

INITIATING COVERAGE

BUY, Price Target 14p

8th June 2010

Key Statistics

Code : TRT
Listing : AIM
Sector : Technology
Market Cap : £3.60m
Shares in issue : 75.8m
Current Price : 4.75p
2009-10 High/Low : 18.75p/4.5p

Stock Performance



Financials

| £'000 | FY 09F | FY 10E | FY 11E |
|----------|---------|--------|--------|
| Revenues | 637 | 2,088 | 4,883 |
| EBT | (1,539) | (508) | 1,052 |

Source: Hybridan estimates

Company description

Transense Technologies is a technology transfer company that is engaged in developing Surface Acoustic Wave Technology (SAW), wireless, batteryless, sensor systems for the automotive industry. Transense Technologies has positioned itself in various new markets in order to capture near term revenues with its dedicated product division, Translogik.

HYBRIDAN

29 Throgmorton Street, London, EC2N 2AT
 Website: www.hybridan.com

MARTIN WEBSTER
 Email: research@hybridan.com

CLAIRE NOYCE
 Tel: 020 7947 4350
 Email: claire.noyce@hybridan.com

MAX BASCOMBE
 Tel: 020 7947 4353
 Email: max.bascombe@hybridan.com

Sensing Success

The current market capitalisation fails to reflect the company's potential.

An investment case can be built on Translogik's prospects alone, but Transense ex Translogik offers a wealth of opportunity in the medium and longer term.

On our numbers the shares currently trade on a 2011e P/E of 7.9 falling to 5.1 for 2012 and given the prospects thereafter, offer an attractive risk/reward ratio. We initiate coverage with a BUY rating.

Patented IP Portfolio addresses huge global markets

Transense owns a valuable portfolio of patents relating to Surface Acoustic Wave (SAW) technology aimed at the sensor market. The global sensor market is estimated at \$50bn per annum. SAW systems are wireless and batteryless, and the sensors have unique characteristics which allow them to operate in hostile and difficult to access environments beyond the reach of conventional sensors.

McLaren has endorsed the technology

The technology has been given the highest possible endorsement by the McLaren Formula 1 team. Transense engineers believe that no other technological solution exists for this particular application. Successful commercial conclusion of the live torque project would have a dramatic impact on future revenues. It should be noted that the income stream would be royalty based, and largely drop to the bottom line.

SenGenuity represents a valuable route to diverse markets

The agreements with SenGenuity extend to licensing opportunities beyond sensors. Transense's patented Reader Electronics will be available to use to interrogate SenGenuity's sensors in numerous applications.

Translogik is a dedicated product division with exciting potential in its own right

Transense's wholly-owned subsidiary, Translogik, will be the main driver of near term revenues, having completed development of its range of hardware and software solutions for Asset Management & Tracking, Data Collection and Fleet Management in the Truck and Off-the-Road (OTR) tyre markets. A recent global (ex China) distribution deal with Qingdao Mesnac opened up a valuable revenue stream from RFID tags.

Optimal mix of skills

The company's technical staff is highly skilled and includes Dr Victor Kalinin, a renowned world authority on SAW technology. The management team has the requisite blend of commercial expertise and technical acumen to capitalise on the opportunities at the company's disposal, a major consideration in the micro cap arena.

2009 Performance

Transense made good progress at the top line, with revenues increasing 212% to £636,000. Gross Profit increased to £495,000 (2008: £166,000). However, the first real test for the new strategy will be H2 2010, as the Translogik business plan is rolled out and SenGenuity income starts to register.

2009 Fund-Raise

On 2nd June 2010 the Company announced a £2.04m placing and a £0.5m open offer at 4.5p per share with 1:1 warrants exercisable at the same price.

For analyst certification and other important disclosures, refer to the Disclosure Section

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1.0 Company History

*Unique technology,
volume royalty
opportunity*

Transense Technologies Plc was floated on the AIM market in 1999. The primary activity was Research and Development into utilising SAW (Surface Acoustic Wave) sensors to measure Torque, Temperature & Pressure in unique wireless and batteryless sensor systems. This R&D was successful from a technical perspective, and an Intellectual Property portfolio was progressively developed. The business model was conceptually simple whereby the Intellectual Property would be licensed to a licensee, who in turn would commercialise it in volume, and this would generate substantial royalty income for Transense.

The technology was licensed to Michelin in 2001. At the time this was seen as a landmark deal. Analyst quotes at the time make for interesting reading: "The driver for this technology is the U.S. legislation which states that by November 2003 all new cars must have tyre sensors inside - that's when you really start to look at revenues from this type of deal," commented one analyst who declined to be named. Meanwhile, WestLB Panmure reiterated its 'strong buy' recommendation this morning and was looking to up its target of £40 on the stock." (AFX).

The 2001 Chairman's statement at the interims included this excerpt:

"Of particular significance to Transense in this period has been the signing of a worldwide licence with Societe de Technologie Michelin, giving them exclusive rights to embed our SAW ("surface acoustic wave") sensor technology into automotive and aircraft tyres."

In April 2002 another deal was signed with Honeywell. The accompanying Company statement included the following excerpt:

"The involvement of Honeywell, with whom we have been working for some time, shows that our battery-less tyre pressure technology is now near to volume production and scheduled to start this year. We are determined to make Transense a global force in automotive passive sensor technology and, by forging a relationship with Honeywell, and other major companies, I have no doubt that our strategic aim of becoming the world leader in automotive sensors will be realised."

In 2004 Honeywell entered into a worldwide licensing agreement to use Transense's SAW technology for torque and pressure/temperature sensing systems in vehicles and aircraft, with certain limitations. The licence was exclusive for torque sensing in power train, transmission and driveline applications in vehicles.

Transense received a £1.5m upfront fee for this license. At the time it must have appeared plausible to assume that commercialisation was a mere formality, since multinationals are not in the habit of speculatively entering into agreements with much smaller companies who require material upfront payments.

However, disappointment was to follow as neither Michelin nor Honeywell commercialised the technology. It is possible that both companies entered into their respective commercial agreements in good faith, yet did not convert this into action due to the lack of minimum performance clauses and time limitations. However, Honeywell is now being actively courted by Transense to explore whether there is a route to market for mutual benefit and it appears that Honeywell is being receptive.

In late 2007 the board proposed a reverse takeover with Bishop Technology Group, an Australian business manufacturing steering shafts. The proposed reverse takeover failed due to shareholders voting against the plan. This acted as a catalyst to bring in a new board and new management.

The shareholders approved a £4.1m fundraising in Jan 2008, and the new board finalised a strategic review in mid 2008. It was concluded that:

- a. The global prospects offered by the IP licensing model remained intact, but these were better exploited with a more commercial approach to negotiations with potential licensees, aimed ultimately at raising the likelihood and visibility of future royalties.
- b. A dedicated product division would bring profitability forward by enabling the Company to gain a direct route to market. (To this end, a 100% subsidiary was established in April 2009 – Translogik. Translogik acquired Pneu Logic Limited in November 2009.)
- c. A modest cost-cutting exercise was to be effected. The 2010 payroll is projected to be some 26% lower than 2009. The Company has also moved to a more suitable skill set mix consistent with the new objectives.

In July 2008 the first major tangible action was delivered by the new board - a commercial agreement with SenGenuity. SenGenuity is a subsidiary of Vectron, itself a part of the Dover Corporation. The objective was to license an alternative provider for temperature and pressure sensors to mitigate against over-reliance on Honeywell as the only other manufacturer licensee.

1.1 CEO

The Company CEO is Graham Storey, 52, who joined Transense in February 2008. Following a management buyout of a tropical plant hire business Graham built up the Moyses Stevens Group to the biggest commercial and retail florist in the UK and personally held three royal warrants. The business was sold in 2004 to a venture capital fund.

The other board members are profiled in Appendix 1.

1.2 Notable Shareholders

| Name | % Holding |
|---------------------|------------------|
| Lobbenberg J P Esq. | 10.58 |
| Bluehone Investors | 8.46 |

Source: Argus Vickers

2.0 License Revenues

Transense’s research and development efforts have been directed towards two main areas:

1. Developing a suite of intellectual property (IP) rights, to build a Technology Transfer business.
2. Developing a range of Tyre Management Products for the truck and Off-The-Road (OTR) tyre markets.

The Technology Transfer business develops Surface Acoustic Wave (SAW) sensor systems. The global sensor market is estimated at \$50bn per annum. The defining characteristics of SAW systems are that they are wireless and batteryless, and the sensors themselves are small, durable, light weight and cheap to manufacture (especially in volume – around 4.5 million SAW sensors per day are manufactured, mainly for mobile phones). These characteristics allow SAW sensors to operate in hostile and difficult to access environments beyond the reach of their conventional counterparts. They are suitable for a wide range of applications in the following industries: Automotive, Industrial, Aerospace, Medical, Military, Safety and Security. A growing awareness of the negative environmental impact of batteries, and the difficulties associated with their proper disposal, imparts a positive and contemporary aspect to batteryless systems which can only increase in importance as legislators progressively look to promote green solutions.

*Multiple markets,
multiple applications*

Technical Info: How a Single Port Surface Acoustic Wave (SAW) works

A SAW sensor as used by Transense to measure torque, temperature and pressure is a passive device which uses RF energy to operate but in a completely different way to an RFID Tag. The SAW sensor is attached to an antenna which is used to receive and re-transmit RF energy.

Transense SAW sensors are manufactured using a piezoelectric substrate such as quartz. A number of metal elements are deposited on the surface of the substrate. One of these elements is connected to the antenna. When RF energy propagates down the antenna onto the surface of the quartz it triggers an electromechanical wave on the surface of the substrate, known as a surface wave. Strain applied to the piezoelectric material changes the properties of the surface wave. This surface wave is reflected back towards the antenna and retransmitted. The return signal is then detected by a receiver.

*SenGenuity
agreement is
significant new value
driver*

The primary target market is automotive. The other markets should be viewed as purely blue sky potential at this stage. It should be noted however that the November 2008 agreement with Vectron/SenGenuity heralds a move into non-automotive markets in respect of Transense’s reader electronics (see below).

Current applications for Transense sensors include Pressure and Temperature measurement, for Tyre Pressure Monitoring Systems (TPMS), Torque Systems for Electrical Power Assisted Steering (EPAS), Driveline Management and Gearbox Condition Monitoring Systems. To this end, the Company has 19 patents granting exclusive rights in Europe, the US and Japan and globally in some instances. The core patent covers the use of SAW sensors for non-contact torque measurement. Maintenance and development of the patent register is a core activity. The Company has 12 further patent applications pending approval. See Appendix 2 for a comprehensive list of granted patents.

The IP portfolio generates income in the first instance when a licensee signs up to be granted access to Transense’s patented technology, for which a royalty is charged on a per unit basis. To date a number of licensees have been signed up.

In terms of the visibility and conviction level associated with material future revenue generation, the most important licensee is SenGenuity. Since the original agreement

was signed in July 2008, the relationship between Vectron/SenGenuity and Transense has flourished and this manifested itself in a very significant commercial agreement.

Through this agreement Vectron's TFSS433D SAW temperature sensor will in future be interrogated by utilising Transense's reader electronics. This sensor has a host of industrial applications in a number of markets.

This is a new type of revenue stream for Transense, and was never in the original game plan. It is noteworthy for a number of reasons:

- It is not subject to the creation of a new application for a new market, since it rides on pre-existing markets.
- The wireless reader electronics gain access to areas where Transense's own sensors are not applicable. [It should be noted that the reader electronics utilise an ASIC - Application Specific Integrated Circuit- developed through Transense R&D]. Similarly, SenGenuity sensors gain access to areas which can be addressed via Transense's wireless reader. It is this highly complementary aspect which leads to the concrete nature of the commercial relationship. Whilst SenGenuity will also utilise Transense sensors in certain applications, it is the utilisation of Transense's electronics to read SenGenuity's sensors which is the salient point in the context of access to new markets.
- The sensors are already produced in volume, and there is no chicken and egg issue of the market needing low unit costs for adoption, which are a function of volume production, which is a function of them being adopted in the first instance unless the whole production process is bankrolled with deep pockets – clearly not an option for Transense.
- This is not merely a theoretical exercise in what revenues might accrue if the technology were to be adopted – it is a solid route to market, involving specifics.

Transense' Reader Electronics are a key element of system solution

The synergy created between the two companies is leading to enthusiastic exploration of other areas of potential mutual benefit. SenGenuity believes that the advent of a wireless, passive (i.e. with no power required) sensor has given rise to a myriad of application opportunities in highly scalable markets including:

- Smart power grid (temperature monitoring is needed to make timely decisions in respect of load sharing/shedding and maintenance).
- Food preparation and processing (monitoring the temperature of cooked food via a wireless probe).
- Industrial preventative maintenance (especially in the case of rotating machinery where wired solutions cannot function).

Transense's unique SAW reader electronics platform is a key element of the system solution for these applications, which could utilise millions of sensors and hundreds of thousands of reader electronics.

McLaren has given outstanding endorsement of the technology

Although not important in respect of revenue generation in the grander scheme of things, a notable coup for the Company was the utilisation of its technology by the McLaren F1 team for its KERS (Kinetic Energy Recovery System). F1 is the pinnacle of motorsport, and McLaren has a reputation for engineering excellence of the highest order within it - there can surely be no greater endorsement of the merits of Transense's technology. The McLaren experience provides an interesting insight into the unique characteristics of the technology, and how it can be used for specialised applications in hostile environments. As an example, Transense sensors were able to wirelessly measure the torque on a shaft spinning at 300 revolutions per second. Appendix 3 gives a brief summary of the Transense technology adopted by McLaren.

The new management team has also breathed new life into semi dormant relationships, demonstrating the self evident point that a pro-active approach is more likely to yield

dividends irrespective of the apparent superiority of the technology. As a result of one of these initiatives, Transense has received a 200 page RFQ (request for quotation) for 800,000 units per annum from a major Tier 1 steering system supplier. This alone could be a multi-million pound opportunity for Transense.

Flexplate Project offers explosive revenue potential

However, it would be fair to say that the most exciting opportunity is the ongoing work being carried out with a large US car manufacturer. The Flexplate Project represents a significant opportunity for Transense. The flexplate is situated between the crankshaft and torque convertor, and the Flexplate sensor provides direct measurement of engine output torque for engine and transmission control.

Technical Info

In a typical modern vehicle's ECU (Engine Control Unit), torque is inferred from in-vehicle sensors measuring air and fuel flow, temperature and ignition timing in conjunction with 'look-up tables' derived from dynamometer tests of sample engines by the vehicle manufacturer. The problems associated with this approach are that, due to manufacturing tolerances, engines are not identical and they change their characteristics over their service life. Accurate real-time torque measurement improves engine control, resulting in improved fuel efficiency and can also provide for smoother ratio changes in automatic transmissions, improving noise, vibration and harshness.

A number of hurdles have been overcome, and some remain, but the eventual volume opportunity is undeniable and runs into tens of millions per annum. If this project were to come to commercial fruition, the nearest potential launch date would appear to be 2015. Preparatory traction towards it however, and the commensurate conviction attached to the revenue opportunity, would become apparent much earlier.

Early stage prospects include enquiries from a leading wind turbine gearbox manufacturer. In the intended application, the ability to measure Torque is a pre-requisite for managing the system. The Company has also received an interesting enquiry from Russia in respect of utilising SAW sensors to measure corrosion. It is noteworthy that these enquiries are self generated without any active promotion, and they demonstrate the sheer breadth of potential applications, beyond the automotive sector which has been the primary focus to date. It also appears that these markets have shorter lead times than those associated with the automotive sector.

Exclusivity is now only given with strict conditions attached

Due to the commercial secrecy typically requested by potential licensees, some of whom are household names, it is difficult disclose certain details. However, it is clear that there is an element of excitement within the Company as to the potential significance of the pipeline.

The current management team has adopted a welcome no nonsense approach to negotiations – they are fully prepared to walk away from the table if the terms are deemed onerous. After all, if the technology is a valuable element of the end application, a meaningful part of that value ought to accrue to Transense as the technology provider as the technology has cost substantial amounts of capital. The relative size of the two parties is ultimately less relevant than the relative input into the value chain. Acknowledging the importance of gaining access to volume production, without pressing for the commercial quid pro quo in terms of setting performance criteria to retain the license, leads in effect to a 'theoretical' agreement - superficially potentially valuable but with no real predictive value. There are a number of potential reasons why a licensee may choose to 'sit' on a technology - if given the choice. The new board only grant exclusivity for guaranteed minimum payments.

Commercial distributorship agreement with Mesnac opens a global market (ex China)

In September 2009 Transense signed an MOU with Qingdao Mesnac. This company is well connected to the Chinese authorities and has substantial production facilities. The purpose of the agreement is to develop Transense's patented tyre pressure monitoring technology for the attachment or embedding of these sensors into tyres. Qingdao Mesnac is planning to develop a tyre pressure monitoring system for trucks and passenger cars. Mesnac also agreed an initial upfront payment, with additional sums due as the project progresses. Translogik has also been appointed as global distributor (except China) for Qingdao's specialist RFID tags.

*Shares trading sub
historic investment*

To date substantial capital in excess of £10m has been invested in developing the Company's Technology Transfer business. It should be noted that this amount comfortably exceeds the Company's current market capitalisation. Technology development is necessarily an expensive process, especially in highly innovative and ground-breaking fields such as those targeted by Transense. Furthermore, the nature of research activity is such that the successful output must make good the expenditure on fruitless initiatives. The attractive aspect of investing in Transense at present is that it has reached the stage of its life cycle where the immediate focus now centres on selling specific product to specific customers, whilst the pipeline promises a succession of global commercial opportunities to exploit the existing IP.

3.0 Products

Translogik develops and supplies a range of hardware and software solutions for Asset Management and Tracking, Data Collection and Fleet Management. The product portfolio includes electronic tread depth and pressure data collection tools for Truck and Off-the-Road (OTR) tyre inspections, RFID Tags and Patches for tyre casing and general asset tracking, and a variety of UHF readers.

Translogik has a common board with Transense and has access to Transense's engineering resources. This company was set up with the specific objective to generate near term revenue to make Transense self sustaining in the short term, thereby allowing the Company headroom to attack the global opportunities offered by the Technology Transfer business. This was initially presumed to be a niche- albeit meaningful- market, especially in the Transense strategic context. However, as Translogik has developed, it has become increasingly apparent that the markets are significantly more valuable. Translogik has exciting opportunities in its own right.

3.1 Tyres

Tyres are obviously an important component of a vehicle, but most consumers are unlikely to appreciate the complex designs required to transfer torque and power to the road whilst supporting the weight of the vehicle and having to withstand cornering and braking forces. The manufacturing process utilises over 200 ingredients. From a safety perspective, a tyre's value goes beyond monetary considerations. In effect a tyre is a high value add hi-tech safety component. It is not surprising that a good tyre is expensive, but perhaps it is not expensive enough given that maintenance is often overlooked by the general public. In Translogik's target markets, such as Fleet Management and OTR, the importance of tyre management is readily acknowledged.

*Fleet Management
a target market*

In respect of Fleet Management, the Translogik electronic tyre probe for truck, trailer and bus tyres allows for straightforward and accurate inspection of tread depths and pressures. These are captured automatically and transmitted electronically via Bluetooth to a standard handheld device or PC. The inspection also records tyre defects and notes the required actions. The information can then be transmitted to a PDA and synchronised to the server or PC via cable. Reports are automatically generated, covering the downstream requirements for service work, fleet and tyre analysis, and cost projections.

*Industry shift to
leasing model is a
key driver for
uptake by Fleets*

The annual market size for new truck tyres is 147 million units. It is estimated that 70% of tyres are underinflated and that this increases fuel consumption by up to 2.5%. In addition, 20% under-inflation reduces tread life by 25%. Tyre failures are a major safety and cost issue with an estimated 90% due to tyre under-inflation. Translogik technology can save a 1000 truck fleet as much as \$1m per annum and with the capital cost of a system solution for such a fleet amounting to around \$1.2m, a remarkably short payback period also.

The fleet tyre market has been steadily migrating towards a leasing model, whereby the tyre supplier charges the user on a cost/km basis. This has removed the incentive bias towards selling more rubber and replaced it with a bias towards conserving it. This market shift is acting as a catalyst for the adoption of tyre management solutions. The

need to demonstrate due care is also deemed important by customers, especially relevant in cases which could lead to potential liability.

In September 2009 Translogik signed a supply agreement with Goodyear for the supply of its tyre tread depth and pressure field inspection kits. Goodyear's Fleet Online Solutions (FOS) *"ensures that operators receive agreed levels of service and pricing anywhere in Europe whilst minimising vehicle downtime. A further benefit is that it provides operators with on-line reports and full operational visibility. This is part of a major campaign of new product launches by Goodyear related to truck and bus tires aimed specifically at the fleet market."*

Appendix 4 illustrates how FleetFirst is marketing its tyre management service, which incorporates FOS.

The Off the Road (OTR) tyre market offers the most potential for substantial revenue generation. Although the OTR tyre market is dwarfed by the passenger car market in terms of vehicle numbers, the cost of OTR tyres is a major cost item. A cost saving solution is a compelling proposition and is commensurately more valuable on a unit basis.

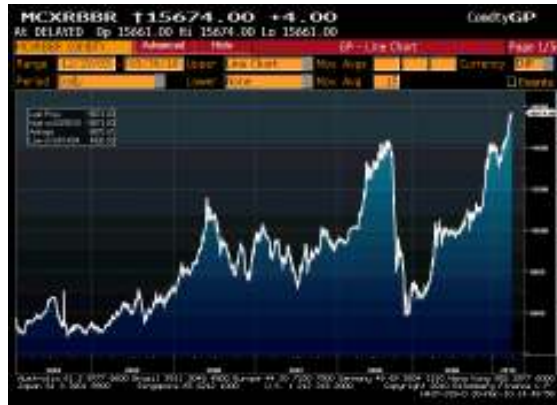


*Unique advantage
of hermetically
sealed sensor*

Translogik has introduced the first bespoke tool for OTR and Earth Mover tyres. This features automated and motorised tread depth measurement, and a built in RFID and wireless Tyre Pressure Monitoring System. The rugged design includes a large area footprint to span the wide tread of large Off the Road tyres. As with the existing truck tyre probe, it will communicate via Bluetooth to send electronically its measurements to a hand held device or PC. The hermetically sealed sensor offers a unique advantage over competing systems since the sensor package is able to survive within the tyre.

The annual market size for new OTR tyres is 500,000 units. The average cost of an OTR tyre is \$15,000. The explosive growth in the mining industry in recent times has led to a worldwide shortage of super large tyres, with the consequent pressure on prices – an \$80,000 tyre has been known to fetch in excess of \$250,000 in the grey market. On April 22nd 2010, the FT reported that *"Tyre companies are increasing the price of their products as the cost of rubber, their main raw material input, yesterday moved for the first time above the key \$4/kg level, up more than 40 per cent since January"* and *"The rally in rubber in the physical market earlier this month above \$3.50 a kg already broke one of the longest standing price records in commodities, dating back to 1952..."*

Rubber Price \$ / 100kgs



Source: Bloomberg

A Translogik solution can increase tyre life by up to 30%. In this context the \$2,500 cost of the probe is arguably immaterial given that the payback period is so short even on a solitary vehicle. Furthermore, this understates the cost saving to the extent that tyre failure leads to expensive downtime.

3.2 RFID Tyre Tags and Patches

Translogik has been appointed as global distributor (except China) for Qingdao Mesnac’s RFID tyre tags. These tags can be embedded within the tyre during the manufacturing process and provide a unique identification number which can be tracked to prevent tyre theft and cloning, as well as the standard tracking benefits inherent to RFID. It will last as long as the tyre, and will therefore not need replacing.

RFID patches offer the same functionality as an aftermarket solution. These may be placed on the inside or outside surfaces of the tyre.

Technical Info: How a Radio Frequency Identification Tag (RFID) works
A passive (no battery) RFID tag is a semiconductor with memory that is read or interrogated using a Radio Frequency (RF) signal. The tag is basically a semiconductor integrated circuit memory that demodulates an RF signal which powers the semiconductor and then uses this power to re-modulate the RF signal and re-transmit the signal which is detected by an RF receiver / reader. The RFID tag is connected to an antenna to receive and transmit an RF signal. The RFID tags used by Translogik are known as Ultra High Frequency (UHF) tags operating in the frequency range of 860 – 950MHz and have a read range of up to 1 metre when embedded in the tyre.

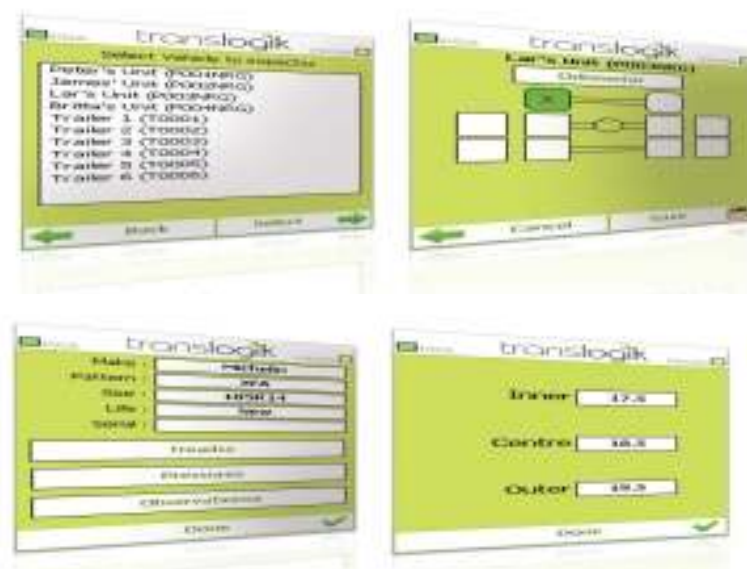
3.3 Easy Reader

in-house designed Easy Reader probe software provides the final critical element in the one stop solution for automated tyre management and fleet inspection. This product has been developed after extensive consultation with fleet operators. A fleet manager would typically go through the following process:

- Use the desktop software to build a fleet list by inputting vehicle details
- Assess the inspections required for each vehicle

- Transmit this information to the PDA
- Proceed to the vehicle to carry out the instructions
- Transmit data collected to desktop application
- A number of reports are automatically generated, such as Tread Depth and Tyre Pressure analysis, and exception reports to instigate outstanding work.

Easy Reader screenshots



Source: Transense Technologies Plc

The software is provided as part of the probe package. In order to gain indirect access to blue chip players who require more sophisticated software for complex deployments such as multi depot functionality, Translogik has also developed commercial relationships with Value Added Resellers and System Integrators, such as Cetaris and EDP France. When signing the commercial agreement in November 2009, Cetaris stated that *"Translogik's unique data capture technology can enhance our clients' productivity and processes to help them more efficiently manage millions of tire positions every day. Benefits such as real cost savings from the reduction in labour, the optimal management of inflation, and improved tire replacement forecasts, are very timely. Through our partnership with Translogik, Cetaris continues to integrate products that deliver savings to our clients and the industries we serve."*

Now that Translogik has finalised its product+software package for off-the-shelf purchase, the priority has become the ramping up of sales and marketing initiatives. The Company believes that its probe is currently the only all-in-one tool in the market. Transense has contracted with Protocol to spearhead the sales and marketing initiatives. These include production of marketing material such as brochures, adverts in the trade press, trade exhibitions, and online marketing campaigns.

Easy Reader Packaging



Source: Transense Technologies Plc

Global Distribution network being built

Translogik, using Transense's resources and expertise, is also currently developing extra optional features such as an integrated RFID reader and a sidewall SAW sensor to measure temperature and pressure. Temperature is considered an especially important measurement since excessive temperature can lead to the tread delaminating from the carcass. This would lead to downtime, which in this sector can translate into millions of dollars per day in lost revenue.

Transense intends to build a global distribution network for Translogik products. In July 2009 as part of that strategy, an exclusive distribution agreement with FEC was signed for Translogik's range of tyre management products. This covers the ASEAN region, Korea and Japan excluding global original equipment manufacturers. FEC has integrated Translogik products into its own tyre management solution. The FEC COO commented that *"we selected Translogik products as we believe they represent the highest quality available in the market today."* As mentioned above, the new board only grant exclusivity for guaranteed minimum payments. In this case, Translogik will receive a minimum of \$600,000 over two years.

4.0 Corporate Issues

Qualitative aspects provide comfort

4.1 Functionality

Small companies often struggle to attract the requisite number and quality of key personnel. This can prove a major obstacle to achieving strategic objectives. Following the strategic review by new management and the root & branch change which ensued, Transense has systematically matched its corporate objectives with the human resources needed to achieve them.

Key areas are being addressed as follows:

4.2 Technology

Dr Viktor Kalinin (Head of Technology), Dr Bryn Dixon, Dr Ray Lohr (consultant). Dr Kalinin is a recognised world authority in respect of Surface Acoustic Wave technology.

4.3 Intellectual Property and Patent Protection

The Technology Transfer business has invested considerable capital in developing its IP portfolio. In order to protect that investment it is imperative that it is covered comprehensively by patent protection. Transense employs Patent Agents who rigorously ensure that all existing and ongoing patents are filed on time and renewed as appropriate. The Patent Agents are also tasked with scanning all new relevant patents issued worldwide to ensure that Transense's patented technology is protected. In addition the Company has a dedicated in house expert in this area, David Ford, a non executive director and a lawyer specialised in IP law.

4.4 Sales & Marketing

Paul Vickery (Commercial Manager), Laren Yeomans (Head of Sales Translogik) and Protocol (PR and marketing)

4.5 Investor Relations

David Kleeman (Chairman), Graham Storey (CEO) & Melvyn Segal (Non Executive Director)

4.6 Corporate Governance

The Combined Code on Corporate Governance sets out standards of good practice in relation to issues such as board composition and development, remuneration, accountability & audit and relations with shareholders. Transense employs 12 full time staff, and this limits its ability to adhere to full compliance of the Combined Code. However the Company does continuously ascertain, by continuous review, that proper standards of corporate governance are in operation and the principles of the Combined Code are followed so far as is practicable and appropriate given the size and nature of the Company.

4.7 Goal Congruence (between management and investors)

Investors put their capital in a business and employ managers to act as stewards to safeguard the business. They therefore have a vested interest that management act in a wholesome manner, and need to ensure that management interests are aligned with their own.

The Transense Board and several employees are shareholders. The stock has been purchased with hard cash at a substantially higher average price than current spot. They also have options which can be exercised in the next few years. Additionally all Transense staff have share options.

Board Shareholdings

| | | |
|-----------------|-----------|-------|
| Graham Storey | 1,174,782 | 1.55% |
| Melvyn Segal | 700,000 | 0.92% |
| David Kleeman | 350,000 | 0.46% |
| Norman Smith | 320,000 | 0.42% |
| Rodney Westhead | 5,000 | 0.01% |

Board Options

| | |
|---------------|---------|
| Graham Storey | 875,000 |
| Melvyn Segal | 625,000 |
| Norman Smith | 625,000 |
| David Kleeman | 100,000 |
| Rodney West | 60,000 |

Entrepreneurial Skills

A number of investment cases can look superficially good on paper, but often lack a critical intangible element: a natural entrepreneurial flair, driven to succeed in a proactive manner irrespective of the hurdles encountered. This is an important differentiator between ultimate success and failure, especially in small companies. From being a major weakness, we now see this as a primary strength. Graham Storey is a proven entrepreneur, having built a valuable business from scratch and crystallised its value via a sale.

4.8 SWOT Analysis

Strengths

- Patented Technology with unique properties
- Wide range of potential applications
- Driven Management with a proven entrepreneurial track record
- Good Team of engineers, with recognised SAW world authority
- Strong Partnerships & Licensees
- Low overheads, high operational gearing potential
- Goal congruence between investors and management
- Key functionalities addressed
- Substantial lead time for new competition

Weaknesses

- Jam tomorrow message of previous regime has alienated the City, and current management has to deal with this legacy issue
- Small size restricts the Company to pursuing a mere fraction of the opportunities available to it
- Dependence on key relationships & individuals
- Technology Transfer business has limited direct control over revenue streams
- Exclusive license given to Honeywell has no minimum performance clauses or time limitations

Opportunities

- TMS market ready for Transense products due to price increases in Tyres/Fuel etc.
- Transense electronics matched with Vectron sensors creates many opportunities
- Torque technology was proven to work in the very harsh environment of F1 – this represents a real positive for marketing
- The reawakening of semi dormant opportunities for steering torque sensing
- Green policies
- New loan funding opportunities such as EFG and European Funds
- JV potential

Threats

- Timing of Break Even
- Takeover at low share price

5.0 Financials

Transense reported turnover increasing 212% to £636,000 in 2009 (2008: £204,000). This includes business from McLaren which, following changes in F1 regulations, will not feature in 2010. However, the first real test for the new strategy will be H2 2010, as the Translogik business plan is rolled out and SenGenuity income starts to register. Gross Profit increased to £495,000 (2008: £166,000).

Admin expenses were broadly flat at £2.058m (2008: £2.086m). For 2010 we expect the payroll to be trimmed, as a result of the right sizing initiatives. We anticipate sales and marketing costs to rise, consistent with the growth plans. The loss for the year amounted to £1.472m (2008: loss of £1.085m).

A noteworthy feature of the balance sheet is the accumulated loss of £12.6m. Whilst some of these losses are not available (due to a receipt of UK Government R&D Grants) to offset against future profits - some £10m of losses could be used in this way. This would result in a sub-normal tax rate and obvious benefit to retained cash during the period of loss relief utilisation."

On 2nd June 2010, Transense announced a proposed placing of 45,288,887 shares at a price of 4.5p, together with 1 Warrant for every share purchased exercisable at 4.5p. The warrants may be exercised at any time during the three years following the date 12 months after Admission to AIM of the new shares. If the relevant resolution is passed, the gross proceeds from the placing would amount to £2.038m. A further 11,111,111 shares are being offered in an open offer to existing shareholders, which if fully taken up would amount to gross proceeds of a further £500,000.

Transense has always targeted large global markets for its technology, banking on the fact that the very substantial revenues that its IP can generate would make the long lead times worth the wait. This may yet eventually prove the case, but the interim period must also be traversed. One can speculate that the sheer size of the IP opportunity may have previously conditioned the Company to overlook smaller, but crucially nearer term significant revenue opportunities. Following a strategic review, the Company was put on a path to plug this gap. The Technology Transfer business remains a cornerstone of Transense, but at least equal effort is now being channelled towards exploiting the opportunities offered by Translogik's suite of products.

Projections have substantial upside potential built in

The Achilles heel for all businesses on the cusp of rapid sales growth is the difficulty in predicting the scale and timing of revenues to a high degree of accuracy. From a corporate perspective this can seriously condition the rollout - stakeholders are typically most unwilling to give up equity at the very point when funding may most be needed to capitalise on the opportunity. We have endeavoured to reasonably ascertain and substantiate what is the most likely outcome in respect of revenue generation. We have identified the main revenue drivers, split by generic type, and in turn by customer. We have gained comfort from Management that the customers accounting for at least 75% of the projections have been arrived at with close consultation with the customers themselves. We are of the view that within the realm of projections, this is as reasonable and prudent an approach as it is possible to take.

Visibility of profits in 2011

Naturally this is not the same as saying that the numbers represent a risk free proposition. In the final analysis our interest centres on the merits of the risk/reward ratio that Transense equity offers. In order to build an additional margin of safety into the numbers, we have applied a 30% discount to the revenues we arrived at through the process outlined above. It should be stressed that the 30% discount is being applied at the revenue level, not profits. Transense has a high degree of operational gearing, so the potential uplift in respect of profit is greater than 30%. As it happens this dovetails with the Company's wish to leave a material element of upside potential for investors – in fact the projections have not been updated with a number of very recent developments, some of which may lead to the numbers being handsomely beaten.

Transense now has IP and Product derived revenues...

For 2010 we are projecting a turnover of £2.1m, with around 93% of this attributable to Translogik, and the loss before tax to narrow significantly to £648,000. We expect the substantial majority of these revenues to be back end loaded in H2.

The 2010 Translogik sales projection is based on the following split:

| | £000 |
|-------------------|-------|
| Probe Kits | 1,236 |
| RFID Tags | 406 |
| TPMS | 301 |

...which in isolation will act as a powerful driver of the share price...

In 2011 we project Translogik revenues to increase to £4.4m, but its share of the total to decline slightly to 89% as royalty income from SenGenuity rises sharply from a low base to £422,000. It should be stressed that there are no material marginal costs relating to royalty income, and such income will have a disproportionate impact on the bottom line. **For 2011 we project a profit of £1.1m before tax – a significant milestone for the Company.**

The 2011 Translogik sales projection is based on the following split:

...but which critically also provide the strategic self-funding bridge across to the resolution of the Flexplate Project, and others

| | £000 |
|-------------------|-------------|
| Probe Kits | 1,564 |
| RFID Tags | 1,915 |
| TPMS | 876 |

6.0 Valuation

Throughout this report we have focused on what is real and relevant in respect of Transense's current prospects. Setting a high hurdle in this respect we have ignored a number of prospects that are difficult to quantify at this stage. The management team is keen to leave a 'surprise to the upside' element for investors, conscious of the legacy of under-delivery.

We have restricted our forecast period to 2011, to focus on near term revenues which have the highest conviction level.

We have restricted our scope to the Products division, i.e. Translogik, and the highest conviction revenues from the Technology Transfer IP business. The major element of the latter is derived from SenGenuity. These have been arrived at in close collaboration with SenGenuity themselves.

Furthermore, we believe that Transense has moved beyond the early stage and now has visibility to near term profitability.

Consequently, we feel the time has arrived to value the Company on a projected earnings multiple basis. For this purpose we use our 2011 earnings estimate. Given that these have been prudently derived, that the most likely outcome is a significant increase in earnings thereafter, and that between now and then we expect future prospects to brighten still further due to the current pipeline, we feel that a P/E multiple of 25 would be appropriate. On that basis the market capitalisation would reach £27m.

Assuming shares in issue of 132m (existing + placing + full take-up of open offer), the implied target price would be 22p. Allowing for the full exercise of warrants, the shares in issue would rise to 189m and the target price would be 14p. The 2011e target price is a function of our 2011 profit projection, and does not take account of the capital injection received upon exercise of the warrants. Based on a current price of 4.5p, and a fully diluted 2011e eps of 0.57p, the forward 2011e P/E is 7.9x.

In order to corroborate the reasonableness of the valuation we have also constructed a Discounted Cash Flow model with an explicit period up to 2015. We applied a cost of equity of 20% for this purpose, and a 2% terminal growth assumption. Beyond 2011 the general theme is for Translogik sales to grow steadily, and for SenGenuity derived royalties to grow rapidly year on year. If either of the two main initiatives currently being pursued with major US corporations is translated into commercialisation, the Company would have come full circle - and finally start receiving substantial royalty revenues from the automotive sector, the original holy grail. However, our model captures a mere fraction of this potential for 2015, from one of the two main current potential sources. Based on our assumptions, our model indicates a net present value of 14.5p on a fully diluted basis.

Both valuations compare favourably with the current price of 4.5p and mark the shares as a **BUY**.

Transense has moved beyond the early stage and now has visibility to near term profit

7.0 Appendix 1 - Directors

Graham Storey (CEO, 52)

Joined Transense in February 2008. Following a management buyout of a tropical plant hire business, Graham built up the Moyses Stevens Group to the biggest commercial and retail florist in the UK and personally held three royal warrants. The business was sold in 2004 to a venture capital fund.

David Kleeman (Non-Executive Chairman, 67)

Joined the Company in December 2007. David was a solicitor in private practice for seventeen years, specialising in corporate finance. His positions have included Chairman of a Health Authority, a Board Member and later Deputy Chairman of NHS Logistics, and a Board Member of the Housing Corporation for eight years. David is Chairman of Fayrewood plc, formerly listed on AIM, and of ComputerLinks AG, which in 2009 was the subject of management buy-in supported by Barclays Capital.

Melvyn Segal (Non-Executive, 55)

Joined the Company in December 2007. Melvyn qualified as a Chartered Accountant in 1979. He was a senior partner with Arram Berlyn Gardner, a medium sized firm of Chartered Accountants for 25 years, and was responsible for the firm's finances, taxation and assisting with client development. Melvyn was also a Director of Optimal Financial Management Limited until 2005, when he was involved in the sale of this company to AIM-listed First Artists plc. Melvyn joined Transense in December 2007 as full time FD before stepping down to become a non-exec in 2010.

David Ford (Non-Executive, 54)

Joined the Company in August 2009. David qualified as a solicitor in 1980 and worked for a number of years with Tarlo Lyons. He specialised in Intellectual Property (IP) law. Since practicing law he has been involved with a variety of companies in various industries in a nonexecutive or semi-executive capacity. In 1998 he led the management buyout of the consumer debt recovery department of his old firm, Tessera Group, and is still the non-executive chairman of that company. In 2006 he established Securecoms, a company specialising in email encryption, which he still heads.

Rodney Westhead (Non-Executive, 66)

Joined the Company in April 2007. Chartered Accountant by training and until 2005 was Chief Executive of Ricardo plc, the major automotive consulting engineering group with sales of £200 million a year. He is Chairman of Clean Air Power plc and Non-executive Director of Mouchel plc and AEA Technology plc.

Norman Smith (Non-Executive, 63)

Joined the Company in June 2008. Norman gained his BSc (Mech Eng) at the University of Manchester Institute of Science and Technology in 1968 and then fulfilled various Sales and Marketing roles before joining Instron Ltd as Deputy Managing Director in 1982 and then becoming Managing Director of Instron and Senior Vice President of Instron Corporation. In addition, Norman was Senior Vice President and General Manager of Instron Asia/Japan between 2002 and 2007.

8.0 Appendix 2

Granted Patents

| Description | Country | Reference | Expiry date |
|--|---|-------------------------------------|-------------|
| Method And Apparatus For Measuring Strain/Dynamic Torque | Europe B1 UK/DE Japan US | 0518900 B1 3108881 5585571 | 3/4/2011 |
| Rotary Signal Coupler | GB | 2328086 | 18/7/2017 |
| Method And Apparatus For Measuring Impedance Of A Resonant Structure | Europe UK/DE/IT South Korea China | 0938682 532355 97181356.6 | 13/11/2017 |
| Apparatus For Tracking Resonant Frequency | Europe UK/DE China US | 0940004 B1 97181357.4 6467351 | 13/11/2017 |
| Electrical Signal Coupling Device | GB China US | 2350487 801235 6478584 | 25/5/2019 |
| Remote Interrogation Of The Frequency Difference Between Two SAW Devices Used For Pressure Measurement | Europe | 2355801 | 29/10/2019 |
| Packaged Device | GB | 2346493 | 3/2/2020 |
| Pressure Monitoring System | Europe GB/DE China US | 1198361 810891.9 6715355 | 28/7/2020 |
| Apparatus And Method For Interrogating A Passive Sensor | Europe GB/DE US | 1206686 6765493 | 4/9/2020 |
| Packaged SAW Device Using Pressure Sensor | GB China US | 2372328 Z101820356.6 6865950 | 10/10/2021 |
| Method Of And Device For Acquiring Data Of Dynamic Physical Processes Via Radio Link | Germany US | 10057059 C2 7026977 | 19/11/2021 |
| Wheel Condition Monitoring System | Europe GB/DE | 1341680 | 13/12/2021 |
| Interrogation Method For Passive Tyre Pressure And Temperature Monitoring System | Europe GB/DE/FR China Taiwan | 1419476 02816494.6 I264384 | 23/8/2022 |
| Contactless SAW Torque Sensor With Improved Temperature Stability | Europe GB/DE/FR China Taiwan | 1438555 02820375.5 I251077 | 16/10/2022 |
| Pressure Monitor Incorporating SAW Device | Europe GB/DE/FR Taiwan US | 1485692 1266046 7151337 | 17/3/2023 |
| Improved Method For Tracking A Resonant Frequency | GB US | 2387724 7089794 | 15/4/2023 |
| Valve Antenna | GB US | 2389188 7185535 | 20/5/2023 |
| Clip-On Torque Sensor | GB US | 2393521 7222541 | 16/9/2023 |

| | | | |
|---|----|---------|-----------|
| Modified Interrogation Method With RF Power Supply | GB | 2397379 | 6/1/2024 |
| Improvements In The Construction Of SAW Sensors | GB | 2413215 | 5/3/2024 |
| Method And Apparatus For Electronic Storing Of Calibration/Identification Data For A Wireless Linear Passive Sensor | GB | 2411960 | 11/3/2024 |
| Split-Ring Rotary Coupler Incorporating Dual Resonant Sensors | GB | 2413710 | 26/4/2024 |
| Interrogation Method For Passive Sensor Monitoring System | GB | 2411239 | 7/2/2025 |

9.0 Appendix 3

McLaren KERS

In early 2008 Transense Technologies was invited to propose a KERS F1 torque sensing system comprising hardware, interrogation electronics and application software. McLaren used this system during the 2009 F1 season. There is currently a gentleman's agreement not to use KERS for 2010, even though technically the regulations permit it. The possible re-introduction of KERS for the 2011 season is being discussed.

An F1 engine running at up to 18,000 rpm will generate very high centripetal accelerations, acting inwards, on a sensor mounted on the shaft surface – approaching 4000g for the shaft in question. This means that a force equal to 4000 times the weight of the sensor acts outwards trying to tear it away from the shaft. In addition engine vibrations are intense, circa 100g, while operational temperatures range from 70 to 170°C.

Transense employed their surface acoustic wave (SAW), quartz substrate, dual and triple resonator sensors to opposing sides of the shaft within a hermetically sealed cavity. A non-contacting radio frequency (RF) rotary coupler provided two way signal connection between sensors and miniaturised interrogation electronics located within the electric motor power electronics and control box. Software, which analyses the RF signals using a Discrete Fourier Transform (DFT) algorithm to generate independent torque and temperature signals with 3kHz update rate, together with further code enabling the FIA to check that performance of the KERS torque system stayed within their requirements, was also provided by Transense.

Static torque measuring performance (linearity, repeatability, hysteresis, creep and rotation) was established initially at Transense laboratories near Oxford. Typically at 120°C, the combined errors were less than 1% of full scale. Development proceeded in close co-operation with the electronics and engine suppliers to the F1 race team. Visits from FIA technical representatives were made to understand SAW technology and to ensure that the Company systems were able to provide software version control and retrospective traceability. Dynamic testing, at the engine manufacturer's facility, were carried out on both electric and engine dynamometers. The acid test on the actual race car followed. Manufacturing and calibration of KERS shafts including bonding of quartz dies, gold wire interconnects, hermetic sealing and calibration to meet the 2009 season's requirements were completed at Transense.

10.0 Appendix 4

10.1 Income Statement

| Transense Technologies plc | | | |
|-------------------------------|--------|-------|-------|
| Group Summarised Results | | | |
| Profit & Loss Account Summary | | | |
| | 2009A | 2010F | 2011F |
| | £000s | £000s | £000s |
| Turnover | 636 | 2,088 | 4,883 |
| Cost of Sales | 141 | 729 | 1,808 |
| Trading Profit | 495 | 1,359 | 3,075 |
| Salary/Remuneration | 1,245 | 911 | 984 |
| Office Overheads | 211 | 406 | 440 |
| Professional Costs | 249 | 240 | 290 |
| Depreciation/Amortisation | 224 | 269 | 286 |
| Share Option Charge | 61 | 61 | 61 |
| Fund Raising Costs | 68 | 165 | 0 |
| Interest Received | -21 | -19 | -31 |
| Profit/(Loss) before Taxation | -1,542 | -673 | 1,045 |
| Taxation | -70 | -25 | 0 |
| Profit/(Loss) after Taxation | -1,472 | -648 | 1,045 |

Source: Hybridan Estimates

Assumed Total Gross Cash raised of £2.038m

10.2 Balance Sheet

| Transense Technologies plc | | | |
|-----------------------------------|--------------|--------------|--------------|
| Group Summarised Results | | | |
| Balance Sheet summary | | | |
| | 2009A | 2010F | 2011F |
| | £000s | £000s | £000s |
| Fixed Assets | | | |
| Tangibles | 151 | 125 | 95 |
| Intangibles | 1,494 | 1,308 | 1,205 |
| Goodwill (Pneu Logic) | | 100 | 100 |
| Investments | 90 | 90 | 90 |
| | 1,735 | 1,623 | 1,490 |
| Current assets | | | |
| Stock | 33 | 233 | 379 |
| Debtors & Prepaid | 306 | 980 | 1109 |
| Cash | 1,277 | 1,657 | 2,603 |
| | 1,616 | 2,870 | 4,091 |
| Current Liabilities | | | |
| Creditors & Accruals | -523 | -213 | -195 |
| Net Assets | 2,828 | 4,280 | 5,386 |
| Share Capital + Premium | 15,436 | 17,474 | 17,474 |
| Accumulated Losses | -12,608 | -13,194 | -12,088 |

Source: Hybridan Estimates

Assumed Total Gross Cash raised of £2.038m

10.3 Cash Flow Statement

| Transense Technologies plc Group Summarised Results | | | |
|--|--------------|--------------|-------------|
| Cash Flow Statement Summary | | | |
| | 2009A | 2010F | 2011F |
| | £000s | £000s | £000s |
| Profit/(Loss) before Taxation | -1542 | -673 | 1045 |
| Adjustments for: | | | |
| Financial Income | -21 | -19 | -31 |
| Depreciation | 11 | 56 | 61 |
| Movement in intangible assets | 215 | 213 | 226 |
| Share based payment | 61 | 61 | 61 |
| Operating cash flows before movement in working capital | -1276 | -362 | 1362 |
| (Increase)/Decrease in receivables | -63 | -818 | -154 |
| Increase/(Decrease) in payables | 290 | -311 | -19 |
| (Increase) in stock | -15 | -200 | -146 |
| Cash used in operations | -1064 | -1691 | 1043 |
| Taxation recovered | 0 | 169 | 25 |
| Net cash used in operations | -1064 | -1522 | 1043 |
| Capital Expenditure | -380 | -156 | -153 |
| Net cash from financing activities | 26 | 2038 | 0 |
| Net increase/(decrease) in cash and cash equivalents | -1418 | 360 | 915 |
| Cash and equivalents at the beginning of year | 2695 | 1277 | 1637 |
| Cash and equivalents at end of year | 1277 | 1637 | 2552 |

Source: Hybridan Estimates

Assumed Total Gross Cash raised of £2.038m

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Hybridan LLP
29 Throgmorton Street, London EC2N 2AT
T +44 (0) 20 7947 4350, F +44 (0) 20 7947 4103
www.hybridan.com

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