



Electro Optic Systems Holdings Limited
A.C.N. 092 708 364
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27 February 2019

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

Dear Sir,

Preliminary Final Report – Listing Rule 4.3A

The Preliminary Final Report/ Appendix 4E for the year ended 31 December 2018 is attached.

Yours faithfully,

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

Ian Dennis
Director

Preliminary Final Report of *Electro Optic Systems Holdings Limited* for the Financial Year Ended 31 December 2018

ACN 092 708 364

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

Current Reporting Period: Financial Year ended 31 December 2018

Previous Corresponding Period: Financial Year ended 31 December 2017

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Results for Announcement to the Market

Revenue and Net Profit

		Percentage Change %	Amount
Revenue from ordinary activities	Up	274.6	To \$87,130,396
Profit from ordinary activities after tax attributable to members	Up	N/A	To \$15,081,372
Net Profit attributable to members	Up	N/A	To \$15,081,372

Dividends (Distributions)

	Amount per security	Franked amount per security
Final dividend	Nil¢	Nil¢
Interim dividend	Nil¢	Nil¢
Record date for determining entitlements to the dividend:		
• final dividend		N/A
• interim dividend		N/A
Net tangible assets at 31 December 2018		\$96,281,584
Number of ordinary shares outstanding at 31 December 2018		90,923,879
NTA per ordinary share at 31 December 2018		105.89 cents
NTA per ordinary share at 31 December 2017		33.76 cents

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

Refer to Review of Operations on pages 16 to 21.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Consolidated statement of profit or loss and other comprehensive income for the Financial Year ended 31 December 2018

	Note	31 December 2018	31 December 2017
		\$	\$
Revenue	2(a)	87,130,396	23,259,794
Changes in inventories of work in progress		(2,842,202)	(2,699,765)
Raw materials and consumables used		(40,356,855)	(8,473,543)
Employee benefits expense		(22,147,866)	(14,692,849)
Administration expenses		(9,502,730)	(4,304,914)
Finance costs		(36,903)	(34,985)
Depreciation and amortisation of property, plant and equipment	2(b)	(633,235)	(193,325)
(Loss) on disposal of fixed assets	2(b)	-	(2,007)
Foreign exchange gains/ (losses)	2(b)	7,712,222	(695,061)
Occupancy costs		(3,440,347)	(1,188,969)
Other expenses		<u>(801,108)</u>	<u>(374,306)</u>
Profit/ (Loss) before income tax benefit	2	15,081,372	(9,399,930)
Income tax benefit		-	-
Profit/ (Loss) for the year		<u>15,081,372</u>	<u>(9,399,930)</u>
Attributable to:			
Owners of the Company		15,302,214	(9,399,930)
Non-controlling interests		<u>(220,842)</u>	-
		<u>15,081,372</u>	<u>(9,399,930)</u>
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation of foreign operations		<u>(1,157,927)</u>	<u>363,703</u>
Total comprehensive Profit/ (Loss) for the year		<u>13,923,445</u>	<u>(9,036,227)</u>
Attributable to:			
Owners of the Company		14,144,287	(9,036,227)
Non-controlling interests		<u>(220,842)</u>	-
		<u>13,923,445</u>	<u>(9,036,227)</u>
Profit/ (Loss) per share			
Basic (cents per share)	5	17.22	(15.16)
Diluted (cents per share)	5	17.22	(15.16)

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Consolidated statement of financial position
as at 31 December 2018**

	Note	Consolidated December 2018 \$	December 2017 \$
CURRENT ASSETS			
Cash and cash equivalents		49,510,154	9,989,953
Trade and other receivables		26,819,746	11,662,007
Inventories		26,465,499	13,795,574
Other		<u>12,713,727</u>	<u>2,390,931</u>
TOTAL CURRENT ASSETS		<u>115,509,126</u>	<u>37,838,465</u>
NON-CURRENT ASSETS			
Property, plant and equipment		3,960,849	1,405,347
Trade and other receivables		7,146,990	609,864
Other		<u>2,252,177</u>	<u>7,751,938</u>
TOTAL NON-CURRENT ASSETS		<u>13,360,016</u>	<u>9,767,149</u>
TOTAL ASSETS		<u>128,869,142</u>	<u>47,605,614</u>
CURRENT LIABILITIES			
Trade and other payables		22,328,897	18,084,358
Provisions		<u>6,366,891</u>	<u>5,091,560</u>
TOTAL CURRENT LIABILITIES		<u>28,695,788</u>	<u>23,175,918</u>
NON-CURRENT LIABILITIES			
Provisions		<u>3,891,770</u>	<u>859,076</u>
TOTAL NON-CURRENT LIABILITIES		<u>3,891,770</u>	<u>859,076</u>
TOTAL LIABILITIES		<u>32,587,558</u>	<u>24,034,994</u>
NET ASSETS		<u>96,281,584</u>	<u>23,570,620</u>
EQUITY			
Issued capital		161,784,727	103,342,071
Reserves	3	8,472,791	9,344,928
Accumulated losses	4	<u>(73,814,165)</u>	<u>(89,116,379)</u>
Equity attributable to owners of the Company		96,443,353	23,570,620
Non-controlling interests		<u>(161,769)</u>	<u>-</u>
TOTAL EQUITY		<u>96,281,584</u>	<u>23,570,620</u>

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Consolidated statement of changes in equity for the Financial
Year ended 31 December 2018**

	Accumulated losses	Issued capital	Foreign currency translation reserve	Employee equity settled benefits reserve	Attributable to owners of the parent	Non- controlling interests	Total Equity
	\$	\$	\$	\$	\$	\$	\$
2018							
Balance at 1 January 2018	(89,116,379)	103,342,071	(241,137)	9,586,065	23,570,620	-	23,570,620
Profit for the year	15,302,214	-	-	-	15,302,214	(220,842)	15,081,372
Exchange differences arising on translation of foreign operations	-	-	(1,157,927)	-	(1,157,927)	-	(1,157,927)
Total comprehensive profit for the year	15,302,214	-	(1,157,927)	-	14,144,287	(220,842)	13,923,445
Issue of 10,471,434 new shares at \$2.91 each	-	28,948,278	-	-	28,948,278	-	28,948,279
Issue of 10,147,123 new shares at \$2.91 each	-	28,051,722	-	-	28,051,722	-	28,051,722
Issue of 495,858 new shares at \$2.91 under the Share Purchase Plan	-	1,442,656	-	-	1,442,656	-	1,442,656
Adjustment arising from change in non- controlling interest	-	-	-	-	-	59,073	59,073
Recognition of share based payments	-	-	-	285,790	285,790	-	285,790
Balance at 31 December 2018	(73,814,165)	161,784,727	(1,399,064)	9,871,855	96,443,353	(161,769)	96,281,584
2017							
Balance at 1 January 2017	(79,716,449)	75,383,567	(604,840)	8,984,721	-	-	4,046,999
(Loss) for the year	(9,399,930)	-	-	-	(9,399,930)	-	(9,399,930)
Exchange differences arising on translation of foreign operations	-	-	363,703	-	363,703	-	363,703
Total comprehensive (loss) for the year	(9,399,930)	-	363,703	-	(9,036,227)	-	(9,036,227)
Issue of 3,863,638 new shares at \$2.20 each	-	8,075,004	-	-	8,075,004	-	8,075,004
Issue of 9,100,000 new shares at \$2.30 each	-	19,883,500	-	-	19,883,500	-	19,883,500
Recognition of share based payments	-	-	-	601,344	601,344	-	601,344
Balance at 31 December 2017	(89,116,379)	103,342,071	(241,137)	9,586,065	23,570,620	-	23,570,620

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Consolidated statement of cash flows for the Financial Year ended 31 December 2018

	Note	31 December 2018 \$	31 December 2017 \$
Cash flows from operating activities			
Receipts from customers		63,870,012	22,253,859
Payments to suppliers and employees		(80,309,969)	(48,363,455)
Interest received		790,658	194,888
Interest and other costs of finance paid		<u>(36,903)</u>	<u>(34,985)</u>
Net cash (outflows) from operating activities		<u>(15,686,202)</u>	<u>(25,949,693)</u>
Cash flows from investing activities			
Payment for property, plant and equipment		<u>(3,188,913)</u>	<u>(1,140,947)</u>
Net cash (outflows) from investing activities		<u>(3,188,913)</u>	<u>(1,140,947)</u>
Cash flows from financing activities			
Proceeds from issue of new shares		<u>58,442,656</u>	<u>27,958,504</u>
Net cash inflows from financing activities		<u>58,442,656</u>	<u>27,958,504</u>
Net increase in cash and cash equivalents		39,567,541	867,864
Cash and cash equivalents at the beginning of the financial year		9,989,953	8,874,967
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		<u>(47,340)</u>	<u>247,122</u>
Cash and cash equivalents at the end of the financial year		<u>49,510,154</u>	<u>9,989,953</u>

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 2018**

1. Basis of Preparation

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

The accounting policies adopted in the preparation of the preliminary financial report are consistent with those adopted and disclosed in the 2017 annual report excepting in relation to the adoption of new and revised accounting standards applicable in the 2018 year.

Adoption of new and revised Accounting Standards

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

New and revised Standards and amendments thereof and Interpretations effective for the current financial year, and which have been applied in the preparation of this general purpose financial report, that are relevant to the Group include:

- AASB 9 *Financial Instruments* and related amending Standards
- AASB 15 *Revenue from Contracts with Customers* and related amending Standards

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 2018**

1. Basis of Preparation (cont)

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 incurred a net profit during the year of \$15,081,372 (2017: net loss of \$9,399,930). Net cash used by operating activities was \$15,686,202 (2017: \$25,949,693). As at 31 December 2018, the consolidated entity had cash of \$49,510,154 (2017: \$9,989,953) of which \$9,090,954 (2017: \$119,025) is restricted as it secures bank guarantees relating to performance on some contracts.

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;
- key military and government customers making timely payments for the goods supplied in accordance with contractual terms;
- the future trading prospects of the consolidated entity including obtaining the required export permits, lodgement of the required offset bonds in relation to executed contracts and successfully obtaining and negotiating commercial contract terms in relation to potential customers; and
- the ability to raise funding should the need arise.

Given the current financial position, performance and prospects of the consolidated entity the directors believe the consolidated entity can continue as a going concern and pay its debts as and when they become due and payable and that it is therefore appropriate to prepare the financial report on the going concern basis.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 2018**

	2018	2017
	\$	\$
2. Profit From Ordinary Activities		
Profit from ordinary activities before income tax includes the following items of revenue and expense:		
(a) Revenue		
Revenue from operations consisted of the following items:		
Revenue from sale of goods	84,299,210	19,290,114
Revenue from rendering of services	2,040,120	1,648,412
Construction contract revenue	<u>-</u>	<u>2,125,292</u>
	<u>86,339,330</u>	<u>23,063,818</u>
Interest received	790,658	194,888
Other revenue		
Other	408	1,088
Total revenue	<u>87,130,396</u>	<u>23,259,794</u>
(b) Expenses		
Foreign exchange (gains)/ losses	(7,712,222)	695,061
Loss on sale of property, plant and equipment	-	2,007
Depreciation of property, plant and equipment	633,235	193,325
3. Reserves		
Foreign currency translation reserve	(1,399,064)	(241,137)
Employee equity settled benefits reserve	<u>9,871,855</u>	<u>9,586,065</u>
Balance at end of financial period	<u>8,472,791</u>	<u>9,344,928</u>
4. Accumulated Losses		
Balance at beginning of financial period	(89,116,379)	(79,716,449)
Net Profit/ (Loss) for the year	<u>15,302,214</u>	<u>(9,399,930)</u>
Balance at end of financial period	<u>(73,814,165)</u>	<u>(89,116,379)</u>

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 2018**

5. Earnings Per Share

	2018	2017
	¢ per share	¢ per share
Basic EPS	17.22 cents	(15.16 cents)

Basic Earnings per Share

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

	2018	2017
	\$	\$
Profit/ (Loss) (a)	15,081,372	(9,399,930)

	2018	2017
	No.	No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share	87,582,641	56,845,926

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

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

The unlisted options outstanding are not in the money at 31 December 2018 and are not considered dilutive.

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

6. Contingent Liabilities

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 2018**

6. Contingent Liabilities (cont)

- (b) Under the terms of a contract in the Defence sector, the Company has an obligation to enter into and execute an offset agreement with the relevant overseas Government Authority. Once the agreement is executed, the Company will be required to lodge an offset bond of approximately US\$16m with the overseas Government Authority to ensure that local content requirements are met. The final terms of the offset agreement are still being negotiated

7. Segment Information

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

	Revenue		Segment profit/ (loss)	
	2018 \$	2017 \$	2018 \$	2017 \$
Space	1,379,421	3,472,975	(2,153,278)	(2,893,122)
Defence systems	84,960,317	19,591,931	17,766,199	(5,701,590)
Total of all segments	86,339,738	23,064,906	15,612,921	(8,594,712)
Eliminations	-	-	-	-
Unallocated	790,658	194,888	(531,549)	(805,218)
Consolidated Profit/ (Loss) before tax	87,130,396	23,259,794	-	-
Income tax benefit	-	-	15,081,372	(9,399,930)
Consolidated segment revenue and profit/ (loss)/ for the year	-	-	-	-
	87,130,396	23,259,794	15,081,372	(9,399,930)

The revenue reported above represents revenue from external customers. There were no intersegment sales during the period. There were no discontinued operations during the period. The consolidated entity had one customer who provided in excess of 10% of consolidated revenue. The customer is within the Defence segment and provided combined revenue of \$68,847,875.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**Notes to the Financial Statements
for the Financial Year ended 31 December 2018**

7. Segment Information (cont'd)

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

	2018	2017
	\$	\$
Space	726,984	552,047
Defence systems	78,632,004	37,063,614
Total segment assets	79,358,988	37,615,661
Unallocated assets	49,510,154	9,989,953
Total assets	128,869,142	47,605,614

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

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

Product and Services within each Business Segment

Space

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

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

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

Defence systems

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

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
Notes to the Financial Statements
for the Financial Year ended 31 December 2018

8. Subsequent Events

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

9. Issuance of Securities

2018

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

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

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

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

No options were exercised during the year.

2017

On 30 March 2017, the Company issued 3,863,638 new ordinary shares at \$2.20 each raising \$8,075,004, net of issuance costs.

On 22 September 2017, the Company issued 9,100,000 new ordinary shares at \$2.30 each raising \$19,883,500, net of issuance costs.

No options were exercised during the year.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
Notes to the Financial Statements
for the Financial Year ended 31 December 2018

10. Other Significant Information

None

11. Information on Audit or Review

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

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

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

The audit is currently in progress.

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

Not applicable

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Review of Operations

1. RESULTS FOR FULL-YEAR ENDING 31 DECEMBER 2018

The consolidated entity (“EOS”) reported an operating profit after tax of \$15,081,371 for the 12 month period to 31 December 2018 [31 December 2017: \$9,399,930 loss] based on revenues totalling \$87,130,396 [31 December 2017: \$23,259,794].

1. The consolidated entity reported net cash used by operations for the 12 month period totalling \$15,684,784 [31 December 2017: \$25,949,693]. At 31 December 2018, the consolidated entity held cash totalling \$49,511,572 [31 December 2017: \$9,989,953]. Cash of \$9,090,954 [31 December 2017: \$119,025] is restricted as it secures bank guarantees relating to performance on some contracts.

2. The operating profit after tax represents strong performance against all prior expectations, but requires expansion. The overall result was made up of four elements:

- A. Foreign Exchange Gains (Defence Segment): \$7.7 million
- B. Defence Segment Profit; \$10.1 million
- C. Space Segment Loss: (\$2.2 million)
- D. Unallocated Holding Company Loss: (\$0.5 million)

3. Total \$15.1 million

EOS exports over 95% of current production and export contracts are generally denominated in US currency. The value of the Australian dollar fell from US\$0.7805 at 31 December 2017 to US\$0.7052 at 31 December 2018 and EOS consolidated entity booked foreign exchange gains of \$7,712,505 (31 December 2017: \$695,061 – losses) during the full-year period ended 31 December 2018.

The foreign exchange gains arose in the normal course of business as a result of performance bonds and cash reserves held in US currency, and currency exchange as revenue was received.

The operating profit after tax of \$15.1 million included foreign exchange gains of \$7.7m and is stronger than previously forecast. The table below shows the result in the context of earlier guidance.

\$ millions	Forecast March 2018	Forecast August 2018	Segment Result Dec 2018
Foreign Exchange Gains	0	3.8	7.7
Defence Sector Operating profit	8.9	10.1	10.1
Space Sector Operating Loss	3.8	3.8	2.2
Unallocated Holding Company Loss			0.5
Full Year Result	5.1	10.1	15.1

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Review of Operations

The key elements in the evolution forecasts to results are:

Foreign exchange gains progressively increased through 2018;

Space sector performance was better than expected, with losses for 2018 settling at 60% of original expectations;

Defence sector performance progressively improved throughout 2018, ultimately exceeding initial expectations by 14%; and

Holding Company losses, previously allocated to operating sectors, falling at \$0.5 million over the full year.

The individual sector performances are further discussed below.

1. EOS DEFENCE SYSTEMS

EOS Defence sector delivered a very strong performance in 2018. The full year result of \$10.1 million profit is 14% higher than the expectation of \$8.9 million in early 2018 and is consistent with the \$10.1 million expected in Q3 2018 when forecasts were last revised.

This result was due to gradual performance improvement through 2018, and is particularly creditable because it was achieved during execution of a strategic process with a focus on longer term objectives.

The sector started the period with reasonable certainty that sector revenue would approximately double in 2019 and so building a robust platform for sustainable growth beyond 2018 was the highest priority. This priority energised specific activities relating to human resources, production processes, new sales and new products. None of these activities were optimised for operational performance in 2018 alone.

Human Resources

Initiating manufacture of a new product in a new plant required double the number of production staff, and training of all staff for new procedures, plant and equipment.

As well as the expansion of staff for operations, Defence sector leadership at executive and management levels was significantly deepened during 2018. The objective of this expansion was to reduce performance risk going forward as revenue doubles in 2019 and continues to grow into 2020.

This process has increased sector overhead costs, but the increases are within expectations.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Review of Operations

Production

The new production facility in Hume [ACT] is performing ahead of expectations. A margin of 11.9% was achieved with the plant operating at 55% capacity for the full year.

Production processes, documentation, supply chain management, yield, and final quality all improved significantly through the period. The improvements achieved are substantial and are key factors driving the full year sector result for 2018.

Further improvement is required because during 2019 new complexity will be added in the form of new products, and specification variations on the current product.

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.

In September 2018 EOS launched the R-150, a lightweight remote weapon station, to the market. This product has been well received. Further product releases are imminent.

These key activities were addressed to form a basis for further improvement in 2019, in the expectation of a doubling of 2018 revenue for 2019. This objective has been met.

2. EOS SPACE SYSTEMS

During this period EOS Space Sector executed its plan to achieve the following:

A. Operational Scale and International Credibility

EOS grew its operational space situational awareness [SSA] capability, as a company, to a level exceeding 10,000 high precision space tracks each week from low earth orbit to beyond geostationary orbit. This exceeds the capability of all entities except the five most active nations in space.

B. Performance

Long term, independent testing by the world leader in SSA operations was completed. This formally established the sensitivity, accuracy and applicable range for the EOS capability. These factors met EOS program objectives.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

Review of Operations

C. Scaling

Using 12 months of SSA operations at a scale exceeded only by a few nations, the EOS capability has been subject to technical reviews to increase performance and reliability while reducing costs. This process is undertaken in parallel with commercial contract negotiations, because these involve tradeoffs among price, performance and scale.

EOS has established that its sensors can achieve sufficient throughput to meet customer data quantity requirements at a reasonable price. Against a nominal customer requirement of 100,000 space object tracks per week, under all weather conditions, EOS has deployed and operationally tested over many months at 10% of this scale.

EOS has successfully demonstrated compliance with all customer and space industry requirements and is now engaged in commercial discussions for data supply contracts.

This activity was performed on time and well within the allocated budget. The operating loss in this segment was \$2.2 million, or around 60% of the loss expected at the commencement of the period.

3. FORECAST AND OUTLOOK

Defence

A strong positive outlook for the Defence Sector is based on key performance metrics:

Revenue, Backlog

In 2018 revenue in this sector grew in excess of 200% to \$85 million, and the Company expects this to grow at 100% to exceed \$170 million in 2019.

At 1 January 2018 EOS Defence Sector had a backlog of undelivered orders and customer commitments of around \$581 million. At 1 January 2019 the contracted order backlog exceeded \$667 million.

The current backlog of \$667 million is sufficient for the sector to operate for almost two years from 2020 with a revenue of \$250 million, with no new sales added from now. The Company expects that more sales will be secured during 2019 and beyond.

Orders and Pipeline

Demand for EOS defence products is tracking ahead of expectations. No competitor has yet offered a qualified product into the market created by EOS with

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the R-400S weapon system. In 2018 EOS released its R-150 lightweight weapon station which is expected to accrue sales from late in 2019. New product launches will continue in 2019. Each of these new products is designed with strong market differentiation.

Market demand is growing. At 1 February 2019 the Company was participating in over \$1.2 billion of procurements globally. The conversion delay from tenders to executed contracts is typically 18 months, and around 25% of this pipeline is expected to convert during 2019. A further \$1 billion of tenders is expected to be submitted by EOS during 2019 for new EOS products.

Margins

The full-year result indicates a margin of 11.9% from current products. Further improvement is possible because in 2018 only 55% of nominal plant capacity was used. Plant utilisation will increase to 90% of nominal capacity in 2019. The US plant in Huntsville will add capacity to meet new orders from customers not presently serviced from the Hume plant. This is expected from late in 2019.

The following key challenges for the Defence Sector going forward are receiving close attention by management:

- **Human Resources.** The skilled resource pool is nearing exhaustion in the Canberra region. The Company may have to establish an additional site for operations.
- **Export Licenses.** This sector relies on the timely release of export licenses for each customer, usually by both Australia and the USA. This process is becoming more complex.
- **Sovereign Risk and Customer Diversification.** The sector now services seven customers. The objective is for further diversification to over 10 customer by 2020 to further reduce sovereign risk.
- **US Program Delays.** The ramp up of production from the US plant has been slowed in step with delays to US defence procurements.

Considering all aspects, the outlook for the EOS Defence Sector is very positive with business volume and margins both expected to grow going forward.

Space

EOS technology is creating a new market and somewhat disrupting existing capabilities and arrangements in space. This is the usual impact of new technology. At this point there is no longer any question on the price or performance of EOS' technology, or its scalability. The cost advantages of EOS' approach are very significant and likely to be essential to all customers the Company is addressing.

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EOS' initial customers for space data are governments, and negotiations for contracts have been prolonged. This is partly caused because there are no direct competitors so normal tendering processes are not possible.

Discussions and negotiations with multiple government entities are well under way.

The outlook for the EOS Space Sector remains positive, and guidance is unchanged from earlier updates. The Company expects profitable operations in this sector from 2020.

Full Year Forecast

Provided trading conditions remain close to current settings, the Company now expects revenue to grow to \$170 million for 2019, with a profit expectation of around \$20 million for the full year to 31 December 2019.

The forecast assumes no 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.

Ben Greene
Chief Executive Officer

27 February 2019