Océ

Canon
CANON GROUP

Contents

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.

Key figures for the six months ended 30 June

		2011	2010*	x € million
Total revenues		**1,263.5**	1,322.9	
	Change on first half of previous year (%)	**- 4.5**	- 0.5	
	Change, organic (%)	**- 3.8**	- 2.0	
	Non-recurring (%)	**- 8.4**	1.6	
	Recurring (%)	**- 2.0**	- 3.3	
*Gross margin***		**788,1**	817.7	
	Normalized gross margin	**788.7**	834.1	
	As % of total revenues	**62.4**	61.8	
	Normalized as % of total revenues	**62.4**	63.0	
Operating expenses		**803.8**	830.4	
	Normalized operating expenses	**791.5**	799,2	
	As % of total revenues	**63.6**	62.8	
	Normalized operating expenses as % of total revenues	**62.6**	60.4	
Operating income (loss) (EBIT)		**- 15.7**	- 12.7	
	Normalized operating income (loss) (EBIT)	**- 2.8**	34.9	
	As % of total revenues	**- 1.2**	- 1.0	
	Normalized as % of total revenues	**- 0.2**	2.6	
Net income (loss)		**- 20.5**	- 97.8	
	Net income (loss) attributable to shareholders	**- 21.5**	- 98.8	
	As % of total revenues	**- 1.6**	- 7.4	
Balance sheet total		**2,055.2**	2,332.8	
	Equity attributable to shareholders	**397.3**	565.0	
	Equity	**429.4**	599.3	
	Equity as % of balance sheet total (solvency ratio)	**20.9**	25.7	
	Net Capital Employed	**1,094.3**	1,255.9	
	Return on Capital Employed (RoCE)	**- 5.0**	- 3.1	
	Normalized Return on Capital Employed (NRoCE)	**2.5**	4.1	
Free cash flow (cash flow before financing activities)		**- 71.8**	- 56.6	
	Normalized free cash flow	**- 75.0**	- 5.8	
Number of employees (in full-time equivalents)		**20,028**	20,900	employees
Number of € 0.50 ordinary shares				
	Average number outstanding	**84,890,786**	84,889,813	shares
Per € 0.50 ordinary share				
	Net income (loss) attributable to shareholders (basic)	**- 0.27**	- 1.18	euro
	Net income (loss) attributable to shareholders (diluted)	**- 0.27**	- 1.18	euro
	Equity attributable to shareholders	**4.01**	5.99	euro

* The comparative figures consist of the period January 2010 until June 2010.

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

Interim Directors' Report

Océ Group results first half year 2011

Income statement

Revenues In the first half of 2011 total revenues amounted to € 1,263.5 million (30 June 2010: € 1,322.9 million), a decrease of 4.5% compared to the same period of 2010. Excluding exchange rates effects, the decrease was 3.8%. Non-recurring revenues decreased organically by 8.4% to € 334.0 million, reflecting developments at DDS. Recurring revenues decreased organically by 2.0% to € 929.5 million.

Gross margin As of financial 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 is now included in *operating expenses*.
The normalized gross margin was 62.4% (30 June 2010: 63.0%). Gross margin percentage declined due to WFPS as a consequence of the change in product mix.

Operating expenses Normalized operating expenses amounted to 62.6% (30 June 2010: 60.4%). The R&D costs increased by € 16.0 million compared to last year, mainly due to lower capitalization. Total cost however declined by € 7.7 million compared to last year due to stringent cost control.

Operating income Operating income amounted to - € 15.7 million (30 June 2010: - € 12.7 million). Normalized operating income was - € 2.8 million (30 June 2010: € 34.9 million). The normalization items related to integration and restructuring amounted to € 12.9 million (30 June 2010: € 47.6 million).

Finance expenses Finance expenses (net) amounted to € 10.3 million (30 June 2010: € 56.3 million including Canon related one-off items of € 40.1 million). The interest expense decreased to € 8.7 million (30 June 2010: € 13.9 million).

Net income (loss) Net loss for the six months ended 30 June 2011 amounted to - € 20.5 million (30 June 2010: - € 97.8 million).

Cash flow statement

Normalized free cash flow amounted to - € 75.0 million (30 June 2010: - € 5.8 million). The decrease in normalized operating income from € 34.9 million in 2010 to - € 2.8 million in 2011 is the main reason for the difference. The 2011 cash flow was further affected by outflows in liabilities and receivables.

SBUs results first half year 2011

Digital Document Systems (DDS) Revenues in DDS decreased by 8.3% to € 672.8 million (30 June 2010: € 733.5 million). On an organic basis revenues decreased by 7.4%. Non-recurring revenues amounted to € 197.3 million (30 June 2010: € 237.1 million), an organic decrease of 16.3%. 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. In the first half year 2011 the continuous feed printer sales continued the positive sales trend. Océ closed a number of big contracts for continuous feed systems and workflow automation. Recurring revenues amounted to € 475.5 million (30 June 2010: € 496.4 million), an organic decrease of 3.1%.

Wide Format Printing Systems (WFPS) Revenues in WFPS amounted to € 361.1 million (30 June 2010: € 357.3 million), an organic increase of 0.7%. Revenues for construction and engineering purposes were impacted by the decline in the construction market in de USA and Europe. In the first half year 2011 Océ introduced an innovative wide format printer, the Océ ColorWave 600 Poster Printer, built with Océ CrystalPoint imaging technology, targeting the international screen printing markets. To further strengthen its color portfolio for the wide format Graphics Arts market, Océ launched the Océ Arizona 360 GT flatbed printing systems. Customer deliveries started in the second quarter and will accelerate in the second half of the year. Non-recurring revenues amounted to € 136.7 million (30 June 2010: € 128.2 million). Organically, non-recurring revenues increased by 6.3%. Recurring revenues amounted to € 224.4 million (30 June 2010: € 229.1 million), an organic decrease of 2.4%.

Océ Business Services (OBS) Revenues in OBS amounted to € 229.6 million (30 June 2010: € 232.1 million), an organic increase of 0.7%. In Europe revenues were impacted by restructuring of inefficient sites, but also significant new contracts were signed in several countries. In the US, Océ gained new customers and created growth with innovative digital documentation services.

Management changes

Hans Kerkhoven stepped down as member of the Board of Executive Directors and Chief Financial Officer of Océ N.V. on 19 April 2011.
Rokus van Iperen, alongside his duties as Océ CEO, temporarily assumed the position of CFO, effective the same date, until a successor has been appointed.

Changes (organically) in quarterly revenues compared to the same period of the previous year

as %		first quarter 2011	second quarter 2011	**first half year 2011**
Digital Document Systems	recurring	- 3.8	- 2.4	**- 3.1**
	non-recurring	- 9.9	- 22.8	**- 16.3**
	total	- 5.8	- 9.0	**- 7.4**
Wide Format Printing Systems	recurring	- 3.6	- 1.3	**- 2.4**
	non-recurring	3.9	8.3	**6.3**
	total	- 1.0	2.3	**0.7**
Océ Business Services	recurring	0.4	0.8	**0.7**
	non-recurring	-	-	**-**
	total	0.4	0.8	**0.7**
Total	recurring	- 2.7	- 1.4	**- 2.0**
	non-recurring	- 5.2	- 11.5	**- 8.4**
	total	- 3.4	- 4.2	**- 3.8**

Cooperation with Canon

Preparing for integration

Steps were taken along the road of full cooperation and integration. The preparation and implementation of the integration of Océ into the Canon Group is being executed according to plan.

In June 2011 Canon and Océ combined their printing operations in Switzerland. Canon Europa N.V., a 100% subsidiary of Canon Inc., has purchased 100% of the share capital in Océ (Schweiz) A.G. from Océ N.V. Océ (Schweiz) A.G. accounted for 3-4% of overall Océ revenues. The transaction price amounted to € 15.9 million.

Also in June 2011 Canon and Océ combined their printing operations in Japan. Canon Marketing Japan Inc., a company in which Canon Inc. holds the majority of the voting rights, has purchased 100% of the share capital in Océ-Japan Corporation from Océ N.V. Océ-Japan Corporation accounted for less than 1% of overall Océ revenues. The transaction price amounted to € 9.4 million.

Both combinations comprised related party transactions, which were executed at arm's length. The transactions are fully in line with Canon's stated intention to adhere to prevailing Dutch corporate governance standards. The transactions have been approved by the Océ Board of Executive Directors and the independent members of the Océ Supervisory Board. These decisions took the interests of all stakeholders into account. In this context, ING Corporate Finance has rendered a fairness opinion confirming that, from a financial perspective, the prices are fair to Océ and its shareholders.

Cross-selling

Revenues from sale of Canon products by Océ slightly increased in the second quarter. The sales staff of Canon also signed an increasing number of orders relating to Océ systems. During the second 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 development

Following the successful joint development and demonstration in Europe and the United States, customers of both Canon and Océ show 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 development products will also be launched.

Risk profile

Pages 42 and 43 of the Annual Report 2010 contain a summary of the risk assessment that was carried out in 2010 by Océ. The assessment concerns the identification of the principal risks, which were subdivided into five groups.

The following three groups of risks related to the three strategic pillars:

- Lack of sufficient distribution power;
- No full line competitive products and services portfolio;
- Failure to implement the Operational Excellence program successfully.

The two additional groups of principal risks were:

- A (temporary) significant decline in the demand for products and/or services;
- Risks relating to the cash flow or the availability of liquid funds or financing.

Risks in second half year of 2011

In our view, the nature and potential impact of the risks as mentioned in the 2010 Annual Report will not be materially different for the second half of 2011.

We will continue to monitor the principal risks closely and manage our response through a combination of control measures and actions as new risks may emerge and current risks may change in the second half of 2011.

Outlook

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.

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.

Related party transactions

Major related party transactions are disclosed in note **(17)** to the Consolidated Interim Financial Statements.

Auditors' involvement

The content of this Interim Financial Report has not been audited or reviewed by our auditor Ernst & Young Accountants LLP.

Directors' responsibility statement

The Board of Executive Directors confirms that to the best of its knowledge the Consolidated Interim Financial Statements for the half year ended 30 June 2011, which have been prepared in accordance with IAS 34 'Interim Financial Reporting', give a true and fair view of the assets, liabilities, financial position and profit or loss of Océ N.V. and its consolidated companies, and the Interim Directors' Report includes a fair review of the information required pursuant to section 5:25d, subsections 8 and 9 of the Dutch Act on Financial Supervision (Wet op het financieel toezicht).

Venlo, 25 August 2011

Board of Executive Directors
R.L. van Iperen, *chairman*
A.H. Schaaf

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Keys to terminology

Free cash flow: the cash flow before financing activities.

Net Capital Employed: total assets excluding cash and cash equivalents, less non-interest bearing liabilities adjusted for derivatives.

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

Normalization: adjustments related to integration and restructuring.

Organic growth: the development of the results after adjustments for exchange rate effects and the impact of substantial acquisitions or disposals.

Recurring revenues: revenues from service, inks, toners, media, rentals, interest and business services.

RoCE: Return on Capital Employed: operating income on an annual basis (last 4 quarters) after normalized taxes (20%) as a percentage of average Net Capital Employed.

Consolidated Interim Financial Statements

Consolidated income statement for the six months ended 30 June

x € 1,000	The figures ( ) refer to the notes	**2011**	2010*
Total revenues		**1,263,510**	1,322,906
	Cost of sales	**- 475,388**	- 505,208
*Gross margin***		**788,122**	817,698
	Operating expenses**	**- 803,836**	- 830,378
Operating loss		**- 15,714**	- 12,680
	Finance expenses **(8)**	**- 11,342**	- 59,305
	Finance income **(8)**	**1,041**	3,034
	Share in income of associates	**3,086**	123
Loss before income taxes		**- 22,929**	- 68,828
	Income taxes **(9)**	**2,393**	- 28,996
Net loss		**- 20,536**	- 97,824
Net income (loss) attributable to	Shareholders	**- 21,531**	- 98,824
	Minority interest	**995**	1,000
		- 20,536	- 97,824
Earnings per ordinary share for net loss attributable to shareholders (x € 1)	Basic	**- 0.27**	- 1.18
	Diluted	**- 0.27**	- 1.18

* The comparative figures consist of the period January 2010 until June 2010. Reference is made to note 1.

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

Consolidated statement of comprehensive income for the six months ended 30 June

x € 1,000

	2011	2010
Net loss	**- 20,536**	- 97,824
Cash flow hedges (net of taxes)	**447**	3,856
Currency translation differences	**- 42,205**	98,346
Other comprehensive income (loss)	**- 41,758**	102,202
Total comprehensive income (loss)	**- 62,294**	4,378
Comprehensive income (loss) attributable to:		
Shareholders	**- 63,289**	3,378
Minority interest	**995**	1,000
	- 62,294	4,378

Consolidated statement of financial position as at

x € 1,000	Assets	30 June 2011	31 December 2010
Non-current assets	Intangible assets **(10)**	**540,997**	569,639
	Property, plant and equipment **(11)**	**283,050**	297,422
	Rental equipment	**70,107**	76,491
	Associates	**3,559**	2,869
	Derivative financial instruments **(12)**	**3**	60
	Trade and other receivables	**148,069**	180,649
	Deferred income tax assets	**102,799**	99,039
	Available-for-sale financial assets	**7,600**	7,995
		1,156,184	1,234,164
Current assets	Inventories **(13)**	**289,394**	294,095
	Derivative financial instruments **(12)**	**5,636**	6,449
	Trade and other receivables	**530,909**	541,567
	Current income tax receivables	**12,460**	9,258
	Cash and cash equivalents	**60,577**	56,155
		898,976	907,524
Total		**2,055,160**	2,141,688

x € 1,000	**Equity and Liabilities**	**30 June 2011**	31 December 2010
Equity	Share capital	**53,669**	53,669
	Share premium	**512,026**	512,026
	Other reserves	**- 47,171**	- 13,565
	Retained earnings	**- 99,682**	69,622
	Net income (loss) attributable to shareholders	**-21,531**	-166,972
	Equity attributable to shareholders	**397,311**	454,780
	Minority interest	**32,072**	33,358
		429,383	488,138
Non-current liabilities	Borrowings **(14)**	**5,086**	6,996
	Retirement benefit obligations	**359,568**	368,445
	Trade and other liabilities	**-**	-
	Deferred income tax liabilities	**14,757**	12,632
	Provisions for other liabilities and charges **(15)**	**36,119**	43,203
		415,530	431,276
Current liabilities	Borrowings **(14)**	**721,647**	657,535
	Derivative financial instruments **(12)**	**4,436**	4,928
	Trade and other liabilities	**461,891**	533,244
	Current income tax liabilities	**5,024**	9,447
	Provisions for other liabilities and charges **(15)**	**17,249**	17,120
		1,210,247	1,222,274
Total		**2,055,160**	2,141,688

Consolidated statement of changes in equity

x € 1,000	Equity attributable to shareholders						
	share capital	share premium	other reserves	retained earnings	net income (loss) attributable to shareholders	minority interest	total equity
Balance at 1 January 2010	**53,669**	**512,026**	**- 69,237**	**119,169**	**- 53,499**	**33,331**	**595,459**
Net income (loss)	-	-	-	-	- 98,824	1,000	- 97,824
Other comprehensive income (loss)	-	-	102,202	-	-	-	102,202
Total comprehensive income (loss)	-	-	102,202	-	- 98,824	1,000	4,378
Share-based compensation:							
value of employee services	-	-	-	- 230	-	-	- 230
proceeds from shares reissued	-	-	255	- 111	-	-	144
Movement in legal reserve	-	-	18,298	- 18,298	-	-	-
Appropriation of net income	-	-	-	- 48,929	48,929	-	-
Dividend	-	-	-	- 425	-	-	- 425
Balance at 30 June 2010	**53,669**	**512,026**	**51,518**	**51,176**	**- 103,394**	**34,331**	**599,326**
Net income (loss)	-	-	-	-	- 63,578	1,063	- 62,515
Other comprehensive income (loss)	-	-	- 44,520	-	-	-	- 44,520
Total comprehensive income (loss)	-	-	- 44,520	-	- 63,578	1,063	- 107,035
Share-based compensation:							
value of employee services	-	-	-	18	-	-	18
proceeds from shares reissued	-	-	- 9	1	-	-	- 8
Movement in legal reserve	-	-	- 20,554	20,554	-	-	-
Dividend	-	-	-	- 2,127	-	- 2,036	- 4,163
Balance at 31 December 2010	**53,669**	**512,026**	**- 13,565**	**69,622**	**- 166,972**	**33,358**	**488,138**

x € 1,000	Equity attributable to shareholders						
	share capital	share premium	other reserves	retained earnings	net income (loss) attributable to shareholders	minority interest	total equity
Balance at 1 January 2011	**53,669**	**512,026**	**- 13,565**	**69,622**	**- 166,972**	**33,358**	**488,138**
Net income (loss)	-	-	-	-	- 21,531	995	- 20,536
Other comprehensive income (loss)	-	-	- 41,758	-	-	-	- 41,758
Total comprehensive income (loss)	-	-	- 41,758	-	- 21,531	995	- 62,294
Share-based compensation:							
| proceeds from shares reissued	-	-	-	- 82	-	-	- 82
Capital decrease	-	-	-	-	-	- 2,281	- 2,281
Movement in legal reserve	-	-	8,152	- 8,152	-	-	-
Appropriation of net income	-	-	-	- 166,972	166,972	-	-
Dividend*	-	-	-	5,902	-	-	5,902
Balance at 30 June 2011	**53,669**	**512,026**	**- 47,171**	**- 99,682**	**- 21,531**	**32,072**	**429,383**

* The amount of € 5,902 relates to the reclassification of preference dividend from liabilities to equity.

Consolidated cash flow statement for the six months ended 30 June

x € 1,000	**2011**	2010
Operating loss	**- 15,714**	- 12,680
Adjustments for:		
Depreciation, amortization and impairment	**77,628**	109,461
Share-based compensation	**-**	- 4,862
Result on divestments, disposals	**- 7,659**	-
Unrealized gains/losses on financial instruments/other	**- 2,167**	1,497
Changes in:		
Retirement benefit obligations	**1,771**	426
Provisions for other liabilities and charges	**- 6,453**	- 14,587
Rental equipment	**- 20,618**	- 23,819
Inventories	**- 5,377**	- 5,521
Trade and other receivables	**- 29,734**	2,354
Trade and other liabilities	**- 28,245**	- 14,362
Operating cash flows:		
Interest received	**1,411**	1,173
Interest paid	**- 8,951**	- 50,976
Income taxes	**- 13,455**	1,378
Cash flow from operating activities	**- 57,563**	- 10,518
Investment in intangible assets	**- 27,864**	- 37,796
Investment in property, plant and equipment	**- 21,596**	- 17,232
Divestment of intangible assets	**218**	-
Divestment of property, plant and equipment	**2,895**	757
Payments/receipts regarding other non-current assets	**660**	100
Capital increase/decrease in associates	**2,396**	- 1
Dividend from associates	**-**	58
Sale of finance lease portfolio	**2,831**	8,004
Sale of subsidiaries (net of cash)	**26,233**	-
Cash flow from investing activities	**- 14,227**	- 46,110

x € 1,000	**2011**	2010
Proceeds from borrowings	**82,300**	627,880
Repayments of borrowings	**- 1,878**	- 592,078
Repurchase of/proceeds from treasury shares	**- 81**	144
Capital decrease/dividend minority interest	**- 2,281**	-
Cash flow from financing activities	**78,060**	35,946
Currency translation differences	**- 1,848**	6,740
Change in cash and cash equivalents	**4,422**	- 13,942
Cash and cash equivalents at start of financial year	**56,155**	79,489
Cash and cash equivalents at end of reporting period	**60,577**	65,547

Selected notes to the Consolidated Interim Financial Statements

(1) General

By approval of the amendment to the Articles of Association by the annual meeting of shareholders on 22 April 2010, the financial year of Océ N.V. has changed and starts as of 2011 and onwards on 1 January and ends on 31 December. The comparative half-year figures 2010 consist of the period 1 January 2010 until 30 June 2010. The half-year figures in the Interim Financial Report 2010 consisted of the period December 2009 until May 2010.

The Consolidated Interim Financial Statements for the six months ended 30 June 2011 have been authorized for issue by both the Board of Supervisory Directors and the Board of Executive Directors on 25 August 2011.

The Consolidated Interim Financial Statements have not been audited or reviewed by an external auditor.

(2) Basis of preparation

The Consolidated Interim Financial Statements for the six months ended 30 June 2011 have been prepared in accordance with IAS 34 'Interim Financial Reporting' and do not include all the information and disclosures required in the Annual Financial Statements.
The Consolidated Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2010, which have been prepared in accordance with IFRS, as adopted by the European Union.

(3) Summary of significant accounting policies

Except as described under note (4) the accounting policies applied are consistent with those followed in the Consolidated Financial Statements for the year ended 31 December 2010, as described in those Consolidated Financial Statements.

(4) New accounting policies and standards

New accounting policies

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

Standards, amendments, revisions and interpretations effective to Océ in 2011:

IFRS 7 (Amendments) 'Financial Instruments: Disclosure (issued 7 October 2010)' The amendments to IFRS 7 are applicable as of 1 July 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.
The amendments broadly align the relevant disclosure requirements of International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP). Océ is currently investigating the impact of the amendments on the full year consolidated financial statements.

IFRIC 14 (Amendment) 'Prepayment of a Minimum Funding Requirement' The amendment to IFRIC 14 is applicable for annual periods beginning on or after 1 January 2011. The amendment applies in the circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. IFRIC 14 did not have a significant impact on the interim consolidated financial statements.

Standards, amendments, revisions and interpretations not relevant to Océ:

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010. IFRIC 19 clarifies the requirements of IFRS when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.
Océ did not renegotiate the term of a financial liability with its creditor and have the creditor agree to accept the entity's shares or other equity instruments to settle the financial liability fully or partially, therefore IFRIC 19 is not relevant to Océ.

IAS 24 (Revision) 'Related Party Disclosures' IAS 24 (Revised) is applicable for annual periods beginning on or after 1 January 2011. The revised standard simplifies the disclosure requirements for government-related entities by providing a partial exemption for government-related entities and clarifies the definition of a related party. Océ is not a government-related entity, therefore the revision of IAS 24 is not relevant to Océ.

IFRS 2 (Amendment) 'Group Cash-settled Share-based Payment Transactions' The amendments to IFRS 2 are applicable for annual periods beginning on or after I January 2010. The amendments to IFRS 2 clarify the accounting for group cash-settled share-based payments transactions. Océ has cancelled all share-based payments transactions in 2010 as a result of the acquisition by Canon. Therefore the revision of IAS 24 is not relevant to Océ.

IAS 32 (Amendment) 'Classification of Rights Issues' The amendment to IAS 32 is applicable for annual periods beginning on or after 1 February 2010. The amendment to IAS 32 addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. Océ did not issue any rights. Therefore the amendment to IAS 32 is not relevant to Océ.

(5) Currencies of importance

	average exchange rate of 1 euro during the six months ended		exchange rate of 1 euro at the balance sheet dates		
	30 June 2011	30 June 2010	**30 June 2011**	31 December 2010	30 June 2010
Pound sterling	**0.87**	0.87	**0.90**	0.86	0.81
US dollar	**1.40**	1.35	**1.45**	1.34	1.22
Australian dollar	**1.36**	1.50	**1.35**	1.31	1.42
Swiss franc	**1.21**	1.44	**1.21**	1.25	1.33
Japanese yen	**112.34**	123.25	**116.57**	108.73	108.64

(6) Segment reporting

Business segmentation of the selected income statement lines for the six months ended 30 June 2011 (2010: 30 June) is disclosed in the table below:

x € million	Digital Document Systems		Wide Format Printing Systems		Océ Business Services		total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Total revenues	**673**	734	**361**	357	**230**	232	**1,264**	1,323
Operating income	**- 29**	- 43	**5**	20	**8**	10	**- 16**	- 13

Geographical information of total revenues for the six months ended 30 June is disclosed in the table below:

X € million	**2011**	2010
United States	**428**	462
Germany	**133**	141
The Netherlands	**132**	146
France	**89**	97
United Kingdom	**84**	87
Rest of Europe	**244**	251
Countries outside Europe and the United States	**154**	139
Total	**1,264**	1,323

(7) Research and development expenses

Research and development expenses amounted to € 85.1 million in the first half of 2011 (30 June 2010: € 69.1 million). In 'Research and development expenses' an amount of € 15.1 million was recognized regarding amortization of capitalized development expenses. During the six months ended 30 June 2011 an amount of € 26.1 million of development expenditure was capitalized.

(8) Finance income and expense

x € 1,000	2011
Interest expenses	- 8,722
Foreign exchange results on financing activities (net)	- 2,296
Unwinding of discounts of provisions	- 164
Other finance expenses	- 160
Finance expenses	- 11,342
Finance income	1,041
Total	- 10,301

(9) Income taxes

In the first half of 2011 taxation amounted to € 2.4 million (30 June 2010: - € 29.0 million). The effective tax rate was 10.4% (30 June 2010: 17.8% excluding Canon related tax one-off items).

(10) Intangible assets

During the six months period ended 30 June 2011 expenditure in intangible assets amounted to € 27.9 million of which € 26.3 million related to internally generated technology and software. Amortization of intangible assets amounted to € 26.9 million in the first half year of 2011 of which € 18.0 million related to internally generated technology and software. The carrying amount of internally generated technology and software amounted to € 165.2 million as at 30 June 2011 (31 December 2010: € 157.1 million).

Goodwill decreased by € 25.9 million due to exchange rate differences. This decrease is recognized directly in equity in the reserve for currency translation differences.

(11) Property, plant and equipment

x € 1,000	
At 1 January 2011	297,422
Expenditure	21,596
Divestments	- 2,875
Sale of subsidiaries	- 1,747
Depreciation	- 27,494
Exchange differences	- 3,852
At 30 June 2011	283,050

During the six months ended 30 June 2011 expenditure in Property, plant and equipment amounted to € 21.6 million and mainly related to investments in other equipment (€ 6.4 million) and production equipment (€ 14.1 million).

(12) Derivative financial instruments

x € 1,000	**30 June 2011**		31 December 2010	
	assets	liabilities	assets	liabilities
Interest rate swaps	**-**	**-**	-	-
Foreign exchange contracts	**-**	**-**	-	-
Cap on financing preference shares	**3**	**-**	60	-
Non-current	**3**	**-**	60	-
Foreign exchange contracts	**5,512**	**4,436**	6,417	4,867
Embedded derivatives	**124**	**-**	32	61
Current	**5,636**	**4,436**	6,449	4,928
Total	**5,639**	**4,436**	6,509	4,928

(13) Inventories

x € 1,000	**30 June 2011**	31 December 2010
Raw and other materials	**39,537**	39,719
Semi-finished products and spare parts	**91,631**	61,779
Finished products and trade inventories	**158,226**	192,597
Total	**289,394**	294,095

(14) Borrowings

x € 1,000	**30 June 2011**	31 December 2010
Other loans	**644**	-
Finance lease obligations	**4,442**	6,996
Non-current	**5,086**	6,996
Canon Euro loan*	**440,000**	410,000
Canon USD loans*	**207,039**	224,484
Bank overdrafts	**5,884**	3,894
Other loans	**65,283**	15,000
Finance lease obligations	**3,441**	4,157
Current	**721,647**	657,535
Total	**726,733**	664,531

The carrying amount of the borrowings is denominated in the following currencies:

x € 1,000	**30 June 2011**	31 December 2010
Euro	**510,463**	427,762
US dollar	**215,592**	235,153
Other	**678**	1,616
Total	**726,733**	664,531

* Reference is made to the related party transactions on page 25.

(15) Provisions for other liabilities and charges

x € 1,000	other long term employee benefits	employee termination benefits	restructuring	other	total
At 1 January 2011	26,757	7,667	8,414	17,485	60,323
Addition charged to income statement	1,426	1,319	9,742	262	12,749
Unused amounts reversed to income statement	- 670	-	- 363	- 3,227	- 4,260
Sale of subsidiaries	-	-	-	- 195	- 195
Used	- 1,191	- 3,470	- 8,372	- 2,073	- 15,106
Unwinding of discount	164	-	-	-	164
Exchange differences	- 52	-	- 89	- 166	- 307
At 30 June 2011	26,434	5,516	9,332	12,086	53,368
Current	1,856	3,764	7,669	3,960	17,249
Non-current	24,578	1,752	1,663	8,126	36,119
Total	26,434	5,516	9,332	12,086	53,368

(16) Dividend payments

In the first half of 2011 no dividend was paid (first half year of 2010: nil).

(17) Related party transactions

Except as described below, there were no material changes in the nature, scale or scope of related party transactions in the first half of 2011 compared with the disclosures made in the Consolidated Financial Statements for the year ended 31 December 2010. All related party transactions described below are executed at arm's length.

The total credit facility amounts to € 670 million of which € 647 million has been drawn as at 30 June 2011. The credit facility is unsecured and has no financial covenants or commitment fees.

Océ sold in June 2011 Océ-Schweiz and Océ-Japan to Canon group companies. Océ received in total € 25.3 million for the shares of these companies and realized a book profit of € 7.6 million on these transactions.

Hans Kerkhoven has terminated his employment on 19 April 2011. Mr. Kerkhoven has received a severance payment of € 1.0 million. Reference is made to page 103 of the Annual Report 2010.

(18) Commitments and contingent liabilities

In the first half of 2011 there were no material changes to the Group’s commitments and contingent liabilities from those disclosed in the Consolidated Financial Statements for the year ended 31 December 2010.

(19) Events after the balance sheet date

There were no events after the balance sheet date which are relevant to the Consolidated Interim Financial Statements.

(20) Shareholders with a substantial shareholdings (of 5% or more) As at 30 June 2011 the following notifications of substantial shareholdings in Océ N.V. have been made:

- Canon Inc.: total voting rights 75.20% and shareholding 77.41%;
- Orbis Investment Management Limited: total voting rights 7.48%;
- Pictet & Cie: total shareholding 5.65%.

The above overview is based on the AFM notifications and registration only and does not necessarily represent that actual holding of these shareholders as changes within the limits of thresholds do not need to be notified to the AFM*. For current status, please consult the AFM reference system on their website www.afm.nl/registers.

* On 20 March 2010 Canon Inc. and Océ N.V. stated in a joint press release that Canon Inc. holds 73,934,429 ordinary shares in Océ N.V. On this date, the total number of shares held by Canon Inc. (including Océ’s convertible financing preference shares) represent 87.51% of the total issued share capital of Océ N.V. Currently Canon holds approximately 90% of the Océ shares.

Forward-looking Statements

This Interim Financial Report contains information as referred to in article 5:59 in conjunction with article 5:53 of the Dutch Act on Financial Supervision (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.

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