

Civitanavi Systems S.p.A.

Interim Report Consolidated Operating Revenues as of 31 March 2024





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Company Data and Governance

Registered Office of the Parent Company

Civitanavi Systems S.p.A.
Via del Progresso 5, 63827
Pedaso (FM) - Italy
VAT n. IT01795210432

Corporate website

<https://www.civitanavi.com>

Board of Directors

Andrea Pizzarulli	Chairman of the Board of Directors and CEO
Michael Perlmutter	Executive director
Letizia Galletti	Non-executive director
Mario Damiani	Non-executive director
Laura Guazzoni	Independent director*
Maria Serena Chiucchi	Independent director*
Valerio Nalini	Independent director**

Lead Independent Director: Laura Guazzoni

Remuneration and Appointments Committee

Laura Guazzoni	Chairwoman
Maria Serena Chiucchi	Member
Valerio Nalini	Member

Control and Risk, Related Parties and Sustainability Committee

Laura Guazzoni	Chairwoman
Maria Serena Chiucchi	Member
Valerio Nalini	Member

Board of Statutory Auditors

Stefania Barsalini	Chairwoman of the Board of Statutory Auditors
Cesare Tomassetti	Standing Statutory Auditor
Eleonora Mori	Standing Statutory Auditor
Roberto Lugano	Alternate Statutory Auditor
Daniela Angeloni	Alternate Statutory Auditor

Independent Auditors BDO Italia S.p.A.

Manager in charge of financial reporting Letizia Galletti

Supervisory Board Antonio Francesco Morone

* Independent director pursuant to Art. 148, paragraph 3, of the TUF (Consolidated Law on Finance), as cited in Art. 147-ter, paragraph 4, of the TUF and pursuant to the Corporate Governance Code.

** Independent director pursuant to Art. 148, paragraph 3, of the TUF (Consolidated Law on Finance), as cited in Art. 147-ter, paragraph 4, of the TUF.

Methodological Note

In the present Interim Report on Operating Revenues, values are expressed in thousands or million of euros. Percentage ratios, margins and variances, are calculated with reference to values expressed in punctual euro.



Introduction

The Civitanavi Systems Group (hereinafter referred to as the “Group”) is one of the main players in the high-tech navigation and inertial stabilisation systems sector. The parent company, Civitanavi Systems S.p.A. (also referred to as the “Company”), is a company incorporated and domiciled in Italy, with its registered office in Pedaso (FM), Via del Progresso No. 5, organised according to the laws of the Italian Republic.

The majority shareholder of the Company is Civitanavi Systems Ltd, which directly holds 66.21% of the share capital, while the remaining 33.79% is in circulation on the stock market (float), of which 5.09% is held by Athena FH Spa. The shares traded on the stock market are listed on the Euronext Milan market.

The Group operates in the sector of the design, development and production of navigation and stabilisation systems in the aerospace and defence (naval, land, aeronautics, and space) and industrial (mines, oil & gas, tunnelling and horizontal drilling) divisions, as well as the provision of consultancy services to undertakings in the same divisions. More specifically, the Group is a vertically integrated supplier of highly accurate inertial systems, designed and manufactured with proprietary methods and techniques, based on FOG (Fiber Optic Gyroscope) and MEMS (Micro Electro Mechanical Systems), possibly also integrated with other satellite navigation devices (GPS, air speed data, odometers). The inertial navigation and stabilisation systems produced by the Group, thanks to the application of the aforementioned FOG and MEMS technologies, enable (i) autonomous and high-precision inertial navigation (without a GPS), (ii) stabilisation, (iii) precise orientation (direction with reference to the geographical north) of the mobile device on which they are applied. As part of the activities, recently also the designing and developing GNSS (Global Navigation Satellite System) algorithms and technologies have been introduced and the talented employee team, responsible for the new activities, has decades of experience in satellite navigation. Having the availability of a proprietary GNSS receiver allows the Company to design navigation systems on national territory that are deeply coupled with the inertial sensors already produced by the Company, in line with the trend outlined by recent scientific research. The goal is to exploit the complementarity of different technologies according to digital architectures called tight and ultra-tight and introduce new solutions on the market in the PNT domain (Position, Navigation, and Time). In this sense, the Group intends to propose new solutions able to satisfy the needs dictated by real applications, in which safety is a key factor.

Thanks also to the founders’, Andrea Pizzarulli and Michael Perlmutter, many years of experience in the sector, Civitanavi fast became an important player in the global market for applications in the field of aerospace and defence and for commercial applications, being born as an innovative start-up and becoming an innovative SME in 2017.

The Group carries out its activity at the registered office of Pedaso (FM) and four additional sites in Porto Sant’Elpidio (FM), Pomezia (RM), in Casoria (NA) and Torino (TO). The Porto Sant’Elpidio (FM) site hosts the administrative structure, the sales structure, the main research and development centre, as well as the prototyping and industrial production plants. The new site has become operating starting from the month of April 2024. At the Pomezia, Casoria and Turin sites, which are located in an area particularly dedicated to the development of activities in the aero-space field, the Group carries out design activities complementary to those performed at the main office. In addition, commercial activities focused on operators in the Rome area are carried out at the Pomezia (RM) location. Currently, in Turin, Civitanavi is working on improving countermeasures against interfering signals, which, as demonstrated by the numerous GNSS signal outages caused by jamming attacks in various GNSS-based applications encountered in recent years and in particular in Ukraine and Russian conflict scenarios, continue to present themselves as a current problem to be solved. (ref. “When GPS fails, how can weapons find their targets? The location system is vulnerable to jamming by the enemy” from The Economist of July the 14th 2023, www.economist.com/the-economist-explains/2023/07/14/when-gps-fails-how-can-weapons-find-their-targets). Within this context, Civitanavi Systems considers the availability of authenticated Galileo signals to be an added value to its development strategy. When suitably combined with integrated GNSS/INS platforms and miniaturised atomic clocks (Chip Scale Atomic Clocks), they can become an extremely effective tool against spoofing attempts.

The subsidiary Civitanavi Systems UK LTD located in Filton, Bristol, in the United Kingdom, is dedicated to both business and engineering activities and with the future goal of also becoming a production unit. This project is part of the objectives presented at the IPO, allocating part of the proceeds to increase production capacity (including through the opening of new sites abroad) in order to strengthen its competitiveness in the UK that is relevant to current and potential customers. It is recalled that the Group has been selected by BAE Systems as the supplier of inertial systems for the Tempest demonstration program, a sixth-generation combat aircraft. During the first quarter 2024, the subsidiary has reported operating revenues for the amount of Euro 121 thousand, following both engineering services and the activities on the contracts on orders with customers started during the last quarter 2023.

On 27 March 2024, Honeywell announced the intention to acquire the entire share capital of Civitanavi Systems S.p.A.. Honeywell will initiate a voluntary tender offer to acquire all outstanding shares of Civitanavi. The transaction is not subject to any financing condition and is expected to close in the third quarter of 2024, subject to customary closing conditions, including among the others: (i) receipt of required antitrust clearance; (ii) receipt of required clearances pursuant to the foreign direct investment regulations in Italy, United Kingdom and Canada and; (iii) the tender of at least 95% of Civitanavi’s outstanding



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shares. The acquisition will further strengthen Honeywell's capabilities to help its customers create autonomous operations in aircraft and other vehicles. It also supports Honeywell's alignment of its portfolio around three compelling megatrends, including the future of aviation and automation. Together with Civitanavi, Honeywell will be able to offer a broader set of technologies to its customers across the globe, whether they are traditional operators seeking to increase the autonomous capability of their existing fleets or are new entrants in the Advanced Air Mobility space. Civitanavi is a leader in position navigation and timing technology for the aerospace, defense and industrial markets. Both Civitanavi and Honeywell have a successful history of developing innovative inertial navigation solutions, which can track the position and orientation of a vehicle by using accelerometers, sensors and gyroscopes. Civitanavi's product offerings of inertial navigation, geo reference and stabilization systems will complement technologies in Honeywell's existing navigation and sensors business. Civitanavi specializes in high-performance Fiber Optic Gyro technology that Honeywell has not previously offered in its navigation portfolio.

This report has been prepared in accordance with EU-IFRS accounting principles.

Consolidated Operating Revenues

The consolidated operating revenues as of 31 March 2024 are equal to 7,151 thousand Euro:

<i>in Euro thousands</i>	31 March 2024	31 March 2023	Delta	Delta %
Operating revenues	7,151	8,003	(852)	(11%)

The consolidated operating revenues segmented by revenue stream for the periods ended March 31, 2024, and March 31, 2023, respectively.

<i>in Euro thousands</i>	31 March 2024	Inc %	31 March 2023	Inc %	Delta	Delta %
Revenues from sale of goods	5,238	79%	5,929	89%	(690)	(12%)
Revenues from "Service"	206	3%	303	5%	(97)	(32%)
Revenues from royalties	75	1%	57	1%	18	31%
Revenues from engineering services	175		747			
Change in Assets for work in progress on order	929		(398)			
Revenues from engineering services and Change in Assets for work in progress on order¹	1,104	17%	349	5%	755	216%
Operating revenues net of the change in FP/SFP inventories	6,622	100%	6,638	100%	(15)	0%
Change in inventories of finished and semi-finished Products	528		1,365		(837)	(61%)
Total Operating revenues	7,151		8,003		(852)	(11%)

The analysis of revenue streams shows that operating revenues net of change in inventories in finished and semi-finished goods remain substantially in line with the same period of the previous year, rising from 6,638 thousand Euro to 6,622 thousand Euro.

The revenue stream referring to revenues from engineering services and change in assets for work in progress on order shows an excellent performance with a significant increase from 349 thousand Euro as of March 31, 2023 to 1,104 thousand Euro as of March 31, 2024 (+216%). In fact, the incidence of this revenue stream increases from 5% to 17% of Operating Revenues net of the change in inventories of finished and semi-finished goods, for the benefit of the Group's profitability targets.

Revenues from the sale of goods decreased by 12% compared to the same period last year, from 5,929 thousand Euro to 5,238 thousand Euro, but still maintaining a significant impact on total operating revenues net of the change in inventories of finished and semi-finished goods (+79% Q1 2024 vs +89% Q1 2023) to the benefit of the development of the revenue stream related to engineering services, which are usually at higher profitability. Thanks to the revenue mix, the profitability *margin*² of the first quarter of 2024 were in line with expectations and increased compared to the same period last year.

Revenues from "Service" and revenues from *royalties* follow the expected trend.

The growth outlook for 2024 remains in line with management's expectations although there were slight slowdowns in the first quarter attributable to the following factors:

- postponement in the delivery of some units due to the delay in obtaining the export license by the customer to Civitanavi, paralyzing the program for several months; to date the license has been obtained and the program is

¹ It should be noted that "Revenue from engineering services" should be analysed in combination with the item "Change in Assets for work in progress on order" because some engineering service contracts, accounted for using the percentage-of-completion method, were completed in the period.

² Percentage ratio of profitability to total revenue



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proceeding in its normal course. This event had an impact in both revenues from sale of goods and revenues from engineering service.

- the delivery of the electronic boards necessary for the production of the units and kits (sets of components that are assembled by the customer who will pay a royalty to the Group), already on backlog as of December 31, 2023, continues to have a medium-term lead time, therefore, it has not been possible to complete the planned sales within the first quarter. However, current planning confirms the fulfillment of what was budgeted within the fiscal year.
- As part of the partnership with Honeywell, offers are in the process of being finalized for the sale of the HG2800 product, in co-investment, which as of March 31, 2024, have not yet generated revenues.

The change in inventories of finished and semi-finished goods decreased by 61% compared to the same period in the previous year, from 1,365 thousand as of March 31, 2023 to 528 thousand as of March 31, 2024. The reduction reflects the improved efficiency of inventory management. In the first quarter of last year, in fact, the significant change in inventories was mainly due to maintaining an efficient supply chain of materials, mainly due to inflation and to shortage of electronic materials.

With reference to the divisions in which the Group operates, the table below shows the figures achieved in the first quarter 2024 compared to the same period of the previous year:

<i>in Euro thousands</i>	31 March 2024	% on total 2024	31 March 2023	% on total 2023	Change %
Aeronautics	1,075	15%	946	14%	14%
Land defence	920	3%	22	0%	4,058%
Space	789	11%	2,690	41%	(71%)
Other (Naval, Submarine, Guidance)	2,206	33%	1,042	16%	112%
Total Aerospace and Defense	4,989	77%	4,701	71%	6%
Industrial	1,580	22%	1,557	23%	1%
Other	53	1%	379	6%	(86%)
Operating revenues net of the change in FP/SFP inventories	6,622	100%	6,638	100%	0%
Change in inventories of finished and semi-finished Products	528		1,365		(61%)
Total Operating revenues	7,151		8,003		(11%)

The Group posted a solid performance in all business divisions, confirming a significant portion of the Aerospace and Defence sector (77% of the total) and at the same time a constant presence in the Industrial division (22% of the total). The growth path is confirmed especially in the division Aerospace and Defense (+6%), while the Industrial division remains almost constant compared to the same period in the previous year.

With reference to the geographical area, we highlight in the following table the data achieved by the Group during the first quarter 2024 compared to the same period of the previous year.

<i>in Euro thousands</i>	31 March 2024	% on total 2024	31 March 2023	% on total 2023	Change %
Italy	1,198	17%	610	13%	97%
APAC	679	10%	454	61%	50%
EMEA (Italy excluded)	4,442	67%	5,759	19%	(23%)
North America	302	5%	(185)	7%	264%
Operating revenues net of the change in FP/SFP inventories	6,622	100%	6,638	100%	0%
Change in inventories of finished and semi-finished Products	528		1,365		(61%)
Total Operating revenues	7,151		8,003		(11%)

The Group confirms its presence in the main international markets, ensuring the geographical diversification of its customer portfolio, while still considering as strategic maintaining a significant portion of its business in the domestic market.

In Italy revenues are equal to 1,198 thousand Euro, increasing 97% compared to the same period from 2023 essentially due to the dynamics of the reference order, specifically referred to division Land defence and Space.

Referring to APAC area, revenues amount to 679 thousand Euro as of 31 March 2024, increasing 50% compared to 454 thousand Euro as of 31 March 2023. Growth is mainly attributable to Industrial division and Aeronautics in Aerospace and Defense.

In EMEA (Italy excluded) area, revenues are equal to 4,442 thousand Euro as of 31 March 2024, decreasing 23% compared to the same period from 2023. The decrease is related to both division Aerospace and Defense and Industrial.

The North American market has accounted operating revenues for 302 thousand Euro, strongly increased (+264%) compared to the same period 2023. It should be noted that during 2023, the Group agreed sharing of development costs for the product



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made for Honeywell, as a result, the revenue was adjusted in light of the reconciliation of expenses incurred as of the contract signing date. Please refer to the Annual Financial Report 2023 for more details.

It is specified that the Group has no business relationship with Russian Federation or Israel.

Booking 2024 – Orders received

Orders from customers acquired during a fiscal year, whether or not they are fulfilled within the same year, is the so called "Booking".

The table below shows the booking growth trend and the corresponding percentage of total revenues.

	2019	2020	2021	2022	2023
Booking (in million Euro)	13.5	18.1	29.8	41.0	47.5
% of Total Revenues	78%	95%	119%	120%	103%

"Book to Bill" (% Total Revenues) is the main indicator of the positive evolution of the business and the Group's ability to "transform" Booking (orders) into revenues, confirming its more than positive trend, despite a slight decrease compared to previous years.

As of the date of this Interim Report, 9 May 2024, orders received during 2024 are equal to 8,610 thousand Euro.

The negative variation compared to the booking recorded in the same period from 2023 (20,372 thousand Euro communicated on 9 May 2023) is directly related to the new multi-year orders that had been received during the first quarter of 2023 referring to both *kits* and engineering services, and for which the Group has a significant backlog to date.

The Group remains confident about the long-term demand trends in our industry, fueled by its main competitive distinctive features.

Pedaso, 9 May 2024

Attestation of Manager in charge of Financial Reporting

Letizia Galletti, as the Manager in Charge of drawing up the corporate accounting documents, hereby declares - pursuant to paragraph 2, article 154-bis of Legislative Decree no. 58 of 1998 ("Consolidated Law on Finance") - that the accounting information contained in this release corresponds to the balances on the books of account and the accounting records and entries.

The figures included in this report are not subject to audit. This document may contain forward looking statements which reflect Management's current views and estimates. The forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures and regulatory developments.