Dear Shareholders,

I am pleased to present our accounts for the full year to 30 June 2017.

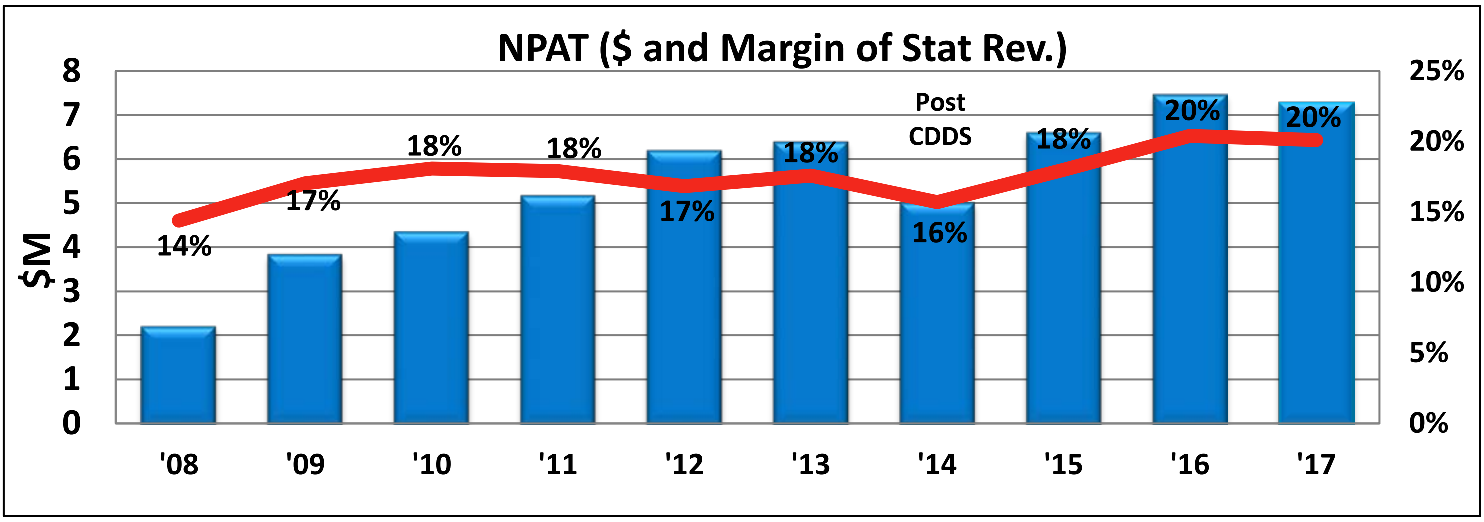
Let me be the first to comment that some of the numbers here look pretty ordinary. In this letter I will explain the combination of industry conditions and company decisions which have delivered this year's results.

I believe the choices we have made over the past several years have served the interests of shareholders well. Those choices have delivered a consistently stronger core business, one which has proved its stability through a period of radical change across our entire industry. Those choices have contributed to the 2017 year's flat results, but they have done so for the right reasons.

Financial results for the year ended 30 June 2017

- Revenue (Over-the-Counter) down 0.8% to $51 million
- NPAT down 2.3% to $7.3 million
- EBITDA down 3.5% to $12.5 million
- Bank debt unchanged at $0
- Earnings per share down 2.3% to 30.7c
- Dividends per share up 2.2% to 23.0c

As shown above and in the accounts, Revenue, NPAT, and EBITDA were down slightly. The quality of the company's earnings remained solid, as reflected by the steady NPAT margin.



Industry transformation in progress

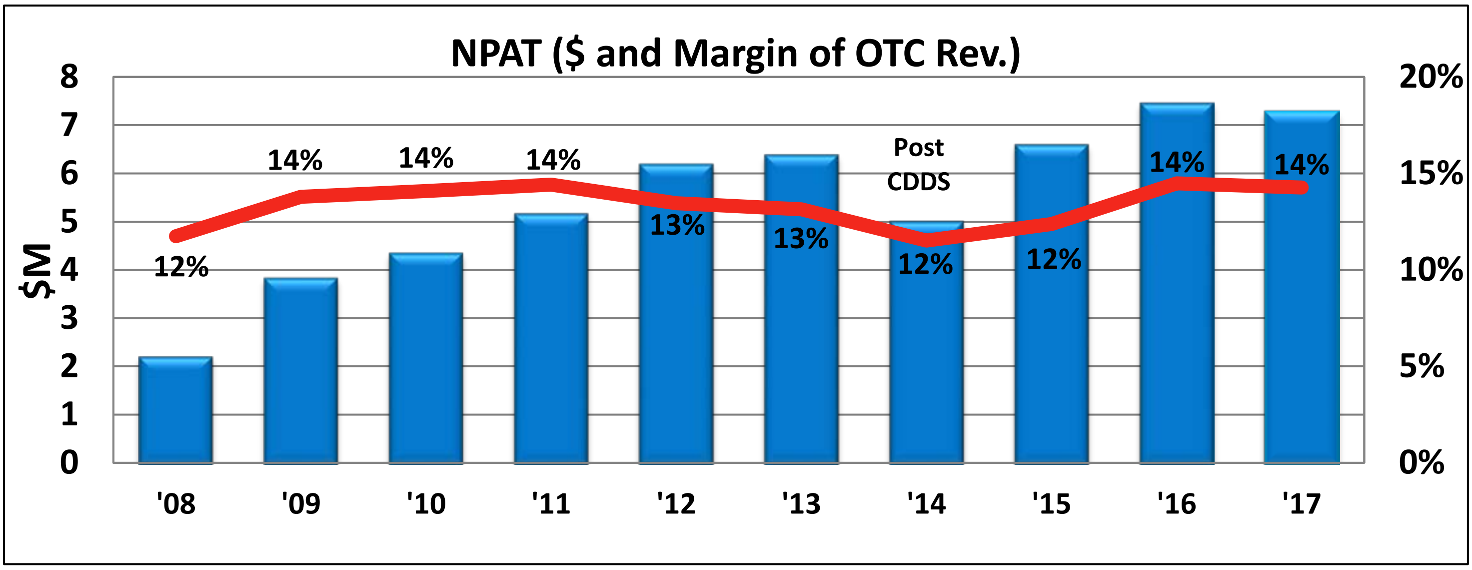
The entire dental industry is undergoing fundamental change which has been under way for more than ten years and may take another ten years to reach some new equilibrium.

Back when 1300SMILES first listed on the ASX in 2005, dentistry in Australia was still overwhelmingly a cottage industry, dominated by sole practitioners and two-dentist partnerships. Our company, having assembled a collection of seven multi-dentist practices by 2005, was a pioneer demonstrating that professionally managed dentistry could deliver better results for dentists, for patients, and for the owners of larger dentistry groups.

Soon enough other groups sought to imitate parts of our model. A number of such operators began buying dental practices with seemingly little care for how they would actually manage and operate such aggregations of businesses. A cynic would suggest that many of these operators sought to gather up a number of practices and then sell them off through a stock exchange listing. To us, it felt like these players were copying the look of the 1300SMILES model while ignoring the real business disciplines we had developed.

The Global Financial Crisis in 2008 put an end to any hope of selling hastily-gathered collections of dental practices to gullible investors. The GFC had little effect on 1300SMILES (see revenue chart below) because we continued to deliver services through our financially conservative business structure. Our business looked a little boring prior to the GFC; with hindsight we are grateful for the GFC as a severe test of the resilience of our business approach.

Post-GFC the dentistry market included a number of players who appeared to operate under financial structures which simply made it impossible for them to evolve into stable, profitable businesses. Some of these have been acquired or merged with others; some struggle on. Of those businesses whose accounts are available to the public, I have seen none which have quality businesses comparable to ours when measured by profit margin, return on equity, or dividends to shareholders.



In the years since the GFC and its aftermath, we have seen many dental operators fall into the clutches of various private health insurance companies. Some dentists jumped at the chance to become "preferred providers" to various insurance companies. Many of these have seen their margins squeezed as the insurance companies increasingly dictate the prices they can charge and restrict their clinical autonomy. Many have been astonished to find out that the same companies for which they are preferred providers have opened their own dental clinics nearby and actively steer patients to those clinics.

Is anyone surprised to find that the private health insurers entered the dental market for any purpose other than extracting more of the profit? I'm not, and I have been telling people so for many years.

Some of the larger aggregations of dental practices have also been caught in this trap. Some have sought to preserve their businesses by entering into comprehensive deals with private health insurers. Such deals bring the operators business for a while, but many have gone on to find out that these same private insurers are happy to compete with dentists for patients, and that they have many tools with which to steer patients toward company-owned practices.

This effort by private health insurers to control the allocation of patients to dentists continues. Our company has done well to stand somewhat aside, allowing individual dentists within 1300SMILES to make their own decisions about whether and to what degree they work with private health insurers. I have no doubt whatsoever that our dentists have benefited greatly from the knowledge and experience we bring in this area.

As always, we have focused on managing our company in the way you would if you owned 100% of the company. If you were the sole owner, I believe you would manage your company for long term stability and earnings growth. If the steps which deliver that strength and stability occasionally deliver a year of slow growth, that's OK. This is the approach we have always taken in managing 1300SMILES, and shareholders can be assured that we will continue to manage our company in this way.

Acquisitions and expansion

As I have reported on many occasions, our company scours the market constantly for suitable acquisition and expansion targets. We require all possible acquisitions to meet strict standards, and we demand that all acquisitions make an immediate contribution to our revenue and profit.

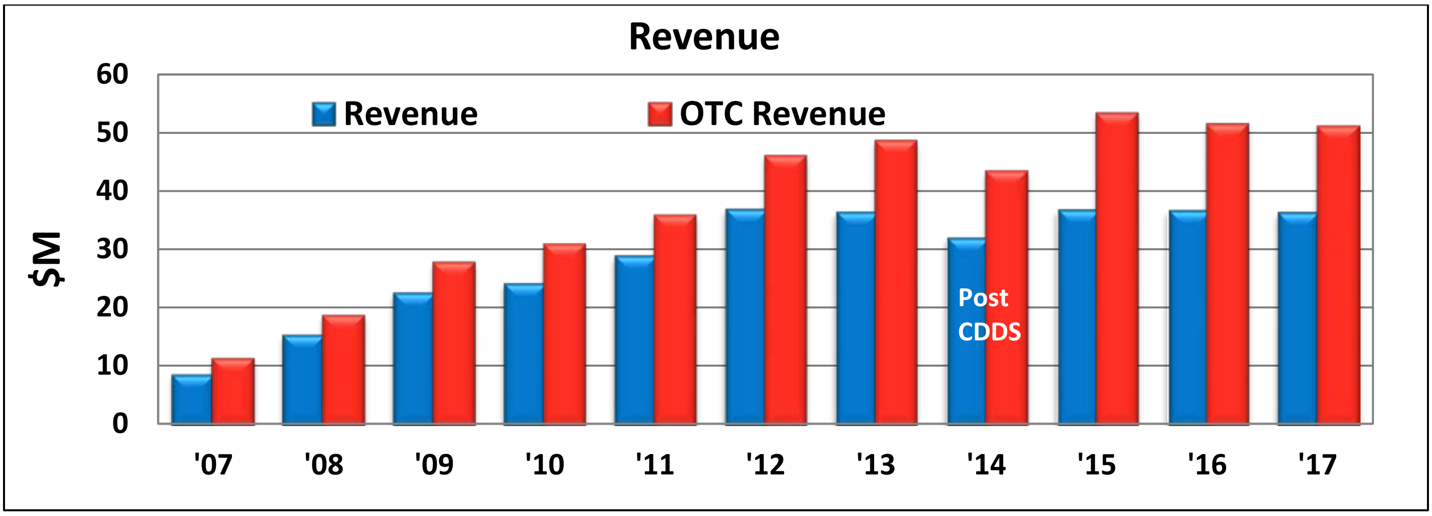
In some periods there are few suitable acquisitions available, and in those circumstances we make no apology for keeping our cash in the bank. Across the 2015 and 2016 years we made only one significant acquisition.

In the 2017 year, however, we completed five solid acquisitions. The two largest of these were completed right at the end of the year, and the others were included in our accounts at various stages during the year. Overall, the 2017 acquisitions had little effect on the 2017 accounts, but all of these will be included in our results for the 2018 year.

Our strict and conservative approach to acquisitions in 2015 and 2016 may well have contributed to our flat results in the 2017 year. I believe that shareholders are best served by insisting on top-quality acquisitions only, those which will make lasting and growing contributions to our results. I appreciate the patience shown by our shareholders in these circumstances.

Revenue history

Our Statutory Revenue and our Over-the-Counter Revenue for the last ten years have progressed as shown in this chart:



Reconciliation of OTC Revenue (non-IFRS) to Statutory Revenue per (Financial Statements)													
	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17
OTC Revenue ($m)	7.0	8.3	11.2	18.6	27.6	30.7	35.7	45.9	48.5	43.3	53.2	51.4	51.0
Less amount retained by self-employed Dentists ($m)	1.6	2.1	2.8	3.4	5.3	6.8	6.9	9.2	12.3	11.5	16.6	14.9	14.8
Statutory Revenue ($m)	5.4	6.2	8.4	15.2	22.4	23.9	28.7	36.7	36.2	31.8	36.6	36.5	36.2

"Revenue" in the chart above is the Revenue we report in our statutory accounts. "Over-the-Counter (OTC) Revenue" is a measure which captures the full value paid by patients for all services rendered. OTC Revenue gives a clearer indication of the scale of our business. The difference is that "Revenue" excludes the portion of patient fess retained by self-employed dentists.

Industry cycle & revenue

Along with the entire dental industry, we have seen slow growth for the past two years. There have been some specific factors affecting our company, most significantly the slowdown in the mining industry and the effect that had on a number of our regional operations. There are indications, however, that the cycle is turning.

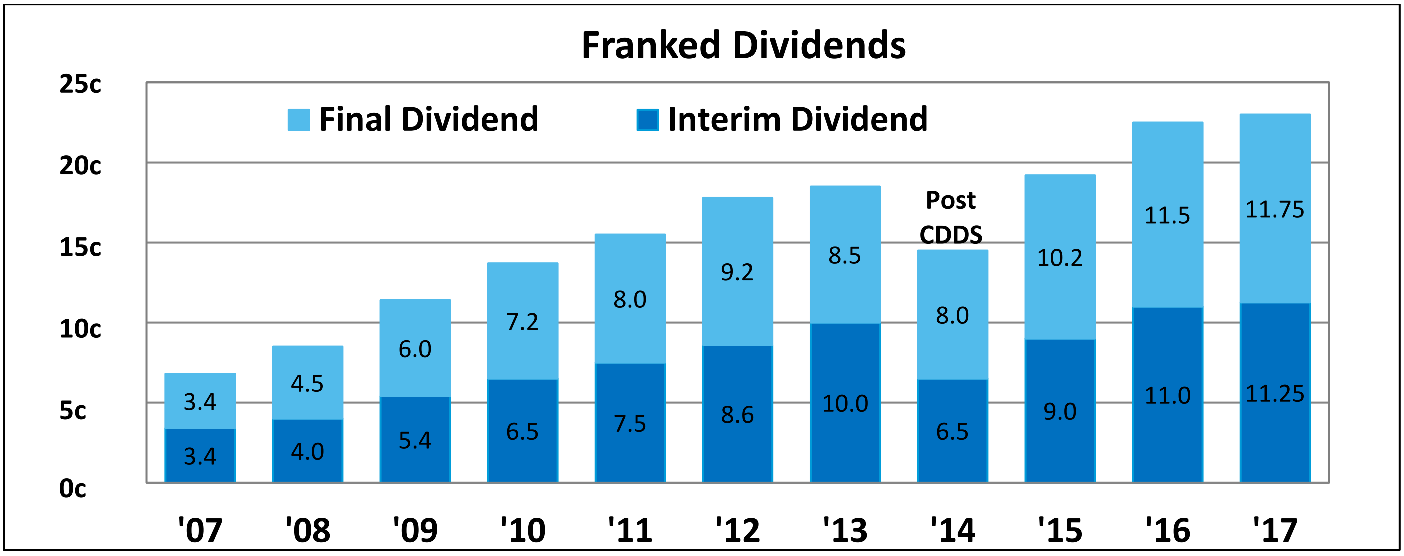
For a variety of reasons, the first half of each financial year has always delivered greater revenue than the second half. In the 2017 financial year, this pattern was reversed, with the second half delivering significantly higher revenues and profit than the first half, suggesting that we've seen the worst of the downturn.

This trend has continued in the early part of the 2018 financial year, with revenue in the first two months well ahead of that recorded in the same period last year.

Dividend

Long term shareholders know that I am always happy to tell the full story of how our company is going. I believe this sort of communication is important, and shareholders often tell me that they agree.

But there's another kind of communication with shareholders: the dividend. The full year dividend for the 2017 year has increased by only a small amount, to a fully-franked 23c for the full year. To my mind, this speaks volumes.



The board has approved this increase on the basis that all of the following are true:

- the quality of our business, as measured by our margins and many other factors, continues to improve
- we have a significant cash reserve and no debt
- we have established access to the capital needed for any acquisition we would conceivably choose to pursue, both through existing lines of credit and access to the equity markets
- our management team is tested and solid, the best we've ever had
- this increase keeps our dividend within the intended payout ratio range and does not constrain our ability to pay increasing dividends in the future.

Dividend policy in a changing market

We see a lot of discussion in the financial press about dividend imputation and whether or not it still plays a positive role in the Australian economy. The chief criticism is that the banks, mining companies, and major industrial companies have paid out too much in dividends over the past decades, constraining their ability to use their profit to ensure future growth.

Shareholders in many major companies have come to place dividend income above all else. Arguably, across Australian industry, too much capital has been paid out in dividends, at the expense of growth, innovation, and resilience of many of our major companies. Right now the market is watching the grocery sector, for example, where big dividend payers Woolworths and Coles (owned by Wesfarmers) will be going head to head with Amazon, a company which has never paid a divided.

We have considered with some care whether this issue has any bearing on 1300SMILES and our dividend policy. I wish to assure investors that we propose no change to our dividend policy. Our policy has been and will remain as follows: our dividends are meant to enable all shareholders to participate in the experience of owning our business. Our company makes profit, pays tax, and pays a significant portion of after-tax earnings as dividends.

We maintain this policy because, unlike many companies in the news, we do not face any significant capital constraint on our business. The cost of establishing and acquiring new dental facilities is low relative to the revenue a well-located and properly managed dental facility can generate. We have maintained a significant cash reserve and no debt for several years, years through which we have paid steadily increasing dividends.

Should we identify an acquisition requiring more money than we hold in cash, we have existing bank facilities in place. We are comfortable to use debt to finance profitable acquisitions and we have done so in the past. We remain focused on keeping the number of issued shares under control, as keeping the number of issued shares small makes it easier to increase Earnings Per Share and Dividends Per Share.

As I have reminded shareholders many times, my reward for acting as managing director comes overwhelmingly from dividends on the shares I have held since long before our company was listed on the ASX.

Thank you

Once again I express my heartfelt thanks to our dentists, clinical staff, and management staff for all of their hard work throughout the year. I also thank our many patients throughout Australia--I never forget that you pay for everything we do.

Finally, I thank our shareholders for your continuing support.

Dr Daryl Holmes (OBE)
Managing Director

ABOUT 1300SMILES LTD

OVERVIEW OF THE COMPANY'S BUSINESS

1300SMILES Ltd owns and operates full-service dental facilities at its sites in New South Wales, South Australia, and in the ten major population centres in Queensland. The company continually seeks to expand its presence into other geographical areas throughout Australia. It does so both by establishing its own new operations and by acquiring existing dental practices. The administrative and corporate offices are in Townsville.

1300SMILES enables the delivery of services to patients by providing the use of dental surgeries, practice management and other services to self-employed dentists who carry on their own dental practices. The services provided by the company allow the dentists to focus on the delivery of dental services rather than on the administrative aspects of carrying on their businesses. The dentists pay fees to the company for the provision of these services under a Dental Service Agreement with the company. In some circumstances the company also employs qualified dentists.

The dentists who use the company's services range from new graduates to experienced dental professionals. Several dentists who use the company's services have special interests and experience in such areas as endodontics, oral surgery, implants and periodontics and cross-refer work to other dentists who use the company's services.

The company provides comprehensive services in the areas of marketing, administration, billing and collections, and facilities certification and licensing to all participating dentists. The company also provides all support staff, equipment and facilities, and sources all consumable goods using the buying power which derives from such a large group of dental businesses.

FUTURE DEVELOPMENTS

The company's core objective is to continue to increase profits and shareholder returns while providing a rewarding environment for our staff and the dentists using our facilities.

The company aims to achieve a combination of organic growth in its existing locations and the addition of new practice management facilities.

The key drivers for future growth of the company are:

- Increasing profits by attracting more dentists to our existing facilities and expanding those facilities which are already at full capacity;
- Assisting dentists who already practice within the 1300SMILES system to increase their turnover and income through benchmarking, training, and mentoring;
- Establishing new practices in existing and new regions (greenfield sites);
- Acquiring substantial existing practices where we can do so on favourable terms; and
- Managing dental facilities owned by others.

DENTIST ENQUIRIES

Owners of dental practices who are interested in unlocking the goodwill value of their businesses (or freeing themselves from all the management hassles) are invited to contact Dr. Daryl Holmes, Managing Director, on +61 (7) 4720 1300 or md@1300SMILES.com.au.

Qualified dentists who wish to know more about joining one of our established facilities are encouraged to contact Dr. Holmes directly or email dentalcareers@1300smiles.com.au or visit our website www.1300smiles.com.au/careers.