

LETTER FROM MANAGING DIRECTOR

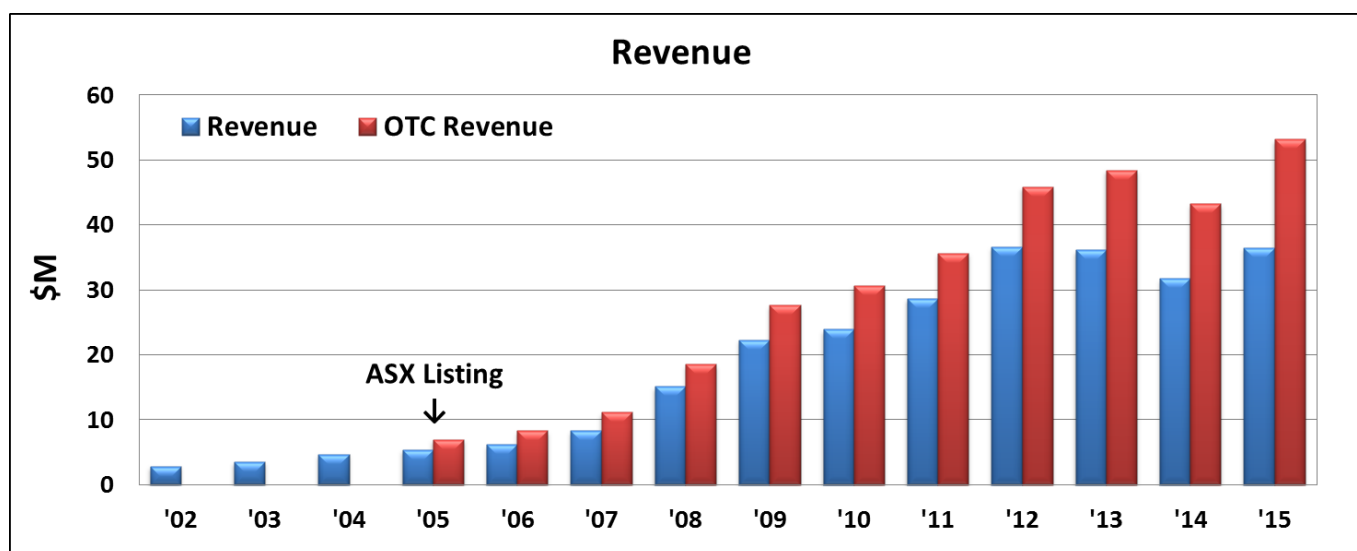
Dear Shareholders,

I take great pleasure in delivering our eleventh annual report. The 2014/2015 financial year was positive in all respects. As well as being our eleventh year as a listed company, it was the second full year of the new era (as discussed in detail in last year’s annual report) in the dental services industry. Both our long term and our new era results are pleasing indeed.

Financial Results for the year ended 30 June 2015

- Revenue (Statutory) up 15% to \$36.6 million
- Revenue (Over-the-Counter) up 23% to \$53.2 million
- EBITDA up 25% to \$12.1 million
- NPAT up 32% to \$6.6 million
- Earnings Per Share up 32% to 27.8c
- Full year dividend up 32% to 19.2c per share

On every important measure, the results for the 2015 year show significant improvement over those of the previous year. I believe our company has successfully adapted to the conditions now prevailing in our industry, and that our many initiatives have boosted our results in ways which are starting to show in our accounts but which have a long way to run yet.



Reconciliation of OTC Revenue (non-IFRS) to Statutory Revenue per (Financial Statements)											
	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15
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
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
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

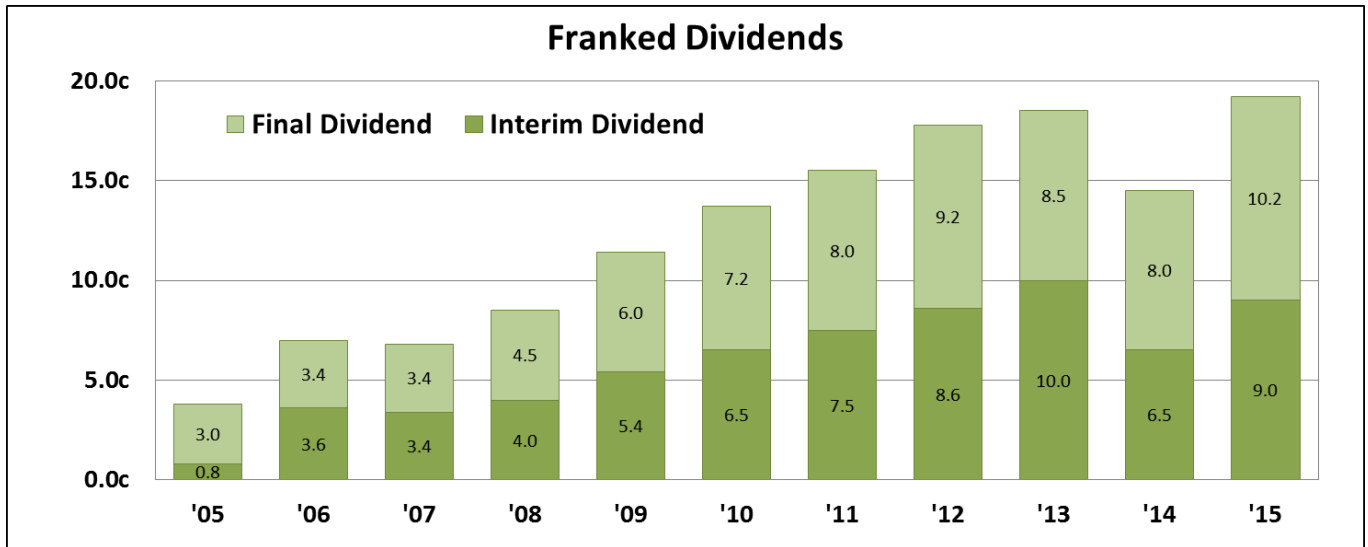
“Revenue” in the chart above is the Revenue we report in our statutory accounts.

“OTC Revenue” is a measure we track 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.

Dividends

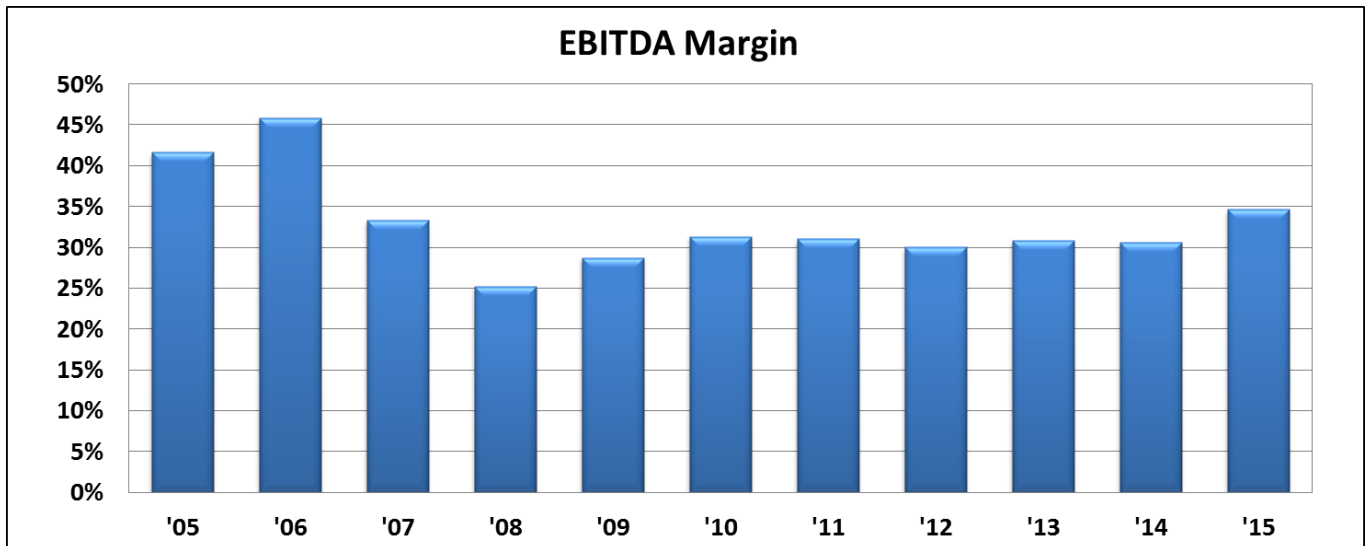
1300SMILES has an uninterrupted history of paying fully franked dividends. The final dividend for the 2015 year of 10.2c is not only the largest single dividend ever paid, but it also brings our full year dividend to the highest total ever at 19.2c.

As always, the dividend reflects both the company’s performance during the year past and our view of the future. The current year has commenced with continuing growth and further improvement from every aspect of our business; I have every reason to expect that the future for our dividend will continue the trend established over the past eleven years.



Earnings Before Interest, Tax, and Depreciation (EBITDA)

EBITDA is widely used as a measure of the quality of a company’s core operations. Our results for the 2015 year include a solid increase in EBITDA. Our EBITDA margin, as illustrated below, increased nicely from the level of previous years. This year’s notable increase results from both our constantly improving business and from the successful acquisition of BOH Dental, which for the first time has been included in our results for a full financial year.



Making Dentistry Affordable

The driving theme behind both our business and our role in society is “making dentistry affordable.”

Our \$1-a-day Dental Care Plan has become a core part of our business. We believe that it has enabled thousands of people to commence and maintain regular dental care programs which might otherwise have been out of reach financially. Others use it simply for the peace of mind that comes from knowing that the cost of their basic preventive dentistry is fixed.

Building on our experience with the Dental Care Plan, we turned our minds to the challenge faced by people whose well-being depends on more extensive dental treatments. Recently we introduced our 1300SMILES DMA Vouchers program. This enables people to spread the cost of more expensive dental programs over longer periods with payments of just \$99 per week.

\$99 PER WEEK | **1300SMILES DMA VOUCHERS**

Vouchers are available for \$3,000, \$4,000, or \$5,000. These are repaid at \$99 per week and incorporate a discount on the value of the voucher. A \$3,000 voucher, for example, is paid off in 27 payments of \$99, for a total of \$2,673. The patient enjoys a discount of \$327 and does not pay any interest or administrative charge of any kind.

Normal value of treatment	You save	You pay only
\$5,000	\$545	\$4,455
On treatment day you pay		\$0
Plus 45 weekly payments of		\$99

The early response to this approach has been strong indeed. I expect the voucher program to become an important aspect of our business as it is rolled out more widely across our group.

BOH Dental’s first full year with 1300SMILES

Our acquisition of BOH Dental has lived up to its promise in every way, making a significant contribution to the growth of NPAT and EBITDA, expanding our capacity to deliver high-end and complex dental services, and broadening opportunities for our dentists to make referrals to specialists within our group.



Equally important, our first full year with BOH on board has shown that the acquisition and integration process has been well managed, with benefits flowing to all parties. BOH was a substantial business in its own right prior to joining 1300SMILES, and merging groups of professionals requires a great deal of care and attention. I acknowledge the good faith and professional behaviour of all involved in creating this success.

The structure of our arrangement with BOH has one incidental effect which may interest some shareholders. Without getting bogged down in the accounting details, BOH makes a much larger contribution to our Over-the-Counter Revenue than to our statutory Revenue. As I have noted before, it is our OTC Revenue which best represents the scale of our business, as it represents the total amount paid by our customers for services rendered.

Oral health is health, full stop

Forgive me for climbing on to my soapbox for a moment, but I’ll remind you that good oral health is essential to good health generally. If dental care is neglected the result is ill health and increased health care expense. Poor oral health can and does lead to a downward spiral though poor diet and progressively declining health, often leading to a hospital emergency room and treatment costing many thousands of dollars, all of which could have been avoided via routine dental care and, in some cases, more elaborate corrective dental care.

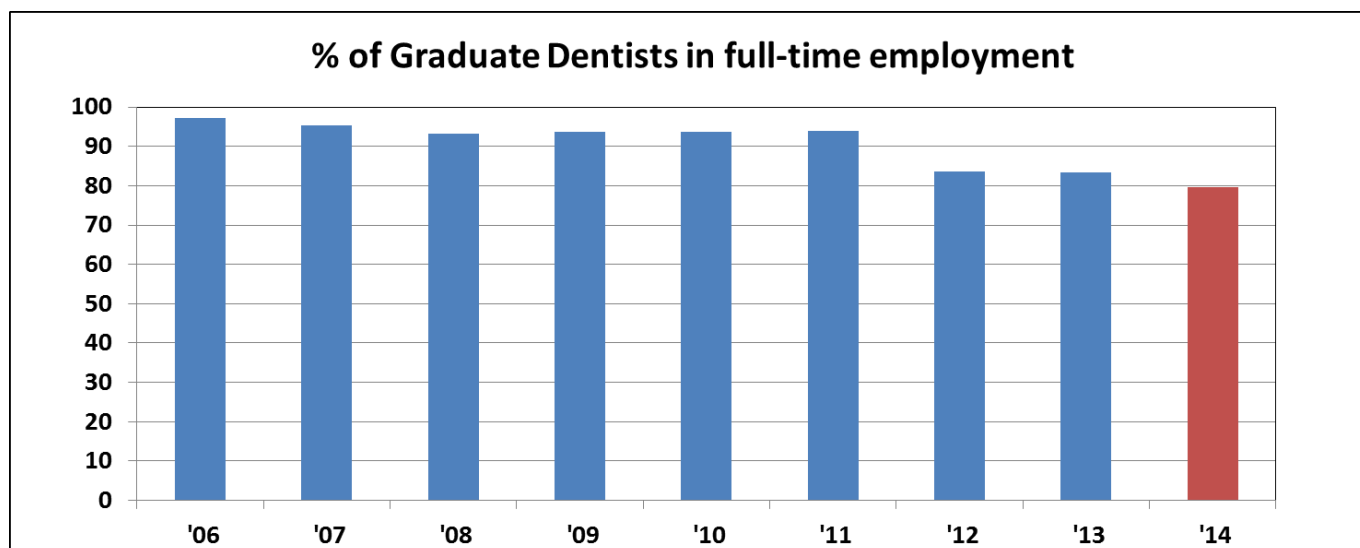
We are of course in the business to make money, but I am proud that our company does so by catching developing health issues early. If we can divert just a small fraction of Australia’s ballooning health care costs to our dental surgeries then we will be doing the right thing by our dentists, our shareholders, the thousands of people we assist to avoid unnecessary suffering, and by our society at large.

I wake up every day committed to making sure 1300SMILES does more dentistry than the year before because I’m sure this is the right thing to do for every reason.

The broader dental industry

Our strong results for the 2015 year reflect the success 1300SMILES has had in the current industry conditions. As the only player with a long history as a listed entity, 1300SMILES is sometimes taken as a proxy for the state of the dental industry. That could be a mistake.

A number of factors continue to make the dental industry difficult. The chief factors are a continuing oversupply of newly-graduated dentists and continuing government confusion as to how dentistry fits into the health care system and how it should be funded. These factors and others create headwinds for all dental operators, from solo suburban dentists to other larger operators.



A long-time advisor of mine always tells me I should be happy when things are hard, because if it were easy, everyone would be doing it. From where I sit, ours will remain a challenging industry for the foreseeable future. Our success over the years has come from our ability to deliver creative solutions to the delivery of dental care in Australia.

Real results and accounting results

From time to time I comment on how the accounting standards sometimes require us to report results which do not reflect the way in which an owner would understand our business. This can go either way, sometimes making our reported results look better than I think they should, sometimes making them look worse. Long term shareholders would know I'm quick to point out any divergences between accounting figures and practical reality.

I have no such complaint about the 2015 accounts, and I am comfortable that our statutory results are entirely compatible with our real, practical results.

Welcome our new director

I am extremely pleased that Dr. Glen Richards has agreed to join the board of 1300SMILES. Glen was the founding managing director of Greencross Ltd (ASX: GXL) and guided the growth of that company to over 120 veterinary practices plus 200 pet specialty stores. He is also a director of regenerative medicine company Regeneus Ltd (ASX: RGS). I have known Glen for many years and I have no doubt that he will make a strong positive contribution to our company.

Youth With A Mission

Our close relationship with YWAM extends back several years now. YWAM works the way we all should: they identify needs and just meet them, directly, efficiently, and right away. YWAM's Medical Ship delivers medical, dental, optical, and ophthalmology services directly to remote villages in Papua New Guinea, in most cases to people who otherwise have access to no regular medical care.

In July YWAM's new ship, the MV YWAM PNG, completed its first nine-week voyage with a crew of 196 volunteers. Thanks to the greatly increased capacity of the new ship, YWAM visited twice as many villages and treated three times as many patients as they could accommodate with the previous ship. In addition to direct treatment, YWAM also delivered basic healthcare training to over 12,000 people.



The old and the new.... 500% bigger!

www.ywamships.org.au

I personally do everything I can to encourage 1300SMILES staff to support YWAM, especially by volunteering for a tour of duty. I urge you to have a look at YWAM's web site for more information, and I recommend the story about Harold the dental therapist.

Yours faithfully

Daryl Holmes
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.dentalcareersaustralia.com.au.