



Océ
Quarterly
report 2011/3

Results third quarter 2011



Océ N.V.

Canon
CANON GROUP

July 2011 – September 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 reports net loss and improved printer sales

Highlights third quarter (ended 30 September 2011):

- Total revenues: € 621 million organically in line with prior year
- Organically: non-recurring revenues + 5%, recurring revenues - 2%
- Normalized operating income: € 1 million (2010: € 22 million)
- Net loss: € - 22 million (2010: € 8 million)
- Successful launch major new joint Canon-Océ technology and printers

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

'Third quarter printer sales improved over the previous year thanks to our comprehensive product range and a recovering supply chain. Despite increased printer sales we need to significantly improve our bottom line. Therefore we will continue to carry out measures to mitigate the ongoing challenging conditions. These include a continuous ramping up of the production of new machines, intensifying marketing and sales efforts and ongoing stringent cost control.'

Reviewing the third quarter our printer sales improved. Production of continuous feed printers such as the Océ ColorStream 3500 system was ramped up and sales developed favorably. After having completed their learning phase in the first half of 2011, our sales force increasingly sold Canon printing systems connected to Océ software solutions. Overall construction and engineering markets remained weak in the USA and Europe, impacting wide format printer sales.

During the quarter, jointly with Canon, we have launched the Océ DirectPress technology as well as new black & white and color productive printers. These new products have been developed by the combination. In addition Océ participated in the kick off of an open innovation center, where corporations and knowledge institutes jointly will develop new document services. This is fully in line with our commitment to leveraging the opportunities of the growing document services markets.'

Key figures*	Third quarter**		
	2011	2010	Δ
In million €			
Total revenues	621	665	– 44
Normalized operating income	1	22	– 21
Normalization items	– 12	– 5	– 7
Operating income (EBIT)	– 11	17	– 28
Net income	– 22	8	– 30
Normalized free cash flow	– 4	– 8	4

* The figures in this report are unaudited.

** These third quarter figures cover the period July – September for both years.

Group results third quarter 2011

Revenues

Total revenues were organically in line with prior year amounting to € 621 million (including currency and divestments effects revenues declined by – 7%).

Non-recurring revenues grew organically by 5% to € 185 million, reflecting the comprehensive product portfolio and a recovering supply chain.

Recurring revenues decreased organically by – 2% to € 436 million due to the developments in DDS and WFPS.

Gross margin and operating income

In the third quarter of 2011, *normalized gross margin* was 59.9% (2010: 63.5%). Gross margin declined as a consequence of a change in product mix in both DDS and WFPS.

Normalized operating expenses amounted to 59.8% of revenues (2010: 60.2%) Total R&D cost increased € 6 million versus the same period last year, mainly due to lower capitalization. Compared to the same quarter of

2010 the total expense declined organically by € – 4 million to € 371 million.

On balance, *normalized operating income* amounted to € 1 million (2010: € 22 million).

Operating income amounted to € – 11 million (2010: € 17 million), including € – 12 million normalization items (2010: € – 5 million). The normalization items relate mainly to restructuring and to integration items.

Finance expenses (net) and net income

Finance expenses (net) amounted to € – 5 million (2010: € – 8 million).

Net income was € – 22 million (2010: € 8 million, including normalization items).

Normalized free cash flow

Normalized free cash flow in the third quarter of 2011 was € – 4 million (2010: € – 8 million). Despite the decline in the normalized operating income, the normalized free cash flow was above the same period last year.

Update cooperation with Canon

In the third quarter, revenues from the sale of Canon products by Océ continued to grow, in line with the trend set in the previous quarter. The Océ sales staff is now fully up to speed in selling Canon printers. The number of orders for Océ systems signed by Canon sales staff grew gradually compared to the second quarter. Canon and Océ won a very sizable deal in the US with FedEx Office, partly consisting of cutsheet production printers from the Océ VarioPrint 6000 series. Commenting on the combination, industry analysts* stated that “Canon and Océ are able to compete for deals they were not able to go after independently.”

Following the successful launch of the imagePRESS C7010VPS in March, Canon and Océ launched two new productive printers in the quarter. The Océ VarioPrint DP Line runs at four print speeds (print speeds up from 90 to 135 ppm) and combines Océ DirectPress technology and Canon scanner and finishing functions. The imageRUNNER ADVANCE C9000S PRO series contains Canon hardware connected to the workflow management of the Océ PRISMAsync controller. Industry analysts* commented on the launches that “the speed of the integration of the two companies is impressive”.

*Source: *InfoTrends*, “Océ/Canon Joint Product Launches,” September 2011.

Key figures per Strategic Business Unit third quarter 2011

<i>In million € / as %</i>	DDS	WFPS	OBS	Total
Revenues	346	167	108	621
<i>Organic development in revenues</i>	1%	– 2%	– 1%	0%
Non-recurring revenues	121	64		185
<i>Organic development in non-recurring revenues</i>	9%	– 1%		5%
Recurring revenues	225	103	108	436
<i>Organic development in recurring revenues</i>	– 3%	– 3%	– 1%	– 2%
Normalized operating income	– 14	10	5	1

SBU results third quarter 2011

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

Digital Document Systems (DDS)

Cutsheet printer sales increased thanks to a recovering supply chain and the comprehensive product portfolio. In the quarter, Canon and Océ launched two new co-developed production printing systems: the Océ VarioPrint DP line, a series of black and white systems, and the Canon imageRUNNER Advance, a light production color printer.

Continuous feed printer sales improved, driven by placements of Océ JetStream and Océ ColorStream 3500 systems. In July, Océ signed a contract with Itergo Informations-technology GmbH in Germany for the installation of four Océ ColorStream 3500 printing systems. In September Océ announced the fastest full-color digital inkjet printer, the Océ JetStream 3000 MICR. ‘Magnetic Ink Character Recognition’ (MICR) is essential in production environments that print transactional, insurance and direct mail documents.

With regard to the strategic alliance with

manroland, established early 2011, joint marketing programs are being implemented in the US, Europe, China and Australia.

Revenues in DDS amounted to € 346 million. Organically, revenues increased by 1%. *Non-recurring revenues* increased to € 121 million, organically by 9%.

Recurring revenues amounted to € 225 million. Organically, revenues declined by – 3%.

Normalized operating income amounted to € – 14 million (2010: € 8 million).

Wide Format Printing Systems (WFPS)

In the quarter, the construction markets in the USA and Europe remained weak, impacting the performance of WFPS. Sales of technical documentation printers was picking up in North America and Asia due to the success of specific placement programs. Jointly with Canon, Océ wide format sales force has intensified marketing efforts in India, Korea and Japan. Printing volume was affected by the poor business climate in the construction and engineering market.

In September, Océ launched the Océ ColorWave 2nd Edition for large format black &

white and color printing, scanning and copying. With this system, architects and engineers no longer need to invest in separate printers and scanners for large B&W and color documents. Driven by innovative industrial design, the 2nd Edition of the Océ ColorWave 300 requires less floor space in the offices of architects and engineers.

Revenues in WFPS amounted to € 167 million. Organically, revenues decreased by – 2%. *Non-recurring revenues* amounted to € 64 million. Organically, revenues declined by – 1%.

Recurring revenues amounted to € 103 million. Organically, revenues declined by – 3%, mainly due to the decline in Imaging Supplies.

Normalized operating income amounted to € 10 million (2010: € 9 million).

Océ Business Services (OBS)

On 15 September the Open Innovation Center at Document Services Valley in The Netherlands was opened. In this Open Innovation Center, corporations and knowledge institutes jointly will develop new document services. Océ's participation confirms the commitment to leveraging the opportunities of the growing document services market. During the opening, professor Jos Lemmink, Dean of the School of Business and Economics, Maastricht University, was installed as the first professor to the Canon-Océ endowed Chair for Business Services Innovation. In 2010, Canon Inc. granted this chair in order to promote innovation and knowledge development.

In the quarter, OBS experienced mixed revenue development, due to challenging market conditions, impacted by economic uncertainty and low economic growth. As a consequence, revenues decreased organically with – 1% to € 108 million.

Océ anticipates a considerable growth of the number of digital documents as a consequence of many people operating with digital devices. In order to manage their digital documents, organizations are looking for professional document management companies, enabling them to decrease their document related costs and increase efficiencies. Therefore, organizations are increasingly demanding added value document management services. Océ will continue to grow the share of higher margin added value services like E-discovery within the OBS revenue portfolio.

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

Outlook 2011

For the fourth quarter, the priorities remain unchanged. Océ will continue to carry out three types of actions to address the ongoing challenging conditions.

In the first place, Océ will continue to ramp up production of new products that were recently introduced and well received in the market. Océ will intensify marketing and sales efforts to increase revenues. And Océ will continue its stringent cost control program to improve the bottom line.

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

Board of Executive Directors Océ N.V.
19 October 2011

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

Quarterly report 2011/3

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.

Quarterly report 2011/3

Consolidated Income Statement

In million €	Third quarter 2011	Comparable period 2010	Nine months 2011	Comparable period 2010
Total revenues	621.3	665.1	1,884.9	1,988.0
Cost of sales	– 249.9	– 242.9	– 725.3	– 748.1
Gross margin*	371.4	422.2	1,159.6	1,239.9
Operating expenses	– 382.9	– 405.1	– 1,186.8	– 1,235.5
Operating income	– 11.5	17.1	– 27.2	4.4
Financial expenses	– 5.9	– 8.6	– 17.3	– 67.8
Financial income	0.7	0.1	1.8	3.1
Share in income of associates	0.0	0.2	3.1	0.3
Income before income taxes	– 16.7	8.8	– 39.6	– 60.0
Income taxes	– 5.3	– 0.8	– 2.9	– 29.8
Net income	– 22.0	8.0	– 42.5	– 89.8
Net income attributable to:				
Shareholders	– 22.5	7.5	– 44.0	– 91.3
Minority interest	0.5	0.5	1.5	1.5
	– 22.0	8.0	– 42.5	– 89.8
Free cash flow	– 13.6	– 13.1	– 85.3	– 69.8
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	– 0.27	0.08	– 0.54	– 1.10

* 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*.

Quarterly report 2011/3

Consolidated Balance Sheet

		End of third quarter 2011	End of financial year 2010
<i>In million €</i>			
Non-current assets	Assets		
	Intangible assets	563	570
	Property, plant and equipment	283	297
	Rental equipment	76	76
	Associates	4	3
	Derivative financial instruments	0	0
	Trade and other receivables	151	181
	Deferred income tax assets	106	99
	Available-for-sale financial assets	7	8
		1,190	1,234
Current assets			
	Inventories	306	294
	Derivative financial instruments	6	7
	Trade and other receivables	559	542
	Current income tax receivables	3	9
	Cash and cash equivalents	59	56
		933	908
Total		2,123	2,142
Equity and Liabilities			
Equity			
	Share capital	54	54
	Share premium	512	512
	Other reserves	– 20	– 14
	Retained earnings	– 102	70
	Net income attributable to shareholders	– 44	– 167
	Equity attributable to shareholders	400	455
	Minority interest	32	33
		432	488
Non-current liabilities			
	Borrowings	5	7
	Derivative financial instruments	0	0
	Retirement benefit obligations	359	368
	Trade and other liabilities	0	0
	Deferred income tax liabilities	13	13
	Provisions for other liabilities and charges	37	43
		414	431
Current liabilities			
	Borrowings	748	658
	Derivative financial instruments	9	5
	Trade and other liabilities	496	533
	Current income tax liabilities	7	10
	Provisions for other liabilities and charges	17	17
		1,277	1,223
Total		2,123	2,142

Quarterly report 2011/3

Consolidated Statement of Changes in Equity attributable to shareholders

<i>In million €</i>	Nine months 2011	Financial year 2010
Balance at 1 January 2011 / 1 December 2009	455	544
Net income attributable to shareholders	– 44	– 167
Dividend	6	– 3
Share-based compensation	0	1
Purchase of treasury shares	0	0
Cash flow hedges	– 2	7
Currency translation differences	– 15	73
Balance at 30 September 2011 / 31 December 2010	400	455

Organic growth in revenues

	Third quarter 2011	Nine months 2011
<i>As percentage</i>		
Non-recurring revenues		
Digital Document Systems	9.0%	– 8.1%
Océ Business Services	–	–
Wide Format Printing Systems	– 1.1%	3.8%
Total	5.4%	– 3.9%
Recurring revenues		
Digital Document Systems	– 2.9%	– 3.1%
Océ Business Services	– 1.1%	0.1%
Wide Format Printing Systems	– 2.8%	– 2.5%
Total	– 2.4%	– 2.2%
Total revenues		
Digital Document Systems	0.9%	– 4.7%
Océ Business Services	– 1.1%	0.1%
Wide Format Printing Systems	– 2.1%	– 0.2%
Total	– 0.3%	– 2.6%

Quarterly report 2011/3

Consolidated Cash Flow Statement

<i>In million €</i>	Nine months 2011	Nine months 2010
Operating income	- 27	4
<i>Adjustments for:</i>		
Depreciation, amortization and impairment	117	153
Share-based compensation	0	- 5
Result on divestments, disposals	- 8	0
Unrealized gains/losses on financial instruments / Other	- 8	- 2
<i>Changes in:</i>		
Retirement benefit obligations	0	- 5
Provision for other liabilities and charges	- 5	- 18
Rental equipment	- 35	- 34
Inventories	- 15	- 35
Trade and other receivables	- 38	4
Trade and other liabilities	- 12	- 3
<i>Operating cash flows:</i>		
Interest received	3	1
Interest paid	- 14	- 59
Income taxes	- 7	5
Cash flow from operating activities	- 49	6
Investment in intangible assets	- 40	- 53
Investment in property, plant and equipment	- 36	- 31
Divestment of intangible assets	1	0
Divestment of property, plant and equipment	6	0
Payments/receipts regarding other non-current assets	2	0
Capital increase/decrease in associates	2	0
Dividend from associates	0	0
Sale of finance lease portfolio	3	8
Sale of subsidiaries (net of cash)	26	0
Acquisitions (net of cash)	0	0
Cash flow from investing activities	- 36	- 76
Free cash flow	- 85	- 70
Proceeds from borrowings	94	625
Repayments of borrowings	- 3	- 571
Dividend paid to shareholders	0	0
Repurchase of/proceeds from treasury shares	0	0
Capital decrease/dividend paid to minority interest	- 2	0
Cash flow from financing activities	89	54
Currency translation differences	- 1	4
Changes in cash and cash equivalents	3	- 12
Cash and cash equivalents at start of financial year	56	79
Cash and cash equivalents at end of reporting period	59	67

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.

Quarterly report 2011/3

Forward-looking statements

Forward-looking statements

This report contains information as referred in article 5:59 jo. 5:53 of the Dutch Financial Supervision Act (Wet op het financieel toezicht).

Forward-looking statements, which can form a part of this report refer to future events and may be expressed in a variety of ways, such as 'expects', 'projects', 'anticipates', 'intends' or other similar words ("Forward-looking statements").

Océ N.V. ("Océ") has based these forward-looking statements on its current expectations and projections about future events. Océ's expectations and projections may change and Océ's actual results, performance or achievements could differ significantly from the results expressed in or implied by these forward-looking statements due to possible risks and uncertainties and other important factors which are neither manageable nor foreseeable by Océ and some of which are beyond Océ's control.

When considering these forward-looking statements, you should bear in mind these risks, uncertainties and other important factors described in this report or in Océ's other annual or periodic filings.

For a non-limitative discussion of the risks, uncertainties and other factors that may affect Océ's actual results, performance or achievements, we refer you to the annual report and any other publications issued by Océ.

In view of these uncertainties no certainty can be given about Océ's future results or financial position. We advise you to treat Océ's forward-looking statements with caution, as they speak only as of the date on which the statements are made. Océ is under no obligation to update or revise publicly any

forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required under applicable (securities) legislation.

Océ enables its customers to manage their documents efficiently and effectively by offering innovative print and document management products and services for professional environments.