

EOS Strategic Review Update

Canberra, 29 July 2022

Electro Optic Systems Holdings Ltd ("EOS") has been conducting a strategic review of the business. This release updates the market on its key findings and the business transformation and organisational changes being implemented as a result of those findings.

Key Findings

- Confidential market soundings have provided strong validation of the strength and unique market proposition of the Defence and Space businesses, in particular relating to EOS' core competencies in innovating and bringing new technologies to market across remote weapon systems, counter-UAS (uninhabited aerial systems), space tracking and domain awareness.
- EOS has a valuable role to play in developing Australia's sovereign defence capabilities and as supplier of unique systems into global defence and space programs.
- The current geopolitical environment has also stimulated increasing interest in a broad range of defence capabilities of the future.
- However, given overall capital constraints, EOS requires greater discipline in focusing its finite resources on where it has a clear global competitive advantage, such as in optical and laser technology to track and target objects for defence and space purposes.
- This will necessitate that the company focus on fewer projects but with greater commercial prospects. EOS will target improvements in product fit and systems integration to meet specific customer needs while ensuring sustainable post sales maintenance and support.
- Leadership succession, (already underway through the appointment of Dr Andreas Schwer as CEO), bringing stronger commercial experience in the defence and space sectors, is required to drive a significant transformation agenda.
- Notwithstanding its attractive potential medium-to-longer term return profile, the ongoing commercialisation of SpaceLink can only occur with the participation of a strategic or financial investor with an understanding of the specialised nature of that sector given the capital requirements and risk profile of that investment.

Forward Looking Strategy

- As previously announced, the Company welcomes the appointment of Dr Andreas Schwer who will commence his role as CEO on 1 August. Dr Schwer will be joined by incoming CFO Mr Clive Cuthell from 5 September.
- The new leadership team led by Dr Schwer will drive the transformation initiatives required to address the recommendations of the Strategic Review. This will include:
 - A simplification of the business to focus on the core Defence and Space Technology businesses
 - Undertake an organisational restructure to right size the cost base for a more focused strategy and bolster teams where required
 - Systematically prioritise R&D spending so that it better aligns with commercial investment criteria
 - Significantly improve the sales and go to market capability in the selected geographic markets of Asia, Europe and the US, to reduce customer concentration risk in the Middle East
- Whilst market soundings validated the unique commercial proposition of SpaceLink, the focus of the Board will be on the Defence and Space Technologies businesses. Accordingly, capital will be prioritised to these areas and the Board will continue to explore partnership and divestment options for SpaceLink. Funds into SpaceLink will only be allocated to optimise its value in pursuit of those outcomes.
- During the Strategic Review, the company received various unsolicited inbound indicative and incomplete proposals for both the divestiture of discrete business units, as well as broader merger combinations. To date, in the opinion of the Board, no proposition has offered an outcome that would be sufficiently attractive to EOS shareholders. Moreover, the Board is firmly of the view that at this time the management team should be solely focussed on business transformation of the core business.

The Board will, in the normal course of business, continue to review any opportunities that have the potential to maximise EOS shareholder value. However, there is no guarantee that any particular transaction will eventuate.

Funding

- The Company is well advanced in negotiations with a number of established providers who have offered debt or hybrid instruments to satisfy the near-term capital requirements

of the business. These requirements include the funds required to implement the proposed business transformation initiatives referred to above.

- The Company is also in discussions to either replace or extend an existing \$35 million debt facility.

This announcement has been authorised for release to the ASX by the Board of Directors.

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ABOUT ELECTRO OPTIC SYSTEMS (ASX: EOS)

EOS operates in two divisions: Defence Systems and Space Systems

- Defence Systems specialises in technology for weapon systems optimisation and integration, as well as ISR (Intelligence, Surveillance and Reconnaissance) and C4 systems for land warfare. Its key products are next-generation remote weapon systems, vehicle turrets, counter-UAS and C4 systems.
- Space Systems includes all EOS space and communications businesses, and operates as three entities – SpaceLink, EM Solutions and Space Technologies. SpaceLink is developing a constellation of Medium Earth Orbit satellites to create the communications superhighway for the space economy. EM Solutions provides global satellite communications services and systems. Space Technologies specialises in applying EOS-developed optical sensors to detect, track, classify and characterise objects in space and remains integral to research and development across the group.

This announcement may contain certain "forward-looking statements" including statements regarding EOS' intent, belief or current expectations with respect to EOS' business and operations, market conditions, results of operations, financial condition, and risk management practices. The words "likely", "expect", "aim", "should", "could", "may", "anticipate", "predict", "believe", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings, financial position and performance, establishment costs and capital requirements are also forward-looking statements. Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. This announcement may contain such statements that are subject to risk factors associated with an investment in EOS. Forward-looking statements involve known and unknown risks, uncertainties and assumptions and other important factors that could cause the actual results, performances or achievements of EOS to be materially different from future results, performances or achievements expressed or implied by such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this announcement.