



ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

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2023 Annual General Meeting – Chair’s Address

Canberra, 23 May 2023

Electro Optic Systems Holdings Limited (**EOS** or **Company**) (ASX: EOS) provides the attached Chair’s address to be delivered at today’s Annual General Meeting commencing at 9.00am AEST at the offices of MinterEllison, Level 40, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000.

Authorised for release by the Chair of the board of Electro Optic Systems Holdings Limited.

Further information:

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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 are 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.

Electro Optic Systems Holdings Limited Annual General Meeting - 2023

Chair's Address – Mr Garry Hounsell

As is clear from the “new” faces on stage today – including my own – I am addressing you at the start of a fresh phase in EOS’ 40-year history.

The last 12 months have seen **significant change** occur across every area of the Company – including at the leadership levels.

EOS began 2023 with a new Group CEO, a new CFO, and new personnel in several key senior management positions.

As I noted earlier, the change taking place across the Company has also been reflected at the Board level.

This period of renewal or transition was prompted by a situation I have no intention of “sugarcoating” or “spinning” today – namely, that 2022 was EOS’ **most challenging year on record**. And we know that some shareholders here today have seen many ups and downs over the years, so that tells you something.

2022 will be remembered as a year in which a number of strategic and commercial factors, including some in the external environment, brought EOS to a moment of crisis.

I understand that this time last year EOS had well progressed plans and discussions that management and the directors believed would propel the company forward. Ultimately, influenced by global economic and capital market conditions, these plans did not come to completion.

This, combined with the trading results and cash collections in the first half of 2022 put the Company’s very survival in doubt.

Shareholders and Stakeholders

Long-term **shareholders** suffered enormously as a result – your Board is acutely aware of that - and the Company deeply regrets that.

EOS’ immediate short-term future was secured, in September 2022, through an agreement with our long-term equity investor **Washington H Soul Pattinson**.

Soul Pattinson invested \$70 million of debt funding into the Company. As many shareholders know, the cost of that money was not low. This was the best offer that the company had available at the time.

Importantly, this funding enabled the company to maintain our operations while the new leadership team started a comprehensive turn around program, including a broad range of cost-cutting measures.

The team at Soul Pattinson have been an incredible support, particularly to the management team, and we recognise that. I would like to publicly thank Soul Pattinson for that critical support and for their continuing confidence in EOS.

The Company has also benefitted from patience and support from its customers, including friends in the Middle East and from suppliers, including many in Canberra and across Australia.

Importantly, the ADF and Australian Department of Defence has been a longstanding supporter of the company over the years. 2022 was the year that we needed support more than ever, and the ADF and the Department of Defence was steadfast in their support.

We aim to repay the support of our many stakeholders – including shareholders - in a very simple way. We intend to develop, make and sell great products. That will benefit our suppliers, our staff, our customers and importantly, our shareholders.

Actions Taken in 2022

On joining the Company in Q3 2022, the new leadership team, working with the board, considered that there was an urgent need for a series of difficult and unsentimental business decisions.

Those decisions have as their goal not only improving EOS' immediate financial position but also securing its medium- to long-term future.

First, a comprehensive **restructuring and rightsizing** program was undertaken that saw our global workforce reduce from over 550 people in June 2022, to around 400 in December 2022 – a thirty per cent reduction in headcount.

Next, we exited **SpaceLink**. From what I have learned, this was an ambitious, technologically advanced, but highly capital-intensive program. For a range of reasons, the Company was ultimately unable to raise the capital required to develop this technology further.

As a result, the new management team made the recommendation to cease funding this program and the board supported that decision. This was the right decision - stopping this program gave the business a much stronger financial outlook

Concurrently – and as the refinancing of the Company was completed – we began the process of embedding a new commercially minded, cost-conscious **culture** around EOS. We are embedding a philosophy of **fiscal discipline** throughout the organisation.

EOS Today

These actions certainly represent steps in the right direction, but I note that it would be premature – not to mention irresponsible – to declare that “the storm has passed” and there is only smooth sailing ahead.

EOS operates in an industry where revenues can change quickly, either being deferred - because of changes in government spending or emphasis - or accelerated (as we have seen due to the conflict in Ukraine).

Since I have been here, it has continued to be a case of three steps forward, followed by one or sometimes two steps backwards. We expect this to continue, although as you will hear from Andreas, more recently things have been improving.

I can say, however:

- that we have weathered the most challenging period in EOS' history to date;
- that we are fully focused on creating future value for our shareholders and acting in the interests of all stakeholders, and
- that the ground on which we stand is firmer today than it was in the second half of 2022.

If 2022 was about survival, we expect that the coming year will be a **period of stabilisation** during which we take further strides towards building a sustainable, profitable long-term future for EOS.

Our aim, effectively, is to rebuild the Company in a new, more durable and more sustainable form.

That goal applies to all areas of our operations – from our product development and marketing, export markets, our manufacturing operations, our back offices and our relationships with stakeholders and the way that we approach and deal with customers.

I would stress that “rebuilding” the Company is not the same as tearing it down.

EOS' foundations are its technologies and the people who create them.

And we still firmly believe that those foundations are **fundamentally sound**.

EOS has done remarkable things throughout its long history – and I believe it can do remarkable things in future.

If I didn't, I would not be standing before you today.

Global Markets

Encouragingly, global **geopolitical and technological currents** appear to be moving in directions that have the potential to be favourable for EOS.

As you know, the ongoing conflict in Ukraine, along with the rise of competition between the world's great powers, means governments around the world – including in Australia – are prioritising national security more than they have in many years. This includes substantially **increasing their defence spending**.

Global decision-makers have taken note as drones, counter-drone systems and other disruptive technologies - such as unmanned vehicles - have taken centre stage in the Ukraine theatre.

In response, defence programs are increasingly seeking **innovative technologies** that can provide operational advantages on the battlefields of the present as well as the future – whether on land, at sea or in space.

We believe that EOS' current and emerging product suite can do just that – whether through the provision of high-energy lasers, space intelligence and control services, or low-cost counter-drone solutions.

It is important to stress that environmental factors alone **do not guarantee** our future success.

However, we consider that they represent **an opportunity** for us to achieve growth for our business segments, create value for our shareholders and, over time, realise EOS' full potential.

We have seen, in recent months, that **there is still global demand for EOS' innovative products**.

And, through the contracts we have entered into supply EOS RWS to Ukraine, and last week's new contract to supply the Royal Australian Navy, we have sent a strong, clear message to the global market that – despite the challenges of 2022 – EOS remains very much **open for business**.

We believe we have assembled a leadership team that has the required mix of industry-specific and general international business acumen that will give us the best possible chance of seizing these opportunities.

Of course – and as is appropriate – we will be judged not on opportunities, but on **results**.

Closing

In closing, I believe deeply in the importance of Defence as an industry that protects our way of life and our values, both in Australia and for our friends around the world.

Technology has always been important in Defence - I joined EOS because I saw first hand the technology that the company has to offer. Your Board believes that the company has learned a lot from the challenges of the past and that the new management team can develop and commercialise technology that will repay our stakeholders for their support, including you our shareholders.