Half-Year Report of *Electro Optic Systems Holdings Limited* for the Half-Year Ended 30 June 2018

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 2018
Previous Corresponding Period:	Half-year ended 30 June 2017

Results for Announcement to the Market

Revenue and Net Profit

		Percentage Change %	Amount
Revenue from ordinary activities	Up	260.1%	$35,439,848
Profit from ordinary activities after tax attributable to members	Up	N/A	To $5,341,475
Profit attributable to members	Up	N/A	To $5,341,475

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 2018	$86,585,956
Number of ordinary shares outstanding at 30 June 2018	96,103,879
NTA per ordinary share at 30 June 2018	90.10 cents
NTA per ordinary share at 30 June 2017	13.91 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 2018

The consolidated entity ("EOS") reported an operating profit after tax of $5,341,475 for the 6 month period to 30 June 2018 [30 June 2017: $4,259,015 loss] based on revenues from ordinary activities totalling $35,439,848 [30 June 2017: $9,842,495].

The consolidated entity reported net cash used by operations for the 6 month period totalling $7,888,829 [30 June 2017: $6,149,262]. At 30 June 2018, the consolidated entity held cash totalling $59,661,721 [30 June 2017: $10,950,144]. Cash of $8,665,599 [30 June 2017: $119,025] is restricted as it secures bank guarantees relating to performance on some contracts.

EOS exports over 95% of current production and export contracts are all denominated in US currency providing a partial natural hedge on the US$ inputs. The value of the Australian dollar fell from US$0.7686 at 31 December 2017 to US$0.7403 at 30 June 2018.

Notwithstanding its protective hedge, EOS booked foreign exchange gains of $3,914,384 (30 June 2017: $501,311 – losses) during the half-year period ended 30 June 2018. The gains arose largely as a result of large performance bonds and most cash reserves being held in US currency from early in the period.

At the beginning of 2018 EOS expected to be marginally profitable in this reporting period, due to production ramping from a low base in a new plant. The profit of $5,341,475 includes foreign exchange gains of $3,914,384 that has contributed to a stronger result than expected, as further discussed below.

The half-year result was achieved after the following profit contributions from EOS' two business sectors:

- Defence Sector: $6.5 million profit
- Space Sector: $1.2 million loss

2. EOS DEFENCE SYSTEMS

EOS Defence sector delivered a strong performance in this first half, in the three key areas of execution of current orders, new contract awards and new product development.

Current Order Execution

Execution of current order backlog is exceeding management expectations by a small margin in every key performance metric. Production volume, production yield, supply chain cost, output quality, wastage, labour and indirect costs have all stabilised at levels meeting or slightly exceeding expectations for this stage of expansion. For example production volume, planned for 100 units, was actually 103 units completed for the first half.

The cumulative effect of small improvements over management expectations in many areas is a strong operating result of around 7.6% margin on $34.6 million of revenue, excluding foreign exchange rate gains. This is a commendable result for a new production plant operating at only 50% capacity during this period.

New Contract Awards

EOS' objective is to accumulate new remote weapon system orders at its maximum output capacity of around 400 units annually. During the first half this was achieved.

EOS Defence Sector achieved contract awards from two foreign customers during the first half. Those two customers have significant long-term requirements but fund their programs in small annual increments. In addition EOS was also selected by the Australian Army for its LAND 400 program, with that selection embargoed up to 23 August 2018 and subsequently announced on 24 August 2018. This is also a significant program.

Across these three customers the total requirement is for at least 200 and up to 700 production units, over 8 years. At the minimum requirement of 200 units the company has met its objective of adding backlog at full plant capacity in a half-year.

At this point the company holds sufficient production commitments to run the Hume [ACT] plant at full capacity of 400 units/year for 2.5 years. This plant capacity is fully booked to beyond 2020.

Prospects for other substantial orders requiring delivery from 2019 are strong, and the company's US plant in Huntsville [Alabama] is under development to achieve production during 2019.

New Product Development

For the initial 1,000 units ordered of EOS' revolutionary R-400S Mk2 weapon system, the product configuration was frozen to reduce risk and accelerate production. EOS now allows variants of this product to be ordered and engineering resources are being expanded to meet demand for these variants from existing and new customers.

Over 6 years EOS has invested in the development of a new, lightweight weapon system to meet customer demand for lower weight and cost, with improved firepower. The Commonwealth of Australia co-invested in this development through its Department of Defence. This product will be released imminently.

3. EOS SPACE SYSTEMS

EOS Space has developed tracking sensors that can cost-effectively obtain accurate orbital data for space debris and satellites. This information degrades rapidly after acquisition, so it must be continuously updated with new observations, almost daily. There is an unmet requirement for new space data.

Customers for this space data have complex requirements including:

A. Accuracy

This is a measure of how accurately the satellite or debris position can be predicted at some time in the future using the data provided. EOS sensors have been proven to achieve all accuracy requirements for all intended customers.

B. Sensitivity

This is a measure of how small a satellite (or debris) can be tracked. EOS sensors been proven to achieve a sensitivity exceeding all customer requirements.

C. Range

Over 99% of all space investment orbits between 300km and 40,000 km from earth. EOS sensors are unique in covering this entire range.

D. Latency

This is the delay between a data requirement arising, and the data being provided. EOS sensor configurations across several sites offer the lowest latency possible.

E. Reliability

This is a measure of the reliability of supply of the data after considering all possible sources of disruption, including weather. Because EOS sensors are disabled by bad weather, multiple sites are required to achieve 99% reliability of data supply at the same time as reasonable latency.

F. Quantity

This is the data quantity, expressed as the number of separate satellite tracks achievable in a specific time.

G. Price

This is the cost of the data, expressed in terms of price per “track” or orbit.

Testing in prior years has established EOS’ ability to meet requirements [A] – [E] inclusive.

Testing over the past 12 months has focused on proving that EOS sensors would achieve sufficient throughput to meet the minimum data quantity levels at a reasonable price. A notional requirement of 100,000 satellite [or debris] tracks per week under all weather conditions was established and EOS deployed sufficient infrastructure to test its technology at 10% of this scale.

Those tests are complete and the EOS infrastructure, as deployed, has proven a capacity of 10,000 tracks per week, as required. All cost objectives were met. EOS has successfully demonstrated compliance with all customer requirements and is now engaged in commercial discussions for data supply contracts.

4. FORECAST AND OUTLOOK

Defence

Defence production for 2018 was originally forecast at 240 units. Capacity in the first half was on target and management now expects production for 2018 to be 264 units, or 10% more than originally forecast. At the same time, production yield is improving. Production margins are sensitive to both volume and yield, so EOS expects profitability to improve over earlier forecasts.

The company notes that demand for its products is tracking ahead of expectations. Order intake is on plan, and backlog is growing despite a large capacity increase. Unless global security concerns diminish in the near term, this trend appears likely to continue.

No competitor has yet offered a qualified product into the market created by EOS with the R-400S Mk2 weapon system.

New capacity for the Defence sector is being added in Alabama, preventing EOS prices from falling as the US dollar rises. However the intended customers for this new capacity have not diminished in interest or enthusiasm as the US currency has strengthened because those customers mandate US production.

This EOS sector is reliant on the timely release of export licenses for each customer by both Australia and the USA. To this point all necessary licenses have issued and all new customers appear to be favoured for license issuance by both countries.

Review of Operations

The outlook for the EOS Defence Sector is positive with business volume and margins both expected to grow going forward.

Space

EOS' initial customers for space data are governments, and negotiations for contracts could be prolonged. This is especially the case when there are no direct competitors so normal tendering processes are not viable.

A key advantage for EOS is that it now has a substantial operational space capability. Only a few nations have more space data capacity than EOS. Unlike all potential competitors, EOS can offer immediate delivery of very high quality data.

Based on progress in customer negotiations, commercial arrangements with one or more customers could commence from early in 2019 although significant funding may lag by several quarters due to appropriation processes.

The outlook for the EOS Space Sector is positive with profitable operations expected from 2020 provided the global space environment continues its consistent trajectory of the past decade.

Full Year Results

In prior guidance EOS has indicated a profit expectation exceeding $5m million for the full year to 31 December 2018. The half-year result to 30 June 2018 is a profit of $5.3 million.

Provided trading conditions remain close to 30 June settings, the company now expects to achieve a profit of around $10 million for the full year to 31 December 2018.

Since 30 June 2018 the Australian dollar has fallen against the US$ implying further potential gains. However exchange rates can be very volatile and despite natural hedging both gains and losses are possible in normal operations. The revised profit forecast does not assume or require any change from the 30 June 2018 exchange rate.

Further information concerning the operations and financial condition of the entity can be found in the financial report and in releases made to the Australian Stock Exchange (ASX) during the half year.

Ben Greene
Chief Executive Officer

30 August 2018

Directors' Report

The directors of Electro Optic Systems Holdings Limited submit herewith the financial report for the half-year ended 30 June 2018. 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 – appointed 23 March 2018

Review of Operations

A detailed review of operations is included on pages 3 to 6 of this financial report.

Auditor's independence declaration

The auditor's independence declaration is included on page 8 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, 30 August 2018

Deloitte.

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

30 August 2018

Dear Board Members

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 statements of Electro Optic Systems Holdings Limited for the half-year ended 30 June 2018, 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 sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon .

David Salmon
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
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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 2018, 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 11 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 2018 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 2018 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, 30 August 2018

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, 30 August 2018

Condensed Consolidated statement of profit or loss and other comprehensive income for the half-year ended 30 June 2018

	Note	Half-year ended 30 June 2018 $	Half-year ended 30 June 2017 $
Revenue	2(a)	35,439,848	9,842,495
Other Revenue	2(b)	321,219	65,038
Changes in inventories of finished goods and work in progress		(796,684)	71,294
Raw materials and consumables used		(17,676,604)	(4,417,865)
Employee benefits expense		(9,404,112)	(6,938,651)
Administrative costs		(3,918,146)	(1,661,037)
Finance costs		(177,565)	(24,454)
Depreciation and amortisation expense	2(c)	(197,255)	(81,160)
Foreign exchange (losses)/ gains	2(c)	3,914,384	(501,311)
Lease expenses		(59,480)	(40,714)
Occupancy costs		(1,614,653)	(406,120)
Other expenses		(489,019)	(166,530)
Provision for doubtful debts		(458)	-
Profit/ (Loss) before income tax expense	2	5,341,475	(4,259,015)
Income tax benefit		-	-
Profit/ (Loss) for the period	5	5,341,475	(4,259,015)
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations		(835,168)	280,796
Income tax relating to components of other comprehensive income		-	-
		(835,168)	280,796
Total comprehensive profit/ (loss) for the period		4,506,307	(3,978,219)
Profit/ (loss) attributable to :			
Owners of the company		5,341,475	(4,259,015)
		5,341,475	(4,259,015)
Total comprehensive profit/ (loss) attributable to:			
Owners of the company		4,506,307	(3,978,219)
		4,506,307	(3,978,219)
Profit/ (loss) per share:			
Basic (cents per share)	6	6.32	(7.24)
Diluted (cents per share)	6	6.32	(7.24)

Notes to the condensed consolidated financial statements are included on pages 16 to 32.

Condensed Consolidated statement of financial position as at 30 June 2018

	Note	30 June 2018 $	31 December 2017 $
Current Assets			
Cash and cash equivalents		59,661,721	9,989,953
Trade and other receivables		19,616,892	11,662,007
Inventories		16,785,750	13,795,574
Other – Prepayments		3,451,550	2,390,931
Total Current Assets		99,515,913	37,838,465
Non-Current Assets			
Property, plant and equipment		2,066,157	1,405,347
Trade and other receivables		4,571,275	609,864
Other		7,642,132	7,751,938
Total Non-Current Assets		14,279,564	9,767,149
Total Assets		113,795,477	47,605,614
Current Liabilities			
Trade and other payables		19,668,879	18,084,358
Provisions		5,420,928	5,091,560
Total Current Liabilities		25,089,807	23,175,918
Non-Current Liabilities			
Provisions		2,119,714	859,076
Total Non-Current Liabilities		2,119,714	859,076
Total Liabilities		27,209,521	24,034,994
Net Assets		86,585,956	23,570,620
Equity			
Issued capital	3	161,784,727	103,342,071
Reserves	4	8,576,133	9,344,928
Accumulated losses	5	(83,774,904)	(89,116,379)
Total Equity		86,585,956	23,570,620

Notes to the condensed consolidated financial statements are included on pages 16 to 32.

Condensed Consolidated Statement of changes in equity for the half-year ended 30 June 2018

	Total $	Accumulated losses $	Issued capital $	Foreign currency translation reserve $	Employee equity settled benefits reserve $
Consolidated					
Balance at 1 January 2018	23,570,620	(89,116,379)	103,342,071	(241,137)	9,586,065
Issue of 10,471,434 ordinary shares at $2.91 each	28,948,278	-	28,948,278	-	-
Issue of 10,147,123 Ordinary shares at $2.91 each	28,051,722	-	28,051,722	-	-
Issue of 495,758 at $2.91 under the Small Shareholder Plan	1,442,656	-	1,442,656	-	-
Profit for the period	5,341,475	5,341,475	-	-	-
Other comprehensive income for the period	(835,168)	-	-	(835,168)	-
Total comprehensive income for the period	4,506,307	5,341,475	-	(835,168)	-
Recognition of share based payments	66,373	-	-	-	66,373
Balance at 30 June 2018	86,585,956	(83,774,904)	161,784,727	(1,076,305)	9,652,438
Consolidated					
Balance at 1 January 2017	4,046,999	(79,716,449)	75,383,567	(604,840)	8,984,721
Issue of 3,863,638 new ordinary shares	8,075,004	-	8,075,004	-	-
(Loss) for the period	(4,259,015)	(4,259,015)	-	-	-
Other comprehensive income for the period	280,796	-		280,796	-
Total comprehensive (loss) for the period	(3,978,219)	(4,259,015)	-	280,796	-
Recognition of share based payments	300,672	-	-	-	300,672
Balance at 30 June 2017	8,444,456	(83,975,464)	83,458,571	(324,044)	9,285,393

Notes to the condensed consolidated financial statements are included on pages 16 to 32.

Condensed Consolidated statement of cash flows for the half-year ended 30 June 2018

	Half-year ended 30 June 2018 $	Half-year ended 30 June 2017 $
Cash Flows From Operating Activities		
Receipts from customers	25,251,267	9,673,038
Payments to suppliers and employees	(32,908,948)	(15,862,359)
Interest and bill discounts received	321,219	64,513
Interest and other costs of finance paid	(552,367)	(24,454)
Net cash (used in) operating activities	(7,888,829)	(6,149,262)
Cash Flows From Investing Activities		
Payment for property, plant and equipment	(858,069)	(66,010)
Net cash (used in) investing activities	(858,069)	(66,010)
Cash Flows From Financing Activities		
Placement of new ordinary shares	58,442,656	8,075,004
Net cash provided by financing activities	58,442,656	8,075,004
Net Increase in Cash Held	49,695,758	1,859,732
Cash and cash equivalents at the beginning of the half-year	9,989,953	8,874,967
Effects of exchange rate changes on the balance of cash held in foreign currencies	(23,990)	215,445
Cash and cash equivalents at the end of the half-year	59,661,721	10,950,144

Notes to the condensed consolidated financial statements are included on pages 16 to 32.

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.

With the exception of new policies outlined in Note 1 (d) below, 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 Group's 2017 annual financial report for the financial year ended 31 December 2017. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

1 (c) New 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 its operations and effective for an accounting period that begins on or after 1 January 2018.

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 half-year report, that are relevant to the Group include:

- AASB 9 *Financial Instruments* and related amending Standards
- AASB 15 *Revenue from Contracts with Customers* and related amending Standards
- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*
- Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

AASB 9 *Financial Instruments* and related amending Standards

In the current year, the Group has applied AASB 9 *Financial Instruments* (as revised) and the related consequential amendments to other Accounting Standards for the first time. AASB 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied AASB 9 in accordance with the transition provisions set out in AASB 9.

1. Significant accounting policies (cont)

Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of AASB 9) is 1 January 2018. Accordingly, the Group has applied the requirements of AASB 9 to instruments that have not been derecognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

Subsequent to initial recognition, all recognised financial assets that are within the scope of AASB 9 are required to be measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost,
- Debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income (FVTOCI),
- All other debt investments and equity investments are subsequently measured at fair value through profit or loss (FVTPL).

Despite the aforegoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which AASB 3 Business Combinations applies in other comprehensive income,
- The Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not taken any of the elections above.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

1. Significant accounting policies (cont)

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of AASB 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

- Financial assets classified as held-to-maturity and loans and receivables under AASB 139 that were measured at amortised cost continue to be measured at amortised cost under AASB 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

None of the reclassifications of financial assets have had any impact on the Group's financial position, profit or loss, other comprehensive income or total comprehensive income for the period.

Impairment of financial assets

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, AASB 9 requires the Group to recognise a loss allowance for expected credit losses ('ECL') on i) trade receivables, ii) debt investments subsequently measured at amortised cost or at FVTOCI, iii) lease receivables, iv) contract assets and v) loan commitments and financial guarantee contracts to which the impairment requirements of AASB 9 apply.

In particular, AASB 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12m ECL.

The Group has taken a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

1. Significant accounting policies (cont)

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets, amounts due from customers and financial guarantee contracts for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of AASB 9 to determine the credit risk of the respective items at the date they were initially recognised:

Items existing as at 01/01/18 that are subject to the impairment provisions of AASB 9	Credit risk attributes at 01/01/18	Cumulative additional loss allowance recognised on 01/01/18
Trade and other receivables	The Group recognises 12m ECL for these assets using a provision matrix.	-
Cash and bank balances	All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable banking institutions.	-

Classification and measurement of financial liabilities

The application of AASB 9 has had no impact on the classification and measurement of the Group's financial liabilities.

General hedge accounting

The Group does not undertake hedging activities and hence is not impacted by the changes in relation to hedging.

Disclosures in relation to the initial application of AASB 9

The table below illustrates the classification and measurement of financial assets and financial liabilities under AASB 9 and AASB 139 at the date of initial application, 1 January 2018.

Category	Original measurement category under AASB 139	New measurement category under AASB 9	Original carrying amount under AASB 139	Additional loss allowance	New carrying amount under AASB 9
Trade and other receivables	Loans and receivables	Financial assets at amortised cost	11,662,006	-	11,662,006
Cash and bank balances	Loans and receivables	Financial assets at amortised cost	9,989,952	-	9,989,952
Trade and other payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost	(18,084,356)	-	(18,084,356)

1. Significant accounting policies (cont)

Financial impact of initial application of AASB 9

The tables below show the amount of adjustment for each financial statement line item affected by the application of AASB 9 for the current and prior periods.

Impact on profit or loss, other comprehensive income and total comprehensive income	**Initial adoption 01/01/18**	**Half-year ended 30/06/18**
Impact on profit (loss) for the year		
Decrease in other gains and losses	-	(458)
Increase in administration expenses	-	-
Decrease in income tax expenses		-
Decrease in profit for the year	-	(458)

The application of AASB 9 has had no impact on the consolidated cash flows and earnings per share of the Group

AASB 15 *Revenue from Contracts with Customers* and related amending Standards

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 supersedes the current revenue recognition guidance including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and the related Interpretations.

The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in AASB 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by AASB 15.

In May 2016, the AASB issued AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

1. Significant accounting policies (cont)

Apart from providing more extensive disclosures on the Group's revenue transactions, the application of AASB 15 has not had a significant impact on the financial position and/or financial performance of the Group. Following an assessment of all revenue streams no adjustments have been made to financial statement line items on first time application of AASB 15.

The directors have used the modified retrospective method to transition to AASB 15.

1 (d) Accounting policies applied from 1 January 2018

The accounting policies and methods of computation applied by the Group in this consolidated interim financial report are the same as those applied by the Group in the financial report for the year ended 31 December 2017, except for the following amended policies for the new accounting standards effective 1 January 2018 outlined in Note 1(c). The Group has elected not to restate comparative information and as a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policies outlined in the Group's 2017 Annual Report.

Revenue Recognition
The Group recognises revenue from the following major sources:

- Sale of goods
- Providing services

The Group recognises revenue from the above two sources both over time and at a point in time depending on the nature and specifications of contracts entered into with its customers.

For the revenue recognised over time refer to note 2(a) which details the basis of revenue recognition for the current year.

For revenue recognised at a point in time, the Group recognises revenue when control transfers to the customer.

The Group considers the following requirements in order to assess whether control has passed:

(a) The Group has a present right to payment for the asset,
(b) The customer has legal title to the asset,
(c) The Group has transferred physical possession of the asset,
(d) The customer has the significant risks and rewards of ownership of the asset.
(e) The customer has accepted the asset.

Interest revenue is recognised on an accrual basis.

Sales-related warranties
Sales-related warranties cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group will continue to account for these warranties in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* consistent with its current accounting treatment.

1. Significant accounting policies (cont)

Financial assets
Classification
From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- Those to be measured at amortised cost.

The classification depends on the Group's business model for managing financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held.

For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Measurement of cash and cash equivalents and trade and other receivables remains at amortised cost consistent with the comparative period.

Debt instruments
Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Assets that are held for collecting contractual cash flows and through sale on specified dates. A gain or loss on a debt investment that is subsequently measured at FVOCI is recognised in other comprehensive income. No such assets are currently held by the Group.
- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises. No such assets are currently held by the Group.

1. Significant accounting policies (cont)

Equity instruments
The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value. Changes in the fair value of financial assets at fair value through profit or loss are recognised in other expenses in the statement of profit or loss as applicable.

Impairment
The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, and lease receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Financial Liabilities
Interest bearing liabilities
All loans and borrowings are initially recognised at fair value, being the amount received less attributable transaction costs. After initial recognition, interest bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of profit or loss over the period of the borrowings on an effective interest basis.

Trade and other payables
Liabilities are recognised for amounts to be paid for goods or services received. Trade payables are settled on terms aligned with the normal commercial terms in the Group's countries of operation.

	Half-year to 30 June 2018 $	Half-year to 30 June 2017 $

2. Profit/ (Loss) From Ordinary Activities

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

(a) Revenue		
Sale of goods	34,403,821	7,699,012
Providing services	1,036,027	2,143,483
Total revenue	35,439,848	9,842,495

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 $
Defence segment – Sale of goods	32,788,346
Defence segment – Providing services	-
Space segment – Sale of goods	-
Space segment – Providing services	-
Total Revenue recognise over time	32,788,346

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 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.

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

	Half-year to 30 June 2018 $	Half-year to 30 June 2017 $

All other revenue is recognised at a point in time.

At a point in time

	Revenue
Defence segment – Sale of goods	1,408,860
Defence segment – Providing services	404,618
Space segment – Sale of goods	206,615
Space segment – Providing services	631,409
Total Revenue recognise at a point in time	2,651,502
Total Revenue	35,439,848

(b) Other Revenue

Interest received	321,219	64,513
Other revenue	-	525
	321,219	65,038

(c) Expenses

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

	Half-year to 30 June 2018 $	Half-year to 30 June 2017 $
Foreign exchange (gains)/ losses	(3,914,384)	501,311
Depreciation and amortisation of non-current assets	197,255	81,160

	30 June 2018 $	31 December 2017 $

3. Issued Capital

Balance at the beginning of the financial year – Ordinary shares	103,342,071	75,383,567
Issue of 3,863,638 new shares at $2.20 each on 30 March 2017 at $2.20 each (net of issuance costs)	-	8,075,004
Issue of 9,100,000 new shares at $2.30 each on 22 September 2017 at $2.30 each (net of issuance costs)	-	19,883,500
Issue of 10,471,434 new shares at $2.91 on 9 February 2018 (net of issuance costs)	28,948,278	-
Issue of 10,147,123 new shares at $2.91 on 16 March 2018 (net of issuance costs)	28,051,722	-
Issue of 495,758 new shares at $2.91 on 21 March 2018 under the Small Shareholder Plan	1,442,656	-
Issue of 5,180,000 new shares at $2.99 on 20 June 2018 under the Loan Funded Share Plan	-	-
Balance at the end of the financial period	161,784,727	103,342,071

Fully Paid Ordinary Shares	**Number**	**Number**
Balance at the beginning of financial year	69,809,564	56,845,926
Issue of new shares at $2.20 each on 27 March 2017	-	3,863,638
Issue of new shares at $2.30 each on 22 September 2017	-	9,100,000
Issue of new shares at $2.91 on 9 February 2018	10,471,434	-
Issue of new shares at $2.91 on 16 March 2018	10,147,123	-
Issue on new shares at $2.91 on 21 March 2018 under the Small Shareholder Plan	495,758	-
Issue of new shares at $2.99 on 20 June 2018 under the Loan Funded Share Plan	5,180,000	-
Balance at end of financial period	96,103,879	69,809,564

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

	Half-year to 30 June 2018 $	Half-year to 30 June 2017 $

4. Reserves

	Half-year to 30 June 2018 $	Half-year to 30 June 2017 $
Foreign currency translation reserve	(1,076,305)	(324,044)
Employee equity settled benefits reserve	9,652,438	9,285,393
Balance at end of financial period	8,576,133	8,961,349

5. Accumulated Losses

	Half-year to 30 June 2018 $	Half-year to 30 June 2017 $
Balance at beginning of financial period	(89,116,379)	(79,716,449)
Net Profit/ (Loss) for the period	5,341,475	(4,259,015)
Balance at end of financial period	(83,774,904)	(83,975,464)

6. Profit/ (Loss) Per Share

	2018 ¢ per share	2017 ¢ per share
Basic EPS	6.32 cents	(7.24 cents)
Diluted EPS	6.32 cents	(7.24 cents)

Basic Profit/ (Loss) 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 2018 $	Half-year to 30 June 2017 $
Profit/ (Loss) (a)	5,341,475	(4,259,015)

	2018 No.	2017 No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share	84,472,209	58,831,110

(a) Profit/ (Loss) used in the calculation of basic earnings per share is the same as net (loss) in the statement of profit or loss and other comprehensive income.

(b) Potential ordinary shares are anti-dilutive and hence diluted earnings per share is the same as basic earnings per share.

7. 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) The parent entity has provided a guarantee to the Commonwealth of Australia for $2,750,000 in respect of advance payments received of $3,950,000 (Inclusive of GST) in relation to a space sector project.

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 cash deposit of US$6,327,029 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 are relieved from the requirement to prepare and lodge an audited financial report.

8. 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.

	Revenue		Segment profit/ (loss)	
	Half-year to 30 June 2018 $	Half-year to 30 June 2017 $	Half-year to 30 June 2018 $	Half-year to 30 June 2017 $
Space	838,024	1,996,933	(1,215,354)	(1,501,972)
Defence	34,601,824	7,845,562	6,534,151	(2,117,948)
Total of all segments	35,439,848	9,842,495	5,318,797	(3,619,920)
Eliminations	-	-	-	-
Unallocated	321,219	64,513	22,678	(639,095)
Consolidated segment revenue and Profit/(loss) before tax	35,761,067	9,907,008	5,341,475	(4,259,015)
Income tax benefit	-	-	-	-
Consolidated segment revenue and profit/(loss) for the period	35,761,067	9,907,008	5,341,475	(4,259,015)

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.

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

	Assets		Liabilities	
	30 June 2018 $	31 December 2017 $	30 June 2018 $	31 December 2017 $
Space	555,974	552,047	5,658,423	6,189,379
Defence	53,577,782	37,063,614	21,551,098	12,845,565
Total segment assets	54,133,756	37,615,661	27,209,521	24,034,995
Unallocated cash	59,661,721	9,989,953	-	-
Total	113,795,477	47,605,614	27,209,521	24,034,994

8. 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, 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

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

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.

9. Issuance of Securities

2018

On 9 February 2018, the Company issued 10,471,434 ordinary shares to institutional clients of Petra Capital Limited at $2.91 each raising $28,948,278 after fees.

On 16 March 2018, the Company issued 10,147,123 ordinary shares to institutional clients of Petra Capital Limited at $2.91 each raising $28,051,722 after fees.

On 21 March 2018, the Company issued 495,758 ordinary shares at $2.91 each under the Small Shareholder Plan.

On 20 June 2018, the Company issued 5,180,000 ordinary shares at $2.99 to Directors and Employees under the Loan Funded Share Plan.

220,000 Options were issued on 20 June 2018, exercisable at $2.99 under the Employee Share Option Plan.

No options were exercised during the period.

Issued capital as at 30 June 2018 was $161,784,727.

2017

On 30 March 2017, the Company issued 3,863,638 ordinary shares to institutional clients of Petra Capital Limited at $2.20 each raising $8,075,004 after fees.

No options were exercised during the period.

Issued capital as at 30 June 2017 was $83,458,571.

10. Subsequent events

On 24 August 2018, the Company made an announcement to the ASX that acting through its subsidiary EOS Defence Systems Pty Limited, it had been selected as the remote weapon system provider for Phase 2 (Combat Reconnaissance Vehicle) of the Australian Army's LAND 400 program. EOS tendered the R400S Mark 2 D-HD remote weapon station for this acquisition. This latest R400 variant is commencing full rate production to meet existing contracts in early 2019. It is expected that approximately 80 remote weapon stations for Land 400 Phase 2 would enter an existing manufacturing process from 2021.

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.

11. Related party transactions

During the period, the Company paid a total of $38,407 (six month period ended 30 June 2017 - $33,398) 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 $23,611 (six month period ended 30 June 2017 - $20,531) 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 $60,000 (six month period ended 30 June 2017 - $60,000) 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 $23,611 (six month period ended 30 June 2017 - $20,531) 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 $13,129 (six month period ended 30 June 2017 - $11,318) to Audio Pixels Holdings Limited, a company which Fred Bart and Ian Dennis are directors and shareholders in respect of shared Sydney office facilities.

Information on Audit or Review

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

- ☐ The accounts have been audited.
- ☒ The accounts have been subject to review.
- ☐ The accounts are in the process of being audited or subject to review.
- ☐ 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