost reduction of € 17 million, exclusive of inflation and restructuring cost. In the first quarter Océ realized a headcount reduction of 310 FTEs compared to the fourth quarter 2009.

Combination Canon and Océ

On 16 November 2009 Canon and Océ announced that they had reached conditional agreement to combine their printing activities through a recommended public cash offer. This transaction closed successfully on 9 March 2010.

The first meeting of the Supervisory Board in its new composition as well as the first meeting of the Integration Steering Committee have taken place. Also the cross-selling between Canon and Océ has been initiated.

With these actions, Canon and Océ successfully took the first steps in their aim to create the overall No. 1 presence in the printing industry.

In order to continue to support our customers a new agreement with Konica Minolta was concluded.

Océ Group results first quarter 2010

Revenues

Total revenues in the first quarter amounted to € 614 million, a decrease of 7%. The organic decrease was 5% compared to the first quarter of 2009.

The share of color in Océ total revenues continued to grow and now accounts for 30%, up from 27% at the end of the first quarter 2009.

Non-recurring revenues amounted to € 161 million, a decrease of 5%. The organic decline was 4%.

Recurring revenues amounted to € 453 million, a decrease of 7%. The organic decline was 6%.

The normalization items have been aligned with the definitions of the bank covenants. The table below provides an overview of these normalization items and shows that reported operating income and normalized income are equal.

Overview normalization items

In million €	First quarter	
	2010	2009
Operating income	7	30
Divestment Arkwright	-	-2
Restructuring costs	-	2
Normalized operating income	7	30*

* Restated based on normalization according to the definitions of the bank covenants.

Gross margin and operating income

In the first quarter of 2010 normalized *gross margin* was 37.9% (2009: 39.3%).

The year on year decrease in gross margin was the result of three elements. First, compared to the first quarter of 2009, the changes in foreign currency exchange rates caused a positive hedge variance of

€ 1 million, leading to a gross margin increase of 0.2 percentage points. Second, the difference in business mix at group level, mainly due to a larger share of OBS in total revenues, resulted in a gross margin decline of 0.2 percentage points (OBS is a services business with a different margin profile). Third, the business development resulted in a gross margin decrease of 1.4 percentage points. This is mainly caused by lower utilization of the supply centers, due to the € 44 million lower revenues, as well as mix effects within the business units.

Normalized *operating expenses* amounted to 36.7% (2009: 34.7%). The increase was the result of the strong revenue decline versus first quarter 2009, as well as incidentals in the first quarter of 2009, partly mitigated by the savings program. In constant currencies, operating expenses were stable.

On balance, normalized *operating income* amounted to € 7 million (2009: € 30 million).

Operating income amounted to € 7 million (2009: € 30 million).

Finance expenses and net income

Finance expenses (net) amounted to € 11 million (2009: € 13 million).

The taxation charge to net income amounted to € 1 million (2009: € 4 million).

On balance, *net income* amounted to -€ 5 million (2009: € 15 million).

Balance sheet and RoCE

The balance sheet total was € 2,314 million, compared to € 2,568 million at the end of the first quarter of 2009.

Net Capital Employed was € 1,133 million, compared to € 1,340 million at the end of the first quarter of 2009. In relation to normalized operating income, RoCE amounted to 1.0% (2009: 5.1%).

Free cash flow and financial covenants

Free cash flow in the first quarter 2010 remained unchanged at -€ 64 million. This was the net effect

of a lower operating income, an increase in inventories and trade and other receivables and a reduction in trade and other liabilities. Cash flow from operating activities changed slightly to -€ 40 million (2009: -€ 38 million). The cash flow from investing activities was -€ 24 million (2009: -€ 26 million).

At the end of the first quarter 2010, the net debt/EBITDA ratio amounted to 2.7 (financial covenants maximum of 3.5) and EBITDA/interest (net) amounted to 5.6 (financial covenants minimum of 3.5).

Key figures per Strategic Business Unit first quarter 2010

<i>In million € / as %</i>	DDS	WFPS	OBS	Total
Revenues	344	159	111	614
<i>Organic development in revenues</i>	-5%	-9%	0%	-5%
Non-recurring revenues	106	55		161
<i>Organic development in non-recurring revenues</i>	-1%	-8%		-4%
Recurring revenues	238	104	111	453
<i>Organic development in recurring revenues</i>	-6%	-9%	0%	-6%
Normalized operating income*	1	3	3	7
Normalization items	-	-	-	-
Operating income	1	3	3	7

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

SBU results first quarter

Digital Document Systems (DDS)

Compared to the last quarters of 2009, the decline in the markets served by DDS bottomed out. However, year on year the markets showed lower activity levels resulting in € 25 million revenue decline. As a result *revenues* in DDS amounted to € 344 million.

Organically, revenues declined by 5%. The share of color was 25% of revenues (2009: 22%).

Non-recurring revenues amounted to € 106 million. Organically, revenues declined by 1%.

As a result of the decline in multiple market sectors, equipment sales in Printroom as well as black & white continuous feed systems were lower compared to the first quarter of 2009. DDS showed good sales in Office as well as TransPromo and Graphic Arts through the continuous feed color printers.

Recurring revenues amounted to € 238 million. Organically, revenues declined by 6%. 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.

Normalized *operating income* amounted to € 1 million (2009: € 16 million) and was impacted by the lower market demand.

Wide Format Printing Systems (WFPS)

Compared to the last quarters of 2009 the decline in the markets served by WFPS also bottomed out. However, year on year the market showed lower activity levels especially in Construction and Manufacturing resulting in € 16 million revenue decline. As a result *revenues* in WFPS amounted to € 159 million. Organically, revenues declined by 9%. The share of color increased to 45% (2009: 41%).

Non-recurring revenues amounted to € 55 million. Organically, revenues declined by 8%.

Recurring revenues amounted to € 104 million. Organically, recurring revenues declined by 9% due to the decline in print volumes in market sectors

served by Technical Document Systems and Imaging Supplies. Imaging Supplies revenue declined organically by 13% mainly due to lower print volumes.

Normalized *operating income* amounted to € 3 million (2009: € 11 million) impacted by the lower market demand mainly for technical documentation systems.

Océ Business Services (OBS)

The document outsourcing market declined as business at existing customers is experiencing declining activity levels in many market segments and organizations, which delayed or reduced the outsourcing of document related processes.

Revenues in OBS amounted to € 111 million. Organically, revenues remained unchanged. Revenue growth in Europe continued although at a lower pace. Revenues in the United States continued to remain under pressure.

OBS is taking actions to maximize existing opportunities and further reduce cost.

Normalized *operating income* amounted to € 3 million (2009: € 3 million).

22 April 2010: General Meeting of Shareholders

The Annual General Meeting of Shareholders will be held on 22 April 2010 in Venlo.

Outlook

In 2010 the market circumstances are expected to remain challenging and continue to impact the printing industry. In the first quarter of 2010 some markets show sign of recovery and the printing industry decline bottomed out.

Customers are expected to invest in systems and services that directly add value to their business. Therefore Océ will continue to introduce innovations for all market segments.

Canon and Océ will continue to work towards creating the best combination in the printing industry.

As a consequence of the change of control, substantial one-off items will be recorded in the second quarter results of 2010. These will include costs and interest charges in connection with the re-financing by Canon Inc..

Board of Executive Directors Océ N.V.
2 April 2010

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Quarterly report 2010/1

Consolidated income statement

<i>In million €</i>	First quarter	
	2010	2009
Total revenues	613.6	658.0
Cost of sales	-381.1	-400.5
Gross margin	232.5	257.5
Selling and marketing expenses	-133.7	-148.1
Research and development expenses	-41.0	-44.1
General and administrative expenses	-50.4	-37.4
Other income (net)	-	1.7
Operating expenses	-225.1	-227.9
Operating income	7.4	29.6
Finance expenses	-12.9	-14.6
Finance income	1.5	2.0
Share in income of associates	0.1	1.9
Income before income taxes	-3.9	18.9
Income taxes	-1.2	-3.6
Net income	-5.1	15.3
Net income attributable to		
Shareholders	-5.5	14.9
Minority interest	0.4	0.4
	-5.1	15.3
Free cash flow	-64.4	-64.1
Average number of ordinary shares outstanding (x 1,000)	84,881	84,822
Earnings per ordinary share for net income attributable to shareholders in €		
Basic	-0.07	0.17

Consolidated balance sheet

In million €

		End of first quarter 2010	End of financial year 2009
Assets			
Non-current assets	Intangible assets	604	563
	Property, plant and equipment	313	316
	Rental equipment	84	82
	Associates	5	4
	Derivative financial instruments	5	5
	Trade and other receivables	189	187
	Deferred income tax assets	98	93
	Available-for-sale financial assets	8	8
		1,306	1,258
Current assets	Inventories	294	267
	Derivative financial instruments	20	16
	Trade and other receivables	562	552
	Current income tax receivables	11	12
	Cash and cash equivalents	121	102
		1,008	949
	Non-current assets held for sale	0	0
Total		2,314	2,207
Equity and Liabilities			
Equity	Share capital	54	54
	Share premium	512	512
	Other reserves	-38	-92
	Retained earnings	62	119
	Net income attributable to shareholders	-6	-49
	Equity attributable to shareholders	584	544
	Minority interest	34	35
		618	579
Non-current liabilities	Borrowings	576	464
	Derivative financial instruments	33	27
	Retirement benefit obligations	377	379
	Trade and other liabilities	4	6
	Deferred income tax liabilities	9	10
	Provisions for other liabilities and charges	39	38
		1,038	924
Current liabilities	Borrowings	44	36
	Derivative financial instruments	8	9
	Trade and other liabilities	574	611
	Current income tax liabilities	6	9
	Provisions for other liabilities and charges	26	39
		658	704
Total		2,314	2,207

Consolidated statement of changes in equity attributable to shareholders

In million €

	Financial year 2010	Financial year 2009
Balance at 1 December 2009 / 2008	544	646
Net income attributable to shareholders	-6	-49
Dividend	-	-3
Share-based compensation	1	1
Cash flow hedges	-7	10
Currency translation differences	52	-61
Balance at 28 February 2010 / 2009	584	544

Organic growth in revenues

As percentage

	First quarter 2010
Non-recurring revenues	
Digital Document Systems	-1.2%
Océ Business Services	-
Wide Format Printing Systems	-8.4%
Total	-3.8%
Recurring revenues	
Digital Document Systems	-6.2%
Océ Business Services	-0.4%
Wide Format Printing Systems	-9.3%
Total	-5.6%
Total revenues	
Digital Document Systems	-4.7%
Océ Business Services	-0.4%
Wide Format Printing Systems	-9.0%
Total	-5.1%

Quarterly report 2010/1

Consolidated cash flow statement

<i>In million €</i>	First quarter 2010	First quarter 2009
Operating income	7	30
<i>Adjustments for:</i>		
Depreciation, amortization and impairment	45	47
Share-based compensation	–	–
Result on divestments, disposals	–	–2
Unrealized gains/losses on financial instruments/other	11	–
<i>Changes in:</i>		
Retirement benefit obligations	–3	1
Provision for other liabilities and charges	–12	–5
Rental equipment	–11	–16
Inventories	–19	1
Trade and other receivables	20	35
Trade and other liabilities	–71	–126
<i>Operating cash flows:</i>		
Interest received	–	2
Interest paid	–4	–5
Income taxes	–3	–
Cash flow from operating activities	–40	–38
Investment in intangible assets	–18	–16
Investment in property, plant and equipment	–10	–14
Divestment of intangible assets	–	–
Divestment of property, plant and equipment	3	1
Payments/receipts regarding other non-current assets	–1	–1
Capital increase/decrease in associates	–	–
Dividend from associates	–	–
Sale of finance lease portfolio	2	–
Sale of subsidiaries (net of cash)	–	4
Acquisitions (net of cash)	–	–
Cash flow from investing activities	–24	–26
Free cash flow	–64	–64
Proceeds from borrowings	123	158
Repayments of borrowings	–41	–13
Dividend paid to shareholders	–	–
Repurchase of/proceeds from treasury shares	–	1
Capital decrease/dividend paid to minority interest	–2	–2
Cash flow from financing activities	80	144
Currency translation differences	3	–4
Change in cash and cash equivalents	19	76
Cash and cash equivalents at start of financial year	102	79
Cash and cash equivalents at end of financial year	121	155

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. 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 approximately 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.

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 Document 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 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).

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.