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**MOS FOOD SERVICES, INC.  
Annual Report**

For the year ended March 31, 2001

**MOS is  
the Only  
One.**

**So, what  
makes MOS  
different from other  
fast-food companies?  
It's taste. We focus on  
delivering delicious foods  
with selected ingredients as  
well as providing the best  
hospitality for customers  
in every detail of our  
operations.**



Since its establishment in 1972, MOS Food Services, Inc. has engendered strong customer loyalty by providing high-quality, fast-food dining. This formula for success has enabled MOS (an acronym for Mountain, Ocean and Sun) to build a domestic restaurant network of 1,566 MOS Burger restaurants. MOS also operates, through subsidiaries, the Chirimentel chuka soba (Chinese noodles) chain and the Nakau chain of donburi (rice topped with meat and vegetables) and udon (Japanese noodles) restaurants. MOS continually strives to address customer desires for hospitality, great taste and cleanliness at its restaurants. Further, MOS has enhanced its menu to respond to heightened concern for health in Japan. The MOS philosophy has struck a chord with customers overseas as well as in Japan, as evidenced by the MOS network in Taiwan and Singapore.

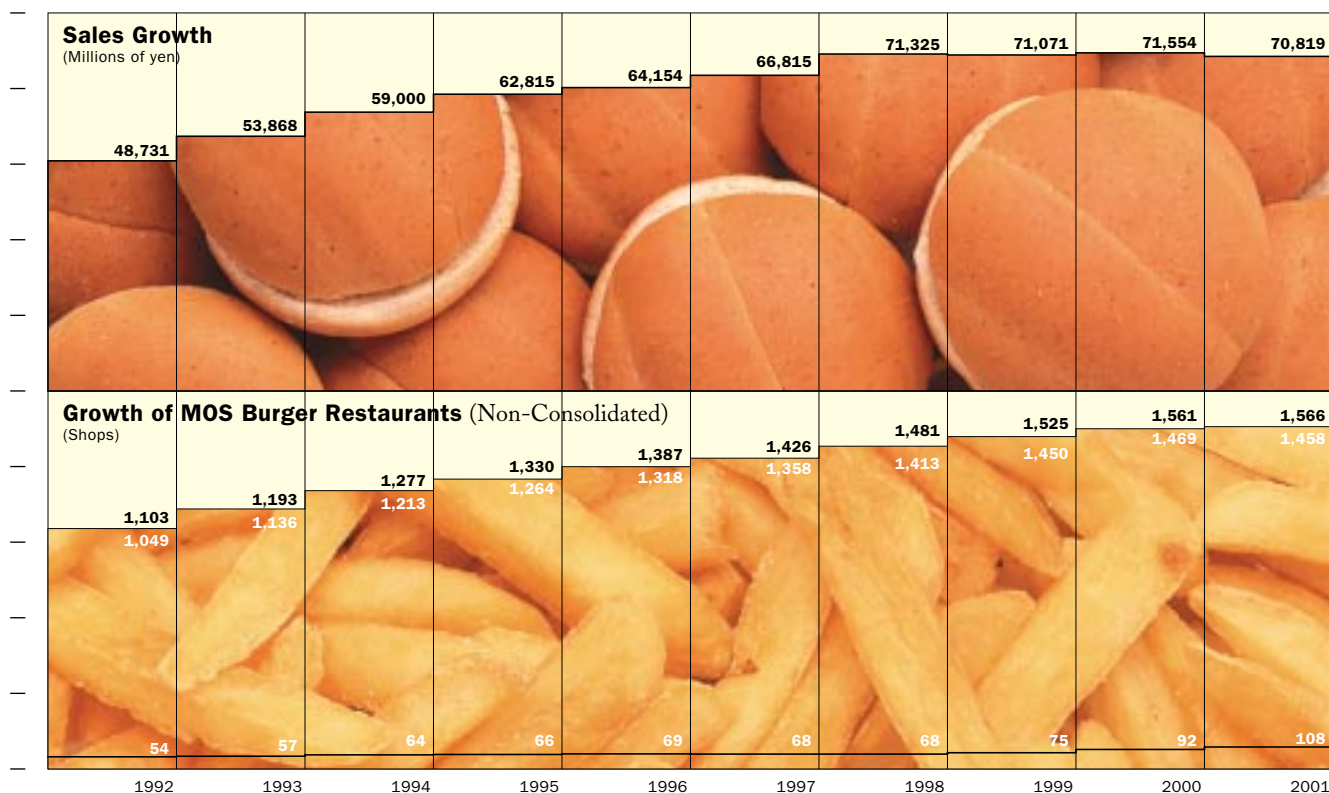


# Financial Highlights

Thousands of  
U.S. dollars  
(Except per  
share figures)

| Years ended March 31                                        | Thousands of yen (Except per share figures) |             |             |             |             |                  |
|-------------------------------------------------------------|---------------------------------------------|-------------|-------------|-------------|-------------|------------------|
|                                                             | 2001                                        | 2000        | 1999        | 1998        | 1997        | 2001             |
| <b>Net sales</b>                                            | <b>¥70,819,788</b>                          | ¥71,554,497 | ¥71,071,736 | ¥71,325,355 | ¥66,815,630 | <b>\$571,588</b> |
| <b>Net income</b>                                           | <b>1,017,822</b>                            | 1,987,538   | 1,832,261   | 2,857,774   | 2,771,228   | <b>8,215</b>     |
| <b>Net income per share</b>                                 | <b>32.25</b>                                | 61.00       | 54.14       | 82.83       | 87.88       | <b>0.26</b>      |
| <b>Cash dividends per share,<br/>applicable to the year</b> | <b>10.00</b>                                | 28.00       | 28.00       | 28.00       | 25.45       | <b>0.08</b>      |
| <b>Total assets</b>                                         | <b>64,847,687</b>                           | 63,524,677  | 63,204,916  | 64,182,396  | 60,772,655  | <b>523,387</b>   |
| <b>Shareholders' equity</b>                                 | <b>43,515,273</b>                           | 43,992,717  | 44,520,150  | 45,101,793  | 43,924,697  | <b>351,213</b>   |

Notes: All dollar figures in this report refer to U.S. currency and are translated for convenience only at the rate of ¥123.90 to U.S.\$1.00, the approximate rate of exchange on March 31, 2001.  
Per share data has been retroactively adjusted for subsequent stock splits.



**Upper:** Domestic MOS Burger: Franchised  
**Lower:** Domestic MOS Burger: Company-owned

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**Q:** What is your analysis of consolidated results for fiscal 2001, ended March 31, 2001?

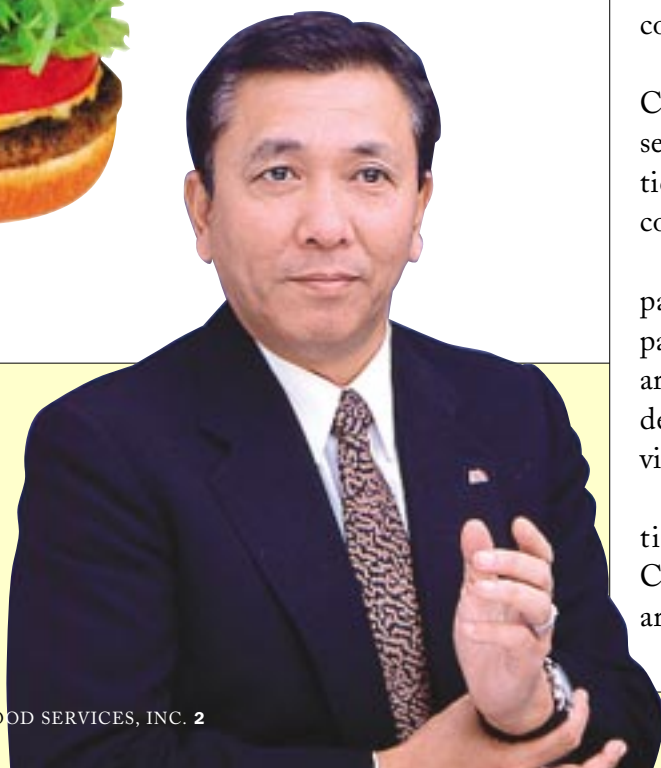
**A:** For the fiscal year under review, MOS Food Services, Inc. posted consolidated net sales of ¥70,819 million (US\$571 million), operating income of ¥2,527 million (US\$20 million), and net income of ¥1,018 million (US\$8 million).

In the MOS Burger business, we strengthened marketing by extending store hours, reducing sources of complaints, participating in local events and directly distributing pamphlets to homes. Measures to boost sales included store-by-store, area-by-area and countrywide campaigns. Despite these efforts to revitalize sales, net sales for the MOS Burger business decreased 4.0% to ¥57,491 million (US\$464 million) compared with the previous fiscal year. The primary reasons for this decline were a decrease in

same-store sales of 8.5% and the promotion of store relocation with 59 openings and 54 closings, a net increase of only five stores. Operating income fell 39.6% to ¥2,241 million (US\$18 million), and net income decreased 41.5% to ¥784 million (US\$6 million), owing to an increase in expenses resulting from the temporary shift from franchise ownership to company-owned stores, the adverse effects of a food poisoning incident at a food ingredient supplier and an increase in the allowance for doubtful accounts in accordance with new accounting standards.

In the restaurant business segment, the Japanese-style fast food restaurant subsidiary NAKAU Co., Ltd. reported increased revenues due to new store openings. However, operating income declined due to costs connected with experiments for new store types. Despite this setback, we will make this invest-

# Recreating MOS

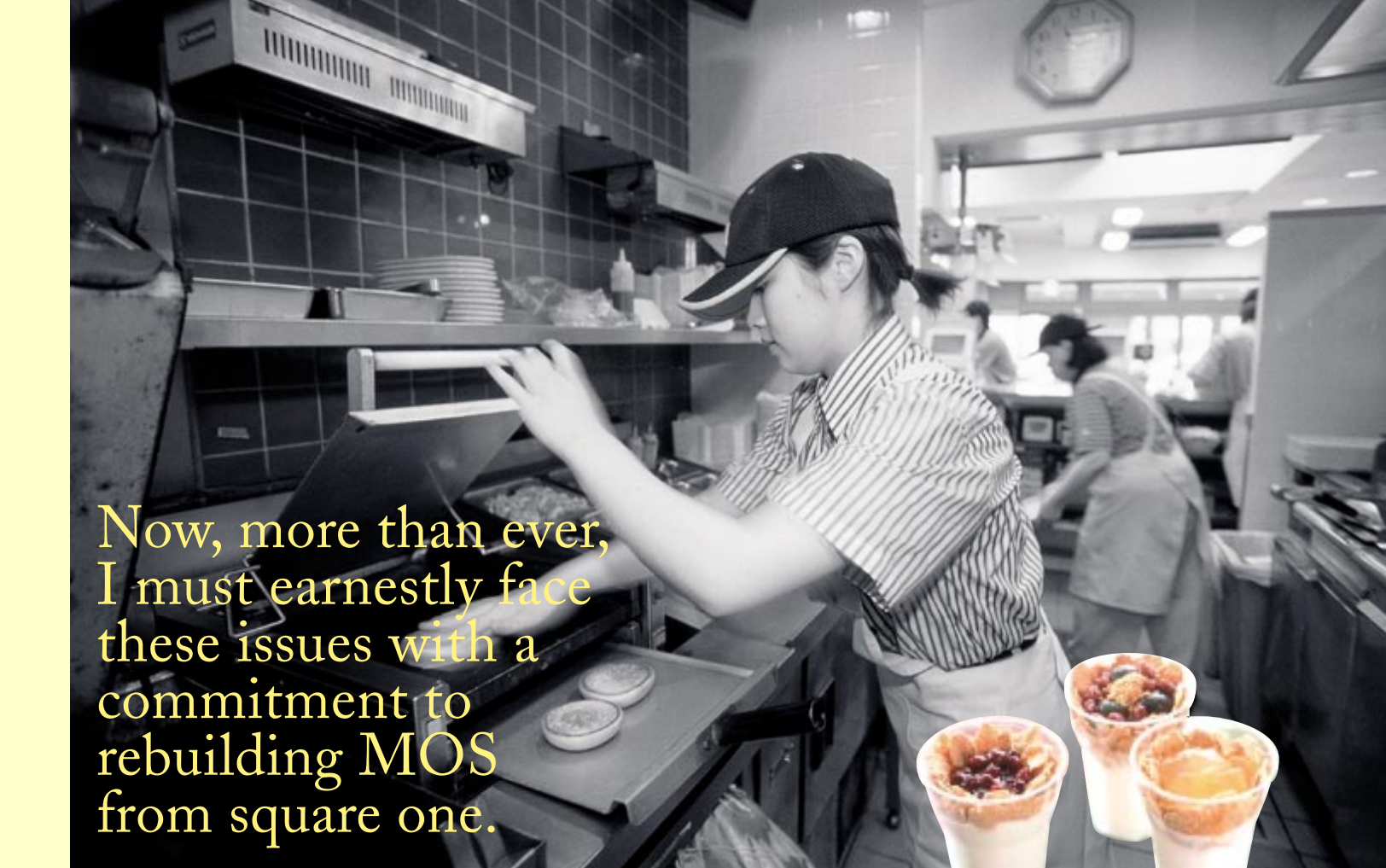


ment a base from which to establish brand power and stimulate growth. Nakau was listed on the over-the-counter market in December 1999.

TOMOS, Inc., which operates the Chirimentei Chinese-style soba restaurants, repositioned itself to secure operating income as a result of efforts to drastically reform management and reduce operating costs.

The other business segment comprises two companies that support the three aforementioned companies in financing, insurance and sanitation-related areas. Net sales in this segment increased due to firm demand for hygiene and sanitation inspection services.

We believe these results fall short of the expectations of our shareholders. MOS will make Companywide efforts to quickly resolve issues that arose in a harsh operating environment created by



Now, more than ever,  
I must earnestly face  
these issues with a  
commitment to  
rebuilding MOS  
from square one.

# from scratch

increasingly severe competition in the restaurant industry.

**Q:** How do you view current conditions in the harsh operating environment?

**A:** With its overwhelming customer admiration, MOS Burger used to have a certain uniqueness and excellence to its delicious food, relaxing store environment and friendly service. While these special qualities were once the strength of MOS Burger restaurants, they all have since declined. Now, more than ever, I must earnestly face these issues with a commitment to rebuilding MOS from square one.

The restaurant industry is expected to become increasingly competitive, with only two types of businesses left standing after a thinning out of weaker companies. These will be the businesses that provide

customers with convenience and economy through fast service and inexpensive products, and the businesses that provide delicious and wholesome foods—the essence of any cuisine. MOS is, of course, following the latter. Moreover, in recreating itself MOS will always place customer satisfaction first. MOS continues to improve operations from the customer's point of view.

**Q:** What are some concrete product and sales strategies behind the recreation of MOS that places customer satisfaction first?

**A:** During the current fiscal year, a major theme in our product strategy is “Inspiring appetites for delicious, healthy food.” Opposing the current trend toward nutritionally unbalanced and unhealthy diets, MOS is striving to strengthen its basic policy of



using healthy and safe foods by maintaining its exacting standards in mineral-rich vegetables and natural beef supplied by carefully selected producers. We are also continually creating foods that customers will remember for their taste and that are especially appealing to the Japanese palate, while combining ingredients in original ways to create entirely new flavors. Our commitment to quality extends to our clean, environmentally friendly stores, which make customers feel welcome and at home. Through the combination of efforts ranging from the selection of ingredients to store design, we are striving to create a pleasing dining atmosphere the customer can fully appreciate based on the theme of “Inspiring appetites for delicious, healthy food.” Expect the best from

# Moving toward

Expect the best from MOS as we seek to develop revolutionary products to celebrate our 30th anniversary.

MOS as we seek to develop revolutionary products to celebrate our 30th anniversary.

Our sales strategy is for customers to recall the MOS brand name and once again closely associate it with thoughts of deliciousness and healthiness. We will carry out various campaigns based on the underlying theme of customer appreciation and the celebration of our 30th anniversary to strengthen MOS's brand recognition.

**Q:** Could you comment on the progress made in the MOS Standard store concept for the 21st century, continued from the previous fiscal year, and on strategies for opening new stores?

**A:** During the fiscal year under review, we revamped store design, developed a new menu and improved operations and the service level to create a relaxing dining environment, especially at our Jiyugaoka and Keio-Mita stores. Based on experience gained in operating these stores, we have established a standard store design that will be aggressively applied to the



design of new stores and in the remodeling of existing ones. As a first step in these efforts, we will allocate ¥500 million (US\$4 million) to the establishment of a financial support system for store repairs and remodeling.

At the same time, we aim to refresh our restaurant image through an effective combination of measures, including franchise store restructuring, scrap and building stores and store leasing on a case-by-case basis.

**Q:** How is headquarters reforming itself to provide support for these changes?

**A:** To improve management efficiency, we are un-

# steady change

dertaking cost reduction measures at headquarters. MOS is working to cut costs Companywide by lowering material prices, reducing selling, general and administrative expenses, disposing of idle properties, downsizing and consolidating unprofitable businesses, and reorganizing personnel. Moreover, we must strengthen company-owned stores and quickly develop new business formats to provide franchisees with innovative know-how to adapt to the times. With this in mind, on May 1, 2001, we implemented a reorganization and reassignment of personnel. The FC Business Division was set up to preside over franchisee sales management to ensure close central

control of sales activities and unify headquarters management of stores. We also established the New Business Division to explore the possibility of new franchise businesses, and aim to create a new pillar of profit second to MOS Burger to further develop and invigorate our store chain system.

**Q:** In closing, could you comment on the fiscal year under review?

**A:** We continue to move forward with MOS's recreation with a firm resolve to rejuvenate existing stores as our foremost priority. In changing our thinking, we can change our behavior. We will do our utmost to make our 30th year of operations a year of change

so profound that MOS will emerge completely different in a year from now. We thank our shareholders for their support.



Atsushi Sakurada  
President



## 1. Marketing: Recalling the MOS Brand Name

*We are forging a marketing strategy to ensure that customers will always recognize the MOS name.*

### **Toward a More Familiar MOS**

A comparison of results for last year's customer survey with those from several years ago revealed a decrease in the rate at which the main target consumer group (women in their teens and twenties) frequented MOS Burger stores or considered buying MOS's core products. The Company is changing its campaigns and sales promotions to make MOS indispensable in each area as well as to individual customers.

### **Summer Campaign—First of a Series Celebrating Our 30th Anniversary: "Happy 30th Anniversary MOS! Becoming the Ideal MOS"**

MOS is launching a summer campaign as the first of a series celebrating its 30th anniversary based on the central theme of customer appreciation. Implementing a complete makeover of products with hamburger buns, the Company is taking this opportunity to thank its customers by offering such mainstay products as the MOS Burger and Teriyaki Burger at special campaign prices.

To raise customer awareness of our efforts to provide only the finest natural beef from Tasmania, Australia, we will offer a Tasmania Vacation Present to 30 groups of people, or 90 customers. We will also continue to offer "Dream Challenge 2001," a global study abroad program in its 18th year.

### **Introduction of New, Fashionable and Functional Uniforms**

To match the renovations in store design, MOS Burger is also implementing changes to update employee uniforms. We are creating an atmosphere that is pleasing and relaxing for customers, and our new uniforms will bring out the charm and enthusiasm of our store staff. Moreover, we are planning summer and winter uniform designs in harmony with the seasons.

We hope that customers will appreciate our truly delicious flavors, which inspire a hearty appetite and happiness.

Our new uniforms will bring out the charm and enthusiasm of our store staff.



1.  
Familiarity

MOS vegetables are grown with reduced agricultural chemicals and chemical fertilizers.



2.  
Originality



# MOS different?

## 2. Our Products “Inspire Appetites for Delicious, Healthy Food”

### **Healthy, Delicious and Safe Food:**

#### **Mineral-Rich Vegetables and Natural Beef**

MOS takes the problem of today's nutritionally unbalanced diets lacking in vegetables seriously, and has made a point of using only the freshest, most delicious ingredients to provide the nutrition that bodies need. A fine balance of minerals found in rich soil are the building blocks for healthy bones and blood, and are essential to a properly functioning body. Concentrating on providing mineral-rich vegetables, MOS's exacting standards start with the soil. MOS vegetables are grown with reduced agricultural chemicals and chemical fertilizers under conditions that surpass guidelines of the Ministry of Agriculture, Forestry and Fisheries. In the fiscal year under review, the Company received JF Certification from the Japan Food Service Association, which certifies processes that include production, distribution and consumption from a third-party perspective.

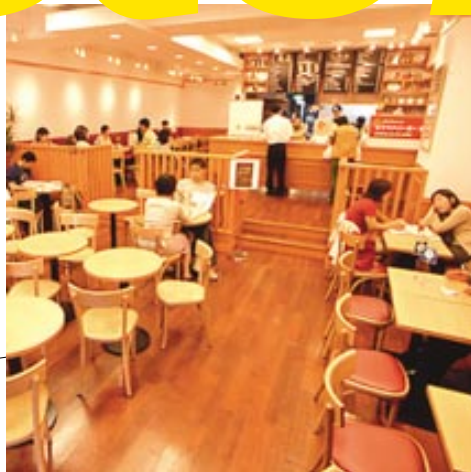
MOS is just as exacting when it comes to the main ingredient in its hamburgers—beef. Cattle raised by grazing on natural, mineral-rich pastureland in Tasmania, an island in southern Australia, are known for producing tender beef. The mineral-rich natural salt further enhances the flavor of the beef, which is succulent and rich in flavor, bringing out its natural goodness.

### **Deliciousness That Customers Cannot Forget**

Food reflects the culture of a country. As a hamburger restaurant chain originating in Japan, MOS Burger has always tailored its menu to fine Japanese tastes as represented by such original products as the Teriyaki Burger and the Rice Burger. Moreover, we are keenly interested in using ingredients that not only reflect the very best of the regional characteristics of Japan, but also of the four seasons. At MOS we are striving to develop new products through a combination of handpicked, fresh and appetizing ingredients to gain overwhelming customer support.

# Taste!

## 3. Hospitality



Abundant use of wood interiors contributes to a more relaxing dining atmosphere.



### New Products

#### MOS Rice Burger *Kakiage*

We took the following five ingredients—carrots, green beans, onions, shrimp and scallops—dipped them in a batter made from select flour and fried them in light vegetable oil to create a delightfully crispy product. We then top off the rice burger with a delicate bonito-flavored soy-based sauce that will surely please the Japanese palate. This is the MOS Rice Burger of the 21st century: it boasts a totally original taste and is bursting with flavor, making it a popular item appealing to a wide range of customers.

#### *Pirimame* Burger and *Pirimame* Cheeseburger

The *Pirimame* Burger and *Pirimame* Cheeseburger feature an original sauce that we simmer with a sumptuous combination of red kidney beans, ground beef, onions and tomatoes. Chili peppers are added for a moderate spiciness perfectly suited to Japanese tastes. This zesty *pirimame* sauce brings out the juicy deliciousness of the hamburger and is destined to be a new MOS main item. The generously sized *Pirimame* Cheeseburger uses the same quality ingredients as the hamburger with the addition of a hearty slice of blended cheese made of cheddar, gouda and emmental. We have taken the opportunity of the new product launch to replace our MOS Chilidog and MOS Spicy Chilidog with the MOS *Pirimame* Dog and MOS Spicy *Pirimame* Dog.

We have also included these new items on our set menus and are selling them at reasonable prices, making them popular.

## 3. Establishing the MOS Standard Store

**We will create a comfortable environment where the customer always feels at home.**

To ensure the success of the MOS Standard store format, we established a standard store design based on the results of experiments at our Jiyugaoka and Keio-Mita stores, including the development of 21st century store designs and menus, and improvements in operations and service. The MOS Standard store design features a simple, natural wooden interior to convey the feeling of a warm, handmade, down-to-earth setting. We especially concentrated on the creation of a relaxing atmosphere by using an abundance of wood around the counter area and the facade. We will establish a financial support system to aggressively advance these repairs and renovations. Placing customer satisfaction first, we are rapidly stepping up our efforts at relocating MOS Burger stores to make them even more convenient and familiar.

# Shop!

Creativity



Unique features of the MOS Standard store are the user-friendly counter area and attractive facade.

