Electro Optic Systems Holdings Limited

ACN 092 708 364

Consolidated financial statements for the half-year ended 30 June 2024

This half-year report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.2A.3.

Current Reporting Period:	Half-year ended 30 June 2024
Previous Corresponding Period:	Half-year ended 30 June 2023

Results for Announcement to the Market

Revenue and Net Profit

		Percentage Change %		Amount ($'000's)
Revenue from ordinary activities	**Up**	**92.0%**	**To**	**142,635**
(Loss) after tax attributable to members		**N/A**		**(3,002)**
Net (Loss) attributable to members		**N/A**		**(3,002)**

Dividends (Distributions)

	Amount per security	Franked amount per security
	Cents per security	Cents 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 (NTA) at 30 June 2024 *	$183,340,427
Number of ordinary shares outstanding at 30 June 2024	192,952,099
NTA per ordinary share at 30 June 2024	95.0 cents per share
NTA per ordinary share at 30 June 2023	101.9 cents per share

** including Right of Use assets and lease liabilities recognised in accordance with AASB 16 Leases.*

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

Refer to Review of Operations on pages 3 to 11.

No dividends have been declared or paid.

Review of Operations

1. RESULTS FOR HALF-YEAR ENDED 30 JUNE 2024

Financial Results

The consolidated entity, consisting of Electro Optic Systems Holdings Limited ("Company") and the entities that it controls, ("Group" or "EOS") recorded Revenue of $142.6m, representing a $68.3m or 92.0% increase on the prior corresponding period (30 June 2023: $74.3m).

The Loss After Tax, was $3.5m, compared to a loss of $32.4m in the prior corresponding period.

Underlying EBITDA was $11.5m for the half-year, compared to an Underlying EBITDA loss of $14.8m in the prior corresponding period. Finance costs reduced by $3.5m, to $12.5m from $16.0m in the prior corresponding period, due to the reduction of the debt principal amount.

The Net cash outflow from operating activities totalled $30.6m for the half-year, a decrease of $61.3m on the prior corresponding period (30 June 2023: $30.7m inflow). The key changes in cash flows during the half-year included additional payments to suppliers for long lead times items, an increase in the Middle East contract asset which is expected to be realised in 2H 2024 and an increase in the interest paid in cash.

In addition, a scheduled $20.5m debt repayment occurred in April 2024.

A fully underwritten Placement and a Share Purchase Plan, which raised net proceeds of $35.4m was successfully completed during the half-year. Excluding the net proceeds from equity raising, cash balances decreased by $54.2m from 31 December 2023.

At 30 June 2024, the Group held cash totalling $52.2m (compared to $71.0m at 31 December 2023).

Key elements of financial performance of the Group are summarised below.

Revenue

The Group recorded Revenue of $142.6m for the half-year, representing an increase of $68.3m or 92.0 % from the $74.3m in the corresponding period, with an increase in gross margin on materials to 44% in the half-year from 35% in the prior corresponding period.

This increase in revenue was predominantly driven by the Defence segment which generated $101.4m in the half-year vs $50.7m in the corresponding period, a 100% increase. Revenue in the Space segment also increased to $41.3m in the half-year compared to $23.6m in the prior corresponding period, a 75% increase.

The underlying driver of these revenue increases was higher activity levels, including continued delivery of a key Defence contract to a customer in the Middle East and activity on the EM Solutions contracts.

At 30 June 2024, the Group had a backlog order book of contracted work of over $386m. This represents work secured under customer contracts, mainly in Defence Systems and EM Solutions. This work is expected to be largely undertaken through the remainder of 2024 and throughout 2025 and 2026.

In addition to the secured contract backlog of over $386m, the group has $181m of conditional contracts with customers in Ukraine. These conditional contracts were signed in April 2023 and are subject to various conditions being met, including the completion of demonstration testing. More details are included in the section on Defence Systems, below.

Review of Operations

Expenses

Expenses increased to $152.5m in the half-year from $112.5m in the prior corresponding period. This increase was primarily driven by increased materials costs of $32.2m to support the higher revenue achieved. Employee benefits expenses, and Administrative and other expenses have increased by $4.2m and $6.4m respectively from the prior corresponding period due to the increased levels of business activity in the current period. The decrease in finance costs of $3.5m is due to repayment of borrowings in September 2023 and April 2024.

Underlying EBITDA

Underlying EBITDA (prior to foreign exchange gains) was a profit of $11.5m, compared to an Underlying EBITDA loss of $14.8m in the prior corresponding period.

EBITDA	Period ended 30 June 2024 $m	Period ended 30 June 2023 $m
(Loss) for the period	**(3.5)**	**(32.4)**
Income tax (benefit)	(0.0)	(3.0)
(Loss) before tax	**(3.5)**	**(35.4)**
Finance costs	12.5	16.0
Foreign exchange (gains)	(5.1)	(2.4)
Underlying EBIT gain/(loss) (before foreign exchange gains)	**3.9**	**(21.8)**
Depreciation and amortisation	7.6	7.0
Underlying EBITDA gain/(loss) (before foreign exchange gains)	**11.5**	**(14.8)**

Foreign Exchange

The results include a foreign exchange gain in the half-year of $5.1m compared to a gain of $2.4m in the prior corresponding period, which predominantly arose on the translation of US Dollar assets into Australian Dollars.

Contract Asset

The Group recognises a contract asset, being revenue recognised on projects that has not been invoiced to customers. The timing of the recognition of revenue is in accordance with the Australian Accounting Standards. Amounts are invoiced to customers in accordance with legal arrangements specified in customer contracts.

At 30 June 2024, the Group had a contract asset totalling $89.7m (31 December 2023 $68.0m), being revenue earned but not invoiced, mainly on a project with a significant customer in the Middle East. This increase of $21.7m was due to revenue recognised during the half-year exceeding invoices issued to customers.

The invoicing of the amounts in the contract asset and the realisation of cash has been a critical focus for the Group. The Group expects this increased level of contract asset to be temporary and to convert into cash proceeds over the course of the remainder of 2024 and 2025.

Review of Operations

As at 30 June 2024, the trade receivables balance increased by $24.8m from 31 December 2023. The increase was due to invoicing prior to 30 June 2024 that is expected to be collected during second half of 2024.

Contract Liabilities

The Group recognises contract liabilities for amounts that have been received from customers as advance payments on projects. During the half-year, contract liabilities have increased by $17.4m to $38.0m at 30 June 2024 (31 December 2023: $20.6m).

The net contract asset was $51.7m at 30 June 2024, an increase of $4.3m since 31 December 2023.

Cash Balance

The cash balance held by the Group at 30 June 2024 was $52.2m a decrease from $71.0m at 31 December 2023.

Cash Generated in Operating Activities

During the half-year, the Group had net cash outflow from operating activities of $30.6m, compared to net inflow of $30.7m in prior corresponding period, representing a net decrease in cash flow of $61.3m, driven by investment in long lead time inventory items.

Net cash outflows from operating activities was caused predominantly by increased Payments to Suppliers and employees of $137.0m, an increase of $47.9m from the prior period as a result of higher production during the current period to complete key milestones across projects.

The cash receipts from customers are impacted by the timing of contract asset realisation. Revenue and contract assets have increased compared to the prior corresponding period, and the Group is expected to convert these contract assets into cash over the course of the remainder of 2024 and 2025.

Interest and other costs of finance paid increased by $11.6m from the prior period due to the $4.5m amendment fee paid to the lender to resolve the commercial dispute with the lender (as announced on 22 December 2023), and the fact that interest on finance facilities was paid in cash in the current period rather than being capitalised in the prior period.

Cash Flow Used in Investing Activities

The Group had net cash inflow of $0.7m from investing activities during the half-year, a $6.8m improvement from the net cash outflow in the comparative period of $6.1m.

The investing activities include a $8.3m cash inflow from the release of a cash security deposit on performance bonds from a funding provider. This was offset by $6.2m increased cash security required on performance bonds and $1.4m of payments for the acquisition of property, plant and equipment.

Cash Flow Used in Financing Activities

Net cash inflows of $12.4m from financial activities were achieved during the half-year, compared to a net outflow of $3.9m in the prior period. The cash movement included the repayment of the second working capital facility, and the funds received from equity raise.

During the half-year, the Group undertook an equity raise through a fully underwritten Placement and a Share Purchase Plan, as announced on 22 March 2024 to accelerate business growth. The Group successfully raised $33.6m (net of fees) via a fully underwritten placement of approximately 20.6m new fully paid ordinary shares on 25 March 2024. The Group has raised an additional net $1.7m via a share purchase plan on 22 April 2024.

Proceeds from the equity raise have been and will continue to be applied to support future sales growth in key global markets, through investment in long lead time critical supplies, specifically Remote Weapon

System ("RWS") cannons, other long lead time equipment components and security deposits for bank guarantees.

The Group repaid $20.5m to retire its second Working Capital Facility which matured on 11 April 2024.

As at 30 June 2024, the Group had a fully drawn Term Loan Facility with principal of $35.0m, which matures on 11 October 2025. The total debt repayment obligation of $52.1m due on this date includes principal, establishment fees and interest accrued, not paid in cash, to that date. The borrowing facility agreements include a 100% 'make whole' clause which applies in the case of any early repayment.

2. DETAILED SEGMENT UPDATE

DEFENCE SYSTEMS

Defence Systems had a positive H1 2024, with revenue increasing 100% to $101.4m in the half-year from $50.7m in the prior corresponding period. This $50.7m increase included the impact of the continued focus on the contract for a large customer in the Middle East and supply to a Western European government customer.

The main activity during the half-year was the manufacture and delivery of RWS.

Market Overview and Sales Activity – Defence Systems

During the half-year, EOS has continued contract negotiations in relation to the supply of RWS to Hanwha for the Land 400 Phase 3 Project in Australia. EOS expects these contract negotiations to continue through H2 2024. The project will see Hanwha delivering 129 vehicles to the ADF in 2027 and 2028.

Subject to the outcome of these negotiations, it is anticipated that the Land 400 Phase 3 project now has the potential to give rise to revenues for the Group from 2026 onwards. There is no certainty that any particular outcome or transaction will result from these discussions.

The Defence Systems business continued to deliver products to key customers including in the Middle East and Australia. In addition, the Defence Systems business incurred costs and cash outflows in product manufacturing costs, operating costs and staff costs.

EOS is experiencing increased counter-drone demand. The Group commenced systems delivery under the contract announced in January 2024 to supply Euro9m (approx. A$15m) of Slinger counter-drone systems to Diehl Defence in Germany. Production of remaining systems is currently underway, and deliveries are expected to be completed in 2024. In addition, a contract valued at $5m to supply RWS to a customer in Australia was signed during the half-year.

In 2023, two conditional contracts with Ukraine were announced. These contracts are conditional on demonstration testing and other customary terms for military contracts. Following demonstrations during 2023, EOS products were approved during 2023 by the Ukrainian authorities for purchase as required.

EOS is now working with the Ukrainian end-users and customers to allow committed orders to be placed under the conditional contracts. Further demonstration testing is planned to occur in Ukraine during 2024.

During the half-year EOS continued to deliver under a contract (announced on 27 December 2023) to supply additional RWS units to a Western European Government. These systems are in addition to an earlier contract announced on 13 June 2023 (for approximately A$51m), which was delivered mainly in Q3 2023. The remaining milestone is expected to be delivered in second half of 2024.

Review of Operations

The Group continues to be in active discussions and contract negotiations for the provision of RWS and related components with other potential customers. These opportunities have the potential to materially improve revenue and cash flow in future years. There is no certainty that any particular outcome or transaction will result from these discussions and negotiations.

Product Development – Defence Systems

Defence Systems continued to develop its intellectual property and further commercialise its product range during the half-year. Typically, new product launches in the defence industry can take one to three years to achieve sales and develop commercial maturity:

- EOS continued discussions with potential customers for the R150 RWS (launched during 2023) and the R800 RWS (launched during 2023). In addition, EOS was in discussions with customers about the development and supply of RWS for the marine market (i.e. naval applications).
- Following the 2023 launch of the flagship Slinger counter-drone system, work continued to meet strong demand for counter-drone solutions. In addition to ongoing efforts to demonstrate the Slinger counter-drone system capabilities to customers, in July 2024, the Group also successfully demonstrated its Laser Dazzler at the CUAS Sandbox event in Canada. The Laser Dazzler can be integrated into EOS' existing RWS, giving operators the flexibility to use either kinetic or non-kinetic electronic warfare measures against aerial threats.
- EOS and the Australian Defence Force (ADF) Robotic and Autonomous Systems Implementation & Coordination Office (RICO) demonstrated the advanced long-range firing capabilities and precision of EOS' R400 RWS, remotely controlling an RWS from approximately 550km away to destroy ground targets.
- Capabilities of an R600 RWS were demonstrated on a US Army Small Multipurpose Equipment Transport (S-MET) robotic infantry support vehicle. Using this platform, EOS successfully shot down pairs of Class 1 drones at ranges of more than 300m and engaged multiple ground targets with 30mm cannon from this robotic platform.
- EOS received a request from a large potential customer in the United States to develop an autonomous capability for the Slinger counter-drone system, and EOS intends to work on this in 2024 and 2025.
- EM Solutions worked on a concept development for a new mid-size naval satellite communication terminal as well as various upgrades to its existing core Cobra and King Cobra products.

Prototype High Energy Laser Weapons

Commercial discussions continued with a number of potential customers for its High Energy Laser Weapon system. In particular, discussions with two potential international customers are at a more advanced stage. These discussions are ongoing and could result in new customer agreements being signed during 2024 or later.

New Singapore entity

On 15 April 2024, the Group established a new 100% owned company, 'EOS Innovation Singapore Pte Ltd', to carry out new product development work on our High Energy Laser Weapon system as a Laser Innovation Centre in Singapore.

Review of Operations

SPACE SYSTEMS

Revenue in the Space Systems segment increased 75% to $41.3m in the half-year from $23.6m in the prior corresponding period. Space Systems comprises two business units, Space Technologies and EM Solutions.

Space Technologies

Space Technologies delivers space domain services (providing information on objects in space) and advanced manufacturing (which includes the design, building and deployment of telescope and observatory equipment). Space Technologies also develops technologies that support Optical Communications (using lasers) and Space Control activities.

During 2024, Space Technologies continued to grow and commercialise its technology. This included delivering satellite laser ranging services to longstanding customers, and the successful completion of a beam director assembly for a foreign customer. Space Technologies continued to secure small contracts with international customers for Space Domain Awareness services and have successfully delivered on contract requirements.

In April 2024, Space Technologies secured a $5m contract with the ADF Joint Capabilities Division in Australia to further develop space capabilities. Subsequent to the end of the half-year, a further contract was awarded for $9m.

KiwiStar Optics continues to deliver against several contracted programs for a broad range of international customers.

During the period, discussions were held with various potential partners to develop opportunities for Space Technologies in the emerging market for Space Control solutions. Discussions to date have focussed on the Group's unique capabilities and potential opportunities for the Group to secure product development funding. These discussions are expected to continue for the remainder of 2024.

Space Technologies continues to develop sales opportunities on a range of potentially significant future projects for Australian and overseas customers. These will help underpin future strategic growth initiatives, including in Space Control solutions. Typically, it can take a year or more for opportunities to be developed and converted to signed sales agreements.

EM Solutions

EM Solutions designs, builds, deploys and maintains on-the-move satellite communication equipment systems for defence forces. EM Solutions' main products include satellite communication terminals and antennae for naval vessels and other marine applications.

During the half-year, EM Solutions continued to focus on delivering growth through developing overseas markets, the delivery of satellite communication systems to naval customers in Australia and Europe, and working closely with customers to develop leading products.

In the half-year to 30 June 2024, the EM Solutions business:

- continued to deliver against a previously announced (approximately $202m) long-term contract to supply terminals to the Royal Australian Navy, with two key design milestones now completed;
- continued work on its $26m three-year sustainment contract for the Royal Australian Navy's existing fleet of Cobra Maritime SATCOM terminals;
- continued to deliver its Cobra Maritime SATCOM terminals to customers in Europe;

- was part of the team selected as preferred tenderer to deliver the Australian Defence Forces ("ADF") new military satellite communications capability; and
- secured customer orders valued at $19m to supply additional Satellite Communication Terminals and Radio Frequency components to an existing customer, and to a new East Asian customer.

In July 2024 EM Solutions received a further $4m order from a European NATO Navy for its King Cobra terminals.

EM Solutions continues to work closely with the ADF to support the Royal Australian Navy and other customers.

New EMS international entity

On 19 April 2024, the Group established a new trading entity EM Solutions (Europe) B.V. in the Netherlands to support the EMS growth agenda in Europe in future years.

3. LONG-TERM INCENTIVE

During the half-year to 30 June 2024, 2,100,000 share options and 1,260,000 share rights were issued to the Managing Director/CEO following approval at the AGM.

There is no change in share capital as a result of these allocations and it is anticipated that upon vesting, these allocations will be funded, to the fullest extent possible, by shares already issued and held in trust as lapsed shares under the existing Loan-Funded Share Plan.

4. OFFSET CREDIT OBLIGATION

The Group is obligated as part of its contract to supply a customer in the Middle East, to contribute to economic development in the country as an offset against purchases of its products and services ("Offset Program").

This commitment is secured by an offset bond of US$16.9m (A$25.6m) which is guaranteed by Export Finance Australia. In respect of the bond, a cash security amount of US$13.7m (A$20.7m) has been placed on deposit. These are included in the cash security deposits.

Under the Offset Program, Offset Credits can be earned by:

(i) investing in the country;
(ii) engaging in contracts that support local industry; or
(iii) making other contributions.

This is a common requirement for suppliers like EOS. Under the Offset Program guidelines, participants typically have several years in which to earn Offset Credits. As an alternative to generating Offset Credits through the Offset Program, in certain circumstances Offset Credits can be generated through participation in the Credit Purchase Program, which involves settling obligations by making cash payments.

As part of the Offset Program, EOS is required to develop, agree and submit an approved business plan to the Offset Credit authority. EOS submitted a business plan during September 2023, which was within a time limit specified by the Offset Credit authority. The business plan remains under review by the Offset Credit authority and the Group continues to have advanced discussions with the Offset Credit authority towards finalising this approval. EOS believes the extended timeframe for approval is not unusual in this jurisdiction and is not unexpected.

Review of Operations

During Q1 2024, EOS entered into a non-binding memorandum of understanding (“MOU”) with Shielders Advanced Industries, a specialist manufacturer in the Middle East. The MOU envisages a JV with EOS that focusses on local manufacturing and assembly of RWS and assists EOS in meeting its Offset Obligations in the Middle East.

As a result of the above, EOS considers that it is currently in compliance with its obligations. In the event that EOS does not comply with its obligations in future, the Offset Credit authority is entitled to demand payment under the guarantee outlined above. EOS intends to continue to work to ensure it complies with its obligations. EOS expects to reach agreement on an approved business plan, and to ultimately generate offset credits by executing that business plan. EOS does not expect to settle the offset obligation in cash, either through the Credit Purchase Program or the bank guarantee.

5. LEADERSHIP CHANGES

The following leadership changes were announced during the half-year:

- The appointment of Mr Christian Tobergte as Executive Vice President Defence Systems International to lead international growth in the Defence Systems business outside of Australia. This role will be based in Europe.
- Mr Ian Cook was appointed as Executive Vice President Defence Systems Australia in November 2023 to lead growth in our Australian business and to focus on global engineering, supply chain and manufacturing activities.
- Mr Clive Cuthell has been appointed Chief Operating Officer in addition to his existing role as Chief Financial Officer, to focus on execution of key group initiatives to support growth.
- EOS brought its company secretary function fully in house during the half-year. Ms Leanne Ralph resigned as Joint Company Secretary, leaving EOS employee Ms Melanie Andrews (appointed 26 March 2024) as the sole Company Secretary.

These changes expected to further enable EOS to grow the business in international markets, including the high-growth counter-drone market.

6. SUBSEQUENT EVENTS

There were no significant subsequent events arising after 30 June 2024 and up to the date of this report.

7. OUTLOOK

As outlined above, work continues throughout the Group on several initiatives, to continue growth and improve profitability, cash flow outcomes, funding and returns.

Market and Customer Outlook

The global market for the Group's products remains supportive. This is largely due to the ongoing conflicts in Ukraine and the Middle East and rising tensions in other locations. This thematic continues to positively impact on customer demand. In particular, the counter-drone market is fast growing and represents a high-profile market opportunity for the Group.

The Group operates in an industry where it can typically take up to, and beyond, twelve months for new market opportunities to be converted into signed sales contracts. The Group continues to pursue a number of material opportunities in different markets, including Europe, the Middle East, North America, South East Asia and Australia.

Outlook for Revenue and Cash Receipts

The Group continues to focus on maximising receipts from customers, including seeking contract amendments where appropriate, as well as securing and delivering on new sales contracts that are cash-positive. Cash receipts include receipts from customers in Europe, the United States, the Middle East, South East Asia and Australia.

The Group's activities include the sale of products under a small number of relatively large projects. Typically, both the recognition of Revenue and Cash Receipts from customers are governed by the achievement of project milestones and legal arrangements specified in customer contracts.

Changes in project timing, and the timing of the Group's revenue and cash receipts, can arise due to unplanned changes in circumstances. This can include delays at the customer, delays at the customer's other suppliers, delays at the Group and delays at the Group's suppliers.

The level of future revenue and future cash receipts from customers will depend on the achievement of product manufacturing and delivery milestones, compliance with detailed contractual requirements, ongoing customer relationships and the outcome of commercial discussions and negotiations. Historically, owing to a high level of customer concentration and specific contractual arrangements, both revenue and cash receipts have been difficult to predict with certainty.

The Group will continue to closely monitor its cash flows and the outlook for the business, to ensure that adequate funding is in place, and if necessary, seek to amend the Group capital structure.

The Group will continue providing regular updates during the year in line with its continuous disclosure obligations.

This announcement has been authorised for release to ASX by the Board of Directors.

Further information:
Andreas Schwer
Group CEO
27 August 2024

Directors' Report

The Directors of Electro Optic Systems Holdings Limited (the "Company") submit herewith its half-year financial report of the Company and the entities it controlled ("Group" or "EOS") at the end of, or during, the half-year ended 30 June 2024.

In order to comply with the provisions of *the Corporations Act 2001*, the Directors report as follows:

Directors

The names of the Directors of the Company during or since the end of the half-year are:

1. Mr Garry Hounsell (Chair)
2. Dr Andreas Schwer (CEO)
3. Mr Geoffrey Brown AO
4. Ms Kate Lundy
5. Mr David Black
6. Mr Robert Nicholson

Review of Operations

A detailed review of operations is included on pages 3 to 11 of this financial report.

Company Secretary
In May 2024 EOS brought its company secretary function fully in house. Ms Leanne Ralph resigned as Joint Company Secretary on 31 May 2024, leaving EOS employee Ms Melanie Andrews (appointed 26 March 2024) as the sole Company Secretary.

Rounding of amounts
The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the financial report are rounded to the nearest thousand dollars, unless otherwise indicated.

Auditor's independence declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 13 of this 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

Garry Hounsell
Director and Chair

Canberra, 27 August 2024

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Auditor's Independence Declaration to the Directors of Electro Optic Systems Holdings Limited

As lead auditor for the review of the half-year financial report of Electro Optic Systems Holdings Limited for the half-year ended 30 June 2024, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review;

b. No contraventions of any applicable code of professional conduct in relation to the review; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

This declaration is in respect of Electro Optic Systems Holdings Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

Ben Tansley
Partner
27 August 2024

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 30 June 2024

	Note	30 June 2024 $(000's)	30 June 2023 $(000's)
Revenue	3(a)	142,635	74,298
Interest received	3(b)	833	264
Other income	3(b)	374	84
Foreign exchange gain	3(c)	5,080	2,373
Raw materials and consumables used		(105,735)	(45,977)
Changes in inventory work in progress		25,259	(2,346)
Employee benefits expense	3(d)	(31,079)	(26,881)
Occupancy costs		(895)	(847)
Administrative and other expenses		(19,898)	(13,459)
Finance cost	3(d)	(12,506)	(15,962)
Depreciation of property, plant, and equipment	3(d)	(2,280)	(4,009)
Depreciation of right of use assets	3(d)	(2,254)	(2,211)
Amortisation of intangible assets	3(d)	(3,089)	(798)
(Loss) before income tax expense		**(3,555)**	**(35,471)**
Income tax benefit	5	35	3,040
(Loss) for the period		**(3,520)**	**(32,431)**
Attributable to:			
Owners of the Company		(3,002)	(31,962)
Non-controlling interests		(518)	(469)
		(3,520)	**(32,431)**
Other comprehensive income			
Items that may be reclassified in future to profit and loss (net of tax)			
Exchange differences on translation of foreign operations		530	259
Total other comprehensive income		**530**	**259**
Total comprehensive (loss) for the period, net of tax		**(2,990)**	**(32,172)**
Attributable to:			
Owners of the Company		(2,472)	(31,703)
Non-controlling interests		(518)	(469)

Earnings (loss) per share:	**Note**	**cents per share**	**cents per share**
Basic	4	(1.8)	(20.1)
Diluted	4	(1.8)	(20.1)

Notes to the consolidated financial statements are included on pages 18 to 29.

Consolidated Statement of Financial Position
as at 30 June 2024

	Note	30 June 2024 $(000's)	31 December 2023 $(000's)
Current assets			
Cash and cash equivalents		52,221	70,997
Trade and other receivables		33,267	8,466
Security deposits		13,858	21,086
Contract asset		44,311	29,090
Inventories		84,819	73,397
Prepayments		13,886	16,384
Total current assets		**242,362**	**219,420**
Non-current assets			
Contract asset		45,420	38,946
Deferred tax asset		9,737	8,950
Security deposits		52,396	45,970
Right-of-use assets		17,793	19,783
Goodwill		12,373	12,373
Intangible assets		28,126	18,283
Property, plant and equipment	7	15,655	29,508
Total non-current assets		**181,500**	**173,813**
Total assets		**423,862**	**393,233**
Current liabilities			
Trade and other payables		36,796	40,804
Contract liabilities		38,017	20,587
Secured borrowings	6	-	19,875
Lease liabilities		4,710	4,876
Tax payable		4,304	3,584
Provisions		27,873	25,769
Total current liabilities		**111,700**	**115,495**
Non-current liabilities			
Secured borrowings	6	46,350	44,947
Lease liabilities		16,996	19,043
Provisions		15,239	14,674
Total non-current liabilities		**78,585**	**78,664**
Total liabilities		**190,285**	**194,159**
Net assets		**233,577**	**199,074**
Equity			
Issued capital	10	467,617	432,248
Reserves		15,287	12,633
Accumulated losses		(244,776)	(241,774)
Equity attributable to owners of the Company		238,128	203,107
Non-controlling interests		(4,551)	(4,033)
Total equity		**233,577**	**199,074**

Notes to the consolidated financial statements are included on pages 18 to 29.

Consolidated Statement of Changes in Equity
for the half-year ended 30 June 2024

	Accumulated losses $(000's)	Issued capital $(000's)	Foreign currency translation reserve $(000's)	Employee equity settled benefits reserve $(000's)	Attributable to owners of the parent $(000's)	Non-controlling interests $(000's)	Total Equity $(000's)
2024							
Balance at 1 January 2024	**(241,774)**	**432,248**	**(224)**	**12,857**	**203,107**	**(4,033)**	**199,074**
(Loss) for the period	(3,002)	-	-	-	(3,002)	(518)	(3,520)
Exchange differences on translation of foreign operations	-	-	530	-	530	-	530
Total comprehensive (loss)/profit for the period	**(3,002)**	**-**	**530**	**-**	**(2,472)**	**(518)**	**(2,990)**
Issue of 20,588,235 equity shares at $1.70 per share on 2 April 2024 – Share Placement	-	35,000	-	-	35,000	-	35,000
Equity Raising transaction costs		(1,548)			(1,548)	-	(1,548)
Issue of 1,127,858 equity shares at $1.70 per share on 22 April 2024 - Share purchase plan	-	1,917	-	-	1,917	-	1,917
Share-based payments expense	-	-	-	2,124	2,124	-	2,124
Balance at 30 June 2024	**(244,776)**	**467,617**	**306**	**14,981**	**238,128**	**(4,551)**	**233,577**
2023							
Balance at 1 January 2023	**(208,499)**	**432,248**	**277**	**12,268**	**236,294**	**(3,202)**	**233,092**
(Loss) for the period	(31,962)				(31,962)	(469)	(32,431)
Exchange differences on translation of foreign operations	-	-	259	-	259	-	259
Total comprehensive (loss)/profit for the period	**(31,962)**	**-**	**259**	**-**	**(31,703)**	**(469)**	**(32,172)**
Share-based payments expense	-	-	-	299	299	-	299
Balance at 30 June 2023	**(240,461)**	**432,248**	**536**	**12,567**	**204,890**	**(3,671)**	**201,219**

Notes to the consolidated financial statements are included on pages 18 to 29.

Consolidated Statement of Cash Flows
for the half-year ended 30 June 2024

	30 June 2024 $(000's)	30 June 2023 $(000's)
Cash flows from operating activities		
Receipts from customers	120,316	123,263
Payments to suppliers and employees	(136,987)	(89,089)
Income tax paid	-	(385)
Interest and bill discounts received	833	103
Interest and other costs of finance paid	(14,734)	(3,157)
Net cash (outflows)/inflow from operating activities	**(30,572)**	**30,735**
Cash flows from investing activities		
Payments for property, plant, and equipment	(1,441)	(1,363)
Security deposits for bonds	2,119	(4,706)
Net cash inflow/(outflows) from investing activities	**678**	**(6,069)**
Cash flows from financing activities		
Proceeds from issue of new shares	36,917	-
Transaction costs related to issues of shares	(1,548)	-
Repayment of lease liabilities	(2,478)	(2,253)
Repayment of borrowings	(20,505)	(1,627)
Net cash inflow/(outflows) from financing activities	**12,386**	**(3,880)**
Net (decrease)/increase in cash and cash equivalents	**(17,508)**	**20,786**
Cash and cash equivalents at the beginning of the half-year	70,997	21,681
Effects of exchange rate changes on cash held in foreign currencies	(1,268)	(438)
Cash and cash equivalents at the end of the half-year	**52,221**	**42,029**

Notes to the consolidated financial statements are included on pages 18 to 29.

Notes to the consolidated financial statements for the half-year ended 30 June 2024

1. Summary of Accounting Policies

a) Basis of preparation of consolidated financial statements

The half-year consolidated financial statements are 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 consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's most recent annual consolidated financial statements as at 31 December 2023.

The material 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 2023 annual financial report for the financial year ended 31 December 2023. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The interim consolidated financial statements were authorised for issue by the Directors on 27 August 2024.

b) 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 and at amounts stated in the financial report.

For the half-year ended 30 June 2024, the Group incurred a Loss Before Tax of $3.5m (June 2023: loss of $35.5m) had a net cash outflow from operating activities of $30.6m (June 2023: net inflows of $30.7m) and had a net decrease in cash and cash equivalents held of $17.5m (June 2023: net increase of $20.8m). At 30 June 2024 the Group had a cash balance of $52.2m (December 2023: $71.0m) and net current assets of $130.7m (December 2023: $103.9m).

In September and October 2022, the Group entered into binding agreements with a financier for borrowing facilities, of which all facilities are fully drawn upon at 30 June 2024. A $26.9m repayment was made on 5 September 2023 to repay in full the first working capital facility. The second working capital facility was fully repaid with $20.5m on 10 April 2024.

The remaining Term Loan Facility of $52.1m is due for repayment on 11 October 2025 with interest payable monthly in cash. Based upon the information available at the date of signing this report, including current estimates of forecasted cash inflows and expected contract wins, the Group forecasts it will generate sufficient net cash flows to fund the required repayment of borrowings on time.

The Directors, in their consideration of the appropriateness of the going concern basis for the preparation of this half-year financial report, have caused to be prepared a cash flow forecast through to 31 December 2025. This cash flow forecast supports the ability of the Group to continue as a going concern and pay its debts as and when they fall due. The underlying assumptions of the forecast include acknowledgement of the intrinsic operational risks of the business, the existing cash position of the Group, the need to convert the contract asset into cash, the ongoing loan repayment requirements and the ability of the group to obtain further funding if required.

EOS continues in advanced discussions relating to Offset Credit Obligations in the Middle East. EOS expects to generate offset credits via economic activity and EOS does not expect to settle the offset obligation in cash, either through the Credit Purchase Program or the bank guarantee.

Notes to the consolidated financial statements for the half-year ended 30 June 2024

1. Summary of Accounting Policies (continued)

b) Going concern (continued)

The Group is required to comply with borrowing covenants each quarter, which if not met, would give the lender the right to seek immediate repayment. During the half-year, all banking covenants were met. A facility amendment was executed with the Group's primary lender in December 2023 and became effective in February 2024 which relaxes certain restrictions included in the borrowing facility agreements.

The Group continues to closely monitor its cash flow outlook and compliance with its borrowing covenants. The ability of the Group to maintain liquidity, fund the working capital required to grow the business, repay debts, and meet its borrowing covenants is dependent on the Group continuing to invoice customers and collect cash in a timely manner. Should it appear that borrowing covenants may not be complied with, or the Group may not be in a position to meet its debt repayments, or the Group may not have adequate liquidity for its operations, the Directors will assess available options to restructure debt commitments or access additional equity or debt funding as required.

In the opinion of the Directors, the ability of the Group to continue as a going concern and pay its debts as and when they become due and payable is dependent on:

- the receipt of significant cash collections from customers as a result of:
    a. the continued realisation of the contract asset; and
    b. key military and government customers making timely payments for the goods and services supplied in accordance with contractual terms;
- the continued ability of the Group to deliver against its contracts on time, to the required specifications and within budgeted costs, and to secure additional contracts, including converting key opportunities within the Defence and Space sector pipelines;
- the Group reaching a satisfactory agreement in relation to plans to acquit the Offset Obligations arising under an overseas contract;
- in the event that it becomes required to meet the repayment obligations under borrowing arrangements, the successful completion of further debt or equity raisings; and
- the continued adherence to borrowing covenants by the Group, and the forbearance of lenders regarding any covenant breaches should any arise.

The Directors note that whilst the Group has been successful in securing debt finance and raising capital in the past, there is no assurance that it will be successful in any potential future recapitalisation and/or refinancing of the Group should this be required.

Should the Group be unable to achieve successful outcomes in relation to the above matters, a material uncertainty would exist which may cast significant doubt on the ability of the Group 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 Group not continue as a going concern.

Notes to the consolidated financial statements for the half-year ended 30 June 2024

1. Summary of Accounting Policies (continued)

c) Critical accounting judgements

Management makes estimates and assumptions concerning the future. The resulting accounting estimates may not, by definition, equal the related actual results. Except where stated below, the critical accounting estimates and judgements adopted are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2023.

Recoverability of goodwill and impairment of assets

The Group assesses each cash-generating unit (CGU), where possible, at period end, to determine whether there are any indications of impairment or reversal of impairment. Where an indicator of impairment or reversal exists, a formal estimate of the recoverable amount is made. Goodwill and indefinite life intangible assets are assessed at least on an annual basis.

Recoverable amount is the higher of the fair value less cost of disposal and value in use calculated in accordance with the Group accounting policy. These assessments require the use of estimates and assumptions such as pipeline of sales opportunities, discount rates applied to estimated free cash flows, and long-term growth rates applied in estimating the future value of our CGUs.

The Group performed an assessment for indicators of impairment at 30 June 2024 as required by the accounting standards and concluded no indicators exist that warrant a full impairment test at the half-year end.

Capitalised development costs

A critical judgement exists in the decision to capitalise work in progress where the Group capitalises costs for product development projects. Initial capitalisation of costs is based on judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone. In determining the amounts to be capitalised, the Directors make assumptions regarding the expected future cash generation of the project.

The asset is driven by capital works undertaken by Defence Systems and Space Systems. During the half-year an assessment was undertaken and $12.9m was reclassified as an intangible asset as the Group confirmed its intention to utilise these assets as a prototype to facilitate future sales opportunities. As at 30 June 2024, the carrying amount of capitalised development costs was $2.0m (December 2023: $14.5m).

d) New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements for the half-year are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the full year ended 31 December 2023, except for the adoption of new standards effective as of 1 January 2024. Several amendments applied for the first time from 1 January 2024, but did not have a material impact on the consolidated financial statements of the Group.

Notes to the consolidated financial statements for the half-year ended 30 June 2024

2. Segment Information

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker in order to allocate resources to the segment and to assess performance.

The Group considers the business to have two reportable business segments, Space Systems and Defence Systems.

a) Space Systems

Space Systems has a range of ground products available to support the Australian and international space markets. This includes:

- significant investments into passive optical and laser sensing equipment at both its Mt Stromlo and Learmonth sites;
- manufacturing and supply of various telescopes and dome enclosures for customers around the world. Space Systems astrometric products provide reliable and high-quality optical systems under demanding environmental conditions; and
- specialisation in innovative optical, microwave and on-the-move radio and satellite products that help to deliver high speed, resilient and assured telecommunications anywhere in the world. Developments in EOS laser technology has opened aligned markets in space optical communications and various high power laser applications.

b) Defence Systems

Defence Systems 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 US, Australasia, Middle East, Europe and South-east Asia markets.

Geographic Activity

The Group continues to operate in Australia, USA, Singapore, UAE, New Zealand, Netherlands and Germany in the development, manufacture and sale of telescopes and dome enclosures, laser satellite tracking systems, the manufacture of electro-optic fire control systems and the design and manufacture of microwave satellite dishes and receivers.

	30 June 2024	30 June 2023
Revenue by segment	**$(000's)**	**$(000's)**
Space	41,261	23,560
Defence	101,374	50,738
Total segment revenue	**142,635**	**74,298**
Results by segment		
Space	8,663	(395)
Defence	4,172	(17,499)
Total segment results	**12,835**	**(17,894)**
Unallocated	(16,390)	(17,577)
Segment (loss) before tax	**(3,555)**	**(35,471)**
Income tax benefit	35	3,040
Segment (loss) for the period	**(3,520)**	**(32,431)**

The revenue reported above represents revenue from external customers.

Segment results represents the (loss) earned by each segment without the allocation of some central administration and corporate costs, including director fees, finance costs, investment revenue and income tax benefit.

Notes to the consolidated financial statements for the half-year ended 30 June 2024

2. Segment Information (continued)

The following table represents the Group's assets and liabilities by reportable operating segment:

	Assets		Liabilities	
	30 June 2024 $(000's)	31 Dec 2023 $(000's)	30 June 2024 $(000's)	31 Dec 2023 $(000's)
Space	82,441	56,960	26,205	29,009
Defence	289,200	265,276	164,080	165,150
Total segment assets/liabilities	**371,641**	**322,236**	**190,285**	**194,159**
Unallocated cash and cash equivalents	52,221	70,997	-	-
Total	**423,862**	**393,233**	**190,285**	**194,159**

In April 2024, Space Systems established a new trading entity in the Netherlands to support its growth agenda in Europe in future years. In the same period, a new company, 'EOS Innovation Singapore Pte Ltd', was established to carry out new product development work on our High Energy Laser Weapon system as a Laser Innovation Centre in Singapore under the Defence Segment.

3. (Loss) Before Income Tax

The loss before income tax comprises the following:

(a) Revenue from operations	30 June 2024 $(000's)	30 June 2023 $(000's)
Revenue from operations consisted of the following items:		
Revenue from sale of goods	134,857	61,134
Revenue from rendering of services	7,778	13,164
Total revenue	**142,635**	**74,298**

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:	30 June 2024 $(000's)	30 June 2023 $(000's)
Revenue recognition over time		
Defence segment		
Sale of goods	57,190	36,880
Provision of services	1,277	6,316
Space segment		
Sale of goods	24,902	10,874
Provision of services	812	1,370
Total revenue recognised over time	**84,181**	**55,440**
Revenue recognition at a point in time		
Defence segment		
Sale of goods	40,833	6,797
Provision of services	2,074	745
Space segment		
Sale of goods	11,932	6,584
Provision of services	3,615	4,732
Total revenue recognised at a point in time	**58,454**	**18,858**
Total revenue recognised	**142,635**	**74,298**

Notes to the consolidated financial statements for the half-year ended 30 June 2024

3. (Loss) Before Income Tax (continued)

(b) Other income	30 June 2024 $(000's)	30 June 2023 $(000's)
Grant Income	12	62
Interest received	833	264
Other income	362	22
Total other income	**1,207**	**348**

(c) Foreign exchange gains

Foreign exchange gains	5,080	2,373

(d) Expenses

Loss for the period includes the following expenses:		
Employee benefit expense:		
Share based payment (equity settled) expense	2,124	299
Contributions to defined contribution superannuation plans	2,535	2,097
Other employee benefits	26,420	24,485
Total employee benefits expense	**31,079**	**26,881**
Finance costs:		
Interest on secured borrowings	6,580	8,324
Interest on lease liabilities	635	747
Other finance costs	5,291	6,891
Finance costs	**12,506**	**15,962**
Amortisation of Intangible assets	3,089	798
Depreciation of property, plant and equipment	2,280	4,009
Depreciation on right of use assets	2,254	2,211

Notes to the consolidated financial statements for the half-year ended 30 June 2024

4. Earnings Per Share

	30 June 2024 ¢ per share	30 June 2023 ¢ per share
Basic EPS	(1.8)	(20.1)
Diluted EPS	(1.8)	(20.1)

Calculation of basic and diluted earnings per share

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

Earnings	30 June 2024 $(000's)	30 June 2023 $(000's)
(Loss) for the year attributable to equity holders of parent	(3,002)	(31,962)
(Loss) for the purpose of basic and diluted earnings per share	**(3,002)**	**(31,962)**

		30 June 2024 Number	30 June 2023 Number
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	(a) (b)	164,459,987	159,226,631

(a) Unlisted share options and share rights issued under the employee incentive plans are not considered dilutive as all the conditions of exercise have not been met at the reporting date and the Group made a loss in the period.

(b) Shares issued 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 Group made a loss in the period.

5. Income Tax

The Group calculates the period income tax benefit using the tax rate that would be applicable to the expected total annual earnings.

The major components of income tax benefit in the interim consolidated statement of profit or loss are:

	30 June 2024 $(000's)	30 June 2023 $(000's)
Current income tax expense / (benefit)	2,933	(7,345)
Deferred income tax expense relating to origination and reversal of temporary differences	(2,399)	(1,709)
Adjustments for prior periods	(1,718)	(1,479)
Tax losses not recognised	1,149	7,493
Income tax (benefit) recognised in the statement of profit or loss	**(35)**	**(3,040)**

Notes to the consolidated financial statements for the half-year ended 30 June 2024

6. Borrowings

	30 June 2024 $(000's)	31 Dec 2023 $(000's)
Secured borrowings		
Washington H. Soul Pattinson and Company Ltd ("WHSP")	46,350	64,822
Total secured borrowings	**46,350**	**64,822**
Current	-	19,875
Non–current	46,350	44,947
Total borrowings	**46,350**	**64,822**

Secured borrowings – WHSP

As at 30 June 2024, the Group had one secured borrowing facility with WHSP ("WHSP facility") for a Term Loan principal facility of $35.0m with a maturity date of 11 October 2025. The facility carries interest of 22% per annum and line fees of 4%. This loan is secured by a general security deed which ranks pari passu with the Export Finance Australia facility.

On 10 April 2024, EOS announced the $20.5m full repayment of the Additional Working Capital facility. This follows the repayment of $26.9m in September 2023 of the initial Working Capital facility.

EOS has now repaid, on schedule, 50% of the total principal amounts originally due and 100% of the Working Capital facility amounts.

The EOS position under the borrowing facilities with EOS' primary lender Washington H. Soul Pattinson ("WHSP"), as at 30 June 2024 is as follows:

Facility	Principal	Term	Maturity	Total Rate	Repayment	Status
~~Working Capital~~	~~$20.0m~~	~~12m~~	~~6 Sep 23~~	~~19%~~	~~$26.9m~~	**Repaid**
~~Additional Working Capital~~	~~$15.0m~~	~~18m~~	~~11 Apr 24~~	~~19%~~	~~$20.5m~~	**Repaid**
Term Loan	$35.0m	36m	11 Oct 25	26%	$52.1m	**Fully drawn**

The key terms of each of the facilities were included in the announcement dated 13 October 2022 "EOS enters into New Financing Facilities & continues development of Strategic Growth Options" ("EOS 13 October 2022 Announcement"). These terms were amended as announced on 22 December 2023 and 27 February 2024.

As at 30 June 2024 and at the date of this report, the Term Loan facility was fully drawn.

The $52.1m repayment due for the Term Loan Facility includes principal, establishment fees and accrued interest not paid in cash to date. In addition to the above repayment due in October 2025, EOS is required to pay additional interest each month, totalling approximately $14.7m over the remaining term of the debt. The borrowing facility agreements include a 100% 'make whole' clause which applies in the case of any early repayment.

6. Borrowings (continued)

During the half-year, a $4.5m fee was paid to WHSP as following the resolution of a previous commercial dispute with WHSP (announced on 22 December 2023). The agreement was previously conditional on the approval of another finance provider, Export Finance Australia ("EFA"), and payment of the $4.5m fee. EFA approval was received in February 2024 and the $4.5m payment was made in full and final settlement of the dispute. As part of the agreement, WHSP agreed to relax certain restrictions included in the borrowing facility agreements. The flexibility afforded by this relaxation is expected to allow EOS to better take advantage of future business growth opportunities as they arise.

The Group is required to comply with borrowing covenants related to quarterly testing of asset coverage and interest coverage ratios. During the half-year ended 30 June 2024, and in the period up to the date of this report, the Group complied with its covenants and other obligations under the facility agreements.

7. Property, plant and equipment

During the half-year, $12.9m of capitalised works in progress was reclassified from property, plant and equipment to an intangible asset as the Group confirmed its intention to utilise these assets as a prototype to facilitate future sales opportunities.

8. Share-based payments

<u>Share Options</u>
On 21 May 2024, 2,100,000 share options were granted under the Omnibus Equity Incentive Plan to the Managing Director and CEO, Dr Schwer, following approval at the AGM, and were issued on 30 May 2024. The terms are consistent with those of options issued in 2023 to staff, with an exercise price of $0.50 which was equal to the market value of the shares at the time the Plan commenced development. The options will vest subject to continued employment and share price hurdles of between $1.20 and $3.00 for a period of 20 trading days any time prior to a testing date. Testing dates are 31 December 2024, 31 December 2025 and 31 December 2026.

The fair value at grant date is estimated using a Monte-Carlo option pricing model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is five years with an exercise period expiring on 31 December 2028. The fair value of options granted during the half-year ended 30 June 2024 was estimated on the date of grant using the following assumptions:

- Dividend yield 0%
- Expected volatility 55%
- Risk-free interest rate 3.9%
- Expected life of share options 2.6 years

The fair value of each share option granted at 21 May 2024 was $0.91.

No other share options were issued to Directors.

Notes to the consolidated financial statements for the half-year ended 30 June 2024

8. Share-based payments (continued)

Share Rights

On 21 May 2024, 1,260,000 share rights were granted under the Omnibus Equity Incentive Plan to the Managing Director and CEO, Dr Schwer, following approval at the AGM, and issued on 30 May 2024. The terms are consistent with those of 2023 share rights issued to staff with share rights vesting and converting to ordinary shares upon the successful completion of service periods by the senior executives, staggered between 31 December 2024 and 31 December 2026.

As there are no market-based vesting conditions, the fair value at grant date is estimated using a Black-Scholes option pricing model, taking into account the terms and conditions upon which the rights were granted. Each share right converts to one ordinary share upon vesting and there is no exercise price required to be paid upon the conversion of the share right into an ordinary share.

The fair value of the rights granted during the half-year ended 30 June 2024 was estimated on the date of grant and approximates the spot value on grant date. The fair value of each share right granted at 21 May 2024 was $1.45. The valuation at this grant date for the options and rights issued to the CEO and Managing Director was higher than the estimate determined in the prior financial year. As such, the Group recognised a $0.7m adjustment for the revised valuation in the current half-year.

For the half-year ended 30 June 2024, the Group recognised a total of $2.1m of share-based expense, including the $0.7m adjustment referred to above.

No other share rights were issued to Directors.

9. Contingent Liabilities and Commitments

(a) The Group maintains cash deposits with banks and financial institutions as security for various performance and rental bonds. The detail of such cash deposits is as below:

	Note	30 June 2024 $(000's)	31 Dec 2023 $(000's)
Offset bond for a Defence Systems contract	(c)	20,728	15,356
Performance bond for a Defence contract – overseas customers	(d)	23,928	23,172
Performance bonds for Defence contracts – Australian customers	(e)	13,858	21,086
Performance bonds for Space contracts	(f)	6,235	6,228
Rental bonds		1,224	1,097
Deposit for credit card guarantee		281	117
		66,254	**67,056**

(b) Entities within the Group are involved in contractual disputes in the normal course of contracting operations. The Directors believe that the entities within the Group can settle any contractual disputes with customers and should any customers commence legal proceedings against the Group, the Directors believe that any actions can be successfully defended. As at the date of this report no material legal proceedings have been commenced against any entity within the Group.

(c) The Group previously executed an offset agreement in relation to an overseas defence contract for an amount of US$16.9m (A$25.6m) secured by an offset bond for the full amount. The offset bond is guaranteed by Export Finance Australia under a Bond Facility Agreement and is secured by a cash security deposit of US$13.7m (A$20.7m) and a fixed and floating charge over the assets of the Group. Under the Offset Program, Offset Credits can be earned by:

(i) investing in the country;
(ii) engaging in contracts that support local industry; or
(iii) making other contributions.

9. Contingent Liabilities and Commitments (continued)

This is a common requirement for suppliers like EOS. Under the Offset Program guidelines, participants typically have several years in which to earn Offset Credits. As an alternative to generating Offset Credits through the Offset Program, in certain circumstances, Offset Credits can be generated through participation in the Credit Purchase Program, which involves settling obligations by making cash payments.

As part of the Offset Program, EOS is required to develop, agree and submit an approved business plan to the Offset Credit authority. EOS submitted a business plan during September 2023, which was within a time limit specified by the Offset Credit authority. The business plan remains under review by the Offset Credit authority and the Group continues during the quarter to have advanced discussions with the Offset Credit authority towards finalising this approval. EOS believes the extended timeframe for approval is not unusual in this jurisdiction and is not unexpected.

During the half-year, EOS entered into a non-binding memorandum of understanding (“MOU”) with Shielders Advanced Industries, a specialist manufacturer in the Middle East. The MOU envisages a JV with EOS that focusses on local manufacturing and assembly of RWS and assists EOS in meeting its Offset Obligations in the Middle East.

As a result of the above, EOS considers that it is in compliance with its obligations. In the event that EOS does not comply with its obligations in future, the Offset Credit authority is entitled to demand payment under the guarantee outlined above. EOS intends to continue to work to ensure it complies with its obligations. As at the date of this report, EOS expects to reach agreement on an approved business plan, and to ultimately generate offset credits by executing that business plan. EOS does not expect to settle the offset obligation in cash, either through the Credit Purchase Program or the bank guarantee.

(d) The Group maintains a performance bond for US$33.2m (A$50.2m) in relation to an overseas defence sector contract. The performance bond is guaranteed by Export Finance Australia under a Bond Facility Agreement and is secured by a cash security deposit of US$15.8m (A$23.9m) and a fixed and floating charge over the assets of the Group. The covenants attached to the Export Finance Australia facilities are identical to those specified under the WHSP loan facilities.

(e) The Group entered into agreements to provide performance bonds of $22.2m to a domestic customer in Australia in the defence segment. The guarantees were issued by funding providers and are secured by cash deposits totalling $13.9m as at 30 June 2024.

(f) $6.0m of performance bonds were issued to support an EM Solutions contract to deliver and install communication systems to the Royal Australian Navy. This guarantee is secured by a cash security deposit of $6.0m. The remaining fully secured performance bond was issued for the delivery of communication systems to a customer in the Middle East.

(g) 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 was 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.

Notes to the consolidated financial statements for the half-year ended 30 June 2024

10. Issuance of Securities

- No debt securities were issued during this period or the corresponding period.
- No options were exercised during this period or the corresponding period.
- The Group completed an equity raising via a fully underwritten Placement and Share Purchase Plan during the half-year for the purpose of accelerating business growth. The Group successfully raised $33.6m (net of fees) via a fully underwritten share placement of 20.6m new fully paid ordinary shares to eligible institutional investors at a price of $1.70 per share on 25 March 2024. The Group raised an additional $1.7m (net of fees) via a share purchase plan of approximately 1.1m new fully paid ordinary shares at a price of $1.70 per share on 22 April 2024. Total issued capital as at 30 June 2024 was $467.6m. (30 June 2023: $432.2m).

11. Related Party Transactions

The Group pays director fees to non-executive directors or their nominated entity, for director services received by the Group on arm's length terms.

All eligible directors holding EOS ordinary shares, participated in the share purchase plan in April 2024.

On 21 May 2024, share rights and share options were granted under the Omnibus Equity Incentive Plan to the Managing Director and CEO, Dr Schwer, and were issued on 30 May 2024.

Apart from salaries, bonus and fees paid to Directors and other key management personnel, there were no other related party transactions.

12. Subsequent Events

There were no significant subsequent events arising after 30 June 2024 and up to the date of this report.

Directors' Declaration

for the half-year ended 30 June 2024

The Directors declare that, in the Directors' opinion:

a) 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) the attached interim financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including:
   i. compliance with accounting standards; and
   ii. giving a true and fair view of the consolidated entity's financial position, as at 30 June 2024 and of the performance for the half-year ended on that date.

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

Garry Hounsell
Director and Chair

Canberra, 27 August 2024

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

Conclusion

We have reviewed the accompanying half-year financial report of Electro Optic Systems Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 30 June 2024, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, explanatory notes, and the directors' declaration.

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 the Group does not comply with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2024 and of its consolidated financial 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (*including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 1(b) in the half year financial report, which describes the principal conditions that raise doubt about the Group's ability to continue as a going concern. These events or conditions, along with other matters outlined in Note 1(b) indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibilities 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 responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 Group's financial position as at 30 June 2024 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*.

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.

Ernst + Young

Ernst & Young

Ben Tansley
Partner
Canberra
27 August 2024

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