



**ACTIVITY STATEMENT
FOR THE QUARTER ENDED 30 JUNE 2023**

Canberra, 31 July 2023

The consolidated entity consisting of Electro Optic Systems Holdings Limited and the entities it controls (“EOS” or the “Group”) has filed its activity statement (4C) for the quarter ended 30 June 2023 (“Q2 2023”).

1. QUARTERLY CASH SUMMARY

EOS’s cash balance at 30 June 2023 was \$42.0m. This represents a decrease of \$3.5m from the 31 March 2023 cash balance of \$45.5m.

After the end of the quarter, the cash balance increased and was \$84m as at 28 July 2023.

More details of the cash movements during the quarter, and after the end of the quarter, are set out below.

Receipts from Customers

- Receipts from Customers totalled \$61.1m during Q2 2023. These receipts included cash flow benefits arising from the contractual amendment that was agreed with a significant overseas customer in the Middle East in February 2023, as previously announced. The amendment allows EOS to invoice the customer earlier than would otherwise be the case and is intended to improve ongoing future cashflows. Total H1 2023 Receipts from Customers were \$123.2m, (compared to H1 2022 \$74.5m).
- The Group continues to focus on improving Receipts from Customers, including seeking contract amendments to existing contracts where appropriate, and securing new sales contracts that are cash-positive. During the quarter, this included:
 - A conditional contract to supply a customer (STE) in Ukraine valued at up to US\$80m (approximately A\$120m), announced 3 April 2023;
 - A second conditional contract to supply a customer in Ukraine valued at up to US\$41m (approximately A\$61m), announced on 26 April 2023;
 - A contract to supply the Royal Australian Navy valued at up to A\$202m, announced 19 May 2023; and
 - A contract to supply Remote Weapons Systems (“RWS”) to a Western European Government valued at up to EUR 32m (approximately A\$52m), announced 13 June 2023.

Contract Asset Balance

- At the end of the quarter, EOS had a gross contract asset, totalling approximately \$109m, representing work completed for existing contracts but not yet invoiced to the customer.
- This balance at 30 June 2023 represents a reduction of approximately \$30m on the gross contract asset at 31 March 2023, and a reduction of approximately \$55m on the gross contract asset at 31 December 2022.
- This balance relates almost entirely to a large customer contract in the Middle East. The reduction in the contract balance during Q2 2023 was driven by Cash Receipts from Customers.
- In addition, at 30 June 2023, EOS had received payments in advance from customers totalling approximately \$22m.
- The net contract asset (after deducting payments received in advance) of \$87m at 30 June 2023 was \$29m lower than it was at 31 March 2023. This decrease was a key cause of the positive operating cash flow during the quarter ended 30 June 2023.

Other Impacts on Cash Flows

- EOS continues to target improved cash flows during 2023. Future cash flows are expected to include benefits arising from actions completed in Q4 2022, including the termination of the SpaceLink venture, and the \$25m cost reduction program, both previously announced.
- The Group is maintaining a disciplined approach to costs and capex.

2. MARKET, CUSTOMER AND BUSINESS UPDATE

The global market for EOS products continued to develop positively during Q2 2023. This was partly due to the conflict in Ukraine and the impact on customer demand in NATO countries and other markets.

Typically, EOS operates in an industry where it can take an extended period of time (including up to, and beyond, twelve months) for new market opportunities to be converted into signed sales contracts. Currently, EOS is pursuing a number of material opportunities in different markets, including Europe, Australia and other international markets.

Ukrainian and Other International Markets

- As noted above, EOS announced in April 2023 that it has secured two conditional contracts to supply Ukraine, with a total of 150 Remote Weapons Systems ("RWS"), valued at up to a total of US\$121m (approximately A\$181m). The two conditional contracts are conditional on successful demonstrations being completed. Customer and end-user demonstrations are scheduled to occur during Q3 2023.

Ukrainian and Other International Markets (continued)

- EOS continues to be in contract negotiations on further opportunities regarding the potential provision of more RWS and related components and spares. This includes opportunities for direct supply to Ukraine, and to other countries providing support to Ukraine. These opportunities have the potential to materially improve future revenue and cash flow. There is no certainty that any particular outcome or transaction will result from these discussions, and EOS will update the market as appropriate.

Australia Market

EOS notes that aspects of the information set out below was previously announced by EOS on 28 April 2023 and 27 July 2023.

- On 3 August 2022, the Commonwealth of Australia announced that the Defence Strategic Review (“DSR”) would be undertaken to examine force structure, force posture and preparedness, and investment prioritisation.
- On 24 April 2023, the Commonwealth of Australia announced the outcome of the DSR. As part of this, some aspects of potential future projects and opportunities have been clarified.
- As announced in the outcome of the DSR, the ADF’s Land 400 Phase 3 Project has been rescoped. Land 400 Phase 3 was previously expected to procure up to 450 Infantry Fighting Vehicles (“vehicles”) with delivery from 2024/25/26 onwards.
- As a result of the DSR it is now expected that this project will include the procurement of 129 vehicles.
- This project previously included two contenders for the Prime Contractor role, Rheinmetall Defence Australia (“Rheinmetall”) and Hanwha Defense Australia (“Hanwha”). EOS was included in the bid by both Prime Contractor options as the RWS provider. In addition, for the Hanwha bid team, EOS was the proposed Australian turret manufacturer. It should be noted that the inclusion of EOS in a bid team does not mean that revenue is certain to arise for EOS, even if that bid team is successful.
- On 27 July 2023, the Commonwealth of Australia announced that Hanwha had been selected as the Prime Contractor for the Land 400 Phase 3 Project, with delivery of the 129 vehicles to the ADF by Hanwha expected in 2027 and 2028.
- The announcement by the Commonwealth of Australia of the selection of Hanwha means that EOS may have the opportunity to provide RWS to Hanwha. In addition, as the proposed Australian turret manufacturer, EOS may have the opportunity for a significant share of work in support of the manufacture of turrets for Hanwha.
- Any future revenues for EOS will depend on a range of factors that are yet to be finalised in binding contracts. These include the final number of vehicles sought by the customer, the selection of subcontractors by Hanwha, and subsequent negotiations between the parties.
- Subject to the outcome of further discussions and negotiations, it is anticipated that the Land 400 Phase 3 Project now has the potential to give rise to revenues for EOS from 2026 onwards. There is no certainty that any particular outcome or transaction will result from these discussions and EOS will update the market as appropriate.

Defence Systems Business

- During Q2, the Defence Systems business continued to deliver products to key customers including a significant overseas customer in the Middle East. This project was the largest contributor to the Group's revenue and to Cash Received from Customers during Q1 and Q2.
- In addition, during the quarter, the Defence Systems business incurred costs and cash outflows in product manufacturing costs, operating costs and staff costs.
- After the end of the quarter, during July 2023, the Defence Systems business delivered 80 RWS to a Western European Government customer, under a contract valued at approximately EUR 32m (approx. A\$52m). This follows the finalisation of an arrangement to source products previously manufactured for, and sold to, another domestic customer in Australia.
- During July 2023, the Group received part of the cash proceeds from the Western European Government customer, totalling EUR 27m (A\$44m). The remaining cash proceeds (of EUR 5m, approximately A\$8m) are expected to be received in H2 2023.

Space Technologies Business

- During Q2, the Space Technologies business continued to deliver products and services to customers under existing contracts.
- In addition, the Space Technologies business continued to pursue and win opportunities to deliver Space Domain Awareness services.
- The size of these opportunities won during the quarter is not financially material but they represent important steps with new customers in some new markets. These are expected to help underpin future strategic growth initiatives, including in Space Control and Space Warfare.

EM Solutions Business

- The EOS business, EM Solutions, continued to develop its markets for naval satellite communications equipment. This included securing additional sales orders totalling A\$8m previously announced on 17 April 2023.
- In addition, the Group previously announced on 19 May 2023 that EM Solutions had secured a new contract with the Australian Defence Force for up to \$202m. That contract is to deliver and install upgraded communications systems to the Royal Australian Navy. The contract extends for seven years from 2023 to scheduled final acceptance in 2030. Work commenced on this contract prior to 30 June 2023.
- During the quarter, EM Solutions continued contract negotiations on other potential sales opportunities.

3. PRODUCT DEVELOPMENT

EOS continued work during Q2 2023 to develop and commercialise its product range.

- This included discussions with potential future customers for EOS Anti-Drone Counter Uncrewed Aerial System (CUAS). Work to commercialise these products continues. This includes both traditional kinetic anti-drone solutions and high energy laser weapon (directed energy) solutions.
- Commercial discussions on our Anti-Drone products may lead to sales contracts in 2023, further establishing the commercial position of these products however there is no certainty that any particular outcome or transaction will result from these discussions and EOS will update the market as appropriate.

4. STRATEGIC GROWTH PARTNERSHIPS AND/OR CAPITAL TRANSACTIONS

As announced on 13 October 2022, EOS has received approaches from several parties in relation to potential strategic growth partnerships and/or capital transactions.

- A confidential process is ongoing to develop and assess potential strategic partners having particular regard to their ability to support diversification into new geographic markets and/or to complement our existing products in existing markets.
- There is no certainty that any particular outcome or transaction will result from the process. EOS will update the market as appropriate.

5. TAX REFUND

As previously announced on 7 July 2023, after the end of the quarter, on 3 July 2023, EOS received a A\$17.2 million tax refund in cash. This arose following finalisation of Australian income tax returns, claiming tax losses that arose during the year ended 31 December 2022.

6. GUARANTEE AND BOND FACILITIES

As part of normal operating procedures with contracts of the type entered into by the Group, the Group is required to provide guarantees and performance and other bonds as security to customers and other counterparties. These bonds are secured either wholly or partly by cash and a fixed and floating charge over the assets of the Group:

- At 30 June 2023, the Group had a total of \$76m of performance and offset bonds issued by Export Finance Australia and others under a Bond Facility Agreement. The performance and offset bonds provided on behalf of the Group are shown as Contingent Liabilities in the Group financial statement notes. The cash of \$40.0m that secures these bonds at 30 June 2023 is disclosed within Security Deposits on the Statement of Financial Position.
- Subsequent to 30 June 2023, and as previously announced on 7 July 2023, the Group executed agreements to provide new guarantees for \$22.0m to a domestic customer in Australia. The guarantees were issued on the Group's behalf by funding providers and are secured by initial cash Security Deposits of \$16.6m that the Group has provided to the guarantee issuers.

6. GUARANTEE AND BOND FACILITIES (Continued)

- The bonds, guarantees and cash deposits are expected to be returned to EOS during 2023, 2024 and 2025 as various obligations are fulfilled.

7. BORROWING SUMMARY AND CASH BALANCES

- As at the date of this announcement, EOS has the following borrowing facilities in place:
 - Working Capital Facility, \$20m principal, maturing on 6 September 2023;
 - Working Capital Facility, \$15m principal, maturing on 11 April 2024; and
 - Term Loan Facility, \$35m principal, maturing on 11 October 2025.
- The key terms of each of these facilities are included in the announcement dated 13 October 2022 “EOS enters into New Financing Facilities & continues development of Strategic Growth Options” (“EOS 13 October 2022 Announcement”). As at 30 June 2023, these facilities were fully drawn.
- The Group is required to comply with borrowing covenants related to cash inflows and outflows calculated on a rolling three-month basis. During the six months ended 30 June 2023, and in the period up to the date of this announcement, the company worked with the lender to ensure it did not breach cash inflow or outflow covenants. The Group complied with all other covenant requirements.
- The group continues to closely monitor its cashflow outlook and compliance with its borrowing covenants. The ability of the group to maintain liquidity and meet its borrowing covenants is dependent on the Group continuing to invoice customers and collect cash in a timely manner. Should it appear that borrowing covenants may not be complied with, or the group may not be in a position to meet debt repayments, or the group may not have adequate liquidity for its operations, the Directors will assess available options to restructure debt commitments or access additional equity or debt funding as required.
- EOS has a debt repayment obligation due on 6 September 2023 for the Working Capital Facility (\$20m principal) noted above. The total repayment amount due is \$26.9m, including principal, capitalised interest and other charges.
- EOS’s cash balance at 30 June 2023 was \$42.0m.
- After the end of the quarter, the cash balance increased and was \$84m as at 28 July 2023.

8. BOARD CHANGES

As previously announced, Mr Robert Nicholson was appointed to the Board on 24 May 2023.

9. RELATED PARTY TRANSACTIONS

Payments to related parties of the entity and their associates totalled \$87,500 for the quarter. These amounts all relate to payments for directors’ fees and superannuation to non-executive directors and entities associated with non-executive directors during the quarter.

10. SUBSEQUENT EVENTS

Other than the items discussed above, there are no material subsequent events.

11. AUDITED RESULTS

All information included in this announcement is unaudited.

This announcement has been authorised for release to the ASX by the Board of Directors. All amounts are in Australian dollars unless stated.

Further information:

Dr Andreas Schwer
Chief Executive Officer
enquiry@eos-aus.com

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 include next-generation remote weapon systems, vehicle turrets, high-energy laser weapons (directed energy), as well as fully integrated and modular counter-UAS and C4 systems.

Space Systems includes all EOS space and communications businesses, and operates as two entities – Space Technologies and EM Solutions. Space Technologies specialises in applying EOS-developed optical sensors and effectors to detect, track and characterise objects in space. It includes capabilities in the domain of space control and space warfare. EM Solutions delivers world-leading RF and optical space communications technology. Its core product range centres around the development and production of high-end, broadband radio transceivers for satellite communications as well as satellite communications-on-the-move terminals for defence and government customers.

FORWARD LOOKING STATEMENTS

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.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ABN

95 092 708 364

Quarter ended ("current quarter")

30 June 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	61,079	123,179
1.2 Payments for		
research and development	(3,182)	(6,064)
product manufacturing and operating costs	(39,831)	(52,787)
advertising and marketing	(802)	(1,112)
leased assets	-	-
staff costs	(8,622)	(17,340)
administration and corporate costs	(5,822)	(11,786)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	84	103
1.5 Interest and other costs of finance paid	(1,665)	(3,157)
1.6 Income taxes paid	-	(385)
1.7 Government grants and tax incentives	22	62
1.8 Other (provide details if material)	6	22
1.9 Net cash from / (used in) operating activities	1,267	30,735

2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(812)	(1,363)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Security Deposits	(1,816)	(4,706)
2.6	Net cash from / (used in) investing activities	(2,628)	(6,069)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(822)	(1,627)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Repayment of lease liabilities	(1,118)	(2,253)
3.10	Net cash from / (used in) financing activities	(1,940)	(3,880)

Quarterly cash flow report for entities subject to Listing Rule 4.7B

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	45,494	21,681
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,267	30,735
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,628)	(6,069)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,940)	(3,880)
4.5	Effect of movement in exchange rates on cash held	(164)	(438)
4.6	Cash and cash equivalents at end of period	42,029	42,029

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	42,029	45,494
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	42,029	45,494
Note	Not included in the cash figure above are non-current cash security deposits securing performance bonds, premises and guarantee	41,207	37,723

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	88
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
These amounts included in item 6.1 all relate to payments for directors' fees and superannuation to non-executive directors and entities associated with non-executive directors during the quarter.		

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities – WHSP	83,261	83,261
	Loan facilities – Premium funding	277	277
7.2	Credit standby arrangements	-	-
7.3	Other – Export Finance Australia	76,072	75,726
7.4	Total financing facilities	159,610	159,264
7.5	Unused financing facilities available at quarter end		346
7.6			

WHSP Facilities:Working Capital facility

On 6 September 2022, the Group entered into a \$20m 12-month working capital facility with Washington H. Soul Pattinson and Company Limited ('WHSP'). The facility carries interest of 15% per annum and line fees of 4%. This loan is secured by a general security deed which ranks in priority above both the Term loan facility and the Export Finance Australia facility below.

Term loan facility

On 12 October 2022, the Group entered into a \$35m three-year term loan facility with WHSP to refinance an existing facility. The facility carries interest of 22% per annum and line fees of 4% and is secured by a general security deed which ranks *pari passu* with the Export Finance Australia facility below.

Additional Working Capital Facility

On 12 October 2022, the Group entered into an Additional Working Capital Facility with WHSP. This facility is an 18-month facility for \$15m. The facility carries interest of 15% per annum and line fees of 4%. This loan is secured by a general security deed which ranks in priority above both the Term loan facility and the Export Finance Australia facility below.

The above facilities include an early repayment option and a 'make whole' clause.

The key terms of each of these facilities were included in the announcement dated 13 October 2022 "EOS enters into New Financing Facilities & continues development of Strategic Growth Options" ("EOS 13 October Announcement").

The interest and line fees incurred during the quarter have been capitalised into the outstanding balance and hence are not included in Item 1.5 above.

7.6	<p>Export Finance Australia facility:</p> <p>The Group maintains a performance bond in respect of a contract in Defence Systems of US\$33.3m (A\$50.1m). The performance bond was provided by Export Finance Australia under a Bond Facility Agreement and is secured by a cash Security Deposit of US\$15.9m (A\$23.9m) and a fixed and floating charge over the assets of the Group. The costs of this facility are included in Item 1.5 as other costs of finance paid.</p> <p>Under the terms of a contract in Defence Systems, the Group signed an offset agreement with the relevant overseas Government Authority on 12 February 2021 for an amount of US\$16.9m (A\$25.6m). The offset bond was provided by Export Finance Australia under the same Bond Facility Agreement and is secured by a cash Security Deposit of US\$10.5m (A\$15.8m) and a fixed and floating charge over the assets of the Group. The costs of this facility are included in Item 1.5 as other costs of finance paid.</p> <p>Premium funding facility:</p> <p>The Group funds its insurance premiums through an unsecured finance facility with Clearmatch Originate Pty Limited. The amount outstanding for the remaining period of the arrangement, being one month, is \$0.3m. The interest rate for this funding is 2.89%.</p> <p>Additional facilities subsequent to year end:</p> <p>Subsequent to the end of the quarter, the Group executed an agreement to provide a \$22.2m bank guarantee to a domestic customer in Australia. This was provided in relation to sourcing products for delivery to a Western European Government customer. The guarantees are initially secured by additional cash Security Deposits of \$16.6m.</p>
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8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	1,267
8.2	Cash and cash equivalents at quarter end (item 4.6)	42,029
8.3	Unused finance facilities available at quarter end (item 7.5)	346
8.4	Total available funding (item 8.2 + item 8.3)	42,375
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: N/A	
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer: N/A	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: N/A	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 July 2023

Authorised by the Board of Directors.

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.