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CEO Bulletin

First Quarter Overview:

- \$10.5m cash held at 31/03/2007.
- Strong market success for new products.
- New technology meeting customer expectations and development budgets
- Significant progress in military business operations.

1. Finance

EOS' cash balance at 31/03/2007 was \$10.5 m [\$6.8m at 01/01/2007]. This is a strong result based on improving execution of the company's business plan.

The result is particularly satisfying in the context of:

- low production levels, set 25% below capacity to allow for summer vacation and implementation of new processes;
- revenue per manufactured product falling as the Australian dollar strengthened through the quarter; and
- continued investment in technology development, marketing, and production enhancements to meet customer requirements.

With working capital [including inventory] exceeding \$15m EOS can fund all current programs as well as the US Army CROWS program at the maximum activity levels projected by the Army for 2007.

2. Business Development

Military:

During 2006 EOS invested in the development and marketing of product variants for new markets. These efforts have been successful.

In Q4 2006 EOS announced it had been awarded a contract for remote weapon systems for the Australian Army.

The US Army CROWS program is potentially valued at more than \$100m in annual revenue to EOS. It is expected to be awarded in mid-2007. EOS has submitted a bid with Recon Optical Inc. as prime contractor for this program.

EOS believes that its bid for CROWS is in serious contention. In every competition awarded in the past 12 months, EOS and its partners, including Recon Optical Inc. have defeated the same competition that they presently face for the CROWS program.

Space:

The cost of EOS telescopes increased by 45% from 2004 to 2006, causing difficulties for EOS and its suppliers in 2005 and 2006, since projects typically span 3 years.

The pricing escalation has now rippled through the entire sector, and EOS has emerged as competitive as before. EOS product performance has been especially good in growth markets in aerospace applications. Conditions are emerging for re-entry to this strategic market, and re-engagement with customers has commenced.

3. Space Operations

EOS has now completed 75% of projects commenced in 2004, and no further cost excursions are expected from these programs.

Space tracking operations continue to meet or exceed expectations of EOS and its space data customers. These operations are profitable.

In space surveillance and ablation, work continues in close consultation with customers.

4. Military Operations

After a long and costly process of acquisition and integration, during Q4 of 2006 the SAP software for manufacturing support became available for operational use by EOS. This has allowed a wide range of pre-planned improvements to global supply chain and materiel management to be implemented, with immediate impact.

During this first quarter the key performance indicators for military operations all continued positive trends established in late 2006. These indicators include quality, productivity, scrap material, rework, product reliability, production yield, and materiel shortages in production. A reduction in inventory of over \$4m was also achieved in Q1 2007 at the same time as production goals were being met on schedule

All key metrics are still trending positive as we enter the second quarter, suggesting ongoing improvement is possible.

EOS is re-scaling production to achieve break-even at lower volumes, while retaining the ability to scale up production by 300% within 6 months. This effort will succeed.

EOS now has operational production processes and systems that are scalable, and capable of managing a wide range of demand levels while providing meaningful metrics for management. During the second quarter EOS will continue to optimize these processes.

5. Looking Forward

By late in 2006 EOS' key performance indicators suggested a strong recovery in 2007. This has been a strong first quarter, and leading indicators suggest further strengthening in the second quarter.

EOS and its CROWS partner Recon are by far the world's largest producers of stabilized, remote weapon systems. Current trends in non-US procurements of these systems are reinforcing that position.

In the next 3 months we expect a decision from the US Army in the CROWS competition. This is a very important program for EOS, and by accumulating other new military contracts at around 65% of the projected volume under a CROWS contract, EOS has strengthened its bid position.

EOS now has the resources, processes and systems in place to manage much more business than the CROWS program, and that business is migrating to EOS.

Dr Ben Greene

Chief Executive Officer