



**Electro Optic Systems Holdings Limited**  
A.C.N. 092 708 364  
Suite 3, Level 12, 75 Elizabeth Street, Sydney NSW 2000  
Tel +61 2 9233 3915 Fax +61 2 9232 3411  
<http://www.eos-aus.com>

29 February 2016

The Manager  
Company Announcements Office  
ASX Limited  
Exchange Centre  
20 Bridge Street  
Sydney NSW 2000

Dear Sir,

**Preliminary Final Report – Listing Rule 4.3A**

The Preliminary Final Report/ Appendix 4E for the year ended 31 December 2015 is attached.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Ian Dennis', with a stylized flourish at the end.

Ian Dennis  
Director

Preliminary Final Report of *Electro Optic Systems Holdings Limited* for the Financial Year Ended 31 December 2015

ACN 092 708 364

*This Preliminary Final Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.3A.*

Current Reporting Period: Financial Year ended 31 December 2015

Previous Corresponding Period: Financial Year ended 31 December 2014

# **ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

## **Results for Announcement to the Market**

### Revenue and Net Profit

		<b>Percentage Change %</b>	<b>Amount</b>
Revenue from ordinary activities	up	29.9	To \$30,500,748
Profit from ordinary activities after tax attributable to members	up	N/A	To \$3,032,442
Net profit attributable to members	up	N/A	To \$3,032,442

### Dividends (Distributions)

	<b>Amount per security</b>	<b>Franked amount per security</b>
Final dividend	Nil¢	Nil¢
Interim dividend	Nil¢	Nil¢
Record date for determining entitlements to the dividend:		
• final dividend		N/A
• interim dividend		N/A
Net tangible assets at 31 December 2015		\$3,751,671
Number of ordinary shares outstanding at 31 December 2015		56,845,926
NTA per ordinary share at 31 December 2015		6.60 cents
NTA per ordinary share at 31 December 2014		1.82 cents

### **Brief Explanation of Revenue, Net Loss and Dividends (Distributions)**

Refer to Review of Operations on pages 16 to 18.

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Consolidated statement of profit or loss and other comprehensive  
income for the  
Financial Year ended 31 December 2015**

	Note	2015 \$	2014 \$
Revenue	2(a)	30,500,748	23,476,433
Changes in inventories of work in progress		843,062	1,383,876
Raw materials and consumables used		(14,969,882)	(15,009,775)
Employee benefits expense		(10,586,083)	(9,932,634)
Administrative costs		(3,235,089)	(2,286,564)
Finance costs		(17,100)	(23,454)
Depreciation expense	2(b)	(134,259)	(295,658)
Gain/ (loss) on disposal of fixed assets		7,404	(669)
Foreign exchange gain	2(b)	1,636,298	693,815
Occupancy costs		(742,906)	(755,881)
Other expenses		(269,751)	(267,035)
<b>Profit/ (loss) before income tax expense</b>	2	3,032,442	(3,017,546)
Income tax expense		-	-
<b>Profit/ (loss) for the year</b>	4	3,032,442	(3,017,546)
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit and loss</b>			
Exchange differences arising on translation of Foreign operations		(315,850)	(284,267)
<b>Total comprehensive profit/ (loss) for the year</b>		2,716,592	(3,301,813)
<b>Earnings/ (loss) per share:</b>			
Basic (cents per share)	5	5.3	(5.3)
Diluted (cents per share)		5.3	(5.3)

Notes to the financial statements are included on pages 8 to 15

# **ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

## **Consolidated statement of financial position as at 31 December 2015**

	<u>Note</u>	<u>2015</u> \$	<u>2014</u> \$
<b><i>Current Assets</i></b>			
Cash and cash equivalents		11,894,300	5,803,264
Trade and other receivables		6,536,772	7,484,235
Inventories		4,217,900	1,477,427
Other		1,460,118	438,441
<b><i>Total Current Assets</i></b>		<b>24,109,090</b>	<b>15,203,367</b>
<b><i>Non-Current Assets</i></b>			
Property, plant and equipment		155,858	233,833
<b><i>Total Non-Current Assets</i></b>		<b>155,858</b>	<b>233,833</b>
<b><i>Total Assets</i></b>		<b>24,264,948</b>	<b>15,437,200</b>
<b><i>Current Liabilities</i></b>			
Trade and other payables		13,585,096	8,860,476
Provisions		6,638,938	5,058,587
<b><i>Total Current Liabilities</i></b>		<b>20,224,034</b>	<b>13,919,063</b>
<b><i>Non-Current Liabilities</i></b>			
Provisions		289,243	483,058
<b><i>Total Non-Current Liabilities</i></b>		<b>289,243</b>	<b>483,058</b>
<b><i>Total Liabilities</i></b>		<b>20,513,277</b>	<b>14,402,121</b>
<b><i>Net Assets</i></b>		<b>3,751,671</b>	<b>1,035,079</b>
<b><i>Equity</i></b>			
Issued capital		75,383,567	75,383,567
Reserves	3	7,197,861	7,513,711
Accumulated losses	4	(78,829,757)	(81,862,199)
<b><i>Total Equity</i></b>		<b>3,751,671</b>	<b>1,035,079</b>

Notes to the financial statements are included on pages 8 to 15

**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Consolidated statement of changes in equity for the Financial  
Year ended 31 December 2015**

	<b>Total \$</b>	<b>Accumulated losses \$</b>	<b>Issued capital \$</b>	<b>Foreign currency translation reserve \$</b>	<b>Employee equity settled benefits reserve \$</b>
Balance at 1 January 2015	1,035,079	(81,862,199)	75,383,567	(214,092)	7,727,803
Profit for the period	3,032,442	3,032,442	-	-	-
Exchange differences arising on translation of foreign operations	(315,850)	-	-	(315,850)	-
Total comprehensive income for the year	2,716,592	3,032,442	-	(315,850)	-
<b>Balance as 31 December 2015</b>	<b>3,751,671</b>	<b>(78,829,757)</b>	<b>75,383,567</b>	<b>(529,942)</b>	<b>7,727,803</b>
Balance at 1 January 2014	4,336,892	(78,844,653)	75,383,567	70,175	7,727,803
(Loss) for the period	(3,017,546)	(3,017,546)	-	-	-
Exchange differences arising on translation of foreign operations	(284,267)	-	-	(284,267)	-
Total comprehensive income for the year	(3,301,813)	(3,017,546)	-	(284,267)	-
<b>Balance as 31 December 2014</b>	<b>1,035,079</b>	<b>(81,862,199)</b>	<b>75,383,567</b>	<b>(214,092)</b>	<b>7,727,803</b>

Notes to the financial statements are included on pages 8 to 15

# **ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

## **Consolidated statement of cash flows for the Financial Year ended 31 December 2015**

	<u>Note</u>	<u>2015</u> \$	<u>2014</u> \$
<b><i>Cash Flows From Operating Activities</i></b>			
Receipts from customers		35,963,078	25,281,338
Payments to suppliers and employees		(30,407,925)	(23,555,726)
Interest and bill discounts received		34,765	19,058
Interest and other costs of finance paid		(17,100)	(23,454)
Net cash provided by/ (used in) operating activities		<u>5,572,818</u>	<u>1,721,216</u>
<b><i>Cash Flows From Investing Activities</i></b>			
Proceeds from sale of property, plant and equipment		7,786	455
Payment for property, plant and equipment		(56,632)	(77,139)
Net cash (used in) by investing activities		<u>(48,846)</u>	<u>(76,684)</u>
<b><i>Cash Flows From Financing Activities</i></b>			
Proceeds of borrowings		1,391,248	
Repayment of borrowings		(1,391,248)	-
Net cash (used in) financing activities		<u>-</u>	<u>-</u>
<b><i>Net Increase/ (Decrease) In Cash Held</i></b>		5,523,972	1,644,532
<b><i>Cash and cash equivalents at the beginning of the year</i></b>			
Effects of exchange rate changes on the balance of cash held in foreign currencies		5,803,264	4,048,005
<b><i>Cash and cash equivalents at the end of the year</i></b>		<u>11,894,300</u>	<u>5,803,264</u>

Notes to the financial statements are included on pages 8 to 15

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Notes to the Financial Statements  
for the Financial Year ended 31 December 2015**

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**1. Basis of Preparation**

The preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and disclosure requirements of ASX Appendix 4E.

The accounting policies adopted in the preparation of the preliminary financial report are consistent with those adopted and disclosed in the 2014 annual report.

**Adoption of new and revised Accounting Standards**

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- Annual Improvements 2010-2012 and 2011-2013 Cycles:  
AASB 2014-1 Amendments to Australian Accounting Standards Part A – Annual Improvements 2010-2012 and 2011-2013 Cycles makes various amendments to Australian Accounting Standards. Most notably, items that will impact disclosure requirements under AASB 8 Operating Segments, AASB 119 Employee Benefits, and AASB 124 Related Party Disclosure.
- AASB 2014-1 Amendments to Australian Accounting Standards Part C – Materiality.

The application of the above has not had any material impact on the amounts recognised in the consolidated financial statements.



***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Notes to the Financial Statements  
for the Financial Year ended 31 December 2015**

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**1. Basis of Preparation (cont)**

**Going Concern**

The financial report has been prepared on the basis that the consolidated entity is a going concern, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity earned a net profit during the year of \$3,032,442 (2014: \$3,017,546 loss). Net cash provided by operating activities was \$5,572,818 (2014 - \$1,721,216). As at 31 December 2015, the consolidated entity had cash of \$11,894,300 (2014 - \$5,803,264) of which \$1,849,580 (2014 - \$254,146) is restricted as it secures bank guarantees on existing contracts with local and overseas customers. The cash will become unrestricted if the contracts are concluded or renegotiated.

In the opinion of the directors, the ability of the consolidated entity to continue as a going concern and pay its debts as and when they become due and payable is dependent upon:

- the continued ability of the consolidated entity to deliver contracts on hand on time, to the required specification and within budgeted costs;
- the willingness of key military and government customers to make timely payments for goods supplied in accordance with contractual terms;
- the future trading prospects of the group; and
- the ability to raise capital from existing or new shareholders should the need arise

Given the current position, the performance and prospects of the consolidated entity the directors believe it is appropriate to prepare the financial report on the going concern basis.

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Notes to the Financial Statements  
for the Financial Year ended 31 December 2015**

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	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>2. Profit/ (loss) From Ordinary Activities</b>		
Profit/ (loss) from ordinary activities before income tax includes the following items of revenue and expense:		
<b>(a) Revenue</b>		
Contract receipts	30,464,775	23,455,723
Interest received	34,765	19,058
Other revenue		
Other	1,208	1,652
Total revenue	<u>30,500,748</u>	<u>23,476,433</u>
<b>(b) Expenses</b>		
Foreign exchange (gains)	(1,636,298)	(693,815)
Depreciation of property, plant and equipment	134,259	295,658
<b>3. Reserves</b>		
Foreign currency translation reserve	(529,942)	(214,092)
Employee equity settled benefits reserve	<u>7,727,803</u>	<u>7,727,803</u>
Balance at end of financial period	<u>7,197,861</u>	<u>7,513,711</u>
<b>4. Accumulated Losses</b>		
Balance at beginning of financial period	(81,862,199)	(78,844,653)
Net Profit/ (loss) for the year	<u>3,032,442</u>	<u>(3,017,546)</u>
Balance at end of financial period	<u>(78,829,757)</u>	<u>(81,862,199)</u>

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Notes to the Financial Statements  
for the Financial Year ended 31 December 2015**

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5. Earnings Per Share

	<b>2015</b>	<b>2014</b>
	<b>¢ per share</b>	<b>¢ per share</b>
Basic EPS	5.3 cents	(5.3 cents)

*Basic Earnings per Share*

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Earnings/ (loss) (a)	3,032,442	(3,017,546)

	<b>2015</b>	<b>2014</b>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	56,845,926	56,845,926

(a) Earnings used in the calculation of basic earnings per share is the same as net Profit/ (loss) in the profit and loss.

(b) There are no potential ordinary shares and hence diluted earnings per share is the same as basic earnings per share.

6. Contingent Liabilities

a) Entities within the consolidated entity are involved in contractual disputes which are in the normal course of contracting operations. The directors believe that the entities within the consolidated entity can settle any contractual disputes with customers and should any customers commence legal proceedings against the company, the directors believe that any actions can be successfully defended. As at the date of this report no legal proceedings have been commenced against any entity within the group.

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Notes to the Financial Statements  
for the Financial Year ended 31 December 2015**

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7. Segment Information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess performance.

	Revenue		Segment profit	
	2015 \$	2014 \$	2015 \$	2014 \$
Space	11,624,922	3,202,771	2,300,114	(236,580)
Defence systems	18,841,061	20,254,604	1,423,768	(2,115,462)
Total of all segments	30,465,983	23,457,375	3,723,882	(2,352,042)
Eliminations	-	-	-	-
Unallocated	34,765	19,058	(691,440)	(665,504)
Consolidated	30,500,748	23,476,433	-	-
Profit/ (loss) before tax	-	-	3,032,442	(3,017,546)
Income tax benefit	-	-	-	-
Consolidated segment revenue and profit/ (loss) for the year	30,500,748	23,476,433	3,032,442	(3,017,546)

The revenue reported above represents revenue from external customers. There were no intersegment sales during the period. There were no discontinued operations during the period. The consolidated entity has four customers who provided in excess of 10% of consolidated revenue. Two customers are in the Defence segment and provided combined revenue of \$12,383,699 and two customers are in the Space segment and provided combined revenue of \$9,129,919.

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

**Notes to the Financial Statements  
for the Financial Year ended 31 December 2015**

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7. Segment Information (cont'd)

The following is an analysis of the Group's assets by reportable operating segment:

	<b>2015</b>	<b>2014</b>
	\$	\$
Space	3,857,109	3,713,288
Defence systems	8,513,539	5,920,648
Total segment assets	12,370,648	9,633,936
Unallocated assets	11,894,300	5,803,264
Total assets	24,264,948	15,437,200

Assets used jointly by reportable segments are allocated on the basis of the revenue earned by the individual reportable segments.

The consolidated entity operates in Australia, USA, Singapore and Germany in the development, manufacture and sale of telescopes and dome enclosures, laser satellite tracking systems and the manufacture of electro-optic fire control systems for defence.

**Product and Services within each Business Segment**

**Space**

EOS's laser-based space surveillance systems have been demonstrated in customer trials and EOS is now well-placed to be a major contributor to the next generation of space tracking capability. Future business is dependent on large government contracts being awarded in the space sector.

In addition, EOS has substantial space resources in its own right, and may enter the market for space data provision in the future.

The space sector also manufactures and sells telescopes and dome enclosures for space projects.

**Defence systems**

EOS develops, manufactures and markets advanced fire control, surveillance, and weapon systems to approved military customers. These products either replace or reduce the role of a human operator for a wide range of existing and future weapon systems in the USA, Australia and other markets.

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***  
**Notes to the Financial Statements**  
**for the Financial Year ended 31 December 2015**

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8. Subsequent Events

On 11 February 2016, the parent company issued 5,515,000 unlisted options to Directors and staff exercisable at \$3.00 each and expiring on 31 January 2019 under the Employee Share Option Plan. The Directors received 3,000,000 options which were approved by shareholders at an Extraordinary General Meeting held on 5 February 2016.

Apart from the above, the Directors are not aware of any significant subsequent events since the end of the financial period and up to the date of this report.

9. Issuance of Securities

**2015**

No shares or options were issued during the financial year.

No options were exercised during the year.

**2014**

No shares or options were issued during the financial year.

No options were exercised during the year.

***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***  
**Notes to the Financial Statements**  
**for the Financial Year ended 31 December 2015**

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10. Other Significant Information

None
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11. Information on Audit or Review

This Preliminary Final report is based on accounts to which one of the following applies.

- |  |  |
|--|--|
| <input type="checkbox"/> The accounts have been audited.   | <input type="checkbox"/> The accounts have been subject to review.           |
| <input checked="" type="checkbox"/> The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> The accounts have not yet been audited or reviewed. |

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review.

The audit is currently in progress and the directors continue to discuss a number of matters with the auditors. At this stage the directors anticipate an unqualified audit report. Any further potential modifications to the audit report are unknown at this time.
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Description of dispute or qualification if the accounts have been audited or subjected to review.

Not applicable
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## ***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

### **Review of Operations**

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#### **1. RESULTS FOR FULL-YEAR ENDING 31 DECEMBER 2015**

The consolidated entity (“EOS”) reported an operating profit before tax of \$3,032,442 for the year ended 31 December 2015 [2014: \$3,017,546 loss] based on revenues totalling \$30,500,748 [2014: \$23,476,433].

The consolidated entity reported net cash generated by operations for the year totalling \$5,572,818 [2014: \$1,721,216]. At 31 December 2015, the consolidated entity held cash totalling \$11,894,303 [2014: \$5,803,264]. Cash of \$1,849,580 [2014: \$254,146] is restricted as it secures bank guarantees relating to performance on some contracts.

These results are broadly in line with management expectations and represent a strong second half performance due largely to a clumping of defence orders in the second half.

Both the Defence Systems and the Space Systems businesses were profitable in 2015 and the overall 10% net profit achieved after expensing increased investment in research and market development is a good result in current market conditions.

The decline in the exchange rate between AUD and USD was helpful. EOS generally seeks to achieve natural hedges against exchange rate variations by executing sufficient contracts in US currency to fund its US dollar exposure to suppliers across all programs. However the exposure can never be totally removed and in this case an 8% decline in the value of AUD through 2015 was helpful.

#### **2. EOS DEFENCE SYSTEMS**

This sector develops, markets, manufactures and supports remote weapon systems [RWS] and related products in global markets.

As forecast in the half-year review, the first half loss was more-than reversed in the second half to allow a full-year profit for this sector.

The key features of this profit result were:

- Production output and product quality both increased through 2015 in an initial response to long-term programs for continuous improvement
- Revenue commenced from a new market and a new co-production plant in Asia
- Maintenance revenue grew as larger numbers of delivered products age or are put to use
- Continuing strong investment in new products and market development
- Customer satisfaction improving to new (high) levels

Growth of sector profits will require investment in new plant and equipment and a refresh of plant facilities. These matters are in hand and will be addressed within sector budgets for 2016 and 2017.



## ***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

### **Review of Operations**

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#### **3. EOS SPACE SYSTEMS**

EOS has developed unique space tracking sensors which can cost-effectively obtain accurate orbital data for space debris and satellites. This information degrades rapidly after acquisition, so it must be continuously updated with new observations. The requirement for new data is persistent and long term.

It is not practical to sell EOS sensors to space operators, because each individual operator will need a small amount of data from each of many sensors. The project cost of a minimum set of space sensors will exceed hundreds of millions of dollars. Although this cost is very much lower than applying before EOS sensors were developed, no single space operator could afford it. A data service leveraging the requirements of many users to meet the sensor capital cost is required.

To provide a reliable data service for space users, EOS is deploying sufficient sensors to find and track essentially all space debris of interest or concern to those space users. This information will be used to provide asset management and risk mitigation services. The delivery of space equipment still provides most revenue for Space Systems, but from 2017 the service business model is expected to overtake equipment as the dominant revenue source.

By late 2016 EOS expects to complete expansion of its long-standing space data acquisition capacity by 7 times over 2015 levels, by bringing new sensors on line and exploiting better locations. This activity is fully funded and construction is well under way.

During 2016 EOS expects to commence deployment of sufficient additional sensors to lift space data acquisition capacity in late 2017 to over 11 times over 2015 capacity. At this level EOS will be able to meet key initial commercial objectives for data volume and data reliability.

In parallel with the infrastructure build-out, data and service delivery contracts are under active negotiation with potential customers, including commercial space operators and government space agencies. EOS expects these contracts to close as tracking data availability expands from late 2016 and through 2017.

The business model requires expensive infrastructure and EOS has entered into arrangements for project funding which have already met the initial US\$105 million (AU\$150 million) of project funding required to achieve 2016 capacity objectives stated above. EOS expects these arrangements will be extended during 2016 by AU\$50 million to approximately AU\$200 million to allow for the planned capacity expansion in 2017 described above. Further capacity expansion will be undertaken as data volume requirements increase, as reflected in executed customer contracts.

EOS is providing approximately 50% of the AU\$200 million estimated project funding requirement up to 2017 from previously sunk costs, ongoing profits and data pre-payments from customers. EOS funding sources do not include any debt or sale of any rights to EOS intellectual property. To obtain the other (approximately) 50% of project funding to AU\$200 million, EOS has ceded not more than 50% of net data services

## ***ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED***

### **Review of Operations**

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revenue from the 2017 infrastructure to investors who have funded and consequently own specific capital items in the deployed network, but who are otherwise completely financially independent of EOS.

EOS is confident that it can meet the capital requirements for future growth beyond 2017 without sacrificing further share in net services revenue.

#### **4. FORECAST AND OUTLOOK**

The operating profit of \$3,032,442 for the 12 months ending 31 December 2015 was within management expectations.

Defence material needs for EOS weapon systems across Asia, Europe and the Middle East are growing due to escalation of threats, confrontation and actual conflict. EOS is well placed in all those markets because its advanced products provide very cost-effective defence capability.

However drastic falls in the price of oil and other resources have reduced defence funding in developing economies, even as regional conflicts escalate. For most developed economies there has also been a deterioration of government revenue and consequently defence funding, even as diverse strategic threats escalate. These conflicting pressures have caused delays in order placement, and have added uncertainty to EOS revenue forecasts.

However overall the outlook for defence systems sector remains positive. Growth is expected to continue, but with significant disruption to the contract award process.

The outlook for space sector is also positive. EOS is rapidly building its space infrastructure to meet demand for space data, represented presently by customer negotiations and low-rate data agreements.

EOS expects to be profitable in the first half of 2016, and to hold in excess of \$10 million in cash at 30 June 2016.

Financial uncertainties can adversely impact the governments which are EOS customers. The company cannot be certain that future customer procurements will continue as usual or that business conditions will not deteriorate from current expectations.

The financial statements have been prepared on the basis of a going concern as detailed in Note 1.

Ben Greene

Chief Executive Officer

29 February 2016