



Océ
Quarterly
report 2011/1

Results first quarter 2011



Océ N.V.

Canon
CANON GROUP

January 2011 – March 2011

Océ N.V.

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



**Printing for
Professionals**

Océ reports small net loss over Q1 2011

Highlights first quarter (ended 31 March 2011):

- Net loss: € - 6 million (2010: € - 87 million)
- Normalized operating income: € 5 million (2010: € 15 million)
- Total revenues - 1% to € 638 million (2010: € 647 million)
- Organically: non-recurring revenues - 5%; recurring revenues - 3%
- Cooperation with Canon delivered first joint innovation
- Change of financial year, effective 1 January 2011

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

‘Océ had a challenging first quarter as revenues decreased due to a decline in two market segments. Cutsheet revenues were impacted by weaker printroom sales and portfolio changes. Technical documentation revenues were affected by the ongoing crisis in construction markets. We have addressed these revenue developments by strengthening our support for sales companies and by stringent cost control.

Océ achieved favorable revenue development in two other market segments. In continuous feed printing, Océ boosted its market leadership due to continued revenue growth, benefiting from printer sales of particularly the Océ JetStream series. In display graphics printing, sales grew due to the highly successful Océ Arizona series. In business services, revenue development was stable.’

Key figures	First quarter*		
	2011	2010	Δ
<i>In million €</i>			
Total revenues	638	647	– 9
Normalized operating income**	5	15	– 10
Normalization items	– 9	– 40	31
Operating income (EBIT)	– 4	– 25	21
Net income	– 6	– 87	81
Normalized free cash flow	– 59	11	– 70

* These first quarter figures cover the period January – March for both years.

** Excluding Canon-related one-off items and restructuring costs.

Change of financial year

As announced previously, Océ has aligned its financial reporting with that of Canon, consequently starting the new financial year on 1 January 2011. To facilitate transparency and comparison, the figures presented in this release relate to the period January - March 2011 and the corresponding prior year period.

Group results first quarter 2011

Revenues

Total revenues declined by – 1% to € 638 million, due to lower revenues in DDS and TDS.

Organically, revenues declined – 3%.

The share of color grew to 38% of revenues (2010: 30%).

Non-recurring revenues declined by – 3% to € 172 million. The organic decrease was – 5%, mainly from lower cutsheet and TDS sales. Non-recurring revenues grew in continuous feed and display graphics.

Recurring revenues decreased by – 1% to € 466 million. The organic decline was – 3%, due to DDS and WFPS. Revenues for OBS were stable.

Gross margin and operating income

As of the year 2011 the *gross margin* definition has been changed to align with the financial reporting of Canon. The main change relates to the *cost of service personnel* which previously was recorded under *cost of sales* and now is included in *operating expenses*.

In the first quarter of 2011, *normalized gross margin* was 62.6% (2010: 63.1%). Gross margin mainly declined due to WFPS € – 4 million (– 0.6% point) as a consequence of a change in the sales mix from TDS to DGS. Gross margin improved due to better OBS margins (+ 0.2% point) and decreased (– 0.2% point) due to mix change within DDS and lower factory utilization.

Normalized operating expenses amounted to 61.9% of revenues (2010: 60.9%). However total costs of € 394 million were in line with the same quarter of 2010, with business savings of € 5 million and foreign exchange impact of € – 6 million.

Total R&D cost increased € 6.6 million versus the same period last year, mainly due to lower capitalization.

On balance, *normalized operating income* amounted to € 5 million (2010: € 15 million).

Operating income amounted to € – 4 million (2010: € – 25 million), including € 9 million one-off items (2010: € 40 million).

Finance expenses (net) and net income

As a result of the refinancing of Océ's debt by Canon, interest costs decreased compared to last year. *Finance expenses (net)* amounted to € – 6 million (2010: € – 13 million, excluding Canon related one-off items).

On balance, *net income* was € – 6 million. In 2010 net income amounted to € – 87 million, including significant Canon related one-off items on operating income, financial expenses and taxes.

Earnings per ordinary share for net income attributable to shareholders was € – 0.08 (2010: € – 1.04).

Balance sheet and RoCE

The balance sheet total was € 2,100 million (ultimo 2010: € 2,142 million) at the end of the first quarter of 2011. Net Capital Employed was € 1,118 million (2010: € 1,095 million). In relation to normalized operating income, RoCE amounted to 4.4% (2010: 5.2%).

Free cash flow

Free cash flow in the first quarter of 2011 was € – 71 million (2010: € – 10 million) mainly due to outflow in liabilities (€ 39 million), receivables (€ 15 million) and rentals (€ 11 million) versus improvements last year in all working capital areas.

Update cooperation with Canon

Cross-selling

Océ continued to offer to customers worldwide a broad range of Canon office products, including the imagePRESS and imageRUNNER series. Similarly, Canon continued to offer to customers worldwide the Océ PRISMA®prepare software and the Océ VarioPrint® 6000 Line. In the quarter, Canon

dealers started to purchase the first of these systems in the US. The special "Canon Camp" continued into the first quarter, in which the Océ sales force was trained to sell the Canon product portfolio. At the end of the three-month period, approximately 1,500 Océ sales and service representatives had taken part in this training and information program. At various trade fairs in India, Korea, Dubai and China, Canon announced that it would be selling Océ products throughout these regions.

Joint product development

The first digital production press jointly developed by Canon and Océ went to market during the first quarter. On 22 March 2011, during tradeshows in Barcelona and Washington, D.C., the Canon imagePRESS C7010VPS was launched. This digital press combines the image quality and productivity of Canon hardware and the processing power of Océ PRISMA®sync workflow. This launch signified an important milestone in the combination as it is living proof of the joint R&D opportunities to offer customers access to the leading technology in the industry. Other jointly developed products will be introduced later this year.

Preparing the integration

Further steps were taken to prepare the way for cooperation and integration. Employees from Canon and Océ were involved on a daily basis during this quarter in capturing the benefits of the cooperation in teams ranging from Sales & Services, Research & Development, Manufacturing & Logistics to Information Systems, Intellectual Property and Finance & Administration.

Key figures per Strategic Business Unit first quarter 2011

<i>In million € / as %</i>	DDS	WFPS	OBS	Total
Revenues	346	175	117	638
<i>Organic development in revenues</i>	– 6%	– 1%	+ 0%	– 3%
Non-recurring revenues	108	64	–	172
<i>Organic development in non-recurring revenues</i>	– 10%	4%	–	– 5%
Recurring revenues	238	111	117	466
<i>Organic development in recurring revenues</i>	– 4%	– 4%	+ 0%	– 3%
Normalized operating income*	– 2	1	6	5

* Excluding Canon-related one-off items and restructuring costs.

SBU results first quarter 2011

This paragraph provides an overview of developments in the Strategic Business Units for the period January – March 2011.

Digital Document Systems (DDS)

Continuous feed printer sales sustained their strong sales trend. According to independent industry analysts, Océ expanded its leading market position in continuous feed color (inkjet and toner) in the combined Western Europe and United States markets to 30% and in black & white to 47% in 2010.

As of early 2011, Océ prepared the first installation of its latest innovation, the high-productivity inkjet continuous feed color printing system Océ ColorStream 3500. Launching customer is the French print provider CORUS, headquartered in Lyon. Annually, CORUS is printing over 50 million color pages.

The strategic alliance with manroland progressed according to plan. The agreement covers the joint development, marketing, sales and service of digital printing technology for the international offset markets. In the quarter, Océ and manroland jointly presented

the alliance during trade meetings in Russia and Germany.

In the quarter, Océ signed a new worldwide multi-year contract with GDF Suez, covering over 20 countries. Under this contract, Océ will deliver over 9,000 plotters and multi functional printers. The global business of this contract is potentially valued at € 55 million.

Revenues in DDS amounted to € 346 million. Organically, revenues declined by – 6%. The share of color was 32% of revenues (2010: 25%).

Non-recurring revenues amounted to € 108 million. Organically, revenues decreased by – 10%, especially due to decline in cutsheet sales. Reasons for the decline are the transition of the product portfolio, but also the lower sales of (Very) High Volume printers to printrooms. Continuous feed printer sales were strong in the US.

Recurring revenues amounted to € 238 million. Organically, revenues declined by – 4%. Both Europe and the US showed declines.

Normalized operating income declined to € – 2 million (2010: € 2 million), due to the lower cutsheet sales. It was also impacted by lower factory utilization in Venlo. Utilization of the Poing plant in Germany improved due to encouraging continuous feed printer sales.

Wide Format Printing Systems (WFPS)

Compared to the first quarter of 2010, WFPS printer sales showed some recovery, mainly driven by increased sales of display graphic systems. Printer sales for construction and engineering purposes were impacted by challenging market circumstances. In the US, Océ expanded its wide format dealer network, benefiting from a change in the competitive environment.

In the quarter, Océ introduced an innovative wide format printer, the Océ ColorWave 600 Poster Printer, built with Océ CrystalPoint imaging technology, targetting the international screen printing markets.

Revenues in WFPS amounted to € 175 million. Organically, revenues declined by – 1%. The share of color increased to 53% (2010: 45%).

Non-recurring revenues amounted to € 64 million. Organically, revenues increased by 4%. Growth was driven by both North America and Europe.

Recurring revenues amounted to € 111 million. Organically, recurring revenues declined by – 4% mainly due to decreasing click volumes on technical documentation systems.

Normalized operating income decreased to € 1 million (2010: € 8 million), reflecting the decline in recurring revenues.

Océ Business Services (OBS)

Revenues in OBS amounted to € 117 million. Organically, revenues were stable. In the US,

Océ gained new customers and created growth with innovative digital documentation services, compensating the decline in mail services, leading to an overall organic growth. In Europe revenues were impacted by declining print volumes and restructuring of inefficient sites, while OBS expanded its activities in Belgium, France and Scandinavia.

Normalized operating income improved to € 6 million (2010: € 5 million), due to higher gross margins and tight cost control.

Outlook 2011

Océ aims to improve the business by focusing on growth of revenues, profits and cash. Océ intends to grow the business by strengthening its position in mature markets, expanding in growth markets like graphic arts and document services and boosting cross selling with Canon. Jointly with Canon, Océ will expand its activities in growth markets like China and India. Océ will enlarge its product portfolio, amongst others by introducing innovative printing systems, jointly developed with Canon. Also, Océ will continue to prepare for the integration with Canon.

Board of Executive Directors Océ N.V.
26 April 2011

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Keys to terminology:

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

Normalization: adjustments to reported operating income of Canon-related one-off items and restructuring costs.

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).

Consolidated Income Statement

<i>In million €</i>	First quarter 2011	First quarter 2010
Total revenues	637.6	646.8
Cost of sales	– 238.9	– 255.3
Gross margin	398.7	391.5
Operating expenses	– 403.2	– 416.5
Operating income	– 4.5	– 25.0
Financial expenses	– 5.8	– 35.0
Financial income	0.2	0.7
Share in income of associates	0.1	0.1
Income before income taxes	– 10.0	– 59.2
Income taxes	3.9	– 27.8
Net income	– 6.1	– 87.0
Net income attributable to:		
Shareholders	– 6.6	– 87.5
Minority interest	0.5	0.5
	– 6.1	– 87.0
Free cash flow	– 70.5	– 10.0
Average number of ordinary shares outstanding (x 1,000)	84,891	84,888
Earnings per ordinary share for net income attributable to shareholders in €		
Basic	– 0.08	– 1.04

Consolidated Balance Sheet

		End of first quarter 2011	End of financial year 2010
<i>In million €</i>			
	Assets		
Non-current assets	Intangible assets	548	570
	Property, plant and equipment	293	297
	Rental equipment	73	76
	Associates	3	3
	Derivative financial instruments	–	–
	Trade and other receivables	177	181
	Deferred income tax assets	105	99
	Available-for-sale financial assets	8	8
		1,207	1,234
Current assets	Inventories	293	294
	Derivative financial instruments	6	7
	Trade and other receivables	531	542
	Current income tax receivables	9	9
	Cash and cash equivalents	54	56
		893	908
Total		2,100	2,142
	Equity and Liabilities		
Equity	Share capital	54	54
	Share premium	512	512
	Other reserves	– 41	– 14
	Retained earnings	– 102	70
	Net income attributable to shareholders	– 7	– 167
	Equity attributable to shareholders	416	455
	Minority interest	32	33
		448	488
Non-current liabilities	Borrowings	6	7
	Derivative financial instruments	–	–
	Retirement benefit obligations	368	368
	Trade and other liabilities	–	–
	Deferred income tax liabilities	15	13
	Provisions for other liabilities and charges	38	43
		427	431
Current liabilities	Borrowings	717	658
	Derivative financial instruments	7	5
	Trade and other liabilities	479	533
	Current income tax liabilities	7	10
	Provisions for other liabilities and charges	15	17
		1,225	1,223
Total		2,100	2,142

Consolidated Statement of Changes in Equity attributable to shareholders

<i>In million €</i>	First quarter 2011	Financial year 2010
Balance at 1 January 2011 / 1 December 2009	455	544
Net income attributable to shareholders	– 7	– 167
Dividend	– 1	– 3
Share-based compensation	–	1
Purchase of treasury shares	–	–
Cash flow hedges	–	7
Currency translation differences	– 31	73
Balance at 31 March 2011 / 31 December 2010	416	455

Organic growth in revenues

<i>As percentage</i>	First quarter 2011
Non-recurring revenues	
Digital Document Systems	– 9.9%
Océ Business Services	–
Wide Format Printing Systems	3.9%
Total	– 5.2%
Recurring revenues	
Digital Document Systems	– 3.8%
Océ Business Services	0.4%
Wide Format Printing Systems	– 3.6%
Total	– 2.7%
Total revenues	
Digital Document Systems	– 5.8%
Océ Business Services	0.4%
Wide Format Printing Systems	– 1.0%
Total	– 3.4%

Consolidated Cash Flow Statement

<i>In million €</i>	First quarter 2011	First quarter 2010
Operating income	- 4	- 25
<i>Adjustments for:</i>		
Depreciation, amortization and impairment	39	67
Share-based compensation	-	-
Result on divestments, disposals	-	-
Unrealized gains/losses on financial instruments / Other	- 2	7
<i>Changes in:</i>		
Retirement benefit obligations	-	6
Provision for other liabilities and charges	- 7	- 14
Rental equipment	- 11	- 13
Inventories	- 5	8
Trade and other receivables	- 15	9
Trade and other liabilities	- 32	- 13
<i>Operating cash flows:</i>		
Interest received	-	1
Interest paid	- 4	- 26
Income taxes	- 4	12
Cash flow from operating activities	- 45	19
Investment in intangible assets	- 14	- 22
Investment in property, plant and equipment	- 14	- 10
Divestment of intangible assets	-	-
Divestment of property, plant and equipment	2	1
Payments/receipts regarding other non-current assets	-	-
Capital increase/decrease in associates	-	-
Dividend from associates	-	-
Sale of finance lease portfolio	-	2
Sale of subsidiaries (net of cash)	-	-
Acquisitions (net of cash)	-	-
Cash flow from investing activities	- 26	- 29
Free cash flow	- 71	- 10
Proceeds from borrowings	73	179
Repayments of borrowings	- 1	- 249
Dividend paid to shareholders	-	-
Repurchase of/proceeds from treasury shares	-	-
Capital decrease/dividend paid to minority interest	- 2	-
Cash flow from financing activities	70	- 70
Currency translation differences	- 1	7
Changes in cash and cash equivalents	- 2	- 73
Cash and cash equivalents at start of financial year	56	79
Cash and cash equivalents at end of reporting period	54	6

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. The Canon Group comprises over 197,000 people worldwide. Global net sales in 2010 were more than \$45 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 shares of Océ.

Forward-looking statements

Forward-looking statements

This report contains information as referred to 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.