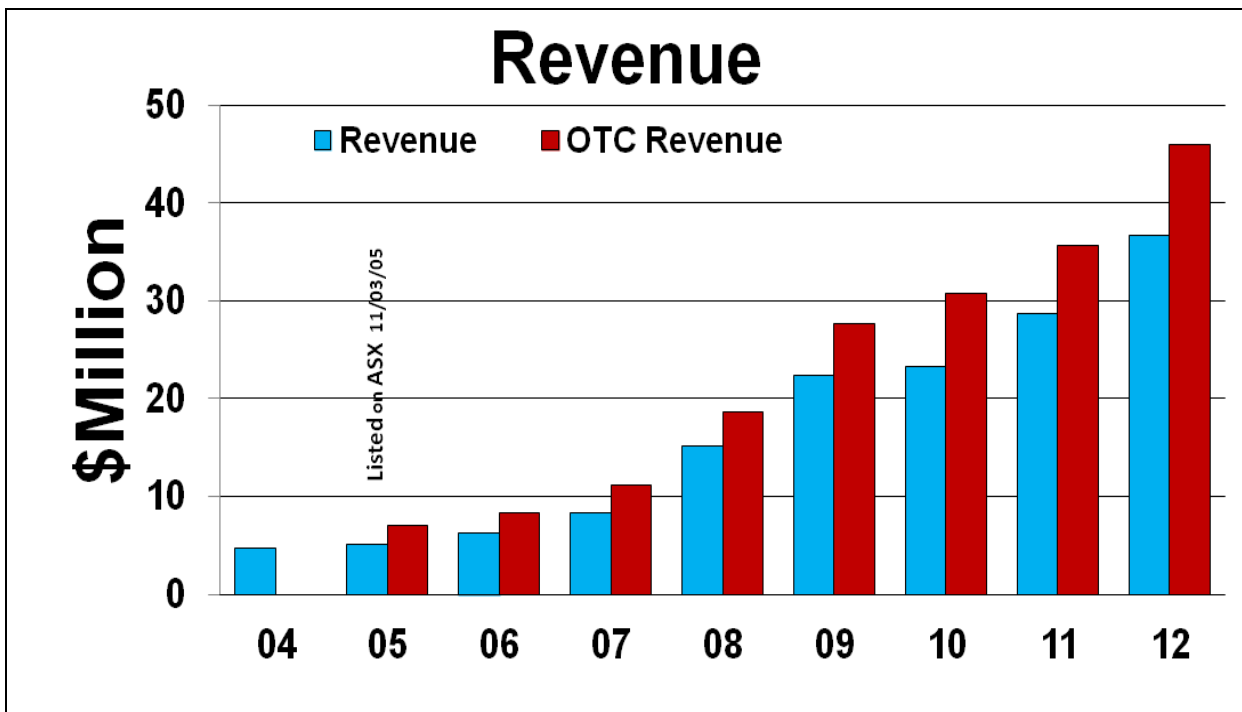


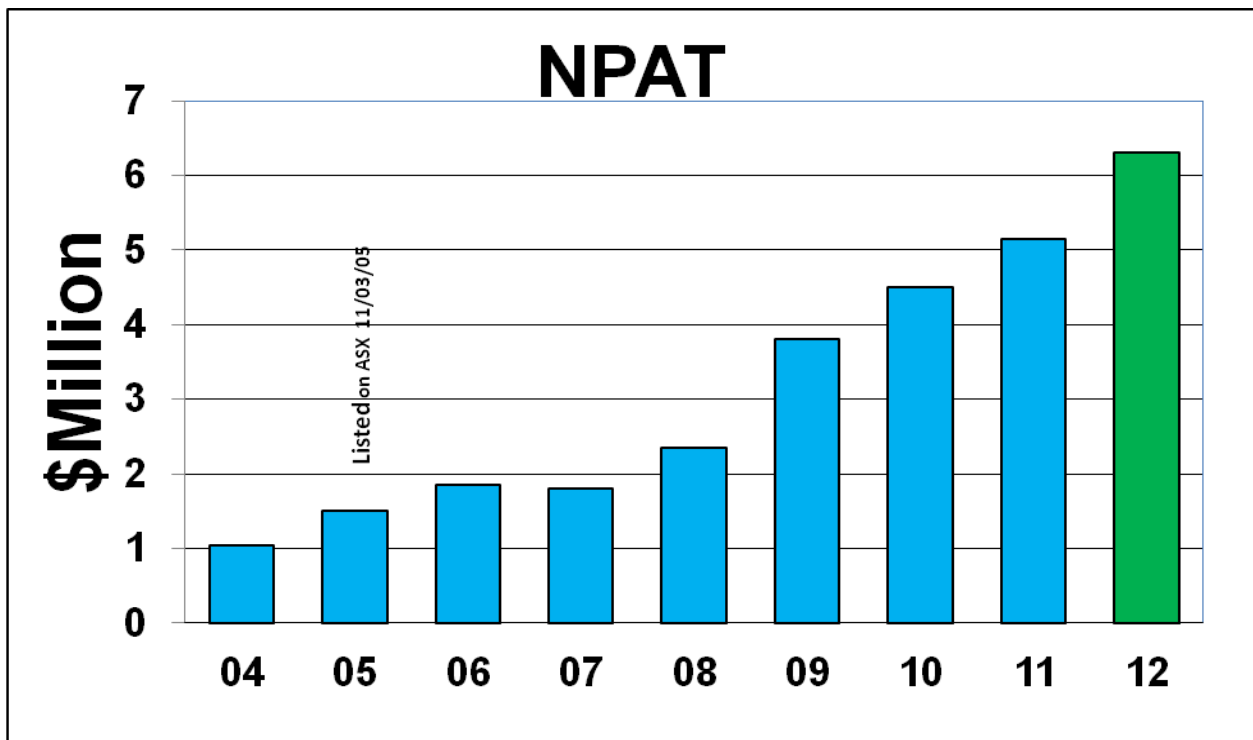
**Annual General Meeting 29 November 2012
 Managing Director's Address**

It gives me great pleasure to welcome you to the eighth Annual General Meeting of 1300SMILES Limited.

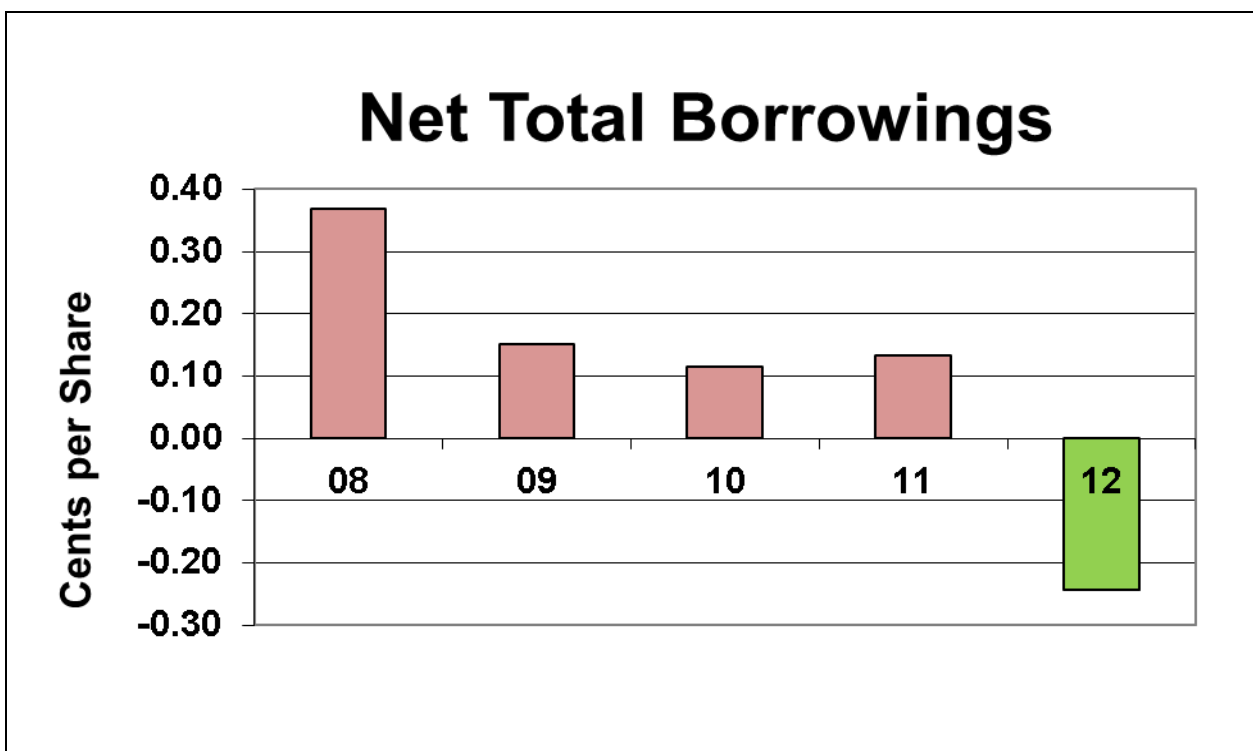
My address to you today is split into two parts, which I'll describe roughly as *what's the same* and *what's different*.

The first part of my report is about what's the same. This part is similar to the report I've given to shareholders every year for the last several years. In this part I will address our financial results for the year to 30 June 2012. I am extremely pleased to report that 1300SMILES has, for the fifth year in a row, achieved new record levels of Revenue, Net Profit After Tax, Earnings Per Share, and Dividends Per Share.





In addition to our agreeable operating results, 1300SMILES finished the 2012 financial year with the strongest balance sheet ever, with no net debt and a record net cash balance of \$5.9 million. Our company finished the 2012 financial year in the strongest financial position it has ever enjoyed.



That strong financial position is a key element in the other part of my address this morning, the part in which I'll talk about the significant changes affecting our entire industry and our vision of the path forward. I'll return later to the details of our performance in the 2012 year, but for now I'll address the outlook for the entire dental industry and how 1300SMILES will manage the big changes which are happening right now.

As of the last day of November 2012--tomorrow--the commonwealth government's Chronic Disease Dental Scheme (CDDS), which paid for urgent care delivered by dentists in private practice, will end. No further care can be rendered under the CDDS to any patient after that day, even if that patient has already commenced a course of essential treatment which has not been completed.

The CDDS was initiated by a Coalition government and has been criticised along the way as "welfare for the rich" because it was never means tested. That was a legitimate criticism, in my view, although about 80% of those who accessed the scheme held some type of pension or concession card. Apart from that the CDDS did make a useful contribution to the dental health of many Australians otherwise disabled by painful dental conditions and often suffering serious and completely unnecessary disease arising from dental conditions which could have been cured by routine dental care.

The CDDS will end entirely and be replaced, for the foreseeable future, by nothing. The commonwealth government has announced some new dental funding schemes, but these are not scheduled to take effect until 2014--after the next election--and we have to assume that whichever side forms the next government that the new schemes will be delayed or reduced, at best, and cancelled altogether at worst.

The human side of this situation is sad indeed. Minor dental ailments left untreated can progress to painful emergency afflictions which add to the congestion in hospital emergency rooms. They can also progress to debilitating ailments which make their sufferers unable to work or conduct normal lives. As I have said many times before, 1300SMILES stands ready to work with any government at any level in a practical effort to address the unmet need for dental care in Australia.

The end of CDDS will also have a substantial effect on the dental industry. I fear that the magnitude of this effect is not yet fully understood by the industry as a whole. The CDDS, which paid private dentists about a billion dollars annually, came to represent nearly twenty percent of all private dental fees paid in Australia.

That means, inescapably, that nearly twenty percent of the average dentist's revenue came from CDDS. Obviously if the average is around twenty percent, then some dentists were way above that level and some way below. I'm sure that many of them know precisely where they stand, but equally I'm certain that many of them do not.

I'm reminded of the many surveys in which people are asked to rate their own driving skill. The vast majority of drivers believe that their skills are far above average.

Among dentists there may be something similar going on, as many dentists I speak to seem to think that they're positioned to weather the cancellation of CDDS with little or no damage to their businesses. Many dentists estimate that the portion of their recent revenue which has been derived from CDDS is way below twenty percent. In many cases I think those dentists are being optimistic, but if they're correct then that means there's an equal number of dentists somewhere in Australia whose CDDS revenue is far above twenty percent of their revenue. I wonder what they're going to do without that revenue.

There aren't many industries which could withstand a sudden revenue decline of twenty percent without significant disruption. From the close personal study of the financial records of many, many dental practices I can tell you that only a small proportion

of small dental practices operate on a profit margin equal to twenty percent of their revenue.

This suggests to me that, on average, small dental practices will simply not be profitable in the post-CDDS environment. The dentists in solo practice and small partnerships will experience this as a sharp drop in their personal income. The larger practices organised along business lines and which pay their dentists market rates for the work performed may well find that their businesses actually lose money. For most, that will be the first time they've ever had such an experience, and the shock may cause them to fumble on for some time before they react.

This situation has major implications for the owners of small practices. Many such dentists, now approaching retirement age, have believed that they'll be able to sell their practices and add the cash to their retirement funds. The bad news for such dentists is that many of their practices, as businesses, will have no value whatever, as no rational buyer would pay good money for the goodwill in a business which makes a loss.

This has one immediate implication for 1300SMILES. While we will continue to study many possible acquisitions, we don't believe that it will be possible to form a true picture of the performance of any dental practice in the post-CDDS world until we can see the results in the BAS returns for the quarter ended March 2013, that being the first full quarter of operation under the new circumstances. Many dentists assure us, hand on heart, that the end of CDDS won't have a major effect on their results. For my part, I'll be waiting to see the real numbers.

The elephant in the room today, of course, is this: what effect will the end of CDDS have on the revenue and profit of 1300SMILES? The answer to that question has several parts, so I'll ask you to bear with me as I work through them.

First, most dentists in the 1300SMILES system operate their own businesses and pay the company for the provision of facilities, staff, and all services. We collect abundant data about each dentist's practice, and you can be sure that we have made all of our dentists aware of how much of their revenue has been coming from CDDS-funded patients.

Some of our dentists have, in fact, little exposure to CDDS. This gets them off to a good start, but we don't yet know how these dentists will be affected by the increased competition from other, soon to be under-employed dentists. Within 1300SMILES we create every opportunity for dentists to create long term, personal relationships with their patients, but even so some patients will no doubt be tempted by cut-price dentistry on offer elsewhere.

At the other end of the scale, some of our dentists have until now derived a significant portion of their fee income from CDDS. They will face the loss of this income as well as the increased competitive pressure which will come to bear on all dentists.

Having studied this situation from every angle, I think that it is fair to describe it as a crisis, one which will disrupt dentistry and, most likely, result in significant change across the industry.

But a crisis is something which should never be allowed to go to waste. 1300SMILES is heading into the coming chaos with its head held high and a clear view of what we need to do to come out of it stronger, bigger, and more profitable than before. I

believe that our approach will meet the needs of dentists, patients, and shareholders.

Here's what we're going to do: we're going to make dentistry far more affordable. We're going to eliminate the main barriers to regular dental care. We're going to make ongoing basic dental care available at a fixed price to everyone who wants to participate.

Just last month we announced that 1300SMILES was rolling out its new interest-free payment solution program in all twenty four of its dental practices. This membership-based program provides all routine dental care, including two annual checkups, for a fixed annual fee, payable in small fortnightly or other increments designed to suit each member's financial situation.

We believe that this will greatly increase patient participation in the recommended bi-annual examinations. For many patients this will be enough to head off developing problems altogether, freeing member patients from the discomfort and sometimes serious expense arising from aggravated dental problems.

Even with the best of ongoing care, some patients will of course require more intensive treatment, whether as a result of injury, existing problems, or ageing. Our members will be able to get the care they require, at the appropriate time and before one problem leads to a cascade of other dental and health problems. When a member requires a higher level of treatment this care will be provided both at a 10% discount to the off-the-street price and on interest-free payment terms enabling payment to be stretched over six to twelve months.

So far I have been astonished by the rate at which both established patients and new patients have been signing up as members. We always knew that there was demand for more routine dental care, but that fear of the cost was holding people back.

It's hard to convey just how excited I am about this program. It suits the needs of our dentists, who want to see full appointment schedules despite the demise of the CDDS, and it suits the needs of many current patients and of many more people who are not yet patients of *any* dentist. It is worth noting that about 70% of all Australians never see a dentist until they're forced to do so by pain. We expect that our new payment system will help convert some of these people to regular patients.

We're already seeing the impact of this program on our forward appointment bookings. Given the explosive growth of our membership program it's fair to say that this is just the beginning.

We deliver our new member-based payment solutions package in coordination with Dental Members Australia, a Brisbane-based company in which 1300SMILES has taken a significant ownership stake. The management of DMA is top-notch, and the fit with 1300SMILES is just about perfect.

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Dental Members
AUSTRALIA

I invite you to think for a moment about the social impact of fixed-price preventative dental care. In the short run, many people will have far healthier teeth and gums, and they'll be spared the discomfort and expense of serious dental problems over the coming years. It won't take long before this approach to dentistry will start to show up as decreased demand for emergency room treatment of painful problems which started out a few months or years earlier as routine dental maintenance issues. It's reasonable to expect that public dental waiting lists will blow out courtesy of the closure of the CDDS; however, we hope that this initiative will assist to get and keep as many people as possible off those lists.

Added to this interesting situation is that we're about to see the first new graduates from Australia's three new dental schools at James Cook University, La Trobe University, and Charles Sturt University entering the work force for the first time.

There will be more dentists available at the same time as fewer people will be able to get access to dental care, at least under the old model. I believe that our interest-free payment solution program will help create opportunities for some of the additional graduates by expanding the total pool of dental services carried out in Australia.

We're aiming for a big change here, and there's no better time for big change than the middle of a crisis. This change doesn't have to be limited to just those practices operated by 1300SMILES Ltd. We're working on various projects to leverage our management expertise, along with that of Dental Members Australia, to make this sort of program available throughout Australia through dentists and dental groups beyond 1300SMILES Ltd.

I don't mean to suggest that the way forward will be easy or that we'll make uninterrupted progress toward a new and much higher level of revenue and profit. But I can promise you that 1300SMILES is pulling out all the stops to ensure that this crisis doesn't go to waste. I want to stand here next year at this time and tell you that we've once again achieved new records for Net Profit After Tax, Earnings Per Share, and all of the other measures which are important to shareholders.

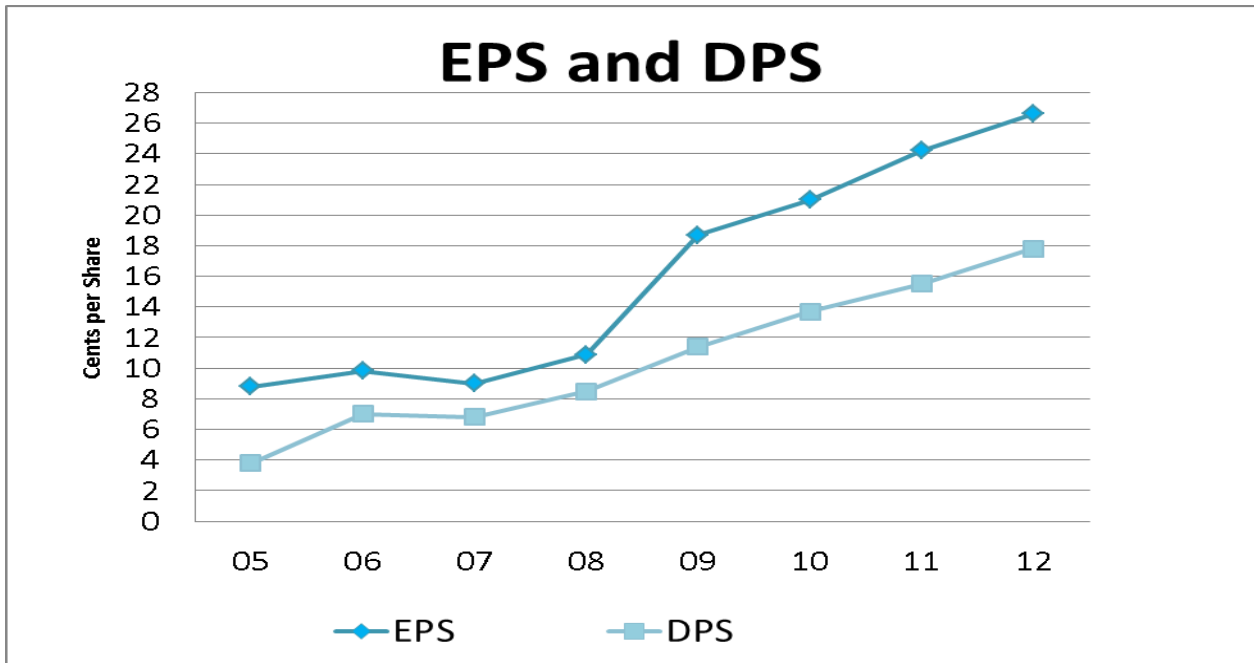
Over the years I have always made every effort to speak frankly to shareholders. Many of you have commented on that fact, and I assure you that those comments mean a great deal to me. In the past I have never shied away from telling you just how good the 1300SMILES business is.

At this turning point in our industry I can only describe the situation exactly as I see it. There will be disruption and discomfort in the industry. I am extremely pleased that we're heading into this turbulent period with a strong balance sheet and a strong underlying business, and on balance I'm confident that 1300SMILES will come out of the coming crisis stronger than before.

As always, we make no forecasts as to our future results. But rest assured that we will apply the same focus and energy which delivered our excellent results in the 2012 year to the 2013 year. I am truly excited about the challenges and opportunities ahead.

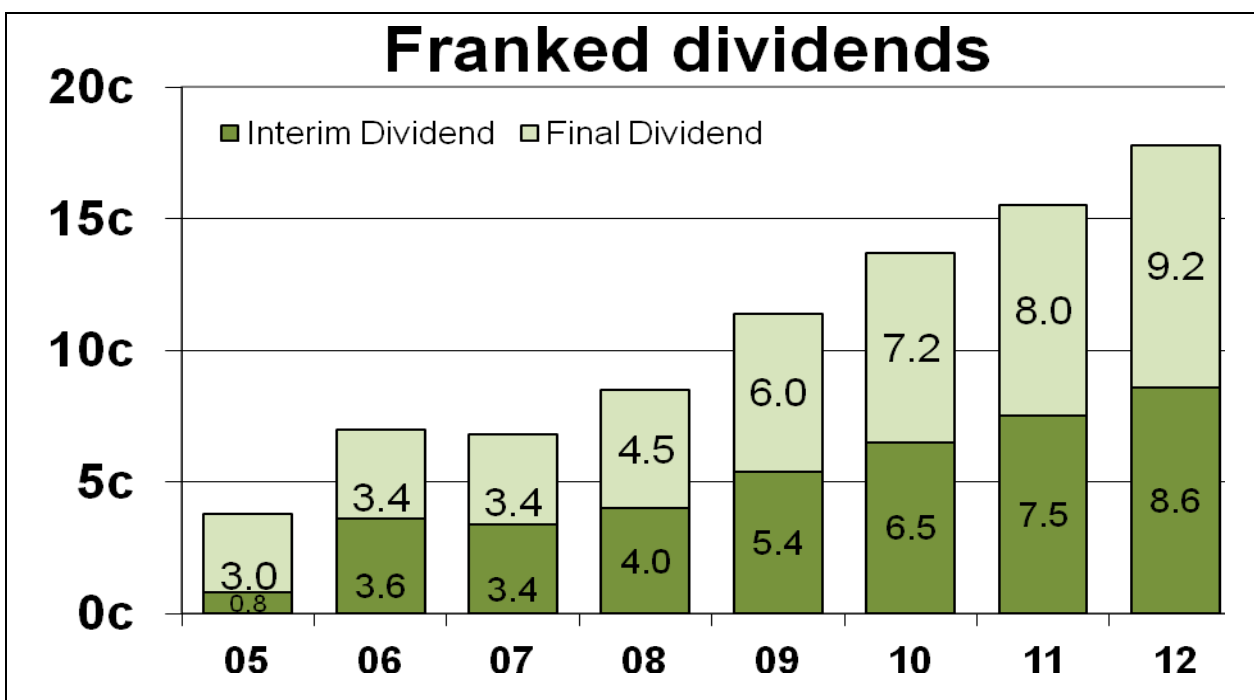
Now let me turn back to the 2012 financial year to give you a better idea of the strength the company brings to the period ahead.

Net Profit After Tax in the 2012 year continued its steady growth, advancing by 20% to \$6.2 million. Earnings Per Share grew by 10.1% to 26.6c. The Growth in Earnings Per Share was constrained by the issue of almost 2.4 million new shares early in the financial year. Long term shareholders would know that our company is extremely careful about issuing new shares, as any such issue has an impact on Earnings Per Share.



In this case, however, I believe that we issued the new shares at the right time and for the right reasons. This issue added considerable strength to our balance sheet, and I expect that all shareholders will join me in taking comfort from that strength as we head into the post-CDDS era.

The solid growth in Earnings Per Share enabled the company to increase the full-year franked dividend by just under 15% to 17.8 cents per share.



An important aspect of these good results, along with those of every previous year since listing, is the fact that they result entirely from sticking to our knitting and doing what we do best. Building on a broad base, 1300SMILES delivered solid organic growth by assisting established dentists to increase their revenue and by adding additional dentists to established facilities.

We always seek to build in extra capacity for additional dentists whenever we build or expand one of our sites. We've known for a long time that this works well for us, but in 2012 we once again reaped the rewards, as we did in 2011. Looking ahead, I'm confident that the turmoil in the industry will make 1300SMILES an even more attractive way for dentists to organise their businesses.

During the 2012 year 1300SMILES acquired practices at Warana and Caloundra (Sunshine Coast, Queensland) and opened the new North Shore practice in Townsville, finishing the year with twenty-four multi-dentist facilities.

It has always been my practice to remind shareholders that I am every bit as enthusiastic about dividends as you are. As you probably know, I receive far more from this company in the form of dividends on my shareholding than I do as salary and benefits. This, I believe, is as it should be.

As our company has grown, more of its managers and key staff have themselves become shareholders, and they have done so by acquiring shares in the company. We're keen to have our employees as shareholders, but we do *not* give the stock away. When you see 1300SMILES employees on the share register, you know that they *bought* their shares. That's also as it should be.

Corporate social responsibility has always been important to me personally and to 1300SMILES. Our key relationship in this regard is with Youth With A Mission and the YWAM medical ship, which delivers medical and dental care to remote parts of Papua New Guinea and other remote settlements in the Pacific. I have personally served as a dentist on board the ship several times, and I encourage other 1300SMILES dentists and staff to take the opportunity to give something back to our less fortunate neighbours to the north.



This year our corporate responsibility role has expanded dramatically as part of our core business as we develop our effort to make dentistry available to those for whom the cost has been a barrier. It's lovely when the best thing you can do for the business is also and exactly the right thing to do, and I approach the coming year with great energy and optimism.

Thanks

I thank you for your support through our first eight years as a listed company, and I thank our many employees and associated dentists for their hard work in delivering these results to you.

Daryl Holmes
Managing Director