Océ

Interim Financial Report

for the six months ended 31 May 2010

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Profile

Océ: printing and beyond

Océ is one of the world's leading providers of document management and printing for professionals. The broad Océ offering includes office printing and copying systems, high-speed digital production printers and wide format printing systems for technical documentation and color display graphics. Océ is also a foremost supplier of document management outsourcing. Many of the world's Fortune 500 companies and leading commercial printers are Océ customers. The company was founded in 1877 and is one of the oldest players in the industry. With headquarters in Venlo, the Netherlands, Océ is active in around 100 countries and employs some 21,000 people worldwide. Total revenues in 2009 amounted to € 2.6 billion. Océ is listed on NYSE Euronext in Amsterdam. Océ is active with its own direct sales and service organizations in more than 30 countries. The company has its own research and manufacturing facilities in Europe, the United States, Canada and Singapore. On 16 November 2009, Canon and Océ announced that they had reached conditional agreement to combine their printing activities through a share-deal. On 9 March 2010, Canon completed the offer for the Océ shares, by acquiring 77.41% of the issued share capital of Océ.

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 where Océ has only a limited market presence, part of the product range is made available via specialized distributors. Through its own Research & Development (R&D) Océ develops core technologies and the majority of its own product concepts. Direct customer feedback serves as an important source of inspiration for new products. In the Océ business model cooperation with partners plays a major role in numerous fields. These partnerships cover areas such as R&D, manufacturing, sales (OEM), distribution and financing. Sustainability is a constantly present factor in the conduct of the Océ business.

First half of the financial year The company's first half of the financial year 2010 runs from 1 December to 31 May. Reference is made to the Selected notes to the Consolidated Interim Financial Statements.

Articles of Association The present Articles of Association were confirmed by a notarial deed dated 22 April 2010 (reference is made to the press release relating to the Annual General Meeting of Shareholders). Océ N.V. is an international holding company within the meaning of Article 2:153, para. 3b of the Dutch Civil Code.

Foundation, registered office and commercial registry The company was founded in 1877. Its present legal form dates from 1953. The registered office is in Venlo, the Netherlands and the company is registered in the commercial registry of the Chamber of Commerce in Limburg under No. 12002283.

Head office The head office is located in Venlo at St. Urbanusweg 43, P.O. Box 101, 5900 MA Venlo, the Netherlands, telephone (+31) 77 3592222, fax (+31) 77 3544700, e-mail info@oce.com, website http://www.oce.com.

Board of Supervisory Directors

P.A.F.W. Elverding, *chairman*
T. Tanaka, *vice- chairman*
A. Baan
N. Eley
S. Liebman
J.M. van den Wall Bake

Board of Executive Directors

R.L. van Iperen, *chairman*
H.A. Kerkhoven
A.H. Schaaf

Company Secretary

F.W.T. Kool

Key figures for the six months ended 31 May

		2010	2009	x € million
Total revenues		**1,289.9**	1,333.7	
	Change on first half of previous year (%)	**- 3.3**	- 5.2	
	Non-recurring (organically) (%)	**- 2.2**	- 15.2	
	Recurring (organically) (%)	**- 4.0**	- 5.3	
Gross margin		**475.9**	496.5	
	Normalized gross margin	**492.1**	497.9	
	As % of total revenues	**36.9**	37.2	
	Normalized as % of total revenues	**38.2**	37.3	
Operating expenses		**491.8**	479.4	
	Normalized operating expenses	**464.5**	479.8	
	As % of total revenues	**38.1**	35.9	
	Normalized operating expenses as % of total revenues	**36.0**	36.0	
Operating income (loss) (EBIT)		**- 15.9**	17.1	
	Normalized operating income (loss) (EBIT)	**27.6**	18.1	
	As % of total revenues	**- 1.2**	1.3	
	Normalized as % of total revenues	**2.1**	1.4	
Net income (loss)		**- 100.8**	1.0	
	Normalized net income (loss)	**2.3**	1.4	
	Net income (loss) attributable to shareholders	**- 101.8**	0.1	
	As % of total revenues	**- 7.9**	0.0	
	Normalized as % of total revenues	**0.2**	0.1	
Balance sheet total		**2,336.3**	2,465.3	
	Equity attributable to shareholders	**559.8**	620.0	
	Equity	**594.0**	654.0	
	Equity as % of balance sheet total (solvency ratio)	**25.4**	26.5	
	Net Capital Employed	**1,175.2**	1,217.9	
	Return on Capital Employed (RoCE)	**- 3.4**	1.4	
	Normalized Return on Capital Employed (NRoCE)	**3.3**	3.5	
Free cash flow (cash flow before financing activities)		**- 123.6**	- 47.6	
Number of employees (in full-time equivalents)		**20,900**	22,514	employees
Number of € 0,50 ordinary shares				
	Average number outstanding	**84,886,451**	84,844,037	shares
Per € 0,50 ordinary share				
	Net income (loss) attributable to shareholders (basic)	**- 1.21**	- 0.01	euro
	Net income (loss) attributable to shareholders (diluted)	**- 1.21**	- 0.01	euro
	Equity attributable to shareholders	**5.93**	6.64	euro

Interim Directors' Report

Océ Group results first half year 2010

Income statement

Revenues In the first half of 2010 total revenues amounted to € 1,289.9 million (31 May 2009: € 1,333.7 million), a decrease of 3.3% compared to the first half of 2009. Excluding exchange rates effects, the decrease was 3.5%. The sale of printing systems (non-recurring revenues) decreased organically by 2.2%. Revenues from service, inks, toners, media, rental, interest and business services (recurring revenues) decreased organically by 4.0%. The share of color continues to grow and now accounts for 33% (31 May 2009: 30%)

Gross margin The relative gross margin was 36.9% (31 May 2009: 37.2%). The normalized gross margin was 38.2% (31 May 2009: 37.3%). The increase was the result of several factors. Compared to the first half year of 2009 the changes in currency exchange rates caused a positive hedge variance of € 3.1 million, leading to a gross margin increase of 0.3% point. The gross margin increase for DDS and WFPS in total amounted to 0.6% points. The increase was mainly due to the better utilization of the supply centers in Venlo and Poing and the savings program. The gross margin includes a total of € 16 million integration costs following Océ's decision to impair tooling and inventories due to changes in the product portfolio from certain OEM suppliers to Canon.

Operating expenses Operating expenses as a percentage of total revenues amounted to 38.1% (31 May 2009: 35.9%). Normalized operating expenses amounted to 36.0% (31 May 2009: 36.0%), due to the savings program. In constant currencies operating expenses declined by € 16 million. Net R&D capitalization amounted to € 20.1 million which is € 5.1 million lower compared to the first half year of 2009 (€ 25.2 million). The integration cost recorded under operating expenses amounted in total to € 27 million due to the fact that Océ impaired intangible assets related to supply contracts with certain OEM suppliers as well as to the expected harmonization of Océ IT systems with Canon. Additionally, Océ incurred advisory fees related to the Canon transaction.

Operating income The operating income amounted to - € 15.9 million (31 May 2009: € 17.1 million). Operating income as percentage of total revenues amounted to - 1.2% (31 May 2009: 1.3%). Normalized operating income as percentage of total revenues amounted to 2.1% (31 May 2009: 1.4%).

Finance expenses Finance expenses (net) amounted to € 58.2 million (31 May 2009: € 19.3 million). Océ, through Canon, has refinanced both the multicurrency revolving credit facilities and the United States Private Placements. The total finance expenses related to the repayment of borrowings and the unwind of interest rate swaps amount to € 40 million. The refinancing by Canon does not include financial covenants or commitment fees and is at more favorable interest margins than the aforementioned facilities. The positive effect from the refinancing is not included in the abovementioned integration cost and will be visible in finance expenses from the third quarter onwards.

Taxation In the first half of 2010 taxation amounted to - € 26.9 million (31 May 2009: € 1.2 million). The income tax effect of in total € 20 million results from the abovementioned items, from changes in the valuation of tax assets and liabilities and from reassessments of tax risks. With respect to the valuation of tax assets, as a consequence of the change of control, tax assets in Germany and the United States were (partially) forfeited due to local tax laws.

Net income (loss) Net loss for the six months ended 31 May 2010 amounted to - € 100.8 million (31 May 2009: € 1.0 million net income). Net loss per ordinary share attributable to holders of these shares amounted to - € 1.21 (31 May 2009: - € 0.01). For the first half year the total effect of integration cost on reported net income amounted to - € 103 million.

Overview of integration cost and normalization items

x € million	reported 2010	integration cost	excl. integration cost	norm. items	norm. 2010 excl. integration cost	norm. 2009
Gross margin	476	- 16	492	-	492	498
Operating expenses	492	27	465	-	465	480
Operating income (loss) *(EBIT)*	**- 16**	**- 43**	**27**	**-**	27	18
Finance expenses (net)	58	40	18	-	18	17
Income (loss) before income taxes	- 74	- 83	9	-	9	1
Income taxes	- 27	- 20	- 7	-	-7	-
Net income (loss)	- 101	- 103	2	-	2	1
Free cash flow	- 124	- 48	- 76	-	- 76	-48

Quarterly revenues

x € million	**2010**			2009		
	recurring	non-recurring	total	recurring	non-recurring	total
First quarter	**453**	**161**	**614**	489	169	658
Second quarter	**487**	**189**	**676**	491	185	676
First half year	**940**	**350**	**1,290**	980	354	1,334

Balance sheet

Intangible assets Due to the integration with Canon, Océ has impaired supply contracts with certain OEM suppliers, internally developed software and purchased software for a total amount of € 22.5 million.

Inventory and property, plant an equipment The gross margin includes a total of € 16 million integration cost following Océ’s decision to impair tooling and inventories due to changes in the product portfolio from certain OEM suppliers to Canon.

Borrowings As a result from the integration with Canon, the US Private Placements have been redeemed and the drawings under the multicurrency revolving credit facility have been discontinued. Both have been replaced with loans of Canon. The early redemption of the US Private Placements caused a loss of € 20 million.

Derivative financial instruments Due to discontinuation of the drawings under the multicurrency revolving credit facility (see borrowings), Océ has unwound its interest rate swaps which were intended to hedge (cash flow hedge) the drawings under the multicurrency revolving credit facility. As the forecasted transactions of the hedge are no longer expected to occur, Océ has reclassified the loss accumulated in the hedge reserve of € 20 million to the income statement.

Cash flow

The cash flow before financing activities (free cash flow) amounted to - € 124 million (31 May 2009: - € 48 million), a decrease of € 76 million compared to the first half of 2009. The cash flow from operating activities amounted to - € 78 million, a decrease of € 83 million compared to the first half of 2009 (€ 5 million). This decrease was largely due to integration cost and to lower cash flows from both inventories and accounts receivable. This was partly compensated by a higher cash flow from creditors.
The cash flow from investing activities amounted to - € 46 million (31 May 2009: - € 53 million).
The cash flow from financing activities amounted to € 112 million (31 May 2009: € 177 million). The decrease was largely due to the refinancing of both the multicurrency revolving credit facilities and the United States Private Placements by loans of Canon. The cash dividend distributed to holders of ordinary shares was nil (31 May 2009: nil). The cash dividend paid to holders of financing preference shares relating to the financial year 2009 was nil (31 May 2009: € 2.0 million).

SBUs results first half year 2010

Digital Document Systems (DDS)

Revenues in DDS decreased by 3.9% to € 718.3 million (31 May 2009: € 747.6 million). On an organic basis revenues decreased by 3.9%. The share of color in revenues increased to 28% (31 May 2009: 25%) driven by Océ's production color continuous feed systems. Non-recurring revenues amounted to € 227.4 million (31 May 2009: € 233.5 million), an organic decrease of 2.8%. Recurring revenues amounted to € 490.9 million (31 May 2009: € 514.1 million), an organic decrease of 4.3%. The market deterioration resulted in lower print volumes and subsequently lower revenues in Office and black & white continuous feed. DDS grew its revenues in production cutsheet and continuous feed color.

Wide Format Printing Systems (WFPS)

Revenues in WFPS amounted to € 343.4 million (31 May 2009: € 353.8 million), an organic decrease of 4.4%. The share of color in revenues increased to 47%. (31 May 2009: 45%). For example as result of the newly-introduced Océ ColorWave 300 and Océ CS2400 color systems for the Technical Documentation market. To further strengthen its color portfolio for the wide format Graphics Arts market, Océ launched in June the high-speed Océ Arizona 550 XT flatbed printer which has double the speed of the Océ Arizona 350 XT systems.
Non-recurring revenues amounted to € 122.0 million (31 May 2009: € 120.7 million). Organically, non-recurring revenues decreased by 1.0%. Recurring revenues amounted to € 221.4 million (31 May 2009: € 233.1 million), an organic decrease of 6.2%.

Océ Business Services (OBS)

Revenues in OBS amounted to € 228.2 million (31 May 2009: € 232.3 million), an organic decrease of 1.1%. Revenue growth in Europe continued. The United States is facing a decline in the traditional Mail business, which could only partly be compensated through growth in new services.

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

as %		first quarter 2010	second quarter 2010	first half year 2010
Digital Document Systems	recurring	- 6.2	- 2.5	- 4.3
	non-recurring	- 1.2	- 4.2	- 2.8
	total	- 4.7	- 3.0	- 3.9
Wide Format Printing Systems	recurring	- 9.3	- 3.2	- 6.2
	non-recurring	- 8.4	6.5	- 1.0
	total	- 9.0	0.1	- 4.4
Océ Business Services	recurring	- 0.4	- 1.7	- 1.1
	non-recurring	-	-	-
	total	- 0.4	- 1.7	- 1.1
Total	recurring	- 5.6	- 2.4	- 4.0
	non-recurring	- 3.8	- 0.7	- 2.2
	total	- 5.1	- 2.0	- 3.5

Integration with Canon

Share deal

Canon and Océ announced on 16 November 2009 that they had reached conditional agreement to combine their printing activities through a fully self-funded, public cash offer.

On 28 January 2010, Canon and Océ jointly announced that Canon will make a fully self-funded public cash offer for all the issued and outstanding ordinary shares of Océ at an offer price of € 8.60 per share.
Canon obtained control over Océ on 9 March 2010, owning 77,41% of the share capital.

Canon and Océ

Canon and Océ will work towards creating the best combination in the printing industry. The priorities for 2010 remain unchanged and encompass growth through cross selling opportunities, the co-operation in technology and product development and the preparation of the next step in the integration. In the second half of 2010 we expect the first commercial results via cross-selling of Canon products in Océ channels and vice versa.

Océ and Canon are currently assessing the adequacy of all change of control related items and are in the process of evaluating valuation principles. As a consequence, additional entries or changes in Océ's assets and liabilities may be processed.

Risk profile

Pages 66 and 67 of the Annual Report 2009 contain a summary of the risk assessment that was carried out in 2009 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:

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

The two additional groups of principal risks were:

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

Risks in second half year of 2010

In our view, the nature and potential impact of the risks as mentioned in the 2009 Annual Report will not be materially different for the second half of 2010 for groups 1, 3 and 4.

In addition the following should be noted:

- For strategic pillar 2: The risk has decreased due to introduction of own new products as well as access to full Canon assortment.
- Regarding financial risks: Canon, being our parent company since March 2010, refinanced the external loans. As a Canon subsidiary, Océ is no longer restricted by external covenants as described on pages 98 and 99 in the 2009 Annual Report.

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 2010.

Related party transactions

Major related party transactions are disclosed in note (22) to the Consolidated Interim Financial Statements.

Auditors' involvement

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

Directors' responsibility statement

The members of the Board of Executive Directors hereby declare that, to the best of their knowledge, the Consolidated Interim Financial Statements, 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 the undertakings included in the consolidation as a whole, and the Interim Directors' Statement 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, 29 July 2010

Board of Executive Directors

R.L. van Iperen, *chairman*
H.A. Kerkhoven
A.H. Schaaf

For further information

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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 items: restructuring (higher than € 2.5 million per quarter) and book results on sale of subsidiaries
Integration cost: cost related to the integration with Canon as a result of the share deal
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 after normalized taxes (20%) as a percentage of average Net Capital Employed.
Wide Format printing: wide format printing (bigger than A3).

Consolidated Interim Financial Statements

Consolidated income statement for the six months ended 31 May

x € 1,000	The figures ( ) refer to the notes	**2010**	2009
Total revenues		**1,289,861**	1,333,721
	Cost of sales	**- 813,899**	- 837,205
Gross margin		**475,962**	496,516
	Selling and marketing expenses	**- 275,515**	- 301,657
	Research and development expenses (12)	**- 85,902**	- 83,408
	General and administrative expenses	**- 130,407**	- 96,063
	Other income	**-**	1,697
	Operating expenses	**- 491,824**	- 479,431
Operating loss (income)		**- 15,862**	17,085
	Finance expenses (13)	**- 61,737**	- 25,026
	Finance income (13)	**3,565**	5,772
	Share in income of associates	**123**	1,952
Loss (income) before income taxes		**- 73,911**	- 217
	Income taxes (14)	**- 26.892**	1,226
Net loss (income)		**-100,803**	1,009
Net loss (income) attributable to	Shareholders	**- 101,775**	111
	Minority interest	**972**	898
		- 100,803	1,009
Earnings per ordinary share for net loss(income) attributable to shareholders (euro)	Basic	**- 1.21**	- 0.01
	Diluted	**- 1.21**	- 0.01

Consolidated statement of comprehensive income for the six months ended 31 May

x € 1,000	**2010**	2009
Net loss (income)	**- 100,803**	1,009
Cash flow hedges (net of taxes)	**3,821**	7,540
Currency translation differences	**114,285**	- 32,539
Other comprehensive income (loss)	**118,106**	- 24,999
Total comprehensive income (loss)	**17,303**	- 23,990
Comprehensive income (loss) attributable to:		
Shareholders	**16,331**	-24,888
Minority interest	**972**	898
	17,303	- 23,990

Consolidated statement of financial position as at

x € 1,000	Assets	31 May 2010	30 November 2009
Non-current assets	Intangible assets (15)	**630,741**	563,369
	Property, plant and equipment (16)	**310,436**	316,039
	Rental equipment	**84,602**	81,844
	Associates	**4,237**	4,171
	Derivative financial instruments (17)	**-**	5,032
	Trade and other receivables	**194,549**	186,516
	Deferred income tax assets	**101,558**	92,736
	Available-for-sale financial assets	**8,182**	8,161
		1,334,305	1,257,868
Current assets	Inventories (18)	**301,840**	266,673
	Derivative financial instruments (17)	**17,856**	16,234
	Trade and other receivables	**567,356**	552,495
	Current income tax receivables	**16,739**	12,145
	Cash and cash equivalents	**98,252**	101,765
		1,002,043	949,312
Total		**2,336,348**	2,207,180

x € 1,000	Equity and Liabilities	31 May 2010	30 November 2009
Equity	Share capital	**53,669**	53,669
	Share premium	**512,026**	512,026
	Other reserves	**44,741**	- 91,948
	Retained earnings	**51,148**	119,426
	Net income (loss) attributable to shareholders	**- 101,775**	- 48,929
	Equity attributable to shareholders	**559,809**	544,244
	Minority interest	**34,153**	34,976
		593,962	579,220
Non-current liabilities	Borrowings (19)	**6,991**	464,136
	Derivative financial instruments (17)	**-**	27,162
	Retirement benefit obligations	**380,388**	378,602
	Trade and other liabilities	**42**	5,518
	Deferred income tax liabilities	**35,069**	10,411
	Provisions for other liabilities and charges (20)	**37,405**	38,523
		459,895	924,352
Current liabilities	Borrowings (19)	**672,817**	35,462
	Derivative financial instruments (17)	**17,545**	9,069
	Trade and other liabilities	**560,179**	611,338
	Current income tax liabilities	**8,411**	8,938
	Provisions for other liabilities and charges (20)	**23,539**	38,801
		1,282,491	703,608
Total		**2,336,348**	2,207,180

Consolidated statement of changes in equity for the six months ended

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 December 2008	**53,669**	**512,026**	**- 91,870**	**169,742**	**1,968**	**34,976**	**680,511**
Net income (loss)	-	-	-	-	111	898	1,009
Other comprehensive income (loss)	-	-	- 24,999	-	-	-	- 24,999
Total comprehensive income (loss)	-	-	- 24,999	-	111	898	- 23,990
Share-based compensation:							
value of employee services	-	-	-	30	-	-	30
proceeds from shares reissued	-	-	728	- 173	-	-	555
Movement in legal reserve	-	-	25,058	- 25,058	-	-	-
Appropriation of net income	-	-	-	1,968	- 1,968	-	-
Dividend	-	-	-	- 1,276	-	- 1,795	- 3,071
	-	-	25,786	-24,509	- 1,968	- 1,795	- 2,486
Balance at 31 May 2009	**53,669**	**512,026**	**- 91,083**	**145,233**	**111**	**34,079**	**654,035**
Net income (loss)	-	-	-	-	- 49,040	897	- 48,143
Other comprehensive income (loss)	-	-	- 25,493	-	-	-	- 25,493
Total comprehensive income (loss)	-	-	- 25,493	-	- 49,040	897	- 73,636
Share-based compensation:							
value of employee services	-	-	-	88	-	-	88
proceeds from shares reissued	-	-	-	1	-	-	1
Movement in legal reserve	-	-	24,628	- 24,628	-	-	-
Dividend	-	-	-	- 1,268	-	-	- 1,268
	-	-	24,628	- 25,807	-	-	- 1,179
Balance at 30 November 2009	**53,669**	**512,026**	**- 91,948**	**119,426**	**- 48,929**	**34,976**	**579,220**

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 December 2009	**53,669**	**512,026**	**- 91,948**	**119,426**	**- 48,929**	**34,976**	**579,220**
Net income (loss)	-	-	-	-	- 101,775	972	- 100,803
Other comprehensive income (loss)	-	-	118,106	-	-	-	118,106
Total comprehensive income (loss)	-	-	118,106	-	- 101,775	972	17,303
Share-based compensation:							
value of employee services	-	-	-	- 272	-	-	- 272
proceeds from shares reissued	-	-	257	- 113	-	-	144
Movement in legal reserve		-	18,326	- 18,326	-	-	-
Appropriation of net income	-	-	-	- 48,929	48,929	-	-
Dividend	-	-	-	- 638	-	- 1,795	- 2,433
	-	-	18,583	- 68,278	48,929	- 1,795	- 2,561
Balance at 31 May 2010	**53,669**	**512,026**	**44,741**	**51,148**	**- 101,775**	**34,153**	**593,962**

Consolidated cash flow statement for the six months ended 31 May

x € 1,000	**2010**	2009
Operating income (loss)	**- 15,862**	17,085
Adjustments for:		
Depreciation, amortization and impairment	**110,426**	93,059
Share-based compensation	**- 4,902**	1,458
Result on divestments, disposals	**- 114**	- 1,578
Unrealized gains/losses on financial instruments/other	**15,947**	- 2,848
Changes in:		
Retirement benefit obligations	**- 952**	962
Provisions for other liabilities and charges	**- 16,828**	- 10,123
Rental equipment	**-20,517**	- 19,893
Inventories	**- 16,870**	26,296
Trade and other receivables	**72,606**	75,504
Trade and other liabilities	**- 139,069**	- 127,540
Operating cash flows:		
Interest received	**1,173**	4,860
Interest paid	**- 52,876**	- 39,586
Income taxes	**- 9,793**	- 12,058
Cash flow from operating activities	**- 77,631**	5,598
Investment in intangible assets	**- 39,794**	- 43,159
Investment in property, plant and equipment	**- 17,311**	- 20,549
Divestment of intangible assets	**2,612**	75
Divestment of property, plant and equipment	**863**	1,856
Payments/receipts regarding other non-current assets	**- 357**	- 1,673
Capital increase/decrease in associates	**- 1**	- 3
Dividend from associates	**58**	-
Sale of finance lease portfolio	**8,004**	7,083
Sale of subsidiaries (net of cash)	**-**	3,207
Cash flow from investing activities	**- 45,926**	- 53,163

x € 1,000	**2010**	2009
Proceeds from borrowings	**638,886**	216,773
Repayments of borrowings	**- 524,754**	- 36,696
Dividend paid to shareholders	**-**	- 1,968
Repurchase of/proceeds from treasury shares	**144**	555
Capital decrease/dividend minority interest	**- 1,795**	- 1,795
Cash flow from financing activities	**112,481**	176,869
Currency translation differences	**7,563**	- 5,578
Change in cash and cash equivalents	**- 3,513**	123,726
Cash and cash equivalents at start of financial year	**101,765**	79,361
Cash and cash equivalents at end of reporting period	**98,252**	203,087

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 from the next financial year onwards on 1 January and ends on 31 December. As a consequence thereof the 2010 financial year consists of 13 months, starting at 1 December 2009 and ending on 31 December 2010. The 2010 interim financial period ends on 31 May 2010.

The Consolidated Interim Financial Statements for the six months ended 31 May 2010 have been authorized for issue by both the Board of Supervisory Directors and the Board of Executive Directors on 29 July 2010.

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 31 May 2010 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 30 November 2009, 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 (5) the accounting policies applied are consistent with those followed in the Consolidated Financial Statements for the year ended 30 November 2009, as described in those Consolidated Financial Statements.

(4) Seasonality of sales

Revenues and results of Océ are impacted by the seasonality of sales whereas the fourth quarter is the strongest quarter and the first quarter is the weakest quarter in the financial year. Due to the downturn in the market, Océ does not expect the seasonality to occur in the same way as in previous financial years.

(5) New accounting standards

Standards, amendments, revisions and interpretations effective to Océ in 2010:

IAS 1 (Amendment) 'Presentation of Financial Statements' The amendment is applicable for annual periods beginning on or after 1 January 2009. The amendment intends to improve users' capability of analyzing and comparing the information in financial statements. As a result of the application of this amendment, Océ presents the statement of comprehensive income separately from the income statement.

IAS 23 (Amendment) 'Borrowing costs' The amendment to IAS 23 is applicable for annual periods beginning on or after 1 January 2009. The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. Océ did not use the option to expense interest cost immediately, therefore the application of this amendment did not have a significant impact on the consolidated interim financial statements.

IAS 27 (Revision) 'Consolidated and separate Financial Statements' IAS 27 (Revised) is applicable for annual periods beginning on or after 1 July 2009. IAS 27 (Revised) supersedes IAS 27 (issued in 2003) and aligns the requirements with the requirements of US standard SFAS No. 160 'Noncontrolling Interests in Consolidated Financial Statements'. The revision of IAS 27 did not have a significant impact on the consolidated interim financial statements.

IAS 32 and IAS 1 (Amendment) 'Puttable Financial Instruments and Obligations Arising on Liquidation'
The amendments to IAS 32 and IAS 1 are applicable for annual periods beginning on or after 1 January 2009. The amendments require financial instruments 'puttable

at fair value' and financial instruments that give right to payments on liquidation under certain circumstances to be classified as equity. Océ does not have financial instruments 'puttable at fair value' and financial instruments that give right to payments on liquidation under certain circumstances, therefore this amendment did not have an impact on the consolidated interim financial statements.

IAS 39 (Amendment) 'Eligible hedge items' The amendment to IAS 39 is applicable for annual periods beginning on or after 1 July 2009. The amendment clarifies how the principles that determine whether a risk or portion of cash flows that is eligible for designation should be applied in particular situations. This amendment did not have a significant impact on the consolidated interim financial statements.

IFRS 1 and IAS 27 (Amendment) 'Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate' The amendments of IFRS 1 and IAS 27 are applicable for annual periods beginning on or after 1 January 2009. The amendments no longer require the application of the 'cost' method for accounting an investment in a subsidiary, jointly-controlled entity or associate. This amendment did not have a significant impact on the consolidated interim financial statements.

IFRS 2 (Amendment) 'Vesting Conditions and Cancellations' The amendment to IFRS 2 is applicable for annual periods beginning on or after 1 January 2009. The amendment provides clarification of the definition of vesting conditions and the treatment of all non-vesting conditions. This amendment did not have a significant impact on the consolidated interim financial statements.

IFRS 3 (Revision) 'Business Combinations' IFRS 3 (Revised) is applicable for annual periods beginning on or after 1 July 2009. IFRS 3 (Revised) supersedes IFRS 3 (issued in 2004) and aligns accounting for business combinations with the requirements of US standard SFAS No. 141 'Business Combinations'. Océ did not acquire any enterprises, the revision of IFRS 3 did not have an impact on the consolidated interim financial statements.

IFRS 7 (Amendment) 'Improving Disclosures about Financial Instruments' The amendments to IFRS 7 are applicable for annual periods beginning on or after 1 January 2009. The amendments introduce a three-level hierarchy for fair value measurement disclosures and require companies to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk. This amendment led to an enhanced disclosure regarding financial instruments.

IFRS 8 'Segment Reporting' IFRS 8 is applicable for annual financial statements for periods beginning on or after 1 January 2009. IFRS 8 supersedes IAS 14 'Segment Reporting' and aligns segment reporting with the requirements of US standard SFAS No. 131 'Disclosures about Segments of an Enterprise and Related Information'. Océ is currently investigating the impact of the application of IFRS 8 on the annual financial statements.

IFRIC 17 'Distribution of Non-cash Assets to Owners IFRIC 17 is applicable for annual periods beginning on or after 1 July 2009. IFRIC 17 provides guidance on how an entity should measure distributions of assets other than cash when it pays dividends to its shareholders. The IFRIC did not have a significant impact on the consolidated interim financial statements.

IFRIC 18 'Transfers of Assets from Customers' IFRIC 18 is applicable to transfers of assets from customers received on or after 1 July 2009. IFRIC 18 clarifies the requirements of IFRS from agreements in which a company receives an item of property plant and equipment from a customer, that the company must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as electricity, gas or water). In the Océ Business Service segment, Océ takes over print rooms from customers (outsourcing) in order to provide the customer with a ongoing access to print services. In most situations the existing equipment is replaced by Océ equipment, therefore IFRIC 18 did not have a significant impact on the consolidated interim financial statements.

Share deal with Canon

(6) On 9 March 2010 Canon acquired 77,41% of the share capital of Océ. As of that date Canon obtained the power to govern Océ's financial and operating policies.

Financial and Capital Risk Management

As a result of the integration with Canon the following items have changed compared to the 2009 financial statements.

(7) Liquidity and capital risk
The majority of the third party borrowings have been replaced by intercompany loans provided by Canon and the multicurrency revolving credit facilities have been cancelled.
As a Canon subsidiary, Océ is no longer restricted by external covenants as described on pages 98 and 99 in the 2009 Annual Report.

(8) Market risk
Cash flow Interest rate risk As a result of the replacement of third party borrowings by Canon intercompany loans, Océ has chosen to stop managing the cash flow interest rate risk and has unwound its interest rate swaps.

Critical accounting estimates and assumptions

(9) Fair value hierarchy
IFRS 7 distinguishes between 3 levels of fair value measurement for financial instruments:
Level 1: Quoted prices in active markets;
Level 2: Observable prices other than quoted prices;
Level 3: Unobservable prices.

The fair value of all financial instruments measured at fair value is in the level 2 category except for available-for-sale financial assets. Listed securities in the available-for-sale category (€ 0.3 million) are measured using level 1 fair value and unlisted securities in the available-for-sale category (€ 7.9 million) are measured using level 3 fair value. The amount of level 3 fair value is considered immaterial.

(10) Currencies of importance

	average exchange rate of 1 euro during the six months ended		exchange rate of 1 euro at the balance sheet dates		
	31 May 2010	31 May 2009	**31 May 2010**	30 November 2009	31 May 2009
Pound sterling	**0.88**	**0.90**	**0.85**	0.89	**0.88**
US dollar	**1.36**	**1.32**	**1.23**	1.38	**1.41**
Australian dollar	**1.52**	**1.91**	**1.45**	1.79	**1.77**
Swiss franc	**1.46**	**1.51**	**1.42**	1.51	**1.51**
Japanese yen	**124.5**	**125.79**	**112.29**	129.97	**135.38**

(11) Segment reporting

Business segmentation of the selected income statement lines for the six months ended 31 May is disclosed in the table below:

x € million	Digital Document Systems		Wide Format Printing Systems		Océ Business Services		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Total revenues	**719**	748	**343**	354	**228**	232	**1,290**	1,334
Inter-segment revenues	**25**	23	**4**	5	**-**	-	**29**	28
Operating income	**-39**	-4	**15**	14	**8**	7	**-16**	17

Geographical information of total revenues for the six months ended 31 May 2009 is disclosed in the table below:

X € million	**2010**	2009
United States	**453**	488
Germany	**142**	150
The Netherlands	**143**	143
France	**97**	100
United Kingdom	**84**	81
Rest of Europe	**253**	262
Countries outside Europe and the United States	**118**	110
Total	**1,290**	1,334

(12) Research and development expenses

Research and development expenses amounted to € 85.9 million in the first half of 2010 (31 May 2009: € 83.4 million). In 'Research and development expenses' an amount of € 12.8 million was recognized regarding amortization of capitalized development expenses (31 May 2009: € 8.5 million). During the six months ended 31 May 2010 an amount of € 32.7 million of development expenditure was capitalized (31 May 2009: € 33.8 million).

(13) Finance income and expense

x € 1,000	2010
Interest expenses	15,922
Commitment fees	3,013
Unwind of discounts of provisions	84
Redemption of loans	19,977
Reclassified from the hedge reserve	19,471
Other finance expenses	3,270
Finance expenses	- 61,737
Finance income	3,565
Total	- 58,172

As a result from the integration with Canon the US Private Placements have been redeemed and the drawings under the multicurrency revolving credit facility have been discontinued. Both have been replaced with loans of Canon. The early redemption of the US Private Placements caused a loss of € 20.0 million. As a result of the discontinuation of the drawings under the multicurrency revolving credit facility, Océ also unwound the interest rate swaps which were designated as a cash flow hedge on the drawings under the multicurrency revolving credit facility. As the hedged item was redeemed, the loss accumulated in the hedge reserve was expensed to the income statement.

(14) Income taxes

The estimated weighted average annual tax rate used for the financial year 2010 is 28.5% (2009: 25.0%).
As a result of the integration with Canon, Océ derecognized € 20 million. This related to the German and United States deferred tax position. By German law the deferred tax assets become impaired if more than 25% of the shares change in ownership. A similar law is applicable in the United States. As a result of the reassessment of tax risks under current circumstances, Océ has identified
€ 20 million of additional tax risks in several countries.

(15) Intangible assets

During the six months period ended 31 May 2010 expenditure in intangible assets amounted to € 39.8 million of which € 34.3 million related to internally generated technology and software. Amortization of intangible assets amounted to € 28.4 million in the first half year of 2010 of which € 16.5 million related to internally generated technology and software. The carrying amount of internally generated technology and software amounted to € 178.2 million as at 31 May 2010 (30 November 2009: € 160.0 million). Due to the integration with Canon, Océ has impaired supply contracts with certain OEM suppliers and internally developed software for a total amount of € 22.5 million.

Goodwill increased by € 67.2 million due to exchange rate differences. This increase is recognized directly in equity in the reserve for currency translation differences.

(16) Property, plant and equipment

x € 1,000	
At 1 December 2009	316,039
Expenditure	17,311
Divestments	749
Impairment	2,000
Depreciation	31,482
Exchange differences	11,317
At 31 May 2010	310,436

During the six months ended 31 May 2010 expenditure in Property, plant and equipment amounted to € 17.3 million (31 May 2009: € 20.5 million) and mainly related to investments in other equipment (€ 7.4 million) and other non-current assets (€ 4.2 million). An impairment loss was recognized of € 2 million following Océ's decision to impair tooling due to changes in the product portfolio from certain OEM suppliers to Canon.

(17) Derivative financial instruments

x € 1,000	31 May 2010		30 November 2009	
	assets	liabilities	assets	liabilities
Interest rate swaps	-	-	641	24,095
Foreign exchange contracts	-	-	-	3,067
Cap on financing preference shares	-	-	4,391	-
Non-current	-	-	5,032	27,162
Foreign exchange contracts	**17,822**	**17,071**	15,851	9,069
Embedded derivatives	**34**	**474**	383	-
Current	**17,856**	**17,545**	16,234	9,069
Total	**17,856**	**17,545**	21,266	36,231

Due to discontinuation of the drawings under the multicurrency revolving credit facility (see borrowings), Océ has unwound interest rate swaps which were intended to hedge (cash flow hedge) the drawings under the multicurrency revolving credit facility. As the forecasted transactions of the hedge are no longer expected to occur, Océ has reclassified the loss accumulated in the hedge reserve of € 19.5 million to the income statement.

(18) Inventories

x € 1,000	31 May 2010	30 November 2009
Raw and other materials	**44,915**	46,479
Semi-finished products and spare parts	**65,322**	85,368
Finished products and trade inventories	**191,603**	134,826
Total	**301,840**	266,673

An impairment loss was recognized on semi-finished products and spare parts for € 14 million following Océ's decision to impair inventories due to changes in the product portfolio from certain OEM suppliers to Canon.

(19) Borrowings

x € 1,000	**31 May 2010**	30 November 2009
Convertible debentures to employees	**-**	3,847
8.43% semi-annual USPP Notes due in 2011	**-**	100,246
8.56% semi-annual USPP Notes due in 2013	**-**	38,502
8.63% semi-annual USPP Notes due in 2016	**-**	1,992
8.07% semi-annual USPP Notes due in 2016	**-**	21,964
Drawn under € 500 million multicurrency facility	**-**	183,918
Drawn under € 150 million multicurrency facility	**-**	103,333
Other loans	**663**	5,641
Finance lease obligations	**6,328**	4,693
Non-current	**6,991**	464,136
Convertible debentures to employees	**-**	906
Canon Euro loan	**380,000**	-
Canon USD loans	**272,586**	-
Bank overdrafts	**16,359**	12,537
Other loans	**276**	18,923
Finance lease obligations	**3,596**	3,096
Current	**672,817**	35,462
Total	**679,808**	499,598

As a result of the integration with Canon Océ has redeemed its borrowings and replaced these borrowings with borrowings provided by Canon. The settlement of the borrowings resulted in a loss of € 20 million compared to the carrying amount. Both multi-currency facilities have been suspended.
Océ has a credit facility with Canon for € 670 million ending on 31 January 2011.

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

x € 1,000	**31 May 2010**	30 November 2009
Euro	**395,583**	54,806
US dollar	**283,485**	347,972
Pound sterling	**-**	32,703
Other	**740**	64,117
Total	**679,808**	499,598

(20) Provisions for other liabilities and charges

x € 1,000	other long term employee benefits	employee termination benefits	restructuring	other	total
At 1 December 2009	27,061	8,300	29,020	12,943	77,324
Addition charged to income statement	2,661	679	4,538	1,543	9,421
Unused amounts reversed to income statement	- 1	-	- 290	- 1,015	- 1,306
Used	- 2,344	- 1,684	- 18,661	- 2,338	- 25,027
Unwinding of discount	84	-	-	-	84
Exchange differences	184	24	348	- 108	448
At 31 May 2010	27,645	7,319	14,955	11,025	60,944
Current	3,221	3,343	12,506	4,469	23,539
Non-current	24,424	3,976	2,449	6,556	37,405
Total	27,645	7,319	14,955	11,025	60,944

(21) Dividend payments
In the first half of 2010 no dividend was paid (first half year of 2009: € 2.0 million).

(22) 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 2010 compared with the disclosures made in the Consolidated Financial Statements for the year ended 30 November 2009.

In the event that the services of any member of the Board of Executive Directors are terminated certain arrangements are made, which are published in the Offer Memorandum dated 28 January 2010.

Océ has refinanced its debt by loans of Canon. Reference is made to note (19).

(23) Commitments and contingent liabilities
In the first half of 2010 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 30 November 2009.

(24) Events after the balance sheet date
There were no events after the balance sheet date which are relevant to the Consolidated Interim Financial Statements. Océ and Canon are currently assessing the adequacy of all change of control related items. As a consequence, additional entries or changes in Océ's accounts may be processed.

(25) Shareholders with a substantial holding (of 5% or more) As at 31 May 2010 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%.

Above overview is based on the AFM notifications and registration. For current status, please consult the AFM reference system on their website www.afm.nl/registers.

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).

Any forward-looking statements in 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.

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 Annual 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 this Annual Report and 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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