



ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ANNUAL REPORT 2024







Electro Optic Systems Holdings Limited

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Chairman's Report

For the year ended 31 December 2024

The Board is pleased to report on a successful year for EOS



2024 represented the second full year in EOS' turnaround plan, and I can advise that EOS is now on a much more stable footing and is well positioned to capture the exciting opportunities ahead of it.

During 2024, conflicts continued throughout many regions of the world. Further, the ever-expanding number of cheap and increasingly autonomous drones is transforming the nature of modern warfare. This is causing an enduring and growing demand for the types of products EOS produces.

In recognition of these changes, during the year the Board decided to change the growth emphasis of EOS, to focus on the growth markets of counter-drone products (including remote weapon systems and high energy laser weapons) as well as on space control products and services.

As well as generating the highest total annual revenue in its long history, 2024 saw EOS shift its focus to developing its order book and commercialising the new products that have been launched in recent years. EOS' customers – generally governments – have well established and prudent procurement processes. This can sometimes mean that it takes longer to sign new contracts than in other industries. The good news is that, as we have seen previously, contracts can be very large.

In 2024, EOS management was focused on developing its chosen markets and progressing contractual negotiations with a number of potential customers. The Board looks forward to this work creating order book growth in the coming months and years.

In March 2024, the Group undertook a modest \$35m institutional placement, supplemented by a share purchase plan for existing retail investors. The purpose of this fundraising was to ensure that EOS was able to procure long lead time items, allowing the business to be more responsive to existing and potential customer needs. The Board wishes to thank the investors who supported EOS in this process.

In November 2024, the Group announced that it had entered into an agreement to sell its naval satellite communications business, EM Solutions, to Cohort plc for an enterprise value of \$144m. EM Solutions has performed well since it was acquired by EOS in 2019 and the Board did not take the decision to divest it lightly. Ultimately, it was determined that EM Solutions was strategically non-core to the rest of the Group and that it would be more optimal to use funds raised in its sale to invest in the core business. EOS is grateful to the Australian Commonwealth Government and Department of Defence for their support in the sale of EM Solutions.

The sale of EM Solutions was completed on 31 January 2025, triggering the automatic and full repayment of the debt held by Soul Patts (formerly Washington H Soul Pattinson). EOS is grateful to Soul Patts for its support during a difficult period. This repayment leaves EOS with no borrowings as at the end of January 2025 and a strong balance sheet, capable of supporting EOS' growth agenda for the future. The Board remains committed to investing these funds strategically and prudently.

The Board believes that EOS' focus on the counter-drone and space domains is the right strategy to deliver growth.

I wish to thank EOS' senior management, its broader staff and the Board for their contributions to what was a highly positive year for the business.

Overall, EOS enters 2025 in an enviable position, with a clear strategy, strong markets, innovative products and a robust balance sheet. The Board would like to thank shareholders for their ongoing support of EOS, and we look forward to the exciting things to come for the business in 2025.

A handwritten signature in black ink, appearing to read 'Garry Hounsell'.

Mr Garry Hounsell

Director and Chair of the Board of Directors

4 April 2025

CEO's Report

For the year ended 31 December 2024

At EOS, we see exciting opportunities for growth and are working hard to grow our order book



We are focused on delivering growth in:

- counter-drone products, remote weapon systems and high energy laser weapons; and
- space control product and services.

Our main effort in 2024 was spent on progressing sales discussions with existing customers and potential new customers around the world.

In our Defence Systems business, we continued to see success for our world-leading counter-drone offering, the Slinger system. The system has been sold to various clients and is now being used successfully in Ukraine. We have provided several other customers with smaller evaluation quantities of both the Slinger system and our traditional R400 remote weapon system. We hope to secure further orders in due course from this evaluation work. In late 2024, we also announced the first sale of our new container-based, rocket-carrying remote weapon system to a Western European customer.

In 2024, EOS' highly capable engineering teams began work on a 'next-generation' remote weapon system, the R500. It incorporates all the lessons learned from operations in various conflicts as well as the latest technological advances, such as fully AI-driven software for detection, classification and tracking of targets. We expect it to be well received by the international markets.

Good progress was made in 2024 in developing the markets for the newer products in our portfolio. These include our heavy-calibre R800 system and light-weight R150 system, which were both launched in 2023. Feedback from the market has been positive – we look forward to securing more contracts in due course.

2024 was a watershed year for the directed energy weapon market. These products are seen as a vital counter-measure to the emerging drone threat. EOS remains extremely well positioned to sell its High Energy Laser Weapon into this emerging market, particularly outside the United States. Due to its very low cost-per-shot, high accuracy, speed and large 'magazine', the HELW represents a potential 'game-changer' for the protection of critical assets during conflict. We are working to secure customer contracts and future growth for this product.

In 2024, the Space Systems business was proud to work with the Australian Defence Force to develop capabilities for Australia. We also continue to grow and execute on our Space growth strategy – using our unique expertise in space domain awareness and laser optics to affect objects in space. This is known in the industry as 'space control'. This is an emerging market that has significant growth potential in the military domain.

As you know, we sold the EM Solutions business in January 2025. This followed strong growth by that business – but, as our Chairman has outlined, this strategic decision was the right one for EOS and will allow us to focus more on our future core businesses. I would like to thank the EM Solutions team for their hard work during the 2024 year.

Ensuring that the EOS management team has suitable depth and skills was a key 2024 focus for me. Investment in sales capability will maximise the chances of winning more and larger contracts over time. A highlight in this regard was the employment of Christian Tobergte as Executive Vice President, Defence Systems International in April 2024. His focus is on developing international markets for EOS Defence Systems products.

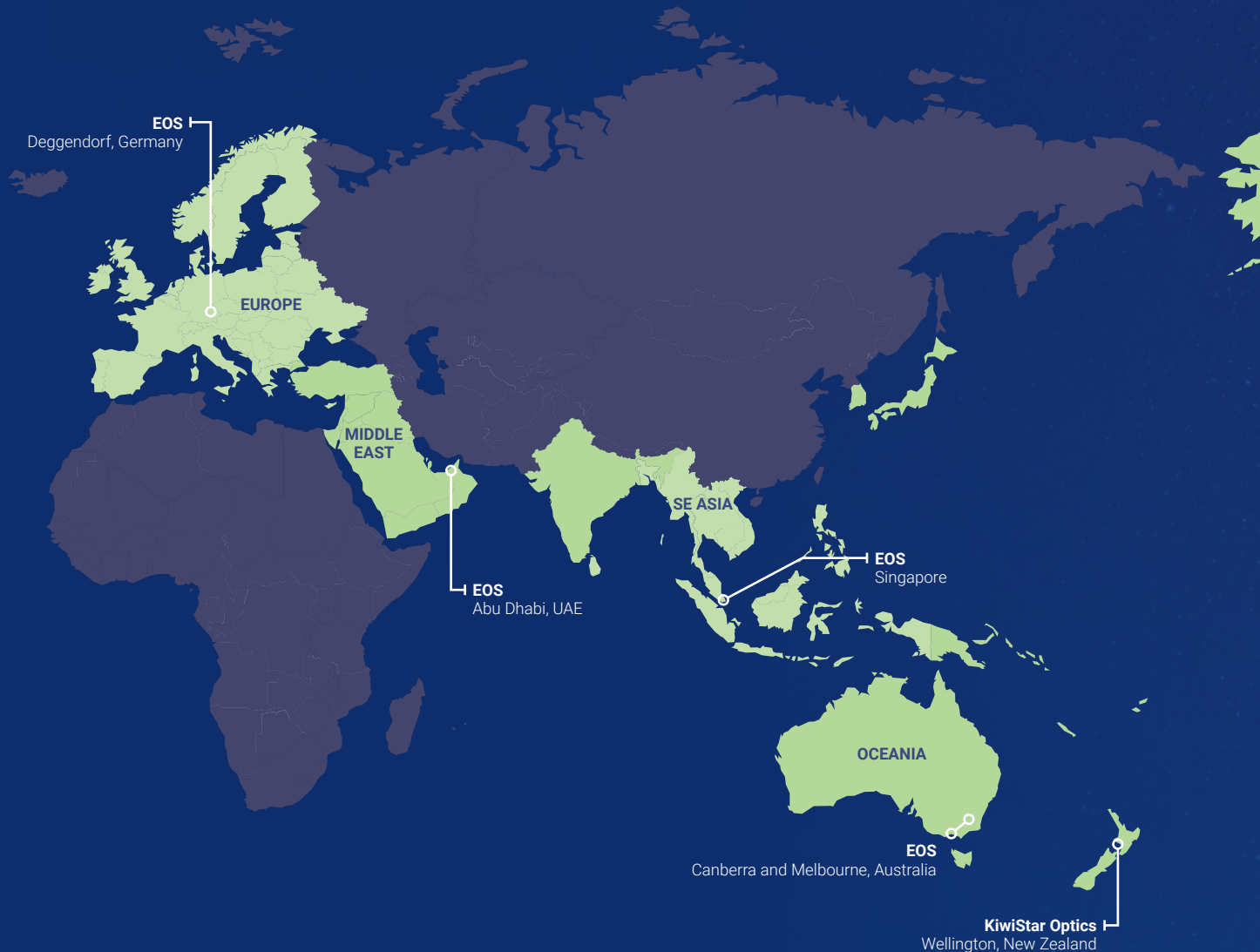
I wish to acknowledge all the employees at EOS whose hard work and dedication have ensured 2024 has been a year of great success and who have laid the groundwork for further success to come.

Dr Andreas Schwer

Managing Director and
Chief Executive Officer

4 April 2025

EOS Target Markets



Our customers have been located in:



Australia



Singapore



Thailand



Canada



Spain



USA



Germany



Japan



France



Portugal



UAE



India



South Korea



Netherlands



Mexico



Sale of Slinger systems to Western European customer

EOS secured a contract to supply Slinger counter-drone remote weapon systems (RWS) to Diehl Defence in Germany, integrating onto a lightweight 4x4 platform to protect critical assets.



Sale of counter-drone container-based RWS to Western European customer

EOS secured a contract to supply counter-drone container-based RWS to a Western European customer, integrating with a 70 mm long-range counter-drone rocket.



Demonstration of counter-drone capability in North America

EOS R400 RWS was demonstrated as part of a Leonardo DRS CUAS system for a North American customer, showcasing a range of effectors on the Stryker vehicle.

The Urgent Drone Threat

The ever increasing use of drones in military contexts has fundamentally altered modern warfare and national security

Recent conflicts in Ukraine and the Middle East have proven that drones now pose a highly credible real-world threat to military and civil assets, infrastructure and personnel.

It is also clear that this threat is not a passing one; drones are now an established fixture of the modern battlefield.

As a result, counter-drone technologies that can defend against drone incursions – efficiently, reliably and cost-effectively – have become a critical capability for modern defence forces.

An agile, evolving technology

Drones are cheap to make, easy to deploy and can be used for both surveillance activities and direct attacks.

Their small size and high manoeuvrability make them difficult to detect, and they can damage and destroy a wide range of military and other targets – from naval assets to ground vehicles to critical infrastructure.

The ease with which drones can be assembled, using commercially available components, and then converted into attack systems lends them a real 'disposability'.

Technological advances – including in artificial intelligence (AI), which may soon enable 'autonomous synchronisation' of drone swarms – look set to increase the potency of drones over time.

In future conflicts we believe that it is likely that whichever side can field the most efficient, scalable, cost-effective drone and counter-drone technologies will have a real military advantage.

A need for solutions

There is widespread acknowledgement in the global defence community that conventional weapon systems are often unsuited to the task of detecting, tracking and neutralising drone threats in any cost-effective manner.

Defence forces around the world – including in the US – are therefore prioritising the development and acquisition of technologies that can counteract the drone threat.

This represents a significant commercial opportunity for EOS.

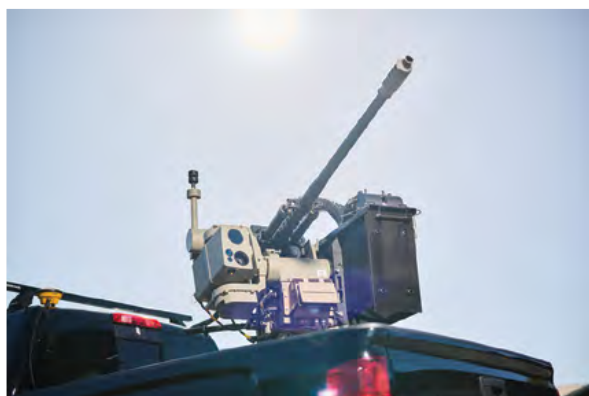
EOS Counter-Drone Technology

EOS is a world leader in high-precision counter-drone technology

EOS' main longstanding activity is in manufacturing ground-to-ground remote weapon systems. We have used this expertise to develop world-leading counter-drone systems.

Today, we design, develop and manufacture highly accurate and precise counter-drone solutions for force and asset protection.

Our counter-drone solutions include both kinetic and high energy laser options that excel at defeating drone threats effectively and at a comparatively low cost per shot.



Slinger

EOS' Slinger is a leading-edge hard-kill system that offers users a decisive advantage in counter-drone operations.

The battle-tested platform integrates a threat-detecting targeting radar (featuring EOS' proprietary electro-optical sensors) and a stabilised four-axis gimbal.

Capable of being fitted with a range of weapons – including machine guns, cannons, rockets and missiles – the system can defeat manoeuvring drones at significantly longer ranges than competitor products.



High Energy Laser Weapon

EOS' formidable high energy laser weapon has been designed to engage drone targets at a range up to 4 km at an economical cost-per-shot.

Equipped with a laser capable of delivering energy levels of 50–100 kW, the weapon was designed to be complemented by both soft and hard kill effectors, offering layered protection to friendly forces, assets and infrastructure.

To ensure high performance, it is supplied with fast-cueing algorithms and with radar, infrared threat detection, and target acquisition and beam locking systems.

If a continuous power supply is unavailable, the system can conduct up to 500 engagements before its battery is exhausted – enough to defeat an entire drone swarm. With continuous power, its ammunition and operation time are greatly extended.

Company Overview

EOS designs, develops and builds the world's most accurate and precise remote weapon systems



EOS unveiled the new R500 remote weapon system at IDEX 2025

Electro Optic Systems (EOS) is an Australia-based manufacturer of advanced technologies for the global and domestic space and defence markets.

The history of the business began in 1983, when EOS was founded in Canberra, Australia – where the Company's global headquarters can still be found.

A proven technological innovator, we deliver cutting-edge remote weapon, counter-drone and space domain capabilities to Australian and international customers.

Electro Optic Systems Holdings Limited ('the Company') and the entities it controls ('the Group') operate in two business divisions:

- EOS Defence Systems
- EOS Space Systems.

The Group's core technologies include advanced optical and laser assemblies, thermal imagers, day cameras, gimbal units and laser rangefinders.

EOS is a world leader in accuracy. Our technical proficiency has enabled the development of an expanding portfolio of products that are notable for their precision and superior performance in real-world conditions.

The Group – a long-established member of the global defence and space industries – has four decades of experience in designing, manufacturing and delivering innovative products and services to our customers.

The breadth of our business has expanded in recent years and EOS now has a global footprint, including on-the-ground operations in Australia, the United States, Europe, Singapore, the Middle East and New Zealand.

EOS is a world leader in accuracy, precision and superior performance in real-world conditions



EOS Defence Systems

EOS Defence Systems specialises in technologies that allow the integration of weapon systems to a diverse range of platforms used in traditional as well as counter-drone warfare. Its products are characterised by extremely high accuracy and comparatively low cost per shot.

Currently, EOS Defence Systems' key products are:

- remote weapon systems (RWS), including high-performance R150 (lightweight), R400, R400-M (marine), and R800 (heavy-calibre) variants
- the Slinger counter-drone system
- high energy laser weapon prototypes for use against uncrewed aerial systems (UAS).

EOS Space Systems

EOS Space Systems is a leader in the global space community whose technologies provide:

- space surveillance and intelligence products and services; and
- space control capabilities.

EOS Space Systems operates as two distinct entities:

- Canberra-based EOS Space Systems, which supplies space domain awareness and space control products and services to domestic and international customers.
- New Zealand-based KiwiStar Optics, which specialises in the manufacture of precision optics and has designed and installed bespoke components for many of the world's leading space observatories.

Demonstration Activities

In 2024 EOS participated in over 20 demonstrations across North America, Europe, the Middle East, Asia and Australia



Long Range Counter-Drone Firing Demo

- Conducted in collaboration with the Australian Army's Robotic and Autonomous Systems Implementation and Coordination Office (RICO).
- Showcased the long-range remote firing capabilities and precision of EOS' R400 RWS mounted on an M113 Armoured Personnel Carrier.
- The RWS was remotely operated from EOS' high-tech facility in Canberra, successfully engaging targets 550 km away at the Australian Defence Force's Puckapunyal Military Area at distances of 300 m and 600 m.



US Army Project Convergence Capstone 4

- Conducted in collaboration with the US Army at the National Training Centre in Fort Irwin, California as part of Project Convergence Capstone 4 (PC-C4).
- Demonstrated the R600 RWS, integrating an M230LF cannon, a coaxial machine gun and four Javelin missiles.
- Mounted on an Army Small Multipurpose Equipment Transport (S-MET) robotic infantry support vehicle, showcasing its multi-domain operational capability and multi-mission payload offerings.



Red Sands Live Fire Exercise

- Conducted as a regular demonstration for a major customer, supporting US–Saudi counter-drone initiatives.
- EOS' R400 RWS performed successfully alongside a variety of counter-drone technologies, engaging drone targets in scenarios based on intricate enemy tactics.
- Delivered in collaboration with a key C2 software development partner.



Stryker Counter-Drone Demonstration

- Conducted in collaboration with Leonardo DRS for US Government customers.
- Demonstrated a variant of the 8x8 Stryker light armoured vehicle, integrating an EOS R400 RWS equipped with a 30 mm cannon and a M240B machine gun, alongside additional counter-drone effectors for layered defence.
- Successfully engaged multiple drone targets, demonstrating near-simultaneous CUAS capability with kinetic and directed energy effectors.

Land Autonomous Systems and Teaming Demo

- Conducted with the Australian Army's Robotics and Autonomous Systems Implementation and Coordination Office (RICO) and the Army's Battle Lab to test uncrewed ground vehicle (UGV) and RWS technologies.
- Demonstrated the integration of UGVs and UAS for autonomous reconnaissance, strike missions and live-fire counter-drone engagements.
- Showcased the EOS R400 RWS, integrated onto both the Hawkei PMV and UGV platforms, used to engage aerial threats.



Advanced Manufacturing

Innovation is the driving force at EOS, and our advanced manufacturing capability is what brings this innovation to life



Preparing the Bale Defence Rough Terrain Vehicle (RTV) with the EOS R150 RWS for transport to a demonstration activity

From design to delivery

EOS has a long, proud heritage of Australian manufacturing, and our Canberra facilities are the global hub for the assembly and integration of our remote weapon and counter-drone systems.

The Company's primary research, development and production centre for laser systems, in Singapore, is supported by a pool of laser and optomechanical engineering experts.

Our production function is always evolving, and our ongoing aim is to make it as agile, efficient and cost-effective as possible – from the CAD Model to the production cells.

This year, EOS made substantial progress in enhancing our production processes and supply chain management.

Specifically, we:

- improved our performance in on-time delivery
- streamlined the sourcing of components
- invested in securing supply chains
- upgraded and refined our engineering and manufacturing IT systems and processes.

Our Quality Management System was also recertified in 2024, following a triennial audit.

We are proud to be contributing to growth in Australia's manufacturing capability and productivity – including through job creation – and adding to the depth and breadth of high technology products manufactured domestically and exported to the world.

Our suppliers enable us to meet the highest industry standards



Assembling an RWS sensor unit



Engineer working in a clean room laser laboratory

A network of valued partners

Our manufacturing function is supported by a network of valued supply chain partners, who are indispensable to our domestic and global business.

EOS products are only as effective as their component parts enable them to be. Our technologies require exacting technical specifications, and our suppliers ensure we can manufacture products to the highest standards. We are careful to build relationships with suppliers who offer technical excellence and exceptional reliability.

We ensure EOS is in strict compliance with all Australian and international standards and regulations relating to our business, including ITAR and other export controls.

Exploring new frontiers through research

Fundamentally, our business is fuelled by cutting-edge research – and our scientific and academic focus have driven our growth for 40 years.

EOS is an active member of the Australian and international STEM communities and has longstanding relationships with a variety of leading Australian research institutions – for example, through the EOS Professorial Chair in Laser Physics at the University of South Australia, established in 2021, which is helping to advance Australia's laser physics capabilities.

Keeping pace with new developments in these and other areas will require bright, ambitious minds – and EOS is committed to supporting the next generation of STEM practitioners.

EOS People

Great technology requires great people, and EOS’ global team is proudly made up of diverse, passionate and highly skilled people

We are proud of ...

Our global employees partnering with global customers and suppliers

To succeed, our people require close partnerships with vendors and partners to deliver to customers globally. From sales and business development through to our global supply chain and production teams, EOS people ensure we have the right equipment, supplies, resources and technology. We rely on our relationships with our extended partners and need great people to ensure we deliver to customers.

A world of career opportunities

Whether they travel for work or work with a global peer and customer base closer to home, at EOS, our employees have a significant opportunity to build great careers.

Celebrating our diversity

EOS is proud of its diverse employee group. This diversity means there are opportunities to acknowledge important traditions and events in each country in which we operate, building our culture while celebrating our unique teams and people in each location.

Building skills for the future

In 2024, EOS offered employees 24/7 access to Udemy, a global online learning provider specialising in technological and critical skills. Udemy enables EOS employees to learn at a time and place that suits them.

Since starting with Udemy in June 2024, 25 per cent of courses taken by EOS employees have been focused on business skills; 73 per cent on technical skills; and 2 per cent on personal skills, including learning languages.

The opportunity to scale the utilisation of Udemy to acquire market-recognised credentials, use ‘sandboxes’ to practise new technical skills and utilise AI to help employees build tailored learning pathways will ensure EOS continues to focus on our people and their development of skills for the future.

A range of targeted learning programs have also been implemented in 2024; examples are given below.

Singapore SkillsFuture

All EOS employees in Singapore can leverage the SkillsFuture program, which provides lifelong learning and upskilling opportunities. 2024 saw employees studying topics ranging from advanced hardware and software troubleshooting, project management and laser radiation safety programs through to data protection and export control compliance programs.

EOS Global Workforce Breakdown

EOS Staff 2024	Number	Female	Female %	Male	Male %
Australia*	364	73	20%	291	80%
New Zealand	12	1	8%	11	92%
Singapore	21	7	33%	14	67%
United States	51	16	31%	35	69%
United Arab Emirates	46	6	13%	40	87%
Germany	2	1	50%	1	50%
Totals	496	104	21%	392	79%

* Includes EM Solutions



EOS team members developing leadership skills

People leadership capability

EOS has introduced a comprehensive leadership development program aimed at equipping current and emerging leaders with the critical skills needed for effective leadership in a dynamic business environment.

In 2024, the first two cohorts have been run in Australia and looking ahead, EOS will be expanding the program globally in 2025.

UAE training program

Employees in the UAE have been working on a specific learning and development plan in 2024 focused on the skills and competencies required to meet their operational needs both locally and internationally. This program has begun with product, technical, operational, program management, financial and safety training. In 2025, the focus will be on advanced technical skills. Walid Mokbel, Director, Support Services, says the program is part of a 'broader, ongoing learning and development plan designed to continuously enhance our teams' expertise'.



2024 Space Camp participants

STEM outreach programs

EOS recognises that connecting with students and highlighting careers in space, technology and advanced manufacturing will have long-term benefits for our industry.

In 2024, EOS supported the Space Camp Scholarships with partner One Giant Leap. This is a school-based STEM program focused on building awareness of, and enthusiasm for, space and on igniting students' imaginations and inspiring them to one day embark on careers in the space industry.

In 2024, EOS organised a tour to Space Camp USA in Huntsville, Alabama for school students, which provided an immersive experience in space science and exploration and gave participants practise in hands-on activities and simulations that mirror real-world astronaut training.



CAREER SPOTLIGHT

Chantelle Nosworthy Assistant Production Manager

Chantelle Nosworthy, Assistant Production Manager at EOS' flagship Queanbeyan production facility, has come a long way since her days as a self-described 'stay-at-home mum' – albeit one with a knack for disassembling and rebuilding lawnmowers.

Since starting at EOS as a Production Technician in 2017, Chantelle has, she says, 'picked up and done things that, honestly, I never thought I would do'. In the process, she has progressed through a series of roles that have seen her take on increasing levels of responsibility at EOS' bustling Queanbeyan site.

Each new experience, she says, only 'made [her] want to figure out more' about what makes the business – and its technologies – tick. 'I took on more responsibility wherever I could.' Today, Chantelle is known as an approachable manager and leader who is always willing to help those around her – a trait she said she admires in her own professional mentors at EOS.

She cites formal learning and development opportunities – including a recent leadership course, first aid training, and ISO9001 and 'test and tag' certifications – as a highlight of her time with the company. 'I've found EOS is very supportive,' she says. 'If you want growth, they will help you to get growth.'

EOS Directors



Mr Garry Hounsell

B.Bus (Acc), FCA, FAICD

Independent Non-executive Chair

Appointed: 24 November 2022

Board Committees:

Nomination Committee (Chair)

Garry is currently Chair of Helloworld Travel Limited (since 2016) and a Non-executive Director at Treasury Wine Estates Limited (since 2012).

Garry was previously the Chair of the Commonwealth Superannuation Corporation, Chair of Myer Holdings Limited (2017-2020; Executive Chair Feb-Jun 2018), Chair and a Non-executive Director of Spotless Group Holdings Limited (2014-2017), and Chair of Emitch Limited (2006-2008) and PanAust Limited (2008-2015). He was also previously an Advisory Board Member of PanAust Limited (2015-2017), Rothschild Australia Limited (2012-2017), and Investec Global Aircraft Fund (2007-2019). He was a Director at Orica Limited (2004-2013), Nufarm Limited (2004-2012), Qantas Airways Limited (2005-2015), Mitchell Communication Group Limited (2008-2010), Integral Diagnostics Limited (2015-2017), Dulux Group Limited (2010-2017) and Investec Aircraft Syndicate Limited (2012-2018). Garry was a member of Commencer Capital's (formally Investec Emerging Companies) Investment Committee (2019-2024).

Garry was a Senior Partner at Ernst & Young (2002-2004), CEO and Managing Partner of Arthur Andersen (2001-2002) and a Partner at Arthur Andersen (1989-2002).

Garry has a Bachelor of Business (Accounting) from the Swinburne Institute of Technology (1975) and is a Fellow of Chartered Accountants Australia and New Zealand and a Fellow of the Australian Institute of Company Directors.

Directorships of other listed entities in the last three years:

Treasury Wine Estates Limited (2012 to present) and Helloworld Travel Limited (2016 to present).



Dr Andreas Schwer

PhD, MSc, MSE

Managing Director and
Chief Executive Officer

Appointed: 11 December 2023

Dr Schwer was appointed as Chief Executive Officer in August 2022 and appointed as Managing Director on 11 December 2023.

An executive leader with deep international experience – including in Asia, the Middle East, Europe, and North America – Dr Schwer has had a varied career in the defence and space domains. His previous experience includes senior positions in the global defence industry, including fourteen years at Airbus Group and five years at the German defence company Rheinmetall AG. Dr Schwer has a thorough understanding of the Company's global operations, having acted, most recently, as President of EOS EMEA (Europe, Middle East, and Africa) for two years, during which time he oversaw the expansion of the company's operations in NATO and Middle Eastern markets. Among his qualifications, he holds a PhD in the field of system modelling and satellite engineering.

Directorships of other listed entities in the last three years:

Independent Director at Titomic Ltd. (1 January 2020–present)



The Hon Kate Lundy

HonLittD, GAICD

Independent Non-executive Director

Appointed: 23 March 2018

Board Committees:

Data Security and Data Governance Committee (Chair)

Audit and Risk Committee

People and Culture Committee

Nomination Committee

Kate served as a Senator representing the Australian Capital Territory from 1996 to 2015. During this time, she held various front bench positions in both Government and Opposition, including the Minister for Sport, Multicultural Affairs and Assisting on Industry and Innovation and the Digital Economy.

Kate continues to be passionate about technology and innovation. Her focus is the positive impact of technology on society, culture and the economy. In 2017, the Australian National University awarded her a Doctor of Letters (honorary doctorate) for her exceptional contributions to advocacy and policy for information communications and technology, for the ACT and nationally.

In 2017, she was inducted into the Pearcey Hall of Fame for distinguished achievement and contribution to the development and growth of the Information and Communication Technology Industry. The Pearcey Foundation is named in honour of Dr Trevor Pearcey, an outstanding Australian ICT Pioneer, notable for his leadership of the project team that built one of the world's earliest digital computers, the CSIR Mark 1, later known as CSIRAC.

Kate is the Chair of the Cyber Security Cooperative Research Centre, the Geospatial Council of Australia and the Chair of the Canberra Institute of Technology. She is also a Non-executive Director of the National Roads and Motoring Association, the National Youth Science Forum and Frontier SI.

Directorships of other listed entities in the last three years:

Nil



Air Marshal Geoffrey Brown AO

BEng (Mech), M.A.
(Strategic Studies)

Independent Non-executive Director

Appointed: 21 April 2016

Board Committees:

People and Culture Committee (Chair)

Nomination Committee

Geoff retired from the Royal Australian Air Force in July 2015 as Air Marshal in the position of Chief of Air Force. Among his qualifications he holds a BEng (Mech), a Master of Arts (Strategic Studies), Fellow of the Institution of Engineers Australia and is a Fellow of the Royal Aeronautical Society. He is Chair of the Advisory Board of CAE Asia Pacific and Deputy Chair of the Sir Richard Williams Foundation. Geoff is a member of the Strategic Advisory Board of Lockheed Martin (Australia) Pty Ltd and a member of the Governing Council of the Temora Air Museum.

Directorships of other listed entities in the last three years:

Nil



Mr David Black

BA(Hons) (Economics), FCA,
MBA, GAICD

Independent Non-executive Director

Appointed: 1 January 2021

Board Committees:

Audit and Risk Committee (Chair)

People and Culture Committee

Data Security and Data Governance
Committee

Nomination Committee

Before retiring from the Deloitte Touche Tohmatsu Australia partnership, David spent 25 years with Deloitte in the UK and Australia. During that time David provided services to a range of clients including in the Defence, Manufacturing and Government sectors. David's experience includes working with growing start-up businesses, multinational corporations and the boards of ASX-listed entities on complex accounting, internal and external auditing, risk management, corporate governance and due diligence engagements. During his time at Deloitte David previously served as the audit partner for the Company.

Since his retirement from Deloitte, David has established a growing family business, The Coastal Brewing Company, and serves on five Government sector audit committees as an independent member, chairing one of those committees.

Directorships of other listed entities in the last three years:

Nil



Mr Robert Nicholson

BSc, LLB, LL.M, MBA, GAICD

Independent Non-executive Director

Appointed: 24 May 2023

Board Committees:

Audit and Risk Committee

Data Security and Data Governance
Committee

Nomination Committee

Robert was a Partner at Herbert Smith Freehills (and predecessor firms) for 28 years. He served on the Freehills Board of Partners for 10 years and was the Chairman for three years in the lead-up to the firm's merger with Herbert Smith to create a global firm with 500 partners and 28 offices.

Robert is a Director of Port of Melbourne, Alinta Energy, Baker Heart and Diabetes Institute and European Australian Business Council. He is a Senior Advisor to Herbert Smith Freehills.

Directorships of other listed entities in the last three years:

Nil

Company Secretaries

Ms Leanne Ralph

BBus (Acc & Fin majors), FGIA, GAICD

Appointed: 23 August 2022

Resigned: 31 May 2024

Ms Melanie Andrews

BComm, MBA, FCPA, GAICD

Appointed: 26 March 2024

EOS Executive Team

Dr Andreas Schwer

Managing Director and
Chief Executive Officer

At EOS, our core advantage lies in our ability to develop and manufacture best-in-class products and services for our clients. Our systems set a global benchmark for accuracy, reliability and performance.

Innovation is at the heart of our business. Our legacy spans over 40 years of advancements in defence and space technologies.

With a deep portfolio of IP and a refreshed strategy focusing on counter-drone solutions – including remote weapon systems and high energy laser weapons – as well as space control products and services, we are well positioned to capitalise on recent geopolitical developments.

At EOS, it's what we do next that matters most.

"Our systems set a global benchmark for accuracy, reliability and performance."



Clive Cuthell

Chief Financial Officer,
Chief Operating Officer

Appointed:
September 2022



Christian Tobergte

Executive Vice President,
EOS Defence Systems
International

Appointed:
April 2024



Ian Cook

Executive Vice President,
EOS Defence Systems
Australia

Appointed:
November 2023



Dr James Bennett

Executive Vice President,
EOS Space Systems

Appointed:
August 2022

Review of Operations

As at 25 February 2025

1. Results for the year ended 31 December 2024

For Electro Optic Systems Holdings Limited and its subsidiaries (collectively, the "Group" or "EOS"), revenue from continuing operations activities was \$176.6m, representing a \$14.6m or 9 per cent increase compared to the prior year (2023: \$162.0m).

The loss before tax from continuing operations was \$38.5m, compared to a loss of \$55.6m in the prior year.

Underlying earnings before interest, taxes, depreciation, and amortisation ("EBITDA")¹ from continuing operations (prior to foreign exchange gains and other one-off adjustments) for the year was a loss of \$12.9m, representing a decrease of \$0.1m compared to the prior year (2023: \$13.0m loss). Further detail is disclosed on the following page.

The Group reported an operating loss after tax from continuing operations of \$35.1m for the year (2023: \$44.3m loss).

Continuing operations does not include the financial results of EM Solutions Pty Limited and its subsidiary ("EMS") for either the current or the comparative period. On 21 November 2024, the Group announced the sale of a subsidiary, EMS. The activities of EMS are disclosed as a discontinued operation at 31 December 2024 and detailed in Note 5 to the financial statements. After the end of the year EOS announced the completion of a transaction to divest 100% of the equity in EMS as well as full repayment of the outstanding debt facilities owed to Washington H. Soul Pattinson ("WHSP"). Further details are set out in the sections below.

The Group reported net cash outflows from operations (including EMS) for the year totalling \$30.4m (2023: \$113.1m net cash inflows). In addition, the Group reported \$3.7m of net cash inflows from investing activities (2023: \$34.7m of net cash outflows). The net cash inflows from financing activities for the year was \$9.2m, due to equity capital fund raising of \$35m during the year. The cash inflows from financing activities were reduced by the repayment of WHSP debt (2023: net cash outflows \$29.1m).

At 31 December 2024, the Group held cash totalling \$52.3m consisting of \$41.1m from continuing operations, and \$11.2m from discontinued operations which is included in assets classified as held for sale (2023:

\$71.0m Group total consisting of \$51.5m from continuing operations, and \$19.5m from discontinued operations).

In addition, the Group had \$56.1m of restricted cash security deposits consisting of \$49.5m from continuing operations, and \$6.6m from discontinued operations (2023: \$67.1m Group total, including \$6.6m for discontinued operations).

Key elements of financial performance are summarised below:

1.1 Revenue

For the year ended 31 December 2024, the Group recorded revenue from continuing operations of \$176.6m (2023: \$162.0m), representing an increase of \$14.4m or 9 per cent.

The increase in revenue was driven partly by higher Defence Systems segment revenue, up from \$155.4m in 2023 to \$165.7m in 2024, an increase of \$10.3m. More detailed information is provided in Section 4 below.

Revenue in the Space Systems segment (excluding EMS) also increased on prior year to \$10.8m (2023: \$6.7m). More detailed information is provided in Section 4 below.

The underlying cause of the 2024 revenue increase was higher activity levels, including on the delivery of a Defence Systems contract to a customer in the Middle East, the delivery of a contract to a Western European Government and the commencement of new space capability contracts with the Commonwealth of Australia.

At 31 December 2024, the Group (excluding EMS) had an order book backlog of unconditional contracted future work of approximately \$135.6m. This represents work under customer contracts, mainly in Defence Systems. The size of this order book at 31 December 2024 is smaller than expected because some opportunities that were targeted to be secured in 2024 are taking longer than expected to develop. The order book backlog is currently expected to be converted to revenue principally in 2025 and 2026.

In addition to the unconditional contracted order book, EOS had conditional orders with Ukrainian customers to a total value of A\$181.0m. More details are set out in section 4 below.

We continue to work on various opportunities and aim to grow the order book during 2025.

¹ Underlying EBITDA represents earnings before finance costs, depreciation, amortisation and taxation expense, discontinued operations, and one-off items. This is a non-IFRS and unaudited measure which provides useful financial information.



EOS high energy laser beam director, featuring a sensor unit, radar, and laser aperture

1.2 Expenses

Expenses in continuing operations increased from \$220.8m in the prior year to \$228.6m in this year. This increase of \$7.8m was partly driven by an increase in employee benefit costs of \$8.4m resulting from higher activity. This is offset by reduced finance costs of \$10.7m due to decrease in interest incurred following the repayments of debt facilities in September 2023 and April 2024. The increase of \$2.9m in administration expenses in 2024 included the impact of work to develop market opportunities into orders, particularly increased marketing costs associated with new product launches and increased travel and management costs associated with growing international markets. Depreciation and amortisation charges increased by \$3.1m from the prior year primarily due to higher amortisation of previous years' transfer from property, plant and equipment and the commencement of amortisation on product development cost.

The Group's gross margin percentage from continuing operations was 48 per cent in 2024 (2023: 45 per cent). This increase was driven by higher margin sales being achieved in 2024 in the Defence Systems business. The Group's gross margin includes Revenue from customers and Raw material and consumables used.

1.3 Underlying EBITDA

Underlying EBITDA for continuing operations (prior to foreign exchange gains and other one-off adjustments) was a loss of \$12.9m, compared to a loss of \$13.0m in the prior year.

Underlying EBITDA

Continuing operations year ended 31 December \$m	2024	2023
(Loss) for the year	(35.1)	(44.4)
Income tax (benefit)	(3.3)	(11.2)
(Loss) before tax	(38.4)	(55.6)
Finance costs	24.6	35.3
Foreign exchange (gain)	(11.6)	(0.9)
Underlying EBIT (loss) (before impairment and foreign exchange gains)	(25.4)	(21.2)
Depreciation & amortization	12.5	9.4
Other one-off (gain) adjustments	-	(1.2)
Underlying EBITDA (loss) (before impairment and foreign exchange gains)	(12.9)	(13.0)

1. Results for the year ended 31 December 2024 (continued)

1.4 Impairment

There were no impairments recognised in the year ended 31 December 2024 or 2023.

1.5 Foreign Exchange

The results from continuing operations included foreign exchange gains in the year of \$11.6m (2023: gain of \$0.9m), which predominantly arose on the translation of US Dollar assets into Australian Dollars.

1.6 Contract Assets

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

At 31 December 2024, the Group had contract assets totalling \$57.4m (31 December 2023: \$68.0m, including \$5.8m from EMS), being revenue earned but not invoiced, primarily on a project with a significant overseas customer in the Middle East. The contract asset decreased by \$10.6m during the year, due to invoices issued to customers during the year exceeding revenue recognised on customer contracts.

1.7 Contract Liabilities

The Group recognises contract liabilities for amounts that have been received from customers as advance payments on projects. During the year, the amount of contract liabilities increased from \$20.6m at 31 December 2023 to \$24.1m at 31 December 2024.

1.8 Cash Balances

The cash balance (including held for sale) decreased from \$71.0m at 31 December 2023 to \$52.3m at 31 December 2024.

The Group continues to closely monitor its cash flow outlook, to ensure that adequate funding is in place and, if necessary, seek to amend the Group capital structure. The Group continues to focus on maximising cash inflows, including seeking contract amendments on existing contracts where appropriate, and securing and delivering on new sales contracts that are cash positive.

Cash Flows from Operating Activities

During the year, the Group had a net cash outflow from operating activities of \$30.4m.

Net cash from operating activities was impacted by a decrease in Receipts from Customers from \$325.5m in the prior year to \$261.1m in 2024. The decrease in receipts follows a contract amendment that resulted in relatively high levels of cash collection during 2023. Payments to Suppliers and employees of \$268.4 m, increased from \$215.9m in the prior year, due to the increased supplier payments as the result of increased activity and investment in supply chain resilience (including long-lead time items). Cashflows from other operating activities of \$23.1m (outflow) was largely driven by interest paid during the year.

Cash Flows from Investing Activities

The Group had a net cash inflow of \$3.7m from investing activities during the year. This included net cash inflows of \$15.2m for security deposits for bonds released under contract with an Australian customer, and cash outflows of \$11.5m from acquisitions of property, plant and equipment, and intangibles.

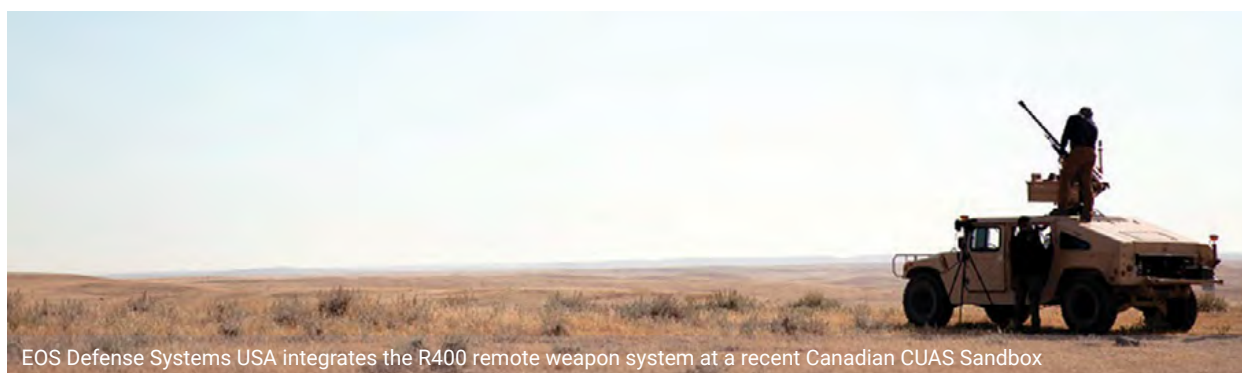
Cash Flows from Financing Activities

A net cash inflow of \$9.2m from financial activities were achieved during the year, compared to a net outflow of \$29.1m in the prior period. The 2024 inflow mainly arose from the impact of the equity raise, partially offset by debt repayments.

During March and April 2024, the Group undertook an equity capital raising via a fully-underwritten Placement and a Share Purchase Plan. The Group successfully raised \$33.2m (net of fees) via a fully-underwritten placement of approximately \$20.6m new fully paid ordinary shares on 25 March 2024. The Group also raised an additional \$1.7m (net of fees) 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. After the end of the year, the Group repaid remaining borrowings. More details are set out at sections 5 and 10 below.



EOS Defense Systems USA integrates the R400 remote weapon system at a recent Canadian CUAS Sandbox

2. Changes in Directors and Management

During the year, there were no changes to Board membership.

The following changes to the management team occurred:

- **Mr Christian Tobergte** was appointed Executive Vice President of Defence Systems International in April 2024 to lead international growth in the Defence Systems business outside of Australia. This role will be based in Europe.
- **Mr Clive Cuthell** was 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 year. 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.

3. Strategic Update

During 2022 EOS initiated a multi-year turnaround program. 2024 represented the second full year of this turnaround program.

During 2024 EOS reviewed how best to continue working to commercialise our longstanding intellectual property. Based on compelling market dynamics, EOS has determined to focus on the growth opportunities in the counter-drone and space domains.

As part of this strategic refocussing, it became apparent that EMS, EOS' naval satellite communications business, had become non-core to the growth strategy. As such, a process was initiated to divest this business which culminated in executing an agreement to sell the business to Cohort plc in November 2024.

The divestment of EMS (which was completed on 31 January 2025) leaves EOS with a strengthened

balance sheet. EOS intends that capital will be prudently deployed to support the growth opportunities identified in counter-drone and space domains noted above.

In line with the work to grow the core business, EOS restructured its core Defence Systems organisation in order to better focus on its strategic objectives to maximise international sales and optimise its operations. This saw the establishment of a new role of "EVP Defence Systems International" in April 2024 to drive international business growth. In addition, the role of "EVP Defence Systems Australia" is now focussed on Australian activity including all of the operational activities there. These roles are filled by highly experienced defence industry leaders, Christian Tobergte and Ian Cook, respectively.

4. Detailed Segment Update

4.1 EOS Defence Systems

Defence Systems had a positive year ended 31 December 2024, with revenue increasing from \$155.4m in the prior year to \$165.7m in 2024. This \$10.3m increase was predominantly due to the impact of the continued focus on the contract for a large customer in the Middle East and a new contract with a Western European Government.

The main activity during the year was the manufacture and delivery of RWS for several different customers.

Market Overview and Sales Activity

Throughout 2024, ongoing conflicts in Ukraine and the Middle East, as well as rising tensions and increased defence spending in other regions, supported customer demand and customer enquiry.

EOS continues to pursue a number of material opportunities in different international markets, including Europe, the Middle East, North America and other international markets. Typically, EOS operates in an industry where it can take an extended period of time

4. Detailed Segment Update (continued)

(including up to, and beyond, twelve months) for new market opportunities to be converted into signed sales contracts.

Work continued during the year on sales opportunities, including significant projects in Australia and internationally.

During the year, negotiations continued in Australia to finalise a contract with Hanwha Defence Australia (HDA) for the provision of RWS in relation to the Australian Land 400 Phase 3 project opportunity. Under this project, HDA has been selected to deliver 129 infantry fighting vehicles to the Australian Defence Force (ADF) in 2027 and 2028.

In the year to 31 December 2024, Defence Systems entered into contracts with customers for the following new business:

- a contract to supply Slinger Counter-Drone RWS to Diehl Defence in Germany valued at €9m (~\$15m);
- orders from Thales worth \$5.4m for the supply of 10 new and refurbishment/upgrade of 9 R400 RWS under its sustainment agreement with the customer;
- an order for Counter-Drone Container Based Remote Weapon Systems (CBRWS) from a new Western European customer valued at €8m (~\$13.6m);
- a contract to supply R600 RWS unit spares to a customer in Southeast Asia, valued at approximately \$28m; and
- EOS Singapore received orders for remote weapon system spares worth SGD17m (~\$20m).

During the year, EOS continued to work with the Ukrainian end-users and customers to allow committed orders to be placed under the conditional contracts that were announced in April 2023, (valued at approximately \$181.0m). EOS has been advised that the Ukrainian Ministry of Defence (MOD) has now listed its R400 with M230LF on the official Armaments List. This listing is a key step toward allowing the MOD to use Ukrainian funds to purchase EOS systems. The situation in Ukraine remains fluid and is subject to changing battlefield priorities, budget constraints and evolving donor attitudes. As announced previously, there is no certainty or guarantee that committed orders will be received by EOS under these conditional contracts.

Defence Systems continues to be in active discussions and contract negotiations for the provision of RWS and related components with other potential customers. In 2024 a number of demonstration units were provided to potential customers for evaluation purposes. Assuming the evaluation of these systems progresses positively,

EOS would hope to move to sell larger, commercial quantities to these customers. There is no certainty that any particular outcome or transaction will result from these discussions and negotiations.

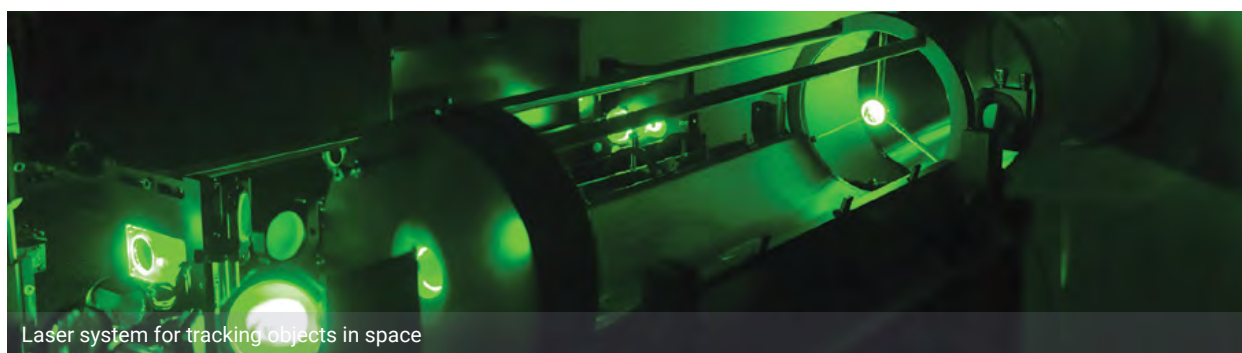
Product Development

Product development work continues on a range of opportunities. Where development costs are significant, the Group is focused on obtaining third party funding, to speed delivery to the market and manage costs and returns on capital.

Defence Systems continued to develop its intellectual property and commercialise its product range during the year:

- 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 demonstrations of 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 over 500km 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.

Typically, new product launches in the defence industry can take one to three years to achieve significant sales and develop commercial maturity.



Laser system for tracking objects in space

High Energy Laser Weapon

EOS believes that High Energy Laser Weapons represent a significant strategic growth opportunity.

During the year, the Group continued discussions with international customers for the potential sale of its new 50kW and/or 100kW High Energy Laser Weapon (HELW). EOS views that the signing of one or more of these commercial agreements would mark an important milestone as it works towards commercialisation of this product line. It is expected to take some time for HELW products to achieve significant commercial scale. There is no certainty that any commercial agreements will occur or that HELW products will achieve commercial scale.

In 2024 EOS established a Laser Innovation Centre in Singapore to carry out new product development work on High Energy Laser Weapon systems. In order to facilitate this, the Group established a new 100% owned company, 'EOS Innovation Singapore Pte Ltd'.

Supply Chain, Operations and Facilities

In 2024 EOS reinvigorated its supply chain team and during the course of the year we have focussed on a number of critical initiatives including:

- **Material Requirements Planning (MRP):** upgraded the MRP systems to improve demand forecasting accuracy, align production with lead times, and optimise planning and delivery.
- **Supply Chain Efficiency:** enhanced on-time delivery performance, streamlined component sourcing, and refined production timelines for greater efficiency and reliability.

Further, in order to improve overall supply chain resilience, safety stock levels for some critical components have been reviewed and, in some areas, increased.

4.2 EOS Space Systems

For the year to 31 December 2024, continuing operations revenue in the EOS Space Systems segment (excluding EMS) increased to \$10.8m from the prior year (2023: \$6.7m).

The Space Systems business delivers space domain services as well as designs, manufactures and deploys telescope and observatory equipment.

During 2024, Space Systems continued to grow and commercialise its technology. Space Systems announced in April and July respectively that it had secured a \$5m and a subsequent \$9m contract with the ADF Joint Capabilities Division in Australia to further develop space capabilities. These projects represent a significant strategic opportunity for EOS and this work was developed consistent with EOS stated strategy of securing third party funding for new capability development work.

During the year, Space Systems continued to develop the market for space control solutions. EOS believes that the future market for space control solutions is potentially very large. During the year, EOS identified several emerging space control opportunities in overseas markets and discussions were held with various potential partners to start to develop these opportunities. 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 in 2025 and will be supported by demonstrations where appropriate.

This market development work is being conducted to support significant long term strategic growth. Typically, in this area it can take several years for opportunities to be developed and converted to signed sales agreements and there is no guarantee that this will be successful.

KiwiStar Optics continues to work on programs for a range of international customers and to seek further opportunities in international markets.

5. Discontinued Operations and Repayment of Debt

In November 2024, the Group announced its intention to divest 100% of EMS to Cohort plc for an enterprise value of \$144.0m.

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

During 2024, EMS continued to focus on building its order book and delivering its satellite communication systems to customers in Australia and other regions. In 2024, EMS worked on the deliverables required under the SEA 1442 Phase 5 contract for the Royal Australian Navy.

Subsequent to year end:

- On 31 January 2025, the transaction to sell 100% of the equity in EMS completed. Accounting for customary adjustments for working capital and net debt, a consideration of \$158.6m was received.
- On 31 January 2025, EOS repaid all remaining debt owing to WHSP. This amounted to \$61.1m which included a "make whole" as required under the facility agreement. Following this repayment, EOS no longer has any outstanding borrowings.

6. Subsequent Events

Apart from items outlined above in this Review of Operations, there have been no transactions or events of a material and unusual nature between the end of the reporting period and the date of the report likely, in the opinion of the Directors of the Company, to significantly affect the operations of the Group, the results of those operations, or state of affairs of the Group in future years.

7. Material Business Risks

The following is a summary of the material business risks of the Group. These are not listed in any order of importance and do not constitute an exhaustive list. Any of these risks may adversely impact on the financial and operating performance and prospects of the Group and on the ability of the Group to continue operating as a going concern.

7.1 Customer Concentration and Future Sales Revenue risks

Currently, the Group's activities are concentrated with a relatively small number of customers and the Group has a secured contract backlog of approximately \$135.6m (excluding EM Solutions and excluding conditional contracts). The Group's ability to continue operating depends on its ability to secure profitable future sales contracts from existing and new customers.

The Group is working to mitigate risk to the best of its ability by implementing plans to diversify the business with a wide range of new customers in different markets. The Group has a detailed pipeline of potential future opportunities which are being developed. There is a risk that opportunities are cancelled, delayed or take longer than expected to be secured in the form of binding customer contracts. EOS works to mitigate this risk by pursuing a wide range of different opportunities.

The group has set management performance targets for new business won in the year (which may span over multiple years) and revenue delivered in the year. Management incentive schemes have been established and are updated regularly.

Future sales revenue and cash receipts are likely to continue to be dependent on the performance of customers and others. For example, EOS sometimes relies on the availability of customer vehicles, or critical components (such as cannons) from suppliers. The Group assesses this risk and takes steps to mitigate this risk, for example by securing appropriate contract terms where possible.

There is no guarantee that the Group will be successful in securing new sales orders, diversifying the business or mitigating potential future non-performance of customers and others.

7.2 Cash Receipts, Liquidity and Funding

The Group incurred a Loss Before Tax from Continuing Operations of \$41.0m for the year ended 31 December 2024 and had a net cash outflow from Operating Activities of \$30.4m.

On 31 January 2025, EOS divested the EM Solutions business, receiving proceeds of \$158.6m. Also on 31 January 2025, EOS repaid all borrowings from its longstanding lender, WHSP. Following these transactions, EOS had approximately \$128.0m unrestricted and available cash on hand at 31 January 2025.

The Group is reliant on cash collections from customers. The receipt of adequate cash from customers depends on customers making timely payments for the goods supplied in accordance with contractual terms, and on the Group securing new additional cash positive sales orders from customers.

The Group is a party to large contracts which can create relatively large receipts and payments in short periods of time. The Group is exposed to risk if receipts are delayed and this can create additional liquidity requirements at short notice.

The Group manages these risks by monitoring near-term cash forecasts and proactively pursuing cash collections and other cash management strategies. In addition, the group maintains cash reserves to provide capacity to withstand short term movements in cash receipts and payments.

If adequate cash is not received, the Group may not have sufficient liquidity and funds to continue operations. In addition, it may be required to negotiate with lenders and/or other finance providers and to complete further debt or equity raisings. There is no assurance that the Group will be successful in any potential future recapitalisation and/or refinancing should this be required.

The Group is regularly asked to issue bank guarantees under new customer contracts. The issuance of such guarantees is subject to the availability of facilities from financiers. There is no guarantee that such facilities will be obtained and this can impact the Group's ability to secure customer contracts on attractive terms.

The Group works to mitigate the risk to the best of its ability by holding regular and constructive discussions with customers and with finance providers, by maintaining proactive cash management processes and by exploring profitable new business opportunities that, if converted, will be cash flow positive. The Group has set management performance targets for cash collected in the year.

7.3 Foreign Exchange Risks

The Group typically incurs costs in Australian dollars and United States dollars, and sells products priced in Australian dollars, United States dollars and other currencies. This can create a foreign exchange exposure, particularly as costs are often incurred prior to sales proceeds being received, and the Group holds assets (including contract assets) denominated in foreign currency. The Group works to monitor foreign exchange exposures and mitigates these by factoring reasonably possible foreign exchange movements into pricing.

In addition, receipts and payments with foreign exchange risks are often incurred over extended periods of time, protecting the Group from the impact of short-term movements in foreign exchange rates. Except for the natural hedge afforded by having operating assets in different countries, the Group does not hedge foreign exchange transactions. The Group may incur exchange gains and losses as a result of this approach.

7.4 Human Resources Risks

The Group's ability to continue operating depends on its ability to retain and attract (where required) high quality managers and staff with skills aligned to the future needs of the Group, particularly as our order book expands.

The market for hiring new staff remains challenging in several key areas. The Group employs a range of initiatives to attract and retain appropriate resources, including implementing remuneration strategies and other employee benefits.

The introduction of new regulatory requirements (see section xi below) can also limit the size of talent pools that the Group can hire from, particularly when we are required to hire Australian or other approved citizens. EOS continues to develop opportunities widen our hiring pools to address this.

The Group evaluates concentration risks (including our reliance on talent pools in small geographic markets such as Canberra, Australia), and ways to reduce this. This includes regularly considering the expansion of our production capability in the United States and other places in order to have wider pools of talent to draw upon.

There is no guarantee that the Group will be able to retain or attract key managers and staff. This may have an adverse impact on the Group's financial and operating performance.

7. Material Business Risks (continued)

7.5 Cyber / Information Technology Risks

The Group is dependent on the performance, reliability and availability of technology platforms, data centres and technology systems, including services provided by third parties. The Group operates in the defence industry and has a higher inherent Cyber / Information Technology risk profile than other organisations. There is a risk that technology systems may be adversely affected by disruption, including by factors outside the Group's control. This could lead to a prolonged disruption to the Group's activities, with adverse effects on the Group's products and services, operations, interactions with suppliers, employees and others, delivery to customers, cash receipts and net cash flows, and on the Group's reputation.

The Group employs expert personnel and third-party service providers to help mitigate these risks. These mitigations include monitoring threats and other processes and insurance. The technical nature of this risk is subject to ongoing rapid evolution. If this risk arose, there is no guarantee that the mitigation activities would be effective and in this situation, it could have an adverse effect on the ability of the Group to continue operating. During 2023 a Board subcommittee, the Data Security and Data Governance Committee, was established to oversee this risk. The work of this committee continued during 2024.

7.6 Geo-Political Change Risks

The Group is exposed to changes in geopolitical risks, including changes in the operating environment that arise from wars, terrorist acts and tensions between states that impact global security. In addition, political and governmental changes can ultimately lead to changes in market demand and other factors that impact the Group.

The Group operates in international markets in the defence industry and has a higher inherent geo-political risk profile than other organisations. The Group is also exposed to the risk of political and economic instability in international markets, inconsistent product regulation by national governments or their agencies, imposition of product tariffs and burdens, difficulty in enforcing intellectual property rights, national taxes, and language and other cultural barriers.

During 2024 and early 2025, the risk of the imposition of product tariffs increased as some countries (including the United States) indicated a willingness to consider imposing tariffs. The Group expects this risk to continue

evolving. This could result in changes that adversely affect the cost of materials purchased by the Group or the prices ultimately charged by the Group to customers. EOS monitors developments and works to ensure customer opportunities and contracts are not exposed to this risk. There is no guarantee that this work will be successful.

Changes in geopolitical situations or legal requirements could have an adverse impact on market development, sales opportunities, revenues, operations, costs, profits, and cash receipts and net cash flows, including the ability of customers to pay for products and services supplied. The Group addresses this by monitoring global developments, including meeting with senior defence and political leaders in different countries. The Group also considers potential future situations, particularly when developing and adapting market strategies and plans, as well as working to influence critical decisions through appropriate channels.

7.7 Operational Continuity and Supply Chain Risks

In future, the Group's continuing operations may be affected by a range of factors, including the interruption of availability of materials and components caused by supply chain issues, access to operational premises and access to high-level engineering skills and personnel and to customer and supplier facilities and equipment. The Group's products are also subject to obsolescence risks, including the ongoing availability of critical components that may no longer be being manufactured by suppliers.

The Group continues to monitor these risks and develop plans to mitigate them, including working to source and hold inventories of critical parts. In addition, the Group continues to work with customers and others to address the risk of adverse financial impacts of delays in access to firing ranges, vehicles, weapons and other critical items. There is no guarantee that the Group's plans will cover all scenarios or be successful in fully mitigating these risks, should they arise in future.

7.8 Stakeholder Dissatisfaction Risks

The Group interacts with a wide range of stakeholders. These include customers (including various government, defence force and other buyers) suppliers, industrial partners, regulators, lenders and funding providers, employees, equity investors and others. The ongoing operation of the Group depends on the level of trust and confidence of stakeholders in the Group.

Following the divestment of EM Solutions, on 31 January 2025 the Group repaid all outstanding borrowings. Thereafter, the Group had cash reserves of approximately \$128.0m. The Group believes this represents an improvement in overall financial health

and that this provides the opportunity to improve stakeholder confidence in the Group and reduce the risk of stakeholder dissatisfaction.

Stakeholder requirements typically encompass a wide range of demands and there is no guarantee that the Group will be able to satisfy stakeholder requirements. Ultimately this could lead to stakeholders withholding co-operation and could disrupt the Group's ability to continue operating.

7.9 Product Development Risks

Ongoing sales of existing products to customers require the maintenance and development of these existing products and services to ensure that they remain effective and saleable. In order to continue operating, existing products require the maintenance of legacy software, and the implementation of new software. The Group employs software engineers to do this.

The Group sells high technology products and services and there is the risk that fundamental technology changes occur over time rendering the group's existing products obsolete. For example, global security endeavours could become more focussed on missiles than land-based RWS technologies, presenting a risk and an opportunity. The Group addresses this by monitoring market trends and developing new technology products. Product development work is subject to risk, including that if the Group does not have access to the necessary investment funding and the necessary skills and capabilities, this could disrupt or delay product development programs and ultimately the ongoing operation of the Group.

The technical and commercial development of new products depends on the assessment of evolving market needs and a range of complex factors. Product development can consume significant amounts of investment and may not result in the development of commercially viable products for extended periods of time or ever. The Group's access to appropriate sources of development funding and technical, commercial and strategic capability is a key determinant of future product viability and the Group may not be able to access these.

The Group regularly reviews its product portfolio and evolving market trends and continues to develop product plans to mitigate these risks. There is no guarantee that the Group will be able to maintain or develop commercially viable products.

7.10 ESG: Environmental, Social and Governance Risks

The Group is exposed to a wide range of Environmental, Social and Governance risks. The Group's products (including Remote Weapons Systems) and other services may be used in ways that impact human rights. The Group is required to comply with export controls in Australia, the United States and other countries and has implemented controls designed to ensure compliance.

The Group is exposed to other social risks, including evolving community expectations and obligations relating to supply chain ethics, modern slavery, diversity rights and behaviour of Directors and employees. The Group works to monitor social risks and take steps to monitoring evolving social expectations and ensure compliance with obligations in good time.

The Group is subject to the impacts of changes in environmental requirements and compliance obligations (including reporting) and to the impacts of changes in the environment on supply chain availability. The Group's activities, products and services may have an adverse impact on the environment. The Group's exposure to environmental and climate change risks is set out in more detail below.

The Group is exposed to governance risks, including those relating to Board governance and diversity and the ability to retain and attract Board Directors with the requisite skills and experience. In addition, there is the risk that Board review and decision-making processes may not be effective in ensuring compliance with relevant obligations and the ongoing viability of the Group at all times. The Board monitors its composition, skills and processes to assess this risk and take steps to mitigate risks where possible.

ESG risks continue to evolve rapidly and there is no guarantee that the Group will be able to continue to anticipate or fully mitigate these risks.

7. Material Business Risks (continued)

7.11 Regulatory and Legal risks

The Group is subject to a wide range of regulatory and legal obligations in different countries. These include regulations relating to Export Licences for its products, security obligations (including relating to sites, people, data and classified activities) and compliance with the requirements of the Australian Securities Exchange and the *Corporations Act 2001* (Cth) in Australia (and similar legislation in other countries).

The Group's regulatory and legal environment is subject to change and the Group can face new regulatory requirements. In Australia, new legislation on Safeguarding Australia's Military Secrets imposed new restrictions and requirements on the Group during 2024. The new *Defence Trade Controls Amendment Act 2024* also created new restrictions and requirements. The Group has taken steps to manage compliance with these new requirements. There are also evolving risks, such as the risk of tariffs outlined at section 7.6 above.

Changes in regulatory and legal requirements can impact the Group's ability to sell, manufacture or export key products or components. The Group monitors changes in the regulatory and legal environment and seeks to take mitigating actions where appropriate. There is no certainty that any mitigating actions taken may be effective in a way that allows the Group to continue operating without short-term or long-term impacts.

The Group's relationships with counterparties (including customers, suppliers, and others) are governed by contracts and relevant legislation in Australia, the United States of America and other countries. In addition, the Group's ongoing operations depend on continuing to meet regulatory and licencing requirements in different parts of the business and different jurisdictions.

In particular, the Group requires specific government permits (including Export Licences) under the applicable export laws of the country of manufacture for each export of defence equipment. Such permits are issued and occasionally withdrawn for political and strategic reasons by the issuing government. Delivery contracts must be declined or terminated without fault if an export licence is not granted and the Group works to manage this risk.

There is the risk that the Group could be subject to disputes, legal claims, litigation, investigations, class actions and sanctions from customers, suppliers, investors, lenders and other funding providers, regulators, governments and others. These may relate to past, current or future events or activities of the Group, including actions or omissions by Directors and

employees. For example, as previously disclosed, EOS is subject to an ongoing investigation by ASIC in Australia in connection with compliance with disclosure obligations and related duties regarding the Company's 2022 revenue guidance. EOS has fully co-operated with this investigation and has not received any indication from ASIC that any action will be taken in relation to the matters being investigated. As with any investigation of this nature it is not possible to predict whether any action may be taken by ASIC or third parties. There is no guarantee that any past, current or future such matters arising will be resolved in a way that allows the Group to continue operating without short-term or long-term impacts.

7.12 Additional Information on Climate Change and Climate-related Risks

The Group is exposed to climate change and climate-related risks. Directors are responsible for providing oversight of the Group's risks and opportunities in this area.

The main climate risks that the Group face in the short term include compliance with evolving legislation, including reporting obligations in different jurisdictions. Reporting obligations are evolving and jurisdiction-specific and the Group works to ensure compliance with these requirements.

During 2024, the Group conducted an initial assessment of climate reporting obligations. As part of this, it was determined that the Group expects to be required to comply with climate-related financial disclosure obligations for the 2027 reporting year.

Over the medium and long term, the Group has identified the risk that additional obligations will arise relating to potential mitigation of adverse environmental activity within the Group's supply chains. The Group has an extensive and fragmented supply chain base which is involved in the manufacture of electronic and other equipment.

The Group's strategy for managing climate-related risks is under review which will include modelling of different climate-related scenarios, such as a '2 degrees centigrade or lower' scenario.

The Group has identified ESG (including climate risks) as a risk to the Group through its risk management process which is overseen by the Directors. Assessing this risk and developing mitigations and other actions (current and planned) is the responsibility of management. The Directors are responsible for monitoring compliance with the various evolving requirements (including reporting obligations), progress being made and the development of future plans.

The Group plans to renew its climate risk goals, strategy and detailed plans, including setting metrics and targets and preparing for climate-related reporting requirements during 2025 and 2026.

8. Long-Term Incentive Plan

During the year, 2,100,000 share options and 1,260,000 share rights were issued to the Managing Director and CEO, Dr Andreas Schwer, following approval at the AGM in May 2024.

In addition, during the year a further issue of 866,489 share options and 195,445 share rights were issued to executives and senior management as part of the Omnibus Employee Incentive Plan.

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.

No other share rights or share options were issued to directors during or after the period.

9. 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 in order to offset against purchases of its products and services ("Offset Program").

This commitment is secured by an offset bond of US\$16.9m (A\$27.3m) which is guaranteed by Export Finance Australia. In respect of the bond, a cash security amount of US\$13.7m (A\$22.1m) has been placed on deposit.

As part of the offset program, EOS is required to develop, agree and submit an approved business plan, which will generate offset credits, to the offset credit authority. A proposed business plan was submitted to the offset authority in September 2023. During the year the Group continued to have advanced discussions regarding the business plan with the offset credit authority and, as at balance date, the business plan remained under review by the offset credit authority.

In addition during the year, consistent with the proposed business plan, EOS entered into a non-binding memorandum of understanding ("MOU") with Shielders Advanced Industries ("Shielders"), a specialist manufacturer in the Middle East. The MOU envisages the formation of a Joint Venture ("JV") between Shielders and EOS that focusses on local manufacturing and assembly of RWS, assisting EOS in meeting its offset obligations.

Subsequent to balance date, on 20 February 2025, the Group received approval from the offset credit authority for the business plan. The business plan envisages that EOS will enter into a 49% EOS owned JV with Shielders Advanced Industries to set up local manufacturing and assembly of EOS' R150 Remote Weapon System product in the Middle East. Under the approved business plan, EOS has from 1 July 2026 until 1 July 2033 to set up the JV and earn the relevant offset credits. This includes in kind contributions including the licensing of EOS owned IP, and providing technical data packages and manufacturing knowhow to the JV.

Under the approval from the offset credit authority the final form of the JV agreement, along with other agreements necessary for the JV to manufacture and assemble EOS product in the Middle East, require the approval of the offset credit authority and approval of the JV agreement must be obtained from the offset credit authority within a maximum of 6 months from 20 February 2025. Under the approved business plan in order to earn offset credits EOS must contribute not less than AED 18.365m (approximately A\$7.8m) in cash to the JV.

As a result of the above, EOS considers that both at balance date and as at the date of this report it was 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.

10. Capital Management

The Group's continued its focus on capital management, and the monetising of contracts on hand during 2024.

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.

As at 31 December 2024, the Group had one secured borrowing facility with WHSP ("WHSP facility") for a Term Loan principal facility of \$35.0m. The total debt repayment obligation of \$52.1m was due to mature on 11 October 2025 and included principal, establishment fees and interest accrued, not paid in cash, to that date. The facility carried interest of 22 per cent per annum and line fees of 4 per cent. This loan was secured by a general security deed which ranked pari passu with the Export Finance Australia facility. The borrowing facility agreement included a 100 per cent 'make whole' clause which applied in the case of any early repayment.

As noted in section 6 above, on 31 January 2025, following the divestment of EMS, EOS was required to repay the WHSP facility noted above. The total

10. Capital Management (continued)

repayment (including principal, interest and make whole amounts) was \$61.1m.

Following this debt repayment and the divestment of EMS, EOS had no borrowings on 31 January 2025, and held approximately \$128.0m in available cash balances. Furthermore, EOS had approximately \$48.0m of restricted cash (security deposits) held as security for bank guarantees.

The Group is a party to large contracts which can create relatively large receipts and payments in short periods of time. The Group is exposed to risk if receipts are delayed and this can create additional liquidity requirements at short notice. The Group manages this risk by monitoring near-term cash forecasts and proactively pursuing cash collections and other cash management strategies.

11. Business Outlook

During 2024, work continued on EOS' transformation strategy to focus on commercialising its substantial intellectual property and growing its core product offerings in the areas of Remote Weapon Systems, High Energy Laser Weapons and Space Control. This work included divesting EM Solutions, and initiatives to diversify the Group's range of products and the markets we serve, and ultimately our customer and revenue base. This is intended to improve profitability and returns over time.

11.1 Outlook for Markets, Customers and Order Book

The market outlook for the Group's products remains positive. This is due to the conflict in Ukraine, conflicts in the Middle East and continued tensions in other locations. Customer interest in NATO countries and other markets remains strong and overall customer enquiry levels and discussions continued to advance during the year. We continue to see particularly strong interest in counter-drone solutions.

Typically, EOS operates in an industry where it can take an extended period of time (up to a year or more) for new opportunities to be converted into signed sales contracts. During 2024 and in early 2025, some opportunities have taken longer to develop than originally anticipated. EOS continues to pursue a number of material opportunities in different markets, including Europe, North America the Middle East and other international markets.

At 31 December 2024, the unconditional backlog order book was \$135.6m (excluding EMS). EOS aims to both grow the backlog order book and convert the existing conditional orders to binding orders during 2025. Achieving this depends on a range of factors, some of which are outside of EOS control.

11.2 Outlook for Revenue

Typically, the recognition of revenue is governed by the achievement of project milestones specified in customer contracts. Changes in project timing, and the timing of the Group's revenue, can arise due to unplanned changes in circumstances.

The level of future revenue in 2025 and beyond will depend on the delivery against contracts on hand and on the level of new contracts secured and delivered during the year. Factors including the achievement of product manufacturing and delivery milestones, compliance with detailed contractual requirements, ongoing customer relationships and the outcome of commercial discussions and negotiations as well as the quantum of new contracts secured all impact revenue recognised. Due to the nature of the industry in which EOS operates historically, the timing and quantum of revenue has been difficult to predict with certainty.

During 2024, EOS revenue from continuing operations was \$176.6m. Achieving a similar revenue in 2025 will depend on the company converting some of its pipeline or other new opportunities to confirmed orders and delivering on the requisite manufacturing, delivery and other milestones. In addition, based upon the delivery profile of existing contracts, and the work to secure new contracts, EOS expects that 2025 revenue will be heavily biased to the second half of the year.

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



EOS COMES
INTO PLAY
WHEN THE
FIRST SHOT
MATTERS

Directors' Report

The Directors of Electro Optic Systems Holdings Limited submit herewith the annual financial report of the Company for the year ended 31 December 2024.

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

1. Directors

The names and particulars of the Directors of the Company during or since the end of the financial year are:

Name	Particulars
Mr Garry Hounsell B Bus (Acc), FCA, FAICD Independent Non-executive Chair Appointed: 24 November 2022 Board Committees: Nomination Committee (Chair)	Experience and Expertise Garry is currently Chair of Helloworld Travel Limited (since 2016) and a Non-executive Director at Treasury Wine Estates Limited (since 2012). Garry was previously the Chair of the Commonwealth Superannuation Corporation, Chair of Myer Holdings Limited (2017-2020; Executive Chair Feb-Jun 2018), Chair and a Non-executive Director of Spotless Group Holdings Limited (2014-2017), and Chair of Emitch Limited (2006-2008) and PanAust Limited (2008-2015). He was also previously an Advisory Board Member of PanAust Limited (2015-2017), Rothschild Australia Limited (2012-2017), and Investec Global Aircraft Fund (2007-2019). He was a Director at Orica Limited (2004-2013), Nufarm Limited (2004-2012), Qantas Airways Limited (2005-2015), Mitchell Communication Group Limited (2008-2010), Integral Diagnostics Limited (2015-2017), Dulux Group Limited (2010-2017) and Investec Aircraft Syndicate Limited (2012-2018). Garry was a member of Commencer Capital's (formally Investec Emerging Companies) Investment Committee (2019-2024). Garry was a Senior Partner at Ernst & Young (2002-2004), CEO and Managing Partner of Arthur Andersen (2001-2002) and a Partner at Arthur Andersen (1989-2002). Garry has a Bachelor of Business (Accounting) from the Swinburne Institute of Technology (1975) and is a Fellow of Chartered Accountants Australia and New Zealand and a Fellow of the Australian Institute of Company Directors. Directorships of other listed entities in the last three years: Treasury Wine Estates Limited (2012 to present) and Helloworld Travel Limited (2016 to present).
Dr Andreas Schwer PhD, MSc, MSE Managing Director and Chief Executive Officer Appointed: 11 December 2023	Experience and Expertise Dr Schwer was appointed as Chief Executive Officer in August 2022 and appointed as Managing Director on 11 December 2023. An executive leader with deep international experience – including in Asia, the Middle East, Europe, and North America – Dr Schwer has had a varied career in the defence and space domains. His previous experience includes senior positions in the global defence industry, including fourteen years at Airbus Group and five years at the German defence company Rheinmetall AG. Dr Schwer has a thorough understanding of the Company's global operations, having acted, most recently, as President of EOS EMEA (Europe, Middle East, and Africa) for two years, during which time he oversaw the expansion of the company's operations in NATO and Middle Eastern markets. Among his qualifications, he holds a PhD in the field of system modelling and satellite engineering. Directorships of other listed entities in the last three years Independent Director at Titomic Ltd (1 January 2020 to present).

Name	Particulars
<p>Air Marshal Geoffrey Brown AO BEng (Mech), MA (Strategic Studies)</p> <p>Independent Non-executive Director</p> <p>Appointed: 21 April 2016</p> <p>Board Committees:</p> <ul style="list-style-type: none"> • People and Culture Committee (Chair) • Nomination Committee 	<p>Experience and Expertise</p> <p>Geoff retired from the Royal Australian Air Force in July 2015 as Air Marshal in the position of Chief of Air Force. Among his qualifications he holds a BEng (Mech), a Master of Arts (Strategic Studies), Fellow of the Institution of Engineers Australia and is a Fellow of the Royal Aeronautical Society. He is Chair of the Advisory Board of CAE Asia Pacific and Deputy Chair of the Sir Richard Williams Foundation. Geoff is a member of the Strategic Advisory Board of Lockheed Martin (Australia) Pty Ltd and a member of the Governing Council of the Temora Air Museum.</p> <p>Directorships of other listed entities in the last three years:</p> <p>Nil</p>
<p>The Hon Kate Lundy HonLittD, GAICD</p> <p>Independent Non-executive Director</p> <p>Appointed: 23 March 2018</p> <p>Board Committees:</p> <ul style="list-style-type: none"> • Data Security and Data Governance Committee (Chair) • Audit and Risk Committee • People and Culture Committee • Nomination Committee 	<p>Experience and Expertise</p> <p>Kate served as a Senator representing the Australian Capital Territory from 1996 to 2015. During this time, she held various front bench positions in both Government and Opposition, including the Minister for Sport, Multicultural Affairs and Assisting on Industry and Innovation and the Digital Economy.</p> <p>Kate continues to be passionate about technology and innovation. Her focus is the positive impact of technology on society, culture and the economy. In 2017, the Australian National University awarded her a Doctor of Letters (honorary doctorate) for her exceptional contributions to advocacy and policy for information communications and technology, for the ACT and nationally.</p> <p>In 2017, she was inducted into the Pearcey Hall of Fame for distinguished achievement and contribution to the development and growth of the Information and Communication Technology Industry. The Pearcey Foundation is named in honour of Dr Trevor Pearcey, an outstanding Australian ICT Pioneer, notable for his leadership of the project team that built one of the world's earliest digital computers, the CSIR Mark 1, later known as CSIRAC.</p> <p>Kate is the Chair of the Cyber Security Cooperative Research Centre, the Geospatial Council of Australia and the Chair of the Canberra Institute of Technology. She is also a Non-executive Director of the National Roads and Motoring Association, the National Youth Science Forum and Frontier SI.</p> <p>Directorships of other listed entities in the last three years:</p> <p>Nil</p>
<p>Mr David Black BA(Hons) (Economics), FCA, MBA, GAICD</p> <p>Independent Non-executive Director</p> <p>Appointed: 1 January 2021</p> <p>Board Committees:</p> <ul style="list-style-type: none"> • Audit and Risk Committee (Chair) • People and Culture Committee • Data Security and Data Governance Committee • Nomination Committee 	<p>Experience and Expertise</p> <p>Before retiring from the Deloitte Touche Tohmatsu Australia partnership, David spent 25 years with Deloitte in the UK and Australia. During that time David provided services to a range of clients including in the Defence, Manufacturing and Government sectors. David's experience includes working with growing start-up businesses, multinational corporations and the boards of ASX-listed entities on complex accounting, internal and external auditing, risk management, corporate governance and due diligence engagements. During his time at Deloitte David previously served as the audit partner for the Company.</p> <p>Since his retirement from Deloitte, David has established a growing family business, The Coastal Brewing Company, and serves on five Government sector audit committees as an independent member, chairing one of those committees.</p> <p>Directorships of other listed entities in the last three years:</p> <p>Nil</p>

1. Directors (continued)

Name	Particulars
Mr Robert Nicholson BSc, LLB, LLM, MBA, GAICD Independent Non-executive Director Appointed: 24 May 2023 Board Committees: <ul style="list-style-type: none"> • Audit and Risk Committee • Data Security and Data Governance Committee • Nomination Committee 	Experience and Expertise Robert was a Partner at Herbert Smith Freehills (and predecessor firms) for 28 years. He served on the Freehills Board of Partners for 10 years and was the Chairman for 3 years in the lead-up to the firm's merger with Herbert Smith to create a global firm with 500 partners and 28 offices. Robert is a Director of Port of Melbourne, Alinta Energy, Baker Heart and Diabetes Institute and European Australian Business Council. He is a Senior Advisor to Herbert Smith Freehills. Directorships of other listed entities in the last three years: Nil

2. Company Secretary

Name	Particulars
Ms Leanne Ralph BBus (Acc & Fin majors), FGIA, GAICD Appointed: 23 August 2022 Resigned: 31 May 2024	Leanne was appointed as Company Secretary on 23 August 2022. She is an experienced Company Secretary with over 15 years in this field and is a fellow of the Governance Institute of Australia and a Graduate Member of the Australian Institute of Directors. Leanne resigned as Company Secretary on 31 May 2024.
Ms Melanie Andrews BComm, FCPA, MBA, GAICD Appointed: 26 March 2024	Melanie was appointed as Company Secretary on 26 March 2024 in line with the Board's strategy to transition this role in-house. She is an experienced Company Secretary and is a Graduate Member of the Australian Institute of Directors.

3. Principal Activities

The principal activities of the Group are in the Space Systems and Defence Systems business.

The Company is listed on the Australian Securities Exchange.

4. Review of Operations

A detailed review of operations is included on pages 20 to 32 of this financial report.

5. 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.

6. 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.

7. Changes to the State of Affairs

During the year, the following events occurred:

- Successful completion of Equity Institutional Placement and share purchase plan (SPP);
- Full repayment of the Additional Working Capital debt facility; and
- Announcement of the divestment of EM Solutions Pty Ltd ("EMS"), which was completed after the end of the financial year on 31 January 2025.

Apart from those mentioned above, there were no significant changes in the state of affairs of the Group during the financial year.

8. Share Issues

During the year, the Company undertook an equity raise through a fully underwritten placement and a share purchase plan to accelerate business growth. On 2 April 2024, the Company issued 20,588,235 new shares at \$1.70 as a result of the placement and issued a further 1,127,858 shares at \$1.70 resulting from the purchase plan on 22 April 2024.

9. Share Options / Rights

In 2023, the Board introduced a new Omnibus Employee Incentive Plan ("OEIP"). No further issues under the legacy Loan Funded Share Plan ("LFSP") and legacy Employee Share Option Plan ("ESOP") are anticipated.

9.1 Share Options

Share options granted to Directors and Executives

2,100,000 share options were issued to the Managing Director and CEO, Dr Andreas Schwer, following approval at the AGM in May 2024. No other share options were issued to directors during or after the period.

Share options on issue at year end or exercised during or since the financial year

There were 5,812,076 unlisted options outstanding as at the date of this report as per the table below.

Options	Issue Date	Expiry Date	Exercise Price	Plan
60,000	19 May 2020	18 May 2025	\$4.75	Legacy ESOP
20,000	15 March 2021	16 March 2026	\$5.27	Legacy ESOP
2,765,587	22 December 2023	31 December 2028	\$0.50	OEIP
2,100,000	30 May 2024	31 December 2028	\$0.50	OEIP
71,500	30 August 2024	31 December 2028	\$0.50	OEIP
794,989	30 August 2024	31 December 2029	\$1.70	OEIP
5,812,076				

9. Share Options / Rights (continued)

No share options were exercised during or since the financial year. There were no shares or interests issued during or since the financial year as a result of exercise of an option.

During the year ended 31 December 2024, 60,000 legacy ESOP share options lapsed due to the expiry of the exercise period and 417,500 share options (consisting of 230,000 ESOP options and 187,500 OEIP options) were forfeited due to cessation of employment.

5,732,076 share options have been issued under the OEIP and remain outstanding as at the date of this report.

At 31 December 2024, vesting conditions relating to 3,332,534 share options were satisfied and the options vested.

To the extent that share options vest and are exercised in the future, the Company expects they will be settled from existing ordinary share capital from unallocated shares within the employee share trust.

9.2 Share Rights (OEIP)

Share rights granted to Directors and executives

1,260,000 share rights were issued to the Managing Director and CEO, Dr Andreas Schwer, following approval at the AGM in May 2024.

No other share rights or share options were issued to directors during or after the period.

Share rights on issue

2,759,062 share rights have been issued and remain outstanding as at the date of this report. No shares were issued during or since the financial year as a result of exercise of a share right. During the year ended 31 December 2024, 37,500 share rights were forfeited due to cessation of employment.

At 31 December 2024, the vesting conditions relating to 868,839 share rights were satisfied and these share rights vested.

To the extent that share rights vest and are exercised in the future, the Company expects they will be settled from existing ordinary share capital from unallocated shares within the employee share trust.

9.3 Legacy Incentive Plans – Loan Funded Share Plan and Employee Share Option Plan

Legacy Loan Funded Share Plan

No new loan funded shares were issued during or since the financial year, and the Company has provided no new interest free loans to the Directors or employees to acquire the shares under the legacy LFSP during or since the financial year.

As a result of a number of performance conditions and shares price hurdles not being met, as well as the resignation of certain employees, 320,000 legacy LFSP shares lapsed during the year. This resulted in the total amount of the loans outstanding under the legacy LFSP at year-end being \$2,275,925 (2023: \$3,902,150).

Loan funds under the legacy LFSP are limited recourse in nature, meaning that the Company's recourse is limited to the shares. If at the date that the loan becomes repayable the Directors or employees shares are worth less than the outstanding balance of the loan, the Company cannot recover the difference from the Director or employee. Interest will not be payable on the outstanding balance of the loan.

All shares issued under the legacy LFSP are held in an employee share trust, on behalf of all participants. The name of the Trust is EOS Loan Plan Pty Ltd as trustee for the Share Plan Trust. All shares under the legacy LFSP are also subject to a holding lock until all conditions are satisfied and the loan is repaid.

The shares issued to Directors and employees are subject to both 'vesting conditions' and 'forfeiture conditions'. Directors and employees are required to satisfy the vesting conditions in order for their shares to vest. While Directors and employees hold their shares, they will be subject to forfeiture conditions and the shares will be forfeited if either the vesting conditions are failed to be satisfied or the Director or employee cease to be employed or continue to provide services to a Group company in certain circumstances.

Once the vesting conditions have been satisfied, removed or lifted, the shares become vested and Directors and employees may deal with them in accordance with the rules of the legacy LFSP subject to sale restrictions and other legal restrictions (such as under the Company's trading policy).

Reconciliation of Loan Funded Shares balances:

	Balance of shares outstanding at 31 December 2023	Lapses and other movements *	Balance of shares outstanding at 31 December 2024
Directors			
Mr David Black	75,000	-	75,000
Directors Total	75,000	-	75,000
Employees			
Senior employees	715,000	(320,000)	395,000
Employees Total	715,000	(320,000)	395,000
Total, Directors and Employees	790,000	(320,000)	470,000

*The following conditions were not met in 2024:

- The share price hurdle of \$9.50 was not exceeded by 31 December 2024, resulting in 247,500 shares issued to senior employees lapsing.
- Certain employees resigned from subsidiaries of the Group, resulting in 72,500 shares issued to them lapsing.

Legacy Employee Share Option Plan (ESOP)

As a result of a number of performance conditions and share price hurdles not being met, as well as the resignation of certain employees, 290,000 legacy share options lapsed during the year under this plan. The options issued are subject to both 'vesting conditions' and 'forfeiture conditions'.

Once the vesting conditions have been satisfied, removed or lifted, the options vest and employees may deal with them in accordance with the plan rules subject to sale restrictions and other legal restrictions (such as under the Company's trading policy).

Reconciliation of unlisted options balances issued under the legacy Employee Share Option Plan:

	2023 Number	2024 Number
Balance at beginning of the financial year	720,000	370,000
Lapsed during the year	(350,000)	(290,000)
Balance at end of the financial year	370,000	80,000
Exercisable at the end of the year	-	-

Further Details

More comprehensive information on share options and share rights are included in the Remuneration Report.

10. Subsequent Events

On 31 January 2025, EOS announced that the EMS divestment had been completed, with net proceeds (after customary adjustments) of \$158.6m received on that date.

Contemporaneous with the completion of the transaction, EOS has repaid Washington H. Soul Pattinson ("WHSP") \$61.1m. This represents the final repayment of WHSP of all outstanding amounts, including 'make whole' payments required under the borrowing agreements. Following this debt repayment and the divestment of EMS, the Group had no borrowings and held approximately \$128.0m of available cash balances at 31 January 2025.

Subsequent to year-end, on 20 February 2025, the Group received approval from the offset credit authority for the business plan. Refer to Note 30 to the financial statements for further details.

Apart from those mentioned above, there have been no transactions or events of a material and unusual nature between the end of the reporting period and the date of the report likely, in the opinion of the Directors of the Company, to significantly affect the operations of the Group, the results of those operations, or state of affairs of the Group in future years.

11. Deed of Cross Guarantee

On 6 April 2018, the parent entity, Electro Optic Systems Holdings Limited, entered into a deed of cross guarantee with two of its Australian wholly-owned subsidiaries, Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited. On 28 November 2019, EM Solutions Pty Ltd entered into an Assumption Deed and became a party to the Deed of Cross Guarantee.

On 21 November 2024, the Group announced the decision to sell EMS, a wholly-owned subsidiary. EMS is disclosed as a discontinued operation at 31 December 2024.

Subsequent to year end, the Group completed the sale of EMS, and as a result, EMS was removed from the Deed of Cross Guarantee.

12. Likely Developments

The Group will continue to operate in the Space Systems and Defence Systems businesses. Please see the Review of Operations for further details.

13. Environmental Regulations

During the year, the Group engaged an external sustainability and climate expert to support the Group as part of its proactive approach to prepare for Australian Sustainability Reporting Standards (ASRS) compliance. In this initial phase, the Group conducted introductory workshops with key management across the group, performed an ASRS gap assessment, and developed an initial roadmap to address key gaps identified.

The Group plans to conduct a climate risk and opportunities assessment during 2025 and 2026 as part of the phased approach. Involving key management and operational employees, this assessment will help evaluate the Group's climate risk profile, including climate change, and identify areas for development to meet emerging climate-related disclosure requirements.

In the opinion of the Directors the Group is in compliance with all applicable environmental legislation and regulations.

14. Ethical Labour

The Group has established measures regarding fair labour practices and guidelines that create a respectful and safe work environment for our employees globally. The Group is committed to treating all of its employees with respect and strictly prohibits the use of slavery, forced labour and human trafficking. To prevent the occurrence of forced, compulsory or child labour, the Group has implemented local labour policies and practices to comply with the *Modern Slavery Act*. Any person who applies for employment with the Group does so on a voluntary basis and all employees are legally entitled to leave upon reasonable notice without penalty. In accordance with the Group's recruiting guidelines, offers of employment must be conditional upon successful completion of required background checks. Background checks are required to protect the safety of employees and to ensure that employees meet the Group's standards.

15. Diversity

The Group values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly, the Group's diversity policy ("Diversity Policy") outlines its diversity objectives in relation to gender, age, cultural background, ethnicity, employment of veterans and other factors to leverage the widest pool of available talent. A copy of the Group's Diversity Policy is available on the Company's website.

Section 6 of the Diversity Policy states that the Group will establish appropriate and meaningful objectives for achieving gender and other forms of diversity.

The Group's current objectives are to:

- improve the participation of women in the workforce; and
- improve retention of staff.

As at 31 December 2024, the Group's gender diversity mix was as follows:

EOS Directors 2024	Number of personnel	Female	Female %	Male	Male %
Board*	5	1	20%	4	80%

EOS Staff 2024	Number of personnel	Female	Female %	Male	Male %
Australia	364	73	20%	291	80%
New Zealand	12	1	8%	11	92%
Singapore	21	7	33%	14	67%
United States	51	16	31%	35	69%
United Arab Emirates	46	6	13%	40	87%
Germany	2	1	50%	1	50%
Total Staff	496	104	21%	392	79%

* Board* excludes the Managing Director who is included under Staff as CEO.

The proportion of female employees to total workforce has increased slightly from 20 per cent in 2023 to 21 per cent at the end of 2024.

16. Dividends

The Directors recommend that no dividend be paid and no amount has been paid or declared by way of dividend since the end of the previous financial year and up to the date of this report.

17. Director Shareholdings

The following table sets out each Director's relevant interest in shares, restricted ordinary shares under the legacy LFSP of the Company or a related body corporate as at the date of this report.

Directors	Fully paid ordinary shares	Fully paid ordinary shares restricted – LTI plans	Share options under OEIP	Share rights under OEIP
Mr Garry Hounsell	517,647	-	-	-
Dr Andreas Schwer	-	-	2,100,000	1,260,000
Air Marshal Geoffrey Brown AO	32,197	-	-	-
The Hon Kate Lundy	26,431	-	-	-
Mr David Black	30,610	75,000	-	-
Mr Robert Nicholson	137,647	-	-	-

18. Indemnification and Insurance of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors and Officers of the Company and any related body corporate against a liability incurred as such a Director or Officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the coverage provided and the amount of the premium. The Company has agreed to indemnify the current Directors, Company Secretary and Executive Officers against all liabilities to other persons that may arise from their position as Directors or Officers of the Company and its controlled entities, except where to do so would be prohibited by law. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

To the extent permitted by law and professional regulations, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit. The indemnity does not apply to any Loss resulting from Ernst & Young Australia's negligent, wrongful or wilful acts or omissions. No payment has been made to indemnify Ernst & Young Australia during or since the financial year.

19. Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or committee member).

During the financial year, the following meetings were held:

- 17 Board meetings
- 6 Audit and Risk Committee meetings
- 6 People and Culture Committee meetings
- 2 Data Security and Data Governance Committee meetings
- 2 Nomination Committee meetings.

	Board of Directors		Audit and Risk Committee		People and Culture Committee		Data Security and Data Governance Committee		Nomination Committee	
Directors	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Mr Garry Hounsell	17	17	-	-	-	-	-	-	2	2
Dr Andreas Schwer	17	16	-	-	-	-	-	-	-	-
Air Marshal Geoff Brown AO	17	16	-	-	6	6	-	-	2	2
The Hon Kate Lundy	17	17	6	6	6	6	2	2	2	1
Mr David Black	17	17	6	6	6	6	2	2	2	2
Mr Robert Nicholson	17	17	6	6	-	-	2	2	2	1

19.1 Audit and Risk Committee

The members of the Committee during the year were Mr David Black (Chair), the Hon Kate Lundy and Mr Robert Nicholson.

The Audit and Risk Committee have reviewed the Group's risk management profile during the year to satisfy itself that it continues to be sound and that the Group is operating with due regard to the risk appetite set by the Board. The Chief Legal Officer prepares a risk profile for regular review by the Committee and the Board of Directors.

19.2 People and Culture Committee

The current members of the Committee are Air Marshal Geoffrey Brown AO (Chair), Mr David Black and the Hon Kate Lundy.

19.3 Data Security & Data Governance Committee

The current members of the Committee are the Hon Kate Lundy (Chair), Mr David Black and Mr Robert Nicholson.

19.4 Nomination Committee

All Non-executive Board members are members of the Nomination Committee.

20. Remuneration

Dear Shareholders,

Your Board is pleased to present the Remuneration Report for the year ending 31 December 2024.

This year has been marked by significant progress against our strategy. EOS has focused on growing the three core product ranges of Remote Weapons Systems, High Energy Laser Weapons and Space Control. In line with this focus we recently sold EM Solutions, our non-core satellite communications subsidiary, for \$158.6m.

Company Performance

The Group's financial results for FY24 were solid:

- Revenue from continuing operations increased by 9 per cent to \$176.6m;
- Net Loss After Tax for the Group (including discontinued operations) reported continued to reduce on our path to sustainable profitable operation to \$19.7m in FY24;
- Our share price increased 25 per cent through the year to \$1.30 as at 31 December 2024; and
- After the balance date, following the completion of the EM Solutions divestment on 31 January 2025, EOS has no borrowings and holds approximately \$128.0m in cash. In addition to cash balances, EOS had a further, \$48m of restricted cash held as security for bank guarantees.

FY24 Remuneration Outcomes – STI and OEIP

Our remuneration framework is designed to attract and retain executives with appropriate skills and experience. The Group operates internationally and must compete globally in the defence sector. Our framework strikes a balance between fixed pay and at-risk pay, ensuring our KMP are compensated in a manner that is both competitive and aligned with global standards. Our global perspective is reflected in the service-based component of the OEIP, a common practice outside of Australia.

In addition to market-based adjustments to fixed remuneration for our executive KMP, the performance outlined above resulted in FY24 STI outcomes of 35 per cent of maximum for the MD/CEO and 54 per cent of maximum for the CFO/COO. Details are set out in section 21.1 (iv) of this report.

The higher value in 2024 share-based payments for the MD/CEO relates to the deferral of the 2023 grant requiring shareholder approval at the 2024 AGM.

The first tranche of the FY23 LTI grant was available for vesting following the end of the financial year, and will be reported upon in the FY25 remuneration report.

The Board believes that our incentive outcomes are a fair reflection of the achievements of management throughout the year.

FY24 Remuneration changes

Several changes were made to our remuneration framework in FY24.

- i. **STI Deferred Equity Adjustment:** To further align executive remuneration with shareholder outcomes, a 25 per cent deferred equity component has been incorporated into the STI structure for KMP, with a 12-month deferral period. This directly ties a portion of the STI to the company's medium-term performance.
- ii. **NED Fee Increase:** As disclosed in the 2023 Remuneration Report, after assessing the market competitiveness of our director fees we increased those fees from 1 January 2024 to better reflect the demands and responsibilities of our directors and to continue to be competitive in attracting directors of appropriate experience and skill. The Chair's fee was increased \$175,000 per annum, while the fees for our directors were increased to \$100,000 per annum.

Changes to Remuneration for FY25

- i. **LTI Modifications:**
 - a. The FY25 LTI grant to KMP will be allocated 25 per cent in Rights which vest for continued service and 75 per cent in performance-based Options (previously 50/50). This shift places greater emphasis on performance driven incentives.
 - b. The FY25 LTI issue of options will be based on a relative TSR performance measure, replacing the share price hurdle that was used for previous issuances.

The Board will continue to review our remuneration framework in line with practices in the markets in which we operate and with reference to feedback from our shareholders.

Yours sincerely



Air Marshal Geoffrey Brown AO

Chair – People and Culture Committee

21. Remuneration Report (Audited)

Contents

- 21.1 Remuneration Overview**
- 21.2 Details of Remuneration**
- 21.3 Share-based compensation**
- 21.4 KMP equity holdings and other transactions**
- 21.5 Company performance and shareholder returns**

21.1 Remuneration Overview

The Key Management Personnel (KMP) of the Group, who had the authority and responsibility for planning, directing and controlling the activities of the Group during the year were:

Name	Role	Term as KMP
Non-executive Directors		
Mr Garry Hounsell	Chair, Non-executive Director	Full financial year
Air Marshal Geoffrey Brown AO	Non-executive Director	Full financial year
The Hon Kate Lundy	Non-executive Director	Full financial year
Mr David Black	Non-executive Director	Full financial year
Mr Robert Nicholson	Non-executive Director	Full financial year
Executive Director		
Dr Andreas Schwer	Managing Director (MD) and Chief Executive Officer (CEO)	Full financial year
Executive KMP		
Mr Clive Cuthell	Chief Financial Officer (CFO) and Chief Operating Officer (COO)	Full financial year

This report outlines the remuneration arrangements in place for Directors and Executives of the Group. A review of roles that met the definition of KMP was undertaken during the year.

The Directors are responsible for remuneration policies and packages applicable to the Board members and Executives of the Group. The Group has a separate People and Culture Committee. The remuneration policy is to ensure the remuneration package properly reflects the persons duties and responsibilities. The Group's executive team is based in both Australia and internationally and the nature and structure of remuneration has been designed to be globally competitive.

Non-executive Directors

In accordance with best practice corporate governance, the structure of Non-executive Director and senior manager remuneration is separate and distinct.

Non-executive Director remuneration reflects the Group's desire to attract, motivate and retain experienced directors and to ensure their active participation in advocating for the interests of shareholders, in areas such as corporate governance, remuneration, compliance, risk and Group strategy. The size of the remuneration pool that can be paid to Non-executive Directors is governed by resolutions passed at a General Meeting of shareholders.

Each Non-executive Director receives a fee for serving as a Director of the Company. The level of Director remuneration is as follows:

Role	Fee 2024 \$	Fee 2023 \$
Board Chair	175,000	140,000
Non-executive director	100,000	70,000
Committee Chair	-	-
Committee Member	-	-

All fees presented above include statutory superannuation, where applicable. Directors may be reimbursed for expenses reasonably incurred in attending to the Group's affairs.

Non-executive Director fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. Shareholders approved a resolution at the 2020 AGM to set the aggregate pool limit of Non-executive Director fees at \$1,000,000 per annum (excluding options). This limit has not increased since 2020. The manner in which this limit is apportioned amongst Directors, and the policy of granting options to Directors, is determined by Directors within this limit set by shareholders.

As identified in the 2023 annual report, the Board increased the level of Director fees paid within this limit, to \$175,000 for the Chair and \$100,000 for each Non-executive Director, effective from 1 January 2024. The change was approved following a review and benchmarking to ensure that the fees paid to the Chair and Directors remains competitive to attract appropriately qualified Directors.

No options were granted to or exercised by any Non-executive Director during 2024.

21. Remuneration Report (Audited) (continued)

Executive Pay

The Group aims to reward executives with a level and mix of remuneration commensurate with their position, responsibilities and performance, in a way that aligns with business strategy so as to:

- reward executives for Group and individual performance against targets set by reference to suitable benchmarks;
- align executive's interests with those of shareholders; and
- ensure that the total remuneration paid is competitive by market standards.

i. Structure

The remuneration paid to executives is set with reference to prevailing market levels and typically comprises a fixed salary, short-term incentive and a long-term incentive, comprising share options and share rights. Incentives are granted to executives in line with their respective levels of experience and responsibility. Details of the amounts paid, and the number of options granted to executives are disclosed elsewhere in the Directors' Report.

ii. Employment contracts

Executives and senior management are employed under standard employment contracts which contain no unusual terms. Beyond accrued leave benefits, there are no other termination payments or golden parachutes for any Directors or executives. The MD/CEO and the other senior management have 90-day notice periods under their employment contracts.

iii. Fixed remuneration

The level of fixed remuneration for executives is set at market competitive levels to attract and retain executives of appropriate international experience and is reviewed and benchmarked periodically.

iv. Short-term performance incentives (STI)

Executives and senior management have a target STI opportunity based on the accountabilities of their specific role and impact on the Group's performance. Each year appropriate targets and key performance indicators (KPI's) are determined for each individual to reflect the core drivers of short-term performance and to provide a framework for delivering sustainable value to the Group, its shareholders and customers.

Five to six KPI's are determined for each participant which cover both Group and business unit financial performance measures and individual non-financial measures of performance. For each KPI, a base, target and a stretch objective is set. Each KPI is weighted evenly.

Performance measures for the MD/CEO and CFO/COO are set by reference to the following criteria:

	MD / CEO		CFO / COO	
	Weighting	Achieved	Weighting	Achieved
	%	%	%	%
Business Financial Goals	60%	46%	60%	62%
Strategic Order Pipeline Goals	40%	64%		
Stakeholder			13%	100%
Processes			27%	115%
STI Outcome (% of target)		53%		110%
STI Outcome (% of maximum)		35%		54%

The STI is determined after the end of the financial year following a review of performance over the year against the STI performance measures by the MD/CEO (and in the case of the MD/CEO and CFO/COO, by the Board). The STI is paid following the release of this Financial Report.

Group earnings, revenue, cash flow, order book and business unit profits are measures against which the Group's short-term financial performance is assessed. Non-financial hurdles relate primarily to the delivery of team or business unit objectives and projects.

During 2024, the structure of the STI was amended for the MD/CEO and the CFO/COO with the introduction of an STI deferral element where 25 per cent of STI payable is in the form of deferred equity in EOS shares.

v. Long-term incentives – Omnibus Employee Incentive Plan ("OEIP")

During 2023, the OEIP, was established to replace the legacy LFSP. It is anticipated that annual grants will be made to senior managers under the OEIP to align remuneration with the creation of shareholder value over the long term.

The grant under the OEIP comprises:

- a. share options with share price vesting targets intended to drive performance that will generate significant shareholder value; and
- b. share rights, with service-based vesting that are intended to retain the management team.

In both cases, the value of the reward is linked to the future share price, providing strong alignment with shareholders. The initial LTI grant to the MD/CEO and CFO/COO was structured as 50 per cent options and 50 per cent rights, however in future issues the composition will be 25 per cent rights and 75 per cent options.

There is not expected to be any change in share capital as a result of the existing OEIP allocations as it is anticipated the existing allocations will be funded by shares already issued and held in trust as lapsed shares from the legacy LFSP.

The structure of the OEIP is detailed below with full details of offers included in Note 22 to the financial statements.

21. Remuneration Report (Audited) (continued)

21.2 Details of Remuneration

Details of the remuneration of each member of KMP of the Group are set out in the tables following.

No executives are employed by the holding company. The following table discloses the remuneration of the executives of the Group for the period during which they were considered key management personnel:

2024	Short term			Post employment	Share-based ²			Total	
	Salary & Fees	Cash STI Bonus ¹	Other benefits	Super-annuation	Loan Funded Share Plan	OEIP Options/Rights	Deferred Equity Bonus	Other long term benefits	Termination benefits
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Directors									
Mr Garry Hounsell	157,304	-	-	17,696	-	-	-	-	-
Air Marshal Geoffrey Brown AO	89,888	-	-	10,112	-	-	-	-	-
The Hon Kate Lundy	89,888	-	-	10,112	-	-	-	-	-
Mr David Black	89,888	-	-	10,112	17,460	-	-	-	-
Mr Robert Nicholson	97,268	-	-	2,732	-	-	-	-	-
Dr Andreas Schwer	752,499	238,500	14,450	-	-	1,637,688 ³	79,500	-	-
Total	1,276,735	238,500	14,450	50,764	17,460	1,637,688	79,500	-	-
Other key management personnel									
Mr Clive Cuthell	679,636	223,864	34,264	28,665	-	540,440	74,621	5,564	-
Total	679,636	223,864	34,264	28,665	-	540,440	74,621	5,564	-

1) All bonuses are earned in the financial year to which they relate and are paid during the following year as either cash or deferred equity.

2) The share-based payments above are based on the valuation at the grant date using a valuation model, pro-rated over the period from grant date to vesting date.

3) The higher value in 2024 share-based payments for Dr Schwer relates to the deferral of the 2023 grant requiring shareholder approval at the 2024 AGM.

2023	Short term			Post employment	Share-based ²				Total
	Salary & Fees	Bonus	Other benefits	Super-annuation	Loan	Funded Share Plan	OEIP Options/ Rights ¹	Other long term benefits	Termination benefits
	\$	\$	\$	\$		\$	\$	\$	\$
Directors									
Mr Garry Hounsell	126,411	-	-	13,589	-	-	-	-	140,000
Air Marshal Geoffrey Brown AO	63,206	-	-	6,794	(78,571)	-	-	-	(8,571)
The Hon Kate Lundy	63,206	-	-	6,794	(78,571)	-	-	-	(8,571)
Mr David Black	63,206	-	-	6,794	(32,940)	-	-	-	37,060
Mr Robert Nicholson	42,339	-	-	-	-	-	-	-	42,339
Ms Deena Shiff	15,837	-	-	1,663	-	-	-	-	17,500
Mr Robert Kaye	15,837	-	-	1,663	-	-	-	-	17,500
Total	390,042	-	-	37,297	(190,082)	-	-	-	237,257
Other key management personnel									
Dr Andreas Schwer	711,471	518,000	34,509	-	-	383,600	-	-	1,647,580
Mr Clive Cuthell	657,207	275,280	42,787	13,699	-	226,507	4,183	-	1,219,663
Dr James Bennett	329,435	42,250	-	30,762	2,228	44,723	13,431	-	462,829
Mr Matthew Jones	304,231	50,750	-	32,074	(31,450)	-	-	145,821	501,426
Mr Ian Cook	47,792	20,583	6,789	4,813	-	-	323	-	80,300
Total	2,050,136	906,863	84,085	81,348	(29,222)	654,830	17,937	145,821	3,911,798

1) OEIP options and rights expense in 2023 is a part-year allocation.

2) The share-based payments above are based on the valuation at the grant date using a valuation model, pro-rated over the period from grant date to vesting date.

21. Remuneration Report (Audited) (continued)

21.3 Share-based Compensation

Share Options (OEIP)

Vesting Principles

The options will vest if the vesting conditions have been met on a Testing Date in the manner set out in the tables below, provided that the employee continues to provide services to the Group on the date of vesting.

	% vest if share price hurdle met	Share price hurdle required to be met for period of 20 trading days prior to Testing Date – can be non-consecutive	Testing Dates	Exercise Period
2023 Grant	50%	\$1.20	31/12/24	From Vesting Date until 31 December 2028
	100%	\$3.00	31/12/25 31/12/26	
2024 Grant	50%	\$3.00	31/12/25	From Vesting Date until 31 December 2029
	100%	\$5.00	31/12/26 31/12/27	

Options will vest on a linear pro-rata basis for share price performance between the lower and upper share price hurdle as tested on each testing date. Future issues of options will be based on a relative TSR performance measure, replacing the existing share price hurdle.

2,100,000 share options were issued to the Managing Director in May 2024. 1,375,417 share options were issued to executives assessed as Key Management Personnel during 2023. No options were exercised by any executive during 2024.

Share Rights (OEIP)

Vesting Principles

The rights will vest in the below proportions based purely on a service condition if the employee remains employed by the Group on the below hurdle dates.

	Amount to vest	Continued employment on Testing Date
2023 Grant	One third	31/12/24
	One third	31/12/25
	One third	31/12/26
2024 Grant	One third	31/12/25
	One third	31/12/26
	One third	31/12/27

Share rights are subject to a service condition and if an employee is not employed on a testing date, those rights will lapse.

1,260,000 share rights were issued to the Managing Director in May 2024. 825,250 share rights were issued to executives assessed as Key Management Personnel during 2023. No share rights were exercised by any executive during 2024.

Long Term Incentive – Legacy Plans

During 2023 the Board determined to replace the legacy Loan Funded Share Plan ("LFSP") and the legacy Employee Share Option Plan ("ESOP") with the OEIP as the long-term incentive for management.

Of the 790,000 shares allocated at the beginning of the year to the legacy LFSP, 320,000 shares were forfeited during the year, either as a result of not meeting performance conditions, expiry or cessation of employment. 470,000 legacy LFSP shares remain at the end of the financial year.

Of the 370,000 remaining unlisted options at the beginning of the year issued under the legacy ESOP, 290,000 options were forfeited during the year, either as a result of not meeting performance conditions, expiry or cessation of employment. 80,000 legacy ESOP options remain at the end of the financial year.

It is not intended that any future grants will be made under the legacy LFSP or legacy ESOP. These employee options have similar vesting and forfeiture conditions as those issued under the legacy LFSP.

Legacy LFSP

Details of the historical grants under the legacy LFSP are outlined below.

Vesting Principles

The shares will vest at the end of each 'Vesting Period' in the manner set out in the tables below, provided that the following conditions are met:

- a. Directors and employees continue to provide services to the Group on each of the vesting dates (or such other date on which the Board makes a determination as to whether the vesting condition has been met); and
- b. the performance hurdles are satisfied, which relate to the Company's earnings before income tax (EBIT) and the Company's share price. Notably, EBIT and share price hurdles must both be achieved in order for Shares to vest under each tranche.

Elements of remuneration related to performance

There are service conditions and performance conditions both market and/or non-market conditions attached to the restricted fully paid ordinary shares issued under the share plan.

The overall performance of the Company as measured by the share price will determine whether the shares vest and whether the Director or executive receives any benefit from these shares. The time service condition was chosen by the Board as an appropriate condition as it helps in the retention and motivation of staff.

The ordinary restricted shares were issued to Directors, senior executives and senior staff under the legacy LFSP. These ordinary restricted shares are subject to performance and vesting conditions.

Further measures, hurdles and sale restrictions

Employees and Directors may be subject to individualised measures and hurdles associated with any shares issued to them under the legacy LFSP. To the extent shares vest, they will be subject to sale restrictions as outlined in the tables below for each separate issue of loan funded shares.

Grant Date	Issue/loan price	Share price hurdle to achieve	Share Price Hurdle expiry date	Vesting period ends	Remaining Balance 31 December 2024	
					LFSP shares	Held by
2021	\$4.06	\$11.50	30/6/25	30/6/25	75,000	Director
Total					75,000	

21. Remuneration Report (Audited) (continued)

In order for vesting to occur, the share price hurdle must be reached on at least 30 trading days, not necessarily consecutive, by the share price hurdle expiry date. If the vesting conditions are not satisfied, or if the Board determines that they cannot be satisfied, the unvested Shares will be forfeited.

Additional vesting conditions exist for some senior employees under the terms of the legacy LFSP which specifically relate to the performance of their business sectors within the Group. These conditions are outlined in Note 22 of the financial statements.

As at 31 December 2024, there remains 470,000 LFSP shares on issue.

21.4 KMP Equity Holdings and Other Transactions

The following table sets out each key management personnel's equity holdings (represented by holdings of fully paid ordinary unrestricted shares in Electro Optic Systems Holdings Limited).

	Number of shares				
	1 Jan 2024	Purchased during the year	Sold during the year	Ceased to be KMP	31 Dec 2024
Mr Garry Hounsell	500,000	17,647	-	-	517,647
Air Marshal Geoffrey Brown AO	26,315	5,882	-	-	32,197
The Hon Kate Lundy	23,490	2,941	-	-	26,431
Mr David Black	12,963	17,647	-	-	30,610
Mr Robert Nicholson	120,000	17,647	-	-	137,647
Dr Andreas Schwer	-	-	-	-	-
Mr Clive Cuthell	-	-	-	-	-
Total	682,768	61,764	-	-	744,532

The following table sets out each key management personnel's equity holdings (represented by holdings of restricted fully paid ordinary shares in Electro Optic Systems Holdings Limited issued under the legacy LFSP).

	Number of Legacy LFSP shares					
	1 Jan 2024	Purchased during the year	Sold during the year	Lapsed during the year	Ceased to be KMP	31 Dec 2024
Mr Garry Hounsell	-	-	-	-	-	-
Air Marshal Geoffrey Brown AO	-	-	-	-	-	-
The Hon Kate Lundy	-	-	-	-	-	-
Mr David Black	75,000	-	-	-	-	75,000
Mr Robert Nicholson	-	-	-	-	-	-
Dr Andreas Schwer	-	-	-	-	-	-
Mr Clive Cuthell	-	-	-	-	-	-
Dr James Bennett	67,500	-	-	-	(67,500)	-
Total	142,500	-	-	-	(67,500)	75,000

The following table sets out key management personnel's equity holdings represented by holdings of unvested share options and share rights under the new Omnibus Employee Incentive Plan.

Subject to the rules of the OEIP, no options or rights will vest if the conditions are not satisfied, subject to the discretion of the Board (and ASX Listing Rules, as applicable) hence the minimum value of the option and rights yet to vest is nil. The maximum value of the options and rights yet to vest has been determined as the amount of the grant date fair value of the options and rights that is yet to be expensed at the end of the reporting period.

	Number of OEIP Share Rights							
	1 January 2024	Share rights issued during the year	Other movement during the year	31 December 2024	Grant date	Fair value of Grant per Right \$	Financial years in which options may vest	Maximum total value of grant yet to expense
Mr Clive Cuthell	744,000	-	-	744,000	21/4/23	\$0.94	2024 2025 2026	157,348
Dr Andreas Schwer	-	1,260,000	-	1,260,000	30/5/24	\$1.45	2024 2025 2026	411,054
Total	744,000	1,260,000	-	2,004,000				568,402

	Number of OEIP Share Options							
	1 January 2024	Share options issued during the year	Other movement during the year	31 December 2024	Grant date	Fair value of Grant per option	Financial years in which options may vest	Maximum total value of grant yet to expense
Mr Clive Cuthell	1,240,000	-	-	1,240,000	21/4/23	\$0.46	2024 2025 2026	-
Dr Andreas Schwer	-	2,100,000	-	2,100,000	30/5/24	\$0.91	2024 2025 2026	-
Total	1,240,000	2,100,000	-	3,340,000				-

At the testing date of 31 December 2024:

- 420,000 share rights and 1,417,500 share options vested to Dr Schwer; and
- 248,000 share rights and 837,000 share options vested to Mr Cuthell.

21. Remuneration Report (Audited) (continued)

21.5 Company Performance and Shareholder Returns

The table below sets out summary information about the Company's earnings and movements in shareholder wealth for the last five financial years.

	31 December 2024 \$'000	31 December 2023 \$'000	31 December 2022 \$'000	31 December 2021 \$'000	31 December 2020 \$'000
Revenue (including discontinued operations)	258,696	219,253	137,912	212,331	180,182
Net (loss) before tax	(15,113)	(40,193)	(124,839)	(4,612)	(29,901)
Net (loss) after tax	(19,685)	(34,107)	(115,561)	(13,843)	(25,208)

	31 December 2024 \$	31 December 2023 \$	31 December 2022 \$	31 December 2021 \$	31 December 2020 \$
Share price at start of year	1.04	0.49	2.34	5.91	7.42
Share price at end of year	1.30	1.04	0.49	2.34	5.91
Dividends paid	-	-	-	-	-

People and Culture Committee

The current members of the People and Culture Committee are Air Marshal Geoffrey Brown AO (Chair), Mr David Black and the Hon Kate Lundy.

The People and Culture Committee provide advice, recommendations and assistance to the Board with respect to people and culture matters. The Committee advises the Board on remuneration policies and practices for the Board, the CEO, the CFO/COO, senior executives and other persons whose activities, individually or collectively, affect the financial soundness of the Company. The Committee may seek independent advice from external advisors on related matters.

The policies and practices are designed to:

- enable the Company to attract, retain and motivate Directors, executives and employees who will create value for shareholders within the Company's values and risk appetite, by providing remuneration packages that are equitable and externally competitive in international markets;
- be fair and appropriate having regard to the performance of the Company and the relevant Director, executive or employee; and
- comply with relevant legal requirements.

22. Non-audit services

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors have formed this view based on the fact that the nature and scope of each type of non-audit service provided means that the audit independence was not compromised.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are contained in Note 31 to the financial statements.

23. Auditor's Independence Declaration

The auditor's independence declaration is included on page 58 of this Annual Report.

Signed in accordance with a resolution of Directors made pursuant to s.298(2) of the *Corporations Act 2001*.

On behalf of the Directors



Garry Hounsell

Director and Chair of the Board of Directors

Dated at Canberra this 25th day of February 2025



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

As lead auditor for the audit of the financial report of Electro Optic Systems Holdings Limited for the financial year ended 31 December 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 audit
- b. No contraventions of any applicable code of professional conduct in relation to the audit; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink that reads "Ernst & Young".

Ernst & Young

A handwritten signature in black ink that reads "Ben Tansley".

Ben Tansley
Partner
25 February 2025

A member firm of Ernst & Young Global Limited
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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2024

	Note	2024 \$ '000	2023 \$ '000
Continuing operations			
Revenue	2(a)	176,565	162,021
Other income	2(a)	2,055	2,302
Foreign exchange gain	2(b)	11,570	892
Raw materials and consumables used		(91,920)	(89,683)
Employee benefits expense	2(b)	(62,507)	(54,113)
Occupancy costs		(2,042)	(1,833)
Administration expenses		(32,171)	(29,207)
Other expenses		(2,911)	(1,334)
Finance cost	2(b)	(24,550)	(35,244)
Depreciation of property, plant and equipment	2(b)	(3,715)	(5,573)
Depreciation of right of use assets	2(b)	(3,956)	(3,836)
Amortisation of intangible assets	2(b)	(4,871)	-
(Loss) before tax from continuing operations		(38,453)	(55,608)
Income tax benefit	4(a)	3,337	11,237
(Loss) for the year from continuing operations		(35,116)	(44,371)
Discontinued Operations			
Profit after tax for the year from discontinued operations	5	15,431	10,264
(Loss) for the year		(19,685)	(34,107)
Attributable to:			
Owners of the Company	23	(18,731)	(33,275)
Non-controlling interests		(954)	(832)
		(19,685)	(34,107)
Other Comprehensive Income			
Items that may be reclassified in future to profit or loss			
Exchange differences on translation of foreign operations		1,826	(501)
Total comprehensive (loss) for the year		(17,859)	(34,608)
Attributable to:			
Owners of the Company		(16,905)	(33,776)
Non-controlling interests		(954)	(832)
		(17,859)	(34,608)
	Note	Cents per share	Cents per share
Basic and diluted (loss)/earnings per share	3		
From continuing operations		(19.5)	(27.4)
From discontinued operations		8.8	6.5
Total		(10.7)	(20.9)

Notes to the financial statements are included on pages 65 to 121.

Consolidated Balance Sheet

As at 31 December 2024

	Note	2024 \$ '000	2023 \$ '000
CURRENT ASSETS			
Cash and short-term deposits	24	41,078	70,997
Trade and other receivables	6	17,730	8,466
Security deposits	30	12,747	21,086
Contract asset	7	57,381	29,090
Inventories	8	62,685	73,397
Prepayments	9	18,127	16,384
Assets classified as held for sale	5	95,160	-
TOTAL CURRENT ASSETS		304,908	219,420
NON-CURRENT ASSETS			
Contract asset	7	-	38,946
Deferred tax asset	4	7,927	8,950
Security deposits	30	36,729	45,970
Prepayments	9	2,175	-
Right of use assets	10	15,023	19,783
Goodwill	11	2,505	12,373
Intangible assets	13	18,702	18,283
Property, plant and equipment	14	13,045	29,508
TOTAL NON-CURRENT ASSETS		96,106	173,813
TOTAL ASSETS		401,014	393,233
CURRENT LIABILITIES			
Trade and other payables	15	28,210	40,804
Contract liabilities	16	24,130	20,587
Borrowings	17	47,939	19,875
Lease liabilities	18	4,683	4,876
Tax payable		4,543	3,584
Provisions	19	19,036	25,769
Liabilities directly associated with assets held for sale	5	26,170	-
TOTAL CURRENT LIABILITIES		154,711	115,495
NON-CURRENT LIABILITIES			
Borrowings	17	-	44,947
Lease liabilities	18	13,308	19,043
Provisions	19	13,486	14,675
TOTAL NON-CURRENT LIABILITIES		26,794	78,665
TOTAL LIABILITIES		181,505	194,160
NET ASSETS		219,509	199,073
EQUITY			
Issued capital	20	467,192	432,248
Reserves	21	17,810	12,633
Accumulated losses	23	(260,505)	(241,774)
Equity attributable to owners of the Company		224,497	203,107
Non-controlling interests		(4,988)	(4,034)
TOTAL EQUITY		219,509	199,073

Notes to the financial statements are included on pages 65 to 121.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2024

	Accumulated losses \$'000	Issued capital \$'000	Foreign currency translation reserve \$'000	Employee equity settled benefits reserve \$'000	Attributable to owners of the parent \$'000	Non- controlling interests \$'000	Total Equity \$'000
2024							
At 1 January 2024	(241,774)	432,248	(224)	12,857	203,107	(4,034)	199,073
Loss for the year	(18,731)	-	-	-	(18,731)	(954)	(19,685)
Exchange differences arising on translation of foreign operations	-	-	1,826	-	1,826	-	1,826
Total comprehensive loss for the year	(18,731)	-	1,826	-	(16,905)	(954)	(17,859)
Issue of 20,588,235 equity shares at \$1.70 per share on 2 April 2024 – Share Placement	-	35,000	-	-	35,000	-	35,000
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
Equity raising transaction costs	-	(1,973)	-	-	(1,973)	-	(1,973)
Recognition of share-based payments expense	-	-	-	3,351	3,351	-	3,351
At 31 December 2024	(260,505)	467,192	1,602	16,208	224,497	(4,988)	219,509

	Accumulated losses \$'000	Issued capital \$'000	Foreign currency translation reserve (FCTR) \$'000	Employee equity settled benefits reserve \$'000	Attributable to owners of the parent \$'000	Non- controlling interests \$'000	Total Equity \$'000
2023							
At 1 January 2023	(208,499)	432,248	277	12,268	236,294	(3,202)	233,092
Loss for the year	(33,275)	-	-	-	(33,275)	(832)	(34,107)
Exchange differences arising on translation of foreign operations	-	-	(501)	-	(501)	-	(501)
Total comprehensive loss for the year	(33,275)	-	(501)	-	(33,776)	(832)	(34,608)
Recognition of share-based payments expense	-	-	-	589	589	-	589
At 31 December 2023	(241,774)	432,248	(224)	12,857	203,107	(4,034)	199,073

Notes to the financial statements are included on pages 65 to 121.

Consolidated Statement of Cash Flows

For the year ended 31 December 2024

	Note	2024 \$ '000	2023 \$ '000
Cash flows from operating activities			
Receipts from customers		261,126	325,472
Payments to suppliers and employees		(268,360)	(215,914)
Income tax (paid)/received		(549)	16,747
Interest and bill discounts received		2,236	1,010
Interest and other costs of finance paid		(24,818)	(14,191)
Net cash (outflows)/inflows from operating activities	24	(30,365)	113,124
Cash flows from investing activities			
Payments for property, plant and equipment		(6,173)	(2,933)
Payments for Intangibles and other assets		(5,383)	-
Payments for security deposits		(5,851)	(31,793)
Proceeds from security deposits		21,086	-
Net cash inflows/(outflows) from investing activities		3,679	(34,726)
Cash flows from financing activities			
Proceeds from issue of new shares		36,917	-
Transaction costs related to issue of new shares		(1,973)	-
Repayment of lease liabilities		(5,229)	(4,648)
Repayment of borrowings		(20,505)	(24,404)
Net cash inflows/(outflows) from financing activities		9,210	(29,052)
Net (decrease)/increase in cash and cash equivalents		(17,476)	49,346
Cash and cash equivalents at the beginning of the financial year		70,997	21,681
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(1,217)	(30)
Cash and cash equivalents at the end of the financial year	24	52,304	70,997

Notes to the financial statements are included on pages 65 to 121.

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Notes to the Consolidated Financial Statements

For the year ended 31 December 2024

1. Basis of Preparation

a. Corporate Information

The consolidated financial statements of Electro Optic Systems Holdings Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2024 were authorised for issue by the Directors on 25th February 2025.

Electro Optic Systems Holdings Limited (the Company, or parent) is a limited company incorporated and domiciled in Australia and whose shares are publicly traded. The registered office is in Symonston, Canberra, Australia. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

b. Basis of Preparation

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) (collectively referred to as IFRS) and complies with other requirements of the law.

The financial report has been prepared on the basis of historical cost unless otherwise stated. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated. The presentation and functional currency of the Group is Australian dollars. Certain comparative amounts have been restated to apply with the method of computation in the current year.

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 (\$'000), unless otherwise indicated.

The Group includes material accounting policies in the notes to the financial statements, specifically where accounting policies have been made in relation to the recognition and measurement basis used and are relevant to an understanding of the financial statements.

On 21 November 2024, the Group announced the decision to sell EM Solutions Pty Ltd (EMS), a wholly owned subsidiary. EMS is disclosed as a discontinued operation at 31 December 2024. The prior year comparatives in the financial statements and accompanying note disclosures have been restated as required to reflect the change accordingly.

c. 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 year ended 31 December 2024, the Group incurred a loss before tax from continuing operations of \$38.5m (December 2023: loss of \$55.6m) had a net cash outflow from operating activities of \$30.4m (December 2023: net inflows of \$113.1m) and had a net decrease in cash and cash equivalents held of \$17.5m (December 2023: net increase of \$49.3m). At 31 December 2024 the Group had a cash balance of \$52.3m (December 2023: \$71.0m) and net current assets of \$150.2m (December 2023: \$103.9m).

In 2022, the Group entered into binding agreements with a financier for three borrowing facilities. Two of these facilities were repaid in full prior to year end with \$26.9m repaid in September 2023 and \$20.5m repaid in April 2024.

The remaining term loan facility of \$52.1m which was scheduled to be due for repayment in October 2025 was required to be repaid in full upon the divestment of EMS. On 31 January 2025, following the divestment of EMS, the Group had no external borrowings and approximately \$128.0m cash at bank.

As described in Note 30, under an existing contract EOS has offset credit obligations in the Middle East. As EOS expects to generate offset credits via economic activity and does not expect to settle the offset obligation in cash, either through the credit purchase program or the bank guarantee, the cash flow forecast to 31 August 2026 does not include cash outflows relating to this obligation.

The Group continues to closely monitor its cash flow outlook and compliance with financial covenants as described in Note 17.

1. Basis of Preparation (continued)

The Directors, in their consideration of the appropriateness of the going concern basis for the preparation of this annual financial report, have caused to be prepared a cash flow forecast through to 31 August 2026 which supports the ability of the Group to continue as a going concern. 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 secure sufficient new cash flow positive contracts and to deliver against contracts on time, to the required specifications and within budgeted costs.

At the date of signing this report, based on this review, the Directors consider they have reasonable grounds to believe that the Group will continue as a going concern. They note that the continued ability of the Group to pay its debts as and when they become due and payable is dependent on:

- the Group securing sufficient new cash flow positive contracts, including converting key opportunities within the Defence and Space sector pipelines;
- the Group continuing to deliver against its contracts on time, to the required specifications and within budgeted costs;
- 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 Group operationising the approved business plan to acquit the offset obligations, refer to note 30 for further details; and
- continuing compliance with financial covenants.

d. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

All intra-Group assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders with present ownership interests entitling them to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in non-controlling interests having a deficit balance.

e. Adoption of New and Revised Standards

New and amended standards that are effective for the current year

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current year. These standards did not materially affect the Group's accounting policies or any of the amounts recognised in the financial statements.

New and revised AASB Standards in issue but not yet effective

At the date of authorisation of the financial statements, the Group has not applied the following new and revised Australian accounting standards, interpretations and amendments that have been issued but are not yet effective.

Standard/amendment	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 2023-5 Amendments to Australian accounting standards – lack of exchangeability	1 January 2025	31 December 2025
• AASB 2024-2 Amendments to Australian accounting standards – classification and measurement of financial instruments	1 January 2026	31 December 2026
• AASB 2024-3 Amendments to Australian accounting standards – annual improvements Volume II	1 January 2026	31 December 2026
• AASB 18 Presentation and Disclosure in Financial Statement	1 January 2027	31 December 2027
• AASB 2014-10 Amendments to Australian Accounting Standards – Sale or contribution of assets between an investor and its associate or joint venture	1 January 2028	31 December 2028

Management is assessing the impact of AASB 18 on presentation and disclosures in the Group's financial statements.

The other new accounting amendments are not expected to have a material impact on the Group's accounting policies or any of the amounts recognised in the financial statements.

f. Foreign Currency

(i) Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rates of exchange at the reporting date.

Exchange differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are recorded using the exchange rates at the date of the transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

(ii) Foreign operations

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (having non-AUD functional currency) are translated into Australian dollars at the exchange rate prevailing at the reporting date, income and expense items are translated at the average rate of exchange for the respective months. Exchange differences arising on such translation are recognised as currency translation reserve under equity.

Exchange differences arising from the translation of a foreign operation previously recognised in currency translation reserve in equity are not reclassified from equity to the consolidated profit or loss until the disposal of the operation.

1. Basis of Preparation (continued)

g. Accounting Judgements and Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described in the applicable notes to financial statements.

The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Estimates and underlying assumptions are reviewed on an ongoing basis and changes are reflected in the assumptions when they occur.

Refer to the relevant note to financial statements for the estimates and judgements applied.

h. Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

i. Climate-Related Matters

The Group considers climate-related matters in estimates and assumptions, where appropriate. This assessment includes a wide range of possible impacts on the Group due to both physical and transition risks. Even though the Group believes its business model and products will still be viable after the transition to a low-carbon economy, climate-related matters increase the uncertainty in estimates and assumptions underpinning several items in the financial statements. Even though climate-related risks might not currently have a significant impact on measurement, the Group is closely monitoring relevant changes and developments. The items and considerations that are most directly impacted by climate-related matters are:

- Useful life of property, plant and equipment.
 - i. When reviewing the residual values and expected useful lives of assets, the Group considers climate-related matters, such as climate-related legislation and regulations that may restrict the use of assets or require significant capital expenditures.
- Impairment of non-financial assets.
 - i. The value-in-use may be impacted in several different ways by transition risk in particular, such as climate-related legislation and regulations and changes in demand for the Group's products. Even though the Group has concluded that no single climate-related assumption is a key assumption for the 2024 impairment test, the Group considered expectations for increased costs of emissions, increased demand for goods sold by the Group and cost increases due to stricter recycling requirements in the cash-flow forecasts in assessing value-in-use amounts. See Note 12 for further information.
- Decommissioning liability.
 - i. The impact of climate-related legislation and regulations is considered in estimating the timing and future costs of decommissioning the Group's manufacturing facilities.

In 2024, the Australian government passed the Climate-related Financial Disclosures Act - *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024*. The new Act mandates listed entities to disclose their climate-related plans, financial risks and opportunities, in accordance with *Australian Sustainability Reporting Standards (ASRS)*.

The Group has assessed its compliance with the ASRS requirements. Based on the Group's assets and revenue thresholds as at 31 December 2024, the Group falls under "Group 2 entities", with mandatory reporting commencing on 1 January 2027.

During the year, the Group engaged an external sustainability and climate expert to support the Group as part of its proactive approach to prepare for ASRS compliance. In this initial phase, the Group conducted introductory workshops with key management across the group, performed an ASRS gap assessment, and developed an initial roadmap to address key gaps identified.

The Group plans to conduct a climate risk and opportunities assessment during 2025 and 2026 as part of the phased approach. Involving key management and operational employees, this assessment will help evaluate the Group's climate risk profile, including climate change, and identify areas for development to meet emerging climate-related disclosure requirements.

2. (Loss)/Profit Before Tax– Continuing Operations

a. Revenue

Revenue from continuing operations	2024 \$ '000	2023 \$ '000
Revenue from operations consisted of the following items:		
Revenue from the sale of goods	157,745	147,303
Revenue from the rendering of services	18,820	14,718
Total revenue	176,565	162,021

(i) Disaggregation of revenue – continuing operations

The Group derives its revenue from the transfer of goods and services both over time and at a point in time, as shown below.

Revenue recognition over time	2024 \$ '000	2023 \$ '000
Defence segment		
Sale of goods	105,487	81,765
Providing services	4,353	6,620
Space segment		
Sale of goods	-	-
Providing services	5,306	2,797
Total revenue recognised over time	115,146	91,182

All other revenue is recognised at a point in time:

Revenue recognition at a point in time	2024 \$ '000	2023 \$ '000
Defence segment		
Sale of goods	52,258	65,092
Providing services	3,638	1,885
Space segment		
Sale of goods	-	446
Providing services	5,523	3,416
Total revenue recognised at a point in time	61,419	70,839
Total revenue recognised	176,565	162,021

Recognition and measurement

The Group recognises revenue from the following major sources:

- engineering design, manufacture and supply of remote weapon systems and related installation, integration and support services; and
- design, manufacture, delivery and operation of sensors and data for space domain awareness and space control.

Customer contracts across all segments, including both products and services, are highly customised and are configured specifically for each client's operational and commercial requirements.

2. (Loss)/Profit Before Tax– Continuing Operations (continued)

(i) Transaction price

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. This transaction price is updated for changes in scope or price (or both) that are approved by all parties to the contract, either in writing or by oral agreement.

Revenue recognition is constrained for negative variable consideration in relation to delays in formal customer acceptance or potential late delivery penalties/liquidated damages. Once the constraint is removed, a cumulative catch-up adjustment is made to recognise the related revenue.

There is no significant financing component in the Group's contracts with customers as the period between provision of goods and services and the receipt of cash from customers is less than a year. Payment terms which extend beyond a year are for reasons other than the provision of a significant financing component.

(ii) Timing of revenue recognition

The timing of revenue recognition (i.e., over time or at a point in time) is determined by the nature and specifications of the contracts that the Group enters into with its customers.

A. Revenue recognition over time

Goods manufactured and services delivered under the Group's major contracts do not have an alternative use for the Group and the Group has an enforceable right to payment for performance completed to date, therefore, the Group recognises revenue for its major contracts over time.

- The transaction price is allocated to performance obligations based on standalone selling prices. The output method, based on the delivery of goods or services to customers or the achievement of contract milestones, best depicts progress under these contracts as it represents the best measurement of value to the customer of goods or services to date relative to the remaining goods or services promised under the contract.
- For other contracts the input method offers the best depiction of progress under the contract. For such contracts, the Group recognises revenue by reference to costs or labour hours incurred to date relative to total expected contract costs.

B. Revenue recognition at a point in time

For contracts where revenue at a point in time offers the best depiction of the Group's satisfaction of its performance obligations, the Group recognises revenue when control transfers to the customer. Control is assessed as transferred to the customer when the Group has a present right to payment for the asset, typically upon delivery of goods and services to customers.

Under bill and hold arrangements, revenue is recognised once formal acceptance is received from customers.

Interest revenue is recognised using the effective interest rate method.

Significant accounting judgements and estimates

The Group estimates variable considerations to be included in the transaction price and also makes judgements in terms of the nature and timing of revenue recognised under contracts.

Under a major production contract with a foreign customer, late deliveries against the contracted schedule, due in part to customer requested changes and other factors, resulted in the application of late delivery penalties in 2023 and 2024. These penalties, and potential penalties where revenue has been recognised but the cash not yet received, have been recognised as constrained revenue of \$6.9m during the year (2023: \$7.0m). The Board is confident that the recovery of penalties will be achieved given the status of these contract amendments, the Group's positive operating performance under the contract, good relationships with the client and track record of payments received to date.

(ii) Other income – continuing operations

	2024 \$ '000	2023 \$ '000
Interest:		
Bank deposits	1,553	667
Other	-	160
Grant income	13	64
Gain on lease modification	-	1,129
Other	489	282
Total other income	2,055	2,302

b. Expenses

The loss for the year from continuing operations includes the following expenses:

	2024 \$ '000	2023 \$ '000
Employee benefits expense:		
Share based payments (equity settled) expense	3,209	459
Contributions to defined contribution superannuation plans	3,977	3,647
Other employee benefits	55,321	50,007
Total employee benefits expense	62,507	54,113
Finance costs		
Interest expense on lease liabilities	1,057	1,058
Interest on secured borrowings	12,355	15,857
Other finance costs	11,138	18,329
Finance costs	24,550	35,244
Amortisation of intangible assets	4,871	-
Depreciation of property, plant and equipment	3,715	5,573
Depreciation on right of use assets	3,956	3,836
Foreign exchange (gain)	(11,570)	(892)

3. Earnings per Share

	2024 cents per share	2023 cents per share
Basic		
Continuing operations	(19.5)	(27.4)
Discontinued operations	8.8	6.5
Total	(10.7)	(20.9)
Diluted		
Continuing operations	(19.5)	(27.4)
Discontinued operations	8.8	6.5
Total	(10.7)	(20.9)

Calculation of basic and diluted total 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	Note	2024 \$'000	2023 \$'000
Earnings – net loss attributable to equity holders of parent	(a)	(18,731)	(33,275)
Adjustments to exclude profit for the year from discontinued operations	5	(15,431)	(10,264)
Earnings from continuing operations for the purpose of basic and diluted earnings per share (excluding discontinued operations)		(34,162)	(43,539)

Number of shares	Note	2024 No. of shares	2023 No. of shares
Weighted average number of ordinary shares used in the calculation of basic earnings per share	(b), (c)	175,407,278	159,226,631

- (a) Loss attributable to the owners of the parent entity used in the calculation of basic earnings per share is the same as net loss in the statement of profit or loss and other comprehensive income.
- (b) Unlisted share options and share rights issued under 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 an overall loss during the year (inclusive of the profits from discontinued operations).
- (c) Shares issued under the LFSP 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.

4. Income Tax

Income tax	2024 \$ '000	2023 \$ '000
Current year tax expense/ (benefit)	4,572	(6,086)

a. The prima facie Income Tax Expense on pre-tax Accounting (Loss)/Profit from Operations reconciles to the Income Tax Expense in the Financial Statements as follows:

	2024 \$ '000	2023 \$ '000
(Loss) before income tax from continuing operations	(38,453)	(55,608)
Profit before income tax from discontinuing operations	23,340	15,415
(Loss) before income tax	(15,113)	(40,193)
Income tax (benefit) calculated at 30%	(4,534)	(12,058)
Effect of different tax rates of subsidiaries operating in other jurisdictions	934	1,839
Non-deductible expenditure	4,337	1,088
Other assessable income	2,262	1,051
Foreign income tax offset	(979)	-
Tax losses brought to account	(24,444)	-
Gain on disposal of subsidiary	24,968	-
Other non-deductible/non-assessable items	88	188
	2,632	(7,892)
Adjustment in respect of prior years	(2,028)	(1,470)
Unused tax losses and tax offsets not recognised as deferred tax assets	3,968	3,276
Income tax expense/(benefit) attributable to operating (loss)	4,572	(6,086)
- Attributable to continuing operations	(3,337)	(11,237)
- Attributable to a discontinued operation	7,909	5,151

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law, 30% in Germany, 17% in Singapore, 9% in United Arab Emirates and 28% in New Zealand. Tax rates in the USA apply at a Federal, State and local level and can vary depending upon location. The tax rates applicable to the Group's USA operations have been assumed to approximate a combined rate of 21%. There has been no change in the corporate tax rate when compared with the previous reporting year.

As disclosed in Note 5, the Group announced and entered in a binding sales agreement for the divestment of EMS on 21 November 2024 which triggers a capital gain tax ("CGT") event. The capital loss related to the SpaceLink ("SPL") entity that was a discontinued operation in 2022.

4. Income Tax (continued)

b. Deferred Tax Balances

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior year.

	2023 \$ '000	Charge/ (credit) to profit and loss \$ '000	Recognised in other comprehensive income \$ '000	2024 \$ '000
Deferred tax assets				
Accruals	153	107	-	260
Business capital expenditure deductible over five years	390	367	-	757
Provisions	12,434	558	-	12,992
Contract asset	777	(1,315)	-	(538)
Income tax losses	-	-	-	-
Foreign exchange gain arising from tax fair value adjustment	(1,556)	(3,060)	-	(4,616)
Other	16	199	-	215
	12,214	(3,144)	-	9,070
Deferred tax liabilities				
Prepaid insurance	-	(106)	-	(106)
Right of use assets	1,218	(198)	-	1,020
Property plant and equipment	(1,860)	602	-	(1,258)
Intangible assets	-	(613)	-	(613)
Acquired intangible assets	(2,622)	383	-	(2,239)
	(3,264)	68	-	(3,196)
Net deferred tax assets/(liabilities)	8,950	(3,076)	-	5,874
Net deferred tax assets/(liabilities) as:				
Continuing operations	7,927			
Included in liabilities held for sale	(2,053)			
	5,874			

	2022 \$ '000	Charge/ (credit) to profit and loss \$ '000	Recognised in other comprehensive income \$ '000	2023 \$ '000
Deferred tax assets				
Accruals	175	(22)	-	153
Business capital expenditure deductible over five years	955	(565)	-	390
Provisions for annual leave	6,228	6,206	-	12,434
Contract asset	825	(48)	-	777
Income tax losses	-	-	-	-
Foreign exchange gain arising from tax fair value adjustment	(2,760)	1,204	-	(1,556)
Other	-	16	-	16
	5,423	6,791	-	12,214
Deferred tax liabilities				
Prepaid insurance	38	(38)	-	-
Right of use assets	(958)	2,176	-	1,218
Property plant and equipment	1,895	(3,755)	-	(1,860)
Other	(46)	46	-	-
Acquired intangible assets	(3,026)	404	-	(2,622)
	(2,097)	(1,167)	-	(3,264)
Total	3,326	5,624	-	8,950

At the reporting date the Group has unused tax losses emanating from its non-Australian entities. No deferred tax asset has been recognised in respect of these balances as it is not considered probable that there will be future taxable profits available in these jurisdictions.

4. Income Tax (continued)

c. Unrecognised Deferred Tax Balances

	2024 \$ '000	2023 \$ '000
The following cumulative deferred tax assets have not been brought to account as assets:		
Tax losses – revenue	55,208	63,361
Temporary differences	-	-
Total	55,208	63,361

d. Franking Account Balance

	2024 \$ '000	2023 \$ '000
Adjusted franking account balance	4,616	4,042

Recognition and measurement

(i) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year, using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) Deferred tax

Deferred tax is recognised on temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax base.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the assets and liabilities giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle current tax assets and liabilities on a net basis.

(iii) Current and deferred tax for the year

Current and deferred tax is recognised as an expense or income in the statement of profit or loss and other comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or bargain purchase gain.

(iv) Tax consolidation

The Company and all its wholly-owned Australian entities are part of a tax-consolidated Group under Australian taxation law with effect from 1 January 2003. Electro Optic Systems Holdings Limited is the head entity in the tax-consolidated Group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated Group are recognised in the separate financial statements of the members of the tax-consolidated Group using the 'separate taxpayer within the Group' approach.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated Group are recognised by the company (as the head entity in the tax-consolidated Group).

There are formal tax funding and tax sharing arrangements between the companies comprising the Australian tax-consolidated Group as at 31 December 2024. Subsequent to year end, the Group completed the sale of EMS on 31 January 2025. As a result of this transaction, EMS is no longer part of the Group's tax consolidated group from the effective date of disposal.

Significant accounting judgements and estimates

Deferred tax assets are recognised for unused tax losses to the extent it is probable that the taxable profit will be available against which the losses can be utilised. Significant judgement is required to determine the amount of the deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits, together with future tax planning strategies.

The Directors made a critical judgement in relation to recognising some of the deferred tax balances described in Note 4(b). The Directors currently consider it probable that sufficient taxable amounts will be available against which deductible temporary differences can be utilised in the Australian tax Group.

The Directors also made a critical judgement in relation to not recognising deferred tax balances on tax losses. In addition, no deferred tax assets have been recognised in the foreign subsidiaries.

5. Discontinued Operations

On 21 November 2024, EOS entered into a binding share sale agreement to sell EM Solution Pty Limited and its subsidiary ("EMS") to Cohort plc ("Cohort") for an enterprise value of \$144.0m. The transaction was subject to the satisfaction of conditions including counterparties under certain material contracts providing consents, waivers or amendments, and the non-occurrence of any material advance changes. The disposal is consistent with the Group's transformation strategy to focus on commercialising its substantial intellectual property and growing its core product offerings in the areas of RWS, high energy laser weapons and space control.

EMS was expected to be sold within 12 months from 31 December 2024, and has been classified as a disposal group held for sale and presented separately in the statement of financial position. Subsequent to the end of the financial year, the transaction was settled on 31 January 2025 as described in Note 32.

Significant accounting judgement and estimates

The Directors considered EMS met the criteria to be classified as held for sale and as a discontinued operation on 21 November 2024 for the following reasons:

- EMS is available for immediate sale and can be sold to the buyer in its current condition;
- EMS is a separate line of business in the Space Systems segment, and is a cash-generating unit of the Group;
- EMS has distinct and separate products from the Group. EMS manufactures and sells satellite and frequency terminals; and
- the Group has a confirmed contract with a buyer for an agreed price that remains only subject to the satisfaction of several conditions to enable settlement of this contract.

The activities relating to EMS have been classified as a discontinued operation in accordance with accounting standards. The comparative consolidated statement of profit and loss and other comprehensive income has been re-presented to show the discontinued operations separately from continuing operations. The intra-group transactions between discontinued operations and continuing operations have been fully eliminated in the consolidated financial result.

The proceeds of disposal are expected to substantially exceed the carrying amount of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held for sale.

The results of EMS for the year are presented below:

	2024 \$ '000	2023 \$ '000
Revenue	82,131	57,232
Other income	690	214
Foreign exchange gain / (loss)	468	-
Raw materials and consumables used	(38,386)	(26,464)
Employee benefit expenses	(13,801)	(10,687)
Occupancy costs	(302)	(218)
Administration expenses	(3,563)	(755)
Other expenses	(860)	(595)
Amortisation of intangible assets	(1,463)	(1,597)
Depreciation of property plant and equipment	(799)	(783)
Depreciation of right of use assets	(519)	(594)
Finance cost	(256)	(338)
Profit before tax from discontinued operations	23,340	15,415
Income tax (expense)	(7,909)	(5,151)
Profit for the year from discontinued operations	15,431	10,264
The net cash flows incurred by EMS were:		
Cash flow – discontinued operations		
Operating	1,634	13,225
Investing	(895)	(863)
Financing	(515)	(112)
Net cash inflow	224	12,250

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2024 \$ '000
Cash and short-term deposits	11,226
Trade and other receivables	7,485
Contract assets	21,682
Inventories	19,674
Prepayments	1,587
Security deposits	6,619
Right of use asset	3,502
Goodwill	9,868
Property, plant and equipment	4,131
Intangible assets	9,386
Total assets classified as held for sale	95,160
Trade and other payables	(5,799)
Lease liabilities	(4,177)
Contract liabilities	(12,284)
Deferred tax liabilities	(2,053)
Provisions	(1,857)
Total liabilities classified as held for sale	(26,170)
Net assets of disposal group	68,990

5. Discontinued Operations (continued)

Recognition and measurement

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or it is classified as held for sale and:

- represents a separate major line of business or geographical area of operations,
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn.

Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position, and no longer presented in the segment note.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of profit or loss and other comprehensive income.

Cash flows from discontinued operations are included in the consolidated statement of cash flows and are disclosed separately in this note. The Group includes proceeds from disposal in cash flows from discontinued operations.

All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

6. Trade and Other Receivables

	2024 \$ '000	2023 \$ '000
Trade receivables from third-party customers	16,556	7,431
GST receivable	784	605
Employee receivables	390	219
Other debtors	-	211
Total	17,730	8,466

Trade receivables are non-interest bearing and are generally on terms of 30 days.

The Group measures the loss allowance for trade receivables at an amount equal to the lifetime expected credit loss (ECL). The ECL on trade receivables are estimated by reference to past known default experience of the debtors and an analysis of the debtors' current financial position, adjusted for factors that are specific to the debtors. Based on this analysis, any ECL on trade receivable balances at the end of the year are immaterial.

There has been no change in the estimation techniques or significant assumptions made during the current reporting year. There were no receivables written off during the year and no receivables balances, as at the end of the year, are subject to enforcement activities.

7. Contract Asset

	2024 \$ '000	2023 \$ '000
Unbilled revenue – current	57,381	29,090
Unbilled revenue - non-current	-	38,946
Total	57,381	68,036

The contract asset reflects amounts recognised in revenue on a milestone or a delivery basis in the Defence Systems and Space Systems segments, but not yet billed to the customer. This occurs where contracts typically invoice on a milestone basis that may not necessarily reflect progress under the contract.

The movement in the contract asset during the financial year is set out below.

	2024 \$ '000	2023 \$ '000
Opening balance	68,036	164,419
Invoiced during the year	(119,919)	(185,687)
Net revenue recognised during the year	126,650	88,089
Impact of foreign exchange and other movements	4,296	1,215
Reclassified as held for sale	(21,682)	-
Closing balance	57,381	68,036

Significant accounting judgements and estimates

Timing differences between revenue recognition and invoicing are expected to arise due to differences between the Group's revenue recognition policies (see Note 2) and the terms of the underlying contracts. The Directors have concluded that any estimated credit losses against the contract asset are immaterial. This judgement is based on the nature of the counterparties involved (primarily sovereign entities), the payments received during the year, and continuing communications with clients regarding administration of the underlying contracts.

The Group assesses for any constrained revenue and the recoverability of the contract asset. The contract asset balance has been reduced by the \$6.9m estimated constrained revenue during the year (2023: \$7.0m). The Group believes the contract asset balance remains recoverable. This judgement is based on the nature of the counterparties involved, contract amendment discussions that are underway with customers, payments received during the year and continuing communications with the clients regarding administration of the underlying contracts.

A critical judgement exists in relation to the recoverability of the contract assets. Of the total contract asset of \$57.4m, an amount of \$53.5m relates to a contract with a customer in a foreign jurisdiction. Significant collection of the contract asset was realised during the year with a net reduction in the balance of \$10.7m since December 2023.

The Directors have reviewed the collectability of the \$57.4m contract asset as at 31 December 2024 and concluded that no provision should be recognised on the basis of cash received to date and 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.

8. Inventories

	2024 \$ '000	2023 \$ '000
Raw materials – at lower of cost and net realisable value	48,650	29,351
Work in progress – at cost	14,035	44,046
Total	62,685	73,397

Recognition and measurement

Inventories are measured at the lower of cost and net realisable value.

Costs are assigned on the following basis:

Raw materials: weighted average cost basis for raw material inventory

Work-in-progress: standard cost

Net realisable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion, estimated costs necessary to make the sale, and provision for obsolescence.

Significant accounting judgements and estimates

The Group assesses the risks of inventory obsolescence, particularly for certain stock items experiencing slow market demand and potential technological obsolescence. Given the evolving market conditions and rapid technological advancements, an additional provision has been recognised this year to reflect the expected net realisable value of affected inventory. The provision estimate is based on forecasted demand, expected lifecycle changes and ageing of inventory. The Group will continue to monitor these factors and adjust the provision as necessary.

9. Prepayments

	2024 \$ '000	2023 \$ '000
Prepayments – current	18,127	16,384
Prepayments – non-current	2,175	-
Total	20,302	16,384

Prepayments include prepayments made to suppliers for the delivery of component parts in relation to current orders.

10. Right of Use Assets

	Office Premises \$'000	Office Equipment \$ '000	Total \$ '000
Cost			
At 1 January 2023	29,117	1,402	30,519
Additions	319	-	319
Adjustment due to lease modification	4,857	-	4,857
Disposals	-	(136)	(136)
Net exchange differences	686	-	686
At 31 December 2023	34,979	1,266	36,245
Additions	-	-	-
Adjustment due to lease modification	2,788	-	2,788
Disposals	-	(137)	(137)
Reclassified as held for sale	(6,476)	-	(6,476)
Net exchange differences	1,329	-	1,329
At 31 December 2024	32,620	1,129	33,749
Accumulated depreciation and impairment			
At 1 January 2023	11,414	853	12,267
Depreciation charge	4,169	261	4,430
Disposals	-	(136)	(136)
Net exchange differences	(99)	-	(99)
At 31 December 2023	15,484	978	16,462
Depreciation charge	4,226	249	4,475
Disposals	-	(137)	(137)
Reclassified as held for sale	(2,974)	-	(2,974)
Net exchange differences	900	-	900
At 31 December 2024	17,636	1,090	18,726
Carrying amount			
At 31 December 2024	14,984	39	15,023
At 31 December 2023	19,495	288	19,783

Recognition and measurement

The Group assesses at contract inception whether a contract is or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration.

The Group recognises a right of use asset and a corresponding lease liability (Note 18) with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group recognises right of use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of the lease liability recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

10. Right of Use Assets (continued)

Right of use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. Right of use assets are also subject to impairment in line with AASB 136 *Impairment of Assets*.

Where the Group has an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137. The costs are included in the related right of use asset, unless those costs are incurred to produce inventories.

If a lease transfers ownership of the underlying asset or the cost of the right of use asset reflects that the Group expects to exercise a purchase option, the related right of use asset is depreciated over the useful life of the underlying asset.

11. Goodwill

	2024 \$ '000	2023 \$ '000
Opening balance	12,373	12,373
Classified as held for sale	(9,868)	-
Closing balance	2,505	12,373

Management has identified the following as the Group's cash generating units ("CGUs"):

CGU	Operations
EMS	EMS specialises in innovative optical, microwave and on-the-move radio and satellite products that help deliver high speed, resilient and assured telecommunications anywhere in the world.
Space Technologies	The Group's laser-based surveillance systems with space tracking capability; manufactures and sells telescopes and dome enclosures for space projects.
Defence Systems	Develops, manufactures and markets advanced fire control, surveillance, and weapon systems to approved military customers

The carrying amount of goodwill was allocated to CGUs as follows:

	2024 \$ '000	2023 \$ '000
Defence	-	-
Space	2,505	2,505
EMS	9,868	9,868
	12,373	12,373

Recognition and measurement

Goodwill is initially recognised and measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquirer, and the fair value of the acquirer's previously held equity interest (if any) over the net of the acquisition-date amount of the identifiable assets acquired and liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group CGU's expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. Goodwill is classified as held for sale if it is directly associated with the assets and liabilities of a disposal group.

Significant accounting judgements and estimates

The Directors made a critical judgement in relation to the recoverable amount of goodwill and the allocation of goodwill to the three CGUs.

The Group assesses each CGU, where possible, at year 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 the 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 recoverable amount is sensitive to these assumptions used for the discounted cashflow model.

The key assumptions used to determine the recoverable amount for the different CGU's are disclosed and further explained in Note 12.

12. Impairment of Assets

Impairment Indicators and Testing

At each year end, the Group assesses whether indicators of impairment or impairment reversal exist at an individual asset level, where possible, and a CGU level.

(i) Market capitalisation deficiency

At 31 December 2024, the market capitalisation exceeded the carrying amount of the Group's net assets. Despite this, there were periods during the year when the carrying amount of the Group's net assets exceeded its market capitalisation. A market capitalisation deficiency is an indicator of potential impairment of goodwill and assets under AASB 136 *Impairment of Assets*. Given that the Group's market capitalisation did not consistently exceed its net assets throughout the year and considering the ongoing economic uncertainty, an assessment of the recoverable amount of each of the three CGUs, Defence, EMS and Space was performed at 31 December 2024. This assessment showed the recoverable amount for all CGUs being higher than their carrying values and as such the Group did not identify any impairments required at 31 December 2024.

(ii) Right of use assets

In prior periods, an impairment expense of \$1.3m and \$2.4m was recognised in relation to the right of use asset for Defence and Corporate respectively. The Group has re-assessed and determined that no indicators of impairment reversal existed at 31 December 2024.

Recognition and measurement

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed. The recoverable amount is the higher of fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

12. Impairment of Assets (continued)

Other than goodwill, where an impairment loss subsequently reverses the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Significant accounting judgements and estimates

At 31 December 2024, an indicator of impairment exist as described in Note 12(i). As a result, an assessment of the recoverable amount of each of the three CGUs, was undertaken. No impairments, or reversals of impairments, were recognised as a result of the Group's 31 December 2024 assessment.

Key assumptions and sensitivities used for impairment assessment performed during the year ended 31 December 2024

The recoverable amount of the CGUs of the Group have been assessed by reference to the higher of value in use and fair value less cost of disposal arrived by discounting a cash flow forecast with the weighted average cost of capital of each CGU.

For EMS CGU, it was concluded that fair value less costs of disposal exceed the value in use based on the binding sales agreement, as described in Note 5.

Assumption	Basis of Assumption
Future sales levels	Derived from the Company's multi-year revenue outlook.
Discount rate	Takes into account the risk-free rate, equity market risk and the specific risk premium for each CGU.
Long-term growth rate	Represents the rate relevant to market conditions and business plans. The long-term growth rate included in the terminal value in calculating the value in use for each CGU was 2.5% (2023: 2.5%).

The Board monitors climate-related risks when measuring the recoverable amount. While the Group believes its operations are not significantly exposed to physical risk, the value-in-use may be impacted by climate related legislation and regulations and their impact on demand for the Group's products. The Group has concluded that no single climate-related assumption is a key assumption for the 2024 impairment test.

Management reviewed the discount rates used based on the prevailing market conditions as of 31 December 2024, the risk profile related to assumed future cash flows and other relevant considerations. The discount rates used in calculating the value in use for each CGU are given below:

	2024	2023
Defence	14.17%	14.02%
Space	20.02%	20.09%

The Group conducted a sensitivity analysis to test changes in the key assumptions used to determine the recoverable amount for each of the CGUs. Sensitivity testing for CGUs included reducing future sales levels by 10%, reducing the long-term growth rate to 0.5% and increasing the discount rate by an additional 3%. It was observed that a reasonable change in future sales levels and discount rates could cause impairment in the Space and Defence CGUs.

13. Intangible Assets

	Product development \$'000	Core technology (not patented) \$ '000	Patented technology \$ '000	Software \$ '000	Customer contracts and relation-ships \$ '000	Total \$ '000
Cost						
At 1 January 2023	-	10,772	3,556	486	2,776	17,590
Transfer from PP&E	7,434	-	-	-	-	7,434
At 31 December 2023	7,434	10,772	3,556	486	2,776	25,024
Additions	3,207	-	-	-	-	3,207
Transfer from PP&E	12,932	-	-	-	-	12,932
Assets held for sale	-	(10,772)	(3,556)	(486)	(2,776)	(17,590)
At 31 December 2024	23,573	-	-	-	-	23,573
Amortisation						
At 1 January 2023	-	3,471	764	313	596	5,144
Charge for the year	-	1,078	237	97	185	1,597
At 31 December 2023	-	4,549	1,001	410	781	6,741
Charge for the year	4,871	987	217	89	170	6,334
Reclassified as held for sale	-	(5,536)	(1,218)	(499)	(951)	(8,204)
At 31 December 2024	4,871	-	-	-	-	4,871
Carrying amount						
At 31 December 2024	18,702	-	-	-	-	18,702
At 31 December 2023	7,434	6,223	2,555	76	1,995	18,283

13. Intangible Assets (continued)

Recognition and measurement

(i) Research and development costs

Expenditure on research activities is recognised as an expense in the year in which it is incurred. Where no internally generated intangible assets can be recognised, development expenditure is recognised as an expense in the year as incurred.

(ii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset, and their fair value can be measured reliably.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following estimated useful lives are used in the calculation of amortisation on a straight-line basis:

Product development costs	3-5 years
Core technology (not patented)	10 years
Patented technology	15 years
Software	5 years
Customer contracts and relationships	15 years

Significant accounting judgements and estimates

A critical judgement exists in the decision to capitalise development work in progress. 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.

At 31 December 2024, the carrying amount of capitalised product development costs was \$18.7m. The asset is driven by capital works undertaken by Defence Systems and Space Systems. During 2024, an assessment was undertaken and \$12.9m was reclassified from property, plant and equipment to intangible assets as the Group confirmed its intention to utilise these assets as a prototype to facilitate future sales opportunities.

A critical judgement also exists in relation to the recoverability of development work in progress. The Group continues to invest in the ongoing engineering development of counter drone defence, predominantly in the areas of directed energy (DE) and counter uninhabited aerial strike (CUAS) technologies. The Directors have assessed the recoverable amount of these development works in progress asset on 31 December 2024 and concluded that no impairment is required to be recognised. This judgement is based on the engagements, negotiations and demonstrations completed during the year and the feedback received from industry partners and potential customers. Contract negotiations for its DE launch product are underway with at least one potential customer.

14. Property, Plant and Equipment

	Plant & equipment \$'000	Office equipment \$'000	Furniture, fixtures & fittings \$'000	Leasehold improvements \$'000	Motor vehicle \$'000	Computer software \$'000	Test equipment \$'000	Satellite \$'000	Capital WIP* \$'000	Total \$'000
Cost										
At 1 January 2023	19,003	5,326	1,391	2,459	678	1,628	4,815	7,000	20,608	62,908
Additions	2,355	473	84	408	-	88	1,278	-	1,343	6,029
Transfers	62	-	-	-	-	-	-	-	(7,496)	(7,434)
Disposals and write offs	(156)	(124)	(18)	-	-	(7)	(403)	-	-	(708)
Other movements	(514)	-	-	-	33	(49)	-	-	-	(530)
Net exchange differences	(24)	17	(1)	(8)	(9)	(1)	-	-	-	(26)
At 31 December 2023	20,726	5,692	1,456	2,859	702	1,659	5,690	7,000	14,455	60,239
Additions	1,276	901	85	155	-	-	495	-	2,180	5,092
Transfers	-	-	-	-	-	-	-	-	(12,932)	(12,932)
Disposals and write offs	(224)	(112)	(7)	-	-	(18)	(114)	-	-	(475)
Reclassify as held for sale	(1,289)	(466)	(328)	-	-	(45)	(6,071)	-	-	(8,199)
Other movements	-	-	-	-	-	-	-	-	-	-
Net exchange differences	128	99	13	92	34	2	-	-	-	368
At 31 December 2024	20,617	6,114	1,219	3,106	736	1,598	-	7,000	3,703	44,093
Accumulated depreciation and impairment										
At 1 January 2023	(8,141)	(3,721)	(531)	(2,100)	(394)	(1,364)	(2,440)	(7,000)	-	(25,691)
Depreciation charge	(4,305)	(777)	(115)	(259)	(128)	(245)	(527)	-	-	(6,356)
Disposals and write offs	156	107	17	-	-	7	402	-	-	689
Other movements	527	-	-	-	-	49	-	-	-	576
Net exchange differences	8	4	1	10	27	1	-	-	-	51
At 31 December 2023	(11,755)	(4,387)	(628)	(2,349)	(495)	(1,552)	(2,565)	(7,000)	-	(30,731)
Depreciation charge	(2,626)	(688)	(117)	(413)	(65)	(57)	(548)	-	-	(4,514)
Disposals and write offs	275	108	7	-	-	18	63	-	-	471
Reclassify as held for sale	613	232	137	-	-	36	3,050	-	-	4,068
Other movements	-	-	-	-	-	-	-	-	-	-
Net exchange differences	(117)	(94)	(12)	(83)	(34)	(2)	-	-	-	(342)
At 31 December 2024	(13,610)	(4,829)	(613)	(2,845)	(594)	(1,557)	-	(7,000)	-	(31,048)
Carrying amount										
At 31 December 2024	7,007	1,285	606	261	142	41	-	-	3,703	13,045
At 31 December 2023	8,971	1,305	828	510	207	107	3,125	-	14,455	29,508

*During the 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.

14. Property, Plant and Equipment (continued)

Recognition and measurement

Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of an item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment. Depreciation is calculated so as to write-off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual accounting period. In particular, the Group considers the impact of health, safety and environmental legislation in its assessment of expected useful lives and estimated residual values. Furthermore, the Group considers climate-related matters, including physical and transition risks in determining if climate-related legislation and regulations might impact either residual values or useful lives.

The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment	2 to 25 years
Leasehold improvements	3 to 8 years
Office equipment	2 to 20 years
Furniture, fixture and fittings	5 to 15 years
Motor vehicles	5 to 15 years
Computer equipment	3 to 5 years
Test equipment	3 to 4 years

15. Trade and Other Payables

	2024 \$ '000	2023 \$ '000
Trade payables	18,123	30,093
Accruals	10,087	10,711
Total	28,210	40,804

The average creditor days on purchases of goods is 30 days and no interest is payable on goods purchased within agreed credit terms. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

16. Contract Liabilities

	2024 \$ '000	2023 \$ '000
Opening balance	20,587	22,168
Invoiced during the year	59,769	87,810
Net revenue recognised during the year	(44,143)	(89,398)
Impact of foreign exchange and other movements	201	7
Reclassified as held for sale	(12,284)	-
Closing balance	24,130	20,587

Contract liability represents amounts received from customers in advance of the satisfaction of relevant performance obligations under the applicable contracts. The Group expects to deliver the goods and services in question within the next 12 months, in accordance with the terms of the underlying contracts.

17. Borrowings

	2024 \$ '000	2023 \$ '000
Secured borrowings		
Washington H. Soul Pattinson and Company Ltd ("WHSP")	47,939	64,822
Total secured borrowings	47,939	64,822
Total borrowings, net	47,939	64,822
Current portion	47,939	19,875
Non - current portion	-	44,947
Total borrowings, net	47,939	64,822

Secured Borrowings - WHSP

(i) In 2022, the Group entered into three secured borrowings with WHSP ("WHSP facilities"):

- a. Working Capital Principal Facility of \$20.0m.
- b. Additional Working Capital Facility of \$15.0m
- c. Term Loan Principal Facility of \$35.0m.

The key terms of each facility were included in the announcement dated 13 October 2022 "EOS enters into New Financing Facilities & continues development of Strategic Growth Options".

(ii) On 10 April 2024, EOS announced the \$20.5m full repayment of an Additional Working Capital facility. This followed the repayment of \$26.9m in September 2023 of the initial Working Capital facility.

(iii) During the year, a \$4.5m fee was paid to WHSP following the resolution of a previous commercial dispute (announced on 22 December 2023). The agreement was previously conditional on the approval of 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. This fee was recorded as a finance cost expense in the prior year.

(iv) As at 31 December 2024, the Group had a Term Loan principal facility of \$35.0m with a maturity date of 11 October 2025. The facility carried interest of 22% per annum and line fees of 4%. This loan was secured by a general security deed which ranked pari passu with the EFA facility.

As at 31 December 2024 the Term Loan facility was fully drawn.

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

Subsequent to year end, on 31 January 2025, EOS completed the early repayment of this Term Loan. As announced on 21 November 2024, this early repayment was required as under the borrowing agreements, the completion of the divestment of EMS required the repayment of EOS' outstanding debt facility with WHSP in full. The total repayment made on 31 January 2025 was \$61.1m, including the scheduled payment at maturity of \$52.1m plus a 'make whole' penalty which applied in the case of early repayment.

This results in all amounts borrowed from WHSP in 2022 having been repaid subsequent to year end.

17. Borrowings (continued)

Under agreements with WHSP and another funding provider (EFA, which provided financial guarantees as described in Note 30), the Group had obligations to comply with covenants at 31 December 2024:

- (i) The asset coverage ratio was required to be more than 1.6:1. This covenant applies on and from 31 December 2023 and is required to be tested quarterly until the facilities are repaid.
- (ii) Interest coverage ratio was required to be more than 2:1. This ratio is defined as Group's net cash flow from operations (adjusted for interest payments) relative to the interest expense. This covenant applies on and from 31 December 2023 and is required to be tested quarterly until the facilities are repaid.

Both funding providers waived the requirement to test covenant compliance at 31 December 2024.

Following the Term Loan repayment to WHSP outlined above, the Group will still be required to comply with quarterly covenants under the bond facility agreements with Export Finance Australia.

The total reported borrowings amount at 31 December 2024 shown above include the total outstanding borrowings owing to lenders, including capitalised fees and interest, less the unamortised transaction costs of establishing borrowings:

	2024 \$ '000	2023 \$ '000
Total borrowings owing to lenders	52,072	72,576
Unamortised cost of establishing borrowings	(4,133)	(7,754)
Total borrowings, net	47,939	64,822

The weighted average interest rates paid during the year were as follows:

	2024 %	2023 %
Weighted average interest rate	22	19

18. Lease Liabilities

	2024 \$ '000	2023 \$ '000
As at 1 January	23,919	24,446
Lease modification	2,788	4,219
Interest accrued / paid	1,288	1,415
Lease payments	(6,379)	(5,933)
Reclassified as held for sale	(4,177)	-
Net exchange differences	552	(228)
As at 31 December	17,991	23,919
Current	4,683	4,876
Non-current	13,308	19,043
Total	17,991	23,919

Maturity analysis	2024 \$ '000	2023 \$ '000
Year 1	5,543	6,018
Year 2	4,830	5,533
Year 3	3,869	4,838
Year 4	2,351	3,910
Year 5	1,794	2,512
Onwards	1,887	4,941
	20,274	27,752
Less: interest	(2,283)	(3,833)
Total	17,991	23,919

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the lease portfolio and to align with the Group's business needs. Judgement is exercised in determining whether the extension and termination options are reasonably certain to be exercised. The Group does not face a significant liquidity risk with regard to its lease liabilities. All lease obligations in Australia are denominated in Australian dollars and leases in overseas entities are based in the currency of the country concerned.

The Group had a net cash outflow for leases of \$5,230,000 (2023: \$4,648,000) during the financial year.

Recognition and measurement

At the commencement date of the lease, the Group recognised lease liabilities measured at the present value of the lease payments to be made over the lease term. In calculating the present value of the lease payment, The Group uses the discount rate implicit in the lease, or if this rate cannot be readily determined, the Group's incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the carrying amount of the lease liability if there is a modification, a change in the lease term, a change in the lease payments (eg, changes to future payments resulting from a change in an index or rate used to determine lease payments) or a change in the assessment of an option to purchase the underlying asset.

19. Provisions

	2024 \$ '000	2023 \$ '000
Current		
Employee benefits	10,195	11,440
Decommissioning costs	250	250
RWS units and parts	5,460	7,761
Finance costs	-	4,500
Legal costs	1,608	1,462
Warranty	1,523	356
Total	19,036	25,769
Non-current		
Employee benefits	4,456	4,183
Make good	1,823	2,148
Warranty	7,207	8,344
Total	13,486	14,675

The movement in each class of provision (excluding employee benefits) during the financial year are set out below:

	Warranty \$'000	RWS units and parts \$ '000	Make good \$ '000	Finance costs \$ '000	Legal costs \$ '000	Decommissi- oning costs \$ '000	Total \$ '000
Balance at 1 January 2024	8,700	7,761	2,148	4,500	1,462	250	24,820
Additional provisions recognised	2,799	13,449	22	-	-	-	16,270
Reductions resulting from expiry	(2,698)	-	-	-	-	-	(2,698)
Utilised during the year	-	(15,750)	-	(4,500)	-	-	(20,249)
Effect of movement in foreign exchange	-	-	12	-	146	-	158
Reclassified as held for sale	(71)	-	(359)	-	-	-	(430)
Balance at 31 December 2024	8,730	5,460	1,823	-	1,608	250	17,871

Recognition and measurement

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received, and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(i) Employee benefits

The provision for employee benefits relates to the liability for annual leave, long service leave, wages and salaries and expected short-term incentive obligations to employees.

Provision is made for benefits accruing to employees when it is probable that settlement will be required, and they are capable of being measured reliably.

Provisions made in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of long-term employee benefits are measured as the present value of the estimated future payments to be made in respect of services provided by employees up to the reporting date.

(ii) Warranty

Provisions for warranty costs are recognised as agreed in individual sales contracts, at the Directors best estimate of the expenditure required to settle the Group's liability. Sales-related warranties cannot be purchased separately, and they serve as an assurance that the products sold comply with agreed-upon specifications.

A critical judgement is made in relation to the valuation of the provision for warranty costs with the valuation determined based on the best estimate of the expenditure required to settle the Group's liability under its warranty obligations. Estimates and outcomes that have been applied in the assessing warranty provisions may change in the future and the Group will recognise any revisions deemed necessary as a result.

(iii) Make good and decommissioning provisions

The provision for decommissioning costs relates to an obligation to dismantle and refurbish a telescope at a future date, and the provision for make good relates to obligation to make good on leased assets.

Make good provision, including decommissioning costs, is recognised when there is a present obligation which it is probable that an outflow of economic benefits will be required to settle and the amount of the provision can be measured reliably. The estimated future obligations include the costs of dismantling and removing leasehold improvement, decommissioning plant and equipment, or otherwise restoring facilities and premises as required in accordance with the underlying agreements.

(iv) RWS units and parts

The provision for RWS units relates to the cost to manufacture and resupply RWS systems and parts for an existing customer and is recognised when there is a present obligation under an existing contract to settle the Group's obligation under the contract and the amount of the provision can be measured reliably. The estimated future obligations include the costs of the manufacture and resupply as required in accordance with the underlying agreements.

A critical judgement in relation to the provision for the cost to manufacture and resupply RWS units and parts to an existing customer is based on the best estimate of the cost required to settle the Group's obligation under this contract. Estimates and outcomes that have been applied in the assessing this provision may change in the future and the Group will recognise any revisions deemed necessary as a result.

(i) Legal costs

The provision relates to estimated legal costs to resolve a legal dispute and is recognised when there is a present obligation which it is probable that an outflow of economic benefits will be required to settle and the amount of the provision can be measured reliably.

Critical judgement has been applied in relation to the provision for legal costs based on the best estimate of the expenditure required to settle the Group's liability to resolve the legal matter. Estimates and outcomes that have been applied in the assessing this provision may change in the future and the Group will recognise any revisions deemed necessary as a result.

20. Issued Capital

	2024 \$ '000	2023 \$ '000
Balance at the beginning of the financial year – ordinary shares	432,248	432,248
Issue of 20,588,235 equity shares at \$1.70 per share on 2 April 2024 – Share Placement	35,000	-
Issue of 1,127,858 equity shares at \$1.70 per share on 22 April 2024 - Share purchase plan	1,917	-
Equity Raising transaction costs	(1,973)	-
Balance at end of the financial year	467,192	432,248

	2024 Number	2023 Number
Fully paid ordinary shares		
Balance at beginning of financial year	171,236,006	171,236,006
Issue of 20,588,235 equity shares at \$1.70 per share on 2 April 2024 – Share Placement	20,588,235	-
Issue of 1,127,858 equity shares at \$1.70 per share on 22 April 2024 - Share purchase plan	1,127,858	-
Balance at end of financial year	192,952,099	171,236,006

Fully paid ordinary shares carry one vote per share and carry the right to dividends. The shares issued under the legacy LFSP are restricted shares subject to vesting and performance criteria under the Plan detailed in Note 22 and are treated as in-substance options for accounting purposes.

Shares issued under the legacy LFSP are not included in issued capital as they are treated as in-substance options for accounting purposes.

21. Reserves

	2024 \$ '000	2023 \$ '000
Foreign currency translation reserve	1,602	(224)
Employee equity settled benefits reserve	16,208	12,857
Total	17,810	12,633

	2024 \$ '000	2023 \$ '000
Foreign currency translation reserve		
Balance at beginning of financial year	(224)	277
Translation of foreign operations	1,826	(501)
Balance at end of financial year	1,602	(224)

Exchange differences relating to the translation from the functional currencies of the Group's foreign controlled entities into Australian dollars are brought to account by entries made to the foreign currency translation reserve. This includes translations from US dollars, Euros, Singaporean dollars, New Zealand dollars and UAE Dirham. Exchange differences previously accumulated in the foreign currency translation reserve (in respect to translating the net assets of foreign operations) are reclassified to profit or loss on disposal of the foreign operation.

	2024 \$ '000	2023 \$ '000
Employee equity-settled benefits reserve		
Balance at beginning of financial year	12,857	12,268
Share based payment (reversal)/expense	3,351	589
Balance at end of financial year	16,208	12,857

The employee equity-settled benefits reserve arises on the grant of share options and share rights to directors and employees under the legacy ESOP, legacy LFSP and Omnibus Employee Incentive Plan. Further information about share-based payments to employees is in Note 22 to the financial statements.

22. Share-based Payments

Equity-settled share-based payments are measured at fair value at the date of the grant. Fair value is measured by use of either the Monte Carlo model or the Binomial model. The models have been adjusted, based on best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Ordinary shares issued under the legacy LFSP are accounted for as an in-substance option and initially measured using a Monte Carlo simulation model. Directors reassess the non-market inputs and adjust throughout the life for likely eventuality.

Significant accounting judgements and estimates

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them.

(a) Legacy Employee Share Option Plan (ESOP)

The Group had a previous ownership-based compensation scheme where employees may be granted options to purchase ordinary shares at an exercise price based on market prices at the time the option issue was made. Each unlisted share option converts to one ordinary share in Electro Optic Systems Holdings Limited. No amounts are paid or payable by the recipient on receipt of the options. Options may be exercised at any time from the date of vesting to the date of expiry.

The number of options granted takes into account both Company and individual achievements against both qualitative and quantitative criteria. Shares are held in an employee share trust until all vesting conditions are satisfied in accordance with their terms of issue. No options were granted or exercised during the current or the comparative year. It is not anticipated that any further issues will be made under this plan.

Reconciliation of unlisted options issued under the legacy ESOP:

	2024		2023	
	Number of share options Number	Weighted average exercise price \$	Number of share options Number	Weighted average exercise price \$
Balance at beginning of the financial year	370,000	4.81	720,000	4.26
Lapsed during the year	(290,000)	4.79	(350,000)	3.67
Outstanding at the end of the year	80,000	4.88	370,000	4.81
Exercisable at the end of the year	-	-	-	-

Summary of legacy ESOP

	Grant date	Expiry date	Exercise price	Balance 1 Jan 24	Lapsed/ forfeited during year	Balance 31 Dec 24	Fair value at grant date
2024	19/05/2020	18/05/2025	\$4.75	325,000	(265,000)	60,000	\$38,580
	15/03/2021	16/03/2026	\$5.27	45,000	(25,000)	20,000	\$31,360
Total				370,000	(290,000)	80,000	\$69,940

	Grant date	Expiry date	Exercise price	Balance 1 Jan 23	Lapsed/ forfeited during year	Balance 31 Dec 23	Fair value at grant date
2023	20/06/2018	31/3/2023	\$2.99	220,000	(220,000)	-	-
	19/05/2020	18/05/2025	\$4.75	435,000	(110,000)	325,000	\$208,975
	15/03/2021	16/03/2026	\$5.27	65,000	(20,000)	45,000	\$70,560
Total				720,000	(350,000)	370,000	\$279,535

22. Share-based Payments (continued)

Staff options carry no rights to dividends and no voting rights. The difference between the total market value of the options at the date of issue, and the total amount received from the employees is recognised in the financial statements over the vesting period.

The inputs used in the model for these option grants based on the Monte Carlo simulation method model are summarised in the table below:

Issue date	19/05/2020	15/03/2021
Number of staff options	635,000	475,000
Dividend yield	-	-
Expected volatility	40.00%	45.00%
Risk free interest rate	0.40%	0.71%
Expected life of options (in days)	1,789	1,827
Grant date share price	\$4.98	\$5.37
Exercise price	\$4.75	\$5.27
Fair value of options on grant date:		
Tranche A (50% of options issued)	\$0.557	\$1.370
Tranche B (50% of options issued)	\$0.729	\$1.766

The employee options under legacy ESOP have similar vesting and forfeiture conditions as those issued under the legacy LFSP summarised below.

(b) Legacy Loan-Funded Share Plan (LFSP)

Details of the grants made under the legacy LFSP in 2020 and 2021 are detailed below. No new loan funded shares have been granted since 2021.

Under the LFSP, fully paid restricted ordinary shares in the Company are acquired by participants using a loan made to them by the Company. Shareholders approved the establishment of the LFSP on 24 April 2018.

The loans are limited recourse, interest and fee free and are repayable in full on the earlier of the termination date of the loan (five years) or the date on which the shares are sold in accordance with the terms of the LFSP.

The legacy LFSP shares are accounted for as options, which give rise to share based payments.

The LFSP shares are subject to both 'vesting conditions' and 'forfeiture conditions'. Vesting conditions are split into two tranches for each grant which are required to be satisfied for shares to vest. Shares are subject to forfeiture if the vesting conditions are not met or participants cease to be employed in the Group. When vesting conditions are met, the shares vest and participants may deal with them in accordance with the LFSP rules.

Vesting conditions require:

- (a) continued provision of services to the Group by the participant on the vesting date; and
- (b) performance hurdles to be satisfied, which relate to the Group's earnings before income tax (EBIT) and the Company's share price.

If the vesting conditions are not satisfied, the unvested shares are forfeited.

Reconciliation of shares issued under the legacy LFSP:

	2024 Number	2023 Number
Balance at beginning of the year	790,000	7,401,875
Lapsed during the year	(320,000)	(6,611,875)
Outstanding at end of the year	470,000	790,000

The following table summarise the legacy LFSP issued to date:

Issue date	19/05/20	10/8/20	14/10/20	15/3/21	31/5/21
LFSP issued	2,315,000	860,000	150,000	1,250,000	150,000
Fair value at issue date	\$1,488,545	\$651,880	\$125,925	\$2,602,880	\$114,750
Dividend yield	-	-	-	-	-
Expected volatility (linearly interpolated)	40%	40%	40%	45%	45%
Risk free interest rate	0.31%	0.34%	0.23%	0.71%	0.71%
Expected life of options (in days)	1,789	1,679	1,643	1,827	1,491
Issue price	\$4.75	\$5.62	\$5.47	\$5.27	\$4.06
Grant date share price	\$4.98	\$5.68	\$6.01	\$5.37	\$4.10
Price hurdle date	31/12/24	31/12/25	31/12/25	30/6/28	30/6/25

(c) Omnibus Employee Incentive Plan (“OEIP”)

The Board established a long-term incentive plan OEIP for senior management in 2023 to align remuneration with the creation of shareholder value over the long-term, and to replace the legacy LFSP and the legacy ESOP.

(i) Share options OEIP

Each share option converts to one ordinary share in Electro Optic Systems Holdings Limited. The options carry neither rights to dividends nor voting rights. The options may be exercised by paying the exercise price at any time from the date of vesting to the date of expiry.

The number of options granted takes into account both the seniority of the individual role and their ability to drive Group and divisional performance.

On 30 May 2024, 2,100,000 share options were issued to the Managing Director and CEO, Dr Schwer, following approval at the AGM. The terms are consistent with those of options issued in 2023 to employees, with an exercise price of \$0.50 which was equal to the market value of the shares at the time the plan commenced development.

On 30 August 2024, 71,500 share options were issued to senior management as a deferred 2023 incentive and 794,898 share options were granted to senior management as an incentive relating to the 2024 year.

22. Share-based Payments (continued)

Vesting Principles

The options will vest if the vesting conditions have been met on a testing date in the manner set out in the tables below, provided that the employee continues to provide services to the Group on the date of vesting.

	% vest if share price hurdle met	Share Price Hurdle required to be met for period of 20 trading days prior to Testing Date – can be non-consecutive	Testing Date	Exercise Period
2023 Grant	50%	\$1.20	31/12/24	From vesting date until 31/12/28
			31/12/25	
	100%	\$3.00	31/12/26	
2024 Grant	50%	\$3.00	31/12/25	From vesting date until 31/12/29
			31/12/26	
	100%	\$5.00	31/12/27	

Options will vest on a linear pro-rata basis for share price performance between the lower and upper share price hurdle.

Reconciliation of unlisted options issued under the OEIP:

	2024		2023	
	Number of share options	Weighted average exercise price \$	Number of share options	Weighted average exercise price \$
Balance at beginning of the year	2,953,087	0.50	-	-
Granted during the year	2,171,500	0.50	2,953,087	0.50
Granted during the year	794,989	1.70	-	-
Exercised during the year	-	-	-	-
Lapsed during the year	(187,500)	-	-	-
Outstanding at end of the year	5,732,076	0.67	2,953,087	0.50
Exercisable at the end of the year	-	-	-	-

31 December 2024 was a testing date which resulted in 3,332,534 share options vesting at that date. These will become exercisable in late February 2025. The options were priced using the Monte Carlo Simulation method model. Where relevant, the expected life used in the model has been adjusted based on the best estimate for the effects of non-transferability, exercise restrictions and behavioural conditions. Expected volatility is based on the historical share price volatility. Staff options carry no rights to dividends and no voting rights.

The inputs used in the model for these option grants are summarised in the table below:

Date	21/04/23	14/07/23	21/5/24	30/8/24	30/8/24
Number of staff options	1,240,000	1,713,087	2,100,000	71,500	794,989
Dividend yield	-	-	-	-	-
Annual volatility	65.00%	70.00%	55%	55%	55%
Risk free interest rate	3.22%	3.96%	3.9%	3.6%	3.6%
Expected life of options	5.69 years	5.46 years	2.6 years	2.3 years	3.3 years
Grant date share price	\$0.58	\$1.09	\$1.45	\$1.52	\$1.52
Exercise price	\$0.50	\$0.50	\$0.50	\$0.50	\$1.70
Fair value of options on grant date	\$0.275	\$0.717	\$0.91	\$0.95	\$0.51

(ii) Share rights OEIP

Each share right converts to one ordinary share in Electro Optic Systems Holdings Limited. No amounts are paid or payable by the recipient on receipt of the share rights. Rights will be converted into ordinary shares upon the satisfaction of the vesting conditions.

The number of rights granted is determined by the Directors and takes into account both the seniority of the individual role and its ability to drive Group and divisional performance.

On 30 May 2024, 1,260,000 share rights were issued to the Managing Director and CEO, Dr Schwer, following approval at the AGM. 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.

On 30 August 2024, 42,900 share rights were issued to senior management as a deferred 2023 incentive and 152,545 share rights were issued to senior management as a 2024 incentive.

Vesting Principles

The rights will vest in the below proportions based purely on a service condition if the employee remains employed by the Group on the below hurdle dates:

	Amount vest	Continued employment on Testing Date
2023 Grant	One third	31/12/24
	One third	31/12/25
	One third	31/12/26
2024 Grant	One third	31/12/25
	One third	31/12/26
	One third	31/12/27

Movements in share rights issued under the OEIP:

	2024		2023	
	Number of share rights	Weighted average exercise price \$	Number of share rights	Weighted average exercise price \$
Balance at beginning of the year	1,341,117	-	-	-
Granted during the year – 2023 grant	1,302,900	-	1,341,117	-
Granted during the year – 2024 grant	152,545	-	-	-
Exercised during the year	-	-	-	-
Lapsed during the year	(37,500)	-	-	-
Outstanding at end of the year	2,759,062	-	1,341,117	-
Exercisable at the end of the year	-	-	-	-

31 December 2024 was a testing date which resulted in 868,839 share rights vesting at that date. These will be issued and become exercisable in late February 2025.

The rights issued were priced using the Binomial model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural conditions.

22. Share-based Payments (continued)

The inputs used in the model for these rights grants are summarised in the table below:

Grant date	21/4/23	14/7/23	21/5/24	30/8/24
Number of staff rights	744,000	597,117	1,260,000	195,445
Grant date share price	\$0.58	\$1.09	\$1.45	\$1.52
Exercise price	-	-	-	-
Fair value of rights on grant date	\$0.58	\$1.09	\$1.45	\$1.52

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 year ended 31 December 2024 was assessed on the date of grant and are consistent with the spot value on grant date. The fair value of each share right granted at 21 May 2024 was \$1.45 and \$1.52 for those issued 30 August 2024. 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.

For the year, the Group recognised a total of \$3.4m of share-based expense for all incentive plans, including the \$0.7m adjustment referred to above.

23. Accumulated Losses

	2024 \$ '000	2023 \$ '000
Balance at beginning of the year	(241,774)	(208,499)
Net (loss) attributable to members of the parent entity	(18,731)	(33,275)
Balance at end of the year	(260,505)	(241,774)

24. Notes to the Cash Flow Statement

a. Reconciliation of Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than three months and net of bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	2024 \$ '000	2023 \$ '000
Cash and cash short-term deposits	41,078	70,997
Cash and bank balances included in disposal group held for sale (Note 5)	11,226	-

b. Reconciliation of (Loss) Before Income Tax to Net Cash Flows from Operating Activities

	2024 \$ '000	2023 \$ '000
(Loss) before income tax expense from continuing operations	(38,453)	(55,608)
Profit before income tax expense from discontinued operations	23,340	15,415
(Loss) before income tax expense	(15,113)	(40,193)
Reconciling items which include operating activities:		
Accrued interest, finance costs and other financing expenses	3,622	16,488
Amortisation of intangibles	6,334	1,597
Equity settled share-based payments	3,351	589
Depreciation of property, plant and equipment	4,514	6,356
Depreciation of right of use assets	4,475	4,430
Loss on sale of property, plant and equipment	4	-
Inventory obsolescence provision	7,418	-
Tax (paid)/received	(549)	16,747
Foreign exchange movements	(1,101)	(5,590)
(Increase)/decrease in assets		
Receivables and contract assets	(27,774)	95,336
Inventories	(16,380)	1,444
Prepayments	(2,134)	1,208
Increase/(decrease) in liabilities		
Provisions	(6,064)	18,668
Trade and other payables	(6,795)	(2,375)
Deferred income	15,827	(1,581)
Net cash (outflows) / inflows from operating activities	(30,365)	113,124

25. Related Party Disclosures

a. Equity Interests in Related Parties

Details of the percentage of Ordinary Shares held in subsidiaries are disclosed in Note 26.

b. Key Management Personnel Compensation

The aggregate compensation of the key management personnel of the Group is set out below:

	2024 \$ '000	2023 \$ '000
Short-term benefits	2,467	2,523
Post-employment benefits	79	119
Share based payments	2,350	436
Termination benefits	-	146
Long-term benefits	6	18
Total	4,902	3,242

The amounts disclosed in the table are the amounts recognised during the reporting period for services provided by key management personnel as either employees or paid to their director-related entities. A review of roles that met the definition of key management personnel ("KMP") was undertaken during the year, concluding that there were only two KMP for the year (2023: five).

c. Transactions with Other Related Parties

Other related parties include associates, joint venture partners, and subsidiaries.

The Group did not enter into any transactions with other related parties outside of the ordinary course of business.

d. Parent Entity

The parent entity in the Group is Electro Optic Systems Holdings Limited.

26. Controlled Entities

Name of entity	Country of incorporation	December 2024 %	December 2023 %
Parent Entity			
Electro Optic Systems Holdings Limited (i), (ii)	Australia		
Controlled Entities			
Electro Optic Systems Pty Limited (ii), (iii)	Australia	100	100
EOS Defence Systems Pty Limited (ii), (iii)	Australia	100	100
FCS Technology Holdings Pty Limited (ii)	Australia	100	100
EOS Space Systems Pty Limited (ii)	Australia	100	100
EOS UAE Holdings Pty Limited (ii)	Australia	100	100
EOS Communications Systems Pty Ltd (ii)	Australia	100	100
EM Solutions Pty Ltd (ii), (iii)	Australia	100	100
EOS Loan Plan Pty Ltd (iv)	Australia	-	-
Australian Missile Alliance Pty Ltd	Australia	100	100
Sovereign Missile Alliance Pty Ltd	Australia	100	100
EOS Optical Technologies Ltd	New Zealand	100	100
EOS USA, Inc. (Inc in Nevada)	USA	100	100
EOS Space Technologies, Inc. (Inc in Arizona)	USA	100	100
EOS Defense Systems, Inc (Inc in Arizona)	USA	100	100
EOS Defense Systems USA Inc (Inc in Alabama) (v)	USA	100	100
EOS Advanced Technologies LLC (vi)	UAE	49	49
EOS Optronics GmbH	Germany	100	100
EM Solutions (Europe) B.V. (viii)	Netherlands	100	-
EOS Defense Systems Pte Limited (vii)	Singapore	100	100
EOS Innovation Singapore Pte Ltd (viii)	Singapore	100	-

- (i) Electro Optic Systems Holdings Limited is the head entity within the tax-consolidated Group.
- (ii) These companies form part of the Australian consolidated tax entity.
- (iii) These wholly-owned subsidiaries have entered into a deed of cross guarantee with Electro Optic Systems Holdings Limited pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/875* and are relieved from the requirement to prepare and lodge an audited financial report.

On 6 April 2018, the parent entity, Electro Optic Systems Holdings Limited entered into a deed of cross guarantee with two of its Australian wholly-owned subsidiaries Electro Optic Systems Pty Limited and EOS Defence Systems Pty Limited. On 28 November 2019, the parent entity Electro Optic Systems Holdings Limited entered into a Deed of Assumption which joined EM Solutions Pty Limited as part of the Deed of Cross Guarantee from the effective date of acquisition which was 11 October 2019.

Subsequent to year end, the Group completed the sale of EMS, and as a result of this transaction, EMS was removed from the Deed of Cross Guarantee. Refer to Note 32 for details of the transaction.

- (iv) EOS Loan Plan Pty Ltd is the trustee of the legacy LFSP. EOS Loan Plan Pty Ltd was incorporated on 5 December 2019. Electro Optic Systems Holdings Limited has the ability to direct the relevant activities of the entity.
- (v) Effective from 17 October 2022, EOS Defence Systems USA (EOSDS USA), a United States based subsidiary, is managed through a Special Security Agreement (SSA) as required by the US National Industrial Security Program ("NISPOM"). The SSA enables EOSDS USA to enter into contracts with the US Department of Defence that contain certain classified information.

26. Controlled Entities (continued)

The SSA is an instrument designed to mitigate the risk of foreign ownership, control or influence over a US entity that has security clearance under the NISPOM. The SSA denies the foreign owner unauthorized access to classified and export-controlled information while preserving the foreign owner's voice in the business management of the company. Under the SSA, the Group has the right to appoint a representative (Inside Director) along with three Outside Directors. The Outside Directors must be US citizens approved by the US Defense Counterintelligence and Security Agency (DCSA).

The Group maintains its involvement with EOSDS USA's activities through normal business activity and liaison with the Chair of the SSA and through the Inside Director. The operational and governance activities and results are reviewed by the Group's management. These activities are all performed within the confines of the SSA such that EOSDS USA operates its business within the requirements necessary to protect the US national security interest.

An assessment has been performed in accordance with AASB 10 Consolidated Financial Statements of whether, for accounting purposes, the Group controls EOSDS USA. The Group is exposed to variable returns from its investment in EOSDS USA and there is assessed to be sufficient power within the confines of the Proxy agreement for the Group to use its influence to affect those returns. As such, under AASB 10, it is deemed that the Group controls EOSDS USA and therefore the results of EOSDS USA are consolidated into the Group's consolidated accounts.

- (vi) Whilst the Group owns less than 50% of the shares, pursuant to the shareholder and related agreements, it has existing rights that give it the ability to direct the relevant activities of the company and is entitled to 80% of company distributions.
- (vii) EOS Defense Systems Pte Limited is audited by Assurance Affiliates, Chartered Accountants in Singapore and EOS Advanced Technologies LLC is audited by M A International Consulting LLC in UAE and are the only entities with a separately appointed statutory auditor.
- (viii) In April 2024, EMS 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.

a. Consolidated Profit or Loss, Balance Sheet and Movements in Consolidated Retained Earnings of Entities Party to the Deed of Cross Guarantee

The consolidated profit or loss of the entities which are parties to the Deed of Cross Guarantee are:

	2024 \$ '000	2023 \$ '000
Revenue and other income	146,180	149,474
Foreign exchange gains	11,582	958
Raw materials and consumables used	(86,539)	(95,860)
Employee benefits expense	(36,119)	(26,472)
Administration expenses	(26,352)	(25,721)
Amortisation of intangibles	(4,871)	-
Interest expense on lease liabilities	(641)	(726)
Finance costs	(23,444)	(34,093)
Depreciation of property, plant and equipment	(2,184)	(3,888)
Depreciation of right of use assets	(1,850)	(1,842)
Occupancy costs	(1,261)	(1,094)
Other expenses	(1,928)	(471)
Provision for loss on loans to subsidiaries	-	(63,521)
(Loss) before income tax before continuing operations	(27,427)	(103,256)
Income tax (expense)/ benefit	(920)	12,148
Profit/(loss) after tax from discontinued operation	15,431	10,264
(Loss) for the year	(12,916)	(80,844)

b. Consolidated Profit or Loss, Balance Sheet and Movements in Consolidated Retained Earnings of Entities Party to the Deed of Cross Guarantee

The consolidated balance sheet of the entities which are parties to the Deed of Cross Guarantee:

	2024 \$ '000	2023 \$ '000
CURRENT ASSETS		
Cash and short-term deposits	32,865	63,942
Trade and other receivables	8,440	3,282
Contract assets	57,232	29,014
Inventories	54,074	68,862
Other	26,281	35,501
Assets classified as held for sale	95,160	-
TOTAL CURRENT ASSETS	274,052	200,601
NON-CURRENT ASSETS		
Contract asset	-	38,879
Loans to subsidiaries	-	609
Deferred tax assets	7,963	8,950
Security deposit	36,275	45,828
Right of use asset	7,802	13,571
Goodwill	2,505	12,373
Intangible assets	15,649	18,283
Property, plant and equipment	4,875	22,680
Other	2,175	-
TOTAL NON-CURRENT ASSETS	77,244	161,173
TOTAL ASSETS	351,296	361,774
CURRENT LIABILITIES		
Trade and other payables	23,124	37,845
Current tax payable	3,508	2,970
Secured borrowings	47,938	19,875
Unsecured borrowings	-	-
Lease liabilities	2,661	3,186
Contract liabilities	1,471	16,259
Provisions	16,651	23,791
Liabilities directly associated with assets held for sale	26,170	-
TOTAL CURRENT LIABILITIES	121,523	103,926
NON-CURRENT LIABILITIES		
Secured borrowings	-	44,947
Lease liabilities	8,013	14,715
Provisions	12,533	13,801
TOTAL NON-CURRENT LIABILITIES	20,546	73,463
TOTAL LIABILITIES	142,069	177,389
NET ASSETS	209,227	184,385
EQUITY		
Issued capital	467,192	432,248
Reserves	15,671	12,857
Accumulated losses	(273,636)	(260,720)
TOTAL EQUITY	209,227	184,385

The consolidated accumulated losses of the entities which are party to the Deed of Cross Guarantee are:

Balance at the start of the year	(260,720)	(179,876)
Net (loss) for the year	(12,916)	(80,844)
Balance at end of the year	(273,636)	(260,720)

27. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise receivables, payables, contract assets, borrowings, finance leases, cash and short-term deposits. These instruments expose the Group to a variety of risks that it must manage including, market risk (such as currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group does not use derivative financial instruments to hedge these risk exposures.

The Directors consider that the carrying amount of financial assets and liabilities recognised in these financial statements approximate their fair values. The amounts disclosed in this note exclude contract asset balances as these are not financial assets.

Risk exposures and responses

a. Interest Rate Risk

The Group's exposure to market interest rates relates primarily to the Group's cash holdings.

At balance date the Group had the following mix of financial assets exposed to interest rate risk that are not designated in cash flow hedges:

Financial assets	2024 \$ '000	2023 \$ '000
Cash and short-term deposits	41,078	70,997
Security deposits	49,476	67,056
Total	90,554	138,053

At balance date the Group had financial liabilities with a fixed rate of interest. These liabilities therefore do not introduce an exposure to movement in interest rates.

Financial liabilities	2024 \$ '000	2023 \$ '000
Borrowings	47,939	64,822
Total	47,939	64,822

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

At 31 December 2024, if interest rates had moved as illustrated in the table below, with all other variables held constant, post-tax profit/(loss) and equity would have been affected as follows:

Judgements of reasonably possible movements	Post-tax (loss) higher/(lower)		Equity higher/(lower)	
	2024 \$ '000	2023 \$ '000	2024 \$ '000	2023 \$ '000
Consolidated				
+1% (100 basis points)	634	966	634	966
-0.5% (50 basis points)	(316)	(482)	(316)	(482)

The movements in profits are due to lower interest rates on cash balances of 50 basis points (2023: 10).

b. Foreign Currency Risk

The Group's financial results can be significantly affected by movements in the US\$/A\$ exchange rates. There are also exposures to Singapore dollars, UAE Dirham, Euro and the New Zealand dollars from operations in those countries. Exchange rates are managed within approved policy parameters using natural hedges and no derivatives are used.

The Group also has transactional currency exposures. Such exposures arise from sales or purchases by an operating entity in currencies other than the functional currency. The Group is mainly exposed to the currency of US dollars, Euro, and Singapore dollars. The following tables details the Group's sensitivity to a percentage increase and decrease in currency units against these foreign currencies.

The policy of the Group is to convert surplus foreign currencies to Australian dollars, excluding foreign currencies relate to discontinued operations. The Group also holds cash deposits in US dollars to secure US dollar bank guarantees and performance bonds to overseas customers. At 31 December 2024, the Group the following exposure to US\$ foreign currency:

	2024 A\$ '000	2023 A\$ '000
Financial assets		
Cash and short-term deposits	7,625	40,630
Security deposits	47,888	38,545
Trade and other receivables	13,324	5,815
Total	68,837	84,990
Financial liabilities		
Lease liabilities	6,508	4,862
Trade and other payables	12,729	37,056
Total	19,237	41,918
Net exposure	49,600	43,072

All US\$ denominated financial instruments were translated to A\$ at 31 December 2024 at the exchange rate of 0.6217 (2023: 0.6840).

27. Financial Risk Management Objectives and Policies (continued)

At 31 December 2024 and 2023, had the Australian Dollar moved as illustrated in the table below, with all other variables held constant, post-tax profit/(loss) and equity would have been affected as follows:

Judgements of reasonably possible movements	Post-tax profit higher/(lower)		Equity higher/(lower)	
	2024 \$ '000	2023 \$ '000	2024 \$ '000	2023 \$ '000
Consolidated				
AUD/USD +10%	(3,156)	(2,765)	(3,156)	(2,765)
AUD/USD -5%	1,827	1,601	1,827	1,601

At 31 December 2024, the Group had the following exposure to Singapore \$ foreign currency:

	2024 \$ '000	2023 \$ '000
Financial assets		
Cash and short-term deposits	3,393	5,547
Security deposits	139	-
Trade and other receivables	8,993	518
Total	12,525	6,065
Financial liabilities		
Trade and other payables	655	900
Lease liabilities	2,431	982
Total	3,086	1,882
Net exposure	9,439	4,183

All Singapore \$ denominated financial instruments were translated to A\$ at 31 December 2024 at the exchange rate of 0.8456 (2023: 0.9104).

At 31 December 2024 and 2023, had the Australian Dollar moved as illustrated in the table below, with all other variables held constant, post-tax profit/(loss) and equity would have been affected as follows:

Judgements of reasonably possible movements	Post-tax profit higher/(lower)		Equity higher/(lower)	
	2024 \$ '000	2023 \$ '000	2024 \$ '000	2023 \$ '000
Consolidated				
AUD/SING +10%	(601)	(266)	(601)	(266)
AUD/SING -5%	348	154	348	154

At 31 December 2024, the Group had the following exposure to Euro € foreign currency:

	2024 \$ '000	2023 \$ '000
Financial assets		
Cash and short-term deposits	5,744	5,398
Trade and other receivables	-	8
Total	5,744	5,406
Financial liabilities		
Trade and other payables	1	606
Total	5,743	606
Net exposure	5,743	4,800

All Euro € denominated financial instruments were translated to A\$ at 31 December 2024 at the exchange rate of 0.5974 (2023: 0.6181).

At 31 December 2024, had the Australian Dollar moved as illustrated in the table below, with all other variables held constant, post-tax profit/(loss) and equity would have been affected as follows:

	Post-tax profit higher/(lower)		Equity higher/(lower)	
	2024 \$ '000	2023 \$ '000	2024 \$ '000	2023 \$ '000
Judgements of reasonably possible movements				
Consolidated				
AUD/EUR +10%	(365)	(305)	(365)	(305)
AUD/EUR -5%	212	177	212	177

The Group believes the balance date risk exposures are representative of risk exposure inherent in financial instruments.

As noted, foreign currency transactions entered into during the financial year are managed within approved policy parameters using natural hedges. The Directors do not consider that the net exposure to foreign currency transactions is material after considering the effect of natural hedges.

c. Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in a financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group is exposed to credit risk from its operating activities (primarily trade receivables and contract asset) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings from international credit agencies. Refer Note 6 and Note 7 for further information on credit assessment for receivables and contract assets.

27. Financial Risk Management Objectives and Policies (continued)

d. Liquidity Risk Management

The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate risk management framework for the management of the Group's short, medium and long term funding and liquidity requirements. The Group manages liquidity by seeking to maintain adequate cash reserves, continuously monitoring forecast and actual cash flows and managing the maturity profiles of financial assets.

Liquidity and interest tables

The following table detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Consolidated	Weighted average effective interest rate %	Less than 1 month \$ '000	1-3 months \$ '000	3 months to 1 year \$ '000	1-5 years \$ '000
2024					
Borrowings	22%	52,072	-	-	-
Trade payables and accruals	-	28,210	-	-	-
Lease liabilities	5%	478	920	4,145	12,844
2023					
Borrowings	19%	-	-	20,505	52,072
Trade payables and accruals	-	15,909	13,508	11,387	-
Lease liabilities	5%	511	1,022	4,485	16,793

Refer to Note 18 for details on leases including maturity analysis of lease liabilities and interest, which includes the expected maturities of \$1.9m (2023: \$4.9m) beyond the above time frames.

Refer to Note 17 for details on Borrowings and the repayment made on 31 January 2025 subsequent to year end.

The following table detail the Group's remaining contractual maturity for its non-derivative financial assets. The table has been drawn up based on the contractual maturities of the financial assets except where the Group anticipates that the cash flow will occur in a different period. The financial asset disclosed in the below table represent their current carrying values.

Consolidated	Weighted average effective interest rate %	Less than 1 month \$ '000	1-3 months \$ '000	3 months to 1 year \$ '000	1-5 years \$ '000
2024					
Cash and cash equivalent	-	21,039	-	-	-
Receivables	-	16,593	1,041	96	-
Security deposits	5%	-	-	12,747	36,435
Variable interest rate – cash and term deposits	4%	20,039	-	-	-
Total		57,671	1,041	12,843	36,729
2023					
Cash and cash equivalent	-	70,068	-	-	-
Receivables	-	2,634	4,378	419	-
Security deposits	0.01%	-	-	21,214	45,842
Variable interest rate – cash and term deposits	0.05%	929	-	-	-
Total		73,631	4,378	21,633	45,842

e. Categories of Financial Assets and Liabilities

	2024 \$ '000	2023 \$ '000
Financial Assets		
Amortised cost		
Cash and short-term deposits	41,078	70,997
Trade and other receivables	17,730	8,466
Security deposits	49,476	67,056
Total financial assets at amortised cost	108,284	146,519
Current	71,555	100,549
Non-current	36,729	45,970
Financial Liabilities		
Interest bearing loans and borrowings		
Borrowings	47,939	64,822
Lease liabilities	17,991	23,919
Total interest-bearing loans and borrowings	65,930	88,741
Current	52,622	24,751
Non-current	13,308	63,990
Trade and other payables - current	28,210	40,804

27. Financial Risk Management Objectives and Policies (continued)

f. Commodity Price Risk

The Group's exposure to commodity price risk is minimal.

Recognition and measurement

(i) Financial assets

A. Classification

The Group classifies its financial assets in the following measurement categories:

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

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

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

B. Measurement

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

C. Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The consolidate entity measures its debt instruments using the amortised cost basis. Using this method, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

D. Impairment

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

(ii) Financial Liabilities

A. Interest bearing liabilities

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

B. Trade and other payables

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

28. Segment Information - Continuing Operations

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.

a. Segment Determination

The Group identifies its operating segments based on internal reports reviewed and used by the Group's chief operating decision maker (the Chief Executive Officer) to determine business performance and resource allocation. Operating segments are aggregated after considering the nature of the products and services, nature of production processes, type of customer and distribution methods. As a result, EMS and Space Systems segments were merged to form an enlarged Space Systems segment until the Group classified EMS as a discontinued operation in 2024. The segment information reported in this note does not include any amounts for the discontinued operations (refer Note 5). The comparative information has been restated to reflect the change in segment reporting in accordance with the accounting standards.

As a result, the Group's reportable segments are Defence Systems and Space Systems.

(i) 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.

(ii) Space Systems

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

- 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 the Group's laser technology has opened aligned markets in space optical communications and various high power laser applications.

b. 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, and the manufacture of remote weapon systems.

28. Segment Information - Continuing Operations (continued)

c. Segment Information

Segment revenues - continuing operations	2024 \$ '000	2023 \$ '000
Space	10,829	6,659
Defence	165,736	155,362
Total of all segments	176,565	162,021
Segment results - continuing operations	2024 \$ '000	2023 \$ '000
Space	(17)	(2,535)
Defence	(14,665)	(18,082)
Total of all segments	(14,682)	(20,617)
Unallocated holding company costs	(23,771)	(34,991)
(Loss) before income tax expense	(38,453)	(55,608)
Income tax benefit	3,337	11,237
(Loss) for the year	(35,116)	(44,371)

The revenue reported above represents revenue from external customers. The Group had two customers that each provided in excess of 10% of consolidated revenue. The customers are within the Defence segment. One customer represented revenue of \$72,113,000 and the other represented \$28,734,000 during the year.

Segment results represent the profit or loss earned by each segment without the allocation of central administration costs and corporate costs, including director fees, finance costs, investment revenue and income tax. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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

Segment assets and liabilities - continuing operations

	Assets*		Liabilities*	
	31 December 2024 \$ '000	31 December 2023 \$ '000	31 December 2024 \$ '000	31 December 2023 \$ '000
Space	12,388	10,726	28,430	28,505
Defence	252,388	189,662	126,905	145,009
Total all segments	264,776	200,388	155,335	173,514
Unallocated cash and short-term deposits	41,078	111,999	-	-
Consolidated	305,854	312,387	155,335	173,514

* Segment assets and liabilities for both years exclude those relating to discontinued operations and non-current assets held for sale (Note 5).

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

In April 2024, 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.

Other segment information

	Depreciation, impairment and amortisation of segment assets		Acquisition of segment assets	
	31 December 2024 \$ '000	31 December 2023 \$ '000	31 December 2024 \$ '000	31 December 2023 \$ '000
Space	931	963	2,046	1,993
Defence	10,478	7,157	1,711	2,043
Total all segments	11,409	8,120	3,757	4,036
Unallocated management	1,133	1,289	325	333
Consolidated	12,542	9,409	4,082	4,369

Information on geographical segments

31 December 2024

Geographical segments	Revenue from external customers \$ '000	Segment assets* \$ '000	Acquisition of segment assets \$ '000
Australia/Asia	44,943	42,733	3,404
Middle East - United Arab Emirates	72,113	2,512	-
Middle East - other	-	-	-
North America	15,963	6,203	676
Europe	43,546	2	2
Total	176,565	51,450	4,082

31 December 2023

Geographical segments	Revenue from external customers \$ '000	Segment assets* \$ '000	Acquisition of segment assets \$ '000
Australia/Asia	36,174	84,814	4,312
Middle East - United Arab Emirates	67,572	360	5
Middle East - other	710	-	-
North America	7,880	5,043	52
Europe	49,685	-	-
Total	162,021	90,217	4,369

*Segment assets reflect the requirements of AASB 8.33 (b) and reflect only non-current assets other than financial instruments and deferred tax assets.

The revenue information above is based on the locations of the customers.

29. Parent Entity Disclosure

	2024 \$ '000	2023 \$ '000
Financial position		
Assets		
Current assets	18,492	1,015
Non-current assets	41,751	88,123
Total assets	60,243	89,138
Liabilities		
Current liabilities	54,283	36,281
Non-current liabilities	-	44,947
Total liabilities	54,283	81,228
Net assets	5,960	7,910
Equity		
Issued capital	467,192	432,248
Reserves	15,671	12,858
Accumulated (losses)	(476,903)	(437,196)
Total equity	5,960	7,910
Financial performance		
(Loss) for the year	(39,707)	(131,456)
Other comprehensive income	-	-
Total comprehensive income	(39,707)	(131,456)

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Guarantee provided under the Deed of Cross Guarantee	142,069	177,389
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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. On 28 November 2019, EMS entered into an Assumption Deed and became a party to the Deed of Cross Guarantee.

Subsequent to year end, the Group completed the sale of EMS, and as a result of this transaction, was removed from the Deed of Cross Guarantee. Refer to Note 32 for details of the transaction.

30. 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 per below:

	Note	2024 \$ '000	2023 \$ '000
Offset bond for a Defence Systems contract	(c)	22,085	15,356
Performance bond for a Defence contract – overseas customer	(d)	25,494	23,172
Performance bonds for Defence contracts – Australian customers	(e)	-	21,086
Performance bonds for Space contracts	(f)	-	6,228
Rental bonds		1,231	1,097
Deposit for credit card facility		666	117
Total		49,476	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 Company, 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 had previously executed an offset agreement in relation to an overseas Defence System contract for an amount of US\$16.9m (A\$27.3m) secured by an offset bond for the full amount. The offset bond is guaranteed by Export Finance Australia (EFA) and is secured by a cash security deposit of US\$13.7m (A\$22.1m) 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.

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, which will generate offset credits, to the offset credit authority. A proposed business plan was submitted to the offset authority in September 2023. During the year the Group continued to have advanced discussions regarding the business plan with the offset credit authority and, as at balance date, the business plan remained under review by the offset credit authority.

In addition during the year, consistent with the proposed business plan, EOS entered into a non-binding memorandum of understanding ("MOU") with Shielders Advanced Industries ("Shielders"), a specialist manufacturer in the Middle East. The MOU envisages the formation of a Joint Venture ("JV") between Shielders and EOS that focusses on local manufacturing and assembly of RWS, assisting EOS in meeting its offset obligations.

Subsequent to balance date, on 20 February 2025, the Group received approval from the offset credit authority for the business plan. The business plan envisages that EOS will enter into a 49% EOS owned JV with Shielders Advanced Industries to set up local manufacturing and assembly of EOS' R150 Remote Weapon System product in the Middle East. Under the approved business plan, EOS has from 1 July 2026 until 1 July 2033 to set up the JV and earn the relevant offset credits. This includes in kind contributions including the licensing of EOS owned IP, and providing technical data packages and manufacturing knowhow to the JV.

30. Contingent Liabilities and Commitments (continued)

Under the approval from the offset credit authority the final form of the JV agreement, along with other agreements necessary for the JV to manufacture and assemble EOS product in the Middle East, require the approval of the offset credit authority and approval of the JV agreement must be obtained from the offset credit authority within a maximum of 6 months from 20 February 2025. Under the approved business plan in order to earn offset credits EOS must contribute not less than AED 18.365m (approximately A\$7.8m) in cash to the JV.

As a result of the above, EOS considers that both at balance date and as at the date of this report it was 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.

- (d) The Group maintains a performance bond for US\$33.2m (A\$53.5m) 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\$25.5m) 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) Performance bonds of \$22.2m to a domestic customer in Australia were issued and was partially secured in 2023. This bond was fully secured by cash deposits in 2024. These performance obligations were satisfied during 2024 and the cash security returned to the Group.
- (f) \$6.0m of performance bonds were issued in 2023 to support an EMS contract to deliver and install communication systems to the Royal Australian Navy. This guarantee is secured by a cash security deposit of \$6.0m. These security deposits are disclosed as part of the discontinued operations in Note 5. Subsequent to year end, this arrangement was divested as part of the sale of the EMS business. Refer to Note 32 for details.
- (g) The completion of the EMS divestment post year end automatically triggered the full repayment of EOS' outstanding Term Loan facility with WHSP, including a 'make whole' fee which applied in the case of early repayment.

As at 31 December 2024, the total estimated repayment amount was \$62.3m, including the scheduled payment at maturity of \$52.1m plus a potential 'make whole' fee. The exact 'make whole' fee was contingent upon the timing of the settlement.

Subsequent to year end, the divestment was completed on 31 January 2025, and the early repayment of the Term Loan facility at completion was \$61.1m, including the scheduled payment at maturity of \$52.1m plus the 'make whole' fee.

- (h) 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, EMS entered into an Assumption Deed and became a party to the Deed of Cross Guarantee. Subsequent to year end, the Group completed the sale of EMS, and as a result of this transaction, EMS was removed from the Deed of Cross Guarantee. Refer to Note 32 for details of the transaction.

31. Remuneration of Auditors

	2024 \$ '000	2023 \$ '000
ERNST & YOUNG AND RELATED NETWORK FIRMS		
Audit or review of the financial reports:		
In relation to the current year:		
EOS Group (excluding EOS USA Inc)	572	530
EOS USA Inc	300	-
	872	530
Other assurance services:		
Audit of EMS 2023 and 2024 financial reports	328	-
Other services	-	92
Total	1,200	622

32. Subsequent Events

On 31 January 2025, EOS announced that the EMS divestment had been completed. After customary adjustments for estimated net debt and estimated working capital, the amount received on completion was of \$158.6m on that date. Final completion accounts and any adjustments are expected to be agreed between the parties within 60 business days.

Contemporaneous with the completion of the transaction, EOS repaid WHSP \$61.1m. This represents the final repayment of WHSP of all outstanding amounts, including 'make whole' payments required under the borrowing agreements. Following this debt repayment and the divestment of EMS, EOS has no borrowings and held approximately \$128.0m of available cash balances at 31 January 2025.

Subsequent to year-end, on 20 February 2025, the Group received approval from the offset credit authority for the business plan. Refer to Note 30 for further details.

Apart from the above, the Directors are not aware of any significant subsequent events since the end of the financial year and up to the date of this report.

33. Additional Company Information

Electro Optic Systems Holdings Limited is a listed public company in Australia, incorporated in Australia. The Company and its subsidiaries operate in Australia, North America, Netherlands, Middle East, Singapore, New Zealand and Germany.

Registered Office

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Netherlands Operations

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Consolidated Entity Disclosure Statement

As at 31 December 2024

Entity name	Entity type	Body Corporates		Tax Residency	
		Country of in-corporation	% of share capital held	Australian or foreign	Foreign jurisdiction
Electro Optic Systems Holdings Limited	Body corporate	Australia	N/A	Australian (i)	N/A
Electro Optic Systems Pty Limited	Body corporate	Australia	100%	Australian (i)	N/A
EOS Defence Systems Pty Limited	Body corporate	Australia	100%	Australian (i)	N/A
FCS Technology Holdings Pty Limited	Body corporate	Australia	100%	Australian (i)	N/A
EOS Space Systems Pty Limited	Body corporate	Australia	100%	Australian (i)	N/A
EOS UAE Holdings Pty Limited	Body corporate	Australia	100%	Australian (i)	N/A
EOS Communications Systems Pty Ltd	Body corporate	Australia	100%	Australian (i)	N/A
EM Solutions Pty Ltd	Body corporate	Australia	100%	Australian (i)	N/A
Australian Missile Alliance Pty Ltd	Body corporate	Australia	100%	Australian (i)	N/A
Sovereign Missile Alliance Pty Ltd	Body corporate	Australia	100%	Australian (i)	N/A
EOS Optical Technologies Ltd	Body corporate	New Zealand	100%	Foreign	New Zealand
EOS USA, Inc. (Inc in Nevada)	Body corporate	USA	100%	Foreign	USA
EOS Space Technologies, Inc. (Inc in Arizona)	Body corporate	USA	100%	Foreign	USA
EOS Defense Systems, Inc (Inc in Arizona)	Body corporate	USA	100%	Foreign	USA
EOS Defense Systems USA Inc (Inc in Alabama)	Body corporate	USA	100%	Foreign	USA
EOS Advanced Technologies LLC (ii)	Body corporate	UAE	49%	Foreign	UAE
EOS Optronics GmbH	Body corporate	Germany	100%	Foreign	Germany
EM Solutions (Europe) B.V.	Body corporate	Netherlands	100%	Foreign	Netherlands
EOS Defense Systems Pte Limited	Body corporate	Singapore	100%	Foreign	Singapore
EOS Innovation Singapore Pte Ltd	Body corporate	Singapore	100%	Foreign	Singapore

- (i) This entity is part of a tax-consolidated group under Australian taxation law, for which Electro Optics Systems Holdings Limited is the head entity.
- (ii) EOS Advanced Technologies LLC is a participant in a joint venture which is consolidated in the consolidated financial statements.

Directors' Declaration

In accordance with a resolution of the Directors of Electro Optic Systems Holdings Limited (the Company), I state that:

1. In the Directors' opinion:

- (a) the financial statements and notes of the Company and its subsidiaries (collectively the Group) are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory reporting requirements; and
 - ii. giving a true and fair view of the Group's financial position at 31 December 2024 and of its performance for the financial year ended on; and
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1; and
- (c) 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
- (d) The consolidated entity disclosure statement is true and correct; and
- (e) as at the date of this declaration, there are reasonable grounds to believe that the Company and the subsidiaries to which *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785* applies, as detailed in Note 26 to the financial statements, will be able to meet any liabilities to which they are, or may become, subject to by virtue of the Deed of Cross Guarantee between the Company and those subsidiaries.

2. This declaration has been made after receiving the declarations required to be made by the Chief Executive Officer and the Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2024.

Signed in accordance with a resolution of the Directors:



Garry Hounsell
Director and Chair of the Board of Directors

Dated at Canberra this 25th day of February 2025

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Electro Optic Systems Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 31 December 2024, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including material accounting policy information, the consolidated entity disclosure statement and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2024 and of its consolidated financial performance for the year ended on that date; and
- b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial report.



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Revenue recognition

Why significant	How our audit addressed the key audit matter
<p>The Group has three major customers with agreements that account for approximately 66% of the consolidated revenue from continuing operations. These agreements are complex, may span over several years (project life) and the accounting implications thereof are of significance.</p> <p>Estimating total forecast costs to complete during project life is complex and requires judgement. Typical cost estimates include labour, materials and project overheads. Changes to these cost estimates could give rise to adjustments to the amount of revenue recognised.</p> <p>The revenue recognised under the output method may include multiple performance obligations, variations and claims, cancellations, penalties for late delivery and warranties. These are subject to a high level of judgement and estimation from management as disclosed in Note 2(a).</p> <p>Revenue recognition is a key audit matter as significant judgement is required to assess the timing of recognition determined by the Group. Revenue for the significant agreements is primarily recognised based on the following measures:</p> <ul style="list-style-type: none"> The output method which measures the value delivered to the customer through the delivery of goods/services or achievement of contract milestones. The input method which uses costs incurred as a proportion of total forecasts costs as the measure of progress. 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> Performing a walkthrough of the process for recording revenue recognised overtime for significant contracts and tested design effectiveness of key controls; Evaluating the Group's review and approval of revenue recognised and assessing judgements applied to significant contracts; Selecting a sample of contracts for testing using data analytic routines based on quantitative and qualitative factors, related to the size and risk of the contracts entered into by the Group; On a sample basis of contracts selected, we: <ul style="list-style-type: none"> Inquired with key project personnel to assess the project schedule, validated costs incurred to date, evaluated forecasted costs to complete and any major changes since the prior period; Assessed relevant documentation to support contract milestones and deliverables, assessing whether revenue has been recognised in accordance with the contract and requirements of AASB 15 <i>Revenue from Contracts with Customers</i>; and Evaluated the variations and claims recognised within revenue against the criteria for recognition in accordance with AASB 15 via inspection and assessment of communication between the Group and the customer and the basis for any variations and claims. Assessed the adequacy of the disclosures included in the Notes to the financial statements. These included disclosures related to judgements and estimates.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2024 annual report other than the financial report and our auditor's report thereon. We obtained the directors' report and review of operations that are to be included in the annual report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the annual report after the date of this auditor's report.



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Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the remuneration report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The directors of the Company are responsible for the preparation of:

- The financial report (other than the consolidated entity disclosure statement) that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*; and
- The consolidated entity disclosure statement that is true and correct in accordance with the *Corporations Act 2001*; and

for such internal control as the directors determine is necessary to enable the preparation of:

- The financial report (other than the consolidated entity disclosure statement) that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- The consolidated entity disclosure statement that is true and correct and is free of misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a



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material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the Group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the Group financial report. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 46 to 56 of the directors' report for the year ended 31 December 2024.

In our opinion, the Remuneration Report of Electro Optic Systems Holdings Limited for the year ended 31 December 2024, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Ben Tansley'.

Ben Tansley
Partner
Canberra
25 February 2025

ASX Additional Information

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report is as follows. This information is current as at 7 March 2025.

Distribution of shareholders

Size of holding	Number of shareholders	Ordinary shares	% of issued capital
100,001 and over	162	126,830,507	65.73
10,001 to 100,000	1,529	41,904,371	21.72
5,001 to 10,000	1,318	10,163,956	5.27
1,001 to 5,000	4,504	11,424,827	5.92
1 to 1,000	4,138	2,628,870	1.36
Total	11,651	192,952,099	100.00

Distribution of Option holders

The distribution of unquoted Options on issue are:

Size of Holding	Number of Option holders	Unlisted Options	% of Total Options
100,001 and over	9	4,792,357	83
10,001 to 100,000	22	955,871	17
5,001 to 10,000	-	-	-
1,001 to 5,000	-	-	-
1 to 1,000	-	-	-
Total	31	5,748,227	100

The options on issue are unquoted and have been issued under an employee incentive scheme.

Distribution of Share Rights

The distribution of unquoted share rights on issue are:

Size of Holding	Number of Share Right holders	Unlisted Share Rights	% of Total Share Rights
100,001 and over	3	2,119,279	77
10,001 to 100,000	17	617,614	22
5,001 to 10,000	1	8,897	-
1,001 to 5,000	4	13,272	-
1 to 1,000	-	-	-
Total	25	2,759,062	100

The share rights on issue are unquoted and have been issued under an employee incentive scheme.

Less than marketable parcels of Ordinary Shares

There are 821 shareholders with unmarketable parcels, holding 229,848 shares.

Twenty largest shareholders

At 7 March 2025, the 20 largest ordinary shareholders held 47.71% of the total issued fully paid quoted Ordinary Shares of 192,952,099.

		Number held	% of issued capital
1	WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	17,596,807	9.12
2	EOS LOAN PLAN PTY LTD	11,140,536	5.77
3	CITICORP NOMINEES PTY LIMITED	10,487,128	5.44
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,735,478	4.53
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	8,597,470	4.46
6	BNP PARIBAS NOMINEES PTY LTD	7,321,702	3.79
7	BNP PARIBAS NOMS PTY LTD	4,000,257	2.07
8	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	3,677,018	1.91
9	ACE PROPERTY HOLDINGS PTY LTD	3,360,000	1.74
10	CAPITAL PROPERTY CORPORATION PTY LTD	3,099,738	1.61
11	TECHNOLOGY TRANSFORMATIONS PTY LIMITED	2,758,662	1.43
12	BRAZIL FARMING PTY LTD	2,100,393	1.09
13	A AND D WIRE LIMITED	1,457,276	0.76
14	CAPITAL PROPERTY CORPORATION PTY LTD	1,250,000	0.65
15	MR OMAR ALI BABTAIN	1,169,311	0.61
16	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,094,900	0.57
17	N & J PROPERTIES PTY LTD	1,079,000	0.56
18	N & J PROPERTIES PTY LTD	1,077,812	0.56
19	CAPITOL ENTERPRISES LIMITED	1,050,000	0.54
20	BUNDARRA TRADING COMPANY PTY LTD	1,005,173	0.52
		92,058,661	47.71
	Remaining quoted equity securities	100,893,438	52.29
	Total number of Ordinary Shares on issue	192,952,099	100.00

Unquoted equity securities

The Company had the following unquoted securities on issue as at 7 March 2025:

	Number on issue	Number of holders
Options over Ordinary Shares	5,748,227	31
Rights over Ordinary Shares	2,759,062	25

Substantial shareholders

The names of the Substantial Shareholders as disclosed in notices submitted to the ASX as at 7 March 2025 are:

Shareholder	Ordinary Shares	Percentage of total Ordinary shares
Washington H. Soul Pattinson and Company Limited	17,596,807	9.12%
EOS Loan Plan Pty Ltd	11,140,536	5.77%
Citicorp Nominees Pty Limited	10,722,517	5.56%

Restricted securities

The Company had no restricted securities on issue as at 7 March 2025.

Voting rights

In accordance with the Constitution each member present at a meeting whether in person, or by proxy, or by power of attorney, or a duly authorised representative in the case of a corporate member, shall have one vote on a show of hands, and one vote for each fully paid ordinary share, on a poll. Holders of performance rights have no voting rights.

On-market buy-backs

There is no current on-market buy-back in relation to the Company's securities.

Other Information

In accordance with Listing Rule 4.10.19, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

Corporate Directory

Directors

Mr Garry Hounsell (Chairman)
Dr Andreas Schwer (Managing Director and CEO)
Air Marshal Geoffrey Brown AO
The Hon Kate Lundy
Mr David Black
Mr Robert Nicholson

Chief Executive Officer

Dr Andreas Schwer

Company Secretary

Ms Melanie Andrews

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Share Registry

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Website: www.au.investorcentre.mpms.mufg.com

Auditors

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IT'S WHAT
WE DO
NEXT THAT
MATTERS
MOST



Electro Optic Systems Holdings Limited
Annual Report 2024