

MOS Report



36th Fiscal Term Business Report

April 1, 2007 - March 31, 2008

MOS FOOD SERVICES, INC.

Top Message

Q | How was your business performance for the current fiscal year?

A | We aggressively implemented measures to reinforce MOS Burger's business in the midst of a difficult business environment such as surging raw material costs.



President and CEO
Atsushi Sakurada

To start talking about the business environment in the current fiscal year, the extremely difficult business environment still continues for the food and restaurant chain industry as seen in competition beyond business category and the elevating cost to secure personnel.

In the midst of such an environment, we have made concerted efforts as the entire the MOS Group aiming at further enhancement of the brand value and recovery in business performance with our corporate objective to "make people happy through food" under our management philosophy of "human contribution" and "social contribution."

If I talk focusing on the MOS Burger business which is the core business of the MOS Group, we have conducted meticulously attended sales promotion campaigns in the most aggressive manner. To begin with, we have implemented an overall renewal of main products through "staple dish innovation," discount coupons to motivate many clients to try our products, time-limited sale of creative dish which would give a sense of the season and daintiness to clients, as well as local menus (area limited products) to promote local material / local consumption. In addition, we have enhanced service level of our shops by a massive reinforcement of supervisors and a major renewal of cellular phone website aimed at its expansion and reinforcement as a sales channel. As a result, the number of clients were increased by 5%, and we managed to exceed sales of the previous year by 2% for the first time in the past 14 years. On the other hand, we were forced to revise prices starting from March 28 due to the hike in raw material costs.

In regard to our outlets, we limited new openings to 48 stores to allow us to concentrate management resources on the reinforcement of existing stores, and by aggressive closures of underperforming stores, the number of outlets as of the end of the fiscal year under review was reduced to 1,373.

In our overseas operation by which we aim at “MOS of the world”, we were able to promote multi-store operation which substantially exceeded our original plan with a comfortably expanding number of outlets as well as their sales. In the next fiscal year, we will open stores anew in two more countries, and will make further efforts towards the realization of “MOS of the world”.

As a result of these efforts, our business performance for the fiscal year under review ended up with a consolidated operating income of ¥62,301 million, operating income of ¥752 million, ordinary income of ¥1,278 million and net loss for the year of ¥325 million on consolidated basis respectively.

Q | Would you explain business challenges you face for the coming fiscal year?

A | We will strive for sales recovery, reinforcement of revenue base and earnings recovery of our MOS Burger business.

We consider recovery of sales and earning power of the MOS Burger business as the biggest issue in the next fiscal year. To make it possible, along with the activation of existing stores, we will dispose of unprofitable stores, aiming at development of stores which will realize profit without fail. In opening new stores, we will try to improve earnings by rigorous control of profitability as well as reinforcement of earnings base.

As for products, we aim at strengthening our product power by innovation of existing staple dishes, introduction of new staple dishes, introduction of area-limited menus exclusively using home grown ingredients and introduction of a selective menu system responding to motivation of use such as time zone, location, type of clients as well as regional characteristics. In terms of stores, we will implement a variety of measures namely, a sales promotion measure linking stores, TV commercials and cellular phone web site, reinforcement of area and individual store based sales promotion, enhancement of proposing ability of supervisors, enhancement of visibility aiming at eye-catching stores, development of low investment model stores to attain low opening expenses and enhancement of store potential.

With respect to the other restaurant businesses, we intend to make a final decision if we stay in business after having disposed of underperforming restaurants and verification of profitability.

In regard to our capital and business alliance with Duskin Co., Ltd., we aim at exploitation of markets where we may expect synergetic effect for both companies, enhancement of corporate value of both companies and further growth by effectively utilizing realm of expertise and managerial resources of both companies.

Q | May I ask you for a message to shareholders?

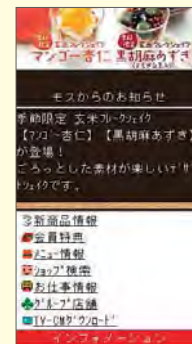
A | We aspire to further enhance our brand value in order to be an indispensable store for our clients.

In order for the MOS Group to make a leap forward, securing profit is the most important issue. For this purpose, we are making strenuous efforts to enhance earning power by concentrating our managerial resources on our core business, MOS Burger business and through various other measures. We will continue to seek further enhancement of our brand value and recovery of business performance to make our stores indispensable for our clients. Your continuous understanding and support of management policy of the MOS Group shall be greatly appreciated.



We have renewed the official web site for cellular phones

With the understanding that cellular phones and cellular phone contents, of which users have grown drastically recently, as an effective tool for sales promotion, we have made an overall renewal of our official web site. In this renewal, we expanded services to registered members, providing time-limited discount coupon and standby screens, and messages delivering campaign information and money saving information. Furthermore, by linking with the personal computer version of our official site, the store search function has been renewed completely by displaying a map which was not available before with an added route search from the nearest station. By enrichment of the store search function, it will be effectively used as a measure for supporting franchised stores in accelerating client visit or securing part-time workers.



MOS's Products

MOS continued to deliver a variety of MOS products in the current fiscal year.

Along with an overall renewal of our flagship products by “staple dish innovation”, we launched various products adhering to taste of ingredients and sense of season.

In accordance with “staple dish innovation” for a thorough renewal of existing flagship products, we have made substantial renewals such as introduction of “MOS Burger” and “Teriyaki Burger” in April 2007, “Southern Vegetable Burger” in August, of the same year, and in October 3 new products were added to “MOS Rice Burger” which commemorated the 20th anniversary of debut. MOS also launched various products such as season-limited products which make the most of the sense of season and area-limited products which express characteristics of the area and adheres to taste of ingredients.

New products in the first half of the year



“MOS Burger”
(320 yen incl. tax)



“Black Pepper Chicken”
(220 yen incl. tax)



**“Nan-Tacos
Mexican Mole Sauce”**
(360 yen incl. tax)



“sipahh”
(50 yen incl. tax)



“Curry Chicken Burger”
(250 yen incl. tax)



“Caesar Salad Burger”
(300 yen incl. tax)

New products in the second half of the year



“MOS Rice Burger Kalbi Yakniku”
(350 yen incl. tax)



“Pao Ebimayo”
(360 yen incl. tax)



“Soup Gohan Soymilk Chowder”
(590 yen incl. tax)



“Hot Chili Burger”
(300 yen incl. tax)



“Pungent Teriyaki Chicken Burger”
(320 yen incl. tax)

MOS's Area Limited Products

MOS is actively promoting product development of area-limited “local menu” which make the most of specialty products in the area. In the fiscal year under review, we sold the “Iwate Pref. Produce Nambu Chicken Burger” in Tohoku and Hokkaido area and the “Miyazaki Pref. Produce Kirishima Black Pig Menchi-Katsu Burger” in Chugoku, Shikoku, Kyushu and Okinawa area. Regarding the “Miyazaki Pref. Produce Kirishima Black Pig Menchi-Katsu Burger” which has been very well received, we expanded time-limited sales area to Chukyo, Hokuriku, Kansai, Tokyo and Kanagawa area.



“Iwate Pref. Produce Nambu Chicken Burger”
(300 yen incl. tax)



“Miyazaki Pref. Produce Kirishima Black Pig Menchi-Katsu Burger”
(300 yen incl. tax)

MOS's Stores

We introduce to you various modes of MOS's operation.

In order to cope with the versatile needs of customers, we promote business mode strategy actively centering on "Green MOS", which is responsive to special characteristics of the location.

Gourmet Hamburger Restaurant



We offer gourmet hamburgers which are cooked to order using selected quality ingredients and served with full restaurant service. This is a high-class gourmet hamburger restaurant.

MOS Burger Classic
Kagurazaka Store
Shinjuku-ku, Tokyo

Dick Bruna Model Outlet



This flagship shop serves our motivation to achieve further development and innovative progress in the concept of store setting which MOS has been seeking. Illustrations of Mr. Bruna have been adopted to signboards, interior decoration and even small articles like plateware.

MOS Burger Osaki Cafeteria
Shinagawa-ku, Tokyo

Food Court-Type Outlet



MOS Burger Factory
Emifull MASAKI Store
Iyo-gun, Ehime Prefecture

MOS tried to reflect our commitment to “MOS Burger” to outlets in space saving and low investment locations. We are promoting new opening of outlets in Food Courts in an aggressive manner.

Home Delivery / Take-out Only Outlet



MOS Burger Delivery Cabin
Kitasuna Store
Koto-ku, Tokyo

Delivery and take-out only outlet. In addition to existing products of MOS Burger, we also sell special menu items like pizza.

MOS has developed and opened unit and suburban-type stores

MOS has promoted development of unit-type store design aimed at standardization and low cost in suburban-type and free-standing stores.

On March 6, 2008, we opened “MOS Burger Hachioji Narahara Store” as the first pilot shop of this new store concept. In this new store, we have attained substantial cost reduction while maintaining high-quality by taking advantage of ready made building materials for housing and adopting low cost energy saving standard kitchens.

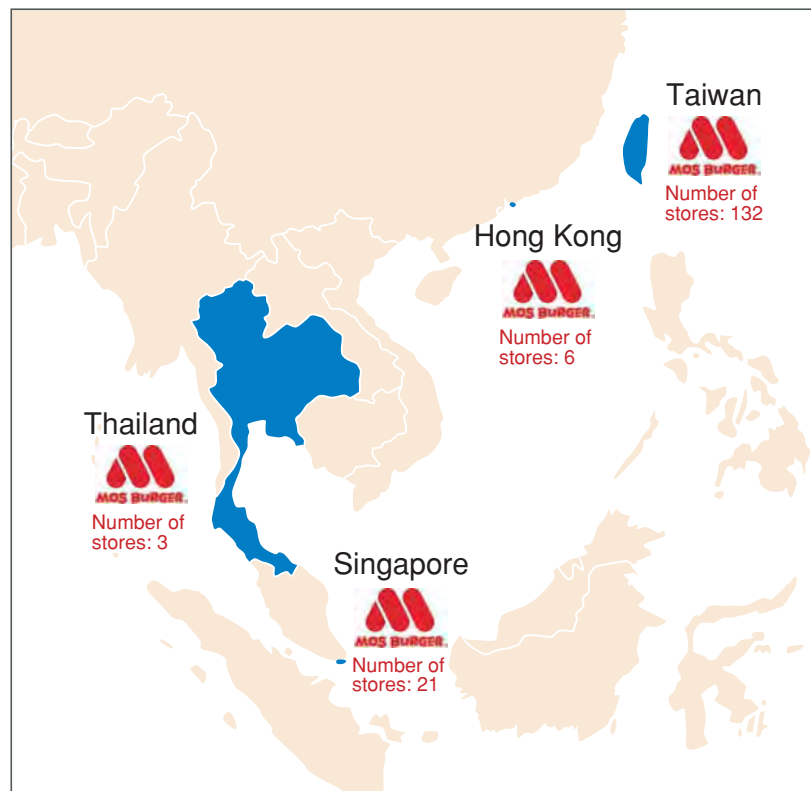


Unit Type Pilot Store
MOS Burger Hachioji Narahara Store

MOS's Overseas Strategy

From “MOS of Japan” to “MOS of Asia” and finally to “MOS of the World”

MOS has actively promoted overseas operation with the key phrase “MOS of Asia”, positioning the “MOS Burger” brand in overseas markets as an important issue of management. As of the end of March 2008, we have 132 stores in Taiwan where we first made an entry in 1991. MOS has consistently opened new stores in the Asia region. In Singapore, where we opened the first store in 1995, now we have 21 stores, in Hong Kong where we opened the first store in 2006, 6 stores and in Thailand where we made an entry in 2007, we have 3 stores. In the foreseeable future, we are studying further expansion in area for opening stores like Malaysia, Indonesia, Korea and China. MOS will accelerate its pace of new openings from “MOS of Japan to MOS of Asia”, and then to “MOS of the World”.



*Number of stores as of March 31, 2008

Taiwan



Chureki Kyuji Store

MOS has attained a smooth opening of stores since its first opening in Taipei in 1991. Sales per store have been bigger than the average monthly sales per store in Japan. In May 2008, MOS opened its 133rd store in Taiwan "Chureki Kyuji Store".

Singapore



Ngee Ann City Store

MOS has opened stores centering on mega shopping centers. Sales have persisted solidly with a growth of 10% from preceding years. The number of stores has increased steadily, and MOS will continue its aggressive stance in opening new outlets.

Hong Kong



Whampoa Garden Jusco Store

First entry was made in October 2006. In only 1 year and half, the 6th store "Citywalk Store" was opened. In May 2008, the 7th store "Whampoa Garden Jusco Store" was opened, and MOS will accelerate its pace of new opening of stores.

Thailand



Siam Paragon Store

MOS opened its 3rd store "Siam Paragon Store" in mega shopping facility "Paragon". The store has attracted customers steadily and it is in excellent shape both in terms of sales and number of customers.

Introduction of the MOS Group

Renewal of chef's V Shibuya Store

Our vegetable restaurant exclusively using carefully selected vegetables "chef's V Shibuya Store" was renewal opened on March 19, 2008. The traditional buffet style has been renewed completely to offer full restaurant service providing a menu which sufficiently complement delicacies of seasonal vegetables, and dishes arranged according to procured vegetable for the day are served. They attend customers delicately for explanation of foods and advices on weak ingredients, etc.



chef's V Shibuya Store



An example of lunch menu
"Gorgeous lunch of spring field"
chef's V Co., Ltd.

"Seasonal cuisine of four seasons, AEN Shiba-Rikyu Store" opened

"Seasonal cuisine of four seasons, AEN Shiba-Rikyu Store" opened on January 15, 2008 has a store atmosphere of a grassland in mother nature, and the restaurant offers seasonal cuisine for each season which employ well selected ingredients good for your health such as carefully selected seasonal vegetables, meat and seafood. It has open terrace seats where you can be completely relaxed being attended warmly with smiling faces. Lunch is a buffet style and for dinner, you have a choice between seasonal vegetable cuisine course and a la carte menu. We all welcome your visit.



Seasonal cuisine of four seasons
AEN Shiba-Rikyu Store



Lunch buffet image
Shikina Co., Ltd.

Strengthening of the MOS Group

In order to establish a second and third pillar of business, the MOS Group has promoted the following businesses, namely tea / sweets specialty store "Mother Leaf" 25 stores*, semi self service cafeteria "Caffè Legelo" 5 stores*, hamburger and rice omelet store "Stefan GRILL" 11 stores*, Chinese noodle special store "Chirimen-Tei" 65 stores*, seasonal vegetable restaurant "AEN" 10 stores* and vegetable themed restaurant "chef's V" 3 stores*.

* As of March 31, 2008



**MOTHER LEAF on Mall
Fukuoka Lukuru Store**



**Chirimen-Tei Kamata Nishi-Guchi
Store**

MOS's Social and Environmental Activities

MOS has realized recycling of 50% of nonpetroleum packaging and more than 20% of leftover foods.

MOS concluded the "Voluntary agreement between government and business enterprise toward conservation of environment" in September 2006 for the first time in the restaurant business, and has engaged in projects for the global environment. As a result, MOS has achieved 50.7% conversion of plastic containers and packages into non-petroleum products and recycling of 20.0% of leftover food, and the accomplished result was reported to the Minister for the Environment on May 28, 2007.



MOS supports Team Minus 6% campaign

MOS agreed and support national campaign "Aim one person, one kilogram CO₂ reduction!" which is being promoted by "Team Minus 6%" (Administrative Office: Ministry of Environment). We implemented time limited (August 31, 2007 – October 11, 2007) support campaign to offer "Southern Vegetable Burger" (300 yen incl. tax) using domestic fresh vegetables at 250 yen if you present "My challenge declaration card" in the store.

Aim one person, one kilogram CO₂ reduction!



All consolidated subsidiaries acquired ISO 14001

Since MOS Burger Headquarters and all MOS Burger chain stores obtained the international standard for environment managing system, ISO 14001, we have promoted environmental activities through the MOS Group as a whole toward realization of a cyclical society. Under the same policy, all consolidated domestic subsidiaries and all related stores strived for acquisition of ISO 14001 certification, which was obtained in February 2008. The MOS Group is determined as a whole to form a chain of operations which will contribute to society.

MOS's
Assurance
and Safety

MOS firmly maintains quality! We step up quality and sanitary control in tie-up with suppliers.

Amid increasing concern of customers for food ingredients, MOS strives for a thorough quality and sanitary control from processing plants to our stores. MOS also strives to prepare menus considering calories and nutritional balance with minimal use of food additives. In order to respond to inquiries from customers with accurate information quickly, MOS delivers updated information on nutrient components and main allergy-causing materials to POS register. Furthermore, with an understanding that a clean store environment is an essential



We conduct regular lot check to confirm ingredients both physically and sensuously.



We give sanitary guidance visiting plants.

ingredient of hospitality, MOS promotes an "overall sanitary check" four times a year targeting all our stores. Other than the above efforts, MOS engages extensively in securing food complacency and safety such as the establishment of the "Committee for safety measures of food" with a motive to strengthen preventive measures for food intoxication and sanitary accidents as a whole.