Océ
Quarterly
report 2010/2

Results second quarter 2010

Océ N.V.

March 2010 – May 2010

Océ N.V.

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Printing for Professionals

Océ reports improved results

Highlights second quarter:

- **Total revenues stable at € 676 million**
- **Normalized operating income € 20 million (2009: - € 12 million)**
- **Normalized net income € 7 million (2009: - € 14 million)**
- **One-off items of € 103 million impacted net income**
- **Net income - € 96 million**

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

"Customers continued to be cost conscious amidst ongoing economic uncertainty, especially in North America and Europe. Nevertheless certain markets showed clear signs of recovery, particularly Asia as well as the graphic arts market.

Océ realized revenues of € 676 million, exactly the same amount as last year. We significantly increased our EBIT, excluding certain Canon related one-off items. This improvement reflected the better utilization of the supply centers as well as our action program related to approximately 2000 job reductions in 2009 and 2010.

As already anticipated in the first quarter earnings release, Océ absorbed substantial one-off items in the second quarter, following completion of the offer by Canon. These one-off items amounted to € 103 million on reported net income and € 48 million on free cash flow.

The second quarter was marked by the successful completion of the transaction with Canon on 9 March 2010. In the second half of 2010, our compelling combination is expected to show the first commercial results via cross-selling of Canon products in Océ channels and vice versa."

Summary second quarter 2010*

Key figures *In million € / as %*	**Second quarter** 2010	2009	Δ	**Six months** 2010	2009	Δ
Total revenues	676	676	–	1,290	1,334	−3.3%
Normalized operating income**	**20**	**−12**	**32**	**28**	**18**	**10**
Normalization items	–	–	–	–	1	−1
Operating income (EBIT)	20	−12	32	28	17	11
Net income	7	−14	21	2	1	1
Free cash flow	-12	17	−29	−76	−48	−28

* The figures in this report are unaudited.

** Adjusted for normalization items, representing continuing business. Normalization according to the definitions of the bank covenants applicable until 19 May 2010.

Combination Canon and Océ

The priorities for 2010 regarding the combination Canon and Océ encompass the growth through cross-selling opportunities, the co-operation in technology and product development and the preparation of the next steps in integration.

In the second quarter Océ prepared the introduction of Canon hardware and software products. Océ is training sales and service forces on Canon products and is preparing marketing plans and distribution.
For the Wide Format business, a joint project has started to determine the cross sales opportunities in which both Canon and Océ can deliver a stronger portfolio of Wide Format products to their respective customers. Canon will also sell selected Océ high volume products in certain of their markets and channels.

As a first result of the product development cooperation Océ showed at the IPEX 2010 fair the Canon imagePRESS C7000 connected to Océ PRISMAprepare prepress software.
Reactions on IPEX from customers, industry analysts and press on the new combination were very positive.

Océ Group results second quarter 2010

Following the completion of the offer by Canon, Océ anticipated substantial one-off items. The next paragraph contains a detailed explanation of these one-off items. This paragraph provides an overview excluding these one-off items.

Revenues

Total revenues in the second quarter amounted to € 676 million, in line with 2009. The organic decrease was 2% compared to the second quarter of 2009.

Our share of color continues to grow and now accounts for 33% of revenues, up from 30% in the same period last year.

Non-recurring revenues amounted to € 189 million, an increase of 2%. The organic decline was 1%.

Recurring revenues amounted to € 488 million, a decrease of 1%. The organic decrease was 2%.

Savings program

Our action program continued and was almost fully implemented. The increase of the normalized operating income was partly the result of the cost savings program. In the second quarter Océ realized a cost reduction of € 26 million, exclusive of inflation and restructuring cost. Year to date Océ also realized a headcount reduction of 460 FTEs compared to the fourth quarter of 2009 (first quarter 310 FTEs, second quarter: 150 FTEs).

Gross margin and operating income

In the second quarter of 2010 normalized gross margin, excluding normalization items, was 38.4% (2009: 35.4%). The increase was the result of several factors. Compared to the second quarter of 2009 the changes in currency exchange rates caused a positive hedge variance of € 3.1 million, leading to a gross margin increase of 0.4% point. The gross margin increase for DDS and WFPS in total amounted to 2.5% points. The increase was mainly due to the better utilization of the supply centers in Venlo and Poing and the aforementioned savings program.

Normalized operating expenses amounted to 35.4% (2009: 37.2%), thanks to the savings program. In constant currencies operating expenses declined by € 16 million. Compared to the second quarter of 2009, this includes a € 3 million release as a result of final settlement of share-based compensation. Net R&D capitalization amounted to € 11 million which is € 5 million lower compared to the second quarter of 2009 (€ 16 million).

On balance, normalized operating income amounted to € 20 million (2009: – € 12 million).

Operating income amounted to € 20 million (2009: – € 12 million).

Finance expenses and net income

Finance expenses (net) amounted to € 7 million (2009: € 7 million). As a result of the refinancing of Océ's debt by Canon, the finance expenses decreased compared to last year. In the second quarter this decrease was fully offset by foreign exchange effects.

On balance, net income was € 7 million (2009: – € 14 million).

Earnings per ordinary share for net income attributable to shareholders was € 0.07 (2009: – € 0.18).

Balance sheet and RoCE

The balance sheet total was € 2,336 million, compared to € 2,465 million at the end of the second quarter of 2009. Net Capital Employed was € 1,175 million, compared to € 1,218 million at the end of the second quarter of 2009. In relation to normalized operating income, RoCE amounted to 3.3% (2009: 3.5%).
The aforementioned balance sheet and Net Capital Employed amounts include the Canon related one-off items.

Free cash flow

Free cash flow in the second quarter decreased to – € 12 million (2009: € 17 million), due to lower free cash flow from inventories and trade and other receivables, which was partly compensated by higher free cash flow from creditors.

The cash flow from investing activities was – € 22 million (2009: – € 27 million).

Overview one-off items in second quarter 2010*

Key figures *In million €*	**Reported**	**One-off**	**Excl. one-off**
Gross margin	244	−16	260
Operating expenses	267	27	240
Operating income (EBIT)	**−23**	**−43**	**20**
Finance expenses	47	40	7
Income before income taxes	−70	−83	13
Income taxes	−26	−20	−6
Net income	−96	−103	7
Free Cash Flow	−60	−48	−12

* The figures in this report are unaudited.

One-off items

As already announced in the first quarter earnings release disclosed on 2 April 2010, Océ anticipated substantial one-off items in the second quarter as a consequence of the change of control following completion of the offer by Canon on 9 March 2010. The table above provides an overview of the one-off items in the second quarter income statement.

The gross margin includes a total of € 16 million one-off costs following Océ's decision to depreciate tooling and inventories due to changes in the product portfolio from certain OEM suppliers to Canon.

The one-offs recorded under operating expenses amounted in total to € 27 million due to the fact that Océ impaired intangible assets related to supply contracts with certain OEM suppliers as well as to the future harmonization of Océ IT systems with Canon. Additionally, Océ incurred advisory fees related to the Canon transaction.
Océ, through Canon Inc., has refinanced both the multicurrency revolving credit facilities and the United States Private Placements.
The total one-off finance expenses related to the refinancing amount to € 40 million. The refinancing by Canon does not include financial covenants or commitment fees and is at more favourable interest margins than the aforementioned facilities. The positive effect from the refinancing is not included in the abovementioned one-off items and will be visible in finance expenses from the third quarter onwards.

The income tax effect of in total € 20 million results from the abovementioned items and from changes in the valuation of tax assets and liabilities. For example, as a consequence of the change of control, some of the tax assets in Germany and the United States were (partially) forfeited due to local tax laws.

For the second quarter the total effect of one-off items on reported net income amounted to –€ 103 million resulting in a cash flow effect of in total –€ 48 million.

In the second quarter the cash flow effect from the one-off items related mainly to finance expenses as a result of the refinancing. These expenses were recorded in cash flow from operating activities such as changes in trade and other liabilities and interest paid.

Key figures per Strategic Business Unit second quarter 2010

In million € / as %	DDS	WFPS	OBS	Total
Revenues	374	185	117	676
Organic development in revenues	*-3%*	*-*	*-2%*	*-2%*
Non-recurring revenues	122	67	-	189
Organic development in non-recurring revenues	*-4%*	*7%*	*-*	*-1%*
Recurring revenues	252	118	117	487
Organic development in recurring revenues	*-3%*	*-3%*	*-2%*	*-2%*
Normalized operating income*	**3**	**12**	**5**	**20**
Normalization items	-	-	-	-
Operating income	3	12	5	20

* Adjusted for normalization items, representing continuing business. Normalization according to the definitions of the bank covenants applicable until 19 May 2010.

SBUs results second quarter

This paragraph provides an overview of the development in the Strategic Business Units, excluding the Canon related one-off items described in the previous paragraph.

Digital Document Systems (DDS)

Revenues in DDS amounted to € 374 million. Organically, revenues declined by 3%. The share of color increased to 28% of revenues (2009: 25%) driven by Océ's production color continuous feed systems. Based on 2009 product placement data Océ led in this segment with a market share of 26% including inkjet and toner-based technologies, in the US and Western Europe. In the first half of 2010 Océ received a significant number of orders in this segment, also for its newest product, the Océ JetStream 1000. The Océ JetStream 1000 is perfectly suited for transaction, direct mail, TransPromo, digital book and manual printing and produces 1010 A4 duplex pages per minute.

Non-recurring revenues amounted to € 122 million. Organically, revenues declined by 4%.

Recurring revenues amounted to € 252 million. Organically, revenues declined by 3%. The market deterioration resulted in lower print volumes and subsequently lower revenues in Office and black & white continuous feed. DDS grew its revenues in production cutsheet and continuous feed color.

Normalized operating income amounted to € 3 million (2009: – € 18 million). EBIT improvement was realized thanks to cost savings and better utilization in the Venlo and Poing supply centers.

Wide Format Printing Systems (WFPS)

Compared to the second quarter of 2009 the WFPS revenues showed recovery. This was mainly driven by revenue development of Technical Document Systems in the United States and Asia. Although the non-recurring revenues showed recovery, the recurring revenues were still lagging behind due to decreasing volumes and price pressure.

Revenues in WFPS amounted to € 185 million. Organically, revenues were in line with the prior year. The share of color increased to 47% (2009: 45%) for example as result of the newly-introduced Océ

ColorWave 300 and Océ CS2400 color systems for the Technical Documentation market. To further strengthen its color portfolio for the wide format Graphics Art market, Océ launched in June the high-speed Océ Arizona 550 XT flatbed printer which has double the speed of the Océ Arizona 350 XT system.

Non-recurring revenues amounted to € 67 million. Organically, revenues increased by 7%.

Recurring revenues amounted to € 118 million. Organically, recurring revenues declined by 3%.

Normalized *operating income* was € 12 million (2009: € 2 million) thanks to cost savings and better utilization of the Venlo supply center.

Océ Business Services (OBS)
Revenues in OBS amounted to € 117 million. Organically, revenues decreased by 2%. Revenue growth in Europe continued. The United States is facing a decline in the traditional Mail business, which could only partly be compensated through growth in new services.

Normalized *operating income* amounted to € 5 million (2009: € 4 million). The improvement in operating income is the result of improving gross margin and tight operational expense management.

Outlook

In 2010 customers are anticipated to remain cost conscious amidst ongoing economic uncertainty. Nevertheless, 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. The priorities for 2010 remain unchanged and encompass the growth through cross-selling opportunities, the co-operation in technology and product development and the preparation of the next steps in integration. In the second half of 2010, we expect the first commercial results via cross-selling of Canon products in Océ channels and vice versa.

Océ anticipated substantial one-off items following completion of the offer by Canon. The largest part of these one-off items is included in this second quarter earnings release.

Board of Executive Directors Océ N.V.
July 1, 2010

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Keys 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 (bigger than A3).

Consolidated Income Statement

In million €	Second quarter 2010	Second quarter 2009	First six months 2010	First six months 2009
Total revenues	**676.2**	**675.7**	**1,289.9**	**1,333.7**
Cost of sales	−432.8	−436.7	−814.0	−837.2
Gross margin	**243.4**	**239.0**	**475.9**	**496.5**
Selling and marketing expenses	−141.8	−153.5	−275.5	−301.6
Research and development expenses	−44.9	−39.3	−85.9	−83.4
General and administrative expenses	−79.9	−58.7	−130.4	−96.1
Other income, (net)	–	–	–	1.7
Operating expenses	−266.6	−251.5	−491.8	−479.4
Operating income	**−23.2**	**−12.5**	**−15.9**	**17.1**
Financial expenses	−48.9	−10.4	−61.7	−25.0
Financial income	2.1	3.7	3.6	5.7
Share in income of associates	–	0.1	0.1	2.0
Income before income taxes	**−70.0**	**−19.1**	**−73.9**	**−0.2**
Income taxes	−25.7	4.8	−26.9	1.2
Net income	**−95.7**	**−14.3**	**−100.8**	**1.0**
Net income attributable to				
Shareholders	−96.2	−14.8	−101.8	0.1
Minority interest	0.5	0.5	1.0	0.9
	−95.7	**−14.3**	**−100.8**	**1.0**
Free cash flow	**−59.2**	**16.5**	**−123.6**	**−47.6**
Average number of ordinary shares outstanding (x 1,000)	84,891	84,866	84,866	84,844
Earnings per ordinary share for net income attributable to shareholders in €				
Basic	−1.14	−0.18	−1.21	−0.01

Consolidated Balance Sheet

In million €

		First six months 2010	End of financial year 2009
	Assets		
Non-current assets	Intangible assets	631	563
	Property, plant and equipment	310	316
	Rental equipment	85	82
	Associates	4	4
	Derivative financial instruments	–	5
	Trade and other receivables	195	187
	Deferred income tax assets	101	93
	Available-for-sale financial assets	8	8
		1,334	**1,258**
Current assets	Inventories	302	267
	Derivative financial instruments	18	16
	Trade and other receivables	567	552
	Current income tax receivables	17	12
	Cash and cash equivalents	98	102
		1,002	**949**
Total		**2,336**	**2,207**
	Equity and Liabilities		
Equity	Share capital	54	54
	Share premium	512	512
	Other reserves	45	–92
	Retained earnings	51	119
	Net income attributable to shareholders	**–102**	**–49**
	Equity attributable to shareholders	560	544
	Minority interest	34	35
		594	**579**
Non-current liabilities	Borrowings	7	464
	Derivative financial instruments	–	27
	Retirement benefit obligations	381	379
	Trade and other liabilities	–	6
	Deferred income tax liabilities	35	10
	Provisions for other liabilities and charges	37	38
		460	**924**
Current liabilities	Borrowings	673	36
	Derivative financial instruments	17	9
	Trade and other liabilities	560	611
	Current income tax liabilities	8	9
	Provisions for other liabilities and charges	24	39
		1,282	**704**
Total		**2,336**	**2,207**

Consolidated Statement of Changes in Equity attributable to shareholders

In million €

	First six months 2010	Financial year 2009
Balance at December 1, 2009 / 2008	**544**	**646**
Net income attributable to shareholders	−102	−49
Dividend	−1	−3
Share-based compensation	1	1
Purchase of treasury shares	–	–
Cash flow hedges	4	10
Currency translation differences	114	−61
Balance at May 31, 2010 / November 30, 2009	**560**	**544**

Organic growth in revenues

As percentage

	Second quarter 2010	First six months 2010
Non-recurring revenues		
Digital Document Systems	−4.2%	−2.8%
Océ Business Services	–	–
Wide Format Printing Systems	6.5%	−1.0%
Total	**−0.7%**	**−2.2%**
Recurring revenues		
Digital Document Systems	−2.5%	−4.3%
Océ Business Services	−1.7%	−1.1%
Wide Format Printing Systems	−3.2%	−6.2%
Total	**−2.4%**	**−4.0%**
Total revenues		
Digital Document Systems	−3.0%	−3.9%
Océ Business Services	−1.7%	−1.1%
Wide Format Printing Systems	0.1%	−4.4%
Total	**−2.0%**	**−3.5%**

Consolidated Cash Flow Statement

In million €	First six months 2010	First half year 2009
Operating income	**-16**	**17**
Adjustments for:		
Depreciation, amortization and impairment	111	93
Share-based compensation	-5	2
Result on divestments, disposals	-	-2
Unrealized gains/losses on financial instruments / Other	16	-3
Changes in:		
Retirement benefit obligations	-1	1
Provision for other liabilities and charges	-17	-10
Rental equipment	-21	-20
Inventories	-17	26
Trade and other receivables	73	76
Trade and other liabilities	-139	-128
Operating cash flows:		
Interest received	1	5
Interest paid	-53	-40
Income taxes	-10	-12
Cash flow from operating activities	**-78**	**5**
Investment in intangible assets	-40	-43
Investment in property, plant and equipment	-17	-20
Divestment of intangible assets	2	-
Divestment of property, plant and equipment	1	2
Payments/receipts regarding other non-current assets	-	-2
Capital increase/decrease in associates	-	-
Dividend from associates	-	-
Sale of finance lease portfolio	8	7
Sale of subsidiaries (net of cash)	-	3
Acquisitions (net of cash)	-	-
Cash flow from investing activities	**-46**	**-53**
Free cash flow	***-124***	***-48***
Proceeds from borrowings	359	217
Repayments of borrowings	-245	-37
Dividend paid to shareholders	-	-2
Repurchase of/proceeds from treasury shares	-	1
Capital decrease/dividend paid to minority interest	-2	-2
Cash flow from financing activities	**112**	**177**
Currency translation differences	8	-5
Changes in cash and cash equivalents	**-4**	**124**
Cash and cash equivalents at start of financial year	**102**	**79**
Cash and cash equivalents at end of reporting period	**98**	**203**

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).
Canon Inc. holds directly or via its subsidiaries approximately 90% of the ordinary shares of Océ.

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.