



EOS

Company Update

31 May 2012

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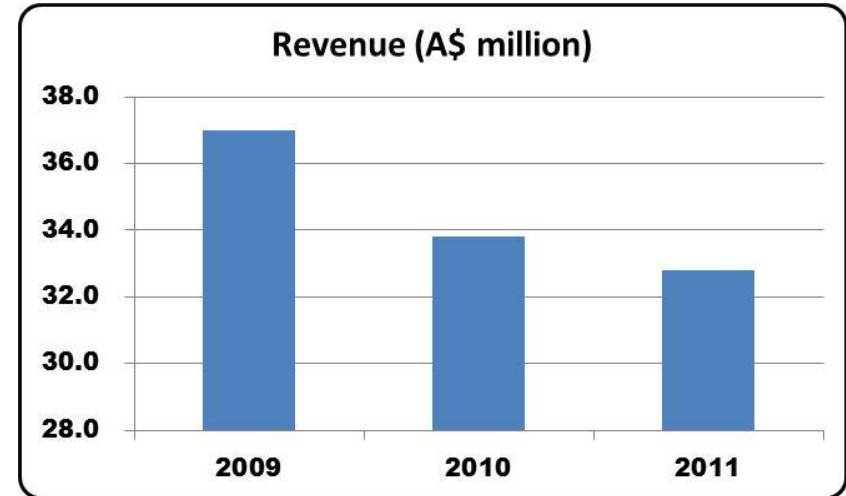
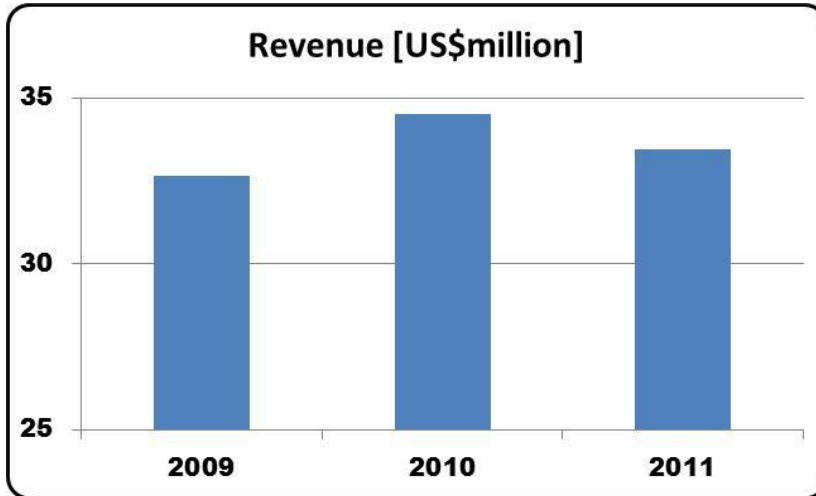
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- 1. Review of 2011 Results**
- 2. Current Status and Outlook:**
 - Space**
 - Remote Weapon Systems**
- 3. Summary**

Revenue 2011



The small 2011 decline in both US\$ and A\$ terms can now be seen as an early indicator of government austerity measures in many markets.

This is further demonstrated by a continuing decline in rapid-response orders deliverable in the same year as the order is placed, as well as significant delays to some major programs.

Profit 2011



Profit *decreased* 94% from \$3.2m to \$0.2m due to:

- Investments supporting CROWS, including background technology programs and marketing costs;
- Costs for consolidation of RWS capabilities with NGC in Huntsville, Alabama;
- Increased EOS co-funding for new products for key customers as those new products approach 2014 production; and
- A production delay in the US production plant in late 2011;
- Impairment of existing parts inventory [\$1.6m].

Costs of CROWS support and new product investments exceeded \$3.2m in 2011.

Cash 2011



Net cash used by operating activities for the 2011 year was \$3.8m (2010: net cash generated \$3.1m).

Cash available for operating activities was A\$4.9m at 31 December 2011 (2010: A\$8.1m) with further cash received from customers of \$9m in January 2012 for 2011 deliveries.

The company has not previously used credit facilities but arrangements are being put in place to provide working capital for specific orders deliverable from 2013.

Space Sector:

Status and Outlook




Progress Towards Commercial Operations



- Funding for demonstrating commercial-scale operations is now \$10m with \$8m customer-funded.
- These demonstrations will conclude in late 2013.
- Commercial operations could commence from 2014.
- Substantially more infrastructure must be replicated and deployed to fully achieve operational goals from 2014.



Cooperative Technology Development

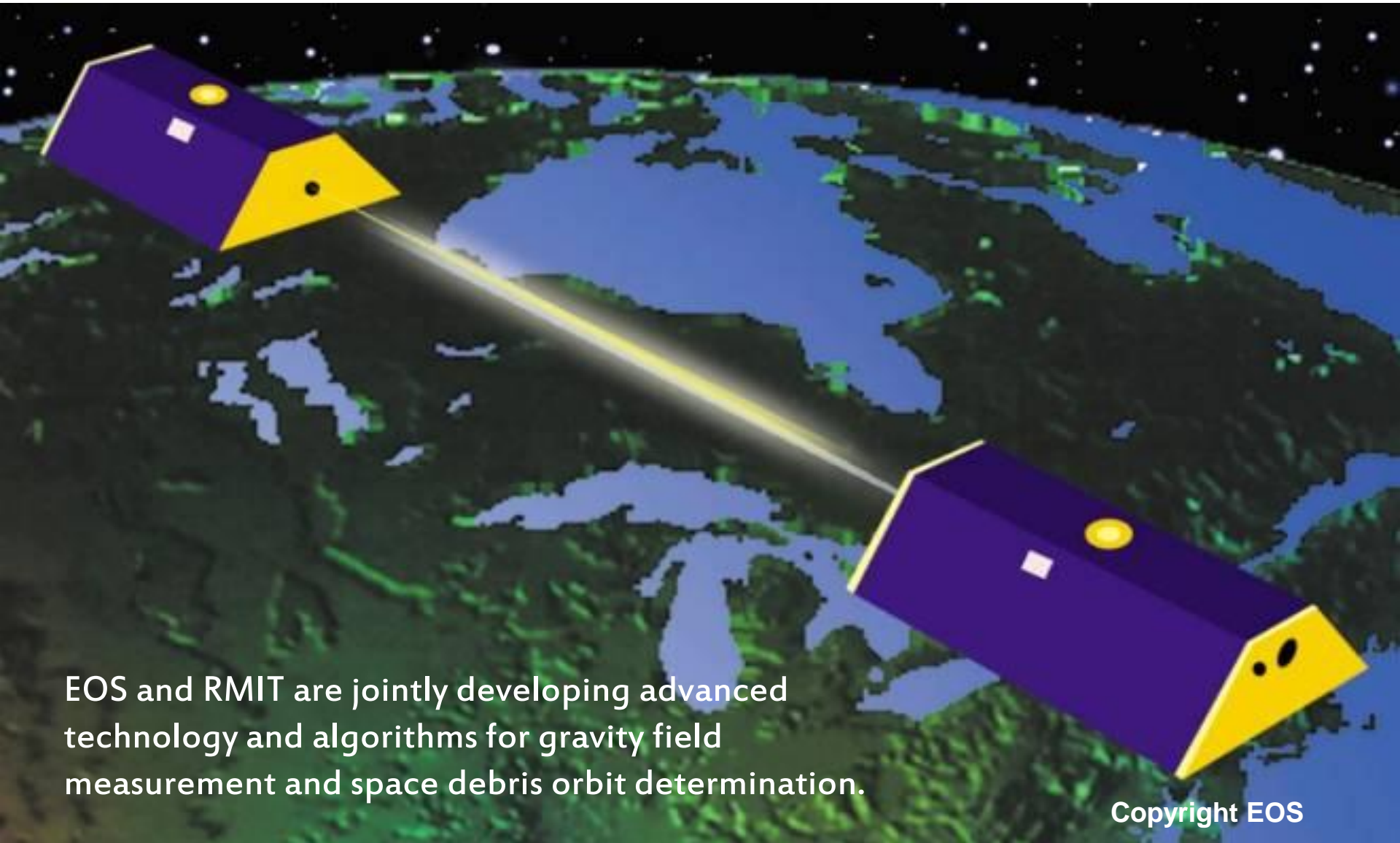


The Giant Magellan Telescope: Australia has committed \$88m

EOS and ANU are jointly developing laser-based adaptive optics for giant telescopes, and will compete for GMT requirements in 2013. This technology is also critical to commercial space operations.

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Cooperative Technology Development



EOS and RMIT are jointly developing advanced technology and algorithms for gravity field measurement and space debris orbit determination.

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Key Space Sector Developments



1. Funded programs [grants and contracts from data users] to demonstrate commercial service levels for space operations are on schedule for completion in late 2013.
2. Improving results of close collaboration with Australian institutions are indicating a critical mass of sustainable space research, leading to long term funding options for sustaining our lead in space technology.
3. A developing national consensus on securing space assets and capabilities that underpin the society is leading to long term funding options for space operations in Australia.
4. Tightening government budgets have not yet impacted the forecast growth from 2014 in this sector, because new customers are compensating for delays in previously-expected European and US programs.

Remote Weapons Systems Sector: Status and Outlook



EOS Proprietary

Key Developments



1. RWS market

Market growth slowed in 2012 as government budgets shrink.

2. Business model transition and consolidation

50% production transfer to global partners initiated.

Consolidation of Arizona plant into new facilities in Alabama.

3. New Product Development

Focus on new or improved products for existing customers.

4. CROWS

CROWS bid submitted with Northrop Grumman Corp.

RWS Market



1. RWS programs in Europe/NATO been deferred 2-3 years or cancelled due to Eurozone finance problems. This has impacted several programs in Europe.
2. Some Australian programs have been delayed 1-2 years in the recent federal budget. Growth will likely recover from 2014.
3. US funding for CROWS is likely but no program has totally secure funding thru the defence budget cuts expected in 2013.
4. Demand in Middle East and Asia remains strong.
5. Long-term orders thru 2014 are at normal levels and provide a basis for future operations.

The efficiency dividend from deploying RWS is driving overall market growth despite constrained financial conditions for many governments.

Business Model Transition

- *Upwards pressure on A\$ has made Australian production less competitive at the same time that foreign customers demand more local production of our products.*
- *Over the past 2 years EOS has progressively licensed foreign partners to produce around 60% of the EOS product range. This includes NGC which is now producing RWS in Alabama.*
- *EOS has further consolidated its US production, which is now co-located with NGC in Alabama.*
- *Australian production is now concentrated on only the most complex sub-assemblies for RWS, such as sensors.*
- *Careful selection of production partners has provided access to world-class manufacturing resources, skills and technology.*

This strategy partly insulated EOS from currency appreciation, and allowed it to expand production while reducing costs and improving compliance & response.

New Products

- *In support of a major industry partner, EOS has invested \$3m towards the development cost of a new remote turret suitable for large armored vehicles. Further outlays of \$2m in each of 2012 and 2013 are expected for a total investment of \$7m.*
- *The development has been technically successful and the turret provides a new price-performance level in this market.*
- *The turret significantly expands EOS' product range and meets known requirements for multiple customers.*
- *Orders are expected for production from 2014.*

EOS investments for new products are linked to co-investment by customers. In this case EOS is providing around 20% of product development funding.

US Army CROWS

- *The CROWS program is expected to outlay around US\$2 billion over 7 years, subject to appropriations.*
- *Up to 50% of this may flow to EOS if the NGC/EOS tender is successful, depending on the allocation of funds amongst CROWS production, upgrade and support tasks.*
- *The Army will award **one** contract for CROWS in Q3 2012.*
- *EOS has invested in technology and production capacity and quality improvements to support CROWS.*

EOS investments for CROWS in new technology, production co-location, and supply chain will also substantially benefit all other EOS RWS programs.

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Summary



Summary of Objectives



EOS continues to invest its human and other corporate resources towards preparing for three growth opportunities:

1. RWS CROWS

The CROWS contract award is expected in Q3 **2012** with revenue impact if successful from late **2013**.

2. RWS *excluding* CROWS.

Growth has temporarily slowed due to GFC and Eurozone implications and will likely resume from **2014** based on demand from regions less affected.

3. Space Sector.

This sector will expand from **2014** when EOS completes customer-funded upgrades and trials.

Key Issues for 2012



- 1. US Transition.** We will complete the transition of RWS activity in the US to Alabama, and continue support for the CROWS tender process.
- 2. New Capacity.** EOS will accelerate licensed RWS production in facilities of foreign partners in Asia and the Middle East, to better access those markets and improve response time to new orders.
- 3. New Products.** We will complete the new turret product, with orders from existing customers expected in 2013.
- 4. Revenue.** Long term RWS orders are normal but foreign orders for 2012 production are lower than usual at this time of year due to implications of the Eurozone crisis and tightened government spending globally. Recent changes to Australian defence policy, including abrupt constraints on defence spending, will put further pressure on 2012 revenue.
- 5. Profit.** On current indications revenue may decline substantially in 2012 and after including the costs of new product development and relocating facilities to Huntsville in support of CROWS, this would lead to a loss in 2012.