CYBAERO AB

COMPANY PRESENTATION

CybAero

increasing human safety

Glossary and abbreviations

Autonomous flight
Computer controlled flight. The flight is pre-programmed from take-off to landing with the aid of coordinates; navigation is carried out automatically with the aid of GPS.

Avionics
Collective noun for all electronics that are significant for an aircraft's flight; chiefly instrumentation, control systems, navigation systems and communications systems.

Critical Design Review (CDR)
The review of a design or parts of a design to ensure that it meets the technical and other requirements it will be subject to when completed.

Fixed Wing
Aircraft with fixed wings (an airplane).

HALE
High Altitude Long Endurance - aircraft with long endurance at altitudes of more than 45,000 feet AMSL.

Heavy Fuel
Collective noun for diesel-based fuels with higher flash points than gasoline. Gasoline is forbidden on most naval units and heavy fuel is used instead.

Hunter-Killer applications
Development program within the American Air Force for tactical, unmanned aircraft with combat capabilities. Aircraft of this type are used regularly by American troops in Afghanistan.

ISR
Intelligence, Surveillance, and Reconnaissance.

MALE
Medium Altitude Long Endurance - aircraft with long endurance at altitudes between 15,000 feet and 45,000 feet AMSL.

MALLS
Mobile Automatic Launch and Landing Station - mobile unit that facilitates the automatic take-off and landing of aircraft.

Ground station
Ground based unit from which the aircraft and payload can be maneuvered and controlled.

MAROFF
Norwegian abbreviation for Maritime and Offshore Operations.

MIDCAS
Mid Air Collision Avoidance System; a project with the objective of enabling unmanned aircraft to fly in civil airspace.

MoU
Memorandum of Understanding.

MTOW
Maximum Take Off Weight.

Payload
Useful load, often sensors of various kinds.

Preliminary Design Review
The initial (general) review of a design or parts of a design to ensure that it meets the technical and other requirements it will be subject to when completed.

Rotary Wing
Aircraft with rotating wings (a helicopter).

Sensor
Collective noun, usually for electronic equipment that gathers, converts and distributes some form of signal or data. Examples of sensors are IR cameras (heat sensitive cameras) and laser-based measuring systems.

STUAV
Small Tactical UAV.

Teaming Agreement
A cooperation agreement.

Telewarfare, also Electronic Warfare (EW)
Methods used by the military to influence or hinder the enemy's use of devices with electromagnetic wave propagation, e.g. radio equipment, radar, satellite communications. Jamming is an example of electronic warfare.

TUAV
Tactical UAV. The difference between a tactical and strategic UAV is as follows: Tactical UAVs fly at lower altitudes and are used for specific missions in an operational area such as ground surveys, camera surveillance and in some cases combat missions. Strategic UAVs fly at higher altitudes and are used for strategic data collection and surveillance.

UAS
Unmanned Aircraft System – includes the aircraft, ground station, communications links and peripheral equipment.

UAV
Unmanned Aerial Vehicle.

UCAV
Unmanned Combat Aerial Vehicle.

Urban warfare
Combat in urban environments such as cities and communities.

VTOL
Vertical Take-Off and Landing.

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An APID 60 during a winter test flight for Cassidian.

CEO's Presentation

The year 2010 was my first as CEO for CybAero. During 2010, we made great progress in developing our products in cooperation with our indispensable partners Indra Sistemas and EADS. It was also the first year since the company was founded that CybAero succeeded in making a profit. We reached this important milestone through our own efforts by substantially increasing revenues while maintaining our focus on cost efficiency.

Demand for the services that our products deliver is steadily increasing. We see the world community joining forces to defend the global transportation system by engaging and fighting organized piracy in the seas around Somalia and elsewhere. The helicopter has become an essential, integral tool in these efforts as extensive sea areas must be surveilled through aerial operations.

The world's navies have reached the conclusion that unmanned helicopters, i.e. VTOL UAVs – Vertical Take-off and Landing Unmanned Aerial Vehicles – can make a significant contribution to these operations. VTOL UAVs possesses superior operational endurance and also offer many other advantages, such as being able to fly and observe suspected pirate vessels closely without the risk of losing a pilot through possible hostile fire from the vessel. These factors all contribute to the fact that the military and other national agencies in an increasing number of countries are considering investing in VTOL UAV systems.

Europe has also seen increasing demand for sea surveillance over recent years as refugees from North Africa continue to flee in ever greater numbers to Italy, Malta and Spain's Canary Islands. Every year hundreds of refugees perish at sea as their dilapidated vessels sink. CybAero's unmanned helicopters, equipped with modern sensor systems, are effective tools for detecting such small vessels at great distances. Thus VTOL UAVs offer a solution that makes possible the combining of maritime SAR efforts with effective measures for combating illegal migration, thus making investments in VTOL UAV systems a politically feasible and uncontroversial measure.

Other driving factors include the multinational military effort in Afghanistan. Improvised explosive devices, (IEDs), on roads and enemy fire are deadly "routine events" for ISAF troops patrolling the country. However, VTOL UAVs can carry instruments that are able to detect bombs buried in the ground by screening the terrain and thereby saving soldier's lives. Furthermore, deploying VTOL UAVs as part of the protection system also makes it easier to detect enemy troops concealed for ambush.

Today, conventional UAVs are already used for surveillance purposes. However, VTOL UAVs offer advantages that conventional fixed-wing UAVs do not, such as the ability to hover, i.e. remain stationary in the air, fly slowly and also to hide behind buildings, trees and other objects, etc. It is only a matter of time before

Leif Erlandsson, CEO

VTOL UAVs become an equally routine tool in field operations as fixed-wing UAVs already are today.

Moving forward, troops transportation convoys will be protected by VTOL UAVs that form an integral part of the convoy, and which take off and land on VTOL UAV transporters equipped with specialized automatic launching and landing systems such as CybAero's patented MALLS system (Mobile Automatic Launch and Landing System). This will bring the safety of troop convoys to a much higher level.

The future prospects and potential for the company's products is immense, especially in the military field. However, we also realize that CybAero, being the small company it is, simply does not possess the financial and organizational resources necessary to become a credible partner and supplier of complete VTOL UAV systems to the biggest military forces in the world. Furthermore, these systems often only constitute a limited, integral part of larger, higher level defense systems. Most importantly, CybAero does not have the resources to build an organization capable of providing reliable service to military forces on a global basis in a world where lives are routinely at stake.

We therefore modified our strategy in 2010. CybAero will become the lead supplier of the helicopter to our system integrating partners – major companies that already have the world's largest national military forces as their customers. Our partners will use CybAero helicopters as technical platforms upon which to develop and build the sensor-based systems that our customers want. This change in strategy has attracted a lot of attention and has been widely acclaimed by the largest corporations in the industry. Today, we have partner-based customer relations with Indra Sistemas from Spain and the world's second largest aerospace company, EADS.

To ensure that we continue to grow our in-house system development competence, we will continue to work as a complete system supplier with our own VTOL UAV helicopter, the APID 60. We will focus our marketing and sales efforts on smaller stand-alone systems that will not be integrated into larger, higher-level intelligence systems to the same extent. We will also focus our marketing and sales efforts on the development of systems for commercial applications.

In addition to its VTOL UAVs, CybAero also develops MALLS. MALLS is a proprietary system for the automatic landing of VTOL UAVs on moving platforms such as ships. This development work takes place in a partnership with Astrium, part of the EADS group. We use space shuttle docking systems in a somewhat more down-to-earth application. The trend is towards smaller vessels in many of the world's navies. This puts greater emphasis on a VTOL UAV's ability to land in a controlled fashion. Therefore, CybAero's patented MALLS system forms an important part of our offer to our customers, and its significance will increase in the years ahead.

Cooperation with the Spanish electronics and IT-company Indra Sistemas began back in 2008. In July 2010, we signed a subcontract, which includes partnership development work for the VTOL UAV named Pelicano along with a delivery agreement for three pre-series APID 60 helicopters. The development of the Pelicano model is based on a mission description issued by the Spanish Navy. Over the next few years, a number of new BAMS class frigates will be launched and the Pelicano will be a VTOL UAV tailor-made for the BAMS class and the demands of the Spanish Navy, and it will also be offered to other customer groups with similar vessel types, including the Spanish Guardia Civil Coast Guard and its Swedish counterpart, Kustbevakningen.

The Pelicano will be a UAV that is unique in the world, being fully adapted for use on smaller vessels. It is the world's first aerial vehicle of its size to be built with a heavy fuel engine that runs on low volatility kerosene or – when used in civilian applications – diesel. CybAero develops the helicopter platform, which is then equipped with sensors and avionics by Indra Sistemas. Indra Sistemas is listed on the Madrid stock exchange and employs 26,000 people worldwide. In addition to Spain, it also enjoys a strong position in South America, thus creating a bridgehead to a new market for CybAero.

In July 2010, we entered into a cooperation with Cassidian (former EADS Defense and Security), part of the EADS group. EADS is the second largest aviation and defense technology corporation in the world, with more than 120,000 employees in businesses in such countries as Germany, France and Spain, among others. The EADS group includes products and companies such as Airbus, Eurofighter and Eurocopter. CybAero's cooperation with Cassidian has resulted in a Memorandum of Understanding regarding the development of a new, heavier VTOL UAV in the 300 kg segment.

In the fall of 2010, Cassidian placed an order for an APID 60 for use in sensor system R&D and demonstration flights for customers and the executive management of EADS. The APID 60 was delivered in December 2010. It drew a lot of attention

APID 60 on a civil mission, with Linköping Cathedral in the background.

when CybAero's flight team was able to successfully perform a delivery acceptance flight at a time when Europe was struck by a snow storm that virtually paralyzed air traffic. Since delivery, an ambitious test flight program has been conducted. We have great expectations on our cooperation with Cassidian. Thanks to the fact that CybAero now has simultaneous cooperation with two separate companies within the EADS group, the bonds between CybAero and EADS are strengthened further.

Our contract with our customer in the United Arab Emirates has been dormant for a while. We have held talks with the customer in a positive spirit regarding how to execute the contract and the delivery. We recently agreed to resume delivery of helicopters, as stipulated in the original contract, which we consider to be a significant step forward.

In December 2010, the recognized defense industry journal Defense News published an article about CybAero that attracted a lot of attention. The journal had interviewed industry analysts, who expressed very positive views regarding the company's prospects. The analysts generally thought that CybAero has good chances of becoming the world leader in tomorrow's VTOL UAV market. One of the reasons is that CybAero, being listed on the stock market, has a better chance of raising the capital necessary for expanding the business. The leading Swedish business daily Dagens Industri took up the thread by reproducing the article and publishing a full-page piece about CybAero. The prominent Swedish evening paper Expressen also presented the company in a full-page article about the future prospects of CybAero, with highest marks from analysts and researchers in the field. These articles are available on the CybAero website at www.cybaero.se.

The APID 60, which forms the basis of our cooperation with Indra Sistemas and Cassidian, is today a technically reliable product which continues to accumulate flying hours on operations and demo missions. Potentially, of course, there is a vast commercial market for VTOL UAVs. In this segment, technological development is not the chief determiner of the pace of growth in the market, but the absence of a regulatory framework governing how and when unmanned flights in civil airspace may be performed. Projects are under way on a broad international basis to open up the civilian market through the implementation of so-called sense-and-avoid systems. The most immediate task for CybAero is the European MIDCAS project, which is administered by our colleagues at Saab. The goal for MIDCAS is to find a technical system solution by 2015 that gives UAVs access to civil aerospace.

We put a lot of effort into promoting the creation and building of a market for commercial VTOL UAV applications by continuously searching for potential projects. One such that has attracted a lot of attention involves CybAero and Tekniska Verken, which is a municipally owned utility and waste management company in Linköping. The mission is to carry out flights over the Tekniska Verken landfill site in Gärstad, outside Linköping using lidar (laser based instruments) to perform surveys of the landfill site. In line with EU legislative frameworks, all landfill sites, gravel pits and open pit mines must be surveyed on an annual basis regarding growth and/or possible settlement. Development work is being carried out in cooperation with Linköping University to develop the algorithms necessary for the development of a world-class commercial product in this particular niche. To our knowledge the project has resulted in the first commercial flights of this type using a VTOL UAV.

We can foresee a gigantic world market opening up to us. We are naturally not without competitors, but this is a good thing since the market will be big enough for us all, although we would obviously prefer customers to purchase their VTOL UAV systems from CybAero. But the next best alternative is the success of competitor VTOL UAV systems as this will speed up the general market breakthrough for VTOL UAV applications. The only truly bad alternative is if customers decide not to procure any VTOL UAV systems at all.

Our success with APID 60 and our partnerships with Indra Sistemas and Cassidian have provided our company and personnel with excellent conditions for the future. We confidently fly our products whenever we can in wind, rain and snow (and, fair weather too). We prioritize flying. We fly to show our customers what we can do, what the technology makes possible and, of course, to sell our products. We also fly to gain flying hours to prove the reliability of our products. We do so in maximum safety and always with flying colors.

As a part of our marketing efforts, we recruited Brigadier General Mats Westin to join our board in 2010, and in 2011 we recruited Göran Larsbrink. Mats Westin is a trained helicopter pilot and was the CO of the helicopter wing in Linköping. For many years he was part of the customer environment we focus our sales efforts on, and he knows his way around well. Mats Westin was also Director of Planning at the Swedish Defense Materiel Administration, FMV. He adds valuable competence to the board and has contacts in the FMV organization that manage

CybAero carried out the first official flight of a VTOL UAV in Sweden on Gärdet common in Stockholm in January of 2008 and received much media attention.

and administer procurement of our products in Sweden. In the course of 2010, Mats Westin and I made several visits to potential customers. Göran Larsbrink is a former rear-admiral and has also held leading positions at the Swedish Armed Forces Headquarters, at FMV and at the Swedish Ministry of Defense. At FMV, Göran Larsbrink was in charge of overall production and strategy development. He has worked with development projects regarding both new and existing platforms and subsystems at FMV and the Swedish Armed Forces Headquarters for the naval combat area, which he commanded. He has also held numerous leading positions at naval and helicopter units.

In 2011, CybAero will continue its efforts to make the world a safer place, while at the same time delivering value to its shareholders. We will increase our sales efforts and build new markets for the company. We will continue to improve our products so that they become even better suited to our customers' needs. We are, and we will continue to be, the world leader in VTOL UAV platforms. We will continue to develop our partnership collaborations and we will form new partnerships. We will sell VTOL UAV platforms to our partners, and in turn to their customers, and we will also sell the APID 60 system through our own sales organization.

We expect the VTOL UAV market to soar in 2011 and 2012, and along with it, CybAero. Why not join us in our endeavors?

Leif Erlandsson
CEO
CybAero AB (publ)

MARKET OVERVIEW

The Global UAV Market

Unmanned Aerial Vehicles (UAVs) have been the aerospace industry's most dynamic growth sector throughout the decade 2000-2010. Teal Group (www.tealgroup.com) is a company that specializes in supplying reliable, accurate, independent aerospace and defense industry market analysis. Teal Group produces an annual market report, World Unmanned Aerial Vehicle Systems, which is a sector study of the international UAV market. The information in this chapter is largely based on the Teal Group market study and also on information from the industry analysis firm Frost & Sullivan (www.frost.com).

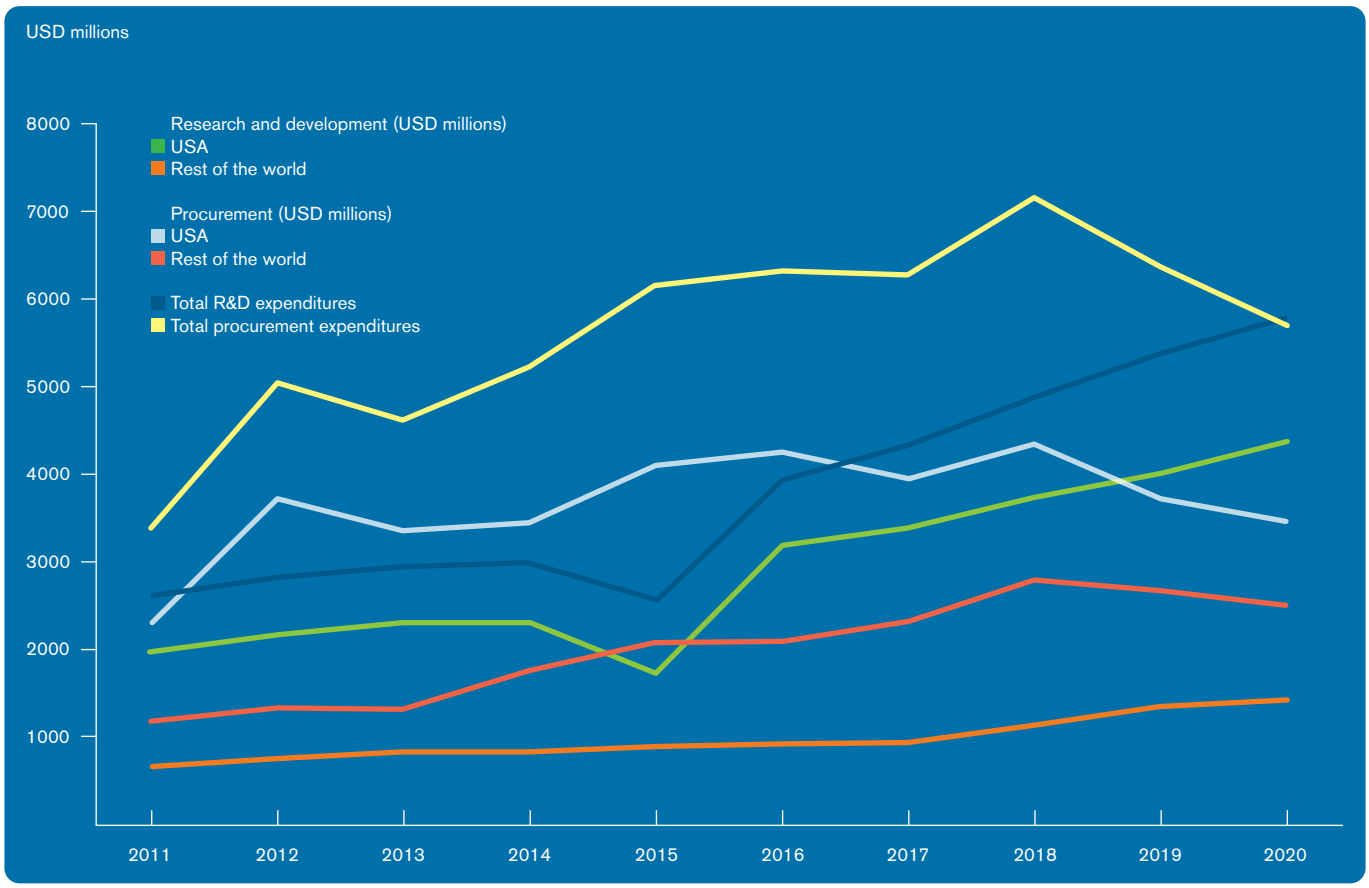
Teal Group estimates that the UAV market will double over the next decade (i.e. from 2010 to 2020) from current annual worldwide UAV R&D and procurement expenditures of about USD 5.9 billion to USD 15.1 billion , which is a 159 percent increase over the decade. If operations and maintenance expenditures are added, these totals would are greater. The amount USD 15.1 billion includes a number of procurements of UCAVs that may possibly not take place; if these procurements are excluded, the forecast procurement for the year 2020 amounts to USD 11.5 billion, which is a 95 percent increase over the decade.

The most significant catalyst in this market has been the enormous growth of interest in UAVs by the US military. This is tied to an increasing need in the US military of advanced strategic and tactical reconnaissance for intelligence gathering. The US military interest in UAVs also stems from a general trend towards information warfare and network-centric systems, as well as peacekeeping operations in Iraq and Afghanistan. UAVs are a key element in the intelligence, surveillance, and reconnaissance (ISR) portion of this revolution, and they are expanding into other missions as well with the advent of hunter-killer UAVs.

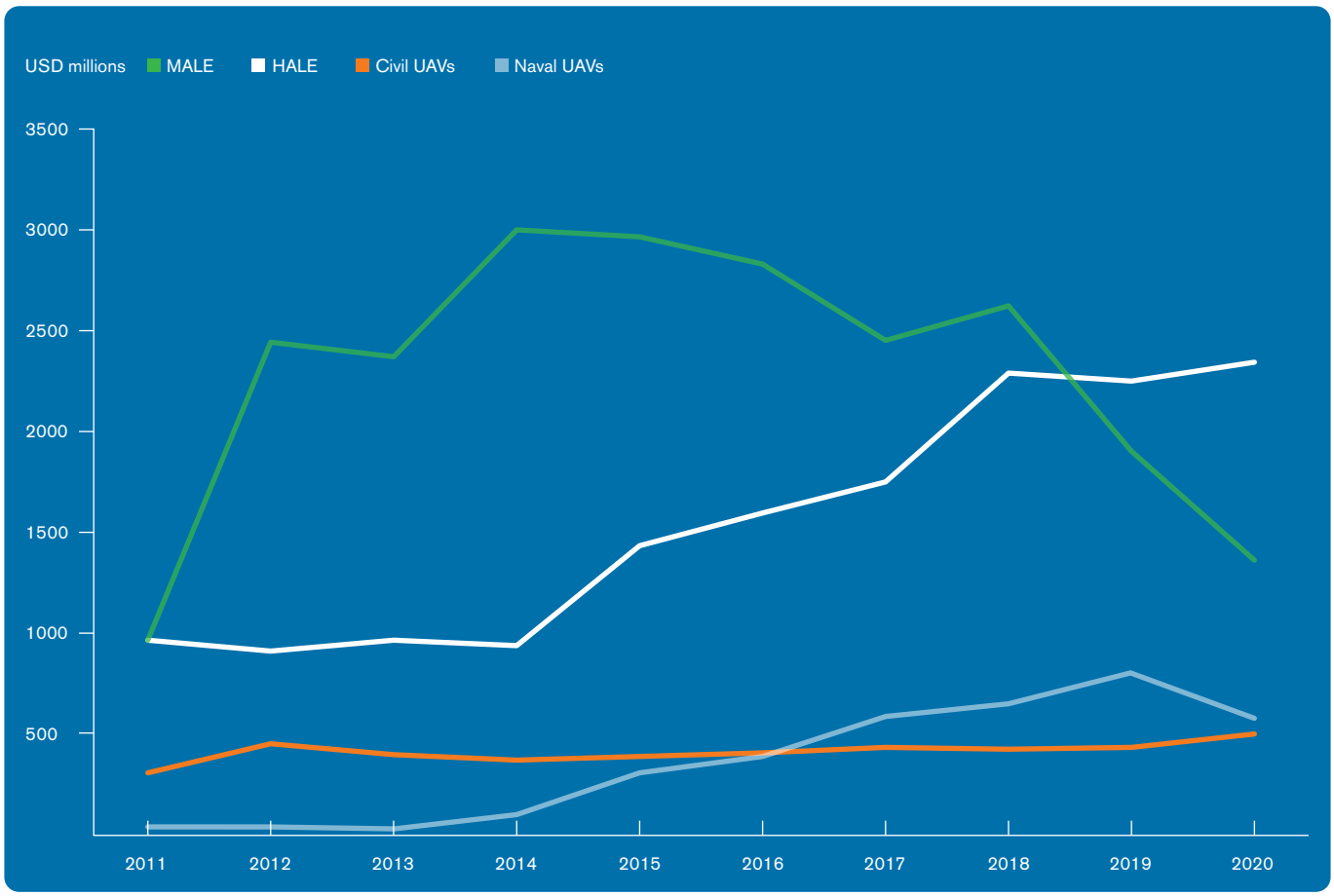
USA DOMINATES THE UAV MARKET

The Teal Group study suggests that the US will account for 77 percent of the R&D spending on UAV technology over the next decade, and about 69 percent of the procurement.

These figures represent higher shares of the UAV market than for defense spending in general, with the US accounting for about 64 percent of total worldwide defense R&D spending and 38 percent of procurement spending. These discrepancies are due to the heavier US investment in cutting-edge technologies, and the marked



R&D and procurement expenditures for UAVs, divided between the USA and the rest of the world.



UAV procurement expenditures divided between different types of UAV. Note the strong growth for the niche naval UAV application.

lag-time in such research and procurement elsewhere, especially major aerospace centers such as Europe.

This follows trends in other cutting-edge technologies observed over the past decade by Teal Group analysts in such areas as precision guided weapons, information and sensor technology, and military application of aerospace systems.

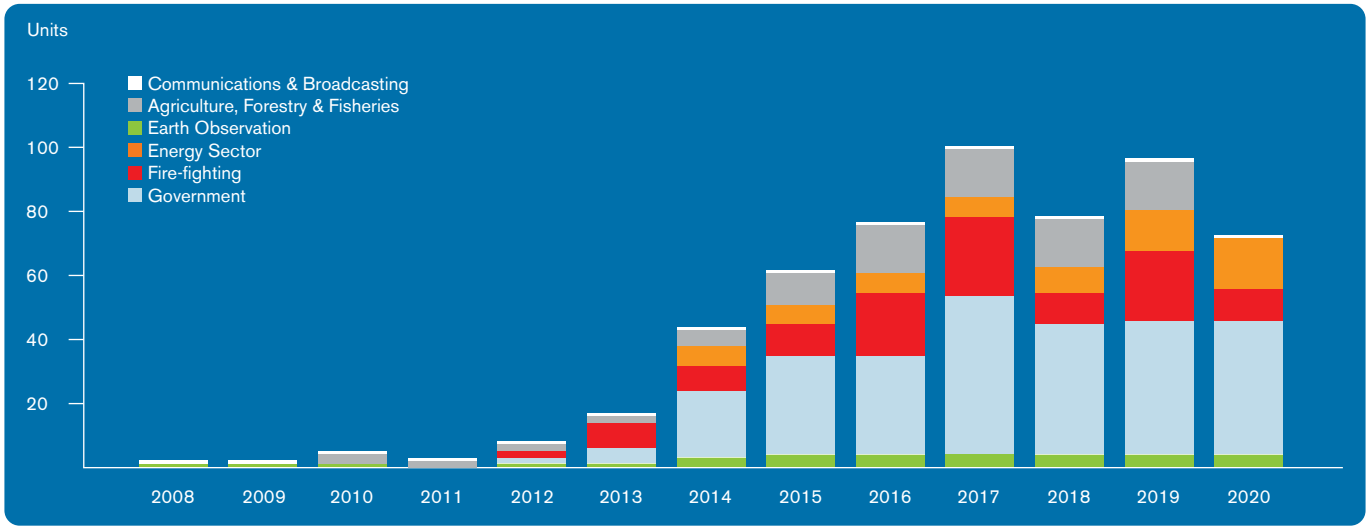
Teal Group expects that the sales of UAVs will follow recent patterns of high-tech arms procurement worldwide, with the Asia-Pacific area representing the second largest market, followed very closely by Europe. Indeed, the Asia-Pacific region may represent an even larger segment of the market, but several significant players in the region, namely Japan and China are not especially transparent about their plans compared to Europe. As in the case of many cutting-edge aerospace products, Africa and Latin America are expected to be very modest markets for UAVs.

UAVS FOR CIVIL AND COMMERCIAL APPLICATIONS STILL FAR OFF

A civil market for UAVs is only just beginning to emerge, largely due to the lack of access to national airspace until suitable UAV standards and practices are established. Teal Group expects a civil UAV market to emerge slowly over the next decade, starting first with government organizations such as coast guards, border patrol agencies and similar national security agencies that require surveillance systems similar to military UAVs.

The commercial, non-governmental UAV market will emerge much more slowly, except in some niche markets such as Japan, until the airspace access issue is fully resolved late in the forecast period, i.e. towards 2020.

Analysts Frost & Sullivan make a similar assessment regarding the growth of the civil and commercial UAV markets. In an analysis carried out for the EU they predict that the civil and commercial UAV markets will gradually increase in the decade following 2010, and especially from 2014 to 2015 when the MIDCAS development project is expected to be concluded.

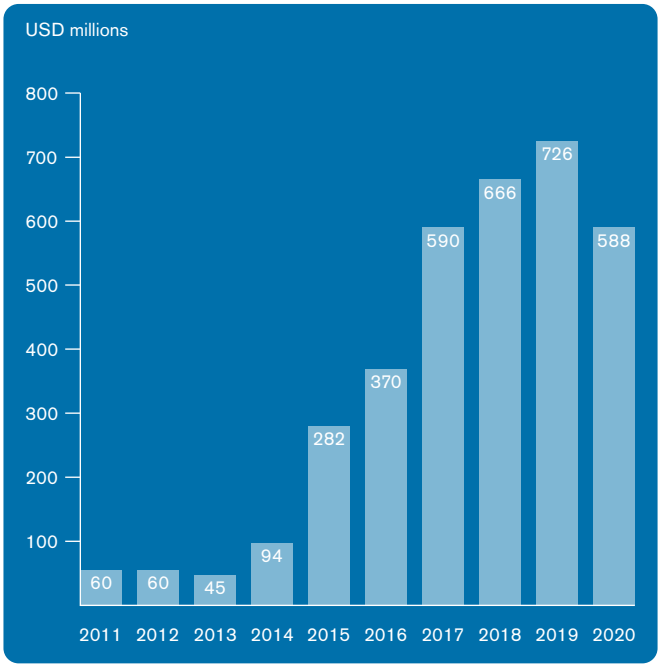


Anticipated development in the European civil and commercial UAV market during the period 2008-2020. Source: Frost & Sullivan.

FORECAST MARKET DEVELOPMENT FOR VTOL UAVS

VTOL UAVs form a small niche segment of the total UAV market and a general market breakthrough for VTOL UAVs has been a long time coming. Therefore specialized market segment data for the VTOL UAV market are difficult to collect. However, VTOL UAVs are expected to have their greatest significance at sea, where traditional fixed-wing UAVs can be difficult to use due to the huge space requirements for take-off and landing or launch and recovery devices, which may only be available on larger ships.

The Teal Group forecasts (see chart) that UAVs for marine applications will be the UAV application segment that has the highest growth in the course of this decade. The market for marine UAVs is predicted to enjoy a tenfold increase, from USD 60 million in 2010 to USD 600 million in 2020. A large proportion of this is expected to be covered by VTOL UAVs.



Anticipated market development for naval UAVs during the period 2011-2020. Naval UAVs are expected to be an important area of application for VTOL UAVs. Source:Teal Group.

Application areas for VTOL UAVs

Traditionally UAVs have been understood to be fixed-wing unmanned aerial vehicles. There has long been a well-established, growing market for such UAVs. According to Teal Group, the market in the 2010 for procurement of UAVs (implicitly understood to mean fixed-wing UAVs) amounted to about USD 3 billion. In 2000, the market amounted to about USD 350 billion. Thus, between 2000 and 2010 the market increased by 750 percent, which corresponds to an annual growth of 27 per cent.

There are several reasons are behind this strong, sustained UAV market growth. Some of the advantages with UAVs are

- the elimination of the risk of losing a pilot when carrying out dange rous missions (missions involving hazardous gases, fire fighting, difficult weather conditions, radioactive substances, etc), reduced costs for UAV systems (smaller aircraft, no pilots) in comparison with manned aircraft, which is especially im portant in times of defense budget austerity,
- reduced dependency on weather conditions, in particular poor visibility, compared to manned aircraft,
- the ability to carry out monotonous or dull missions for several hours without interruption,
- the absence of a requirement for regular breaks, apart from refueling and scheduled service and maintenance, and
- the fact that they are lighter and more fuel efficient, thus redu cing running costs and impact on the environment.

VTOL UAV ADVANTAGES

A commercial breakthrough for VTOL UAVs has been a long time coming. However, since VTOL UAVs offer significant advantages compared to manned helicopters, there are plenty of reasons to believe the VTOL UAV market will undergo rapid development and growth, in the same way as for fixed-wing UAVs. Some of the advantages with VTOL UAVs are

- improved cost efficiency, in comparison with manned helicopters,
- longer and more effective working hours, in comparison with manned helicopters,
- a potential for enhanced flight performance, in comparison with manned helicopters, especially when carrying out monotonous tasks and missions demanding a high degree of precision,
- the absence of a requirement for special launch and recovery devices,
- the ability to operate close to fixed obstacles e.g. buildings, trees, masts and similar objects and
- the absence of a requirement for specialized take-off, landing and air traffic control infrastructure and associated personnel.

DEFENSE APPLICATIONS FOR VTOL UAVS

The biggest market for VTOL UAVs is in defense and security applications, which is already the biggest market for fixed-wing UAVs. In particular, the use of VTOL UAVs on vessels is expected to become one of the most significant application areas, since fixed-wing UAVs need sufficient space for takeoff and landing or launch and recovery devices, space for which is only available on large ships.

Reconnaissance by VTOL UAVs from ships

With a VTOL UAV as a part of a ship's equipment, the crew's ability to see very far increases considerably, which is crucial for the early detection of suspected pirates. VTOL UAVs are able to

APID 60 on a demo flight from a ship.

carry out so-called perimeter protection of individual ships, i.e. continuously circling the ship to spot pirates approaching at a distance, in order to prevent them from boarding.

Pirates use small, fast boats that are very difficult to detect without the use of VTOL UAVs, or other aerial vehicles, and they can therefore get close to ships before they are discovered. For ships that either hunt pirates or want to protect themselves against pirates, VTOL UAVs are an indispensible tool for more effective surveillance.

Furthermore, VTOL UAVs can be based on Coast Guard cutters to combat drug smugglers using maritime smuggling routes. Instead of the Coast Guard cutter having to interrupt its passage, which is a time-consuming maneuver, it can send up one or more VTOL UAVs to fly close to the suspected vessel with a camera to send back images and other identification data. Coast Guard officers can then, based on the transmitted information, decide whether or not they should interrupt the cutter's passage to conduct an inspection. With VTOL UAVs aboard, a single Coast Guard vessel can substantially increase its effective action radius, which means large savings for the tax payer.

There really is no realistic alternative to VTOL UAVs for either operation, except perhaps manned helicopters. But considering the cost of pilots and other operational costs associated with larger helicopters, the customer very quickly saves the investment cost of a VTOL UAV system.

Protection of convoys and transports

In Afghanistan roadside bombs called Improvised Explosive Devices (IEDs) are the leading cause of death for soldiers in the UN force ISAF. Assaults and ambushes are also deadly routine events for ISAF troops, not least when moving in convoy.

In the future VTOL UAVs may be used for the protection of convoys. When a convoy approaches a dangerous section of road VTOL UAVs can be launched from specialized VTOL UAV carriers in the convoy, while the convoy is under way. The VTOL UAVs will be able to fly ahead of the convoy using sensors to scan the route for IEDs. Among other things, CybAero's MALLS automatic launch and landing system aims to render the use of VTOL UAVs in convoys possible while the latter are on the move.

Perimeter protection for military bases

It is important that the area surrounding a military base is secure and remains secure. Continuous surveillance is necessary to prevent landmines being laid by enemy troops within the secured area, and to prevent preparations for assaults on the base from the secured area.

VTOL UAVs can be used for so-called perimeter protection of the base. By using VTOL UAVs, autonomous surveillance flights can be performed continuously over the secured area in a safe, secure manner. In these operations, VTOL UAVs take off and land from the base area, which is significantly more difficult for fixed-wing UAVs.

COMMERCIAL USES FOR VTOL UAVS

The commercial market for VTOL UAVs is still considerably smaller than that of defense and security. However, this can change with the development of a regulatory framework for UAV flights civil air space and the development of associated sense-and-avoid systems, which the MIDCAS project seeks to facilitate.

Still, some commercial applications for UAVs are possible to carry out today. The common denominator being that such applications involve flights in areas where people face no risk of injury from an aerial vehicle that is forced to make an uncontrolled landing.

Reconnaissance in difficult conditions

In difficult environments, it can be very expensive, demanding and above all dangerous for flight personnel to perform reconnaissance from helicopters. In such conditions, the use of VTOL UAVs may be the best solution. This is why the Norwegian Research Council has decided to fund the project Arctic UAV - the use of UAS for surveillance and data collecting in Northern areas within the framework of the Maritime operations and offshore operations (MAROFF) research program.

The trend clearly demonstrates a greater need for transport in the Arctic region. Up-to-date information on the weather, sea ice conditions and possible environmental pollution is therefore important. Adverse weather conditions with limited visibility in geographically remote areas make VTOL UAVs – which can be based on platforms and ships – a competitive alternative to satellite systems and conventional reconnaissance. CybAero is participating in the Arctic UAV project and will perform demonstration flights within the program framework. Other environmental missions for VTOL UAVs, in contexts where flights with manned helicopters are dangerous or expensive, are anticipated to increase in the future.

Landfill site surveys for Tekniska Verken in Linköping

According to EU environmental directives, landfill sites must be surveyed every year. The purpose is to measure the growth of landfill sites and to detect possible settlement.

Tekniska Verken in Linköping, which is a municipally owned utility and waste management company, is responsible for the Gärstad waste landfill site, covering an area of approximately 100 acres. Until now landfill site surveys have been performed from manned helicopters, which is expensive, or manually, which apart from being time-consuming also produces uncertain results.

To carry out surveys in a more efficient way, a development pro-

ject was initiated by CybAero in cooperation with Tekniska Verken, which has become known as the Tip Watch Project (Projekt Soptitt), which also involves other companies in Linköping. The objective is to perform surveys cheaply and more safely by using an APID 60 and a laser scanner. The APID 60 collects the data and then analyzes the readings in a computer application.

The obvious benefit for the customer is the reduction in costs and workload involved in surveying the landfill sites and the more reliable results obtained than by using current methods. In addition, the use of VTOL UAVs instead of manned helicopters is a more environmentally friendly method since manned helicopters consume more fuel.

The Tip Watch Project has great commercial potential. In Sweden, there are around 80 landfill sites that are subject to survey requirements. In Europe as a whole there are an estimated 10,000 to 15,000 landfill sites that require surveys. In addition, gravel pits and open pit mines are also areas subject to survey requirements, where the use of VTOL UAVs can provide significant cost savings for customers.

UAV INTEGRATION INTO CIVIL AIRSPACE

There are continuous efforts among aviation authorities and companies throughout the global aviation industry aimed at the safe integration of unmanned vehicles into civil airspace.

An important initiative was taken by the European Defense Agency (EDA) when it initiated the MIDCAS mission project. MIDCAS was signed in connection with the Paris Air Show in June 2009. In total, 13 companies from Germany, France, Italy, Spain and Sweden (Saab) participate in the project. Sweden was appointed project coordinator.

The background to MIDCAS resides in today's restrictions regarding the use of civil airspace by unmanned aerial vehicles. These restrictions present an obstacle for UAVs' gaining the market breakthrough they would otherwise get. Restrictions apply in particular to UAVs in civil and commercial applications, while military applications have a different position in part.

MIDCAS is due in 2015 and its purpose is to demonstrate technical solutions that allow unmanned aerial vehicles to be present in the same airspace as manned aircraft. These technologies will be designed as so-called sense-and-avoid systems, which means that UASs (Unmanned Aerial Systems) would automatically avoid collision courses with other aircraft, both manned and unmanned The solutions must be capable of integration with existing technologies, including systems for aerial surveillance.

CybAero's partners, Indra and Cassidian, are two of a total of 13 companies participating in the project. For further information about the mission, see www.midcas.org.

CYBAERO REPRESENTED ON THE BOARD OF UVS INTERNATIONAL

UVS International (Unmanned Vehicle Systems International) is a nonprofit association, headquartered in Paris. The organization represents providers of products and services in the UVS sector and also research organizations and universities.

UVS International currently has 260 members from companies and institutions in 37 countries and is a leading international organization dedicated to the promotion of unmanned systems (air, land and marine) on system and subsystem levels. The organization takes part in several European and international reports aimed at developing regulations to allow UAVs in civil airspace. Since 2007, UVS International organizes an annual conference with an exhibition in Paris, and also organizes several other UAV conferences and trade shows.

CybAero has been a member of UVS International since 2007 and has been represented on the UVS board since 2008 by Robert Veenhuizen.

BUSINESS DESCRIPTION

CybAero company presentation

MISSION

CybAero´s business is to develop, manufacture and sell Vertical Take Off and Landing Autonomous Aerial Vehicles (VTOL UAVs). The VTOL UAVs are used as platforms to carry different kinds of sensor systems fitted to suit customer requirements. VTOL UAVs usually integrate into different defense or surveillance systems but they can also be used as standalone systems. VTOL UAVs can be used in military, civil and commercial applications.

OBJECTIVE

CybAero's goal is to become the global leader in the development and manufacture of VTOL UAVs.

STRATEGY

CybAero's strategy is to specialize in the development of VTOL UAV aircraft and associated platforms. CybAero´s partners, which are leading system integrators in the defense and security industry, use CybAero VTOL UAV systems as platforms for customer-designed sensor-based airborne systems.

For a long time CybAero´s partners have built up contacts with these end customers, which are often large military forces or national surveillance and security agencies. These partners have also established service and maintenance organizations able to meet end-user needs. By building strong partnerships with these leading system integrators, CybAero can reach end customers with its products.

On the civil side and in some smaller military projects CybAero develops applications designed to solve specific, well-defined customer needs in collaboration with end users. Through its own APID 60 VTOL UAV product, CybAero is able to take on projects with a more extensive delivery content than is normally the case when working through partners. In such projects CybAero may also develop the actual sensor-based system applications and conduct flight and operation of the VTOL UAV system as required, instead of merely delivering a VTOL UAV system.

VISION

CybAero's vision is for VTOL UAVs to become a natural choice just as fixed-wing UAVs are today. CybAero will actively pursue this market development with the aim of becoming the global market leader in the development and manufacture of VTOL UAVs.

On the civil side the vision is for the current work on the MIDCAS and other similar processes to result in solutions that enable UAVs to fly in the same airspace as manned aircraft. This will in turn lead to a rapid increase in the use of VTOL UAVs in a variety of civil and commercial applications.

CybAero will be actively involved in this development and, in collaboration with other companies, intends to become a leading supplier of VTOL UAV aircraft with integrated sensor solutions for well-defined, civil and commercial applications.

CybAero has conducted operations from its premises at Malmen field in Linköping since 2008.

CybAero products and services

CybAero's core competence is the development and production of proprietary unmanned, autonomous helicopters based on customers' needs. Associated sub-systems such as transportation solutions, etc. are provided by carefully selected partners.

Currently, CybAero has a fully developed and marketable helicopter model, the APID 60, based on the previous APID 55 version. In addition, CybAero has its own patented landing system – MALLS – for landing on moving platforms such as ships.

CybAero delivers helicopters to strategic partners, who use them as platforms upon which they typically build their own sensor-based systems for subsequent delivery to the end customer. Various types of sensors and other types of payloads are integrated in the final system solution depending on the end customer and the kind of assignments the systems will be used for.

CybAero's strategic partners have most of the contacts with end customers, and this also means they are responsible for the service and maintenance of systems sold. This reduces CybAero's need to build its own global service organization.

VTOL UAV SYSTEM STRUCTURE

A VTOL UAV system consists of three main components:

1. Helicopter platform from CybAero, including avionics and data links
2. Payload, usually in the form of one or more sensors, from partners
3. Ground station with control unit, including video monitors and data and video links

A system usually also includes a transport unit. The platforms and ground stations can be transported in specially designed vehicles, standard trucks, containers or trailers, depending on customer standards and requirements. The ground station is used for control and management of the helicopter system and its associated sensors.

Examples of sensors are:

- Camcorder
- IR camera
- Jammers
- Microwave radio equipment
- Biochemical sensors
- Laser scanner
- Ground radar
- Magnetometers

CybAero also offers an advanced simulator for training manually controlled flight and planning autonomous missions. The simulator consists of a computer connected to the helicopter control system. This gives a very realistic experience and provides the ability to change the nature of the aircraft and missions without the risk of crashes or other incidents.

APID 60

APID 60 is a fully developed and tested unmanned helicopter that is ready for market.

APID 60 is the successor to the APID 55 developed for delivery to the United Arab Emirates, a contract that CybAero won in 2004. As part of the delivery to the United Arab Emirates, APID 55 underwent a rigorous testing program that took place over several years. The tests included numerous flight hours in demanding environments, which gave CybAero valuable experience in the continued product development work. The results of this extensive test program have been implemented in the new APID 60 model, which is therefore a robust and durable product.

We must emphasize that CybAero holds all commercial and intellectual property rights for the APID 60. In 2005 and 2006, Saab Aerosystems contributed some funding and technical know-how in the final stage of the development of the APID 55. In exchange, CybAero transferred the sales rights for APID 55 to Saab, with the exception of the Middle East. However, the APID 60 is a completely new product in comparison to the APID 55 (which was jointly established by CybAero, Saab Aerosystems and independent consultants) and CybAero therefore enjoys exclusive ownership of all product and marketing rights for the APID 60.

Technical specifications for the APID 60

APID 60 has the following technical specifications:

- Two-cylinder, two-stroke engine, 55 hp
- Length without rotor blades: 3.2 m
- Empty weight: 105 kg
- Maximum take-off weight: 160 kg
- Cruising speed: 110 km/h
- Maximum flying altitude: 10,000 feet AMSL
- Duration: 3-6 hours, depending on the type of mission
- Range: 50 km

The APID 60 can be operated in three different modes:

- Autonomous - pre-programmed flight from launch to landing using coordinates. Navigation is managed with the help of GPS. This is the normal form of operation.

- Semi-autonomous - helicopter operated remotely using the joystick, map and camera. The system automatically keeps

the helicopter stable. This flight mode is used when the opera tor needs to deviate from the pre-programmed route, for example to study an object closer.

- Manual - the operator must have visual contact with the helicop ter and also be trained in flying radio controlled helicopters. This flight mode is basically only used in connection with testing and tuning of a helicopter and virtually only by CybAero personnel.

APID 60 HF (with heavy-fuel engine)

In collaboration with Göbler Hirth CybAero has launched a unique diesel/heavy fuel engine for use in its autonomous, unmanned helicopters. The model with this engine has been designated APID 60 HF. First customer delivery of APID 60 HF is due in the summer of 2011 to the Spanish IT and Defense Group, Indra Sistemas, as part of the Pelicano collaborative project.

Heavy fuel or kerosene is a generic term for diesel-based fuel that is not as volatile as gasoline. Heavy fuel is preferred in marine applications, due to the need to avoid having highly volatile fuel aboard. The use of gasoline is completely banned in most of today's naval units. Another advantage of the APID 60 HF is that many armed forces endeavor to use the same fuel for their air, land and ground equipment. APID 60 HF can provide logistical gains, since the customer can easily connect the VTOL UAV to existing fuel supply systems.

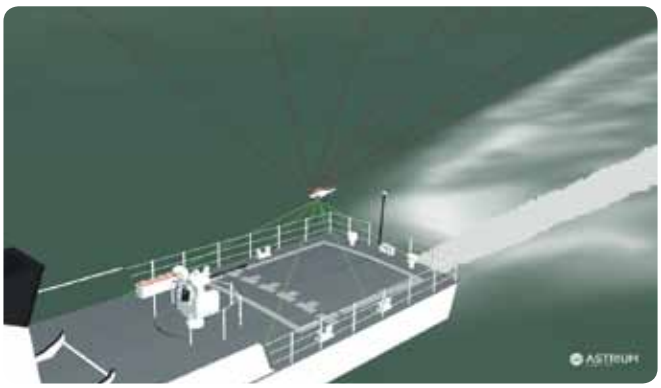
The development of this heavy fuel engine has its origin in an increasing demand from customers in the marine applications field. APID 60 HF is currently the only VTOL UAV to offer a safe, heavy-fuel solution. The new engine's enhanced safety, combined with CybAero's new MALLS landing system when flying from smaller ships and vehicles in motion, make the APID 60 HF unique. In addition, the new heavy-fuel engine also has exceptionally good performance-to-weight figures.

The remaining R&D for the heavy fuel engine involves the integration of the engine in the airframe (adjustment of engine mounts, et cetera) along with test and verification work.

MALLS

One of the most important applications for VTOL UAVs will be their use on ships. Landing on ships entails landing on small surfaces that are also moving, and this requires a sophisticated landing system. A similar application will be VTOL UAVs for the protection of road convoys, where the unmanned helicopter will take off and land on vehicles that form part of the convoy, and thus are in motion.

CybAero offers a patented technology for these applications called MALLS – Mobile Automatic Launch and Landing Station.



In combination with an automatic positioning system, MALLS makes safe unmanned helicopter landings possible on e.g. ships.

MALLS is a mobile, automated landing system that enables autonomous, unmanned helicopters to take off and land on moving surfaces, e.g. ships.

MALLS also makes it possible to equip smaller ships such as coastguard cutters with unmanned helicopter systems to provide them with enhanced capabilities. Coastguard cutters are sometimes too small for conventional helicopters, but MALLS allows the use of unmanned helicopters that can be sent aloft to investigate suspicious vessels and objects at close range, without the vessel having to deviate from its planned course.

What's more, in an engagement at sea the ship that sees the farthest and spots its enemy first has a decisive advantage. Ships equipped with unmanned helicopters have this advantage, both at sea and close inshore. A warship commander will have a better overview of the action when using a VTOL UAV system.

MALLS to be developed further in collaboration with Astrium (EADS)

The Astrium aerospace company, part of the EADS Group, specializes in satellites and other space technologies. Astrium had a turnover of EUR 4.8 billion in 2009, equivalent to about 11 percent of total EADS Group sales.

The APID 60 is adapted for use on smaller vessels, such as the Visby corvettes in the Swedish Navy or coast guard cutters. One of the challenges of using VTOL UAVs at sea is landing safely on small vessels that are under way.

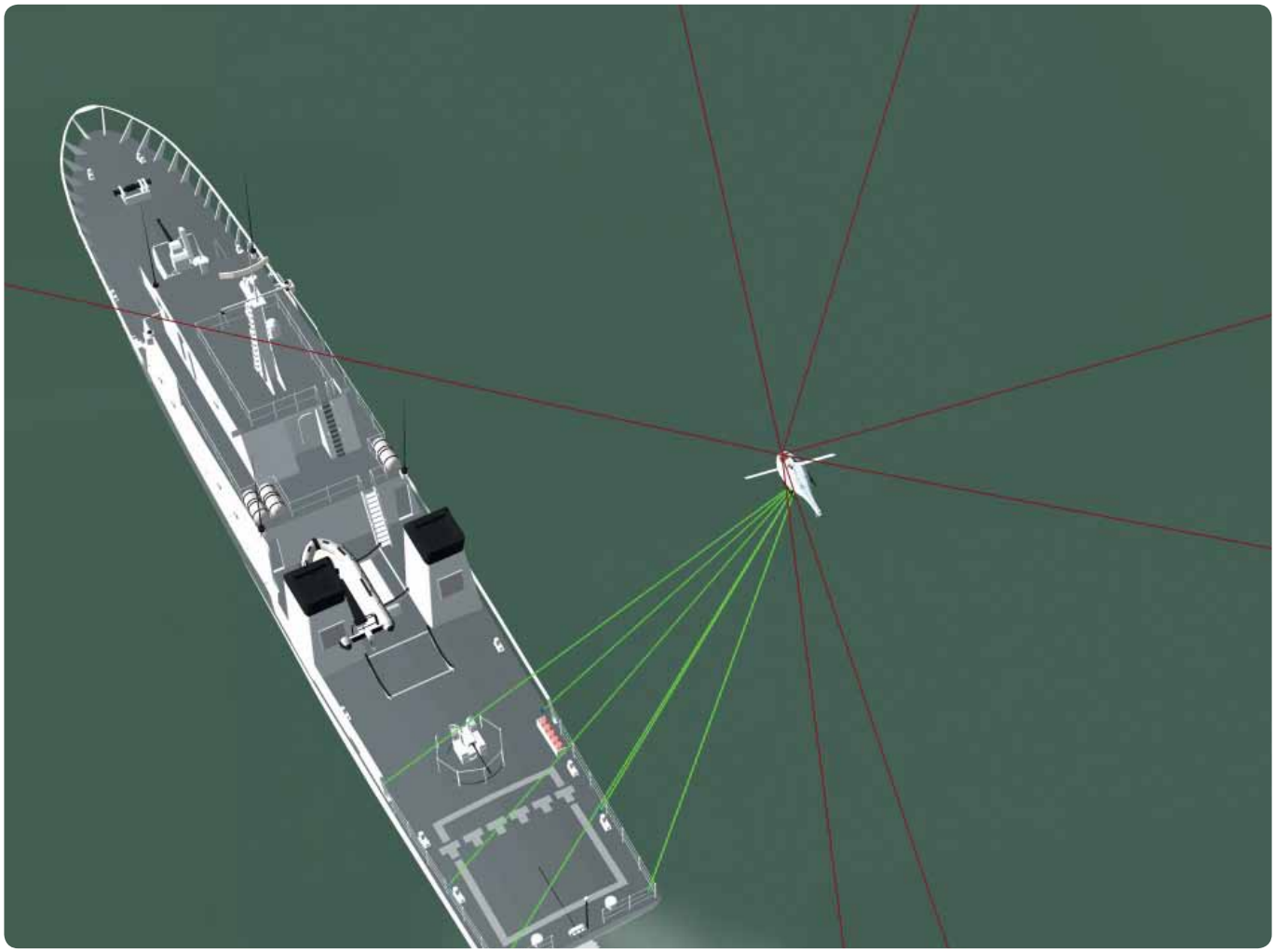
CybAero and Astrium have signed a letter of intent to develop an automatic positioning system for unmanned helicopters landing on vessels or other platforms in motion by using the same technical principles as satellite-based navigation systems. As part of its High-Precision Local Navigation System, Astrium has developed an application that is able to provide very accurate data regarding the exact position of a CybAero VTOL UAV in relation to the

landing platform. Based on Astrium's positioning system, the two companies will jointly offer a unique system that controls both the VTOL UAVs approach to the ship, its automatic landing and securing to the deck.

The same technology can be applied to landing on moving platforms on land. One of the objectives of the cooperation with Astrium is to develop a system that enables a VTOL UAV to take-off and land on moving trucks. This would allow the APID 60 to be included in convoy protection systems, as they will deploy from VTOL UAV transporters that form part of the convoy. This is a critical function in military and international peace-keeping operations.

The market for system solutions that enable VTOL UAVs to take off and land from convoys in motion is estimated to be significant. The customer value of being able to use VTOL UAVs for convoy protection is considered to be significant. Moreover, it will be difficult for users to find alternative solutions to VTOL UAVs for this particular function for the same cost and level of protection for the convoy. Therefore price sensitivity for systems of this kind is likely to be limited.

It is worth emphasizing that the collaboration between Astrium and CybAero means the latter has strengthened its bonds with the EADS Group.



By making use of signals from navigation satellites and local transmitters, an unmanned helicopter can be guided in to land on a ship under way with great accuracy and precision.

CybAero's operations

BUSINESS MODEL

CybAero develops, markets and sells autonomous unmanned helicopters, mainly to partners who use the aircraft as platforms upon which to integrate sensors and peripheral systems. The partners then sell on the completed systems to end customers. Thanks to their size, CybAero's partners are able to provide global service and support to end customers.

CybAero markets its products on the military side primarily with the aid of its partners. However, some military customers that require autonomous VTOL UAV systems with low levels of integration with higher-level systems are handled in house. Such marketing activity is planned to increase in intensity moving forward. End customers in the civil and commercial markets are handled either internally or through partners. A service operation is also being planned to enable marketing to certain civil customers.

Revenues from training, service and maintenance are expected to increase significantly as the number of delivered aircraft increases. Aftermarket revenues for spare parts and replacement parts are anticipated to be significant in the long term.

CUSTOMERS

VTOL UAV users can be sorted by areas of application:

- Defense applications
- Civil applications (primarily surveillance and security for various government agencies such as the Coast Guard)
- Commercial applications

Defense applications – sales via partners

For the foreseeable future military applications are estimated to represent a decidedly larger part of the total VTOL UAV market compared to the civil and commercial markets. End customers in military markets are various defense departments. CybAero approaches them though strategic alliances with various partners.

CybAero's partners are significantly larger companies than CybAero and they already have established sales channels to major end customers. CybAero's partners are also preferred suppliers of integrated defense systems in which VTOL UAVs form only a minor part in the system as a whole. These partners also have ser-

System layout showing the three main components that make up an unmanned helicopter system. The illustration shows the helicopter, the payload (a camera under the helicopter) and a convenient ground station.

Demonstration flight of an APID 60 from a ship.

vice organizations in place that are able to meet the requirements of the major defense customers that make up tomorrow's volume VTOL UAV users.

Defense applications – sales via in-house marketing

CybAero currently carries out marketing directly to certain military customers in specific markets, primarily regarding sales of the APID 60. These cases concern customers that require autonomous VTOL UAV systems that do not require the same high level of integration with overarching defense systems.

Civil and commercial applications

There are civil end customers in the various state and regional agencies such as the Coast Guard and emergency services, etc. In time, the number of potential customers in the civil and commercial markets is anticipated to exceed those of the military market, even though the emergence of a major commercial VTOL UAV market is still a long way off. CybAero will be able to approach end customers in this market directly or through collaboration with local partners.

On the civil and commercial side CybAero will also be able to provide more comprehensive services such as the integration of sensors for complete applications, helicopter operations and in time fully packaged service concepts. CybAero continues to participate in a number of civil projects such as landfill surveys in Linköping and the collection of environmental data in the Arctic.

SALES AND MARKETING

Ever since the foundation of the company CybAero has prioritized an executive leadership with a marketing background and a strong sales bent who will therefore want to take part directly in sales efforts. Our present CEO Leif Erlandsson was previously the company's VP of Marketing.

VTOL UAV sales can be sorted by areas of application:

- Defense applications
- Civil applications (primarily surveillance and security for various government agencies such as the Coast Guard)
- Commercial applications

Marketing-wise the sales of defense and civil applications take place through similar channels and in similar ways. However, there are certain differences regarding the sale of commercial applications.

VTOL UAV sales for defense applications

A large proportion of CybAero's future sales to end customers in the defense market is expected to take place through partners with whom the company collaborates strategically and to whom it delivers aircraft. However, CybAero also actively pursues sales to customers within the defense industry.

In defense industry sales, CybAero draws great benefit from its directors and the sound military background and contact network several of its board members have. Therefore the board actively participates in operative sales and marketing efforts through the establishment of contacts in connection with customer visits and demonstration flights, etc. In addition, CybAero has its own sales personnel who market to major defense industry customers.

Industry exhibitions also play an important part. CybAero regularly participates in major industry and defense exhibitions, both by exhibiting under its own name and in collaboration with partners. The company intends to increased its future participation in industry exhibitions as part of the intensified investment in proactive marketing initiatives for which the emission proceeds will be used.

Defense exhibitions that deserve special mention are the Farnborough International Airshow and the International Paris Air Show both of which take place in the summers of their respective alternate years. The Farnborough International Airshow takes place in July every other year just outside of London, England. The last airshow in 2010 attracted 108,000 visitors and orders worth USD 47 billion were signed in connection with the show. The Paris Air Show takes place in June every

Example of a transport solution for unmanned helicopters.

other year at Paris Le Bourget in France. The last exhibition in 2009 drew more than 2,000 exhibitors, 138,000 visitors and 3,000 journalists.

Other important exhibitions are Euronaval, which also takes place in Paris and is aimed at the naval defense industry, and IDEX (International Defence Exhibition and Conference) in the United Arab Emirates. In addition there is AUVSI (Association for Unmanned Vehicle Systems International), a special exhibition for UAVs in North America. CybAero has also exhibited at the world's biggest helicopter fair – Heli-Expo – and participated in the Dubai Air Show and IDEX in Abu Dhabi (2005).

CybAero has maintained a small sales office in the Middle East since signing a contract with the United Arab Emirates, with the aim of marketing in that part of the world.

VTOL UAV sales for civil applications

A major part of CybAero's sales of VTOL UAVs for civil applications are also anticipated to take place via partners. However, the company also actively pursues sales to civil end customers within selected areas of application and markets.

VTOL UAV sales for commercial applications

The greatest challenge presented by sales to the commercial market is in finding applications that are actually possible to implement given the severely restricted opportunities for flying unmanned aircraft in civil airspace. At the same time, the applications must provide sufficiently large customer benefit and the conditions for sales volumes that are adequate enough for CybAero to enjoy good profitability.

The obstacles to flying unmanned aerial vehicles in civil airspace are currently a major limiting factor. However, this may change in the future if e.g. work on MIDCAS enjoys success, although this is not expected to bear fruit until 2015 at the earliest.

CybAero's current commercial application marketing is based on finding narrow niche applications where it is possible to fly. Such sales take place chiefly through the company's own efforts and the projects often result in CybAero's deeper involvement in the actual development of applications than is the case with sales to defense and civil applications.

Example of CybAero sales to niche applications are the Tip Watch Project (Projekt Soptitt) in collaboration with Tekniska Verken in Linköping and the MAROFF program (Maritim virksomhet og offshore operasjoner - Maritime and offshore operations), which is part of the EUREKA Maridrone (Maritime Drones for cold areas) project.

PRODUCTION

The major part of the production of mechanical components is currently contracted to local sub suppliers. Electronic and electrical components are purchased from selected suppliers. Certain components and electrical harnesses are made in house.

The final assembly, evaluation, testing and commissioning of every helicopter is performed by CybAero personnel. Production capacity is planned to grow in the medium term through the addition of more personnel for final assembly, evaluation and testing, and by the further use of sub suppliers. The increased production capacity will only require a minimal investment on the part of CybAero, therefore the increase in capital required for assets necessary for the expansion of production capacity will be limited.

SUPPLIERS

The company uses as many off-the-shelf components as possible to keep production costs down without compromising product quality. The company avoids the use of American components and suppliers to the greatest possible extent in order to avoid potential future trade and export restrictions. Many of the company's most important suppliers are Swedish companies.

CybAero collaborates with carefully selected suppliers that are specialists within their areas of expertise for the supply of certain helicopter components.

CybAero has a number of strategic supplier collaborations, of which the most important are listed below:

Collaborative partners within R&D and production

Göbler-Hirth Motoren KG - www.hirth-motoren.de
Göbler-Hirth Motoren KG was founded in 1927 as Hirth Motoren

GmbH. The company manufactures two-stroke engines for small aircraft such as UAVs, and supplies the engine for the APID 60.

DST Control – www.dst.se
DST Control is a research offshoot from Linköping University and since its foundation in 1989 it has developed advanced electronic control systems for industry, pharmaceuticals, defense and aviation. The company supplies complete control systems and regulators and offers configurations of its standard products from the development phase to turnkey systems.

weControl - www.wecontrol.ch
weControl develops control systems for manufacturers within the civil and military UAV market. The company is a research offshoot from the ETH Federal Institute of Technology in Zurich, Switzerland.

Instrument Control - www.instrumentcontrol.se
Instrument Control plays an important part in the development of tomorrow's high-tech software such as the user interface for operators of unmanned aerial vehicles, GIS applications and 3D visualization systems. The company's personnel has many years' experience from previous employment with Saab.

SiMiCon - www.simicon.no
SiMiCon works with simulation, modeling and controls with a focus on the UAV sector. The company supplies products and services within the airborne data collection field where they use unmanned aerial vehicles.

PolyTech - www.polytech.se
PolyTech AB designs and manufactures gyro-stabilized camera gimbals for airborne image transfer systems. The products are used for remote surveying, security and surveillance missions and news gathering. PolyTech was founded in 1988 and has grown rapidly since. The company provides flight-certified product solutions for radiometry, power line inspection, fire supervision and environmental studies and focuses on the development and manufacture of camera systems.

AFTERMARKET AND SERVICE

A helicopter uses a large number of wear parts that are subjected to great stresses during flight. Because of the serious consequences a crash may have there are strict schedules stipulating the number of operating hours at which critical components must be replaced. If these component replacement schedules are not adhered to, the guarantees and insurances concerned cease to apply.

For this reason CybAero can count on a stable aftermarket for replacement parts and service arising from the installed base of sold helicopters. The proportion of sales arising from the aftermarket and service activities are expected to reach between 20 and 25 percent of total sales over time. In addition there will also be revenues from the training of new operators with customers.

PATENTS AND OTHER IPRS

MALLS seeks to make automatic landing possible on ships in difficult ambient conditions. CybAero holds an approved Swedish patent for MALLS (Mobile Automatic Launch and Landing Station) with the publication number SE 531 324. A PCT request has been submitted to the Swedish Patent and Registration Office and was followed up with applications to the European Patent Office (EPO) and the United States Patent and Trademark Office (USPTO).

CybAero has Swedish and international protection (WIPO) for the APID brand in the goods and services classes 9, 12 and 42.

CybAero intends to apply for new patents as necessary to protect technical advances made and to grow the value of intangible assets within the company.

ENVIRONMENTAL ASPECTS

CybAero endeavors to show the greatest possible consideration for the environment. Recycling and source-sorting come naturally as do our endeavors to minimize energy consumption. The company's products must be constantly improved to have the least possible impact on the environment. The products themselves contribute to significantly reduced energy consumption compared to manned aircraft. The products can also be used for the active monitoring or measurement of different types of discharges to atmosphere, land and water.

REGULATIONS FOR THE EXPORT OF DEFENSE MATERIEL

CybAero follows the legislation, regulations and recommendations issued by the UN and other international organs. In Sweden the production and export of materiel that can be used in warfare is governed by legislation, regulations and directives adopted by the Swedish Parliament.

Supervision is carried out by the Swedish Agency for Non-proliferation and Export Controls (ISP), a government body. All transactions CybAero carries out that are subject to this legislation must therefore be approved by the Swedish state. Moreover, CybAero acts in compliance with legislation in the countries where it operates. Currently, the company's products are sold chiefly to military customers on the international market. This places especially strict demands on the company. CybAero's ambition is for its products to contribute to minimizing the loss of human life and material damage in the event their use in war.

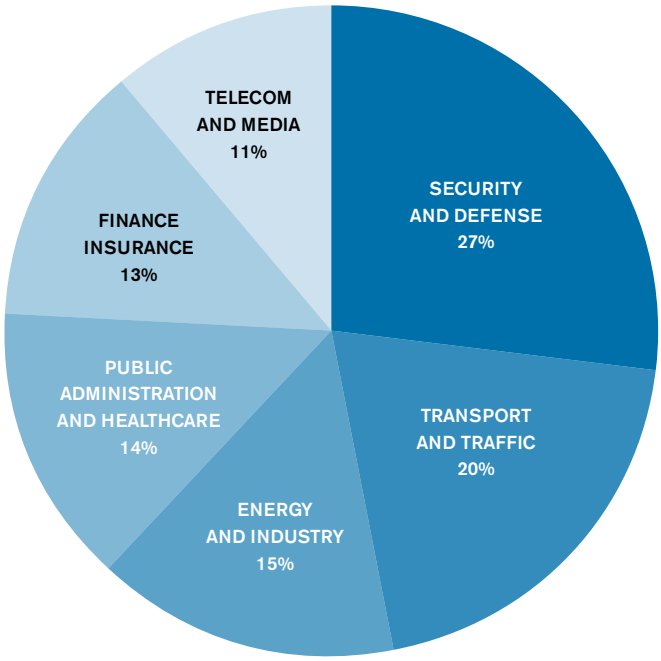
Cooperation agreement with INDRA

INDRA IN BRIEF

Indra Sistemas is Spain's leading IT company with multinational operations in both Europe and Latin America and customers in over 100 countries. In 2009, Indra achieved total sales of EUR 2.5 billion (about SEK 22 billion) with 26,000 employees.

The Indra Group was founded in 1993 and has been listed on the stock exchange in Madrid since 1999. Within its sector, Indra is Europe's second-largest company by market capitalization and Spain's second largest company based on budgets for research and development.

Indra's sales distributed across business sectors



Indra's largest business area is Security and Defense, which accounts for about 27 percent of its total sales. The cooperation agreement with CybAero pertains to this business area where Indra has an impressive client list with customers such as the Spanish Defense Ministry, Spanish Air Force, Spanish Navy, U.S. Navy, German Navy, Raytheon, EADS, General Dynamics and Lockheed Martin.

Indra's second largest business area, Business Transportation and Traffic Management Systems also has interests in common with CybAero. The company has delivered more than 1,000 flight management systems to over 80 countries and more than 150 flight simulators to 39 customers in 15 different countries. Indra also led the development of the tactical UAV system that the Spanish Army uses in Afghanistan.

BACKGROUND TO COOPERATION WITH CYBAERO

The cooperation project between Indra and CybAero was originally initiated by the Spanish Navy which will bring four new BAMS class frigates into service in the coming years. The Spanish Navy has identified a need for a number of unmanned helicopter systems to be installed on these frigates. The Spanish Ministry of Defense has assigned Indra Sistemas to supply these helicopter systems.

Indra held discussions with a number of potential suppliers of VTOL UAVs for the project. After a long period of evaluation, it decided to proceed with CybAero as partner and dedicated supplier of the VTOL UAV for these helicopter systems. The companies signed a teaming agreement in 2008. In the summer of 2010, the companies moved toward deeper cooperation by signing a development and supply agreement, namely the subcontract that describes a collaboration aimed at developing a VTOL UAV under the brand Pelicano, based on CybAero's VTOL UAV APID 60.

The Pelicano development project is funded jointly by Indra and the Spanish Ministry of Industry, Commerce and Tourism. The Pelicano helicopter system will be a unique, autonomous helicopter system developed for marine applications with the ability to take off and land on vessels.

COLLABORATION OBJECTIVES

The Pelicano system is based on CybAero's proprietary unmanned APID 60 helicopter. The system's range of applications makes the helicopter platform a unique product that meets the requirements of several different countries.

The Pelicano system will be developed for use in several important tasks such as:

- protection of personnel, both at sea and on land, reconnaissance and patrol at sea, humanitarian missions and operations against pirates,
- border control, drug smuggling reconnaissance, surveillance, intelligence operations, traffic control, emergency management, monitoring of fires and natural disasters and rescue missions, etc, and
- civilian applications such as cartography, inspection of infrastructure and the inspection of power lines, pipelines and production facilities.

The Pelicano system will be tailored for the Spanish Navy's needs, but will naturally be offered to other potential customers with vessels of similar types. Even smaller coast guard cutters, such as those used by the Spanish and Swedish Coast Guards will belong to the target group.

Pelicano will be a globally unique VTOL UAV fully adapted for use on smaller vessels. It is the world's first aircraft of its size built with a heavy fuel engine, i.e. one that runs on low-volatility kerosene, or in its civil applications, diesel.

In summary, CybAero will develop a helicopter platform which will then be fitted with sensors and avionics by Indra to achieve a fully customized VTOL UAV system, prior to delivery to the end customer. This is a perfect example of CybAero's new strategy of reaching the market primarily through strategic partnerships.

EXPECTED PROGRESS

CybAero made the first delivery of a pre-series system to Indra in the fall of 2010. The system was a slightly modified APID 60 helicopter for use as a platform for flight tests while developing and certifying the final version of the Pelicano system. In 2011, further test work and final development of the definitive version of the Pelicano system will take place. In the summer of 2011, the first Pelicano system prototype with a heavy fuel engine will be delivered, which will be a milestone in the development work.

The aim is to have the Pelicano system ready for operations, initially by the Spanish Navy, in 2012 when the commercial phase of the project is expected to begin. CybAero anticipates that the current Pelicano project objectives will result in direct orders ranging from single figures to a few dozen helicopters.

If the Pelicano system is an operational success Indra will put its contacts with a large number of additional potential customers to use. Hence, the Pelicano project may ultimately lead to much higher order volumes for CybAero. However, it is thought that such progress will take place from 2013 onwards at the earliest.

Indra test flying an APID 60 as part of the development of the Pelicano system.

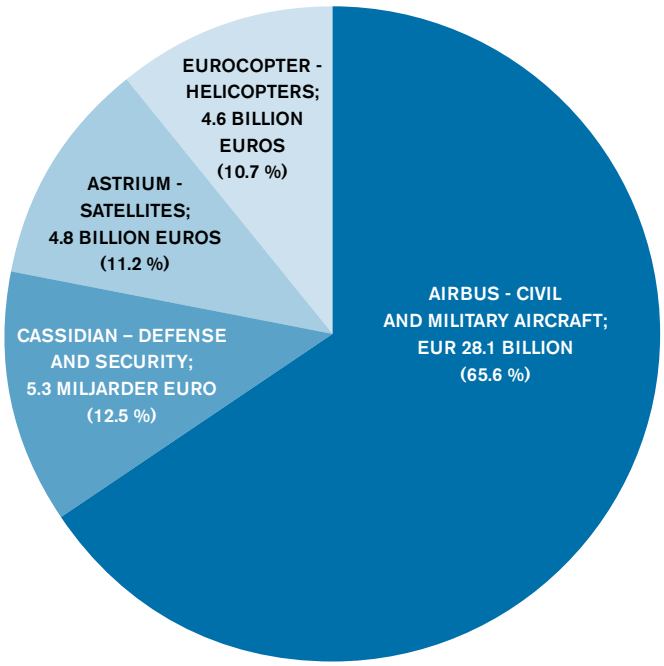
Cooperation agreement with EADS

EADS IN BRIEF

EADS is Europe's largest and world's second largest aerospace group. It comprises Airbus, Cassidian (formerly EADS Defense & Security), Astrium and Eurocopter. The holding company for EADS Group is headquartered in Leiden in the Netherlands. EADS had sales in 2009 totaling EUR 42.8 billion (about SEK 375 billion) with 119,500 employees. About 75 percent of the Group's sales were in the civil sector and the remaining 25 percent in defense and security.

Airbus is by far the largest company in the EADS Group. In 2009, Airbus sales amounted to around EUR 28 billion. The remaining Group companies are roughly equal in turnover. Cassidian had sales of EUR 5.3 billion in 2009, Astrium, which mainly manufactures satellites, had sales of EUR 4.8 billion and Eurocopter, which is one of the world's largest helicopter manufacturer, had sales of EUR 4.6 billion.

EADS' sales distributed across subsidiaries



Cassidian

Cassidian, formerly known as EADS Defence & Security, develops defense and security solutions for air, land and naval environments. As a system integrator, Cassidian designs systems that include both manned and unmanned aerial vehicles. Cassidian is Europe's clear leader in the UAS (Unmanned Aerial Systems) area.

Cassidian is the EADS Group's second largest division with 28,000 employees and annual sales of EUR 5.3 billion (2009). The head offices are in Unterschleissheim, Germany and Elancourt, France, and in addition there are several offices in Europe, USA, India, Mexico and the Middle East.

BACKGROUND TO THE COLLABORATION WITH CYBAERO

Cassidian currently makes several proprietary unmanned aerial vehicles, for the most part fixed-wing UAV types. Cassidian's objective is however to complement its product range with a VTOL UAV that is able to carry relatively large payloads.

Cassidian turned to CybAero in order to draw benefit from the latter's considerable experience in developing autonomous VTOL UAVs. The companies intend to jointly develop a new VTOL UAV helicopter under the project name ALCA.

COOPERATION OBJECTIVE

The project's objective is to develop a new unmanned helicopter in relation to CybAero's proprietary VTOL UAV, the APID 60. The ALCA helicopter is intended to have a take-off weight of about 300 kg (APID 60 has a maximum take-off weight of about 160 kg). ALCA will thus be able to carry larger payloads, such as more advanced sensor systems and more fuel to enable longer flights.

ALCA DEVELOPMENT PROJECT IMPLEMENTATION

The project was initiated in November 2010 with flight demonstrations and tests of CybAero's current model, the APID 60. Development of the new ALCA helicopter is expected to continue during 2011 and 2012 with design and test flights.

Actual ALCA development is divided into a sequence of separate design blocks. Each design block will be performed by CybAero based on a separate order from Cassidian. It is important to recognize that every order for a new design block is conditional on, and subject to, Cassidian's approval of the previous design block.

The order for the first design block was placed by Cassidian in spring 2011. The development work of the first design block is

limited in volume, while the second design block, which is provisionally scheduled for the fall of 2011, is expected to be a much larger order.

ANTICIPATED PROGRESS

The commercial phase with volume orders for completed unmanned helicopters is expected to commence in 2013 at the earliest.

It is still too early to make specific assumptions about any long-term order volumes the EADS project may result in. But it should be noted that EADS is one of the largest and most significant suppliers to the European armed forces in particular, and that the future market outlook for VTOL UAVs is bright. If the ALCA development project achieves success, it may ultimately bring in significant order volumes for CybAero. ►

CybAero successfully carried out a delivery flight of an APID 60 for Cassidian during a snowstorm in December, 2010.

Competitors

Today's major aircraft manufacturers are showing an ever greater interest in the UAV market as it is demonstrating strong growth and also acting as the driving force behind new, advanced spearhead technologies. Today, most players are focused on fixed-wing aircraft, and these do not compete with CybAero. There are only a small number of manufacturers that compete with the company's market niche and only a few of these are able to fly autonomously.

However, interest in VTOL UAVs is growing as a result of urban warfare experiences in e.g. Iraq and Afghanistan and the aspiration of being able to operate from ships.

BREAKDOWN OF COMPETITORS

It is worth noting that there are a large number of VTOL UAV research and test programs at technical universities and colleges around the world. However, there is a great deal of difference between performing various flight tests with prototypes and becoming an established supplier of reliable aerial vehicle systems.

VTOL UAVs: General characteristics

A UAV system includes three main components: an aircraft, a payload (on the aircraft) and a ground station from which the aircraft and its payload are controlled. The latter often comprises more complex, expensive elements. Depending on the mission, UAV performance is determined mainly by the following parameters:

- Altitude
- Endurance
- Speed
- Operating range
- Payload capacity
- Sound and radar signatures

VTOL UAVs: two weight categories

VTOL UAVs can be divided into two (somewhat simplified) categories.

- Large VTOL UAVs, MTOW > 1,000 kg
- Small VTOL UAVs, MTOW < 300 kg

Note that there is a gap between large VTOL UAVs and small VTOL UAVs, where there are currently no suppliers.

The large VTOL UAV segment is dominated by American military industrial companies such as Boeing with its Hummingbird helicopter, Northrop Grumman with the Fire Scout helicopter, and Lockheed Martin. The systems are predominantly big, complicated and heavy since they are often converted manned helicopters. Thus none of the systems are in the same weight category as APID. The American military has binding agreements with these companies and places conditions for exclusive rights on projects. There is probably only a very limited civil and commercial market for such UAV systems today.

CYBAERO'S COMPETITORS

CybAero only competes in the small VTOL UAV segment where the most important competitors are as follows:

Schiebel, Austria

Schiebel's main product is CAMCOPTER® S-100. It is in the same weight class as APID 60, but is more expensive and has partly different performance. Schiebel has been developing VTOL products since 1998 and also has mine clearance products. CAMCOPTER® S-100 was developed in collaboration with the United Arab Emirates' Ministry of Defence through an agreement signed in 2002/03, i.e. just over one year prior to the agreement reached between CybAero and the United Arab Emirates' Ministry of Defence. After the product had passed its acceptance test in the United Arab Emirates, the customer ordered 60 systems. Schiebel has collaboration agreements with Boeing (USA) and Thales (UK).

Saab Aerosystems, Sweden

During the past ten years SAAB has produced a number of fixed-wing research aircraft. A collaboration was entered into regarding a CybAero helicopter platform where Saab contributed some financing and technical know-how after which the Skeldar V150 was developed (skeldar means shield in Old Norse) which is in the same weight category as the APID 60. Saab is currently developing its successor, the V200, which is heavier and has higher performance. Saab has cooperation agreements with Swiss UAV and Ultra Electronics (UK).

Swiss UAV, Switzerland

Swiss UAV is a relatively newly formed company that has established itself as a research and development center for VTOL UAVs. The company has two product lines, the NEO S-300 and KOAX X-240 which the company says they have enjoyed success with. The company addresses itself to both the civil and military markets; the company is also in partnership with Saab Aerosystems.

CYBAERO'S COMPETITIVE ADVANTAGES

The board of directors considers CybAero to have many competitive advantages, and these can be divided into competitive advantages specific to the product and those specific to the company.

Product-specific competitive advantages

Within the area covered by product-specific competitive advantages, CybAero, has developed a robust, reliable product in APID and its subsequent customized versions thanks to its demanding

customers and enduring development and test efforts. APID has many concrete product advantages compared to its competitors.

Low operating costs add up to good overall economy

APID is easy to service and thus has low operating costs. The product is designed to be simple to dismantle and perform service on using only standard tools readily available in the field. Some of the competitors demand that their helicopters be transported back to the factory for service after a given number of operating hours. This reduces the availability of purchased systems and results in significantly higher operating costs and therefore higher overall costs for an investment in their system. It's a different story with APID; once the helicopter has left the factory it need never be shipped back as all service can be carried out in the field.

Heavy-fuel engine for naval applications

It is thought that one of the most important VTOL UAV applications will be operations from ships. Fire is a major risk on every ship and therefore efforts are made to avoid having flammable substances on board. CybAero enjoys a great advantage compared to its competitors in that it has developed the APID 60's engine to run on diesel (a high flash point fuel).

MALLS landing platform

CybAero has taken out a patent on its MALLS landing platform. The platform makes landing on moving surfaces possible, e.g. on ships or trucks that are part of a convoy. This means that entry into this field is made difficult for CybAero's competitors as barriers are raised by the patent, which is an advantage for CybAero.

APID 60 created for extreme weather conditions

The collaboration with the United Arab Emirates together with the MAROFF flights means that APID has been tested in extreme weather conditions such as desert heat with airborne sand particles and severe cold. Thus APID 60 enjoys a robustness and reliability that its competitors may lack.

Company-specific competitive advantages

Small organization

CybAero is a young, nimble company with a small organization and short decision paths. This means CybAero enjoys a flexibility and speed that larger organizations often lack.

Operative board competence

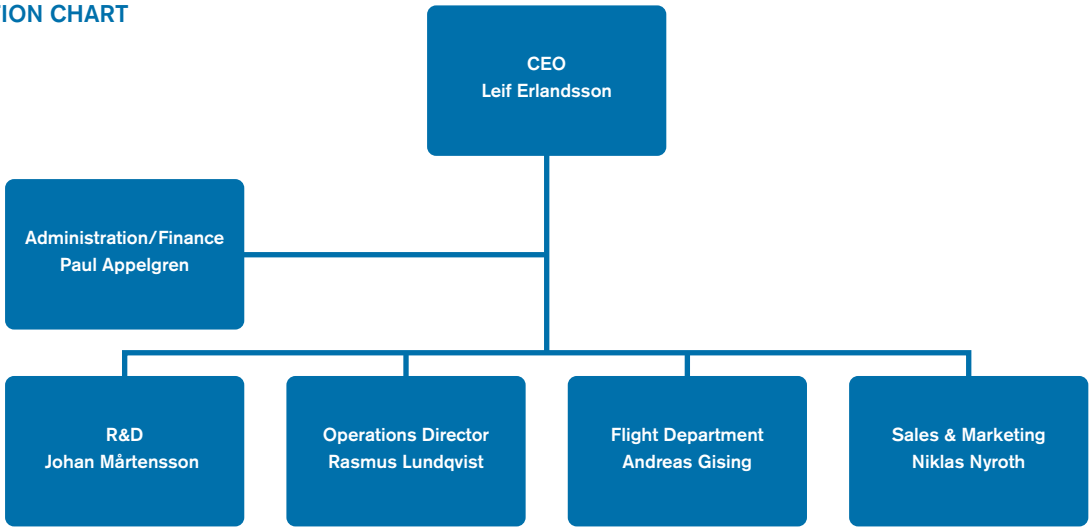
CybAero's board has great experience in the purchasing of defense materiel for military organizations and a large contact network within the industry. The company's board members, especially those with a military background, often take part in company sales efforts such as meetings with customers, which is a great advantage when marketing to defense departments where personal networks and credibility in technical military issues can be crucial.

Access to venture capital

CybAero is listed on NASDAQ OMX First North, which makes access to venture capital possible. CybAero may require working capital to finance rapid growth and thus achieve a dominant global position in the VTOL UAV segment, especially in a future scenario when the VTOL UAV market takes off.

CybAero's operational structure

ORGANIZATION CHART



CybAero has concentrated all of its operational activities to its headquarter location in Linköping. The production department, which falls under the Operations Manager's area of responsibility, will be expanded to prepare for an expected increase in sales and subsequent deliveries of VTOL UAVs in the coming years. It is worth noting that CybAero recently recruited Niklas Nyroth as its new Sales Manager. Mr. Nyroth was previously sales manager at Schiebel, a market leader in the VTOL UAV industry.

Flight operations division

The Flight Operations division is a newly created department. It is tasked with supporting the sales organization in the performance of demonstration flights for customers. It will also support the delivery department in performing acceptance flights of complete system deliveries to customers. In addition, it will support the R&D department in test flights of the various VTOL UAV systems under development.

CYBAERO'S EMPLOYEES

The company has a small but effective organization with highly skilled employees. Currently, CybAero has 15 employees, a number that has remained virtually unchanged over the last five years. In addition, the company hires consultants to varying degrees. The personnel break down as follows, including consultants:

- Research and development, 4 people
- Production and manufacturing, 3 people
- Flight department, 4 people
- Marketing and sales, 3 people
- Finance & Administration, 1 person

A workforce expansion is currently is under way as a result of the development agreements with Indra and Cassidian. Recruitment of an electronics designer, a mechanical design engineer and a production manager is in progress.

Competence

Personnel in CybAero's R&D department have a high level of expertise and experience in the aeronautics field, especially in helicopter technology. Furthermore, R&D personnel have great expertise in product development, particularly in engineering materials science and mechanics.

In recent years, people with great experience in the field of international sales and marketing and also in the management of high-growth companies have joined the company. CybAero's board of directors has been bolstered by people with military backgrounds.

PERSONNEL RECRUITMENT

The company will continue to recruit personnel in the years ahead, particularly to the flight operations department and the production organization. A specific competence that needs to be recruited is mechanical engineers specialized in the aviation field. Linköping is however a good recruitment area for this particular competence, since it is a national center for educational programs in this field.

In a general perspective, CybAero is considered to be an attractive employer. This is demonstrated e.g. through the number of unsolicited applications for employment that are received from qualified individuals who are currently active in the aviation industry. Moreover, many students on technical university courses do their master's theses at CybAero.

As CybAero increases sales and consequently reaches a more stable financial basis, it expects its popularity as an employer to increase even further. This will further strengthen the Company's ability to find the right skills for its continued expansion. This should also apply in situations where there is a potential shortage of qualified personnel in the aviation industry, such as certain categories of aviation engineers and technicians.

Personnel incentive programs

CybAero has adopted a profit sharing program for 2011 that gives employees the right to 10 percent of EBITDA earnings as a bonus. For personnel holding senior positions, a similar profit-sharing program will be implemented, which will however be supplemented by personal evaluation criteria.

CybAero intends to continue to make use of personnel incentive programs in the future, but they will be reviewed annually to be adapted to the specific circumstances the Company is in at that time.

CybAero's development from start-up to the present day

Like many a developing company, CybAero has had to come a long way to reach the point the company is at today. The journey here was long, and included a few sidetracks. The road never led straight ahead, but it seldom does for a start-up company.

However, every activity and every step of the way helped in some way to move the company forward and amass a huge fund of experience to draw from. This applies not only to the actual technology behind the aircraft, but also to the experience the company has gained from different customers and the challenges that exist for enterprises in this specific industry.

Here is an account of the major waypoints in CybAero's development that have brought the company to where it is today.

RESEARCH AT LINKÖPING UNIVERSITY INSTITUTE OF TECHNOLOGY

The foundation to CybAero's business operations was laid in 1992 when the then Swedish Defence Research Establishment (FOA) allocated a research assignment to Linköping University Institute of Technology. There was a requirement for a small helicopter that was able to carry electronic jammers. This lead to the development of a control system for the helicopter solution that would keep the jammer airborne. The R&D work eventually led to the first entirely computer controlled (autonomous) flight in 1997.

SCANDICRAFT AB

The company Scandicraft AB was formed to commercialize the results of the research. Development work continued with financing from private venture capital and support from the public innovation system; a number of prototypes were produced which were designated Mk 1, Mk 2, etc. up to Mk 5. The Mk 5 in particular formed the basis for the APID 55 that was later sold to the United Arab Emirates.

However, the market was not yet ready for the R&D being pursued by Scandicraft AB. Without customer revenues it was no longer possible to carry out further R&D and Scandicraft AB was forced to file for bankruptcy protection in 2002. Norwegian investors then bought out the rights and founded CybAero in 2003.

THE CONTRACT WITH THE UNITED ARAB EMIRATES

CybAero's expansion began in the summer of 2004 when the company signed the first major contract with its reference customer, the United Arab Emirates Armed Forces, regarding the delivery of seven APID 55 systems. The contract involved new technical challenges and the further development of the unmanned helicopter. These efforts resulted in a finished product in 2006 that better met the customer's requirement specification, and deliveries continued during the spring of 2007. In order to achieve better contact with customers in the Middle Eastern market CybAero formed a regional sales company in 2005 called UAV Middle East FZCO (UAV ME) based in Dubai in the United Arab Emirates.

As of 2007 onwards deliveries to the United Arab Emirates (UAE) were delayed chiefly for administrative reasons. The planned acceptance flights that were to have been carried out during the fall of 2007 had to be postponed as the customer established a new organization – Abu Dhabi Unmanned Aerial Vehicles Investment (ADUAVI) – which is tasked with administering the contract with CybAero, among others. The reorganization meant that introduction, review, evaluation and approval of the system had to be carried out for new personnel at ADUAVI, which resulted in severe delays.

At that point new administrative problems arose. In particular access to the test airfield in the UAE was severely limited which further delayed product tests and trimming in the singular climate that pertains in that part of the world. Therefore the major part of the tests and verification works came to be gradually moved to the CybAero test field in Sweden.

The contract was dormant for most of 2009 and 2010. However, talks were held with the customer in a positive spirit regarding how to complete the deliveries. It is worth emphasizing that throughout this period the customer continued to show great interest in CybAero and the company's system, despite the delays that occurred in relation to the original delivery schedule. Our enduring efforts to maintain good relations with the customer finally paid off and at the beginning of 2011 the customer and CybAero agreed to resume delivery of helicopters. Six helicopters remain

Mk1.

Mk2.

Mk3.

to be delivered under the scope of the contract with an expected positive contribution to CybAero of around SEK 5 million.

DEVELOPMENT COLLABORATION WITH SAAB AEROSYSTEMS

The challenges involved in readying APID 55 for delivery to the United Arab Emirates led to an acute liquidity crisis for CybAero in the middle of 2005. Therefore during the final APID 55 development phase Saab Aerosystems contributed certain financing and technical know-how in 2005 and 2006. CybAero then transferred the APID 55 sales rights to Saab, with the exception of the Middle East. The collaboration meant that CybAero was able to complete the APID 55 and begin deliveries to the United Arab Emirates.

As part of the deliveries to the UAE, APID 55 underwent a rigorous test program lasting several years. The tests included many flying hours in demanding environments, which provided CybAero with valuable experience in its ongoing R&D efforts. This experience was incorporated in the entirely new APID 60 model which is a robust, durable product as a result.

It is worth mentioning that CybAero possesses all of the rights to the APID 60. CybAero and Saab reached agreement in February 2011 in an earlier dispute regarding the APID product rights. In an agreed review for which an external expert was engaged, CybAero and Saab have jointly and irrevocably declared that there is nothing in the current APID 60 that breaches the agreement the parties reached in 2005 regarding rights in respect of the APID 55. In other words, Saab and CybAero agree that CybAero is free to market the APID 60 and future products without hindrance from Saab AB.

VANTAGE AND THE COLLABORATION WITH THE US NAVAL RESEARCH LABORATORY

In August 2007 CybAero entered into an agreement with the US Naval Research Laboratory (NRL). NRL is the American corporate research laboratory for the US Navy and Marine Corps and has many years' experience in the development of autonomous vehicles. NRL had developed the Vantage unmanned helicopter on behalf of the United States Navy. The helicopter was in the same weight class as APID, but with different characteristics and performance.

Mk4.

Mk5 - the forerunner to the APID 55.

The agreement meant that CybAero would develop the helicopter further and complete it in collaboration with NRL. CybAero started a subsidiary for this purpose in the USA, CybAero LLC. CybAero would subsequently gain sole manufacturing and sales rights for Vantage throughout the world, including the American market, which is the world's largest.

A successful test flight of the CybAero Vantage was carried out in February 2008. In addition CybAero was granted certain development support from NRL in April 2008 for the continued development of Vantage, and an order was received in August 2009 from an American systems integrator.

However, during the course of 2009 CybAero noted that the remaining Vantage development work was considerable and the product had further to go before market launch than was first thought. Because CybAero had also entered into a cooperation agreement with Indra during 2009 the company took the decision in the beginning of 2010 to focus solely on its proprietary APID 60 model and cancel its Vantage initiative. In this connection a decision was also taken to wind up the American subsidiary CybAero LLC. The intention is to enter the American market in the future with an aircraft system developed in house.

CybAero in the media

DefenseNews

In an article ”UAVs: A Military Bargain?” in the December 2010 issue of the recognized defense journal Defense News , the journalist writes that the current positive trend for UAVs may lead to a big boost for CybAero. The journal reports that defense budgets in the EU are expected to decline by 5 percent in 2011, but this does not apply to budgets for procurement of UAV’s. For UAVs, a budget increase of 25 percent is expected instead.

One of the reasons mentioned concerns defense actions against roadside bombs in Afghanistan. National defense forces are reported to be more inclined to invest in sensor systems that can be carried by unmanned helicopters to detect roadside bombs, than building stronger vehicles that can withstand blasts from roadside bombs.

Furthermore, the journal notes that CybAero has signed important cooperation agreements with Indra and EADS.

The journal has also interviewed independent industry analysts. They say that even though CybAero is a small company at present, it may well become the market leader in the VTOL UAV segment, in part because as a listed company it can more easily finance its expansion by raising the necessary capital.

Linköping - The Aviation Capital of Sweden

Linköping became the cradle of Swedish aviation when "Baron" Carl Cederström set up the country's first flying school on the meadows at Malmen. Today Linköping is Sweden's aviation capital with world-class R&D capabilities that only a few countries enjoy.

Linköping provides opportunities for flight testing under the auspices of the Defence Helicopter Wing, the Air Combat Training School, the Defence Materiel Administration, the Defence Research Agency (FOI) and aviation technology training and research at the Linköping Institute of Technology, plus a number of companies that work within the aviation industry on everything from R&D to aircraft maintenance.

Linköping University

Linköping University has campuses in Linköping and Norrköping at the very center of Sweden's fourth largest conurbation. The university has 27,600 students and 3,800 employees, making it one of Sweden's largest. It's worth noting that Linköping University is the third largest seat of learning in the country regarding science and technology, counted by the number of students. Just over 10,000 students study science and technology there.

Linköping University has pursued research into autonomation for the past 15 years, especially within aviation and specifically regarding helicopter technology. The research has a major international element and is among the world's most prominent. Among others the Knut and Alice Wallenberg Foundation has provided a project called WITAS funding in the amount of SEK 100 million. The project focused on autonomous systems, especially in the VTOL field, i.e. CybAero's core field.

Saab

Saab has annual sales of SEK 25 billion and just over 13,000 employees, of whom just short of 11,000 work in Sweden. Saab's head office and the major part of its workforce are located in Linköping. The company was originally founded to provide the Swedish Air Force with domestically developed aircraft, and it has developed a number of combat aircraft since. The JAS 39 Gripen became the world's first fourth generation combat aircraft when it was launched in 1988.

Since January 1, 2010, Saab has been divided into five business areas: Aeronautics, Dynamics, Electronic Defence Systems, Security and Defence Solutions plus Support and Services.

Defence Helicopter Wing

The Defence Helicopter Wing was formed in 1998 when all of the Swedish Armed Forces' helicopter assets were organized into a single unit. Today the unit comprises three squadrons; the wing's headquarters and one squadron are located at Linköping, and the remaining two squadrons are stationed in Luleå and Ronneby. The wing's duties include the development and training of a reaction force with the ability to operate over both land and sea with its own command and maintenance capability. The wing must be able to operate in national and international theatres.

The wing is stationed at Malmslätt on the outskirts of Linköping close to the Mjärdevi Science Park and the university.

Air Combat Training School (FlygS)

The Air Combat Training School has been located at Malmen field – Sweden's largest military airfield – since July 1, 2003. Today the school trains tomorrow's Air Force combat pilots. Trainee combat pilots spends their first two years of training at FlygS.

Defence Materiel Administration (FMV)

FMV is an autonomous authority that reports to the Swedish Ministry of Defence. One of FMV's areas of responsibility is to provide the Swedish Armed Forces with materiel, systems and methods that are equal to the mission. FMV also represents the state in complex international transactions. It also has customers in the civil sector and there is a validation and verification center at Linköping. FMV is also located at Malmen field.

Defence Research Agency (FOI)

FOI is Sweden's biggest research institute; it conducts research on behalf of the Swedish Ministry of Defence. Its core operations are research, the development of methods and technologies, and security and defense studies.

The FOI unit in Linköping houses two research divisions: Command and Control Systems and Sensor Systems. Among other things, FOI undertakes research into:

- Electronic warfare
- Communications systems.
- Decision Support
- HSI, i.e. Human/System Interactions.
- Navigation
- Electro-optical sensors
- Radar sensors

These are all areas of interest from CybAero's standpoint.

In addition to Saab and CybAero there are around sixty technology-intensive companies in Linköping, all of which pursue aviation-related business activities.

The Board

Mikael Hult
Chairman of the Board since 2010, board member since 2004
Mikael Hult (born 1955) was employed as CybAero CEO during the period July 1, 2004 to May 1, 2010. Hult already had long experience from start-ups in a number of companies such as Instrutec AB, PS Presentation System AB, and Surgivision AB. Hult also worked for approximately 8 years with Innovation System in Sweden, as a business advisor at Mjärdevi Science Park AB (1997-99), as a business advisor and investment manager at Teknikbrostiftelsen Linköping (1997-2001), and as the CEO of Mjärdevi Business Incubator AB (2001-2004). Today he is the business Development Director at state-owned Innovationsbron AB responsible for the Incubation business area, i.e. support and development of the country's company incubators.

Mikael Hult owns 3,251,030 shares in CybAero privately and through companies.

Claes Drougge
Board member since 2009
Claes Drougge (born 1960) has been a board member since 2009. He has been active as an entrepreneur and owner of several high-tech companies for more than 20 years. Today he is the CEO of Tapiren Survey System AB and Ocean Modules AB among others; both companies do business in the underwater technology field. In addition to his great business and entrepreneurial experience Drougge is also an active politician and is a member of several political bodies.

Claes Drougge owns no shares in CybAero.

Fredrik Hillelson
Board member since 2008
Fredrik Hillelson (born 1941) has been employed by CybAero since the fall of 2007. Hillelson was Chairman of the Board at CybAero between 2008 and 2010. Hillelson has a long military career behind him which includes the command of the amphibious unit KA 1 (now Amf 1); Head of Swedish headquarters strategy department and Defense Attaché and Head of the Swedish Military Delegation at NATO headquarters and the VEU Defense Committee in Brussels. Today Hillelson is CEO of Defence Consulting Europe, a company that develops special naval vessels.

Fredrik Hillelson owns 123 407 shares in CybAero.

Mats Westin
Board member since 2010
Mats Westin (born 1952) has been a board member since 2010. Westin has many years' experience in the Swedish Armed Forces, e.g. as Commander of the Navy's 11th Helicopter Squadron and Commander of the Helicopter Wing. Westin has also held different commands within the Coastal Artillery, the Amphibious Corps and various executive positions within the Defence Materiel Administration. Westin is also a qualified helicopter pilot.

Mats Westin owns 50,000 shares in CybAero.

Leif Erlandsson

Board member since 2010, CEO since 2010

Leif Erlandsson (born 1958) took up his position as CEO of CybAero in May, 2010 and had previously assisted the company with support, chiefly to the marketing department and CEO. Erlandsson brings with him long experience as a CEO and other executive positions in such international operators as ASEA, SPV-Eminent and LILL Hotel Interiors. He built up the technology company Innovativ Vision from 1998 until 2008 as CEO and part owner, increasing its sales from SEK 15 million to 150 million. He has run his own consultancy since 2008 focusing on the development of small, technology-based companies. Previously he was also active as a business coach at the LEAD business incubator in Linköping. Erlandsson is also an active entrepreneur and part owner of three start-up companies; Entrans AB, Bluehand AB and Nitan AB.

Leif Erlandsson owns 820,266 shares in CybAero.

Anna Öhrwall Rönnbäck

Co-opted board member since 2010

Anna Öhrwall Rönnbäck (born 1969) has been a co-opted board member since 2010. In 2002 she took her doctorate in industrial economics at Linköping University. Her research areas are cooperation in product development and technology-based business development, especially in small to medium companies, subjects that she also lectures in mainly in the civil engineer programs Industrial Economics and Design and Product Development. Prior to her academic career Öhrwall Rönnbäck was project manager for the development of a dental CAD/CAM system, and she also started two companies in parallel to her studying for her doctorate. She was one of the founders of – and now leads – the Result Center™ for the dissemination of Swedish research results within the product development field. Since 2007 she has been the department head at the Center for Business Development in Small Companies (CAM) at Linköping University.var Öhrwall Rönnbäck projektledare för utveckling av ett dentalt CAD/CAM-system, och parallellt med doktorandstudier startade hon två företag. Hon var en av grundarna till och leder numera Kunskapsförmedlingen för spridning av svenska forsknings-resultat inom produktframtagningsområdet. Sedan 2007 är hon föreståndare för Centrum för Affärsutveckling i Mindre företag (CAM) vid Linköpings universitet.

Göran Larsbrink

Board member since 2011

Göran Larsbrink (born 1952) is a former Rear Admiral and has experience from executive positions within the Swedish Armed Forces, the Defence Materiel Administration and the Government Offices of Sweden. At FMV Larsbrink was responsible not only for overall production but also for issues regarding strategic direction. He was strategic advisor at the Government Offices of Sweden with a focus on international defense collaboration and associated export and defense industry issues. Larsbrink has also held executive positions at Swedish Armed Forces Headquarters (HQ) as Commander of the Naval Combat Area and as Director of Swedish Armed Forces unit planning. He has also worked in a large number of development projects regarding the creation and further development of platforms and sub systems, both at FMV and HQ, as well as in connection with service in many posts at naval and helicopter units. Larsbrink has been active as a consultant since 2008; he has his own company and also has experience of board assignments in developing companies.

Göran Larsbrink owns no shares in CybAero.

Summary of financial information

The following historical financial information should be read in conjunction with the section "Comments on financial information in summary."

The financial information in this section is based on CybAero's financial statements for the fiscal years 2010 and 2009 and its financial statements and consolidated financial statements for the fiscal year 2008. The Company's financial year corresponds to the calendar year and the financial statements for fiscal years 2010, 2009 and 2008 together with the consolidated financial statements for fiscal year 2008 have been audited by the Company's auditor. The annual reports for fiscal years 2010, 2009 and 2008 and the consolidated financial statements for fiscal year 2008 have been prepared in accordance with Swedish Accounts Legislation and the Swedish Accounting Standards Board's general recommendations.

Apart from the Company's audited financial statements for 2010, 2009 and 2008 and the consolidated financial statements for 2008, no other information in the prospectus has been reviewed or audited by the auditors. Please note that the cash flow statement for the Group for the fiscal year 2008 has been prepared by the Company for this prospectus and has therefore not been reviewed by the Company's auditor.

In 2008, the newly established U.S. subsidiary CybAero LLC, which conducted a limited operation during the start-up phase, was part of the Group. In 2009 it was decided to liquidate CybAero LLC, as part of efforts to focus the Company's activities on its proprietary APID 60 product and cooperation agreements with Indra Sistemas and later Cassidian.

Income statement for the Parent Company and Group

	January 1-December 31			
		PARENT		GROUP
SEK million	2010	2009	2008	2008
Operating income and profit/loss				
Net sales	*18.0*	*3.6*	*0.4*	*0.4*
Change in work in progress and finished goods	*-1.2*	-	-	-
Work performed for own account	*7.9*	*7.8*	*7.7*	*7.7*
Other operating income	*0.1*	*1.7*	*1.1*	*1.1*
Total operating revenues	24.8	13.1	9.2	9.2
Operating expenses				
Raw materials and consumables	-1.8	-3.0	0.9	0.9
Other external expenses	-7.2	-10.5	-6.7	-8.2
Personnel expenses	-8.6	-7.5	-9.2	-9.2
Depreciation of property, plant and equipment and intangible assets	-6.4	-4.6	-2.6	-2.6
Total operating expenses	**-24.0**	**-25.7**	**-17.6**	**-19.1**
Operating profit (EBIT)	**0.8**	**-12.6**	**-8.3**	**-9.8**
Financial items				
Income from securities and receivables held as fixed assets	-	-0.3	-	-
Interest income	0.0	0.0	0.0	0.0
Interest expense	-0.6	-0.3	-0.7	-0.7
Total financial items	**-0.6**	**-0.6**	**-0.7**	**-0.7**
Profit after financial items	**0.2**	**-13.2**	**-9.1**	**-10.5**
Tax	-	-	-	-
Net income	**0.2**	**-13.2**	**-9.1**	**-10.5**

Balance sheet, Parent Company and Group

	31-Dec			
		PARENT		GROUP
SEK million	2010	2009	2008	2008
ASSETS				
Non-current assets				
Intangible assets				
Work in progress and similar brought forward	24.4	20.7	14.6	16.8
	24.4	20.7	14.6	16.8
Property, plant & equipment				
Equipment, tools and installations	0.3	0.3	0.4	0.4
	0.3	0.3	0.4	0.4
Financial assets				
Participations in group companies	-	-	0.6	-
	-	-	0.6	-
Total fixed assets	**24.7**	**21.0**	**14.9**	**17.2**
Current assets				
Inventories, etc.				
Raw materials and consumables	1.0	1.1	2.7	2.7
Work in progress	-	1.2	2.1	2.1
Advanced payments to suppliers	-	0.1	0.1	0.1
	1.0	2.4	4.9	4.9
Current receivables				
Trade receivables	5.4	3.2	-	-
Receivables from Group companies	-	-	5.0	-
Other receivables	0.5	0.5	4.0	4.0
Prepaid expenses and accrued income	0.4	0.1	0.1	0.1
	6.3	3.8	9.2	4.2
Cash and cash equivalents				
Cash and bank balances	0.0	0.2	0.4	0.4
Total current assets	**7.5**	**6.4**	**14.5**	**9.5**
TOTAL ASSETS	**32.2**	**27.4**	**29.4**	**26.7**

	31-Dec			
		PARENT		GROUP
SEK million	2010	2009	2008	2008
EQUITY AND LIABILITIES				
Equity				
Restricted equity	*4.8*	*4.4*	*5.6*	*5.6*
Non-restricted equity	*14.2*	*11.7*	*13.6*	*10.9*
Total equity	**18.9**	**16.1**	**19.3**	**16.5**
Liabilities				
Non-current liabilities				
Overdraft facility	3.8	4.0	-	-
Other liabilities to credit institutions	4.4	1.8	3.5	3.5
Other liabilities	-	0.5	-	-
	8.4	6.2	3.5	3.5
Current liabilities				
Accounts payable	2.3	2.1	3.6	3.6
Other liabilities	0.8	1.2	0.5	0.6
Accrued expenses and prepaid income	1.8	1.9	2.4	2.4
	4.9	5.1	6.6	6.6
Total liabilities	**13.3**	**11.4**	**10.1**	**10.2**
TOTAL EQUITY AND LIABILITIES	**32.2**	**27.4**	**29.4**	**26.7**

Cash flow statements, Parent Company and Group

	January 1-December 31			
		PARENT		GROUP
SEK million	2010	2009	2008	2008*
Operating activities				
Profit/loss after financial items	0.2	-13.2	-9.1	-10.5
Adjustments for items not included in cash flow	6.4	4.9	2.6	2.6
Cash flow from operating activities before changes in working capital	**6.6**	**-8.2**	**-6.5**	**-7.9**
Cash flow from changes in working capital				
Increase (-) / Decrease (+) in inventories	1.4	2.5	-1.7	-1.7
Increase (-) / Decrease (+) in operating receivables	-2.5	5.3	-5.1	-5.1
Increase (-) / Decrease (+) in operating liabilities	-0.3	-1.4	2.9	2.9
Cash flow from operating activities	**5.4**	**-1.8**	**-10.3**	**-11.8**
Investment activities				
Acquisition (-) / Sales (+) of intangible assets	-10.0	-10.6	-7.5	-7.6
Acquisition (-) / Sales (+) of property, plant and equipment	-0.1	-0.1	-0.2	-0.2
Acquisition (-) / Sales (+) of financial assets	-	-0.3	-	-
Cash flow from investment activities	**-10.1**	**-11.0**	**-7.7**	**-7.8**
Financing activities				
New share issue	2.6	10.0	15.6	15.6
Loans raised	1.9	4.0	2.3	3.8
Amortization of loans	-	-1.3	-	-
Cash flow from financing activities	**4.8**	**12.6**	**17.9**	**19.4**
Cash flow for the year	**-0.2**	**-0.2**	**-0.1**	**-0.2**
Cash and cash equivalents at beginning of year	0.2	0.4	0.5	0.6
Cash and cash equivalents at end of year	**0.0**	**0.2**	**0.4**	**0.4**

**The consolidated cash flow statement for 2008 has not been reviewed or examined by the company auditor.*

Key figures

		31-Dec		
		PARENT		GROUP
SEK million	2010	2009	2008	2008
Operating margin,%	4.6	Neg	Neg	Neg
Profit margin,%	1.4	Neg	Neg	Neg
Return on average capital employed,%	2.8	Neg	Neg	Neg
Return on average equity,%	1.4	Neg	Neg	Neg
Equity/assets ratio,%	59.3	58.6	65.6	65.6
Net debt/equity ratio,%	43.0	37.5	16.4	16.4
Share data				
Number of shares at period end	29,464,238	27,469,640	11,984,540	11,984,540
Average number of shares	27,612,375	20,708,250	6,990,982	6,990,982
Earnings per share, SEK	0.01	-0.64	-1.29	-1.29
Earnings per share after dilution, SEK	0.01	-0.64	-1.29	-1.29
Equity per share, SEK	0.64	0.59	2.76	2.76
Employees				
Average number of employees	15	15	15	15

DEFINITIONS OF KEY FIGURES

Operating margin:
Operating profit as a percentage of net sales

Margin:
Profit after financial items as a percentage of net sales

Return on average capital employed:
Profit after financial items plus financial expenses as a percentage of average capital employed. Average capital employed is calculated as the opening and closing capital employed divided by two.

Return on average equity:
Profit after tax as a percentage of average shareholders capital. Average equity is calculated as the opening and closing equity divided by two.

Equity/assets ratio:
Equity as a percentage of total assets.

Net debt/equity ratio:
Interest-bearing liabilities less interest-bearing financial assets (including cash and cash equivalents) divided by equity.

Average number of shares:
A weighted average of shares outstanding during the period. The average is calculated by adding together the number of shares at the end of each month and dividing by the number of months during the period.

Earnings per share:
Profit after tax divided by the average number of shares.

Equity per share:
Equity divided by the number of shares at the end of the period.

Comments on financial information in summary

The following comments on the historical financial information should be read in conjunction with the "Financial information in summary".

The financial information in this section is based on CybAero's financial statements for the fiscal years 2010 and 2009 plus CybAero's financial statements and consolidated financial statements for the fiscal year 2008. The Company's financial year corresponds to the calendar year and financial statements for the fiscal years 2010, 2009 and 2008 as well as the consolidated financial statements for fiscal year 2008 have been audited by the Company's auditor. The annual reports for fiscal years 2010, 2009 and 2008 and the consolidated financial statements for fiscal year 2008 have been prepared in accordance with the Swedish Accounts Act and the Swedish Accounting Standards Board's general recommendations.

Apart from the Company's audited financial statements for 2010, 2009 and 2008 and the consolidated financial statements for 2008, no other information in the prospectus has been reviewed or audited by the auditors. Please note that the consolidated cash flow statement for fiscal year 2008 was prepared by the Company for this prospectus and has therefore not been reviewed by the Company's auditor.

CYBAERO IN BRIEF

CybAero's main product is the APID 60, which is a VTOL UAV developed by the Company. In the foreseeable future, the primary application area for VTOL UAVs is expected to be for military and to some extent civilian purposes, mainly in the security and surveillance fields.

TRENDS AND SEASONALITY

Through cooperative agreements with Indra and Cassidian (EADS), development of new versions of the VTOL UAV (Pelicano for Indra and Alca for Cassidian) that will be tailored to specific customer requirements continues. These collaborations have resulted in CybAero's being able to show an increase in sales and earnings for 2010. This trend is expected to continue in 2011. However, volume orders for the finished versions of the new models are expected in 2012 at the earliest.

APID 60 is a fully developed and marketable product. For several years the Company has experienced a growing interest in its products in the form of an increased influx of customer inquiries from different markets. This trend is expected to continue. CybAero intends to expand its own sales efforts to meet these requests for information.

So far CybAero has not experienced any seasonal fluctuations in sales. In the future, seasonal variations may occur as part of an increased presence at defense industry trade shows, where large contracts are traditionally signed. Trade shows worth special mention are the Farnborough International Airshow and the Paris Air Show, both of which take place during the summer.

Overview of significant accounting policies

The Company's accounting policies are consistent with the Swedish Accounts Act and the Swedish Accounting Standards Board's general recommendations.

Fiscal Year

The Company's fiscal year corresponds to the calendar year. The Company has kept accounts with effect from January 29, 2003. In the Prospectus, financial statements are reported as of 1 January 2008. Figures in brackets refer to the comparison year concerned.

Revenue Recognition

CybAero uses revenue recognition in accordance with BFNAR 2003:3 (Swedish Accounting Standards Board's general recommendations 2003:3). The Company applies the percentage of completion method for fixed-price contracts.

Valuation principles and more

Assets, provisions and liabilities are valued at cost unless otherwise stated in the notes.

Research and development expenditures

R&D expenditures refer to expenditures where research findings or other knowledge is used to produce new or improved products or processes. In the balance sheet, development costs are stated at cost less accumulated depreciations and impairment losses.

Subsequent expenditures

Subsequent expenditures on capitalized intangible assets are capitalized only if they increase the future economic benefits beyond the initial assessment and when the expenditures can be calculated reliably. All other expenditures are expensed as they arise.

FISCAL YEAR 2010 COMPARED TO 2009

Highlights during the period

In 2010, the Company changed its strategic focus from supplying complete VTOL UAV systems with integrated sensors, links etc, to supplying chiefly VTOL UAV aircraft to strategic partners. CybAero's strategic partners deliver complete VTOL UAV based systems to defense forces worldwide.

In 2010, CybAero and Indra Sistemas signed a subcontract that includes the development of a VTOL UAV, called the Pelicano, according to a specification issued by the Spanish Navy. The agreement also includes delivery of three pre-series products. The first Pelicano VTOL UAV was delivered to Indra in the fall of 2010. This was essentially an APID 60 customized to serve as a test

and demonstration helicopter. In late fall 2010, a CDR (Critical Design Review) was performed to establish the specification of the final Pelicano helicopters.

In the summer of 2010, CybAero and Cassidian signed a Memorandum of Understanding for the development of a heavier VTOL UAV, called ALCA. Later in the fall, Cassidian placed an order for an APID 60 which was delivered that fall. The delivery acceptance flight was successfully conducted in December 2010, during a blizzard that closed major parts of Europe's civil aviation, and attracted a lot of attention in the press. Later, a series of technical verification and demonstration flights were carried out, as well as a demonstration for the EADS Group's executive management. Further demonstration flights will be carried out during 2011.

Revenues

The Company's net sales during the year amounted to SEK 18.0 million (3.6). This surge in sales resulted from the supply of the APID 60 Pelicano system prototypes to Indra, one APID 60 for demonstration purposes to Cassidian and also development work for these projects. In addition to these revenues, the Company activated costs for in-house development work of SEK 7.9 million (7.8). Including changes regarding work in progress, the Company's total revenues amounted to SEK 24.8 million (13.1).

Expenses and operating profit

The Company's operating costs were reduced during the year. Raw materials and supplies amounted to SEK 1.8 million (3.0) and external costs to SEK 7.2 million (10.5). The Company enjoyed healthy gross margins on the VTOL UAV systems that were delivered to Indra and Cassidian. Personnel expenses increased slightly to SEK 8.6 million (7.5).

Depreciation and amortization increased to SEK 6.4 million (4.6), which consisted almost entirely of depreciations of previous activations of development costs (intangible assets). Thus depreciation almost amounted to the level of capitalized development costs during the year, which as mentioned above was SEK 7.9 million.

Operating profit was SEK 0.8 million (-12.6).

Financial items, tax and net profit

The Company had income from financial items of SEK 0.0 (0.0) and financial expenses of SEK 0.6 million (0.3). The Company paid no tax, since it had accumulated losses of SEK 33.5 million (20.4), which had not been used or activated in the balance sheet.

Net income was SEK 0.2 million (-13.2), which was the first positive result in the Company's history.

Assets

The Company's total assets amounted to SEK 32.0 million (27.4). Of this, SEK 24.4 million (20.7) was intangible assets in the form of capitalized expenses for development work. Accounts receivable amounted to SEK 5.4 million (3.2) and raw materials and supplies to SEK 1.0 million (1.1). At the end of the year, the Company had SEK 0.0 million (0.2) in cash and cash equivalents.

Equity and liabilities

Equity increased during the year to SEK 18.9 million (16.1), as a result of the Company's making a profit and also minor new share issues. Interest-bearing liabilities increased to SEK 8.1 million (6.2). Current liabilities decreased to SEK 4.9 million (8.4).

Investments

In 2010, the Company made investments in proprietary R&D of SEK 10.0 million (10.6), of which SEK 7.9 million (7.8) was activated as intangible assets. Most of the R&D was related to the development of the heavy fuel engine, through the partner Göbler-Hirth. The Company's investments in property, plant and equipment were small and amounted to SEK 0.1 million, unchanged from 2009.

Cash Flow

Cash flow from operating activities, after the depreciations were added back, but before changes in working capital, amounted to SEK 6.6 million (-8.2). After changes in working capital, cash flow from operating activities amounted to SEK 5.4 million (-1.8).

Cash flow from investment activities was SEK -10.1 million (-11.0).

In 2010, the Company issued new shares raising SEK 2.6 million (10.0) and raised loans of SEK 1.9 million (4.0). New share issues were made chiefly to the Company's personnel as incentives and to increase their ownership in the Company, but were also made to suppliers in the form of offsets for claims. No loans were repaid in 2010 (SEK -1.3 million). Cash flow from financing activities totaled SEK 4.8 million (12.6).

Total cash flow for 2010 amounted to SEK -0.2 million (-0.2).

FISCAL 2009 COMPARED TO 2008

Highlights during the period

In late summer 2009, CybAero signed a cooperation agreement with the Spanish corporation Indra Sistemas, aimed at jointly developing an autonomous VTOL UAV helicopter system for marine applications. The system will be built on CybAero's unmanned APID 60 helicopter platform and the Company's patented landing system, MALLS.

Overall the year was characterized by the completion and marketing of the Company's lead product, APID 60. As part of the concentration of resources to APID 60 and the cooperation agreement with Indra, the Company decided to end its cooperation with the U.S. Naval Research Laboratory on completion of the

development of the Vantage helicopter platform. Thus, the U.S. subsidiary CybAero LLC began winding up and the value of the holding in CybAero LLC in the consolidated financial statements was written off, along with a project claim.

During the year, the Company conducted several marketing activities, including participation in the Paris Air Show. In addition, a demonstration flight was carried out in conjunction with the Army Days in Karlsborg for representatives of Swedish National Defence headquarters and members of the Swedish Parliament (Riksdagen) as well as a number of foreign army officers and defense attachés.

The Company relocated this year to more suitable premises at the Malmen military airfield outside Linköping. During the fall, a cost-cutting program was carried out that reduced the Company's monthly running costs by about 40 percent.

The Company completed a rights issue combined with stock options that was subscribed to by 85 percent. The rights issue raised SEK 7.7 million before transaction costs and the subsequent stock option exercise raised a further SEK 5.8 million. Moreover, ALMI, the Swedish national agency for the advancement of small and medium sized companies, granted an export loan of SEK 4 million. The Company also received some government development grants.

Revenues

The Company's net sales for the year amounted to SEK 3.6 million (0.4). In addition, the Company activated costs for in-house R&D of SEK 7.8 million (7.7). Other operating income amounted to SEK 1.7 million (1.1), consisting of government development grants, which brought the Company's total revenues to SEK 13.1 million (9.2).

Expenses and profit

The Company's expenses increased during the year. Costs for raw materials and supplies amounted to SEK 3.0 million, compared to revenue of SEK 0.9 million for the previous year. Other external expenses amounted to SEK 10.5 million (6.7). Personnel costs were reduced to SEK 7.5 million (9.2) as part of a cost-reduction program carried out during the fall, in which the Company's expenses were reduced by 40 percent on a monthly basis. Depreciations, primarily of previously capitalized development costs, amounted to SEK 4.6 million (2.6).

Total costs amounted to SEK 25.7 million (17.6) and the Company's operating income was SEK -12.6 million (-8.3).

Financial items, tax and net profit

The Company took an impairment loss regarding shares in CybAero LLC for a total of SEK 0.3 million; net financial interest was SEK -0.3 million (-0.7). Net financial income was thus SEK -0.6 million (-0.7) and net income SEK -13.2 million (-9.1).

Assets

Capitalized development expenditures amounted to SEK 20.7 million (14.6), which are reported as intangible assets. Property, plant and equipment amounted to SEK 0.3 million (0.4). Current assets amounted to SEK 6.4 million (14.5), of which SEK 0.2 million (0.4) in cash and cash equivalents. Total assets amounted to SEK 27.4 million (29.4).

Equity and liabilities

Equity decreased during the year to SEK 16.1 million (19.3). Non-current liabilities increased to SEK 6.2 million (3.5), as the Company increased the use of its overdraft facility to SEK 4.0 million (0). Total liabilities rose to SEK 11.4 million (10.1).

Investments

The Company's investments in proprietary R&D amounted to SEK 10.6 million (7.5), of which SEK 7.8 million (7.7) was activated. The Company made small investments in property, plant and equipment of SEK 0.1 million (0.2). The Company also made a startup investment in its U.S. subsidiary CybAero LLC of SEK 0.3 million, but this was written off during the year.

Cash Flow

Cash flow from operations, after depreciations were added back, but before changes in working capital, was SEK -8.2 million (-6.5). After changes in working capital, cash flow from operations amounted to SEK -1.8 million (-10.3).

Cash flow from investing activities was SEK -11.0 million (-7.7), predominantly in the form of proprietary R&D, most of which was activated.

In 2009, the Company issued new shares raising SEK 10.0 million (15.6). In addition, the Company raised an export loan of SEK 4.0 million (2.3) from ALMI with a repayment period of 72 months. Loans totaling SEK 1.3 million (0) were repaid. Cash flow from financing activities amounted to SEK 12.6 million (17.9).

Total cash flow for 2009 was SEK -0.2 million (-0.1).

FISCAL YEAR 2008

Highlights during the period

During the year, the first ever official autonomous flight of an unmanned helicopter in Sweden was performed by CybAero, where the Company demonstrated its system on the Gärdet field in Stockholm. CybAero also test flew the unmanned Vantage helicopter for the first time. The Company took over the rights to the Vantage in 2007 from the U.S. Naval Research Laboratory, which developed the VTOL UAV.

During the year, marketing efforts were intensified and CybAero consequently enjoyed a significant increase in interest in its

products. Among others, a demonstration flight for the Pakistan Navy was performed in the Arabian Sea. The stock of long-term prospects grew in value to over SEK 100 million, including a planned major procurement by the Pakistani Navy.

Funding-wise, the Company performed a fully underwritten rights issue of SEK 15 million before issue expenses.

Revenues
Parent Company net sales were SEK 0.4 million for the year. In addition, proprietary R&D of SEK7.7 million was activated. Other operating income totaled SEK 1.1 million, consisting of government development grants received. In total, Parent Company income was SEK 9.2 million.

Expenses and profit
The Parent Company reported revenues of SEK 0.9 million for raw materials and supplies. Other external expenses amounted to SEK 6.7 million.

Personnel costs amounted to SEK 9.2 million for the Parent Company. Depreciations, primarily of previously capitalized development costs, amounted to SEK 2.6 million.

Total costs amounted to SEK 17.6 million and operating income was SEK -8.3 million.

Financial items, tax and net profit
For the Parent Company, financial items amounted to SEK -0.7 million. No tax was paid. Net income was SEK -9.1 million.

Assets
Total assets in the Parent Company amounted to SEK 29.4 million, of which fixed assets were SEK 14.9 million, inventories SEK 4.9 million, receivables SEK 9.2 million and cash and cash equivalents SEK 0.4 million.

Equity and liabilities
Equity amounted to SEK 19.3 million in the Parent Company. Non-current liabilities amounted to SEK 3.5 million and current liabilities SEK 6.6 million, totaling SEK 10.1 million.

Investments
During the year, a total of SEK 7.5 million in proprietary R&D was capitalized. Investments in property, plant and equipment amounted to SEK 0.2 million.

Cash Flow
Cash flow from Parent Company operating activities, after depreciations were added back but before changes in working capital, was SEK -6.5 million. After changes in working capital, cash flow was SEK -10.3 million.

Cash flow from investment activities amounted to SEK -7.7 million, predominantly in the form of proprietary R&D, most of which was activated.

In 2008, the Parent Company issued new shares raising a total of SEK 15.6 million. The Company raised loans of SEK 2.3 million. No loans were repaid during the year. Cash flow from financing activities amounted to SEK 17.9 million.

Total cash flow for 2008 for the Parent Company was SEK -0.1 million.

Financial comments for the Group, fiscal year 2008
In 2008, the CybAero Group comprised the Parent Company CybAero AB and its newly established U.S. subsidiary CybAero LLC, which conducted limited operations during its start-up phase. In 2009, it was decided to liquidate CybAero LLC, as part of the strategy to focus activities on CybAero's proprietary APID 60 product and the cooperation agreements with Indra and later on, Cassidian.

CybAero LLC had no revenues during 2008 and thus the Group's consolidated revenues coincided with the Parent Company's consolidated revenue receipts, which totaled SEK 9.2 million. Increased costs due to the establishment of CybAero LLC were SEK 1.5 million and therefore the Group's operating profit amounted to SEK -9.8 million (SEK -8.3 million for the Parent Company). Apart from this, Group earnings coincided with those of the Parent Company. Net income for the Group was SEK -10.5 million (SEK -9.1 million for the Parent Company).

CybAero LLC had intangible assets in the form of balanced development costs of around SEK 2.2 million and the Group's intangible assets therefore amounted to SEK 16.8 million (SEK 14.6 million for the Parent Company).

The Parent Company had a receivable of SEK 5 million from a subsidiary, which was neutralized in the consolidated balance sheet. Total equity for the Group amounted to SEK 16.5 million (SEK 19.3 million for the Parent Company). The debts amounted to about the same amount in the Group as the Parent Company (SEK 10.2 million for the Group compared to SEK 10.1 million for the Parent Company).

Consolidated cash flow for fiscal year 2008, amounted to SEK -0.2 million (SEK -0.1 million in the Parent Company). Both the Group and Parent Company had SEK 0.4 million in cash and cash equivalents at year end. In 2009, the winding up of CybAero LLC began and all of the subsidiary's assets were thereby eliminated.

ADDRESSES

Company mailing address:
CybAero AB
P.O. Box 1271
SE 581 12 Linköping

Street address: Nobymalmsvägen (FMV)

Telephone: +46 13 465 2900
Fax: +46 13 991 3032
Email: info@cybaero.se
Website: www.cybaero.se
Corp. ID number: 556639-6817

Sources

Defense News Customer Service
6883 Commercial Drive
Springfield, Virginia 22159, USA

Website: www.defensenews.com

Frost & Sullivan
7550 IH 10 West, Suite 400
San Antonio, TX 78229-5616, USA

Email: myfrost@frost.com
Website: www.frost.com

Teal Group Corporation
3900 University Drive, Suite 220
Fairfax, VA 22030, USA

Email: custserv@tealgroup.com
Website: www.tealgroup.com

www.cybaero.se