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EOS REMOTE WEAPON SYSTEM BUSINESS UPDATE

Canberra, 8 September 2011

1. New Contract Award

Electro Optics Systems Holdings Limited (ASX: "EOS", OTC "EOPSY") has this week been awarded a \$7.4 million contract by an existing long-term customer for the supply of remote weapon systems. The new contract is for the supply of the EOS R-400 product configuration and will be filled over the next 6 months. Orders are typically delivered over 12 months or more, and this delivery has been expedited for customer convenience and to achieve efficient production.

Although new customers are sought and achieved, EOS receives the majority of its remote weapon systems business from existing customers reflecting the company's commitment to quality, technology, performance and long-term product support.

The new order combines with other orders in production and contracts under negotiation to create a significant backlog of orders for future production. The order backlog is a key factor in planning the efficient work flow in EOS production facilities and those of its suppliers.

2. US Army Updates CROWS Acquisition Update

In May of 2010, EOS announced it had teamed with Northrop Grumman Corporation to compete for US Army requirements for remote weapon systems, including the US Army CROWS program for remote weapon systems. EOS has issued several updates since then on the Army's progress towards awarding the next CROWS contract.

On 2 September 2011 the US Army released further details relating to its acquisition of remote weapon systems, technology and support under its CROWS program. The announcement updates key aspects of the CROWS acquisition:

A. Contract Value.

The value of the initial contract award by Army will be approximately US\$970 million. Army has always had full discretion in setting the value of the initial CROWS 3 contract, and no contract value had previously been released.

B. Scope of Work.

The scope of work has been confirmed to include three mandatory elements:

- I. Production of up to 3,000 CROWS and spare parts.
- II. Product improvements, integrations, and testing.

- III. Training, overhaul, depot-level, field maintenance support, recapitalisation/reset of CROWS, and general engineering support, as required.

The restriction of the production quantity to 3,000 units from the previously-announced requirement for 18,000 units is consistent with an initial contract value of \$970 million. A re-compete for further quantities may be applied in future by Army. The contract scope is otherwise unchanged from previous Army updates, and conforms to the scope performed by EOS and Northrop Grumman Corporation under other programs.

C. Production Risk.

Army has clarified how it expects to reduce production risk and achieve the same product performance risk from a new contractor as achieved with current CROWS systems. The statement reads in part:

“The CROWS will be built to a detail specification. The detail specification includes the performance requirements and technical drawings. The detail specification states the design requirements, how the requirements are to be achieved and how the components are to be fabricated or constructed. The detail specification does not include technical drawings and assembly procedures for some sub-assemblies, which are to be made by qualified directed sources at least until the First Article Testing phase. This approach will ensure a very high level of commonality between the new CROWS producer and commonality/interchangeability with existing CROWS systems.”

This is the position anticipated by EOS. Provided the technical documentation to be released by Army reaches the standard expected, EOS believes its team’s extensive experience in production of various types of weapon systems will allow it to quickly produce products that meet the Army’s desired level of commonality and interchangeability.

D. Production Scalability

Army has further clarified consistent earlier [since 2009] indications that it expects the new producer of CROWS to provide a scalable production capability that can efficiently produce “from 0 to 50 CROWS per month with the ability to surge to 150 CROWS per month”. This is an extraordinary requirement and essentially means that EOS must be profitable in this business segment without CROWS production since it is not otherwise possible to efficiently provide a wide range of CROWS outputs, based on a minimum monthly output of zero.

Over the past 2 years EOS has achieved sufficient orders and backlog to keep its production resources cost-effectively active at a level that allows the responsive production scalability required by Army. EOS has also extensively updated and upgraded its US production plant, originally built for producing CROWS in large volume in 2005, specifically to allow efficient scaling of output without burdening smaller orders [including smaller CROWS periodic orders] with the cost of idle plant capacity.

These plant and process improvements are operational. EOS has demonstrated in recent years that its business model is sustainable if CROWS is excluded, even when meeting expenses for CROWS requirements. This places EOS in a strong position to meet CROWS requirements, and to grow independently of CROWS.

E. Number of Contractors.

In an earlier public update [10 March 2011] EOS had advised: “The Government’s intent is to award multiple (two or more) Indefinite Delivery / Indefinite Quantity (ID/IQ) contracts, however the Government reserves the right to make one award.”

The Government [Army] has now clarified that its current intention is to make a single award for one company to perform the entire scope of work.

F. Schedule

The acquisition schedule is generally unchanged from previous Army updates, although more specific dates for key events have been released. Army expects to call for proposals [tenders] by late in 2011. The normal tender response period is around 60 days, suggesting an award by Q2 2012.

The Army’s 2 September 2011 update makes no change to the procurement that would require significant change to the competitive approach for CROWS adopted by EOS as part of the Northrop Grumman Corporation team. The team will compete vigorously for any award that Army makes for CROWS.

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ABOUT US ARMY CROWS

<http://procnet.pica.army.mil/FBO/RFP/W15QKN-11-R-f015/0010.htm>

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

EOS develops, manufactures and sells sophisticated aerospace technology with a wide range of applications through two business divisions – military and space.

EOS’ remote weapon systems enable a weapon to be fired rapidly and accurately by a gunner safely relocated away from the weapon. Typically the technology is applied for mounting weapons on the top of an armoured vehicle, and the gunner inside the

vehicle. EOS remote weapon systems have been produced in significant numbers for US Army, NATO forces, Australia, and other countries around the world.

EOS' space division is as a manufacturer of telescopes and technology to support space surveillance and space debris management, including removal. In space surveillance, EOS's laser tracking systems and computer technology can simultaneously track tens of thousands of orbiting objects – as small as 2 cm in diameter – while its space ablation technology and systems can potentially alter the orbits of objects (e.g. satellites) in space.

EOS has around 140 employees, based in Canberra (Australia), Tucson (Arizona), Singapore and Deggendorf (Germany). The company also has manufacturing centres in Queanbeyan and in Tucson, Arizona.