# Half-Year Report of *Electro Optic Systems Holdings Limited* for the Half-Year Ended 30 June 2015

ACN 092 708 364

*This Half-Year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3.*

| | |
|---|---|
| Current Reporting Period: | Half year ended 30 June 2015 |
| Previous Corresponding Period: | Half year ended 30 June 2014 |

# Results for Announcement to the Market

## Revenue and Net (Loss)

| | | Percentage Change % | Amount |
|---|---|---|---|
| Revenue from ordinary activities | Up | 4.0 | To $11,011,930 |
| (Loss) from ordinary activities after tax attributable to members | Down | N/A | To ($538,432) |
| (Loss) attributable to members | Down | N/A | To ($538,432) |

## Dividends (Distributions)

| | Amount per security | Franked amount per security |
|---|---|---|
| Final dividend | Nil¢ | Nil¢ |
| Interim dividend | Nil¢ | Nil¢ |
| Record date for determining entitlements to the dividend: | | |
| • final dividend | | N/A |
| • interim dividend | | N/A |

| | |
|---|---|
| Net tangible assets at 30 June 2015 | $293,462 |
| Number of ordinary shares outstanding at 30 June 2015 | 56,845,926 |
| NTA per ordinary share at 30 June 2015 | 0.52 cents |
| NTA per ordinary share at 30 June 2014 | 2.14 cents |

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

Refer to Directors' Report

# Review of Operations

## 1. RESULTS FOR HALF-YEAR ENDED 30 JUNE 2015

The consolidated entity ("EOS") reported an operating loss before tax of $538,432 for the 6 month period to 30 June 2015 [2014: operating loss $3,186,439] based on revenues totalling $11,011,930 [2014: $10,590,112].

The consolidated entity reported net cash generated by operations for the 6 month period totalling $6,849,011 [2014: $2,378,695 cash used in operations]. At 30 June 2015, the consolidated entity held cash totalling $12,956,893 [30 June 2014: $1,540,982]. Cash of $1,827,505 [30 June 2014: $97,000] is restricted as it secures bank guarantees relating to performance on some contracts.

These results are broadly in line with management expectations.

## 2. EOS DEFENCE SYSTEMS

This sector develops, markets, manufactures and supports remote weapon systems [RWS] and related products in global markets.

The sector's positive momentum relating to markets, partnerships, and new products continued during this period. In particular significant progress was made by the sector in the following two focus areas:

- **Geographic Diversification**

  A series of market successes have better diversified revenue sources, with revenue from elite customers in Asia, Australia and Europe. Efforts to add future revenue from the Middle East and North America have been substantially assisted by those successes.

- **Product Diversification**

  Over 50% of revenue going forward arises from products or technologies released by EOS in the past 18 months. These releases have not only diversified the product line, but significantly freshened it in comparison to competitors. EOS next-generation remote weapon systems and remote turrets have now both been deployed into the marketplace.

In addition a 20% decline in the exchange rate of the Australian currency against the US$ over 12 months has improved EOS' competitive position.

The competitive position and resilience of the sector have both improved in the past half year.

Following on from the 2014 operating result, the sector incurred a first-half operating loss. However this loss is expected to be reversed in the second half to allow a return to profit for this sector.

## 3. EOS SPACE SYSTEMS

EOS has successfully developed space tracking sensors which can cost-effectively and independently obtain accurate orbital data for space debris and satellites. This information degrades rapidly after acquisition, so to be of value it must be continuously updated with new observations. Owning and controlling the data acquisition systems [sensors] is important.

In order to provide a reliable service for space users, EOS is now deploying sufficient sensors to find and track essentially all space debris of interest to commercial space users, independent of other data sources or infrastructure. This information will be used to provide asset management and risk mitigation services to space operators.

During the first half of 2015 EOS executed agreements with the Commonwealth of Australia relating to the operation of an initial configuration of sensors which are now under construction. When operational in 2016 these sensors will provide data equal to over 20% of commercial space data currently available from all global sources.

EOS will then become a major provider of space tracking data and services. The 20% data coverage means the company can meet 100% of the requirements of 20% of space operators, with a new service not currently available. In the medium term EOS aims to provide significant risk reduction in space operations for up to AU$100 billion of the highest risk space assets.

Further expansion of tracking infrastructure at other sites is likely to expand the number of satellite operators the company can support. The value of protected assets will increase in future as more sites and sensors are added, and in the long term EOS aims to be able to provide risk reduction for most of the US$800 billion invested in space assets.

## 4. FORECAST AND OUTLOOK

The operating loss for the 6 months ending at 30 June 2015 was within management expectations as EOS recovers to profitable operations. EOS expects to be profitable in the second half of 2015, leading to an overall positive profit result for the full year.

EOS expects to hold in excess of $10 million in cash at 31 December 2015.

The outlook for defence systems sector is positive. Demand across Asia and the Middle East is strong, and customers in Europe and Americas are resuming procurements. EOS is well placed in those recovering markets because new and technologically advanced products are required. EOS expects performance of this sector to continue to improve through 2015, with further strengthening in 2016.

The outlook for space sector is also positive. The sector will be profitable in 2015. Revenue and profit will grow in coming years provided EOS and its collaborators can expand sensor deployments and space operations to cost-effectively meet customer demand for space data.

At 30 June 2015, EOS had $11,261,396 (30 June 2014: $359,040) of unearned income included within the Statement of Financial Position which will become earned in future accounting periods as existing contracts are fulfilled.

## Review of Operations

Financial uncertainties can adversely impact the governments which are EOS customers. The company cannot be certain that future customer procurements will continue as usual or that business conditions will not deteriorate from current expectations.

The financial statements have been prepared on the basis of a going concern as detailed in Note 1, however due to uncertainties related to future cash flows beyond a twelve month period, the auditors have included an emphasis of matter in their audit report in relation to going concern. The same emphasis of matter has been included in previous audit reviews.

Ben Greene

Chief Executive Officer

27 August 2015

# Directors Report

The directors of Electro Optic Systems Holdings Limited submit herewith the financial report for the half-year ended 30 June 2015. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half year are:

Mr Fred Bart (Chairman)
Dr Ben Greene (Chief Executive Officer)
Mr Ian Dennis
Mr Mark Ureda
Mr Peter Leahy AO
Mr Kevin Scully

**Review of Operations**

A detailed review of operations is included on pages 3 to 5 of this financial report.

**Auditor's independence declaration**

The auditor's independence declaration is included on page 7 of the half-year financial report.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors

I.A Dennis
Director
Sydney, 27 August 2015

Deloitte.

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

27 August 2015

Dear Board Members

**Electro Optic Systems Holdings Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Electro Optic Systems Holdings Limited.

As lead audit partner for the review of the financial statements of Electro Optic Systems Holdings Limited for the half-year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D. Black

David Black
Partner
Chartered Accountants

Deloitte.

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

We have reviewed the accompanying half-year financial report of Electro Optic Systems Holdings Limited, which comprises the condensed statement of financial position as at 30 June 2015, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 10 to 24.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Electro Optic Systems Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.* We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Electro Optic Systems Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Electro Optic Systems Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

*Emphasis of Matter*

Without modifying our conclusion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity generated a net loss of $538,432 during the six months ended 30 June 2015 ($3,186,439 during the six months ended 30 June 2014). This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D. Black

David Black
Partner
Chartered Accountants
Parramatta, 27 August 2015

## Directors' Declaration

The directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

I A Dennis
Director
Sydney, 27 August 2015

# Condensed Consolidated statement of profit or loss and other comprehensive income for the half-year ended 30 June 2015

| | Note | Half-year ended 30 June 2015 $ | Half-year ended 30 June 2014 $ |
|---|---|---|---|
| Revenue | 2(a) | 11,011,930 | 10,590,112 |
| Other Revenue | 2(b) | 3,066 | 1,051 |
| Changes in inventories of finished goods and work in progress | | 344,660 | 544,412 |
| Raw materials and consumables used | | (5,668,297) | (7,519,156) |
| Employee benefits expense | | (4,963,851) | (4,937,259) |
| Administrative costs | | (1,474,810) | (1,394,722) |
| Finance costs | | (81,427) | (13,987) |
| Depreciation and amortisation expense | 2(c) | (78,108) | (147,286) |
| Gain/(loss) on disposal of fixed assets | 2(c) | 7,786 | (652) |
| Foreign exchange gains | 2(c) | 850,427 | 190,713 |
| Lease expenses | | (18,235) | (13,262) |
| Occupancy costs | | (370,151) | (373,128) |
| Other expenses | | (101,422) | (113,275) |
| **(Loss) before income tax expense** | 2 | (538,432) | (3,186,439) |
| Income tax expense/ benefit | | - | - |
| **(Loss) for the period** | 5 | (538,432) | (3,186,439) |
| **Other comprehensive income** | | | |
| Items that may be reclassified subsequently to profit and loss | | | |
| Exchange differences arising on translation of foreign operations | | (203,185) | 63,235 |
| Income tax relating to components of other comprehensive income | | - | - |
| | | (203,185) | 63,235 |
| **Total comprehensive (loss) for the period** | | (741,617) | (3,123,204) |
| (Loss) attributable to : | | | |
| Owners of the company | | (538,432) | (3,186,439) |
| | | (538,432) | (3,186,439) |
| Total comprehensive (loss) attributable to: | | | |
| Owners of the company | | (741,617) | (3,123,204) |
| | | (741,617) | (3,123,204) |
| **(Loss) per share:** | | | |
| Basic (cents per share) | 6 | (0.95) | (5.61) |
| Diluted (cents per share) | 6 | (0.95) | (5.61) |

Notes to the condensed consolidated financial statements are included on pages 15 to 24.

# Condensed Consolidated statement of financial position as at 30 June 2015

| | Note | 30 June 2015 $ | 31 December 2014 $ |
|---|---|---|---|
| ***Current Assets*** | | | |
| Cash and cash equivalents | | 12,956,893 | 5,803,264 |
| Trade and other receivables | | 5,667,277 | 7,484,235 |
| Inventories | | 3,091,076 | 1,477,427 |
| Other – Prepayments | | 571,105 | 438,441 |
| ***Total Current Assets*** | | 22,286,351 | 15,203,367 |
| ***Non-Current Assets*** | | | |
| Property, plant and equipment | | 170,973 | 233,833 |
| ***Total Non-Current Assets*** | | 170,973 | 233,833 |
| ***Total Assets*** | | 22,457,324 | 15,437,200 |
| ***Current Liabilities*** | | | |
| Trade and other payables | | 14,627,353 | 8,860,476 |
| Borrowings | 3 | 1,391,248 | - |
| Provisions | | 5,886,618 | 5,058,587 |
| ***Total Current Liabilities*** | | 21,905,219 | 13,919,063 |
| ***Non-Current Liabilities*** | | | |
| Provisions | | 258,643 | 483,058 |
| ***Total Non-Current Liabilities*** | | 258,643 | 483,058 |
| ***Total Liabilities*** | | 22,163,862 | 14,402,121 |
| ***Net Assets*** | | 293,462 | 1,035,079 |
| ***Equity*** | | | |
| Issued capital | | 75,383,567 | 75,383,567 |
| Reserves | 4 | 7,310,526 | 7,513,711 |
| Accumulated losses | 5 | (82,400,631) | (81,862,199) |
| ***Total Equity*** | | 293,462 | 1,035,079 |

Notes to the condensed consolidated financial statements are included on pages 15 to 24.

# Condensed Consolidated Statement of changes in equity for the half-year ended 30 June 2015

| | Total $ | Accumulated losses $ | Issued capital $ | Foreign currency translation reserve $ | Employee equity settled benefits reserve $ |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| Balance at 1 January 2015 | 1,035,079 | (81,862,199) | 75,383,567 | (214,092) | 7,727,803 |
| (Loss) for the period | (538,432) | (538,432) | - | - | - |
| Other comprehensive income for the period | (203,185) | - | - | (203,185) | - |
| Total comprehensive income for the period | (741,617) | (538,432) | - | (203,185) | - |
| **Balance at 30 June 2015** | 293,462 | (82,400,631) | 75,383,567 | (417,277) | 7,727,803 |
| **Consolidated** | | | | | |
| Balance at 1 January 2014 | 4,336,892 | (78,844,653) | 75,383,567 | 70,175 | 7,727,803 |
| (Loss) for the period | (3,186,439) | (3,186,439) | - | - | - |
| Other comprehensive income for the period | 63,235 | - | - | 63,235 | - |
| Total comprehensive income for the period | (3,123,204) | (3,186,439) | - | 63,235 | - |
| **Balance at 30 June 2014** | 1,213,688 | (82,031,092) | 75,383,567 | 133,410 | 7,727,803 |

Notes to the condensed consolidated financial statements are included on pages 15 to 24.

# Condensed Consolidated statement of cash flows for the half-year ended 30 June 2015

| | Note | Half-year ended 30 June 2015 $ | Half-year ended 30 June 2014 $ |
|---|---|---|---|
| ***Cash Flows From Operating Activities*** | | | |
| Receipts from customers | | 18,433,222 | 9,589,172 |
| Payments to suppliers and employees | | (11,510,573) | (11,965,464) |
| Interest and bill discounts received | | 7,789 | 11,584 |
| Interest and other costs of finance paid | | (81,427) | (13,987) |
| Net cash provided by (used in) operating activities | | 6,849,011 | (2,378,695) |
| ***Cash Flows From Investing Activities*** | | | |
| Payment for property, plant and equipment | | (15,397) | (53,392) |
| Proceeds from sale of property, plant and equipment | | 7,786 | 455 |
| Net cash (used in) investing activities | | (7,611) | (52,937) |
| ***Cash Flows From Financing Activities*** | | | |
| Repayment of borrowings | | - | - |
| Proceeds from borrowing | | - | - |
| Net cash provided by financing activities | | - | - |
| ***Net Increase(Decrease) in Cash Held*** | | 6,841,400 | (2,431,632) |
| ***Cash and cash equivalents at the beginning of the half-year*** | | 5,803,264 | 4,048,005 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | 312,229 | (75,391) |
| ***Cash and cash equivalents at the end of the half-year*** | | 12,956,893 | 1,540,982 |

Notes to the condensed consolidated financial statements are included on pages 15 to 24.

# 1. Significant accounting policies

**Statement of Compliance**

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS34 Interim Financial Reporting. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

**Basis of preparation**

The condensed consolidated financial statements have been prepared on the basis of the historical cost convention. Cost is based on the fair values of the consideration given in exchange for assets. Except where indicated otherwise, all amounts are presented in Australian dollars.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2014 annual financial report for the financial year ended 31 December 2014. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

AASB 2014-1 'Amendments to Australian Accounting Standards' (Parts A, B, C and E).

The adoption off all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior half-years.

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

## 1. Significant accounting policies (cont)

**Going Concern**

The financial report has been prepared on the basis that the consolidated entity is a going concern, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred a net loss of $538,432 during the six months (period ended 30 June 2014: $3,186,439). Net cash provided by operating activities for the six months ended 30 June 2015 was $6,849,011 (period ended 30 June 2014: $2,378,695 used by). As at 30 June 2015 the consolidated entity had cash of $12,956,893 (30 June 2014: $1,540,982) of which $1,827,505 (30 June 2014: $97,000) is restricted as it secures bank guarantees on existing contracts with local and overseas customers. The cash will become unrestricted as the contracts are completed or renegotiated. At 30 June 2015 the consolidated entity had $11,261,396 of unearned income which will become earned as contracts are fulfilled (30 June 2014: $359,040).

Notwithstanding the loss incurred during the six months, as at the date of this report having considered:

- the cash balances held at 30 June 2015;
- the ability of the consolidated entity to successfully complete projects on hand;
- the willingness of key military and government customers to make timely payments for goods supplied in accordance with contractual terms;
- the future trading prospects of the group; and
- the ability to raise capital from existing or new shareholders should the need arise.

in the opinion of the directors, the consolidated entity can continue as a going concern and pay its debts as and when they become due and payable.

If the consolidated entity is unable to complete projects on hand successfully, secure additional profitable contracts or timely payments for goods supplied to key military and government customers are not made in accordance with contractual terms, significant uncertainty would exist as to the ability of the consolidated entity to continue as a going concern and therefore, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

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

| | Half-year to 30 June 2015 $ | Half-year to 30 June 2014 $ |
|---|---|---|

## 2. (Loss) From Ordinary Activities

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

| | Half-year to 30 June 2015 $ | Half-year to 30 June 2014 $ |
|---|---|---|
| ***(a) Revenue*** | | |
| Contract receipts | 11,004,141 | 10,578,528 |
| Interest received | 7,789 | 11,584 |
| Total revenue | 11,011,930 | 10,590,112 |
| ***(b) Other Revenue*** | | |
| Other revenue | 3,066 | 1,051 |
| ***(c) Expenses*** | | |
| (Loss) for the period includes the following expenses: | | |
| Unrealised foreign exchange (gains)/losses | (850,427) | (190,713) |
| Depreciation and amortisation of non-current assets | 78,108 | 147,286 |
| (Profit)/loss on sale of fixed assets | (7,786) | 652 |

## 3. Borrowings

| | Half-year to 30 June 2015 $ | Half-year to 30 June 2014 $ |
|---|---|---|
| During the period, the consolidated entity borrowed (significant non-cash transaction) US$1,065,000 in relation to inventory purchases by way of Bill of Sale secured by a parent company guarantee. The promissory note was repaid in full in August 2015. | 1,391,248 | - |

## 4. Reserves

| | 30 June 2015 $ | 31 December 2014 $ |
|---|---|---|
| Foreign currency translation reserve | (417,277) | (214,092) |
| Employee equity settled benefits reserve | 7,727,803 | 7,727,803 |
| Balance at end of financial period | 7,310,526 | 7,513,711 |

## 5. Accumulated Losses

| | Half-year to 30 June 2015 $ | Half-year to 30 June 2014 $ |
|---|---|---|
| Balance at beginning of financial period | (81,862,199) | (78,844,653) |
| Net (loss) for the period | (538,432) | (3,186,439) |
| Balance at end of financial period | (82,400,631) | (82,031,092) |

## 6. (Loss) Per Share

| | 2015 ¢ per share | 2014 ¢ per share |
|---|---|---|
| Basic EPS | (0.95 cents) | (5.61 cents) |
| Diluted EPS | (0.95 cents) | (5.61 cents) |

### *Basic (Loss) per Share*

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

| | Half-year to 30 June 2015 $ | Half-year to 30 June 2014 $ |
|---|---|---|
| (Loss) (a) | (538,432) | (3,186,439) |

| | 2015 No. | 2014 No. |
|---|---|---|
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | 56,845,926 | 56,845,926 |

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

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

## 7. Contingent Liabilities and Commitments

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

b) An entity within the group has committed to spend up to $5,000,000 under an agreement on capital infrastructure.

## 8. Segment Information

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

| | Revenue | | Segment profit | |
|---|---|---|---|---|
| | Half-year to 30 June 2015 $ | Half-year to 30 June 2014 $ | Half-year to 30 June 2015 $ | Half-year to 30 June 2014 $ |
| Space | 6,290,249 | 895,055 | 1,403,264 | (716,777) |
| Defence systems | 4,713,892 | 9,683,473 | (1,618,063) | (2,163,187) |
| Total of all segments | 11,004,141 | 10,578,528 | (214,799) | (2,879,964) |
| Eliminations | - | - | - | - |
| Unallocated | 7,789 | 11,584 | (323,633) | (306,475) |
| Consolidated segment revenue and Profit/(loss) before tax | 11,011,930 | 10,590,112 | (538,432) | (3,186,439) |
| Income tax benefit | - | - | - | - |
| Consolidated segment revenue and profit/(loss) for the period | 11,011,930 | 10,590,112 | (538,432) | (3,186,439) |

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period. There were no discontinued operations during the period.

Segment profit represents the profit earned by each segment without the allocation of central administration costs and directors' salaries, investment revenue and finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 30 June 2015 $ | 31 December 2014 $ | 30 June 2015 $ | 31 December 2014 $ |
| Space | 4,750,419 | 3,713,288 | 9,450,057 | 7,968,300 |
| Defence systems | 4,750,012 | 5,920,648 | 12,713,805 | 6,433,821 |
| Total segment assets | 9,500,431 | 9,633,936 | 22,163,862 | 14,402,121 |
| Unallocated assets | 12,956,893 | 5,803,264 | - | - |
| Total | 22,457,324 | 15,437,200 | 22,163,862 | 14,402,121 |

## 8. Segment Information (cont'd)

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

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

### Product and Services within each Business Segment

#### Space

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

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

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

#### Defence systems

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

## 9. Issuance of Securities

**2015**

None

**2014**

None

No options were exercised during the period.

Issued capital as at 30 June 2015 and 30 June 2014 amounted to $75,383,567.

## 10. Other Significant Information

On 10 April 2015, a new wholly owned subsidiary was incorporated in Australia called EOS UAE Holdings Pty Limited (ACN 605 214 319).

## 11. Subsequent events

On 14 July 2015, the parent entity provided a guarantee to the Commonwealth of Australia for A$2,750,000 in respect of advance payments received of A$2,750,000 in relation to a space sector project.

In August 2015, the consolidated entity repaid the borrowing under a Bill of Sale of US$1,065,000 in full.

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

## 12. Related party transactions

During the period, the Company paid a total of $33,398 (six month period ended 30 June 2014 - $33,321) to 4F Investments Pty Limited, a company associated with Mr Fred Bart in respect of directors fees and superannuation for Mr Fred Bart.

During the period, the Company paid a total of $20,531 (six month period ended 30 June 2014 - $20,484) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of directors fees and superannuation for Mr Ian Dennis.

During the period, the Company paid a total of $60,000 (six month period ended 30 June 2014 - $60,000) to Dennis Corporate Services Pty Limited, a company associated with Mr Ian Dennis in respect of consulting fees for secretarial and accounting services.

## Information on Audit or Review

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

- ☐ The accounts have been audited.
- ☒ The accounts have been subject to review.
- ☐ The accounts are in the process of being audited or subject to review.
- ☐ The accounts have not yet been audited or reviewed.

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

| |
|---|
| Not applicable |

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

| |
|---|
| Not applicable |