

MOS Food Services, Inc.

INTERVIEW WITH THE PRESIDENT & CEO

Achieving Our Original Objectives

MOS has evolved the basic philosophy it has had since its founding of safety reliability, and health without being swept away by the changing times.

Accelerating Reforms

All of our reforms are being accelerated in order to further increase customer satisfaction.



Atsushi Sakurada
President & CEO

Q1: Please give us an overview of MOS's non-consolidated performance for fiscal 2002 (ended March 31, 2003).

During fiscal 2002 we continued from the previous fiscal year to devote all our efforts to improving business performance at existing stores. Though the external environment remained severe, we implemented a variety of measures centered on good taste, safety, reliability and health, following the basic principle we have had since the Company's founding of Making People Happy Through Food. Currently there is a lot of interest in safety and health in the food industry overall, and it gives me the feeling that many of MOS's efforts in this area up to now are being looked at in a new light. That feeling has been translated into tangible results during the fiscal year under review in terms of rising profits. Net sales rose 0.6% from the previous fiscal year to ¥55,056 million, operating income increased 65.7% to ¥1,768 million, income before income taxes and minority interests improved 22.0% to ¥2,089 million, and net income jumped 237.0% to ¥1,133 million. We have also increased our year-end cash dividends per share by ¥4 from the original plan, from ¥8 to ¥12. Cash dividends for the year will be ¥20 per share.

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Q2: Please explain the changes in the operating environment for the food service industry, and MOS Food Services' basic stance.

Looking first at the Japanese economy, the slow pace of structural reform, an increase in bad debts and one of the highest unemployment rates in history have unfortunately left few signs of economic recovery, and individual consumption continues to decline. In the food service industry as well competition has grown increasingly fierce, with both domestic and foreign industry newcomers competing to open new stores. Meanwhile, with media reports concerning bovine spongiform encephalopathy (BSE), or "mad cow disease," and the false labeling scandals, consumers are growing even more wary of the food industry overall.

I think of these trends, however, as an opportunity for MOS. Since its founding MOS has focused first on good taste, and has incorporated the basic principles of safety, reliability and health quicker and more thoroughly than anywhere else in the food service industry. This kind of honest and sincere corporate stance has received a renewed recognition from consumers, and I think that there is an increasing number of customers who choose MOS because it is first in safety, reliability and health. This change in consumer attitudes is linked to the rediscovering the MOS Burger brand initiative. I take pride in knowing that the direction in which we have been proceeding is correct.

Q3: Please tell us about the status of specific measures, beginning with the head office initiatives of cost reductions and new businesses.

Cost reductions contributed significantly to increased profitability during fiscal 2002. Mainly these were cuts in purchasing costs for ingredients. Cost of sales fell ¥1,353 million from the previous fiscal year, and the ratio to sales fell by 2.8 percentage points. During fiscal 2003 we are forming project teams and continuing with efforts to reduce costs. What we must be wary of when pursuing cost reductions, however, is that because MOS is a restaurant chain that plans and makes products from carefully selected ingredients so that customers can dine without concern for food safety, these basic principles must not be violated simply to slash costs. While ensuring first priority on finding ingredients that allow us to provide safety, reliability and health, we will continue to implement cost reductions.

Turning to new businesses that we are currently exploring, it is necessary for us to offer a rich variety of products in unique business categories to continue to meet the changing needs of customers. For MOS as a franchiser as well, providing franchise owners with new business opportunities is essential to maintain the long-term growth of the Company. We are now developing the format for franchise packages for the specialty teashop Mother Leaf, and plan to begin offering franchises in the near future.

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In our environmental measures, we have begun experiments to realize a comprehensive food waste recycling system. Processing equipment to reduce the volume of raw garbage to approximately one tenth its current level has been installed at a number of Company-owned shops. These experiments are intended to reuse the dried material that remains after processing as fertilizer to be used by the contract farmers who raise vegetables for MOS. At five outlets in the Sendai area, vehicles that deliver standard food items have been modified so that at the time of delivery the same vehicle can collect vegetable scraps from the kitchens of those shops, and during transport stir and compact them before final processing at the compost plant. Of course, because MOS begins making its products only after receiving an order from the customer, it generates a small volume of raw garbage to begin with, so I think it is fairly easy for us to achieve food recycling. We have also begun building our own environmental management system, and are taking steps to acquire ISO 14001 certification at all MOS hamburger chain shops. In accordance with the principle of Making People Happy Through Food, and to contribute to humanity and society, we intend make every effort to realize a comprehensive food waste recycling system.

Q4: What about the product strategies that form the foundation of the Company's performance?

What are MOS's strengths, and what are its weaknesses? We felt it necessary to have objective research analysis, free from our own prejudices, to determine what MOS means to our customers, and so conducted a series of customer surveys over the past year. What we learned from the result is that there is a bigger gap than we thought between our perceptions and those of our customers. In particular, expectations from new products and confidence in existing products were much greater than we had anticipated. We realized that MOS must earn the trust of customers, and develop fresh, new products that exceed their expectations. Based on these analysis results, during fiscal 2002 we began developing products following a concept we call Fresh Ideas. In terms of taste, ingredients, cooking method, volume, appearance and price, that is to say from all angles, we managed to create new products that cannot possibly be replicated anywhere else. One product that was a particular hit was the Mustard Chicken Burger launched in late August 2002, selling more than 1 million units in its first week, a success that contributed significantly to the recovery in sales at existing shops. We plan to continue to refine this Fresh Ideas concept during fiscal 2003, and develop new products.

Q5: Please give us the background on the dinner set product strategy that was recently introduced.

First and foremost, our goal was to increase satisfaction in the face of changing customer needs. In an age when there are a lot of choices available,

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if hamburgers are the only item on the menu whenever customers come to the shop, then that will of course lessen our appeal. There was a pressing need to develop menus suited to different times of the day. This was particularly true of the dinner period, during which sales lagged. So in January 2003 we began offering four varieties of dinner set at 1,084 shops nationwide, approximately 70% of the total. The result was that sales varied widely due to location and shop layout, so the plan was revised and we now offer dinner sets at 640 shops. In May the menu was revised. We intend to continue making refinements to the program.

Q6: Strengthening the network of existing shops is a central component of your store strategy. What progress was made during fiscal 2002?

During the fiscal year 54 new shops were opened and 85 closed, leaving a total of 1,509 shops at the end of the term, a decrease of 31 shops from the end of fiscal 2002. The decline in the total number of shops is the result of relocating or closing shops that have run their course in their current locations, part of the reform strategy that has been ongoing for the last few years. From fiscal 2003 we have assigned location development personnel, who used to belong to a separate organization, to sales area divisions, allowing shop openings and closings to be implemented more quickly. We are also continuing to press forward with our shop renovation and scrap and build strategies, and are increasing the number of shops that can be used as wireless LAN "Hot Spots."

One initiative we experimented with during fiscal 2002 was a pick-up and delivery service, conducted in cooperation with Ichigo Holdings Co., Ltd., which operates Strawberry Cones, a delivery pizza chain. The experiment was conducted mainly in the Sendai area, and since it has had a fair measure of success, the service was offered in Tokyo in June 2003, and will be expanded to 50 shops nationwide by September. This project combines the delivery capability of a pizza chain with MOS's strong product line-up, significantly increasing use of the service without any additional investment from either company. One shop in Sendai reported a 30% increase in sales, showing it to be an extremely effective new service, and we are looking forward to expanding the offering.

Q7: What developments affected consolidated performance during fiscal 2003?

Though income and profits declined during the year at Chirimentei, this was the result of aggressive closings of unprofitable locations. At the organic food restaurant AEN, the concept of seasonal dishes using vegetables organically grown in specially prepared soil is receiving strong customer support. Its profitability has improved over the previous fiscal year, and we are forecasting

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a return to profitability during fiscal 2003. Further growth at Nakau required an infusion of capital, personnel and information, and to accomplish this it was necessary to add new management resources to the traditional methods. We also wanted to concentrate our own resources on the MOS Burger business, so in October, we accepted Nichimen Corporation's take-over bid for Nakau and sold our holdings, removing it from our scope of consolidation for the second half of the fiscal year. Other businesses performed according to plan.

Q8: Finally, what are your strategies and outlook for fiscal 2003?

In fiscal 2003 we will continue to focus on recovery of sales at existing locations. To accomplish this we will refine the Fresh Ideas menu, and accelerate the shop relocation program to further enhance the value of the MOS brand. Implementing the new Kitchen MOS format, a concept based on the "fast casual" format that we began working toward during fiscal 2002, will also be essential to the future growth of MOS. The Kitchen MOS format, providing a wide variety of high-quality products that are slightly more expensive than fast food offerings, is currently being experimented with at eight shops, and we hope to offer it as a franchise package during fiscal 2003.

During the current fiscal year we will further increase the basic value of the MOS brand, as well as rejuvenate and evolve the chain. It is our intention to be first in the food service industry in terms of customer satisfaction within three years. To respond to increasingly sophisticated and diverse customer needs, MOS will add its unique brand of originality to its products, shops and service. We will devote all our efforts to MOS's further growth. I would like to thank all our shareholders, and ask for their continued support.

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THE FUTURE OF MOS

Further Enhancing the MOS Brand

Product Strategy

Refining the Fresh Ideas Menu

To enhance customer satisfaction, it is important to continually respond to the changing needs of customers. MOS has met these needs by developing new and interesting menu items that only MOS can create, following the Fresh Ideas menu concept emphasized during fiscal 2002. Innovative combinations of healthy ingredients, coupled with preparation that takes no shortcuts, continued to give form to the originality and good taste of MOS. The Fresh Ideas series has been popular with customers, and more products will be introduced in fiscal 2003.

Fresh Ideas Menu Series NO. 8: Almond Chicken Burger made with tender chicken and vegetable salad (¥290)

A popular new chicken product aimed at health-conscious women was launched for a limited period in March 2003. Tender young chicken thighs marinated in garlic and oyster sauce are broiled and covered with a slightly vinegary vegetable salad of celery and burdock, and topped with crushed roasted almonds. Rich in vitamins E and B2, calcium, iron and fiber, this new burger has received much attention for its nutritional value and spicy almond flavor.



Almond Chicken Burger 290Yen

Fresh Ideas Menu Series NO. 9: Roast Pork Graham Sandwich (¥350)

MOS launched its first product using graham bread in 2003, on sale from April through June. Fragrantly roasted pork is sliced and covered with a white vegetable salad of onion and celery dressed with mayonnaise sauce, along with a cinnamon applesauce topping. Meat served with applesauce has a long tradition in home cooking in England and America.

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New Time Service Menus

Recognizing that customers' dining needs change according to the time of day, in 2002 MOS began focusing on time marketing, upgrading its morning, desserts, and dinner menus. The dinner menu in particular had a positive effect, with shops in which it was introduced recording sales 3.3% higher than in shops without one. Currently the dinner menu is available in 640 shops. There are four versions available, including the Green Pea Soup with Gnocchi Set (¥780), and the Fragrant Chicken Set (¥780). To further enhance customer satisfaction, these menus will be continually changed and upgraded, increasing their visibility through MOS's stronger sales promotion activities.



Green Pea Soup with Gnocchi Set

Marketing Strategy

Kitchen MOS

To respond appropriately to the needs of an increasingly diverse customer base and improve their satisfaction, it is necessary to continually keep customer confidence and provide services that exceed expectations. MOS is striving to accomplish this goal by experimenting with Kitchen MOS, a new shop format based on the “fast casual” concept, which combines the convenience and speed of fast food with better quality food, superior service and atmosphere. The three development concepts that form the basis of Kitchen MOS are 1) first market entry and originality (pursuit of creativity, quality, good taste and health); 2) fast casual format (better quality products, ease of fast food, and more visits by groups); and 3) a “kitchen away from home” menu (menus that change according to the time of day, and serving of light alcohol drinks).

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Like the MOS Burger shops, Kitchen MOS makes use of time marketing, offering product categories including more than just hamburgers, with a rich variation in the drink and dessert menus. Some items on the dinner menu include a Shrimp and Miso Mayonnaise Sandwich and a Spicy Miso Chicken pizza, dishes sure to satisfy any group. The shop atmosphere is based on the Natural and Woody style, providing a comfortable space where customers can come to relax.

Currently eight Company-owned shops have been renovated (six in Tokyo and two in Osaka) for the trials. Compared to the period before the renovation, total and per-customer sales have both been rising, and although a certain customer segment has been lost, leading to a decline in the total number of customers, the format is attracting new customer segments such as housewives. Sales will be further increased through refinements to the teatime and dinnertime menus, which customer evaluations have shown to be popular. In May 2003, a large-scale shop with a drive-through window was opened in Enoshima in Kanagawa Prefecture, a new variation on the urban storefront styles that have been opened so far. MOS will continue to experiment with the Kitchen MOS format in the hopes of making it into a new pillar of the Company.



Kitchen MOS

Store Strategy

Fine Tuning the Existing Shops

The operating environment facing the food service industry continues to be harsh, with increasingly fierce competition in price and opening of new locations, along with growing distrust of the industry as a whole. In response MOS has placed priority on implementing a variety of measures designed to strengthen its existing network of shops, which has begun to have a noticeable effect on performance.

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MOS's strategies of renovating or rebuilding shops that have run their course in their current locations, as well as restructuring franchise shops, will be continued during fiscal 2003 following the store reform plan. In addition, a number of new incentives for franchisees will be put in place, and greater support will be offered for remodeling and revitalization efforts. Location development functions have been shifted to franchise sales divisions to enhance their effectiveness and speed of decision-making. Lower initial investment costs have been realized through the use of prototype architecture to open new locations, and experiments with a new delivery system will be expanded. These measures, along with improvements to the profitability structure of franchisees, will increase customer satisfaction.

Environmental measures will also be enhanced. Along with compliance with the Law for Promotion of Sorted Collection and Recycling of Containers and Package and the Food Waste Recycling Law, MOS is experimenting with dry-type raw garbage processors, and in the Sendai area is testing a system of comprehensive food waste collection as part of its program of environmental measures.

Expanding NetMOS

The number of MOS locations offering Hot Spot wireless broadband connections from NTT Communications increased to 160 shops in Tokyo, Sapporo, Yokohama and Osaka during fiscal 2002. MOS plans to make the service available at 300 locations by the end of fiscal 2003, with installations planned at shops in the Musashino area in Tokyo, Sendai, Saitama, Chiba, Fukuoka and Kitakyushu during the first half of the period, and at shops in Nagoya, Kanazawa, Kobe, and Hiroshima during the second half.