



APPENDIX 4C – DECEMBER QUARTERLY REPORT & BRIEF OPERATIONAL UPDATE

Structural Monitoring Systems Plc ("SMS" or "the Company") (ASX: SMN) is pleased to provide a brief Company update.

Key Programme Overview

Boeing 737-NG Aff Pressure Bulkhead ("APB") Application – As previously released in relation to the B737-NG APB programme, multiple operators are now engaged with respect to this high-impact application – one that has resonated with many key global 737-NG fleet operators. This application is a time-consuming and "out-of-cycle" inspection, with a short inspection interval once the initial inspection cycle threshold is met. The ability to use CVM™ sensors to directly eliminate the critical in-hangar downtime, coupled with a short repeat inspection interval cycle, represents a very attractive business case for all B737-NG operators.

SMS engineers have now completed the design work for the APB CVM™ Kits. In anticipation of pending 2019 installations, SMS has already begun manufacturing multiple, complete APB CVM™ Kits. Additionally, following a detailed review of both unfinished, and finished, goods inventory levels, SMS has ordered significant volumes of key materials (used for sensor production) and key components from the Company's third-party, direct source suppliers. SMS is working with multiple airlines to determine the demand and installation timetable for the APB application, both in relation to potential pre-, and post-, OEM approval. Initial analysis, utilizing proprietary industry software showing global fleet utilization, indicates that well over a 1,500 aircraft over the next 3-4 years will be impacted by the Service Bulletins affecting the APB.

SMS continues the work with the OEM to approve CVM™ as an alternative means of inspection in 2019. Given the significant importance of the B737-NG aircraft globally, and the number of operators now approaching the cycle threshold that trigger the required mandatory, multi-day inspection, we believe all parties are aligned to review, develop and formally approve a CVM™ solution. The Company will provide shareholders further updates in the near term on both the process and timetable for approval as definitive progress warrants additional disclosure.

In-Flight Wireless Entertainment System – This inspection is typically completed overnight in the maintenance hangar, and it is a significant burden for operators given the frequency of the mandated inspection, the complexity of the maintenance tasks required and the distinct possibility that the aircraft is held out of service for an additional day due to a myriad of unforeseen delays in the inspection, hangar access, re-sequencing issues etc.

With assistance from Delta Air Lines, SMS has engineered a complete CVM™ Kit for the B737-900 aircraft. While this is an important and definitive first step, SMS is also directing design work to commence for multiple aircraft including the B737-700, B737-800, B757, A319, A320 and A321 in Q1/Q2 2019.

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As previously released, SMS and Delta Engineering ("DE") have entered into a pivotal MOU which explicitly defines the commercial relationship established between SMS and DE in relation to the applications across the A320 and B737 aircraft families. DE "owns" the Supplemental Type Certificates ("STC") controlling the installation and inspection protocols for the current WiFi-based systems. DE and SMS will seek, and ostensibly gain in an expected 3-6 month timeframe, a formal approval from the FAA for a new STC which will allow CVM™ to be used as an alternative method of inspection for the WiFi radome structure on aircraft. SMS is expecting to be conducting the first installs on multiple carrier aircraft, including Delta Air Lines, aircraft in as early as Q3/Q4 of this year, and continuing for years across a significantly larger number of operators, aircraft types, and global commercial fleets.

B757 CVM™ Kit Installs - SMS and Delta Tech Ops have scheduled the first of three installs of the 757 CVM™ Kits beginning in March at the Flightstar MRO facility in Jacksonville, Florida. As previously released, Delta had prioritized two key B757 applications for expedited approval from Boeing. SMS built and placed into inventory a limited number of CVM™ Kits for these applications anticipating the commencement of the programme. Delta and SMS are still awaiting further guidance from Boeing with regards to a potential new Service Bulletin and a possible modification to the airframe before making a commercial decision with respect to CVM™ installs on Delta's 757 fleet in H2-2019. Prior to receiving that guidance from Boeing, SMS will install three CVM™ Kits in order to initiate the programme – ahead of a fleet-wide "green light" - as there are numerous offsetting ancillary benefits received from installing CVM™ Kits on-board aircraft. Further, these installs provide valuable training to another large MRO facility (Flightstar) for the future CVM™ programmes. SMS and Delta personnel will provide the technical oversight to the Flightstar staff for the first installation, and subsequently Flightstar personnel, with oversight from Delta Tech Ops only.

Disclaimer

This announcement contains certain forward-looking statements with respect to the financial condition, operations and business of the Group and certain plans and objectives of the management of SMS. Forward-looking statements can be identified by the use of forward-looking terminology, including, without limitation, the terms "believes", "estimates", "anticipates", "expects", "predicts", "intends", "plans", "goals", "targets", "aims", "outlook", "guidance", "forecasts", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts.

Such forward looking statements involve known and unknown risks, uncertainties and other factors which because of their nature may cause the actual results or performance of the Group to be materially different from the results or performance expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the political and economic environment in which the Group will operate in the future, which may not be reasonable, and are not guarantees or predictions of future performance. No representation is made that any of these statements or forecasts will come to pass or that any forecast result will be achieved, or that there is a reasonable basis for any of these statements or forecasts.

Forward-looking statements speak only as at the date of this presentation and to the full extent permitted by law.

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Financial Information

Any pro forma and forecast financial information provided in this announcement is for illustrative purposes only and do not represent a forecast or expectation as to the Group's future financial condition and/or performance. This document has been prepared at a time where the review of financial information contained in this presentation has not been completed and accordingly, you should only rely on any forecast or expectation as to the Group's future financial condition and/or performance that is contained in a prospectus or other offering document which may be issued by SMS in connection with any offer of SMS securities.

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Structural Monitoring Systems plc

ARBN

106 307 322

Quarter ended ("current quarter")

31 DECEMBER 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,652	7,200
1.2 Payments for		
(a) research and development	(97)	(232)
(b) product manufacturing and operating costs	(2,359)	(4,382)
(c) advertising and marketing	(227)	(305)
(d) leased assets	-	-
(e) staff costs	(1,139)	(2,109)
(f) administration and corporate costs	(281)	(713)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	4
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	(136)
1.7 Government grants and tax incentives	17	23
1.8 Other	-	-
1.9 Net cash from / (used in) operating activities	(431)	(650)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(81)	(104)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (transfer to 1 year term deposit)	(66)	(66)
2.6 Net cash from / (used in) investing activities	(147)	(170)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-	-

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	3,019	3,251
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(431)	(650)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(147)	(170)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	22	32
4.6	Cash and cash equivalents at end of quarter	2,463	2,463

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,463	3,455
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	(436)
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,463	3,019

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000

131

-

Director's fees

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000

-

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8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	2,079	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

HSBC Operating loan facility, secured at 4.70%

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	102
9.2 Product manufacturing and operating costs	2,086
9.3 Advertising and marketing	250
9.4 Leased assets	-
9.5 Staff costs	1,014
9.6 Administration and corporate costs	213
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	3,665

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: 
(Company Secretary)

31 JANUARY 2019
Date:

Sam Wright
Print name:

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.