



**Electro Optic Systems Holdings Limited**  
A.C.N. 092 708 364  
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<http://www.eos-aus.com>

26 February 2021

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 2020 is attached.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Ian Dennis", is written over a white background.

Ian Dennis  
Director

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# Preliminary Final Report of *Electro Optic Systems Holdings Limited* for the Financial Year Ended 31 December 2020

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 2020

Previous Corresponding Period: Financial Year ended 31 December 2019

# ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

## Results for Announcement to the Market

### Revenue and Net Profit

		<b>Percentage Change %</b>	<b>Amount</b>
Revenue from ordinary activities	Up	8.9	To \$180,182,366
(Loss) from ordinary activities after tax attributable to members		N/A	To (\$24,765,221)
Net (Loss) attributable to members		N/A	To (\$24,765,221)

### Dividends (Distributions)

	<b>Amount per security</b>	<b>Franked amount per security</b>
Final dividend	Nil¢	Nil¢
Interim dividend	Nil¢	Nil¢
Record date for determining entitlements to the dividend:		
• final dividend		N/A
• interim dividend		N/A
Net tangible assets at 31 December 2020		\$293,540,160
Number of ordinary shares outstanding at 31 December 2020		149,579,229
NTA per ordinary share at 31 December 2020		196.24 cents
NTA per ordinary share at 31 December 2019 (restated)		169.28 cents

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

Refer to Review of Operations on pages 25 to 30.

**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Consolidated statement of profit or loss and other comprehensive  
income for the  
Financial Year ended 31 December 2020**

	Note	31 December 2020	31 December 2019 Restated
		\$	\$
Revenue	2(a)	180,182,366	165,385,019
Other income	2(b)	10,085,114	600,544
Changes in inventories of work in progress		(37,496,156)	(5,740,505)
Raw materials and consumables used		(78,491,149)	(84,357,111)
Employee benefits expense		(53,211,757)	(33,697,340)
Administration expenses		(19,774,924)	(14,133,068)
Amortisation of intangible assets		(2,346,628)	(354,299)
Interest expense	2(c)	(1,407,672)	(384,217)
Depreciation of property, plant and equipment	2(c)	(3,045,714)	(1,694,948)
Depreciation of right of use assets		(4,191,163)	(2,083,154)
Loss on sale of fixed assets		(299,900)	-
Foreign exchange (losses)/ gains	2(c)	(15,682,452)	36,330
Occupancy costs		(1,709,006)	(524,816)
Other expenses		<u>(2,509,104)</u>	<u>(1,655,850)</u>
<b>(Loss)/ Profit before income tax benefit</b>	2	(29,898,145)	21,396,585
Income tax benefit/ (expense)		<u>4,327,710</u>	<u>(3,753,604)</u>
<b>(Loss)/ Profit for the year</b>		<u>(25,570,435)</u>	<u>17,642,981</u>
Attributable to:			
Owners of the Company		(24,765,221)	18,019,648
Non-controlling interests		<u>(805,214)</u>	<u>(376,667)</u>
		<u>(25,570,435)</u>	<u>17,642,981</u>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit and loss</b>			
Exchange differences arising on translation of foreign operations		<u>(2,116,033)</u>	<u>337,858</u>
<b>Total comprehensive (Loss)/ Profit for the year</b>		<u>(27,686,468)</u>	<u>17,980,839</u>
Attributable to:			
Owners of the Company		(26,881,254)	18,357,506
Non-controlling interests		<u>(805,214)</u>	<u>(376,667)</u>
		<u>(27,686,468)</u>	<u>17,930,839</u>
Profit per share			
Basic (cents per share)	5	(19.80)	18.98
Diluted (cents per share)	5	(19.80)	18.94

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

**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Consolidated statement of financial position  
as at 31 December 2020**

	Note	Consolidated December 2020	December 2019 Restated
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		65,933,499	77,881,766
Trade and other receivables		36,014,685	27,056,202
Contract asset		124,532,902	39,736,920
Inventories		68,174,314	53,491,173
Other assets		<u>13,005,486</u>	<u>14,590,520</u>
<b>TOTAL CURRENT ASSETS</b>		<u><b>307,660,886</b></u>	<u><b>212,756,581</b></u>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables		2,063,782	12,055,798
Contract asset		13,364,148	4,415,213
Other assets		-	7,237,591
Deferred tax asset		11,080,077	2,996,812
Security deposit		16,671,414	9,021,823
Loan in associate		2,391,940	2,632,783
Right of use assets		19,089,485	13,961,128
Goodwill		14,878,316	14,878,316
Intangible assets		19,723,572	17,235,701
Property, plant and equipment		<u>29,125,518</u>	<u>8,061,509</u>
<b>TOTAL NON-CURRENT ASSETS</b>		<u><b>128,388,252</b></u>	<u><b>92,496,674</b></u>
<b>TOTAL ASSETS</b>		<u><b>436,049,138</b></u>	<u><b>305,253,255</b></u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		52,229,681	36,970,003
Current tax payable		139,594	8,352,728
Lease liabilities		3,493,301	2,613,223
Provisions		<u>14,989,204</u>	<u>12,882,819</u>
<b>TOTAL CURRENT LIABILITIES</b>		<u><b>70,851,780</b></u>	<u><b>60,818,773</b></u>
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities		16,558,611	11,386,647
Provisions		<u>9,416,622</u>	<u>6,513,467</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u><b>25,975,233</b></u>	<u><b>17,900,114</b></u>
<b>TOTAL LIABILITIES</b>		<u><b>96,827,013</b></u>	<u><b>78,718,887</b></u>
<b>NET ASSETS</b>		<u><b>339,222,125</b></u>	<u><b>226,534,368</b></u>
<b>EQUITY</b>			
Issued capital		413,479,003	274,311,590
Reserves	3	8,402,797	9,312,018
Accumulated losses	4	<u>(81,316,025)</u>	<u>(56,550,804)</u>
Equity attributable to owners of the Company		340,565,775	227,072,804
Non-controlling interests		<u>(1,343,650)</u>	<u>(538,436)</u>
<b>TOTAL EQUITY</b>		<u><b>339,222,125</b></u>	<u><b>226,534,368</b></u>

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

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**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Consolidated statement of changes in equity for the Financial  
Year ended 31 December 2020**

	Accumulated losses	Issued capital	Foreign currency translation reserve	Employee equity settled benefits reserve	Attributable to owners of the parent	Non- controlling interests	Total Equity
	\$	\$	\$	\$	\$	\$	\$
<b>2020</b>							
Balance at 1 January 2020	<u>(56,550.804)</u>	<u>274,311,590</u>	<u>(1,061,206)</u>	<u>10,373,224</u>	<u>227,072,804</u>	<u>(538,436)</u>	<u>226,534,368</u>
(Loss)/ Profit for the year	<u>(24,765,221)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,765,221)</u>	<u>(805,214)</u>	<u>(25,570,435)</u>
Exchange differences arising on translation of foreign operations	<u>-</u>	<u>-</u>	<u>(2,116,033)</u>	<u>-</u>	<u>(2,116,033)</u>	<u>-</u>	<u>(2,116,033)</u>
Total comprehensive profit for the year	<u>(24,765,221)</u>	<u>-</u>	<u>(2,116,033)</u>	<u>-</u>	<u>(26,881,254)</u>	<u>(805,214)</u>	<u>(27,686,468)</u>
Issue of 28,269,553 new shares at \$4.75 each under the institutional placement	-	127,775,501	-	-	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	-	10,786,437
Repayment of loans in respect of 202,500 Loan Funded Share Plan shares at \$2.99 per share	-	605,475	-	-	605,475	-	605,475
Recognition of share based payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,206,812</u>	<u>1,206,812</u>	<u>-</u>	<u>1,206,812</u>
Balance at 31 December 2020	<u>(81,316,025)</u>	<u>413,479,003</u>	<u>(3,177,239)</u>	<u>11,580,036</u>	<u>340,565,775</u>	<u>(1,343,650)</u>	<u>339,222,125</u>
<b>2019 - Restated</b>							
Balance at 1 January 2019	<u>(74,570,452)</u>	<u>161,784,727</u>	<u>(1,399,064)</u>	<u>9,871,855</u>	<u>95,687,066</u>	<u>(161,769)</u>	<u>95,525,297</u>
Profit for the year	<u>18,019,648</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,019,648</u>	<u>(376,667)</u>	<u>17,642,981</u>
Exchange differences arising on translation of foreign operations	<u>-</u>	<u>-</u>	<u>337,858</u>	<u>-</u>	<u>337,858</u>	<u>-</u>	<u>337,858</u>
Total comprehensive profit for the year	<u>18,019,648</u>	<u>-</u>	<u>337,858</u>	<u>-</u>	<u>18,357,506</u>	<u>(376,667)</u>	<u>17,980,839</u>
Issue of 4,271,357 new shares at \$7.312 each as part consideration for the acquisition of EM Solutions Pty Ltd	-	31,223,620	-	-	31,223,620	-	31,223,620
Issue of 10,144,224 new shares at \$6.66 each under the institutional placement	-	64,261,948	-	-	64,261,948	-	64,261,948
Issue of 2,558,753 new shares at \$6.66 under the Share Purchase Plan	-	17,041,295	-	-	17,041,295	-	17,041,295
Recognition of share based payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>501,369</u>	<u>501,369</u>	<u>-</u>	<u>501,369</u>
Balance at 31 December 2019	<u>(56,550,804)</u>	<u>274,311,590</u>	<u>(1,061,206)</u>	<u>10,373,224</u>	<u>227,072,804</u>	<u>(538,436)</u>	<u>226,534,368</u>

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

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**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED****Consolidated statement of cash flows  
for the Financial Year ended 31 December 2020**

	Note	31 December 2020 \$	31 December 2019 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		107,413,209	109,149,110
Payments to suppliers and employees		(205,132,408)	(141,283,329)
Income tax paid		(11,968,689)	(1,881,111)
Interest and bill discounts received		557,375	569,917
Interest and other costs of finance paid		<u>-</u>	<u>(384,217)</u>
<b>Net cash (outflows) from operating activities</b>		<u>(109,130,513)</u>	<u>(33,829,630)</u>
<b>Cash flows from investing activities</b>			
Payment for property, plant and equipment		(24,554,327)	(4,599,841)
Payment to acquire entity		-	(1,253,836)
Payment for intangible assets		(5,166,750)	-
Loan in associate		-	(2,780,265)
Security deposit for performance bond		<u>(7,258,061)</u>	<u>-</u>
<b>Net cash (outflows) from investing activities</b>		<u>(36,979,138)</u>	<u>(8,633,942)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of new shares		139,167,413	81,303,243
Repayment of lease liabilities		<u>(3,267,478)</u>	<u>(1,722,923)</u>
<b>Net cash inflows from financing activities</b>		<u>135,899,935</u>	<u>79,580,320</u>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		(10,209,716)	37,116,748
<b>Cash and cash equivalents at the beginning of the financial year</b>		77,881,766	40,538,225
<b>Effects of exchange rate fluctuations on the balances of cash held in foreign currencies</b>		<u>(1,738,551)</u>	<u>226,793</u>
<b>Cash and cash equivalents at the end of the financial year</b>		<u>65,933,499</u>	<u>77,881,766</u>

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

# ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

## Notes to the Financial Statements for the Financial Year ended 31 December 2020

### 1 (a) Basis of preparation

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

The accounting policies and methods of computation adopted in the preparation of the preliminary 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.

### 1 (b) New Accounting Standards

In the current year, the consolidated entity has applied a number of amendments to AASB Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a business
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of material
- Conceptual Framework for Financial Reporting and AASB 2019-1 Amendments to Australian Accounting Standards – Reference to Conceptual Framework
- AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia

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 during the year in assessing the nature of the 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

### New and revised Australian Accounting Standards and Interpretations on 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
IFRS 17 Insurance contracts	1 January 2023
IFRS 10 and IAS 28 (amendments) Sale or contribution of Assets between and Investor and its Associate or Joint Venture	No date set



# ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

## Notes to the Financial Statements for the Financial Year ended 31 December 2020

Standard/amendment	Effective for annual reporting periods beginning on or after
Amendments to IAS 1 – Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to IFRS 3 – Reference to Conceptual Framework	1 January 2022
Amendments to IAS 16 - Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 – Onerous contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018-2020 Cycle – Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS Leases, and IAS 41 Agriculture	1 January 2022

### 1 (c) 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. In the period since, and to the time of this report the pandemic had multiple impacts on EOS during the year including increasing supply chain costs, reducing supplier responsiveness, product delivery delays, delays in contract finalisation, variation and execution, access to customers and inefficiencies in staff utilisation. This has resulted in delays in revenue recognition and receipts of contractual cash flows.

Despite these difficulties, the consolidated entity was able to maintain production at almost full rate while retaining a clear focus on the health and safety of our employees and their communities. The consolidated entity continues to take all practical measures to prevent infection and reduce the operational impact of any new infection, whilst maintain positive operating momentum.

During the period, the consolidated entity recognised other income of \$5,773,350 related to Jobkeeper and \$905,030 related to other 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 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 31 December 2020 of \$137,897,050. 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 financial report are reasonable.

Given the dynamic and evolving nature of COVID-19 and limited 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

**Notes to the Financial Statements  
for the Financial Year ended 31 December 2020**

in the future that could require an adjustment to the carrying amounts of the reported assets and liabilities in future reporting periods.

**1 (d) 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 a loss before tax of \$29,898,145 and net cash outflows from operating activities during the year of \$109,130,513.

COVID-19 has had a negative impact on the timing and delivery of contractual cash flows in relation to contracts held in foreign jurisdictions and has resulted in customer acceptances and hence revenue recognition.

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:

- On site acceptance of product by customers in foreign jurisdictions, the agreement of contract variations and the realisation of the contract asset;
- key military and government customers making timely payments for the goods supplied in accordance with contractual terms;
- the continued ability of the consolidated entity to deliver contracts on time, to the required specifications and within budgeted costs; and
- the ability to raise funding should the need arise as a result of additional working capital requirements.

If the consolidated entity is unable to achieve successful outcomes in relation to the above matters, material uncertainty would exist that may cast significant doubt as to the ability of the consolidated entity to continue as a going concern and therefore, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

No adjustments have been made to the financial report relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

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# ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

## Notes to the Financial Statements for the Financial Year ended 31 December 2020

### 1 (e) Prior period error

During the year ended 31 December 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 financial statements (Adjustment 1).

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. In addition, in finalising the financial statements for the year ended 31 December 2020, management became aware that the current and non-current portions of the contract asset had not been correctly classified as at 31 December 2019 (Adjustment 2).

The following tables illustrate the effects of these restatements on the consolidated entity's consolidated 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	Year ended 31 December 2019		
	As previously reported	Adjustment 1	Restated
	\$	\$	\$
Foreign exchange (losses)/gains	610,019	(573,689)	36,330
Profit before income tax expense	21,970,274	(573,689)	21,396,585
Income tax expense	(3,911,516)	157,912	(3,753,604)
Profit for the period	18,058,758	(415,777)	17,642,981
Profit for the period attributable to:			
- Owners of the Company	18,435,425	(415,777)	18,019,648
- Non-controlling interests	(376,667)	-	(376,667)
Basic EPS (cents per share)	19.43	(0.45)	18.98
Diluted EPS (cents per share)	19.38	(0.44)	18.94

**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Notes to the Financial Statements  
for the Financial Year ended 31 December 2020**

**1 (e) Prior period error (cont)**

Consolidated Statement of financial position	Balance at 31 December 2019			
	As previously reported	Adjustment 1	Adjustment 2	Restated
	\$	\$	\$	\$
Other Assets – Current	14,737,600	(147,080)	-	14,590,520
Contract Asset – Current	44,772,583	(620,450)	(4,415,213)	39,736,920
<b>Total current assets</b>	<b>217,939,324</b>	<b>(767,530)</b>	<b>(4,415,213)</b>	<b>212,756,581</b>
Other Assets – Non-Current	7,800,037	(562,446)	-	7,237,591
Contract Asset – Non-Current	-	-	4,415,213	4,415,213
Deferred tax assets	2,838,900	157,912	-	2,996,812
<b>Total non-current assets</b>	<b>88,485,995</b>	<b>(404,534)</b>	<b>4,415,213</b>	<b>92,496,674</b>
<b>Net assets</b>	<b>227,706,432</b>	<b>(1,172,064)</b>	<b>-</b>	<b>226,534,368</b>
Accumulated losses	(55,378,740)	(1,172,064)	-	(56,550,804)

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

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**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Notes to the Financial Statements  
for the Financial Year ended 31 December 2020**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>2. (Loss)/ Profit From Ordinary Activities</b>		
(Loss)/ Profit from ordinary activities before income tax includes the following items of revenue and expense:		
<b>(a) Revenue</b>		
Revenue from operations consisted of the following items:		
Revenue from sale of goods	157,671,133	159,170,211
Revenue from rendering of services	<u>22,511,233</u>	<u>6,214,808</u>
	<u>180,182,366</u>	<u>165,385,019</u>

**Disaggregation of revenue**

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

**Timing of revenue recognition**

**Over time**

	Revenue	Revenue
	\$	\$
Defence segment – Sale of goods	120,292,034	135,025,200
Defence segment – Providing of services	15,061,354	-
Communications segment – Sale of goods	15,125,671	1,265,438
Communications segment – Providing services	1,094,170	113,984
Total Revenue recognised over time	<u>151,573,229</u>	<u>136,404,622</u>

The Group recognises revenue for the overseas remote weapon system contract over time as the goods manufactured under this contract do not have an alternative use for the entity, and EOS has an enforceable right to payment for performance completed to date under the contract. AASB 15 takes a controls-based approach to revenue recognition, where the transfer of a good or service happens as the customer obtains control of that good or a milestone is met.

**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Notes to the Financial Statements  
for the Financial Year ended 31 December 2020**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>Restated</b>
	<b>\$</b>	<b>\$</b>
<b>2. (Loss)/ Profit From Ordinary Activities (cont)</b>		
Under the group's current primary contract, the control of the goods transfers when the goods are delivered or a milestone is met. The output method, based on the delivery of goods to customer or the achievement of contract milestones faithfully depicts our performance under the contract and best depicts the pattern of transfer of goods to the customer. Revenue in relation to a contract earned on a milestone basis has been adjusted for variable elements. During the 2020 year, there was a cumulative catch-up adjustment to Revenue and contract assets arising from a change in the assessment of whether variable revenue was constrained.		
Revenue from other material contracts is recognised using the input method by reference to costs incurred.		
All other revenue is recognised at a point in time.		
<b>At a point in time</b>		
	Revenue	Revenue
Communications segment – Sale of goods	2,830,490	488,201
Communications segment – Providing services	480,640	23,805
Defence segment – Sale of goods	19,422,937	22,335,015
Defence segment – Providing services	1,570,973	1,114,122
Space segment – Providing services	4,304,097	5,019,254
Total Revenue recognised at a point in time	<u>28,609,137</u>	<u>28,980,397</u>
Total Revenue	<u>180,182,366</u>	<u>165,385,019</u>
<b>(b) Other revenue</b>		
Interest income	671,590	569,917
Jobkeeper	5,773,350	-
Grant income	3,314,081	-
Other income	326,093	30,627
	<u>10,085,114</u>	<u>600,544</u>
<b>(c) Expenses</b>		
Amortisation of intangible assets	(2,346,628)	(354,299)
Foreign exchange (losses)/ gains	(15,682,452)	36,330
Interest expense on right-of-use assets	(1,007,573)	(384,217)
Interest expense	(400,099)	-
Depreciation of property, plant and equipment	(3,045,714)	(1,694,948)
Depreciation of right of use assets	(4,191,163)	(2,084,154)

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**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Notes to the Financial Statements  
for the Financial Year ended 31 December 2020**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>Restated</b>
	<b>\$</b>	<b>\$</b>
<b>3. Reserves</b>		
Foreign currency translation reserve	(3,177,239)	(1,061,206)
Employee equity settled benefits reserve	11,580,036	10,373,224
	<u>8,402,797</u>	<u>9,312,018</u>
Balance at end of financial period		
	<u>8,402,797</u>	<u>9,312,018</u>
<b>4. Accumulated Losses</b>		
Balance at beginning of financial period	(56,550,804)	(74,570,452)
Net (Loss)/ Profit for the year	(24,765,221)	18,019,648
	<u>(81,316,025)</u>	<u>(56,550,804)</u>
Balance at end of financial period		
	<u>(81,316,025)</u>	<u>(56,550,804)</u>

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**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Notes to the Financial Statements  
for the Financial Year ended 31 December 2020**

5. Earnings Per Share

	<b>2020</b>	<b>2019</b>
	<b>¢ per share</b>	<b>Restated ¢ per share</b>
Basic EPS	(19.80 cents)	18.98 cents
Diluted EPS	(19.80 cents)	18.94 cents

*Basic Earnings per Share*

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

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>Restated \$</b>
(Loss)/Profit (a)	(25,570,435)	17,642,981

	<b>2020</b>	<b>2019</b>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	129,164,714	92,942,896
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	129,164,714	93,162,896

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

(b) The 1,075,000 unlisted options outstanding are in the money at 31 December 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 year.

(c) In the prior year there are potential ordinary shares and hence diluted earnings per share was different to basic earnings per share as the 220,000 unlisted options exercisable at \$2.99 were in the money at 31 December 2019 and were considered dilutive.



**Notes to the Financial Statements  
for the Financial Year ended 31 December 2020**

5. Earnings Per Share (cont)

(d) The 5,180,000 ordinary shares issued on 20 June 2018 at a price of \$2.99 each under the Loan Funded Share Plan are not included in the weighted average number of ordinary shares as they are treated as in substance options for accounting purposes. The Loan Funded Share Plan shares are not considered dilutive as the consolidated entity made a loss for the year.

(e) The 2,270,000 ordinary shares issued on 19 May 2020 at a price of \$4.75 each, the 2,500,000 ordinary shares issued on 29 May 2020 at \$4.92 each, the 860,000 ordinary shares issued on 10 August 2020 at \$5.62 each and the 150,000 ordinary shares issued on 14 October 2020 at \$5.47 each 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 for the year.

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**Notes to the Financial Statements  
for the Financial Year ended 31 December 2020**

**6. Contingent Liabilities and Commitments**

- (a) Entities within the consolidated entity are involved in contractual disputes which are in the normal course of contracting operations. The directors believe that the entities within the consolidated entity can settle any contractual disputes with customers and should any customers commence legal proceedings against the company, the directors believe that any actions can be successfully defended. As at the date of this report no legal proceedings have been commenced against any entity within the group.
- (b) Under the terms of a contract in the Defence sector, the Company has an obligation to enter into and execute an offset agreement with the relevant overseas Government Authority. Once the agreement is executed, the Company will be required to lodge an offset bond of US\$16,133,925 with the overseas Government Authority to ensure that local content requirements are met. The offset agreement and bond were finalised on 12 February 2021.
- (c) A subsidiary company, EOS Defence Systems Pty Limited has provided a performance bond of US\$31,635,147 in relation to an overseas defence sector contract. This performance bond is secured by a security deposit of A\$12,313,468 and a fixed and floating charge over the assets of the Group.
- (d) Electro Optic Systems Holdings Limited entered into a deed of cross guarantee on 6 April 2018 with two of its wholly-owned subsidiaries, Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited, pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 and relieved from the requirement to prepare and lodge an audited financial report. On 28 November 2019, EM Solutions Pty Ltd entered into an Assumption Deed and became a party to the Deed of Cross Guarantee.
- (e) Electro Optic Systems Pty Limited, a wholly owned subsidiary of Electro Optic Systems Holdings Limited, has entered into an Unsecured Convertible Note Deed with the vendors of AEI Air (Holdings) Limited and others to advance funds up to GBP2,000,000 as a series of convertible notes which will entitle Electro Optic Systems Pty Limited to convert these convertible notes, when advanced in full, to acquire 49% of the equity in AEI Air (Holdings) Limited. Electro Optic Systems Pty Limited has also entered into a Put and Call Option Deed with the vendors of AEI Air (Holdings) Limited to acquire a further 49% from the vendors of AEI Air (Holdings) Limited based on a profitability formula over the four year period from 1 January 2019 to 31 December 2022 and meeting various milestones. The Put and Call Option Deed also includes provisions for Electro Optic Systems Pty Limited to make vendor loans of up to GBP1,714,500 to the vendors of AEI Air (Holdings) Limited which are fully repayable should the Put and Call Option not be exercised. Where the Put and Call Option is exercised the loans are able to offset the exercise price on settlement. At the date of this report GBP1,500,000 has been advanced under the Unsecured Convertible Note Deed and no amounts have been advanced to the vendors under the Put and Call Option Deed at their request. Electro Optic Systems Pty Limited hold no direct equity in AEI Air (Holdings) Limited at the date of this report.

**ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED**

**Notes to the Financial Statements  
for the Financial Year ended 31 December 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 performance.

	Revenue		Segment profit	
	2020	2019	2020	2019
	\$	\$	\$	Restated \$
Communications	19,565,922	1,891,778	(2,518,270)	(202,821)
Space	6,356,896	5,020,183	1,000,140	414,318
Defence	156,627,084	158,503,685	(24,821,425)	21,602,786
Total of all segments	182,549,902	165,415,646	(26,339,555)	21,814,283
Eliminations	-	-		-
Unallocated	7,717,578	569,917	(3,558,590)	(417,698)
Consolidated (Loss)/ Profit before tax	-	-	(29,898,145)	21,396,585
Income tax benefit/ (expense)	-	-	4,327,710	(3,753,604)
Consolidated segment revenue and profit for the year	190,267,480	165,985,563	(25,570,435)	17,642,981

The revenue reported above represents revenue from external customers. There were no intersegment sales during the period. There were no discontinued operations during the period. The consolidated entity had two customers who each provided in excess of 10% of consolidated revenue. The customers are within the Defence segment and provided combined revenue of \$129,262,391.

# ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

## Notes to the Financial Statements for the Financial Year ended 31 December 2020

### 7. Segment Information (cont'd)

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

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>Restated</b>
		<b>\$</b>
Communications	32,403,052	17,822,705
Space	4,797,469	2,126,387
Defence	316,243,705	198,400,574
Total segment assets	353,444,226	218,349,666
Unallocated cash and security deposit	82,604,912	86,903,589
Total assets	436,049,138	305,253,255

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

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

#### **Product and Services within each Business Segment**

##### **EOS Space Systems**

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

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

##### **EOS Defence systems**

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

**Notes to the Financial Statements  
for the Financial Year ended 31 December 2020**

7. Segment Information (cont'd)

**EOS Communication Systems**

EOS Space Systems has a range of ground products available to support the burgeoning Australian and international space markets. This includes significant investments into passive optical and laser sensing equipment at both its Mt Stromlo and Learmonth sites, which ideally positions the company to be a major contributor to the next generation of space tracking. Developments in EOS laser technology has opened aligned markets in space optical communications and various high power laser applications. Several large government programs are currently undergoing procurements in this area which have the opportunity to transform the business.

EOS also provides manufacturing and supply of various telescopes and dome enclosures for customers around the world. EOS Space Systems astrometric products are the equipment of choice for providing reliable and high quality optical systems under demanding environmental conditions.

8. Subsequent Events

Under the terms of a contract in the Defence sector, the Company has signed an offset agreement with the relevant overseas Government Authority on 12 February 2021 for an amount of US\$16,133,925. The Company has lodged a security deposit as part security for this guarantee. This offset bond is secured by a security deposit of US\$3,226,785 and a fixed and floating charge over the assets of the Group.

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.

**Notes to the Financial Statements  
for the Financial Year ended 31 December 2020**

**9. Issuance of Securities**

**2020**

On 20 April 2020, the Company issued 28,269,553 new ordinary shares at \$4.75 each raising \$127,775,501, net of issuance costs.

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

On 19 May 2020 the Company issued 2,270,000 ordinary shares at \$4.75 each under the Loan Funded Share Plan. On 29 May 2020 the Company issued 2,500,000 ordinary shares at \$4.92 each under the Loan Funded Share Plan. On 10 August 2020 the Company issued 860,000 ordinary shares at \$5.62 each under the Loan Funded Share Plan. On 14 October 2020 the Company issued 150,000 ordinary shares at \$5.47 each under the Loan Funded Share Plan

On 19 May 2020 the Company issued 635,000 unlisted options to employees at an exercise price of \$4.75 each exercisable on or before 18 May 2025. On 16 November 2020 the Company issued 220,000 unlisted options to employees at an exercise price of \$5.82 each exercisable on or before 16 November 2025.

No options were exercised during the year.

**2019**

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

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

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

No options were exercised during the year.

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**Notes to the Financial Statements  
for the Financial Year ended 31 December 2020**

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

Name of Entity: EOS Space Spectrum LLC  
Date of gain of control: 28 May 2020  
Contribution to net loss for the period: \$Nil

Name of Entity: SpaceLink Corporation  
Date of gain of control: 15 September 2020  
Contribution to net loss for the period: \$3,561,390

Name of Entity: EOS Communication Systems Pty Limited  
Date of gain of control/ incorporation: 4 September 2020  
Contribution to net loss for the period: \$59,518

11. Details of Associates

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

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**Notes to the Financial Statements  
for the Financial Year ended 31 December 2020**

12. Other Significant Information

None

13. Information on Audit or Review

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

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

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

The audit is currently in progress and based on the auditor's assessment of the information available at the date of this report it is likely that the audit report will contain a material uncertainty related to going concern paragraph. The audit team will continue to assess going concern and consider relevant events, additional information or changes in circumstances up until the date of the audit report.

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

Not applicable

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**Review of Operations**

**1. RESULTS FOR FULL YEAR ENDED 31 DECEMBER 2020**

The consolidated entity ("EOS") reported an operating loss after tax of \$25,570,435 for the twelve month period to 31 December 2020 [31 December 2019: \$17,642,981 profit restated] after allowing for income tax benefit of \$4,327,710 [31 December 2019: \$3,753,604 expense restated]. Revenues from ordinary activities were \$180,182,366 [31 December 2019: \$165,385,019].

The consolidated entity reported net cash used by operations for the twelve-month period totalling \$109,130,513 [31 December 2019: \$33,829,630]. At 31 December 2020, the consolidated entity held cash totalling \$65,933,499 [31 December 2019: \$77,881,766].

The net loss before income tax of \$29,898,145 represents a Loss Before Interest and Tax of \$28,490,473 after adjusting for interest of \$1,407,672 (refer note 2(c)). Foreign exchange losses contributed \$15,682,452 to this result. As further explained below, the loss is largely attributed to delays in product delivery and foreign exchange movements.

The individual sector performances are discussed below.

**2. COVID-19 IMPACTS IN 2020**

The COVID-19 global pandemic had multiple disruptive impacts on EOS during the year 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. Despite these difficulties, EOS was able to maintain production at almost full rate while retaining a clear focus on the health and safety of our employees and their communities. EOS continues to take all practical measures to prevent infection and reduce the operational impact of any new infection, while maintaining positive operating momentum.

The company's operations in Q1 2020 followed management's expectations in terms of production output, factory yield, cash flow and profitability. However, the COVID-19 pandemic caused significant changes to the Company's plans for the rest of 2020 and for 2021. As a result, on 15 April 2020 EOS raised \$134m in new capital through a fully underwritten institutional placement with \$55m allocated to allow an expansion of inventory to around \$120m until delivery processes could be restored.

In Q4 2020 EOS achieved a key step in restoring cash flow from its export programs. A team of senior engineers from Australia travelled overseas to re-initiate delivery and testing for over \$120m worth of completed EOS products. As required under the contract, EOS reconfirmed the R400 Dual Remote Weapon Systems ("RWS") performance during both the day and night, at ranges out to and beyond 2km, from both stationary and moving vehicles. This again confirmed our market-leading performance in range and precision for any stabilised weapon platform utilising a 30x113mm cannon under formal testing standards.

The resumption of the Company's delivery processes with deliveries occurring at an accelerating rate throughout Q4 2020 had implied a 2020 EBIT in the range \$20-30m. However, further COVID-19 delays were experienced from December relating to international air freight bottlenecks, customer testing resources, equipment upgrades and a fall in import documentation capacity with some customers. In addition, the appreciation of the Australian dollar from 72 cents to 77 cents created a further impact both on underlying and Statutory EBIT. This required the Company to withdraw its full year profit guidance.

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**Review of Operations**

**3. EOS DEFENCE SYSTEMS**

The full year sector revenue of \$157m represents a reduction of 1% over the corresponding prior period, due to the impact of the COVID-19 virus deferring revenue into 2021.

The loss before income tax of \$24.82m compares to an EBIT of \$21.61m 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 and adverse foreign exchange movements.

The sales pipeline for EOS Defence Systems is strong at \$3.4bn on a risk-weighted basis (unrisked \$13.0bn), with major awards due in 2021 and 2022.

**International Logistics and Cash Flow**

The delivery disruptions caused by COVID-19 are now largely resolved. In particular, delivery issues with a key export customer are expected to be resolved and over \$120m of goods and services have been delivered to the final stage of customer acceptance. By 31 December 2020 the customer had issued formal certificates of acceptance for 25% of those items.

These developments align with management expectations, previously announced, that around \$120m of inventory are expected to convert to cash in Q2 2021.

**Commonwealth RWS Contract**

In September 2020 EOS contracted with the Commonwealth of Australia for the delivery of 251 Remote Weapon Systems and related materiel. EOS made initial deliveries in 2020 with the bulk of the order to be delivered in 2021.

A key focus of this accelerated acquisition was the preservation of the Australian supply chain for advanced defence manufacture. The Company has achieved this objective.

**Counter-UAS developments**

EOS has invested significant resources to develop a complete range of capabilities for the defeat of drones. Over the past three years a substantial test and demonstration 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. These demonstrations include new technology, available only from EOS, for directed energy (laser) systems to defeat drone attacks.

In Q2 2020 EOS was selected as the preferred provider of CUAS capability for a large program for critical infrastructure protection. After significant COVID-19 delays, competitor protests against this award will be resolved in Q3 2021 by means of product capability demonstrations. EOS is very experienced in this process and, based on exemplary product performance in all recent trials, is confident of securing the full award by Q4 2021.

Other awards for CUAS capability, especially including directed energy defences, are emerging.

Consequently, EOS has moved its directed energy [DE] drone kill system to production, in anticipation of customer demand for this unique capability. This product places EOS even further to the forefront of the CUAS market globally.

**Prime Contractor for C4 EDGE Program**

In December 2020 EOS was awarded a \$34.4m contract by the Commonwealth of Australia for the C4 EDGE program, with EOS Defence Systems as the Prime Contractor for an all-Australian industry consortium to demonstrate a sovereign Battlegroup and Below Battlefield Command System. This commitment by the Government and the Australian Army will support the

**Review of Operations**

development of innovative local businesses capable of providing critical, world-leading communications solutions.

A successful C4 EDGE capability will help address the Army's significant future requirements for sovereign communications systems. The Government's 2020 Defence Strategic Update lays out an investment pipeline for battlefield communications and command systems of between \$5.0bn and \$7.5bn over the next 20 years.

**4. EOS SPACE SYSTEMS**

The Space Systems team has developed laser technology that enables optical ground-to-space communications with unprecedented efficiency. This technology allows major increases in satellite communications bandwidth, and this capability will be fielded in the near term in EOS' own communications program through SpaceLink.

The sector continues to make strong investments in R&D. Space Systems continues to support other significant internal and collaborative research programs including core technologies in support of the development of high power laser systems for Counter-UAS systems through EOS Defence Systems.

The full year segment profit of \$1m is consistent with management expectations. During this period EOS operated a network of its space sensors to provide space tracking data on an internationally-significant scale. This activity was performed on time and within the allocated budget.

The sales pipeline for EOS Space Systems is \$45m on a risk-weighted basis (\$745m on an unrisks basis) with major awards falling due in 2021 and 2022.

**5. EOS COMMUNICATIONS SYSTEMS**

EOS Communications Systems reported a loss of \$2.5m, made up of a profit from EM Solutions offset by start-up costs associated with EOS SpaceLink and corporate overheads.

**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 several NATO naval forces. EMS's on-the-move radio and satellite products deliver high speed telecommunications anywhere in the world to its customers. The EMS terminals are uniquely inter-operable with many satellite constellations and are world-leaders in their field. EOS acquired the business in October 2019 as a key component of the EOS Communications Systems division.

EM Solutions is performing strongly. Revenue for 2020 was \$19.5m with profit margins in line with acquisition business plans. EOS now plans to establish capabilities in space communication terminals in Huntsville Alabama, based on the successful products developed by EM Solutions in Brisbane.

The sales pipeline for EM Solutions is strong at \$173m on a risk-weighted basis (un-risked \$502m), with awards due in 2021 and 2022.

**EOS SpaceLink**

EOS is executing its plan to enter the space communications market, and is now in the process of financing the EOS SpaceLink business. The acquisition of the communications business of EM Solutions [2019] and then the purchase of assets of Audacy and Collinear Corporations [2020] were important foundational steps towards building a constellation of mid-earth orbit ("MEO") satellites to establish a wideband satellite communications capability.

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## **Review of Operations**

During the first half, the Company acquired all of the business and assets of Audacy Corporation. The acquisition included US government spectrum licenses granted by the US Federal Communications Commission (“FCC”) authorizing the use of specific microwave spectrum bands for communications to, from and among specific satellites and ground-based communication terminals. Implementation of the license requires the launch of a constellation of new MEO satellites by June 2024 to comply with the license requirements.

Also during the year, EOS completed the acquisition of the communication assets, including all the IP and other technology, of Collinear Inc., a US corporation specialising in hybrid radio frequency (RF) and optical communications. The capabilities and assets of Collinear are being integrated with those of Audacy and EOS to form the full-service space communications company, EOS SpaceLink.

EOS has now established the US management team for SpaceLink, with David Bettinger as SpaceLink CEO (previously OneWeb, iDirect, Hughes). Other key personnel include CTO Rob Singh (Maxar), COO Larry Rubin (Loral), CSCO Tony Colucci (Loral, Boeing, Hughes), SVP Systems Engineering David Nemeth (OneWeb, iDirect), and Dr Larry Alder SVP Products & Services (OneWeb, O3B, Google).

Funding for the first SpaceLink constellation is expected to be available without recourse to EOS. The financing plan is well advanced with advisers already appointed to assist with bringing external funding into a US SPV structure. EOS expects to retain a majority share in SpaceLink and to announce a funding arrangement in Q2 2021.

### **6. OUTLOOK AND FORECAST**

#### **Global Tail Winds**

Increasing geopolitical tensions and the accelerated application of new defence technologies by both allies and competitors is driving a positive tailwind for all three EOS business sectors. EOS customers are increasing their planned outlays for advanced defence technology with imminent impact. Some examples:

- The announcements of the formation of the US Space Corps and France’s Space Force are indicative of the renewed emphasis on space as a critical domain for both commerce and national security.
- Multi-drone attacks globally on high value infrastructure have triggered urgent demand for directed energy defences. Based on international tender activity during 2020, EOS appears currently to have the only functioning product in the global marketplace.
- The Commonwealth of Australia released a “Defence Strategic Update” in July 2020. This lifted Australia’s capital spending program for defence equipment to \$270bn over 10 years. The revised program now includes over AU\$12bn of proposed spending for products or services already produced in Australia by EOS. EOS intends to compete strongly for that AU\$12bn spending. The Commonwealth of Australia has recently implemented new procurement rules emphasising the importance of Australian Industry Content and national economic benefit as selection criteria for contract awards.
- EOS is the largest indigenous defence-aerospace company in Australia and intends to step forward as a prime contractor to lead teams of local and international companies to bid for major Commonwealth requirements. This new approach will allow EOS to address a much larger domestic market than the AU\$12bn directly related to EOS’ own products and services.

## **Review of Operations**

### **Defence**

The 2020 result was disappointing relative to prior management expectations, but unavoidable due to the COVID-19 pandemic. EOS expects a considerably stronger 2021 result based on the resumption of deliveries, the completion of the Commonwealth 251 RWS contract and imminent contract awards.

The order backlog currently stands at \$403m and EOS expects this to convert to revenue by 2023. No customer has reduced or cancelled any contract, despite delivery disruptions.

EOS still plans to upgrade production capacity globally from AU\$450m to AU\$900m per annum by 2024 to meet demand, but those plans now use a modified supply chain with increased resilience.

The sales pipeline is strong at \$3.4bn on a risked basis. At normal conversion rates this should materially increase the order backlog as we progress through 2021.

EOS allowed product inventory to grow past \$120m in 2020 as COVID-19 delayed export deliveries and EOS production lines were maintained at COVID-safe but profitable capacity. This process of investment in inventory is now reversing. By 31 December 2020 EOS had obtained written customer acceptance for 25% of this inventory. EOS expects to recover \$120m of cash from inventory by Q2 2021, in line with prior expectations.

### **Space Systems**

EOS Space Sector is currently participating in \$775m of potential procurements globally. Several lead-in contracts are in performance already pending customer budget release processes over the next 12 months.

### **Communications Systems**

The SpaceLink constellation technical specifications and design have been optimised for customer requirements and recent technological advances. The intended customer base is increasingly aware that SpaceLink is critical infrastructure for their future operations. This maturing of both the design and market focus underpins the imminent SpaceLink capital raising.

As previously announced, SpaceLink will be funded through an EOS special purpose vehicle in the USA, and not through the EOS ASX listing. This funding is progressing to plan with an announcement anticipated in Q2 2021. The Company expects this activity to crystallise significant value for EOS shareholders.

### **Key Points**

1. Loss in 2020 was largely due to deferral of revenue which should surface in 2021
2. Global tail winds will inflate pipeline across sectors from 2022
3. Directed energy technology is securing a strong position in the huge counter-drone market
4. Defence contract asset of AU\$124m is expected to convert back to cash in line with expectations
5. SpaceLink maturity now allows a capital raising in the US without recourse to the ASX listed entity.

### **2021 Guidance**

The impacts of COVID-19 on customers, suppliers and EOS itself injected volatility into the timing of EOS signing, performing and delivering contracts. We expect 2021 to be more predictable than 2020, but the impact of COVID-19 is likely to continue causing disruption to global trade.

**Review of Operations**

EOS will continue to take all appropriate measures to protect our staff, and this may cause EOS to defer or decline some contracts or contract activity.

Notwithstanding an expectation that COVID-19 issues will continue into 2022, management expects strong revenue growth and a return to normal levels of profitability in 2021. EOS expects to issue specific guidance at the AGM on 28 May 2021.

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

Further information:

Ben Greene  
Group CEO

26 February 2021

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