

EOS Company Update 12 May 2017



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ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

PROXY SUMMARY FOR ANNUAL GENERAL MEETING ON FRIDAY 12 MAY 2017 AT 9.30 AM

| <u>RESOLUTION</u> | <u>MATTER FOR CONSIDERATION</u> | <u>TOTAL</u> | <u>FOR</u> | <u>AGAINST</u> | <u>DISCRETION</u> | <u>ABSTAIN</u> |
|--------------------------|--|---------------------|-------------------|-----------------------|--------------------------|-----------------------|
| 1 | NO VOTE REQUIRED | | | | | |
| 2 | RE-ELECTION OF FRED BART | 10,612,856 | 10,240,461 | 369,395 | 0 | 3,000 |
| | | 100.00% | 96.49% | 3.48% | 0.00% | 0.03% |
| 3 | RE-ELECTION OF PETER LEAHY | 10,612,856 | 10,609,856 | 0 | 0 | 3,000 |
| | | 100.00% | 99.97% | 0.00% | 0.00% | 0.03% |
| 4 | INCREASE IN NON EXEC DIR FEES | 10,612,856 | 4,700,725 | 432,121 | 0 | 5,480,010 |
| | | 100.00% | 44.29% | 4.07% | 0.00% | 51.64% |
| 5 | REMUNERATION REPORT | 10,612,856 | 4,883,641 | 249,215 | 0 | 5,480,000 |
| | | 100.00% | 46.02% | 2.35% | 0.00% | 51.63% |
| 6 | REFRESHING PLACEMENT LIMIT | 10,612,856 | 10,321,201 | 290,155 | 0 | 1,500 |
| | | 100.00% | 97.25% | 2.73% | 0.00% | 0.02% |



Disclaimer

This presentation and any related communication may contain statements that are forward looking with regard to the business and future performance of Electro Optic Systems Holdings Limited ["EOS"] and its subsidiaries.

These statements reflect EOS' current views, assumptions and projections based on, but not limited to, currently available information with regard to its existing and potential customers, markets and the prevailing economic conditions.

These statements may involve risks and uncertainties which may cause EOS actual financial performance to differ materially from those inferred from any forward-looking statements.

Such statements, therefore, should not be regarded as an expressed or implied forecast of the future financial performance of EOS. You are cautioned not to put undue reliance on this presentation.

Market Update

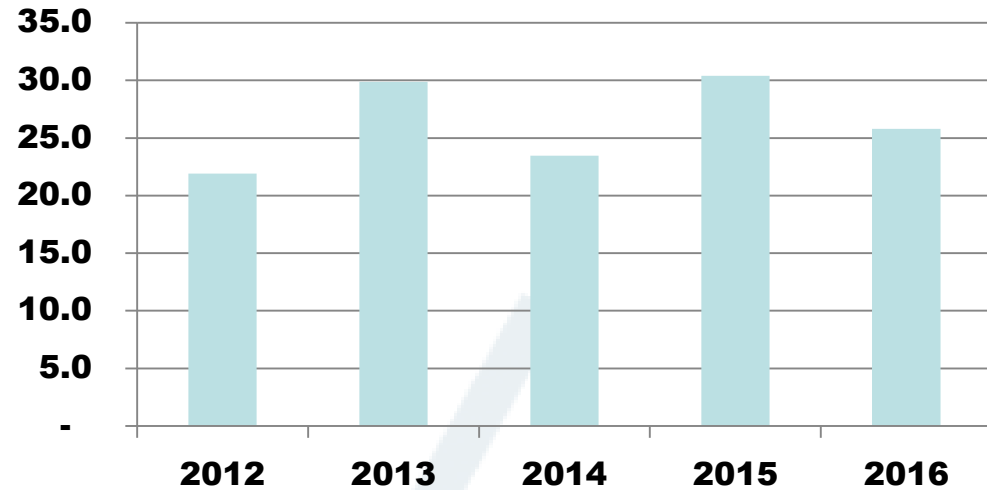
1. Results for 2016
2. Defence Systems Sector
3. Space Systems Sector
4. Outlook

FINANCIAL SUMMARY

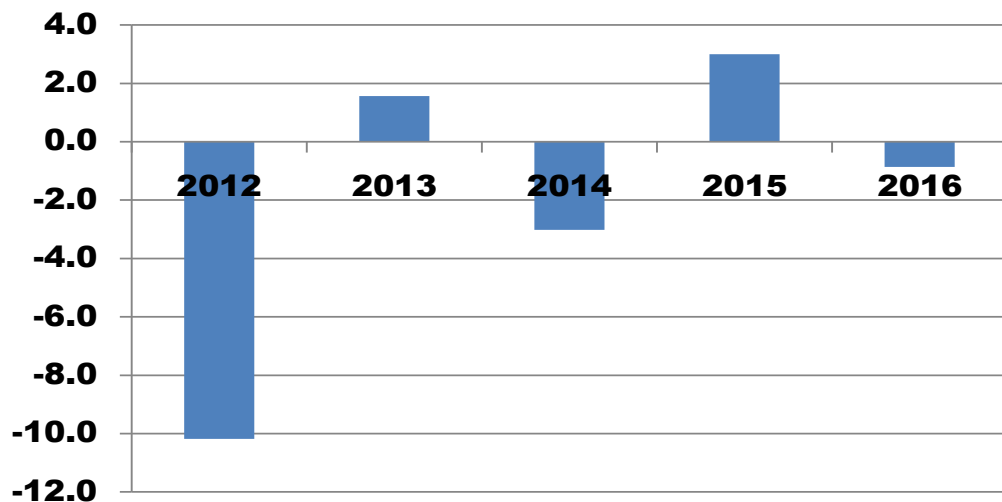


Results nominally in line with expectations

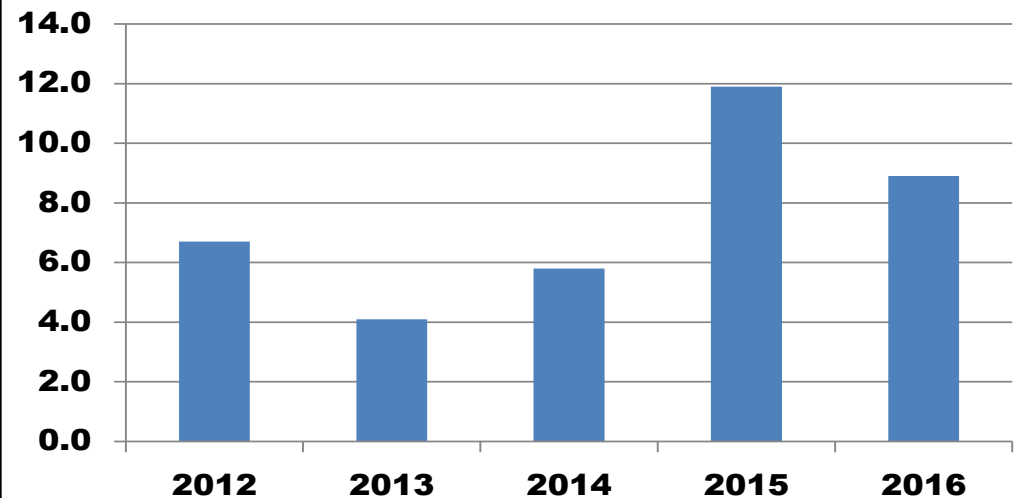
Revenue (A\$ millions)



Profit (A\$ million)



Cash (A\$ million)



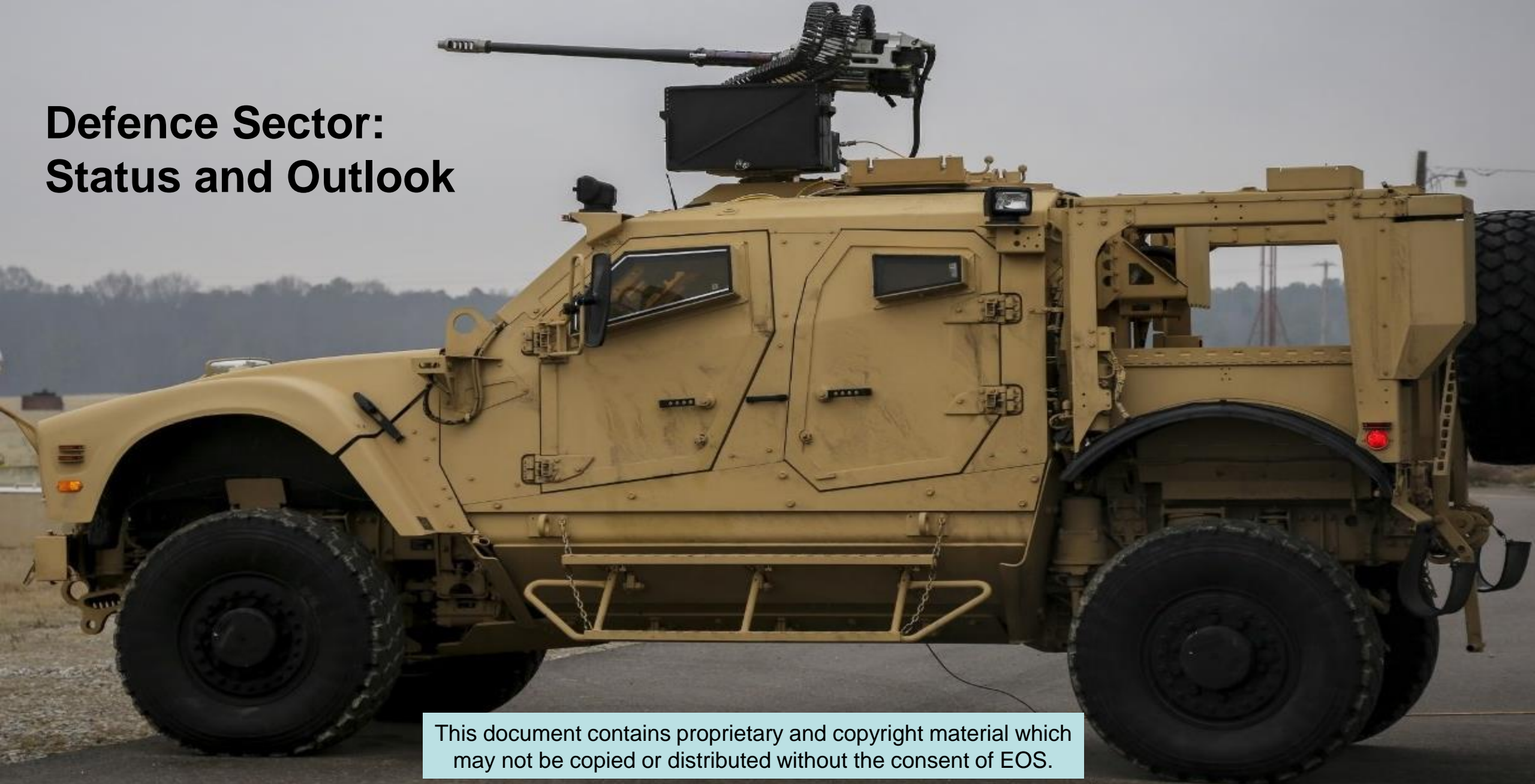
Strategic Overview



- EOS loss of its \$5b US Army weapon system program to a state-owned competitor triggered a long-term strategic re-positioning from FY12-17.
- Underlying business funded 5 years of aggressive strategy without debt or new capital, but accumulated losses of \$10 million.
- Key investments:
 - \$10 million re-structure and downsizing costs (FY12).
 - RWS production outsourcing with global partners.
 - R&D for three new products, launching from 2017.
 - Expenses related to employee option plans.
- All R&D fully expensed and EOS now has three new products with market launches from 2017 to 2019. Each addresses >\$2bn in revenue.

Key success elements: profits, plan, customer co-contributions, team

Defence Sector: Status and Outlook



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Core Business: RWS Applications



EOS experience: Over 1,500 RWS mounted on over 20 platforms over 15 years.



US Army JLTV



US Army Stryker



US Riverine Craft



US Army M1A1



Australian Bushmaster



US M-ATV

EOS Competitive Advantages



- **Advanced market research** allowing a narrow focus on few products with early customer buy-in.
- Key differentiators of **technology, quality and user support** making it an industry leader and a customer icon.
- Early commitment allowing **years of reliability testing** prior to production.
- Strong investment in production outsourcing over five years and **highly scalable operations.**
- **Proven supply chain** and partnerships with global defence manufacturing leaders.
- **First-to-market with new technology** that addresses rapidly evolving customer requirements.

Defence Systems Products



| Conventional RWS | Advanced RWS | Remote Turrets |
|--|---|---|
| <ul style="list-style-type: none"> ▪ Launch date: 2004 (legacy product) | <ul style="list-style-type: none"> ▪ Launch date: Q1 2017 | <ul style="list-style-type: none"> ▪ Launch date: 2018 |
| <ul style="list-style-type: none"> ▪ Weapons: Small arms | <ul style="list-style-type: none"> ▪ Weapons: Cannon, missiles | <ul style="list-style-type: none"> ▪ Weapons: Cannon, missiles |
| <ul style="list-style-type: none"> ▪ Market size and share: After almost 20 years only 15-20% market share is retained in \$105m market | <ul style="list-style-type: none"> ▪ Market size and share: \$4.6b to 2025, market share 100% to 2018 with \$2.1b cumulative sales by 2025 (management estimate) | <ul style="list-style-type: none"> ▪ Market size and share: Size >\$11b to 2025, 20% market share (management estimate) |
| <ul style="list-style-type: none"> ▪ Competition: Market now saturated with copiers and competitors | <ul style="list-style-type: none"> ▪ Competition: Competition from Q4 2018 | <ul style="list-style-type: none"> ▪ Competition: Competition already here |
| <ul style="list-style-type: none"> ▪ Outlook: Legacy product being replaced with Advanced RWS | <ul style="list-style-type: none"> ▪ Outlook: Awards from Q2/17 expected | <ul style="list-style-type: none"> ▪ Outlook: Awards from 2019 expected |
| <ul style="list-style-type: none"> ▪ Product example - EOS R-600 | <ul style="list-style-type: none"> ▪ Product example - EOS R-400S | <ul style="list-style-type: none"> ▪ Product example - EOS R-2000 |



EOS R-400S Mk2 mounted on light vehicles



Market US\$4.6 billion 2017-2025

EOS R400S: A Game Changer



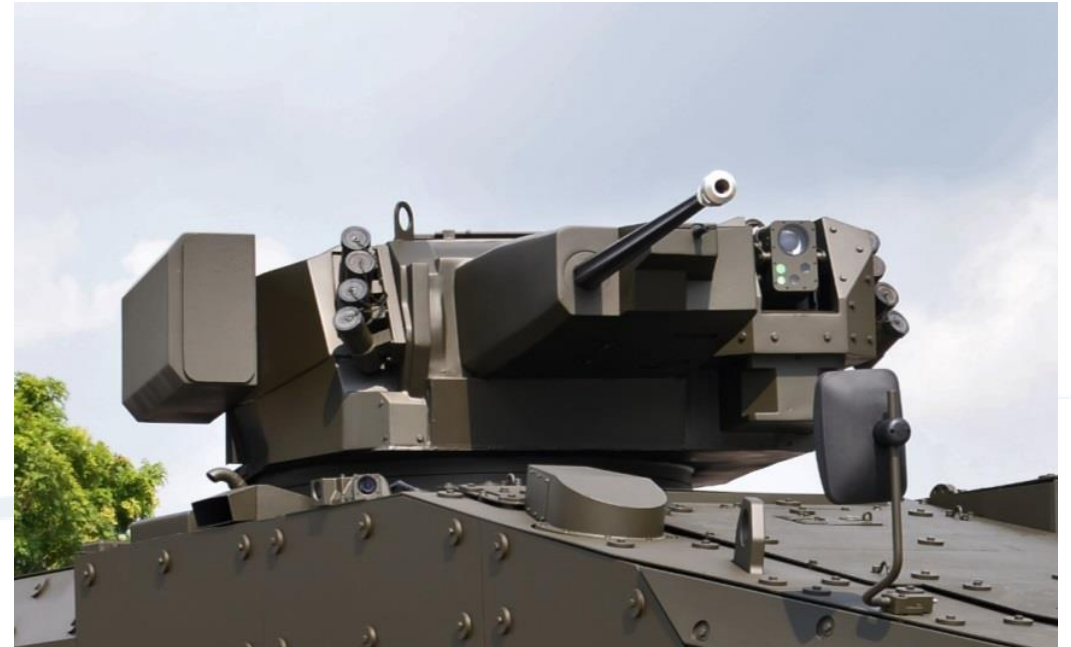
Customers world-wide describe the EOS R-4000S as a game-changing product:

- **Flexibility.** Brings 30 mm cannon firepower to a new class of US/NATO and alliance vehicles. Over 200,000 platforms can carry the R-400S.
- **Weight.** At 400 kg the R-400S is 50% of the weight of the next-heaviest 30 mm system.
- **Accuracy.** At sub-milliradian accuracy the R-400S can outshoot weapon-vehicle combinations costing 4-6 times.
- **Ammunition.** Required rounds are typically 10-20% of any competing system due to superior accuracy.
- **Technology.** R-400S is more accurate moving than any competitor system firing stationary.

EOS R2000: Remote Turret System



- Completed \$30m development program aimed at global requirements for new turret technology.
- Turret is unmanned, using highly reliable technology to replace human operators in the turret.
- All performance and reliability specifications met, exceeding current turret products in all respects.



- Global market size > \$11b from 2018-2025 (management estimate).
- Product launch 2018.
- Competition from several sources from the outset.
- Performance and technology discriminators expected to secure 20% market share.

Risk Management



100% year-on-year growth implies risk. EOS risk mitigation includes:

- **Development Process.** The development process has included 30 months of extensive [live firing] tests. The R-400S is mature and in production already.
- **Commonality.** All customers have agreed to a common product configuration for the first 18 months of production to Q4 2018.
- **Supply Chain.** EOS has been proving out its supply chain for 2-3 years.
- **Capital.** Expansion will require capital and capital and financing arrangements for new projects are well positioned in advance.
- **Management.** The EOS management team designed the strategy, implemented the development and is executing the expansion.

Defence Systems Outlook

- EOS expects to capture over \$500 million in R-400S sales in the first year of release [2017]
- The Defence Systems sector is assured of very strong growth
- Management is now implementing plans to control risk through an expansion exceeding 100% annually for several years

Space Sector: Status and Outlook



EOS Space Systems Business Model



- The value of satellites is around US\$900b. Space debris is now a serious threat to all space operations. Currently space tracking assets can track only a fraction of the debris, and then with insufficient accuracy to allow satellites to avoid debris collisions by manoeuvre.
- EOS has developed new, accurate sensors that can very cost-effectively track all orbiting debris of concern. These sensors can contribute to debris risk mitigation, as well as addressing unmet needs for commercial and military space information.
- The potential market for data is large (>\$2b from 2019-2029 based on customer budgets) but customers will not commit to data delivery contracts from a network which is not operational and proven, but commitment of capital for a network requires firm customer commitments. Catch-22.
- EOS addressed this by allocating resources (fully expensed) over a long period to achieve sufficient capacity and reliability for initial customers. With multiple-sensor sites in WA and ACT, EOS already has the largest space data capacity in the southern hemisphere. More are in process.
- EOS has sufficient resources to achieve the critical mass of sensors required to achieve customer contracts. Customers are now testing the data quality of the expanded EOS capacity.
- EOS has also been investing in technology for value-adding its space data to provide additional customer services.

EOS Space Research Centre: Mount Stromlo ACT



Unclassified

EOS Space Tracking Facility: WA



With sites in WA, QLD and ACT, EOS will be the largest provider of space data in this hemisphere

EOS Space Systems Timeline



Australia and EOS have leveraged climate, geography and innovation for 44 years of world leadership in space laser tracking. EOS is experienced in space business and the customer requirements.

- 1973: USAF space laser program relocated to Australia under Commonwealth control
- 1986: Commonwealth program activities offshore privatised under EOS: deployed globally
- 1998: EOS upgrades laser track power x1 million to track small space debris
- 2005-2014: USAF/RAAF capability demonstrations of accurate and sensitive space debris tracking:
- 2016: Defence White Paper/IIP/DIIPS establish space requirements for new data
- *2018: Full customer operational assessment of network operations under contract*
- *2018: 3rd Australian site comes on line to provide sustainable and resilient network operations*
- *2019: Data products launch. Major revenue contracts commence.*

SUMMARY AND OUTLOOK



EOS has been executing an internally-funded strategic re-positioning of the company through 3 major new products releasing 2017 - 2019.

The 2017 release of R-400S-Mk2 will attract sufficient orders in 2017 to **double** Defence Systems revenue annually for some time. Contracts for almost \$200 million have been announced, and further negotiations of this scale are under way. Supply chain and capacity have been addressed in advance.

The 2018 release of R-2000 will add to this momentum. In the EOS tradition it will be recognised by customers as the highest performance and most reliable product in the market.

The outlook for space sector is also positive, with customers now provisioning funds for future contracts. Space data supply contracts are currently small in comparison to accumulated EOS investments. From 2019/20 EOS expects to lift data and services revenue to produce a good return on investments made.

To support a very strong production program, EOS expects to make substantial, expensed investments in priming its supply chain and capacity expansion in 2017. In 2017 the company expects a modest operating loss in the context of the annual contracted revenue going forward, as investment precedes shipments by 9 months.

Major expansions require capital. The company's capital needs are also being addressed under long-term plans well into execution. No significant dilution of current shareholder interests is expected.