

Electro Optic Systems Holdings Limited

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EOS DEFENCE ORDERS AND CAPACITY EXPAND

Canberra, 14 September 2017

Electro Optic Systems Holdings Ltd (ASX: EOS) is pleased to announce that it is successfully executing a major weapon systems' project, has achieved preferred tenderer status in two others and has moved to expand its production capacity significantly.

CONTRACT EXECUTION

On 21 June 2017 EOS announced it had executed a \$170 million contract to supply approximately 600 weapons systems to Orbital ATK. The order is deliverable in monthly shipments from November 2017 through early 2020 and the annual shipment values are up to \$75 million.



The product configuration for this contract is EOS' new R-400S-Mk2 weapon system shown above. It has been in low volume production for more than 12 months for another customer, with more than 70 units completed and shipped. Over 12 months of low volume production, EOS has completed and refined the production documentation and full-rate production can now commence.

The production line is now switching to the Orbital ATK order, and EOS has already completed all units required for this order in 2017. These are now ready for shipment.

This product configuration is subject to export control by the US government, which has formally granted EOS all export licenses required for this program up to 31 December 2017.

This program is deploying as expected by the company.

NEW CONTRACTS

During 2017 the R-400S-Mk2 product was tendered for two other international customers with significant weapons' systems requirements, both of which exceed the current Orbital ATK contract in scale and term. Both customers have chosen EOS as the preferred bidder for contract negotiation. EOS has negotiated and performed contracts for both customers before.

Conversion of "preferred bidder" status to a final contract requires successful completion of contract negotiations covering commercial terms, price, schedule, technology transfer and local content. In addition, both Australia and the USA must provide export licences before EOS finally accepts a contract.

The company is confident of completing sufficient contracts during 2017 to exceed AU\$500 million in cumulative orders for its new R-400S-Mk2 weapon system. Either of these new programs would raise the total production capacity required for the product to more than \$120 million per year.

CAPACITY EXPANSION

EOS' current plant in Australia has a maximum annual production capacity of \$30 million on a single shift, or \$60 million with two shifts. EOS also has substantial production capacity in other countries through strategic partners, and this capacity can be used at EOS' option once the production process and supply chain are fully established for high volume production.

EOS has recently entered into firm commercial agreements for a larger facility in Australia. Fitout and equipping towards a capacity of \$150 million per annum per shift is already underway and the new plant will be operational from Q1 2018. The company will maintain its current production facilities until mid-2018 after which the new plant will assume all production load. Planning is already under way for the next stage of capacity expansion, which may include the use of partner facilities where demand exceeds EOS' own expanded capacity.

In parallel with the infrastructure expansion, EOS has been working with its suppliers to increase capacity, improve quality and reduce risk from just-in-time supply chain management. This long-term program is meeting company expectations for risk and cost reduction as capacity increases.

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ABOUT ELECTRO OPTIC SYSTEMS (ASX: EOS; OTC: EOPSY)

EOS operates in two sectors: Space Systems and Defence Systems.

EOS Space Systems sector specialises in applying EOS-developed optical sensors to detect, track, classify and characterise objects in space. This information has both military and commercial applications, including managing space assets to avoid collisions with space debris.

EOS Defence Systems specialises in technology for weapon systems optimization and integration, as well as ISR (intelligence, surveillance and reconnaissance) for land warfare. Its key products are next-generation armored vehicle turrets and remote weapon systems.