



Océ
Quarterly
report 2010/3

Results third quarter 2010



Océ N.V.

June 2010 – August 2010

Océ N.V.

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Trade register Limburg number 12002283

For more information on Océ, visit the company's website: www.investor.oce.com



**Printing for
Professionals**

Océ reports profit and growth of printer sales in Q3

Highlights third quarter:

- Total revenues € 669 million (2009: € 631 million)
- Non-recurring revenues grew 5% organically; recurring revenues dropped 2% organically
- Normalized operating income € 16 million (2009: € 5 million)
- Net income € 6 million (2009: € -25 million)
- Successful steps in cooperation with Canon

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

“Customers continued to be cost conscious amidst ongoing economic uncertainty. Nevertheless certain markets showed clear signs of recovery.

Our revenues grew by 6% to € 669 million, although organically revenue remained stable. Non-recurring revenue grew, for the first time in ten quarters, by 5%. This growth came primarily from Europe and emerging markets. Recently introduced, innovative printers, like the Océ JetStream 1000, the Océ Arizona 550 GT and the Océ PlotWave 300, contributed substantially to the improved printer sales. Recurring revenues declined by 2%.

We increased our EBIT due to better utilization of the factories as well as the positive impact of our action program 2008-2010. We have returned to net profit, although realizing the level is still modest.

In the third quarter good progress was made regarding cross selling of Canon products via Océ, as well as preparing integration in various regions and functions. These developments are set to continue.”

Summary third quarter 2010*

Key figures <i>In million € / as %</i>	Third quarter			Nine months		
	2010	2009	Δ	2010	2009	Δ
Total revenues	669	631	38	1,959	1,964	-5
Normalized operating income**	16	5	11	44	23	21
Normalization items	3	30	-27	47	31	16
Operating income (EBIT)	13	-25	38	-3	-8	5
Net income	6	-25	31	-95	-24	-71
Normalized free cash flow	-9	19	-28	-85	-29	-56

* These figures include the Canon-related one-off items.

** Normalization according to the definitions of the bank covenants, excluding Canon related one-off items.

Group results third quarter 2010

Following the completion of the Canon offer, Océ anticipated substantial one-off items. This paragraph provides an overview excluding these one-off items. The largest part of these one-off items has been included in the second quarter 2010 earnings release.

Revenues

Total revenues in the quarter increased 6% to € 669 million, due to foreign exchange effects. Organic growth was 0%.

Our share of color grew to 36% of revenues, up from 30% in the same period last year.

Non-recurring revenues increased 12% to € 193 million. The organic increase was 5%. This was the first quarterly growth for 10 quarters. The growth came mainly from Europe and emerging markets.

Recurring revenues increased 4% to € 476 million. The organic decline was 2%, in line with the second quarter.

Action program

Our action program is almost fully implemented. The increase of the operating income was partly the result of the cost savings program. In the third quarter, Océ reduced costs by € 7 million, exclusive of inflation and restructuring cost. Year to date, Océ also reduced headcount by 890 FTEs compared to fourth quarter of 2009 (460 FTE's up to the second quarter).

Gross margin and operating income

In the third quarter of 2010, normalized gross margin was 38.1% (2009: 36.6%). The increase was the result of several factors. Compared to the third quarter of 2009 the changes in currency exchange rates caused a negative hedge variance of € -0.4 million, leading to a gross margin decrease of 0.1% point. The gross margin increase for DDS and WFPS in total amounted to 1.1% points, mainly due to better utilization of the factories in Venlo and Poing and the aforementioned action program.

OBS gross margin increased by 0.3%, mainly due to changes in the business mix. The remaining 0.2% improvement was the result of a group mix effect.

Normalized operating expenses amounted to 35.7% of revenues (2009: 35.9%), due to the impact of the action program.

Net R&D capitalization amounted to € 5 million, which is € 9 million lower compared to the third quarter of 2009 (€ 14 million).

On balance, normalized operating income amounted to € 16 million (2009: € 5 million). Operating income amounted to € 13 million (2009: € -25 million).

Finance expenses and net income

Finance expenses (net) amounted to € -5 million (2009: € -14 million). As a result of the refinancing of Océ's debt by Canon, the finance expenses decreased compared to last year. On balance, net income was € 6 million (2009: € -25 million).

Earnings per ordinary share for net income attributable to shareholders was € 0.05 (2009: € -0.31).

Balance sheet and RoCE

The balance sheet total was € 2,332 million (2009: € 2,397 million). Net Capital Employed was € 1,179 million (2009: € 1,171 million). In relation to normalized operating income, RoCE amounted to 4.1 % (2009: 2.9%). The aforementioned balance sheet and Net Capital Employed amounts include the Canon related one-off items.

Free cash flow

Free cash flow in the quarter decreased to € -9 million (2009: € 19 million), due to lower free cash flow from temporarily higher inventories and trade and other receivables, partly compensated by higher free cash flow from creditors.

One-off items

As already announced in the first quarter earnings release, Océ anticipated substantial one-off items as a consequence of the change of control following completion of the Canon offer on March 9, 2010. In the second quarter of 2010, Océ reported € 103 million one-off items due to the Canon transaction. Therefore, the nine months net income including these one-off items is € -95 million. In the third

quarter, Océ incurred a € 3 million one-off item, impacting operating expenses.

Update cooperation with Canon

The priorities for 2010 regarding the combination Canon and Océ encompass capturing cross-selling opportunities, co-operation in technology and product development and preparing the integration.

In the third quarter, Océ continued to prepare 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.

In the small format business, implementation started during the quarter. Amongst others, Océ now sells Canon imagePRESS C 7000, Canon imageRUNNER ADVANCE 8000 and Canon imagePROGRAF printers as well as Canon printers connected to Océ PRISMA software.

In the meantime, Océ customers in the US and Europe started buying Canon office and production printers through the Océ sales channel, at the same time ensuring support of the Océ service technicians for maintenance of Canon's equipment.

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 product portfolio to their customers.

Canon will also sell selected Océ high volume products in certain of their markets and channels.

In the fourth quarter, Océ is participating in Canon Expo; a global technology event, being held in New York, Paris, Tokyo and Shanghai (spring 2011), highlighting major innovations in printing and document management, amongst others.

Key figures per Strategic Business Unit third quarter 2010*

<i>In million € / as %</i>	DDS	WFPS	OBS	Total
Revenues	375	180	114	669
<i>Organic development in revenues</i>	0 %	2 %	-2 %	0 %
Non-recurring revenues	126	67	-	193
<i>Organic development in non-recurring revenues</i>	2 %	12 %	-	5 %
Recurring revenues	249	113	114	476
<i>Organic development in recurring revenues</i>	-2 %	-3 %	-2 %	-2 %
Normalized operating income**	3	9	4	16
Normalization items	-3	0	0	-3
Operating income	0	9	4	13

* These figures include the Canon-related one-off items.

** Normalization according to the definitions of the bank covenants, excluding Canon related one-off items.

SBU results third quarter

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

Digital Document Systems (DDS)

Revenues in DDS amounted to € 375 million. Organically, revenues remained stable. The share of color increased to 30% of revenues (2009: 24%) driven by Océ's production color continuous feed systems.

Based on recently issued 2009 product placement data by industry analyst firm InfoTrends, Océ continues to lead the continuous feed market in the US and Western Europe with a 26% share, including inkjet and toner-based technologies. During 2010, Océ received a significant number of orders in this segment, also for its new Océ JetStream 1000 printing system.

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.

In the office segment, Océ and Canon have jointly designed a go to market strategy. In the US, Océ has started selling Canon office printers. Prior to year-end, Océ will offer Canon office printers to all its customers worldwide.

Non-recurring revenues amounted to € 126 million. Organically, revenues increased by 2%.

Recurring revenues amounted to € 249 million. Organically, revenues declined by 2%. This was due to 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 improved to € 3 million (2009: € -3 million), due to cost savings and better utilization in the Venlo and Poing factories.

Wide Format Printing Systems (WFPS)

Compared to the third quarter of 2009 the WFPS revenues recovered, mainly driven by revenue development of Technical Document Systems in the US and Asia. Non-recurring revenues recovered while

recurring revenues were lagging behind due to volume and price decline.

Revenues in WFPS amounted to € 180 million. Organically, revenues were in line with the prior year. The share of color increased to 50% (2009: 45%), mainly as a 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 market, Océ started selling its 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 12%. Growth occurred in almost all markets, with highest growth in Asia.

Recurring revenues amounted to € 113 million. Organically, recurring revenues declined by 3%.

Normalized *operating income* was € 9 million (2009: € 6 million) thanks to cost savings and better utilization of the Venlo factory.

Océ Business Services (OBS)

Revenues in OBS amounted to € 114 million. Organically, revenues decreased by 2%. Revenue growth in Europe continued. The US is facing a decline in the traditional mail business, which was partly compensated through growth in other services.

Normalized *operating income* improved to € 4 million (2009: € 2 million), due to improved gross margins and tight operational expense management.

Outlook

Customers will remain cost conscious amidst ongoing economic uncertainty. Nevertheless, they are expected to invest in systems and services that directly add value to their business. Therefore Océ will continue to introduce innovations for all its 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 capturing cross-selling opportunities, cooperation in technology and product development and preparing integration.

Océ's fourth quarter 2010 will consist of four months as Océ will align financial reporting with Canon's, consequently starting its new fiscal year at January 1, 2011. Results on fourth quarter and full year 2010 will be disclosed by the end of January 2011.

Board of Executive Directors Océ N.V.
September 30, 2010

* The figures in this report are unaudited.

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Keys to terminology:

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

Normalization: adjustments to reported operating income according to the definitions of the bank covenants, excluding Canon related one-off items.

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).

Quarterly report 2010/3

Consolidated Income Statement

<i>In million €</i>	Third quarter		Nine months	
	2010	2009	2010	2009
Total revenues	669.0	630.8	1,958.8	1,964.5
Cost of sales	-414.2	-413.2	-1,228.1	-1,250.4
Gross margin	254.8	217.6	730.7	714.1
Selling and marketing expenses	-146.2	-137.7	-421.7	-439.3
Research and development expenses	-40.6	-41.7	-126.5	-125.1
General and administrative expenses	-54.9	-63.6	-185.3	-159.7
Other income, (net)	-	0.1	-	1.8
Operating expenses	-241.7	-242.9	-733.5	-722.3
Operating income	13.1	-25.3	-2.8	-8.2
Financial expenses	-6.9	-15.0	-68.6	-40.0
Financial income	1.7	1.1	5.3	6.8
Share in income of associates	0.2	-	0.3	2.0
Income before income taxes	8.1	-39.2	-65.8	-39.4
Income taxes	-2.5	14.0	-29.4	15.2
Net income	5.6	-25.2	-95.2	-24.2
Net income attributable to				
Shareholders	5.1	-25.7	-96.7	-25.5
Minority interest	0.5	0.5	1.5	1.3
	5.6	-25.2	-95.2	-24.2
Free cash flow	-11.9	18.6	-135.4	-29.0
Average number of ordinary shares outstanding (x 1,000)	84,891	84,871	84,888	84,853
Earnings per ordinary share for net income attributable to shareholders in €				
Basic	0.05	-0.31	-1.16	-0.32

Quarterly report 2010/3

Consolidated Balance Sheet

In million €

		Nine months 2010	End of financial year 2009
Assets			
Non-current assets	Intangible assets	616	563
	Property, plant and equipment	304	316
	Rental equipment	82	82
	Associates	5	4
	Derivative financial instruments	–	5
	Trade and other receivables	204	187
	Deferred income tax assets	109	93
	Available-for-sale financial assets	8	8
		1,328	1,258
Current assets	Inventories	330	267
	Derivative financial instruments	11	16
	Trade and other receivables	554	552
	Current income tax receivables	15	12
	Cash and cash equivalents	94	102
		1,004	949
Total		2,332	2,207
Equity and Liabilities			
Equity	Share capital	54	54
	Share premium	512	512
	Other reserves	36	–92
	Retained earnings	48	119
	Net income attributable to shareholders	–97	–49
	Equity attributable to shareholders	553	544
	Minority interest	35	35
		588	579
Non-current liabilities	Borrowings	6	464
	Derivative financial instruments	–	27
	Retirement benefit obligations	379	379
	Trade and other liabilities	–	6
	Deferred income tax liabilities	35	10
	Provisions for other liabilities and charges	37	38
		457	924
Current liabilities	Borrowings	677	36
	Derivative financial instruments	13	9
	Trade and other liabilities	565	611
	Current income tax liabilities	14	9
	Provisions for other liabilities and charges	18	39
		1,287	704
Total		2,332	2,207

Consolidated Statement of Changes in Equity attributable to shareholders

In million €

	First nine months 2010	Financial year 2009
Balance at December 1, 2009 / 2008	544	646
Net income attributable to shareholders	-97	-49
Dividend	-1	-3
Share-based compensation	1	1
Purchase of treasury shares	-	-
Cash flow hedges	3	10
Currency translation differences	102	-61
Balance at August 31, 2010 / November 30, 2009	552	544

Organic growth in revenues

As percentage

	Third quarter 2010	Nine months 2010
Non-recurring revenues		
Digital Document Systems	2.3%	-1.1%
Océ Business Services	-	-
Wide Format Printing Systems	11.7%	3.1%
Total	5.4%	0.3%
Recurring revenues		
Digital Document Systems	-1.8%	-3.5%
Océ Business Services	-1.7%	-1.3%
Wide Format Printing Systems	-2.9%	-5.2%
Total	-2.0%	-3.4%
Total revenues		
Digital Document Systems	-0.4%	-2.8%
Océ Business Services	-1.7%	-1.3%
Wide Format Printing Systems	2.0%	-2.4%
Total	0.0%	-2.4%

Quarterly report 2010/3

Consolidated Cash Flow Statement

<i>In million €</i>	Nine months 2010	Nine months 2009
Operating income	-3	-8
<i>Adjustments for:</i>		
Depreciation, amortization and impairment	152	138
Share-based compensation	-5	1
Result on divestments, disposals	-	-1
Unrealized gains/losses on financial instruments / Other	20	-2
<i>Changes in:</i>		
Retirement benefit obligations	-4	-3
Provision for other liabilities and charges	-22	4
Rental equipment	-31	-30
Inventories	-47	36
Trade and other receivables	38	100
Trade and other liabilities	-97	-126
<i>Operating cash flows:</i>		
Interest received	1	6
Interest paid	-57	-49
Income taxes	-12	-14
Cash flow from operating activities	-67	52
Investment in intangible assets	-52	-66
Investment in property, plant and equipment	-28	-36
Divestment of intangible assets	3	-
Divestment of property, plant and equipment	1	5
Payments/receipts regarding other non-current assets	-	-1
Capital increase/decrease in associates	-	-
Dividend from associates	-	-
Sale of finance lease portfolio	8	14
Sale of subsidiaries (net of cash)	-	3
Acquisitions (net of cash)	-	-
Cash flow from investing activities	-68	-81
Free cash flow	-135	-29
Proceeds from borrowings	660	186
Repayments of borrowings	-538	-54
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	120	129
Currency translation differences	7	-3
Changes in cash and cash equivalents	-8	97
Cash and cash equivalents at start of financial year	102	79
Cash and cash equivalents at end of reporting period	94	176

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.

In 2010 Océ joined the Canon Group of Companies with headquarters in Tokyo, Japan, to create the global leader in the printing industry. This compelling combination merges a 130-year heritage of Océ customer-driven innovation with the vast technical resources of Canon to form the industry's broadest choice of hardware, software and workflow solutions. Canon develops, manufactures and markets a growing line-up of copying machines, printers, cameras, optical products and industrial equipment that meet a diverse range of customer needs. Canon is a Fortune Global 500 company and one of the world's best known brands. Canon employs 170,000 people worldwide. Global revenues in 2009 were \$35 billion. For more information visit www.canon.com.

The publicly listed holding company of the Océ 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.