

Dear Shareholders,

I am pleased to present our accounts for the full year ended 30 June 2018.

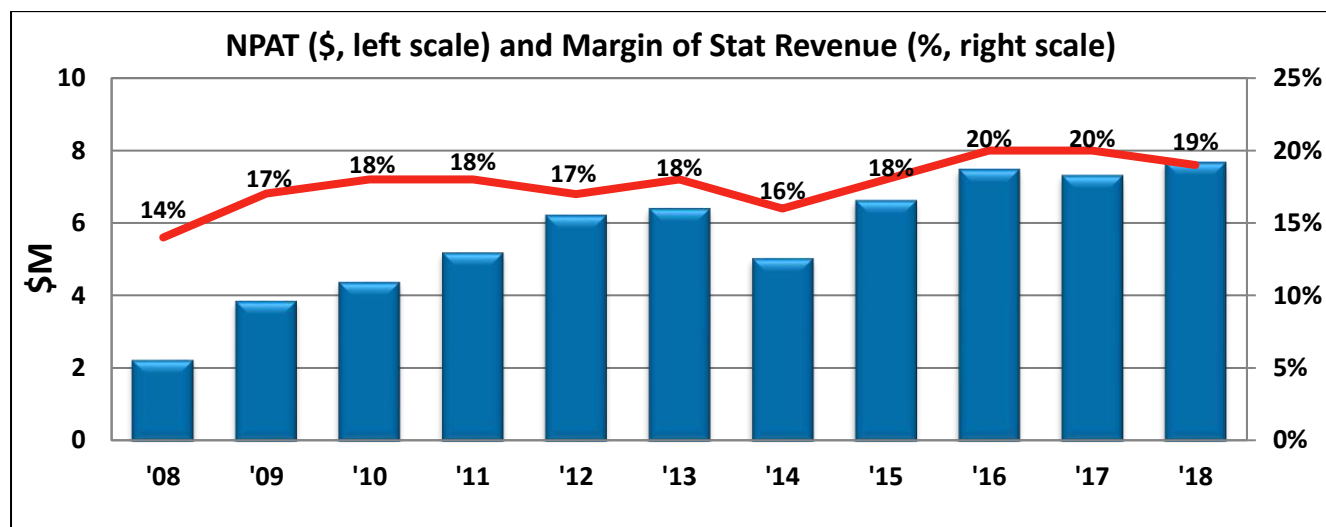
The positive trends I reported in our interim report last February continued and strengthened through the end of the financial year. We have seen positive year-on-year improvements on all key measures including Revenue, EBITDA, Net Profit After Tax, Earnings per Share, and Dividend per Share.

We finished the year with nine new facilities, bringing us to a total of thirty two. The number of acquisitions we completed just before, during, and just after the end of the 2018 financial year is up considerably compared to the previous two years. In the past year we acquired an additional eight established practices and opened a strategically essential greenfield site within the Health Hub Morayfield.

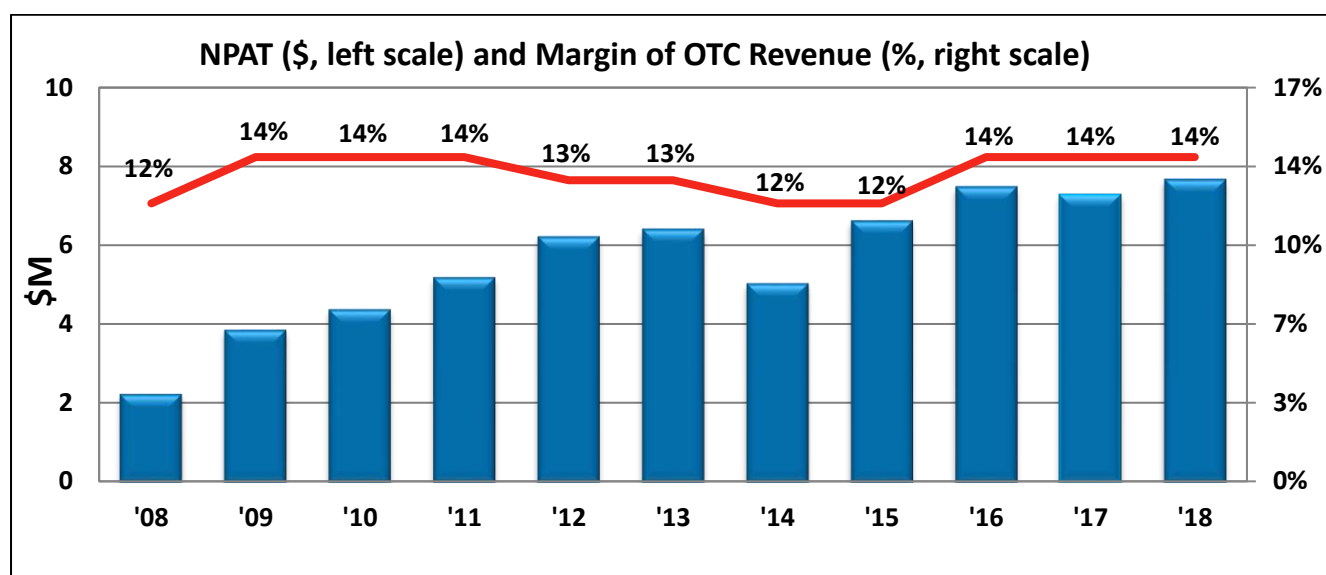
Shareholders know that we never use the number of acquisitions as a proxy for success, and we have a long track record of simply walking away from acquisitions which do not meet our strict standards. Happily, the past financial year was one in which we secured a number of good acquisitions at attractive prices.

Financial results for the year ended 30 June 2018

- Revenue (Over-the-Counter) up 9.6% to \$55.8 million
- NPAT up 5.0% to \$7.6 million
- EBITDA up 4.8% to \$13.1 million
- Revenue (Statutory) up by 8.8% to \$39.3 million
- Earnings per share up 5.0% to 32.2c
- Dividends per share up 4.3% to 24.0c



A measure I follow closely is our NPAT as a percentage of Statutory Revenue. While this measure, at 19.4%, is down slightly on the previous two years, it remains above the level of all earlier years. This measure is dragged downward somewhat in years in which we make a large number of acquisitions; to deliver only a slight decrease on this measure in a year marked by numerous acquisitions is a good result indeed.



Acquisitions

Right at the end of the 2017 year we completed the acquisition of two large orthodontic practices in Chatswood and Bathurst, NSW. These had no effect on our 2017 operating results but were included for all of the 2018 year and made solid contributions to revenue and profit.

In October and November 2017 we acquired established practices in Maleny, Roma, Gladstone, and Ingham, all in Queensland. These practices have been included in our results for part of the first half and all of the final half of the 2018 year.

In March 2018 we acquired an established practice in Buderim, Queensland. This practice was included our 2018 results for only a few months but will make full year contributions from now onward.

In June 2018 we announced the opening of a new flagship practice at Health Hub Morayfield, a medical, dental, and allied health centre in one of the fastest growing parts of southeast Queensland. This is the first new greenfield site we have opened in some years, reflecting the fact that we require a high level of certainty and a great strategic fit to justify starting a new centre from scratch.

Our Health Hub facility accommodates nine chairs and secures a strategic position in this fast-growing region of southeast Queensland. The magnitude of the growth in this region is startling, perhaps best illustrated by the fact that the Health Hub occupies fully refurbished premises of 14,000 square meters previously occupied by a Bunnings store.

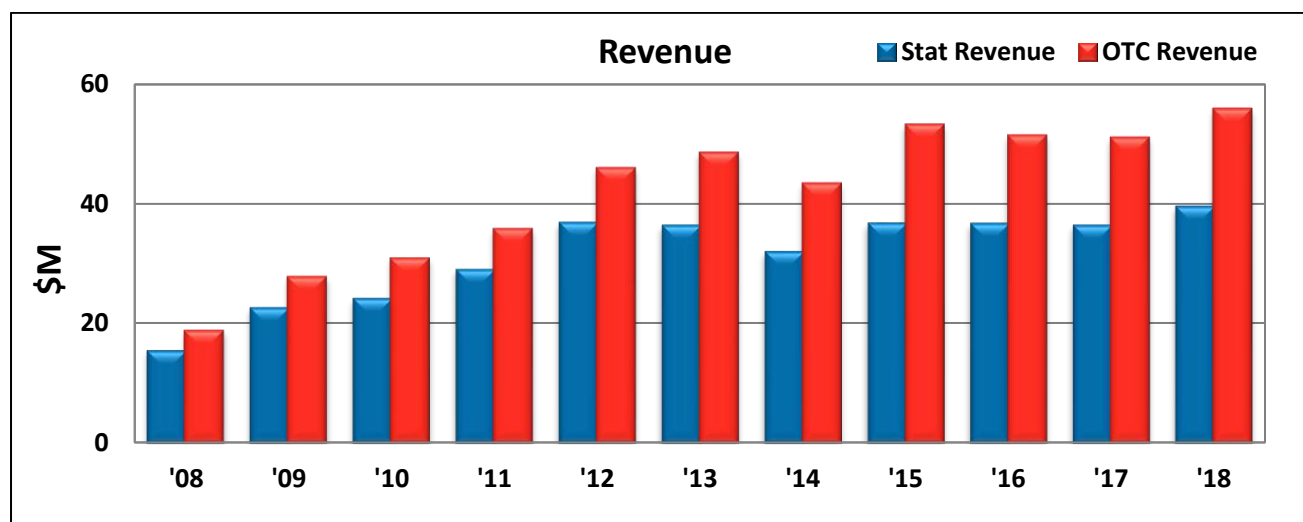
Finally, at the end of June 2018 we announced the acquisition of an established practice in Noosa. This transaction was completed in July 2018 so most of the current year's activity at this practice will be included in our 2019 results.

Our strict and conservative approach to acquisitions saw us make very few in the 2015 and 2016 years. While shareholders join me in cheering for further expansion, we can all now savour the fact that by not buying during those years we clearly avoided over-paying. While the increasing flow of acquisitions in the 2017 and 2018 years is more to our taste, I assure shareholders that we have not and will not lower our standards.

We acquire established practices only when they make immediate positive contributions to our results. When we open greenfield sites we do so only with convincing evidence of ample local demand for dental services and a clear strategic fit. Our conservative balance sheet means that we have the ability to complete suitable acquisitions on any conceivable scale.

Revenue History

This chart illustrates our Statutory Revenue and Over-the-Counter Revenue for the past ten years:



Reconciliation of OTC Revenue (non-IFRS) to Statutory Revenue per (Financial Statements)											
	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18
OTC Revenue (\$m)	18.6	27.6	30.7	35.7	45.9	48.5	43.3	53.2	51.4	51.0	55.8
Less amount retained by self-employed Dentists (\$m)	3.4	5.3	6.8	6.9	9.2	12.3	11.5	16.6	14.9	14.8	16.5
Statutory Revenue (\$m)	15.2	22.4	23.9	28.7	36.7	36.2	31.8	36.6	36.5	36.2	39.3

"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 fees retained by self-employed dentists.

Dividend

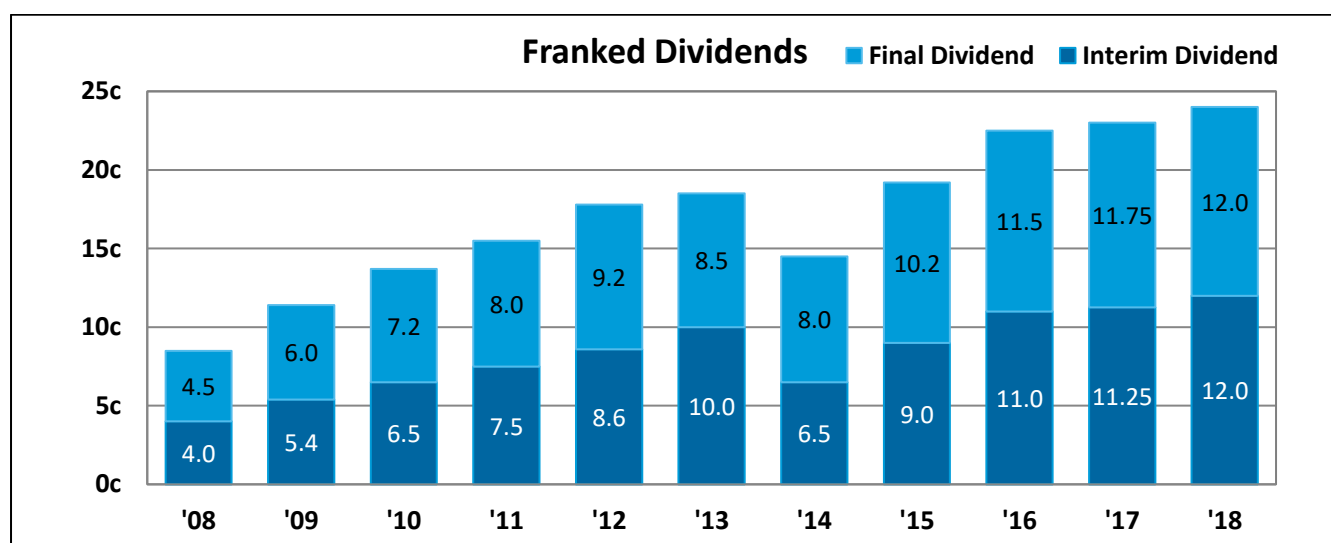
Long term shareholders would know that we regard our dividend as a key measure of our performance. Within the bounds of sensible and conservative management, we seek to deliver a steadily increasing dividend over the long term.

The only significant interruption was back in 2014. That year saw the sudden cancellation of the Chronic Disease Dental Scheme, which had the effect of reducing revenue across the dental industry by \$1 billion.

At this distance I can almost say that I'm grateful for the 2014 event. It was painful at the time, but as a severe test of our management and our resilience I can now almost regard it as a blessing. The fact that this disruption resulted entirely from an irrational government decision made it more annoying, but it reminds us that surprises can come from any direction.

I will record once again the basis upon which our Board has approved this year's dividend, because these things are important:

- the quality of our business, as measured by our margins and many other factors, continues to improve
- we have a significant cash reserve
- we have a modest level of debt devoted only to the acquisition of productive assets
- 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

Last year at this time I advised shareholders that our Board was carefully monitoring the ongoing debate about changes to the dividend imputation system. This debate still rages.

In the absence of any real change to the taxation of franked dividends, I advise that we do not intend to make any change to our dividend policy.

Industry transformation

In my letter covering the 2017 annual report I discussed the history and current state of the dental industry at some length. Keen followers should have a look back at that report, as everything I said there remains relevant and important today.

The transformation of the dental industry from one of cottage practitioners to one of professionally managed service delivery is only partly complete. Around seventy percent of dentists still work in old-fashioned practices operated by one or two dentists, perhaps with a part-time associate. In many cases these dentists are adequately compensated for their toil. They're not operating businesses in any real sense, but rather working as self-employed professionals. Dentists are perfectly entitled to choose to work this way, and many will continue to do so.

Companies at our end of the market have come to be known as "Dental Service Organisations." Of the main DSOs operating in Australia, three are listed on the Australian Stock Exchange, one is listed on the New Zealand Stock Exchange, one is controlled by a private equity firm, and one is owned and operated by a large health insurance fund. The owners and operators of the various DSOs bring different objectives and different timelines to their dental operations.

All of the DSOs have dealings, to a greater or lesser extent, with the various health insurance funds. This mixture of structures, objectives, ownership, and deeply conflicting interests suggests to me that the DSO sector is one in which we will see further changes.

A core conflict arises from the fact that the various health funds seek, on the one hand, to build a controlling relationship with dentists, by referring patients but placing limits on treatment and billing. On the other hand the health funds can at any time establish their own dental clinics and steer patients away from dentists formerly treated as "preferred providers." Too many dentists have built practices based on health fund relationships and then watched as their patients were diverted to clinics owned and/or operated by those same health funds.

Our company has always treated the health funds with caution. Our dentists are free to make their own individual decisions about how they interact with health funds. They do so from a position of some security, for they know that if their health fund referrals dry up they're still supported by the flow of patients delivered by the 1300SMILES system.

1300SMILES deals with this industry-level instability, as always, by sticking to our knitting. We do everything we can to ensure that our patients and our dentists are delighted by their experiences with our company. We work constantly to make dentistry more affordable to more people through the use of our innovative payment and service delivery plans. We control our costs, make profit, and pay the tax we owe without complaint. We pay franked dividends to our shareholders, and we do everything possible to ensure that our shareholders are treated as the real owners of our business.

Board of directors

During the year we welcomed two new directors, Evonne Collier and Jason Smith. Both bring energy, enthusiasm, and plenty of useful experience. Our Board remains lean, nimble, and efficient with just four members, all of whom are actively engaged in overseeing our company.

At the AGM in November 2017 we gave our thanks and farewells to Glen Richards, whose term as director came to an end at that time. We wish him well.

Thank you

Once again I express my heartfelt thanks to our dentists, and to our clinical, administrative, and management staff for all of their hard work throughout the year.

Our Board, our dentists, and all staff join me in thanking our many patients throughout Australia--we never forget that you pay for everything we do.

Finally, I thank our shareholders for your continuing support.

Dr Daryl Holmes (OBE)
Managing Director



1300SMILES has proudly supported the YWAM Medical Ship for the past 10 years.

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.