



Océ
Quarterly
report 2011/2

Results second quarter 2011



Océ N.V.

Canon
CANON GROUP

April 2011 – June 2011

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 Q2 2011 impacted by challenging conditions

Highlights second quarter (ended 30 June 2011):

- **Net loss: € – 14 million (2010: € – 11 million)**
- **Normalized operating income: € – 7 million (2010: € 20 million)**
- **Organically, total revenues – 4% to € 626 million (2010: € 676 million); non-recurring revenues – 12%; recurring revenues –1%**
- **Canon and Océ combined operations in Switzerland and Japan**

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

‘Revenues continued to decrease in the challenging second quarter due to several circumstances.

The construction markets in the USA and Europe showed an even further decline compared to last year. This had an impact on the development of the total results of Wide Format Printing Systems.

The revenues in cutsheet printing were affected by changes in the product portfolio, which slowed the pace of new sales.

Océ was also hit by supply chain issues as a consequence of the Great East Japan Earthquake.

Three types of actions were put in place and are being executed vigorously to support our business in the second half of this year.

In the first place we are ramping up production of new products introduced recently and well received in the market.

We have strongly intensified our marketing and sales efforts to increase revenues.

And we have put a stringent cost control program in place to improve the bottom line.

We have combined the sales and service operations of Canon and Océ in Switzerland and Japan. The preparation and implementation of the integration of Océ into the Canon Group is being executed according to plan.’

Key figures*	Second quarter**			Six months		
	2011	2010	Δ	2011	2010	Δ
<i>In million €</i>						
Total revenues	626	676	- 50	1,264	1,323	- 59
Normalized operating income***	- 7	20	- 27	- 3	35	- 38
Normalization items	- 4	- 8	4	- 13	- 48	35
Operating income (EBIT)	- 11	12	- 23	- 16	- 13	- 3
Net income	- 14	- 11	- 3	- 21	- 98	77
Normalized free cash flow***	- 16	- 17	1	- 75	- 6	- 69

* The figures in this report are unaudited.

** These second quarter figures cover the period April – June for both years.

*** Excluding normalization items.

Group results second quarter 2011

Revenues

Total revenues declined organically by – 4% to € 626 million (including currency effects revenues declined by – 7%).

Non-recurring revenues declined organically by – 12% to € 162 million, reflecting developments at DDS.

Recurring revenues decreased organically by – 1% to € 464 million. This revenue development improved compared to previous quarters.

Gross margin and operating income

In the second quarter of 2011, *normalized gross margin* was 62.3% (2010: 63.0%). Gross margin declined due to WFPS (– 1.0% point) as a consequence of a change in product mix.

Normalized operating expenses amounted to 63.5% of revenues (2010: 60.0%). Total R&D cost increased € 5 million versus the same period last year, mainly due to lower capitalization. Compared to the same quarter of 2010, total costs declined by € 8 million to € 397 million.

On balance, *normalized operating income* amounted to € – 7 million (2010: € 20 million).

Operating income amounted to € – 11 million (2010: € 12 million), including € – 4 million normalization items (2010: € – 8 million). The normalization items relate to integration and restructuring.

Finance expenses (net) and net income

Finance expenses (net) amounted to € – 5 million (2010: € – 22 million, including Canon related one-off items).

On balance, *net income* was € – 14 million (2010: € – 11 million, including Canon related one-off items).

Earnings per ordinary share for net income attributable to shareholders was € – 0.18 (2010: € – 0.14).

Normalized free cash flow

Normalized free cash flow in the second quarter of 2011 was € – 16 million (2010: € – 17 million). Despite the decline in normalized operating income, normalized free cash flow was equal to last year.

Update cooperation with Canon

Cross-selling

Revenues from the sale of Canon products by Océ slightly increased in the second quarter.

The sales staff of Canon also signed an increasing number of orders for Océ systems. During the quarter, the training of the Océ sales force in selling small format Canon printers was completed.

In May 2011, Océ participated in Canon Expo Shanghai, which hosted 35,000 visitors.

During the event, Océ exhibited wide format and production printing systems for customers and leads across China and other Asian countries.

Joint product development

Following the successful joint development and demonstration in Europe and the United States, customers of both Canon and Océ showed strong interest in the imagePRESS C7010VPS series. Customers benefit from the combination of Canon image quality and productivity, as well as the processing power of Océ PRISMAsync workflow. Later this year, other jointly-developed products will also be launched.

Preparing the integration

Steps were taken in the second quarter along the road to full cooperation and integration.

The printing operations of Canon and Océ in Japan were combined, as were those of Canon and Océ in Switzerland. The sales companies involved are better positioned to enhance revenues and offer their products and services to a broader customer base.

The preparation and implementation of the integration of Océ into the Canon Group is being executed according to plan.

Key figures per Strategic Business Unit second quarter 2011

<i>In million € / as %</i>	DDS	WFPS	OBS	Total
Revenues	327	186	113	626
<i>Organic development in revenues</i>	- 9%	2%	1%	- 4%
Non-recurring revenues	89	73		162
<i>Organic development in non-recurring revenues</i>	- 23%	8%		- 12%
Recurring revenues	238	113	113	464
<i>Organic development in recurring revenues</i>	- 2%	- 1%	1%	- 1%
Normalized operating income*	- 17	5	5	- 7

* Excluding normalization items.

SBU results second quarter 2011

This section provides an overview of developments in the Strategic Business Units for the period April – June 2011.

Digital Document Systems (DDS)

Cutsheet revenues were affected by changes in the product portfolio, which slowed the pace of new sales.

Océ was also hit by supply chain issues as a consequence of the Great East Japan Earthquake.

Continuous feed printer sales were impacted by the timing of several projects and the time needed to ramp up the manufacturing of the new Océ ColorStream 3500 system.

In the second quarter, Océ closed a number of big contracts for continuous feed systems and workflow automation with US retailer Wal-Mart, publisher Stroma (UK), US book printing company Lightning Source Inc. and Australian direct marketing company Salmat, among others.

In the quarter, Océ and manroland detailed their strategic alliance at a Production Printing Summit held at Océ's technology center in Germany. This alliance facilitates the joint

development, marketing, sales and service of digital printing technology for the international offset markets.

Revenues in DDS amounted to € 327 million.

Organically, revenues declined by - 9%.

Non-recurring revenues declined sharply to € 89 million, organically by - 23%.

Recurring revenues amounted to € 238 million. Organically, revenues declined by - 2%.

Normalized operating income amounted to € - 17 million (2010: € 1 million).

Wide Format Printing Systems (WFPS)

The construction markets in the USA and Europe showed an even further decline compared to last year. This had an impact on the development of the total results of WFPS. Printer sales in WFPS developed positively driven by targeted action plans, strengthening the competitive position of the Océ sales companies.

Display Graphics Systems maintained its revenue growth. In the quarter the Océ Arizona 360 GT and XT flatbed printing system was launched at the annual Fespa trade fair, held this year in Hamburg in May. Customer

deliveries started in the second quarter and will accelerate in the second half of the year.

Revenues in WFPS amounted to € 186 million. Organically, revenues increased by 2%.

Non-recurring revenues amounted to € 73 million. Organically, revenues rose by 8%.

Recurring revenues amounted to € 113 million. Organically, revenues declined by -1%.

Normalized operating income amounted to € 5 million (2010: € 13 million).

Océ Business Services (OBS)

In the quarter, OBS continued to grow revenues in higher value-added services like records management, litigation support and business process outsourcing. These increasingly substitute commodity services and therefore generate higher margins.

OBS was recently, for the fifth consecutive year, named in the International Association of Outsourcing Professionals' Global Outsourcing 100 list. Customers are increasingly consulting this list to partner with service providers who have achieved solid outsourcing results.

In Europe, OBS won a significant contract with the UK subsidiary of the international insurance company AEGON. In Spain, OBS signed a new contract with leading household appliance provider Bosch Siemens.

Throughout Europe, OBS registered a growing customer demand for its value-added services.

Revenues at OBS amounted to € 113 million. Organically, revenues increased by 1%.

Normalized operating income amounted to € 5 million (2010: € 6 million).

Outlook 2011

In the second half of 2011, Océ will implement a series of measures to address the ongoing challenging conditions. Three types of actions

have been put in place and are being executed vigorously to support business in the second half of this year.

In the first place, Océ is ramping up production of new products introduced recently and well received in the market.

Océ has strongly intensified marketing and sales efforts to increase revenues.

And Océ has put a stringent cost control program in place to improve the bottom line.

Océ will further leverage the benefits of the combination with Canon, in sales, business processes and cost efficiencies.

Interim financial report 2011

On 25 August 2011, the Océ interim financial report for the six months ended 30 June 2011 will be published.

On 31 August 2011, at 11.00 CET, an analyst call and audio webcast will be held related to the publication of the Océ second quarter results and interim financial report 2011.

Board of Executive Directors Océ N.V.
22 July 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.

Consolidated Income Statement

In million €	Second quarter		First six months	
	2011	2010	2011	2010
Total revenues	625.9	676.1	1,263.5	1,322.9
Cost of sales	- 236.4	- 249.9	- 475.4	- 505.2
Gross margin*	389.5	426.2	788.1	817.7
Operating expenses	- 400.7	- 413.9	- 803.8	- 830.4
Operating income	- 11.2	12.3	- 15.7	- 12.7
Financial expenses	- 5.6	- 24.4	- 11.3	- 59.3
Financial income	0.8	2.3	1.0	3.1
Share in income of associates	3.0	0.1	3.1	0.1
Income before income taxes	- 13.0	- 9.7	- 22.9	- 68.8
Income taxes	- 1.5	- 1.1	2.4	- 29.0
Net income	- 14.5	- 10.8	- 20.5	- 97.8
Net income attributable to:				
Shareholders	- 15.0	- 11.4	- 21.5	- 98.8
Minority interest	0.5	0.6	1.0	1.0
	- 14.5	- 10.8	- 20.5	- 97.8
Free cash flow	- 1.3	- 48.0	- 71.8	- 56.6
Average number of ordinary shares outstanding (x 1,000)	84,891	84,891	84,891	84,890
Earnings per ordinary share for net income attributable to shareholders in €				
Basic	- 0.18	- 0.14	- 0.27	- 1.18

* 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*.

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Consolidated Balance Sheet

<i>In million €</i>		End of second quarter 2011	End of financial year 2010
	Assets		
Non-current assets	Intangible assets	541	570
	Property, plant and equipment	283	297
	Rental equipment	70	76
	Associates	3	3
	Derivative financial instruments	–	–
	Trade and other receivables	148	181
	Deferred income tax assets	103	99
	Available-for-sale financial assets	8	8
		1,156	1,234
Current assets	Inventories	289	294
	Derivative financial instruments	6	7
	Trade and other receivables	531	542
	Current income tax receivables	12	9
	Cash and cash equivalents	61	56
		899	908
Total		2,055	2,142
	Equity and Liabilities		
Equity	Share capital	54	54
	Share premium	512	512
	Other reserves	– 47	– 14
	Retained earnings	– 100	70
	Net income attributable to shareholders	– 22	– 167
	Equity attributable to shareholders	397	455
	Minority interest	32	33
		429	488
Non-current liabilities	Borrowings	5	7
	Derivative financial instruments	–	–
	Retirement benefit obligations	360	368
	Trade and other liabilities	–	–
	Deferred income tax liabilities	15	13
	Provisions for other liabilities and charges	36	43
		416	431
Current liabilities	Borrowings	722	658
	Derivative financial instruments	4	5
	Trade and other liabilities	462	533
	Current income tax liabilities	5	10
	Provisions for other liabilities and charges	17	17
		1,210	1,223
Total		2,055	2,142

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Consolidated Statement of Changes in Equity attributable to shareholders

<i>In million €</i>	First six months 2011	Financial year 2010
Balance at 1 January 2011 / 1 December 2009	455	544
Net income attributable to shareholders	- 22	- 167
Dividend	6	- 3
Share-based compensation	-	1
Purchase of treasury shares	-	-
Cash flow hedges	-	7
Currency translation differences	- 42	73
Balance at 30 June 2011 / 31 December 2010	397	455

Organic growth in revenues

<i>As percentage</i>	Second quarter 2011	First six months 2011
Non-recurring revenues		
Digital Document Systems	- 22.8	- 16.3
Océ Business Services	-	-
Wide Format Printing Systems	8.3	6.3
Total	- 11.5	- 8.4
Recurring revenues		
Digital Document Systems	- 2.4	- 3.1
Océ Business Services	0.8	0.7
Wide Format Printing Systems	- 1.3	- 2.4
Total	- 1.4	- 2.0
Total revenues		
Digital Document Systems	- 9.0	- 7.4
Océ Business Services	0.8	0.7
Wide Format Printing Systems	2.3	0.7
Total	- 4.2	- 3.8

Consolidated Cash Flow Statement

<i>In million €</i>	First six months 2011	First six months 2010
Operating income	- 16	- 13
<i>Adjustments for:</i>		
Depreciation, amortization and impairment	78	110
Share-based compensation	-	- 5
Result on divestments, disposals	- 8	-
Unrealized gains/losses on financial instruments / Other	- 2	2
<i>Changes in:</i>		
Retirement benefit obligations	2	-
Provision for other liabilities and charges	- 7	- 14
Rental equipment	- 21	- 24
Inventories	- 5	- 5
Trade and other receivables	- 30	2
Trade and other liabilities	- 28	- 14
<i>Operating cash flows:</i>		
Interest received	1	1
Interest paid	- 9	- 51
Income taxes	- 13	1
Cash flow from operating activities	- 58	- 10
Investment in intangible assets	- 28	- 38
Investment in property, plant and equipment	- 21	- 17
Divestment of intangible assets	-	-
Divestment of property, plant and equipment	3	1
Payments/receipts regarding other non-current assets	1	-
Capital increase/decrease in associates	2	-
Dividend from associates	-	-
Sale of finance lease portfolio	3	8
Sale of subsidiaries (net of cash)	26	-
Acquisitions (net of cash)	-	-
Cash flow from investing activities	- 14	- 46
Free cash flow	- 72	- 56
Proceeds from borrowings	82	628
Repayments of borrowings	- 2	- 592
Dividend paid to shareholders	-	-
Repurchase of/proceeds from treasury shares	-	-
Capital decrease/dividend paid to minority interest	- 2	-
Cash flow from financing activities	78	36
Currency translation differences	- 1	6
Changes in cash and cash equivalents	5	- 14
Cash and cash equivalents at start of financial year	56	79
Cash and cash equivalents at end of reporting period	61	65

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 and products of Canon, 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.