STRUCTURAL MONITORING SYSTEMS plc

8 March 2007

The Listing Manager
Australian Stock Exchange Limited
Level 8, 2 The Esplanade
PERTH WA 6000

Dear Sir

The Company is pleased to announce that The Boeing Company has agreed to include the Company's Comparative Vacuum Monitoring (CVM™) structural health monitoring technology into the Boeing Common Methods - NDT (non-destructive testing) manual.

The recognition of CVM™ in-situ crack detection sensor monitoring technology as a standard NDT method is an aviation industry world first, and represents a major breakthrough for the Company's unique technology.

As a result of this agreement the Company's CVM™ technology is available to be used as a validated means for performing some types of in-situ structural integrity inspections on Boeing aircraft, to address crack detection inspections in future Service Bulletins and as an Alternative Means of Compliance for existing inspections.

The approval represents the culmination of a comprehensive two year validation program by the U.S. Federal Aviation Administration's Airworthiness Assurance NDI Validation Center at the Sandia National Laboratory, The Boeing Company, and a number of US airlines. The program also involved departments of the University of Arizona and the University of Iowa.

This is a significant development for the Company, which can now move towards revenue generation opportunities through marketing its CVM™ technology as an approved system to the operators of Boeing commercial aircraft worldwide.

Yours faithfully

Colin McDonald
Company Secretary

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BACKGROUND
SMS and STRUCTURAL HEALTH MONITORING

The agreement by Boeing to include the Company's Comparative Vacuum Monitoring (CVM™) in the Boeing Common NDT Methods (CMN) Manual represents a major breakthrough in the commercialisation of an outstanding Australian technology.

It also represents a significant cost saving opportunity for operators of Boeing aircraft.

As an aircraft ages its inspection requirements increase. On an older aircraft mandatory inspections can represent a large and increasing portion of the operating cost. In simple terms, the value of the asset declines and the cost of ownership increases.

Traditional airframe maintenance is driven by mandatory periodic manual inspections using visual and manual electronic tool aids to check for damage to structures. The goal is to automate these inspections, to increase damage detection reliability and reduce the costs of scheduled and unscheduled maintenance inspections and aircraft downtime.

The CVM™ technology offers:

- Reduced labour cost of mandatory inspections
- Efficient and electronic reporting on airframe structural integrity
- Improved inspection reliability
- Removal of secondary inspection damage caused by current invasive inspections and replacement material costs
- Reduced down time and ground support costs
- Optimised scheduling of all other maintenance
- Increase revenue from increased operational flight availability

In August 2006 Structural Monitoring Systems entered into a commercial license agreement with The Boeing Company.

The agreement established the commercial terms and Boeing proprietary information access rights to enable the company's CVM™ systems to be manufactured, certified, sold and distributed by the Company to the operators of Boeing commercial aircraft.

The agreement also established the terms under which Boeing will provide technical services and assistance to SMS.

The significance of the program and the license agreement is that the CVM™ technology can be used to address certain structural inspection requirements in difficult, time consuming and costly access locations in Boeing commercial aircraft.

It enables access to the full range of Boeing intellectual property and support necessary to develop sensor applications, and provides the commercial framework for the sale of CVM™ sensors and systems to Boeing aircraft operators.

Structural Monitoring Systems has also entered into a Joint Development Agreement with the leading European commercial aircraft manufacturer, Airbus.

The JDA specifies that license agreements shall be entered into within the term of the agreement.

The JDA is planned to conclude by the end of 2007 but may be accelerated at the request of Airbus to enable the CVM™ systems to be available for inclusion into existing and new Airbus aircraft.

The objective of the JDA is, "…development of Comparative Vacuum Monitoring (CVM™) for an in-flight Structural Health Monitoring (SHM) system."

At the conclusion of the joint development program SMS's patented CVM™ technology will be ready for the in-flight structural monitoring of Airbus aircraft.

The Company's CVM™ technology is one of the world's leading SHM technologies and offers the potential for significant cost savings in aircraft manufacture and maintenance.

SHM provides the potential to achieve the highest degree of design optimisation of airframes. The potential benefits of SHM are the minimisation of airframe maintenance costs and reducing human factor influences, together with increased aircraft availability and structural weight saving.

The JDA will see CVM™ systems developed to meet Airbus requirements for on-aircraft applications on both new and existing aircraft.

Airbus has been using the Company's CVM™ technology for five years in materials and structural testing programs and is currently using CVM™ on the full-scale structural testing program for the new A380 aircraft.

SMS achieved a breakthrough in the commercial aviation industry in 2006 during material testing associated with the Airbus A380.

The Company's CVM™ technology was successfully used by Airbus during qualification tests and provided vital information on the performance characteristics of GLARE®, which is a lightweight aluminium epoxy laminate. A substantial proportion of the A380 is constructed in the GLARE® material.

The accuracy of information which was provided by the CVM™ technology in real time had never been achieved before. This was regarded by Airbus as an historic first in the aviation industry that will lead to improved accuracy and efficiency of materials testing.

SMS and Airbus have been working in close cooperation on this challenging project to develop and use the unique CVM™ technology since 2001. The Company's involvement in the A380 program is continuing with CVM™ being used in the ongoing full-scale testing of the A380.

Entering into the JDA was a key milestone in the development of the technical and commercial relationship between Airbus and SMS.

It is a clear demonstration that the Company's patented CVM™ technology is at the forefront of Structural Health Monitoring for the aviation industry.

About SMS

SMS is a Perth based company, operating in Australia, Europe, the UK and the USA, that has developed a sophisticated structural health monitoring system with broad application across many industries, SMS has to date focused on the specific applications in the aerospace sector.

The company is listed on the Australian Stock Exchange (code SMN).

The company is engaged in projects with the two major aircraft manufacturers and a range of military aviation monitoring and test programs.

About CVM™

Comparative Vacuum Monitoring has been developed by SMS to detect and monitor structural integrity in a wide range of structures. SMS has spent more than $14m patenting, developing and proving the CVM™ technology.

CVM™ technology has been independently tested and comprehensively validated and is being used by several major aerospace manufacturers and military organisations.

It has a broad application across many industries where Structural Health Monitoring of critical components and equipment is required.

The unique characteristics of CVM™ make it widely applicable to a wide range of materials and operational requirements.

CVM™ offers the potential for risk reduction, improved maintenance, increased availability and lower costs.

Market Background – Structural Health Monitoring

The basic approach of Structural Health Monitoring is to incorporate non-destructive testing technology as an integral part of the aircraft structure itself.

Never before have direct in-situ monitoring of potential and known stress and fatigue sites, as well as monitoring of large areas to detect a wide range of damage, been applied as solutions to in-service aircraft.

To ensure aircraft structural integrity and maintain a high degree of safety, the inspection requirements for the monitoring of airframe structures is strictly regulated.

Structural integrity inspections of airframes frequently require invasive work to access difficult locations to check for fatigue cracking and corrosion. In some cases 90% of the total labour time involved is dismantling and reassembly of surrounding components. Typically, no damage is found and the whole process is repeated at proscribed intervals year after year. Often the invasive inspection itself is the source of secondary structural damage.

As an aircraft ages its inspection requirements increase. In simple terms, the value of the asset declines and the cost of ownership increases.

Traditionally the maintenance of airframe is driven by periodic mandatory manual inspections using visual and manual electronic tool aids to check for damage to structures. The goal, of automating these inspections using a SHM technique such as CVM™ is to increase damage

detection reliability and reduce the costs of scheduled and unscheduled maintenance inspections and aircraft downtime.

SHM for airframe inspections is desirable for commercial and military aircraft operators as it offers:

- Reduce extensive labour cost of mandatory inspections.
- Efficient and electronic reporting on airframe structural integrity.
- Improved inspection reliability.
- Removes invasive inspection damage risk and replacement material costs.
- Reduced down time and ground support costs.
- Optimised scheduling of all other maintenance.
- Increase revenue or operational flight availability.

SHM industry experts have benchmarked 35% as the expected cost savings on airframe maintenance and inspections.

The world's airline industry spends US$12.9 billion annually on airframe structural maintenance. A typical aging narrow body airliner will incur costs of approximately US$750,000 per annum in airframe structural maintenance. Assuming a comprehensive installation of SHM throughout such an aircraft enabling a 35% reduction in airframe maintenance and inspection, this has the potential to yield about US$250,000 in labour and materials cost savings per year.

These figures do not include the daily "down-time" cost for the aircraft operator which typically for a small airliner is US$50,000 – of which leasing charges alone can be US$10,000 a day.

There are about 8,000 commercial aircraft in the world today, of which more than 40% are older than 15 years and greater than 30% are over 20 years.

It's assumed that the addressable market for the retrofit application of SHM sensor technology is 50% of the more than 3,200 commercial aircraft over 15 years old, and that SHM technology is worth 20% to aircraft operators of the potential US$250,000 in savings in labour and material costs. This could make the value of the SHM technology market for aging commercial aircraft in excess of US$80 million per year.

The potential economic benefits of SHM are not limited to reduced maintenance and inspection costs and increased aircraft availability for aging aircraft. For new aircraft the primary economic drive is to reduce manufacturing and direct operating fuel costs and increase performance through the reduction of aircraft structural weight – a primary objective for all new aircraft designs.

Studies have shown that the application of SHM in fuselage areas that are designed according to fatigue criteria may allow a reduction in panel weight of up to 15%. This equates to about 1% of the total operational empty mass of the aircraft. For large wide body civil aircraft that has an empty weight in excess of 120,000kg this can represent a weight saving of approximately 1,200kg, enabling an increase in payload – range performance capability of up to 12 additional passengers or an extra 1,400kg of freight per flight, or additional range for long haul flights.

Also, because 100kg in excess operational weight can lead to an additional 5000kg of fuel being burnt per year, this could mean that a 1,200kg weight reduction due to SHM could reduce fuel consumption by 60,000 kg per year, or about US$30,000 per year.

A reduction in weight can be achieved through a reduction in structure. This is limited by current aircraft design margins and philosophies. However, an SHM system integrated during aircraft design and manufacture has the potential to reduce design margins and multiple load paths leading to a significant weight saving in a total airframe.

In summary, the cost benefits to aircraft operators of airframe SHM are:

- Simpler, less expensive maintenance programs
- Increased flight availability
- Improved scheduling of event driven maintenance
- Reduced maintenance related labour costs
- Fuel / Payload ratio and performance improvements

The potential benefits of using SHM technologies such as CVM™ to the manufacturer of airframes are:

- Competitive Total Cost of Ownership compared to non-SHM aircraft
- Better warranty management
- Better re-sale value of the aircraft

SMS considers that sale and licensing of CVM™ sensor and system technologies on a cost benefit basis will be a significant source of revenue in the SHM retrofit of aging aircraft and integration into new SHM enabled airframes.

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