

Half-Year Report of *Electro Optic Systems Holdings Limited* for the Half-Year Ended 30 June 2020

ACN 092 708 364

This Half-Year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3.

Current Reporting Period: Half-year ended 30 June 2020

Previous Corresponding Period: Half-year ended 30 June 2019

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Results for Announcement to the Market

Revenue and Net Profit

		Percentage Change %	Amount
Revenue from ordinary activities	Up	31.3	\$75,437,232
(Loss)/ from ordinary activities after tax attributable to members	Down	N/A	To (\$14,261,959)
(Loss)/ attributable to members	Down	N/A	To (\$14,261,959)

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 30 June 2020 (including right of use assets)		\$307,660,406
Number of ordinary shares outstanding at 30 June 2020		148,569,229
NTA per ordinary share at 30 June 2020		207.08 cents
NTA per ordinary share at 30 June 2019		108.42 cents

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

Refer to Directors' Report

Review of Operations

1. RESULTS FOR HALF-YEAR ENDED 30 JUNE 2020

The consolidated entity (“EOS”) reported an operating loss after tax of \$14,261,959 for the six month period to 30 June 2020 [30 June 2019: \$7,484,840 profit restated] after allowing for an income tax benefit of \$4,399,511 [30 June 2019: \$2,100,688 expense restated]. This is based on revenues from ordinary activities totalling \$75,437,232 [30 June 2019: \$57,433,610].

The consolidated entity reported net cash used by operations for the six month period totalling \$62,556,530 [30 June 2019: \$1,279,750]. At 30 June 2020, the consolidated entity held cash totalling \$128,135,770 [30 June 2019: \$36,234,727].

The individual sector performances are further discussed below.

2. COVID-19 IMPACT AND CAPITAL RAISING

As the COVID-19 situation continues to evolve in Australia and globally, our highest priority remains the health and safety of all our employees and their communities.

As at 31 August 2020 two of four EOS production facilities globally have experienced COVID-19 positive test outcomes:

- i. In the US one EOS staff member tested positive to COVID-19 and after two weeks in quarantine made a full recovery and returned to work. Three others US staff members with potential exposure were isolated and subsequently tested negative for COVID-19 and returned to work.
- ii. In the UAE three staff members have tested positive and after a period of recovery have returned to work.

EOS continues to take all practical measures to prevent infection and reduce the operational impact of any new infection, whilst maintaining positive operating momentum.

The global pandemic has impacted EOS in multiple ways, including increasing supply chain costs, reducing supplier responsiveness, product delivery delays, delays in contract negotiation and execution, access to customers and inefficiencies in staff utilisation.

The company’s operations in the quarter ending 31 March 2020 closely followed management’s expectations at the commencement of the period, in terms of production output, factory yield, revenue generation, cash flow and profitability. However, events in the last 7 days of the quarter, caused by the COVID-19 pandemic, caused significant changes to the Company’s plans for the rest of 2020 and for 2021.

For most EOS revenue product delivery takes place through a series of steps called the delivery chain. The products must be delivered to the EOS facility in the foreign location, unpacked and checked, installed on customer provided military vehicles, tested under real combat conditions with live ammunition at a special test range, and then delivered to a designated military base for deployment. These 5 steps typically require 4-6 weeks and involve around 35 staff.

On 24 March 2020, one week before formal deliveries could commence for a major delivery contract, the delivery chain was broken in multiple places due to a national lockdown and the impact of COVID-19. The Company assessed that the recovery of the entire delivery chain would take 60 days after reasonable access and mobility was restored.

Since access was forecast to be opened from September, the earliest date for deliveries to commence would be October, pushing cash receipts to Q4 2020.

In April 2020 EOS raised \$138m in new capital through a fully underwritten institutional placement and Share Purchase Plan with \$55m allocated to allow a further expansion of inventory until production capacity can be switched to other contracts with no delivery impediments. The deferral of a substantial amount of activity and its associated revenue from 2020 to 2021 required EOS to reduce 2020 guidance from 70% growth to 25% growth over 2019 performance.

Review of Operations

Resumption of deliveries is now expected in October 2020 with cash flow anticipated to be restored in Q4 2020.

3. EOS DEFENCE SYSTEMS

The half year sector revenue of \$68.4m represents growth of 21% over the corresponding prior period, despite the impact of the COVID-19 virus deferring revenue into the second half of 2020 and into 2021.

The loss before income tax of \$14.3m compares to \$10.9m profit in the corresponding prior period. This loss was principally due to delayed revenue as production volumes continued at planned levels to build inventory for the foreign customer.

International logistics and cash flow

The delivery disruptions caused by COVID-19 are moving towards resolution. In particular:

- i. Airports are now operating at sufficient capacity to allow EOS products to be transported to the customer's country.
- ii. The EOS production facility in the country, which was closed for months, has now re-opened and up to 40% of staff are permitted to attend work. This facility is required for delivery of the goods.
- iii. The customer's test facilities are now open, as expected. These facilities are required to complete pre-delivery testing of EOS products.
- iv. Customer-designated delivery points within military bases can now be accessed, after several months of closure.
- v. EOS delivery staff from Australia are permitted to leave Australia from September to complete the delivery process overseas. An initial team is expected to depart in September to commence testing at the customer facilities.

These developments align with expectations at the commencement of the shutdowns in April 2020, and assuming no further disruptions, deliveries and invoicing will resume in Q4 2020 as previously forecast.

Commonwealth RWS contract

Negotiations with the Commonwealth of Australia for the acquisition of 251 Remote Weapon Stations and related materiel are on-going. We expect these to complete in Q3, with initial deliveries made in 2020 in line with customer requirements, and the bulk of the deliveries falling into 2021.

A key focus of this accelerated acquisition was the preservation of the Australian supply chain for advanced defence manufacture, and provided the current momentum is maintained, this will be achieved.

US production of RWS commences

EOS Defence US has commenced production at the Huntsville Alabama plant. The first complete units began shipping in Q3 for existing large and small contracts, including some orders from US customers which the Company does not yet consider material. Business development activity and the sales pipeline for the US business continues to develop largely in line with management expectations.

Counter-UAS (CUAS) developments

EOS has invested significant resources to develop a complete spectrum of capabilities for the defeat of drones. Over the past 3 years a substantial test program based in Australia, USA and the Middle East has established EOS as the only provider with the entire suite of capabilities required to defeat sophisticated drone attacks against infrastructure and major capital assets.

EOS was recently selected through an international tender process spanning 18 months as the preferred provider of CUAS capability for a major international program. EOS has moved its directed energy [DE] drone kill system to production during 2020, in anticipation of demand for this unique capability from this and other customers. Performance demonstrations are scheduled from October, with contract negotiations with key customers to commence shortly after. This capability places EOS at the forefront of the CUAS market globally.

Review of Operations

Product development in other areas includes accelerated testing and qualification of new products and variants of existing products, including Containerised Weapon Systems and Remotely Operated Combat Vehicles. EOS continues to expand the capabilities of its lightweight remote weapon systems, adding directed energy and missiles to the compatible payloads. EOS products continue to be RWS market leaders for accuracy, versatility and light weight.

In addition, EOS has signed a contract with the Australian Army in which EOS is to lead a design, development and demonstration project that allows Australian Industry to showcase its ability to meet the Australian Army's future tactical command, control, communication and computing (C4) requirements. In the recently released 2020 Force Structure Plan the Government indicated an intention to spend between \$5 and \$6bn to upgrade the Land Battlefield Command and Communications capabilities in the 2020-2040 timeframe.

The sales pipeline for EOS Defence Systems is strong at \$2.8bn on a risk-weighted basis (un-risked \$11.9bn), with awards due in Q4 2020, 2021 and 2022.

4. EOS SPACE SYSTEMS

EOS Space Systems provides technology solutions to address global requirements for space debris mitigation, space traffic management, space situation awareness and space communications. These solutions typically comprise EOS sensors integrated with large EOS real-time software platforms that manage vast and rapidly-changing data sets.

The half year segment loss of \$1.5m is consistent with prior expectations. During this period EOS operated its space sensors to provide space tracking data.

The sector continues to make strong investments in research and development. During this six month period, investments in research through the Commonwealth's Cooperative Research Centre for Space Environment Management exceeded \$2m. Other significant internal research programs continue to be supported, and EOS researchers believe that they may now be close to breakthroughs of strong commercial significance.

Much of the current effort continues to be focused on developing laser beam correction technology that enables optical ground-to-space communications. This technology will allow order of magnitude increases in satellite communications bandwidth once implemented.

Space Systems has also provided the laser technology and R&D expertise for the development of high power laser systems for Counter-UAS systems for EOS Defence Systems.

The sales pipeline for EOS Space Systems is \$95m on a risk-weighted basis (\$425m on an un-risked basis) with major awards falling due in 2021 and 2022.

5. EOS COMMUNICATIONS SYSTEMS

EM Solutions

EM Solutions ("EMS") is a world leader in on-the-move satellite communications and is a major provider of satellite communication systems for the Australian Defence Force, including Royal Australian Navy ships and multiple NATO naval forces. EMS's on-the-move satellite products enable customers to access high speed telecommunications anywhere in the world. The EMS terminals are uniquely inter-operable with many satellite systems and are considered world-leaders in their field. The business was acquired by EOS in October 2019 as a key component of the EOS Communications Systems segment.

EM Solutions is performing strongly, in line with management expectations at the time of acquisition. Revenue for the half was \$8.6m with an operating profit of \$1.6m. The business remains on track to hit milestones for the full year.

The company now intends to establish initial capabilities in space communication terminals in Huntsville Alabama, based on the globally-successful products developed by EM Solutions in Brisbane.

Review of Operations

SpaceLink™

EOS is executing on its plan to enter the space communications market and is in the process of establishing and financing the SpaceLink business segment. The business acquisition of EMS and the asset acquisitions in relation to Audacy and Collinear were important foundational steps in building a full communications capability based on novel constellations of medium earth orbit (MEO) satellites.

In early 2020, following the acquisition of EMS in October 2019, in early 2020 the Company acquired all of the assets of Audacy Corporation for approximately \$9.1m in cash (including a bond of \$3.9m). The acquisition, subsequently formally approved by the US government, included securing spectrum licenses granted by the US Federal Communications Commission (“FCC”) authorizing the use of specific radio spectrum frequencies for communications to, from and among specific satellites and ground-based communication terminals. The license requires the launch of a constellation of new satellites by June 2024.

Late in the first half of 2020, EOS completed the acquisition of the communication assets, including all technology and intellectual property assets, of Collinear Inc., a US corporation specialising in hybrid radio frequency (RF) and optical communications for \$1.9m.

EOS has developed complementary advanced technologies for both RF and optical communications. In the long-term EOS expects most space communications to be implemented with optical communications - a technology that is not regulated or controlled because it does not interfere with other users. However, 99% of all space communications presently employs RF technology, with existing sunk costs for this technology of over AU\$700bn. Acknowledging the current dominance of RF technology, EOS has decided to enter the market initially through the regulated RF communications domain, and will subsequently deploy hybrid RF-optical communication technologies as market readiness develops.

The first SpaceLink constellation will cost approximately AU\$1.2bn with funding available from vendors and strategic partners. The Company is currently evaluating financing options in order to optimise the capital structure for SpaceLink.

6. OUTLOOK AND FORECAST

A combination of new elements is driving a positive tailwind for all EOS activities:

- Increasing regional and geopolitical tensions are driving a strong commitment to maintain or increase defence spending amongst almost all Australian allies;
- COVID-19 recovery plans generally include stimulating employment in manufacturing, with strong programs in the global locations of EOS’ facilities;
- Asymmetric military technologies such as drones and hypersonic attack are being increasingly deployed against Australia and its allies, driving a stronger emphasis on the superior technology and cost-effective performance of EOS products; and
- The brittleness of global supply chains has been exposed by COVID-19 and the EOS momentum towards having production and supply centres in the Americas, Australia, Asia and the Middle East is an advantage.

These influences are best exemplified by the “Australian 2020 Defence Strategic Update” released by the Commonwealth in July. It discloses a new AU\$270bn capital program over 10 years which is an increase of AU\$70bn, or 30%. A substantial proportion of this increase is directed to programs in Space, Communications and Land that are of direct relevance to EOS.

Furthermore, the Commonwealth of Australia is focused on developing future capabilities that will be under sovereign Australian control, with new procurement rules now in effect emphasising the importance of Australian Industry Content and national economic benefit as selection criteria.

Review of Operations

Defence Systems Outlook

The half year revenue of \$68.4m is consistent with expectations and places the sector on track for the forecast full-year result, albeit with some variability related to deliveries and revenue recognition in Q4. EOS expects a considerably stronger second half result based on the resumption of deliveries to the overseas customer and commencement of the Commonwealth 251 RWS contract.

The order backlog currently stands at c \$570m. Production capacity across the firm's global manufacturing sites currently sits at \$450m pa revenue capacity and is being upgraded towards \$900m pa by 2023 in anticipation of further sales.

The sales pipeline is strong and at normal rates of conversion should materially increase the order backlog as we progress through 2021.

Space Systems Outlook

After more than a decade of significant development effort, largely funded by customers, EOS Space Systems revised its business plan in 2018 when key customers deferred long-term investments in space. This caused a shift from long-term data delivery contracts to sales of EOS space sensors.

EOS is currently short-listed for over \$250m of potential space sensor procurements globally. Negotiations with the initial customers are expected to lead to contract awards to successful bidders within the next twelve months.

During 2020 there has been a substantial reversal of the deferrals imposed in 2018 on space data requirements by key customers. The announcements of the formation of the US Space Corps, France's Space Force and parallel organisational developments in key Australian allies are indicative of the renewed emphasis on space as a critical domain for both commerce and national security. The Space Capability investment in Australia's 2020 Defence Strategic Update is at a comparable level to that deferred in 2018.

These developments have not been at the expense of sensor acquisition, so EOS Space Systems is now participating in both sensor sales and long term data delivery programs.

EOS has previously indicated that this sector would build on 2019 results and be profitable going forward. Delays in new contract awards due to COVID-19 have slowed the recovery timetable and will cause a small loss in 2020. Profitability is expected to resume from 2021, but at an accelerated pace.

Communications Systems Outlook

EM Solutions is tracking towards management's expectations at the time of the acquisition, with revenue and profitability expected to be in line with goals. The EMS order backlog currently stands at \$24 m for the next two years, with a strong sales pipeline of \$174 m on a risk-weighted basis over three years (\$492m on an un-risked basis) across all products and geographies, including Europe and North America.

The initial EOS SpaceLink constellation has been developed to meet the requirements of a specific set of customers with known requirements and confirmed budgets exceeding the AU\$2bn over 10 years required to achieve profitable operation for SpaceLink. The EOS constellation architecture and satellite design are both expected to be certified as suitable for service to those customers within 6 months. EOS expects customer commitments over that period to meet the commercial thresholds for full commitment to this major program.

Full Year Guidance

EOS believes that the FY2020 profit will likely fall in the range of \$20-30m EBIT. However the impacts of COVID-19 on customers, suppliers and EOS itself are injecting volatility into the timing of contracts being signed and delivered, and on the completion of procedures which are a pre-requisite for the recognition of revenue for manufactured items, even after completion. This is causing revenue and profit outcomes for the full year to be difficult to predict, notwithstanding factory output is still meeting forecasts.

The sales pipeline has grown to \$3.1bn on a risk-weighted basis (or \$12.9bn on an un-risked basis). The outlook for FY2021 is for strengthening growth as activity deferred from FY2020 is caught up, backlog is

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Review of Operations

processed and pipeline awards are made. EOS has an unrestricted cash balance of \$128m as at 30 June 2020.

Forecasts assume no substantial change in the exchange rate of AU\$ against US\$. However exchange rates can be volatile and both gains and losses can arise from normal operations.

This announcement has been authorised for release to ASX by Ben Greene, Director.

Further information:

A handwritten signature in black ink, appearing to read 'Ben Greene', with a long horizontal stroke extending to the right.

Ben Greene
Chief Executive Officer

31 August 2020

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Directors' Report

The directors of Electro Optic Systems Holdings Limited submit herewith the financial report for the half-year ended 30 June 2020. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half year are:

Mr Fred Bart (Chairman)
Dr Ben Greene (Chief Executive Officer)
Mr Ian Dennis
Mr Peter Leahy AC
Mr Geoff Brown AO
Ms Kate Lundy

Review of Operations

A detailed review of operations is included on pages 3 to 8 of this financial report.

Auditor's independence declaration

The auditor's independence declaration is included on page 10 of the half-year financial report.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors



I.A Dennis
Director
Sydney, 31 August 2020

The Board of Directors
Electro Optic Systems Holdings Limited
Suite 2, Level 12
75 Elizabeth Street
SYDNEY NSW 2000

31 August 2020

Dear Board Members

Auditor's Independence Declaration to Electro Optic Systems Holdings Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Electro Optic Systems Holdings Limited.

As lead audit partner for the review of the financial report of Electro Optic Systems Holdings Limited for the half year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants

Independent Auditor's Review Report to the members of Electro Optic Systems Holdings Limited

We have reviewed the accompanying half-year financial report of Electro Optic Systems Holdings Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2020, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 13 to 32.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Electro Optic Systems Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Electro Optic Systems Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Electro Optic Systems Holdings Limited is not in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants
Canberra, 31 August 2020

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Directors' Declaration

The directors declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



I A Dennis
Director
Sydney, 31 August 2020

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Condensed Consolidated statement of profit or loss and other
comprehensive income
for the half-year ended 30 June 2020**

	Note	Half-year ended 30 June 2020 \$	Half-year ended 30 June 2019 Restated \$
Revenue	2(a)	75,437,232	57,433,610
Other Revenue	2(b)	2,905,261	355,677
Foreign exchange (losses)/ gains	2(c)	(3,051,231)	524,029
Changes in inventories of finished goods and work in progress		42,870,178	3,934,553
Raw materials and consumables used		(94,838,757)	(31,567,052)
Employee benefits expense		(25,261,112)	(13,392,597)
Administrative costs		(8,501,690)	(3,984,749)
Finance costs	2(d)	(1,886,700)	(1,510,882)
Depreciation and amortisation expense	2(d)	(4,109,121)	(1,456,691)
Lease expenses		(25,383)	(59,481)
Occupancy costs		(686,511)	(368,363)
Other expenses		(1,513,636)	(322,526)
(Loss)/ Profit before income tax expense	2	(18,661,470)	9,585,528
Income tax benefit/ (expense)		4,399,511	(2,100,688)
(Loss)/ Profit for the period	5	(14,261,959)	7,484,840
Attributable to:			
Owners of the Company		(13,866,189)	7,486,428
Non-controlling interests		(395,770)	(1,588)
		(14,261,959)	7,484,840
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations		115,472	185,812
Income tax relating to components of other comprehensive income		-	-
		115,472	185,812
Total comprehensive (loss)/ profit for the period		(14,146,487)	7,670,652
Attributable to :			
Owners of the Company		(13,750,717)	7,672,240
Non-controlling interests		(395,770)	(1,588)
		(14,146,487)	7,670,652
(Loss)/ Profit per share:			
Basic (cents per share)	5	(12.42)	8.23
Diluted (cents per share)	5	(12.42)	8.23

Notes to the condensed consolidated financial statements are included on pages 18 to 32.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Condensed Consolidated statement of financial position as at 30 June 2020

	Note	30 June 2020 \$	31 December 2019 Restated \$
Current Assets			
Cash and cash equivalents		128,135,770	77,881,766
Trade and other receivables		17,655,525	27,056,202
Contract assets		94,763,954	44,152,133
Income tax asset		1,933,064	-
Inventories		76,155,678	53,491,173
Other		12,284,803	14,590,520
Total Current Assets		330,928,794	217,171,794
Non-Current Assets			
Loan to associate		2,421,300	2,632,783
Property, plant and equipment		18,221,298	8,061,509
Right of use asset		19,110,267	13,961,128
Goodwill		14,878,316	14,878,316
Intangible assets		21,368,077	17,235,701
Security deposit		18,548,117	9,021,823
Trade and other receivables		13,891,515	12,055,798
Deferred tax asset		7,396,324	2,996,812
Other		890,832	7,237,591
Total Non-Current Assets		116,726,046	88,081,461
Total Assets		447,654,840	305,253,255
Current Liabilities			
Trade and other payables		54,399,681	36,970,003
Lease liabilities		3,267,023	2,613,223
Current tax payable		-	8,352,728
Provisions		17,157,624	12,882,819
Total Current Liabilities		74,824,328	60,818,773
Non-Current Liabilities			
Lease liabilities		16,289,266	11,386,647
Provisions		5,238,123	6,513,467
Total Non-Current Liabilities		21,527,389	17,900,114
Total Liabilities		96,351,717	78,718,887
Net Assets		351,303,123	226,534,368
Equity			
Issued capital	3	412,873,528	274,311,590
Reserves	4	9,780,794	9,312,018
Accumulated losses		(70,416,993)	(56,550,804)
Equity attributable to owners of the Company		352,237,329	227,072,804
Non-controlling interests		(934,206)	(538,436)
Total Equity		351,303,123	226,534,368

Notes to the condensed consolidated financial statements are included on pages 18 to 32.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Condensed Consolidated Statement of changes in equity for the
half-year ended 30 June 2020**

	Total Restated \$	Accumulated losses Restated \$	Issued capital \$	Non- controlling interests \$	Foreign currency translation reserve \$	Employee equity settled benefits reserve \$
Consolidated						
Balance at 1 January 2020 (restated)	226,534,368	(56,550,804)	274,311,590	(538,436)	(1,061,206)	10,373,224
(Loss) for the period	(14,261,959)	(13,866,189)	-	(395,770)	-	-
Other comprehensive income for the period	115,472	-	-	-	115,472	-
Total comprehensive income for the period	(14,146,487)	(13,866,189)	-	(395,770)	115,472	-
Recognition of share based payments	353,304	-	-	-	-	353,304
Issue of 28,269,553 new shares at \$4.75 each under the institutional placement	127,775,501	-	127,775,501	-	-	-
Issue of 2,451,463 new shares at \$4.40 under the Share Purchase Plan	10,786,437	-	10,786,437	-	-	-
Balance at 30 June 2020	351,303,123	(70,416,993)	412,873,528	(934,206)	(945,734)	10,726,528
Consolidated						
Balance at 1 January 2019	95,525,297	(74,570,452)	161,784,727	(161,769)	(1,399,064)	9,871,855
Profit for the period (restated)	7,484,840	7,486,428	-	(1,588)	-	-
Other comprehensive income for the period	185,812	-	-	-	185,812	-
Total comprehensive income for the period (restated)	7,670,652	7,486,428	-	(1,588)	185,812	-
Recognition of share based payments	209,921	-	-	-	-	209,921
Balance at 30 June 2019 (restated)	103,405,870	(67,084,024)	161,784,727	(163,357)	(1,213,252)	10,081,776

Notes to the condensed consolidated financial statements are included on pages 18 to 32.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Condensed Consolidated statement of cash flows
for the half-year ended 30 June 2020**

	Half-year ended 30 June 2020	Half-year ended 30 June 2019
	\$	\$
<i>Cash Flows From Operating Activities</i>		
Receipts from customers	53,017,416	58,292,395
Payments to suppliers and employees	(103,793,629)	(58,416,940)
Income tax paid	(10,285,792)	-
Interest and bill discounts received	392,175	355,677
Interest and other costs of finance paid	(1,886,700)	(1,510,882)
Net cash (used in) operating activities	<u>(62,556,530)</u>	<u>(1,279,750)</u>
<i>Cash Flows From Investing Activities</i>		
Payment for property, plant and equipment	(12,040,089)	(1,937,136)
Payment for intangibles	(5,035,323)	-
Security deposits	(7,537,330)	-
Investments	-	(494,053)
Net cash (used in) investing activities	<u>(24,612,742)</u>	<u>(2,431,189)</u>
<i>Cash Flows From Financing Activities</i>		
Placement of new ordinary shares	138,561,938	-
Repayment of lease liabilities	(1,520,981)	(808,996)
Net cash from / (used in) financing activities	<u>137,040,957</u>	<u>(808,996)</u>
<i>Net Increase/ (Decrease) in Cash Held</i>	49,871,685	(4,519,935)
<i>Cash and cash equivalents at the beginning of the half-year</i>	77,881,766	40,538,225
Effects of exchange rate changes on the balance of cash held in foreign currencies	382,319	216,437
<i>Cash and cash equivalents at the end of the half-year</i>	<u>128,135,770</u>	<u>36,234,727</u>

Notes to the condensed consolidated financial statements are included on pages 18 to 32.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2020

1. Significant accounting policies

1 (a) Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

1 (b) Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of the historical cost convention. Cost is based on the fair values of the consideration given in exchange for assets. Except where indicated otherwise, all amounts are presented in Australian dollars.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the consolidated entity's 2019 annual financial report for the financial year ended 31 December 2019. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

1 (c) New Accounting Standards

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

AASB 2018-6	<i>Amendments to Australian Accounting Standards – Definition of a Business</i>
AASB 2018-7	<i>Amendments to Australian Accounting Standards – Definition of Material</i>
AASB 2019-1	<i>Amendments to Australian Accounting Standards – References to the Conceptual Framework</i>
AASB 2019-3	<i>Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform</i>
AASB 2019-5	<i>Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia.</i>

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the consolidated entity's accounting policies. AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* was applied in the current half-year in assessing the nature of transactions with Audacy Spectrum LLC and Collinear Networks Inc. The assessment resulted in the acquisition of assets and their recognition in the relevant asset class in the Statement of Financial Position.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2020

1. Significant accounting policies (cont)

1 (c) New Accounting Standards (cont)

New and revised AASB Standards in issue but not yet effective

At the date of authorisation of the financial statements, the consolidated entity has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

Standard/amendment	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2020-4 <i>Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions</i>	1 June 2020	31 December 2020
AASB 2020-1 <i>Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current</i>	1 January 2022	31 December 2022
AASB 2020-3 <i>Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments</i>	1 January 2022	31 December 2022

1 (d) Significant events and transactions-Impact of COVID-19

The Coronavirus disease (COVID-19) was declared a world-wide pandemic by the World Health Organisation in March 2020 and has had a significant impact on global economies. COVID-19 has affected the consolidated entity in multiple ways, including increasing supply chain costs, product delivery delays, delays in contract negotiations and execution, access to customers and reduced production.

This has resulted in delays in revenue recognition and ultimately lower profitability in the half-year. As the COVID-19 situation continues to evolve, the consolidated entity is monitoring the impact of COVID-19 on 2020 operational and financial performance.

During the period, the consolidated entity recognised other income of \$1.924 million, related to COVID-19 government wage subsidies, in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Grants*.

Significant judgement and estimates

While the specific areas of judgement did not change, the impact of COVID-19 resulted in the application of further judgement by the directors in preparing the half-year financial report in areas such as revenue recognition, impairment assessment on goodwill and intangibles as well as the review of the expected credit losses on receivables and contract assets. Specifically, the directors have reviewed the expected credit losses in relation to the contract asset as at 30 June 2020 of \$94,763,954. The directors have concluded that no expected credit loss should be recognized on the basis of the creditworthiness of the counterparty, amongst other factors. Furthermore, the directors are of the view that the estimates used in preparing this half-year financial report are reasonable.

Given the dynamic and evolving nature of COVID-19 and limited recent experience of the economic and financial impacts of such a pandemic, changes to the estimates and outcomes that have been applied in the measurement of the consolidated entity's assets and liabilities may arise in the future that could require an adjustment to the carrying amounts of the reported assets and liabilities in future reporting periods.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2020

1. Significant accounting policies (cont)

1 (e) Financial statements going concern

The financial report has been prepared on the going concern basis 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 had net cash outflows from operating activities during the period of \$62,556,530.

As noted in Note 1(d), COVID-19 has affected the consolidated entity in multiple ways, including increasing supply chain costs, product delivery delays, delays in contract negotiations and execution, access to customers and reduced production.

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 current contracts on time, to the required specification and within budgeted costs. This includes the ability of Australian based staff to attend customer test facilities overseas in order to finalise test procedures in accordance with planned schedules and to ensure product specifications are met, enabling realisation of the contract asset disclosed in Note 1(d);
- key military and government customers making timely payments for the goods supplied in accordance with contractual terms; and
- the ability to raise funding should the need arise.

In the opinion of the directors, the consolidated entity can continue as a going concern and pay its debts as and when they become due and payable. Given the current financial position, 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 condensed consolidated Financial Statements
for the half-year ended 30 June 2020**

1. Significant accounting policies (cont)

1 (f) Prior period error

During the half year period ended 30 June 2020 management became aware that they had not been accounting for certain foreign exchange transactions correctly in accordance with Australian Accounting Standards. Certain monetary assets had been inappropriately translated at historic exchange rates instead of using the exchange rate at the reporting date (the spot rate) and vice versa. As a result, the consolidated entity has restated affected comparative financial information in these condensed consolidated half-year financial statements (Adjustment 1). Further, in assessing and restating the impacted balances in 2018, management became aware that the current and non-current portions of the Other Assets balance were not appropriately classified (Adjustment 2).

The following tables illustrate the effects of these restatements on the consolidated entity's condensed consolidated half-year financial statements for those line items affected (these revisions have no net impact on the consolidated entity's net cash amounts provided by or used in operating, financing or investing activities for any of the periods previously reported):

Consolidated Statement of Profit and Loss and Other Comprehensive Income	Half-year ended 30 June 2019		
	As previously reported	Adjustment 1	Restated
	\$	\$	\$
Foreign exchange gains	574,004	(49,975)	524,029
Profit before income tax expense	9,635,503	(49,975)	9,585,528
Income tax expense	(2,115,680)	14,992	(2,100,688)
Profit for the period	7,519,823	(34,983)	7,484,840
Profit for the period attributable to:			
- Owners of the Company	7,521,411	(34,983)	7,486,428
- Non-controlling interests	(1,588)	-	(1,588)
Basic EPS (cents per share)	8.27	(0.04)	8.23
Diluted EPS (cents per share)	8.27	(0.04)	8.23

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2020**

1. Significant accounting policies (cont)

1 (f) Prior period error (cont)

Consolidated Statement of financial position		Balance at 31 December 2019		
		As previously reported	Adjustment	Restated
		\$	\$	\$
Other Assets – Current		14,737,600	(147,080)	14,590,520
Contract Asset		44,772,583	(620,450)	44,152,133
Total current assets		217,939,324	(767,530)	217,171,794
Other Assets – Non-Current		7,800,037	(562,446)	7,237,591
Deferred tax assets		2,838,900	157,912	2,996,812
Total non-current assets		88,485,995	(404,534)	88,081,461
Net assets		227,706,432	(1,172,064)	226,534,368
Accumulated losses		(55,378,740)	(1,172,064)	(56,550,804)

		Balance at 31 December 2018		
		As previously reported	Adjustment 2	Adjustment 1
		\$	\$	\$
Other Assets – Current	12,713,727	(4,003,930)	(200,194)	8,509,603
Total current assets	106,537,197	(4,003,930)	(200,194)	102,333,073
Other Assets – Non-Current	2,252,177	4,003,930	(556,093)	5,700,014
Total non-current assets	22,331,945	4,003,930	(556,093)	25,779,782
Net assets	96,281,584	-	(756,287)	95,525,297
Accumulated losses	(73,814,165)	-	(756,287)	(74,570,452)

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2020

	Half-year to 30 June 2020 \$	Half-year to 30 June 2019 \$ Restated
2. (Loss)/ Profit From Ordinary Activities		
(Loss)/ Profit from ordinary activities before income tax includes the following items of revenue and expense:		
(a) Revenue		
Sale of goods	72,034,701	56,197,258
Providing services	<u>3,402,531</u>	<u>1,236,352</u>
Total revenue	<u>75,437,232</u>	<u>57,433,610</u>

Disaggregation of revenue

The consolidated entity 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	60,769,392	50,399,957
Defence segment – Providing services	1,452,956	-
Communication segment – Sale of Goods	6,535,847	-
Communication segment – Providing services	<u>767,620</u>	<u>-</u>
Total Revenue recognised over time	<u>69,525,815</u>	<u>50,399,957</u>

The consolidated entity recognises revenue for the overseas remote weapon system contracts over time as the goods manufactured under these contracts 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 significant contracts, the control of the goods transfer when the goods are delivered or when a milestone is met. The output method, based on the delivery of goods to customers or the achievement of contract milestones faithfully depicts our performance under the contract and best depicts the pattern of transfer of goods to the customers. Revenue in relation to a contract earned on a milestone basis has been adjusted for a variable element.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2020**

2. (Loss)/ Profit From Ordinary Activities (cont)

	Half-year to 30 June 2020 \$	Half-year to 30 June 2019 \$ Restated
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All other revenue is recognised at a point in time.

At a point in time

	Revenue	Revenue
Communications segment – sale of goods	729,586	-
Communications segment – providing services	184,686	-
Defence segment – sale of goods	3,999,876	5,797,301
Defence segment – Providing services	300,146	442,549
Space segment – Providing services	697,123	793,803
Total Revenue recognise at a point in time	<u>5,911,417</u>	<u>7,033,653</u>
Total Revenue	<u>75,437,232</u>	<u>57,433,610</u>

(b) Other Revenue

COVID support	1,923,661	-
Grant revenue	227,773	-
Interest received	392,175	355,677
Other income	239,338	-
Rent received	122,314	-
	<u>2,905,261</u>	<u>355,677</u>

(c) Foreign Exchange Gains

Foreign exchange (losses)/ gains	<u>(3,051,231)</u>	<u>524,029</u>
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(d) Expenses

(Loss)/ Profit for the period includes the following expenses:

	Half-year to 30 June 2020 \$	Half-year to 30 June 2019 \$
Interest paid	472,320	80,898
Other finance costs	1,414,380	1,429,984
Finance costs	<u>1,886,700</u>	<u>1,510,882</u>
Depreciation and amortisation	<u>4,109,121</u>	<u>1,456,691</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2020**

	30 June 2020 \$	31 December 2019 \$
3. Issued Capital		
Balance at the beginning of the financial year – Ordinary shares	274,311,590	161,784,727
Issue of 4,271,357 new shares at \$7.31 as part of the acquisition cost of EM Solutions Pty Ltd on 11 October 2019	-	31,223,620
Issue of 10,144,244 new shares at \$6.66 on 27 November 2019 (net of issuance costs)	-	64,261,948
Issue of 2,558,753 new shares at \$6.66 on 13 December 2019 under the Small Shareholder Plan	-	17,041,295
Issue of 28,269,553 new shares at \$4.75 on 20 April 2020 (net of issuance costs)	127,775,501	-
Issue of 2,451,463 new shares at \$4.40 on 14 May 2020 under the Small Shareholder Plan	10,786,437	-
Issue of 2,270,000 new shares at \$4.75 on 19 May 2020 under the Loan Funded Share Plan	-	-
Issue of 2,500,000 new shares at \$4.92 on 29 May 2020 to Directors under the Loan Funded Share Plan	-	-
Balance at the end of the financial period	<u>412,873,528</u>	<u>274,311,590</u>
Fully Paid Ordinary Shares	Number	Number
Balance at the beginning of financial year	113,078,213	96,103,879
Issue of new shares at \$7.31 on 11 October 2019	-	4,271,357
Issue of new shares at \$6.66 on 27 November 2019	-	10,144,224
Issue of new shares at \$6.66 on 13 December 2019 under the Small Share Plan	-	2,558,753
Issue of new shares at \$4.75 on 20 April 2020	28,269,553	-
Issue of new shares at \$4.40 on 14 May 2020 under the Share Purchase Plan	2,451,463	-
Issue of new shares at \$4.75 on 19 May 2020 under the Loan Funded Share Plan	2,270,000	-
Issue of new shares at \$4.92 on 29 May 2020 to Directors under the Loan Funded Share Plan	<u>2,500,000</u>	-
Balance at end of financial period	<u>148,569,229</u>	<u>113,078,213</u>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2020**

	30 June 2020 \$	31 December 2019 \$ Restated
4. Reserves		
Foreign currency translation reserve	(945,734)	(1,061,206)
Employee equity settled benefits reserve	10,726,528	10,373,224
Balance at end of financial period	<u>9,780,794</u>	<u>9,312,018</u>

5. (Loss)/ Profit Per Share

	Half-year to 30 June 2020 ¢ per share	Half-year to 30 June 2019 ¢ per share Restated
Basic EPS	(12.42 cents)	8.23 cents
Diluted EPS	(12.42 cents)	8.23 cents

Basic Profit per Share

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

	Half-year to 30 June 2020 \$	Half-year to 30 June 2019 \$
(Loss)/ Profit (a)	<u>(14,261,959)</u>	<u>7,484,840</u>
	2020 No.	2019 No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share (b) and (c)	<u>114,789,515</u>	<u>90,923,879</u>

- (a) (Loss)/ Profit used in the calculation of basic earnings per share is the same as net profit in the statement of profit or loss and other comprehensive income.
- (b) The 855,000 unlisted options outstanding are in the money at 30 June 2020 and are not considered dilutive as all the conditions of exercise have not been met at the reporting date and given the consolidated entity made a loss in the half-year period.
- (c) The 5,180,000 ordinary shares issued on 20 June 2018 at a price of \$2.99, the 2,270,000 ordinary shares issued on 19 May 2020 at a price of \$4.75 and the 2,500,000 ordinary shares issued to Directors on 29 May 2020 at a price of \$4.92 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 options are not considered dilutive given the consolidated entity made a loss in the half-year period.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2020

6. Contingent Liabilities and Commitments

a) Entities within the consolidated entity are involved in contractual disputes 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 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 bond are still being negotiated.

(c) The consolidated entity provided a performance bond in respect of a contract in the Defence sector for US\$31,635,147 in relation to an overseas defence sector contract. The performance bond was provided by Efic under a Bond Facility Agreement and is secured by a cash security deposit of A\$13,802,192 and a fixed and floating charge over the assets of the consolidated entity.

(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 condensed consolidated Financial Statements
for the half-year ended 30 June 2020**

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 its performance. The identification of the consolidated entity's reportable segments has changed from those disclosed in the 2019 half-year report with the addition of the Communications Systems segment following the acquisition of EM Solutions Pty Ltd in October 2019. The consolidated entity's reportable segments are Defence Systems, Space Systems and Communications Systems.

	Revenue (including other revenue)		Segment profit/ (loss)	
	Half-year to 30 June 2020 \$	Half-year to 30 June 2019 \$	Half-year to 30 June 2020 \$	Half-year to 30 June 2019 \$ Restated
Communications	8,686,978	-	(1,287,768)	-
Space	877,123	793,803	(1,487,357)	(1,223,534)
Defence	68,385,162	56,639,807	(14,315,161)	10,880,545
Total of all segments	77,949,263	57,433,610	(17,090,286)	9,657,011
Eliminations	-	-	-	-
Unallocated	393,230	355,677	(1,571,184)	(71,483)
Consolidated segment revenue and (Loss)/ Profit before tax	78,342,493	57,789,287	(18,661,470)	9,585,528
Income tax benefit/ (expense)	-	-	4,399,511	(2,100,688)
Consolidated segment revenue and (loss)/ profit for the period	78,342,493	57,789,287	(14,261,959)	7,484,840

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period. There were no discontinued operations during the period.

Segment profit represents the profit earned by each segment without the allocation of central administration costs and directors' salaries, investment revenue and finance costs and income tax benefit. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the condensed consolidated Financial Statements
for the half-year ended 30 June 2020**

7. Segment Information (cont)

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

	Assets		Liabilities	
	30 June 2020 \$	31 December 2019 \$ Restated	30 June 2020 \$	31 December 2019 \$
Communications	21,641,371	17,822,705	12,520,343	7,882,435
Space	1,820,334	2,126,387	1,787,315	4,612,872
Defence	277,509,249	198,400,574	82,044,059	66,223,580
Total segment assets	300,970,954	218,349,666	96,351,717	78,718,887
Unallocated cash and security deposit	146,683,886	86,903,589	-	-
Total	447,654,840	305,253,255	96,351,717	78,718,887

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2020

7. Segment Information (cont)

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

The consolidated entity operates in Australia, USA, UAE, 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.

Product and Services within each Business Segment

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 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, Australasia and other markets.

Communications 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 condensed consolidated Financial
Statements for the half-year ended 30 June 2020**

8. Issuance of Securities

2020

On 20 April 2020, the Company issued 28,269,553 new ordinary shares at \$4.75 in a fully underwritten placement raising \$127,775,501 (net of issuance costs).

On 14 May 2020, the Company issued 2,451,463 new ordinary shares at \$4.40 under the Small Shareholder Plan raising \$10,786,437.

On 19 May 2020, the Company issued 2,270,000 new ordinary shares at \$4.75 each under the Loan Funded Share Plan.

On 29 May 2020, the Company issued 2,500,000 new ordinary shares at \$4.92 to Directors under the Loan Funded Share Plan.

On 19 May 2020, the Company issued 635,000 unlisted options at an exercise price of \$4.75 to employees expiring on 18 May 2025 under the Employee Share Option Plan.

No options were exercised during the period.

Issued capital as at 30 June 2020 was \$412,873,528.

2019

No new ordinary shares were issued during the period.

No options were exercised during the period.

Issued capital as at 30 June 2019 was \$161,784,727.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Notes to the condensed consolidated Financial Statements for the half-year ended 30 June 2020

9. Subsequent events

On 10 August 2020, the parent company issued 860,000 ordinary shares at an issue price of \$5.62 under the Loan Funded Share Plan to executives and employees.

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.

10. Related party transactions

During the period, the Company paid a total of \$70,000 (six month period ended 30 June 2019 - \$38,407) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Mr Fred Bart.

During the period, the Company paid a total of \$35,000 (six month period ended 30 June 2019 - \$23,611) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation for Mr Ian Dennis.

During the period, the Company paid a total of \$108,000 (six month period ended 30 June 2019 - \$69,071) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for secretarial and accounting services.

During the period, the Company paid a total of \$35,000 (six month period ended 30 June 2019 - \$23,611) to GCB Stratos Consulting Pty Limited, a company associated with Mr Geoff Brown in respect of directors fees and superannuation for Mr Geoff Brown.

During the period, the Company paid a total of \$15,616 (six month period ended 30 June 2019 - \$14,965) to Audio Pixels Holdings Limited, a company which Fred Bart and Ian Dennis are directors and shareholders in respect of shared Sydney office facilities.

Ian Dennis is the sole director and shareholder of EOS Loan Plan Pty Ltd which acts as trustee of the Electro Optic Systems Holdings Limited Loan Funded Share Plan. As at the date of this report, EOS Loan Plan Pty Ltd held 9,883,750 shares in Electro Optic Systems Holdings Limited on behalf of directors and employees of the Company. Ian Dennis has a beneficial interest in 300,000 of these shares only which were allocated to him under the Loan Funded Share Plan subject to vesting conditions.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Information on Audit or Review

This half yearly report is based on accounts to which one of the following applies.

- | | |
|---|---|
| <input type="checkbox"/> The accounts have been audited. | <input checked="" type="checkbox"/> The accounts have been subject to review. |
| <input 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.

Not applicable

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

Not applicable
