

Civitanavi Systems S.p.A.

Interim Report

Operating Revenues as of 30 September 2023





This is an English translation of the original Italian document. In cases of conflict between the English language document and the Italian document, the interpretation of the Italian language document prevails.



Company Data and Governance

Registered office of the Company

Civitanavi Systems S.p.A.
Via del Progresso 5, 63827
Pedaso (FM) - Italy
VAT no. IT01795210432

Corporate website

<https://www.civitanavi.com>

Board of Directors

Andrea Pizzarulli	Chairman of the Board of Directors and CEO
Michael Perlmutter	Executive director
Thomas Jung	Non-executive director
Mario Damiani	Non-executive director
Laura Guazzoni	Independent director*
Maria Serena Chiucchi	Independent director*
Tullio Rozzi	Independent director*

Lead Independent Director: Laura Guazzoni

Remuneration and Appointments Committee

Laura Guazzoni	Chairwoman
Maria Serena Chiucchi	Member
Tullio Rozzi	Member

Control and Risk, Related Parties and Sustainability Committee

Laura Guazzoni	Chairwoman
Maria Serena Chiucchi	Member
Tullio Rozzi	Member

Board of Statutory Auditors

Marco Donadio	Chairman of the Board of Statutory Auditors
Cesare Tomassetti	Standing Statutory Auditor
Eleonora Mori	Standing Statutory Auditor
Giuseppe Mogliani	Alternate Statutory Auditor
Daniela Angeloni	Alternate Statutory Auditor

Auditing Firm BDO Italia S.p.A.

Manager in charge of Financial Reporting Letizia Galletti

Supervisory Body Antonio Francesco Morone

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

Methodological note

Values are reported in thousand euro, unless expressly stated. Percentage ratios, margins and variations, have been calculated referring to punctual euro values.



Introduction

The Civitanavi Systems Group (hereinafter referred to as the "**Group**") is a prominent player in the high-tech field of navigation and inertial stabilization systems. The parent company, Civitanavi Systems S.p.A. (hereinafter also the "Company"), is an entity incorporated and domiciled in Italy, with its registered office in Pedaso (FM), Via del Progresso No. 5, organized in accordance with 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 publicly traded (floating), of which 5.09% is held by Athena Spa.

The Group operates in the design, development, and production of navigation and inertial stabilization systems used in the industrial (*mining, oil & gas, tunnelling e horizontal drilling*) and aerospace and defense (*naval, land, aeronautical, and space*) sectors. More specifically, the Group is a vertically integrated supplier of high-precision systems, designed and manufactured using proprietary methods and techniques, based on both FOG (*Fiber Optic Gyroscope*) and MEMS (*Micro Electro Mechanical Systems*) technologies, possibly integrated with other devices for satellite navigation (GPS, airspeed data, odometers, etc.). The navigation and inertial stabilization systems produced by the Group, thanks to the application of the aforementioned FOG and MEMS technologies, allow (i) autonomous inertial navigation (without GPS) and high precision, (ii) stabilization, and (iii) precise orientation (direction with respect to true north) of the mobile device on which it is 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.

The Group carries out its activities at its registered and production office in Pedaso (FM) and in three additional locations dedicated to research and development activities, in Ardea (RM), Casoria (NA), and Turin (TO). The Pedaso (FM) site hosts the administrative structure, the sales structure, the main research and development centre, as well as the prototyping and industrial production plants. At the Ardea, Casoria and Torino sites, the Group carries out design activities on top of those carried out at the main site. 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.

In 2023, the subsidiary Civitanavi Systems UK LTD of the United Kingdom, a company dedicated to both business and engineering activities and with the future goal of also becoming a production unit, employed four engineers dedicated mainly to design activities at the subsidiary's new headquarters located in Filton, Bristol. As at 30 September 2023 the subsidiary has not reported any Operating Revenue; however, locally, some sales orders have been agreed during the month of October 2023 for which engineering activities have already started as of the day of the present Interim Report and which will be partially reported as Operating Revenues as at 31 December 2023.

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



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Operating revenues

The operating revenues as of September 30, 2023, amounted to Euro 32,608 thousand, an increase of Euro 12,780 thousand (+64%) compared to the same period of the previous year, which recorded operating revenues of Euro 19,828 thousand.

<i>in Euro thousands</i>	As of 30 September 2023	As of 30 September, 2022	Change %
Operating revenues	32,608	19,828	64%

The table below shows the division of revenues by revenue stream:

<i>in Euro thousands</i>	As of 30 September 2023	% of total 2023	As of 30 September 2022	% of total 2022	Change	Change %
Revenues from sale of goods	25,204	83%	12,417	67%	12,787	103%
Revenues from "Service"	842	3%	445	2%	398	90%
Revenue from royalties	573	2%	353	2%	220	62%
<i>Revenues from engineering services</i>	<i>1,025</i>		<i>441</i>			
<i>Change in Assets for work in progress on order</i>	<i>2,602</i>		<i>4,951</i>			
Revenues from engineering services and Change in Assets for work in progress on order ¹	3,627	12%	5,392	29%	(1,765)	(33%)
Operating revenues net of the change in inventories of Finished and Semifinished Products	30,246	100%	18,606	100%	11,640	63%
Change in inventories of Finished and Semi-finished Products	2,362		1,222		1,140	93%
Total Operating revenues	32,608		19,828		12,780	64%

During the first nine months of 2023, operating revenues, net of changes in finished and semi-finished goods inventories, grew 63% compared to the same period from previous year (Growth of operating revenues net of the change of finished products and semifinished products in the period Q3 2022 vs Q3 2021 was 31%) The significant increase of Operating revenues is mainly driven by revenues from sale of goods, more than doubled compared to the same period from the previous year (+103%), thanks to the boost of both divisions Aerospace and Defence and Industrial.

Revenue stream related to engineering services records a decrease of 33% compared to the same period from the previous year (the analysis from 1H23 vs 1H22 showed a decrease equal to 56%), as foreseen in business planning and forecast for the current quarter. The revenue stream from engineering services is improving as expected, in fact these revenues are 12% of Operating revenues net of the change in finished and semifinished products inventories compared to 8% from 1H2023.

The composition of sales will be realigned to the normal trend within the end of 2023, sales planning for 2023 projected a slowdown in revenues from engineering services during the first months of the year and a realignment within the end of the year.

Semi-finished and finished goods inventories increased by 93% compared to September 30, 2022, mainly to face sales needs.

The results obtained demonstrate solid and consistent growth, strengthening the Group's position in the global inertial navigation and stabilization systems sector.

In light of the above, and as already confirmed in the last Half Year Financial Report, revenues are following the expected trend and allow to confirm what was communicated to the market during the approval of Budget 2023 for Civitanavi Systems S.p.A. (which took place on 22 December 2022), based on the information available to date, although it is necessary to take into consideration the current situation of general uncertainty.

Regarding the different divisions in which the Group operates, below are the data related to the period as of September 30, 2023, compared to the same period of the previous year.

¹ It should be noted that the increase in "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



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<i>In Euro thousands</i>	As of 30 September 2023	% of total 2023	As of 30 September 2022	% of total 2022	Change	Change %
Aeronautics	3,315	11%	4,800	26%	(1,485)	(31%)
Land defence	1,643	5%	1,123	6%	520	46%
Space	7,963	26%	2,909	16%	5,054	174%
Other (Naval, Submarine, Guidance)	11,011	36%	4,505	24%	6,506	144%
Total Aerospace and Defense	23,932	79%	13,337	72%	10,595	79%
Industrial	5,712	19%	4,624	25%	1,088	24%
Other	602	2%	645	3%	(43)	(7%)
Operating revenues net of the change in inventories of Finished and Semifinished Products	30,246	100%	18,606	100%	11,640	63%
Change in inventories of Finished and Semi-finished Products	2,362		1,222		1,140	93%
Total Operating Revenue	32,608		19,828		12,780	64%

The Group has achieved an excellent performance in its operating divisions, especially in Aerospace & Defense which is 79% of Operating revenues net of the change in finished and semifinished products inventories and in Industrial with a steady presence equal to 19%. Growth is confirmed in both divisions: A&D achieves increasing revenues by 79% compared to the same period from the previous year, while Industrial defends +24%, in recovery compared to the same period from 2022.

Regarding the geographical area, we highlight in the following table the data achieved as of September 30, 2023, compared to the same period of the previous fiscal year.

<i>In Euro thousands</i>	As of 30 September 2023	% of total 2023	As of 30 September 2022	% of total 2022	Change	Change %
Italy	3,224	11%	2,482	13%	742	30%
EMEA (except Italy)	22,886	76%	11,267	61%	11,619	103%
APAC	3,684	12%	3,601	19%	83	2%
USA	452	1%	1,256	7%	(804)	(64%)
Rest of the World	0	0%	0	0%	0	0%
Operating revenues net of the change in inventories of Finished and Semifinished Products	30,246	100%	18,606	100%	11,640	63%
Change in inventories of Finished and Semi-finished Products	2,362		1,222		1,140	93%
Total Operating Revenue	32,608		19,828		12,780	64%

The Group ensures its presence in the main international markets with an adequate geographical diversification of the customer portfolio.

In Italy, revenues amounted to Euro 3,224 thousand as of September 30, 2023, up 30% compared to the same period in 2022, mainly driven by the revenues from the division Aerospace and Defence. The Group considers it strategic to maintain a portion of its business in the domestic market, while the international market remains the reference market.

In the EMEA region (excluding Italy), revenues equal to Euro 22,886 thousand as of September 30, 2023, up 103% compared to Euro 11,267 thousand in the same period of 2022. The increase concerns both the Aerospace and Defence division and the Industrial division.

In the APAC region, it is reported a slight increase of 2%, with an amount of Euro 3,684 thousand as at September 30, 2023, compared to Euro 3,601 thousand from the same period of the previous period.

The U.S. market shows an improvement compared to the previous quarters with revenues for the amount of Euro 452 thousands, although it is not yet in line with revenues from the same period from previous year, reporting -64%. The slowdown in growth is mainly due to the sharing of development costs for the product made for Honeywell. In fact, during 2023, the company has signed a co-investment contract for profit and cost sharing in connection with the future commercialization of this product and similar products in defined markets. As a result, the revenue was adjusted in light of the reconciliation of expenses incurred as of the contract signing date. The additional agreement with Honeywell represents an important growth opportunity at the strategic level, aimed at collaboration in the relevant sector.

It is specified that the Company has no commercial relationships with the Russian Federation.



Booking 2023 - orders received

An important indication of the Group's business growth is given by the evolution of customer orders acquired during a fiscal year, whether they were fulfilled within the same year (so-called "Booking").

Over the past years 2019-2022, the Group's Booking has been growing significantly and, in 2022, represented a record in terms of orders acquired (41,0 million euros) over the course of a single year.

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

	2019	2020	2021	2022
Booking (in Eur thousands)	13.5	18.1	29.8	41.0
% of Total Revenue	78%	95%	119%	120%

The Booking as of September 30, 2023 amounts to Euro 32,073 thousand, increasing of 11% compared to 30 September 2022.

As of the date of this document, November 7, 2023, the orders received during 2023 amount to Euro 34,473 thousand, increasing by 13.5% compared to the booking recorded in the same period of 2022 (Euro 30,364 thousand communicated on October 28, 2022), confirming the Group's growth trend.

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

Pedaso, 7 November 2023

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.