



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>

28 February 2020

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 2019 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 2019

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 2019

Previous Corresponding Period: Financial Year ended 31 December 2018

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Results for Announcement to the Market

Revenue and Net Profit

		Percentage Change %	Amount
Revenue from ordinary activities	Up	90.5	To \$165,985,563
Profit from ordinary activities after tax attributable to members	Up	20.3	To \$18,145,931
Net Profit attributable to members	Up	20.3	To \$18,145,931

Dividends (Distributions)

	Amount per security	Franked amount per security
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 2019		\$195,986,947
Number of ordinary shares outstanding at 31 December 2019		113,078,213
NTA per ordinary share at 31 December 2019		173.32 cents
NTA per ordinary share at 31 December 2018		100.18 cents

Brief Explanation of Revenue, Net Profit and Dividends (Distributions)

Refer to Review of Operations on pages 20 to 24.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Consolidated statement of profit or loss and other comprehensive
income for the
Financial Year ended 31 December 2019**

	Note	31 December 2019 \$	31 December 2018 \$
Revenue	2(a)	165,985,563	87,130,396
Changes in inventories of work in progress		(5,740,505)	(2,842,202)
Raw materials and consumables used		(84,388,972)	(40,356,855)
Employee benefits expense		(33,789,073)	(22,147,866)
Administration expenses		(14,133,066)	(9,502,730)
Amortisation of intangible assets		(357,655)	-
Interest paid – other		-	(36,903)
Interest expense on right of use assets	2(c)	(352,387)	-
Depreciation of property, plant and equipment	2(c)	(1,694,948)	(633,235)
Depreciation of right-of-use assets		(2,315,110)	-
Foreign exchange gains	2(c)	610,019	7,712,222
Occupancy costs		(490,180)	(3,440,347)
Other expenses		<u>(1,337,655)</u>	<u>(801,108)</u>
Profit before income tax benefit	2	21,996,031	15,081,372
Income tax expense		<u>(3,850,100)</u>	-
Profit for the year		<u>18,145,931</u>	<u>15,081,372</u>
Attributable to:			
Owners of the Company		18,522,598	15,302,214
Non-controlling interests		<u>(376,667)</u>	<u>(220,842)</u>
		<u>18,145,931</u>	<u>15,081,372</u>
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations		<u>337,519</u>	<u>(1,157,927)</u>
Total comprehensive Profit for the year		<u>18,483,450</u>	<u>13,923,445</u>
Attributable to:			
Owners of the Company		18,860,117	14,144,287
Non-controlling interests		<u>(376,667)</u>	<u>(220,842)</u>
		<u>18,483,450</u>	<u>13,923,445</u>
Profit per share			
Basic (cents per share)	5	19.52	17.22
Diluted (cents per share)	5	19.48	17.22

Notes to the financial statements are included on pages 8 to 24

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Consolidated statement of financial position
as at 31 December 2019**

	Note	Consolidated December 2019 \$	December 2018 \$
CURRENT ASSETS			
Cash and cash equivalents		77,881,766	40,538,225
Trade and other receivables		26,908,720	26,809,969
Contract asset		44,772,583	9,777
Inventories		45,357,602	26,465,499
Other		<u>22,395,416</u>	<u>12,713,727</u>
TOTAL CURRENT ASSETS		<u>217,316,087</u>	<u>106,537,197</u>
NON-CURRENT ASSETS			
Trade and other receivables		13,209,142	7,146,990
Other		230,038	2,252,177
Deferred tax asset		1,920,149	-
Security deposit		9,021,823	8,971,929
Loan in associate		2,780,265	-
Right of use assets		13,590,868	-
Goodwill		14,553,088	-
Intangible assets		17,253,231	-
Property, plant and equipment		<u>8,053,052</u>	<u>3,960,849</u>
TOTAL NON-CURRENT ASSETS		<u>80,611,656</u>	<u>22,331,945</u>
TOTAL ASSETS		<u>297,927,743</u>	<u>128,869,142</u>
CURRENT LIABILITIES			
Trade and other payables		30,204,542	22,328,897
Current tax payable		7,047,333	-
Lease liabilities		3,316,740	-
Provisions		<u>12,882,819</u>	<u>6,366,891</u>
TOTAL CURRENT LIABILITIES		<u>53,451,434</u>	<u>28,695,788</u>
NON-CURRENT LIABILITIES			
Lease liabilities		10,467,375	-
Provisions		<u>6,215,668</u>	<u>3,891,770</u>
TOTAL NON-CURRENT LIABILITIES		<u>16,683,043</u>	<u>3,891,770</u>
TOTAL LIABILITIES		<u>70,134,477</u>	<u>32,587,558</u>
NET ASSETS		<u>227,793,266</u>	<u>96,281,584</u>
EQUITY			
Issued capital		274,311,590	161,784,727
Reserves	3	9,311,679	8,472,791
Accumulated losses	4	<u>(55,291,567)</u>	<u>(73,814,165)</u>
Equity attributable to owners of the Company		228,331,702	96,443,353
Non-controlling interests		<u>(538,436)</u>	<u>(161,769)</u>
TOTAL EQUITY		<u>227,793,266</u>	<u>96,281,584</u>

Notes to the financial statements are included on pages 8 to 24

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Consolidated statement of changes in equity for the Financial
Year ended 31 December 2019**

	Accumulated losses	Issued capital	Foreign currency translation reserve	Employee equity settled benefits reserve	Attributable to owners of the parent	Non- controlling interests	Total Equity
	\$	\$	\$	\$	\$	\$	\$
2019							
Balance at 1 January 2019	<u>(73,814,165)</u>	<u>161,784,727</u>	<u>(1,399,064)</u>	<u>9,871,855</u>	<u>96,443,353</u>	<u>(161,769)</u>	<u>96,281,584</u>
Profit for the year	<u>18,522,598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,522,598</u>	<u>(376,667)</u>	<u>18,145,931</u>
Exchange differences arising on translation of foreign operations	<u>-</u>	<u>-</u>	<u>337,519</u>	<u>-</u>	<u>337,519</u>	<u>-</u>	<u>337,519</u>
Total comprehensive profit for the year	<u>18,522,598</u>	<u>-</u>	<u>337,519</u>	<u>-</u>	<u>18,860,117</u>	<u>(376,667)</u>	<u>18,483,450</u>
Issue of 4,271,357 new shares at \$7.312 each as part consideration for the acquisition of EM Solutions Pty Ltd	-	31,223,620	-	-	31,223,620	-	31,223,620
Issue of 10,144,224 new shares at \$6.66 each under the institutional placement	-	64,261,948	-	-	64,261,948	-	64,261,948
Issue of 2,558,753 new shares at \$6.66 under the Share Purchase Plan	-	17,041,295	-	-	17,041,295	-	17,041,295
Adjustment arising from change in non- controlling interest	-	-	-	-	-	-	-
Recognition of share based payments	-	-	-	501,369	501,369	-	501,369
Balance at 31 December 2019	<u>(55,291,567)</u>	<u>274,311,590</u>	<u>(1,061,545)</u>	<u>10,373,224</u>	<u>228,331,702</u>	<u>(538,436)</u>	<u>227,793,266</u>
2018							
Balance at 1 January 2018	<u>(89,116,379)</u>	<u>103,342,071</u>	<u>(241,137)</u>	<u>9,586,065</u>	<u>23,570,620</u>	<u>-</u>	<u>23,570,620</u>
Profit for the year	<u>15,302,214</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,302,214</u>	<u>(220,842)</u>	<u>15,081,372</u>
Exchange differences arising on translation of foreign operations	<u>-</u>	<u>-</u>	<u>(1,157,927)</u>	<u>-</u>	<u>(1,157,927)</u>	<u>-</u>	<u>(1,157,927)</u>
Total comprehensive profit for the year	<u>15,302,214</u>	<u>-</u>	<u>(1,157,927)</u>	<u>-</u>	<u>14,144,287</u>	<u>(220,842)</u>	<u>13,923,445</u>
Issue of 10,471,434 new shares at \$2.91 each	-	28,948,278	-	-	28,948,278	-	28,948,279
Issue of 10,147,123 new shares at \$2.91 each	-	28,051,722	-	-	28,051,722	-	28,051,722
Issue of 495,858 new shares at \$2.91 under the Share Purchase Plan	-	1,442,656	-	-	1,442,656	-	1,442,656
Adjustment arising from change in non- controlling interest	-	-	-	-	-	59,073	59,073
Recognition of share based payments	-	-	-	285,790	285,790	-	285,790
Balance at 31 December 2018	<u>(73,814,165)</u>	<u>161,784,727</u>	<u>(1,399,064)</u>	<u>9,871,855</u>	<u>96,443,353</u>	<u>(161,769)</u>	<u>96,281,584</u>

Notes to the financial statements are included on pages 8 to 24

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Consolidated statement of cash flows
for the Financial Year ended 31 December 2019**

	Note	31 December 2019 \$	31 December 2018 \$
Cash flows from operating activities			
Receipts from customers		107,995,766	63,870,012
Payments to suppliers and employees		(140,187,917)	(80,309,969)
Income tax paid		(1,881,111)	-
Interest and bill discounts received		569,917	790,658
Interest and other costs of finance paid		<u>(352,387)</u>	<u>(36,903)</u>
Net cash (outflows) from operating activities		<u>(33,855,732)</u>	<u>(15,686,202)</u>
Cash flows from investing activities			
Payment for property, plant and equipment		(4,591,384)	(3,188,913)
Payment to acquire entity		(1,253,836)	-
Loan in associate		(2,780,265)	-
Security deposit for performance bond		<u>-</u>	<u>(8,971,929)</u>
Net cash (outflows) from investing activities		<u>(8,625,485)</u>	<u>(12,160,842)</u>
Cash flows from financing activities			
Proceeds from issue of new shares		81,303,243	58,442,656
Repayment of lease liabilities		<u>(1,705,278)</u>	<u>-</u>
Net cash inflows from financing activities		<u>79,597,965</u>	<u>58,442,656</u>
Net increase in cash and cash equivalents		37,116,748	30,595,612
Cash and cash equivalents at the beginning of the financial year		40,538,225	9,989,953
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		<u>226,793</u>	<u>(47,340)</u>
Cash and cash equivalents at the end of the financial year		<u>77,881,766</u>	<u>40,538,225</u>

Notes to the financial statements are included on pages 8 to 24

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the Financial Statements for the Financial Year ended 31 December 2019

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 2018 annual report excepting in relation to the adoption of new and revised accounting standards applicable in the 2019 year.

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 financial year, and which have been applied in the preparation of this general purpose financial report, that are relevant to the Group include:

- AASB 16 *Leases* and related amending Standards

In the current year, the Group has applied AASB 16 Leases for the first time. AASB 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements and the impact of the adoption of AASB 16 on the Group's consolidated financial statements are described below.

The date of initial application of AASB 16 for the Group is 1 January 2019.

The Group has applied AASB 16 using the modified retrospective approach with the cumulative effect of initially applying the Standard recognised at the date of initial application in Accumulated Losses.

Impact on Lessee Accounting

Former operating leases

AASB 16 changes how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance-sheet.

Applying AASB 16, for all leases (except as noted below), the Group:

a) recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the Financial Statements for the Financial Year ended 31 December 2019

1. Basis of Preparation (cont)

b) recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and

c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within other expenses in the consolidated statement of profit or loss as applicable.

Financial impact of initial application of AASB 16

The initial application of AASB 16 resulted in:-

- i. The creation of a right-of-use asset of \$5,703,519 and a lease liability of \$5,733,451 as at 1 January 2019.
- ii. A difference of \$246,552 between the operating lease commitments disclosed in applying AASB 117 in the 31 December 2018 annual report, discounted using the rate implicit in the lease in (i) above, and the lease liability in (ii) above. This difference is primarily attributable to the inclusion of certain leases as part of the opening adjustment that were previously not disclosed as operating lease commitments.
- iii. When measuring lease liabilities, the Group discounted lease payments using the rate implicit in the lease. Where this could not be determined, the Group's incremental borrowing rate was used. The weighted average rate applied is 4.75%.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the Financial Statements for the Financial Year ended 31 December 2019

2019	2018
\$	\$

2. Profit From Ordinary Activities

Profit from ordinary activities before income tax includes the following items of revenue and expense:

(a) Revenue

Revenue from operations consisted of the following items:

Revenue from sale of goods	159,170,211	84,299,210
Revenue from rendering of services	<u>6,214,808</u>	<u>2,040,120</u>
	<u>165,385,019</u>	<u>86,339,330</u>

Disaggregation of revenue

The Group derives its revenue from the transfer of goods and services over time and at a point in time in the following major segments.

Timing of revenue recognition

Over time

	Revenue	Revenue
		\$
Defence segment – Sale of goods	135,025,200	60,105,781
Communications segment – Sale of goods	1,809,996	-
Total Revenue recognise over time	<u>136,835,196</u>	<u>60,105,781</u>

The Group recognises revenue for the overseas remote weapon system contract over time as the goods manufactured under this contract do not have an alternative use for the entity, and EOS has an enforceable right to payment for performance completed to date under the contract. AASB 15 takes a controls-based approach to revenue recognition, where the transfer of a good or service happens as the customer obtains control of that good or service. Under our current primary contract, the control of the goods transfer when the goods are delivered. The output method, based on the delivery of goods to customer faithfully depicts our performance under the contract and best depicts the pattern of transfer of goods to the customer.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 2019**

	2019	2018
	\$	\$
2. Profit From Ordinary Activities (cont)		
All other revenue is recognised at a point in time.		
At a point in time		
	Revenue	Revenue
Communications segment – Providing services	81,432	-
Defence segment – Sale of goods	22,335,015	23,743,572
Defence segment – Providing services	1,114,122	1,129,557
Space segment – Sale of goods	-	468,850
Space segment – Providing services	5,019,254	910,565
Total Revenue recognise at a point in time	<u>28,549,823</u>	<u>26,233,544</u>
Total Revenue	<u>165,385,019</u>	<u>86,339,330</u>
(b) Other revenue		
Interest received	569,917	790,658
Other	30,627	408
Total revenue	<u>165,985,563</u>	<u>87,130,396</u>
(c) Expenses		
Amortisation of intangible assets	(357,635)	-
Foreign exchange gains	610,019	7,712,222
Interest paid - other	-	36,903
Interest expense on right of use assets	(352,387)	-
Depreciation of property, plant and equipment	(1,694,948)	(633,235)
3. Reserves		
Foreign currency translation reserve	(1,061,545)	(1,399,064)
Employee equity settled benefits reserve	10,373,224	9,871,855
Balance at end of financial period	<u>9,311,679</u>	<u>8,472,791</u>
4. Accumulated Losses		
Balance at beginning of financial period	(73,814,165)	(89,116,379)
Net Profit for the year	<u>18,522,598</u>	<u>15,302,214</u>
Balance at end of financial period	<u>(55,291,567)</u>	<u>(73,814,165)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 2019**

5. Earnings Per Share

	2019	2018
	¢ per share	¢ per share
Basic EPS	19.52 cents	17.22 cents
Diluted EPS	19.48 cents	17.22 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:

	2019	2018
	\$	\$
Profit (a)	18,145,931	15,081,372

	2019	2018
	No.	No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share	92,942,896	87,582,641
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	93,162,896	87,582,641

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

(b) There are potential ordinary shares and hence diluted earnings per share is the different to basic earnings per share.

The 220,000 unlisted options exercisable at \$2.99 outstanding are in the money at 31 December 2019 and are considered dilutive.

(c) The 5,180,000 ordinary shares issued on 20 June 2018 at a price of \$2.99 under the Loan Funded Share Plan are not included in the weighted average number of ordinary shares as they are treated as in substance options for accounting purposes. The Loan Funded Share Plan shares are not considered dilutive as all performance conditions in relation to these shares have not all been met at balance date. The first vesting date of 12.5% of these shares is 30 June 2020.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the Financial Statements for the Financial Year ended 31 December 2019

6. Contingent Liabilities and Commitments

- (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.
- (b) Under the terms of a contract in the Defence sector, the Company has an obligation to enter into and execute an offset agreement with the relevant overseas Government Authority. Once the agreement is executed, the Company will be required to lodge an offset bond of approximately US\$17m with the overseas Government Authority to ensure that local content requirements are met. The final terms of the offset agreement are still being negotiated
- (c) A subsidiary company, EOS Defence Systems Pty Limited has provided a performance bond of US\$31,635,146.70 in relation to an overseas defence sector contract. This performance bond is secured by a security deposit of A\$9,019,251 and a fixed and floating charge over the assets of the Group.
- (d) (Electro Optic Systems Holdings Limited entered into a deed of cross guarantee on 6 April 2018 with two of its wholly-owned subsidiaries, Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited, pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 and relieved from the requirement to prepare and lodge an audited financial report. On 28 November 2019, EM Solutions Pty Ltd entered into an Assumption Deed and became a party to the Deed of Cross Guarantee.
- (e) Electro Optic Systems Pty Limited, a wholly owned subsidiary of Electro Optic Systems Holdings Limited, has entered into an Unsecured Convertible Note Deed with the vendors of AEI Air (Holdings) Limited and others to advance funds up to GBP2,000,000 as a series of convertible notes which will entitle Electro Optic Systems Pty Limited to convert these convertible notes, when advanced in full, to acquire 49% of the equity in AEI Air (Holdings) Limited. Electro Optic Systems Pty Limited has also entered into a Put and Call Option Deed with the vendors of AEI Air (Holdings) Limited to acquire a further 49% from the vendors of AEI Air (Holdings) Limited based on a profitability formula over the four year period from 1 January 2019 to 31 December 2022 and meeting various milestones. The Put and Call Option Deed also includes provisions for Electro Optic Systems Pty Limited to make vendor loans of up to GBP1,714,500 to the vendors of AEI Air (Holdings) Limited which are fully repayable should the Put and Call Option not be exercised. Where the Put and Call Option is exercised the loans are able to offset the exercise price on settlement. At the date of this report GBP1,500,000 has been advanced under the Unsecured Convertible Note Deed and no amounts have been advanced to the vendors under the Put and Call Option Deed at their request. Electro Optic Systems Pty Limited hold no direct equity in AEI Air (Holdings) Limited at the date of this report.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**Notes to the Financial Statements
for the Financial Year ended 31 December 2019**

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	
	2019 \$	2018 \$	2019 \$	2018 \$
Communications	1,891,428	-	130,371	-
Space	5,019,254	1,379,421	418,591	(2,153,278)
Defence	158,504,964	84,960,317	23,162,055	17,766,199
Total of all segments	165,415,646	86,339,738	23,711,017	15,612,921
Eliminations	-	-	-	-
Unallocated	569,917	790,658	(1,714,986)	(531,549)
Consolidated Profit before tax	-	-	21,996,031	15,081,372
Income tax expense	-	-	(3,850,100)	-
Consolidated segment revenue and profit for the year	165,985,563	87,130,396	18,145,931	15,081,372

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 had two customers who each provided in excess of 10% of consolidated revenue. The customers are within the Defence segment and provided combined revenue of \$128,279,214.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the Financial Statements for the Financial Year ended 31 December 2019

7. Segment Information (cont'd)

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

	2019	2018
	\$	\$
Communications	18,723,566	-
Space	1,673,101	726,984
Defence	190,627,487	78,632,004
Total segment assets	211,024,154	79,358,988
Unallocated cash and security deposit	86,903,589	49,510,154
Total assets	297,927,743	128,869,142

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, Middle East and Germany in the development, manufacture and sale of telescopes and dome enclosures, laser satellite tracking systems, microwave communications and the manufacture of electro-optic fire control systems for defence.

Product and Services within each Business Segment

EOS Space Systems

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.

EOS 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.

EOS Communication Systems

EOS specialises in innovative optical, microwave and on-the-move radio and satellite products that help to deliver high speed, resilient and assured telecommunications anywhere in the world.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
Notes to the Financial Statements
for the Financial Year ended 31 December 2019

8. Subsequent Events

On 26 December 2019, Electro Optic Systems Holdings Limited (“EOS” or “Company”) (ASX: EOS), acting through its wholly-owned US subsidiary EOS Defense Systems USA, Inc. (“EOSDS”), executed an agreement to acquire all of the business and assets of Audacy Corporation, a space communications company based in the US (“Acquisition”) subject to mandatory Federal Communications Commission (“FCC”) approval. EOSDS will outlay approximately A\$10 million in cash for the Acquisition including substantial costs associated with securing mandatory US government spectrum licenses and other acquisition costs.

The transfer of control of Audacy Corporation’s spectrum licenses to EOSDS is subject to review and approval by the FCC. The FCC application was lodged on 28 January 2020 and an announcement was made to the ASX at that time. EOSDS has also filed for review of the Acquisition by the US Committee on Foreign Investment in the US (“CFIUS”) on 21 February 2020.

Although the Company believes the Acquisition is compliant with all statutory and regulatory requirements, approval of the Acquisition by the FCC and CFIUS cannot be assured. In the normal course, and subject to those government approvals and other customary conditions, EOS anticipates the Acquisition to close in mid-2020 (“Completion”).

EOSDS is not required to make any material payment for the Acquisition until Completion has occurred. EOS will fund the A\$10 million required during 2020 for the Acquisition and related activities from its cash holdings.

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.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
Notes to the Financial Statements
for the Financial Year ended 31 December 2019

9. Issuance of Securities

2019

On 11 October 2019, the Company issued 4,271,357 new ordinary shares at \$7.31 as part of the acquisition cost of EM Solutions Pty Ltd.

On 27 November 2019, the Company issued 10,144,224 new ordinary shares at \$6.66 each raising \$64,261,948, net of issuance costs.

On 13 December 2019 the Company issued 2,558,753 new ordinary shares at \$6.66 each under the Small Shareholder Plan, raising \$17,041,295.

No options were exercised during the year.

2018

On 9 February 2018, the Company issued 10,471,434 new ordinary shares at \$2.91 each raising \$29,948,278, net of issuance costs.

On 16 March 2018, the Company issued 10,147,123 new ordinary shares at \$2.91 each raising \$28,051,722, net of issuance costs.

On 21 March 2018 the Company issued 495,858 new ordinary shares at \$2.91 each under the Small Shareholder Plan, raising \$1,442,656, net of issuance costs.

On 20 June 2018, the Company issued 5,180,000 new restricted ordinary shares at \$2.91 each under the Loan Funded Share Plan with loans provided by the Company. The shares are restricted subject to vesting and performance targets. For accounting purposes these shares are treated as options.

No options were exercised during the year.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 2019**

10. **Details of entities over which control has been gained or lost over the period**

Name of Entity: EM Solutions Pty Ltd
Date of gain of control: 11 October 2019
Contribution to net profit for the period: \$254,253

11. **Details of Associates**

Name of Entity: AEI Air (Holdings) Limited
Deemed percentage holding: The consolidated entity holds unsecured convertible notes, which are convertible into shares representing a 49% equity interest.
Aggregate share of net profits/ (losses): Nil – The investment in the associate is debt in nature and therefor the consolidated entity does not have any share in any profit (losses)

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 2019**

12. Other Significant Information

None

13. 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.

Description of dispute or qualification if the accounts have been audited or subjected to review.

Not applicable

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Review of Operations

1. RESULTS FOR FULL-YEAR ENDED 31 DECEMBER 2019

The consolidated entity (“EOS”) reported an operating profit after income tax of \$18,145,931 for the twelve month period to 31 December 2019 [31 December 2018: \$15,081,372] based on revenues from ordinary activities totalling \$165,985,563 [31 December 2018: \$87,130,396].

The consolidated entity reported net cash used by operations for the twelve month period totalling \$33,855,732 [31 December 2018: \$15,686,202]. At 31 December 2019, the consolidated entity held cash totalling \$77,881,766 [31 December 2018: \$40,538,225]. Cash of \$102,025 [31 December 2018: \$119,025] is restricted as it secures bank guarantees on premises.

The profit after tax was based on EBIT of \$22,348,418 and tax expense of \$3,850,100. Foreign exchange movements did not make a substantial contribution to this result.

The full year EBIT of \$22,348,418 [31 December 2018: \$15,118,275] is a substantial improvement over the corresponding prior period and exceeds prior guidance of \$20 million.

These financial results are in line with management expectations. The individual sector performances are further discussed below

2. DEFENCE SYSTEMS SECTOR: STATUS AND OUTLOOK

The EOS Defence sector operated to expectations through 2019. An increase in production plant utilisation to beyond 50% of capacity drove a three-fold increase in overall company EBIT from \$7.4m to \$21.7m (excluding foreign exchange gains). This sector will again be the driving force behind a forecast 70% growth in EBIT from 2019 to 2020.

From 2016-2019 EOS expanded annual RWS production capacity from \$50 million to around \$300 million. The key factors limiting growth were supply chain limitations and shortages of skilled staff. These factors were progressively overcome and in 2020 annual production will rise to \$250 million, close to current capacity.

This expansion has established scalable production in Australia as a template for replication globally. The Company is currently expanding annual output capacity from \$300 million to \$900 million by adding capacity in the USA (\$300 million), Singapore (\$150 million) and UAE (\$150 million).

This capacity will come on line from mid-2020 at a rate dictated by market demand. All of the new capacity could be available by 2024 if needed.

Review of Operations

A key requirement for future competitiveness and profitability is the Company's global supply chain which allows stable pricing along with offset management and maximising natural currency hedging through flexible supply chain arrangements. The new EOS plants are evolving to serve as hubs for regional supply chain coordination as part of a global supply effort.

EOS now estimates the global RWS market for its current product mix to exceed \$12 billion over the period 2021-2030. This estimate is achieved by discounting the broader RWS market to remove heavy weapons, lower technology requirements, and potential customers not allied with the US or Australia, with a history of corrupt practice or unreliable finances.

Applying a similar discounting process results in an estimated \$12 billion addressable market over the same period for the Company's CUAS [counter unmanned aerial system] products.

The total addressable market for EOS Defence sector products is therefore expected to be around \$24 billion over the decade 2021-2030, increasing from around \$1.2 billion in 2021 at a compound annual growth rate of approximately 15%. This market estimate based on discounted industry models is supported by the observation that EOS is presently participating in competitive processes for \$3 billion in contracts (approximately) equally distributed across three continents with awards due over the next 34 months.

EOS is actively positioning product variants and plant capacity to meet the identified market requirements. Because EOS is only addressing a market segment for which its products and practices are reasonably suited, the Company expects its success rate will be around 40% corresponding to the performance previously achieved in this sector in recent years.

The outlook for the Defence Systems business is very strong.

3. SPACE SYSTEMS SECTOR: STATUS AND OUTLOOK

The EOS Space Sector was marginally profitable for 2019, as expected.

Space Sector is undertaking a pivot from Australian space program revenue to direct export sales. This is required because the Commonwealth first delayed and then effectively cancelled the budgeted programs for indigenous space domain activity which EOS had been addressing, with supporting funding from the customer.

Foreign customers which had been expected to coordinate requirements through the Commonwealth programs are now negotiating directly with EOS for access to equipment

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Review of Operations

and data. These activities have government support where required and are expected to provide growing revenue from both products and data services.

One international contract award which had been expected in 2019 was delayed by protests from local competitors in that market. These protests are expected to be overcome by the customer during 2020.

The business model which permits customers to acquire significant quantities of EOS equipment also establishes a firm requirement among those customers for supporting observations from Australian locations. EOS expects to expand its Australian tracking resources in the near term to meet this demand.

The company announced late in 2019 a major technology breakthrough in the control of laser energy in space, for ground-based lasers. This new technology has placed EOS in the forefront of companies competing for market share in the next generation of space communications. This breakthrough provided the underlying competitive advantages allowing EOS to announce the establishment of the new Communications Sector, which will contribute to EOS profits from the near term.

The sector also contributed significant technology and materiel to the Defence Sector CUAS products, and in particular the high power lasers which are used to destroy drones.

The outlook for the EOS Space Sector is improving. As forecast this sector transitioned from loss to profit in 2019 and the sector is expected to be profitable going forward.

4. EOS COMMUNICATION SYSTEMS: STATUS AND OUTLOOK

The space economy is valued at \$550 billion annually with communication services, excluding broadcast, comprising around \$100 billion. Future capacity requirements for space communications cannot be met using existing technology, because the microwave spectrum is saturated and no more operating licenses can be issued by the ITU (International Telecommunications Union).

EOS has invested substantial resources to develop key elements for the next generation of space communications. In September 2019 EOS announced it had achieved a breakthrough in the transmission of data to and from satellites using lasers, opening the way to 1,000-fold increases in capacity.

This breakthrough is of limited commercial value as the \$100 billion space communication market is entirely dependent on infrastructure to support microwave technology. This infrastructure, with almost \$1 trillion in sunk costs if customer equipment is included, is not compatible with optical communication technology and therefore forms an almost-impenetrable barrier to market entry.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Review of Operations

EOS intends to enter this market by offering novel technologies in the microwave domain, to leverage the existing infrastructure, before progressively offering hybrid (optical-microwave) capabilities and finally optical communications.

On 1 October 2019 EOS announced it had acquired EM Solutions, an Australian company specialising in high performance ground terminals and antennae for microwave communications. This acquisition is closed and is already profitable.

On 28 January 2020 EOS announced it will acquire the business and assets of Audacy Corporation, a US entity specialising in the operation of constellations of microwave communication satellites, subject to the approval of the US Federal Communications Commission (FCC) and Committee on Foreign Investment in the US (CFIUS).

EOS has filed for approval of the US acquisition with the FCC and the CFIUS. Approval from both of these US government entities is required before that acquisition can close.

Upon closing of the US acquisition, EOS will have all of the ground segment and space segment elements necessary to provide space communication customers with end-to-end cost-effective communication solutions using microwave technology. EOS intends to expand this market channel to delivery increasingly larger capacity through hybrid and later optical communications using satellites.

The outlook for the EOS Communications Sector is good, and provided both US government approvals are obtained for the US acquisition, EOS expects rapid growth in this sector.

5. FORECAST

EOS' fundamental objective is still reliable long term profit growth.

Relying only on contracts already in hand, the company expects EBIT to grow around 75% to exceed \$36 million for the full year to 31 December 2020. This guidance is unchanged since it was last upgraded by the Company in November 2019.

The 2020 guidance is based on the company achieving 75% growth in output to around \$275 million in revenue across all three business sectors. Capacity has been successfully tested at the levels required for this forecast.

The Company believes that new orders, particularly in the defence sector, will be received during 2020 and beyond. However there is limited scope to increase output before Q4 2020 because the current forecast of 70-75% growth will consume most available resources.

EOS revenue is predominantly derived from contracts denominated in US\$. Forecasts assume no substantial change in the exchange rate of AU\$ against US\$. However

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Review of Operations

exchange rates can be volatile and both gains and losses can arise from normal operations.

Ben Greene
Chief Executive Officer

28 February 2020