

Corporate Governance and Internal Control

MC is aiming for sustained growth over the medium and long-term, and strengthening the management system is an ongoing theme to this end. Under INNOVATION 2007, our medium-term management plan, the continuous strengthening of corporate governance and the refinement of our internal control system are key management issues for MC.

MC's Corporate Governance Framework

Management believes that more importance should be placed on strengthening the existing system rather than merely adhering to a new system or structure per se. Based on this belief, while maintaining a Corporate Auditor System, in addition to mandatory organizations and governance systems, we are improving and strengthening our corporate governance in various ways. Actions include appointing outside directors, introducing the executive officer system and setting up advisory committees.

MC's Board of Directors has 18 members, 4 of whom are outside directors. As a rule, the Board convenes once a month and is responsible for making decisions concerning important management issues and overseeing business execution. In 2001, the adoption of an executive officer system clarified the separation of the roles and responsibilities of directors and executive officers. Furthermore, in 2004, the term for directors was reduced from two years to one year to provide greater flexibility in determining the composition of the Board of Directors. Moreover, at the General Meeting of Shareholders for fiscal 2006, a change was made to the Articles of Incorporation to allow the Board of Directors to approve resolutions in writing from the perspective of facilitating flexibility in how the Board operates. And, so as to encourage outside directors and outside corporate auditors to fulfill the role expected of them, MC has concluded agreements with these directors and corporate auditors that limit their liability for damages.

MC in 2001 established the Governance Committee and International Advisory Committee, which are made up of outside directors and other respected individuals as well as MC's chairman, president and other directors. These advisory bodies were established to offer various advice to the Board of Directors from a third-party perspective with regard to MC's corporate governance and important subjects concerned with operating in an international business environment. The Governance Committee at its April 2006 meeting discussed important issues relating to

corporate governance in fiscal 2006, including MC's stance on hostile takeovers, a basic policy for the establishment of an internal control system, proposals for partial changes to the Articles of Incorporation and a review of the executive officer remuneration system. The valued opinions of the members of this committee were reflected in deliberations at Board of Directors meetings and in proposals to the Ordinary General Meeting of Shareholders in 2006.

Since the introduction of the executive officer system, MC has instituted a system that strengthens the link between directors' and corporate auditors' remuneration and business results. MC grants stock options as a medium to long-term incentive from the perspective of aligning the interests of directors and corporate auditors with those of shareholders.

The five corporate auditors, including three outside corporate auditors, utilize staff members of the Corporate Auditors' Office, which is under their direct control, in conducting their audits. At the same time, the corporate auditors attend meetings of the Board of Directors and other important meetings and hold discussions with internal departments, including important offices in Japan and overseas, as well as visit main subsidiaries that are important from the perspective of Group management to conduct audits. Regarding internal audits, the Internal Audit Dept. conducts audits of MC, regional subsidiaries and affiliated companies from a company-wide perspective. In addition, each business group has established its own internal audit organization, under which audits are carried out on a consolidated basis. The results of audits by the Internal Audit Dept. are reported regularly to the Board of Directors.

MC's Internal Control System

MC is building and operating an internal control system so as to ensure that business activities are conducted properly and in conformity with laws and its Articles of Incorporation. Efforts are ongoing to reform and improve this system.

Efficient Business Execution

The president delineates basic management policies and sets specific management goals. At the same time, the president formulates management plans and regularly follows up on progress in achieving targets efficiently.

The organization is realigned and resources deployed as necessary so as to achieve management targets in the most efficient manner possible. Furthermore, the organizational chain of command is clearly laid out and authority delegated to managers and their staff of organizational bodies to the extent necessary to accomplish targets. These people are required to submit reports regularly.

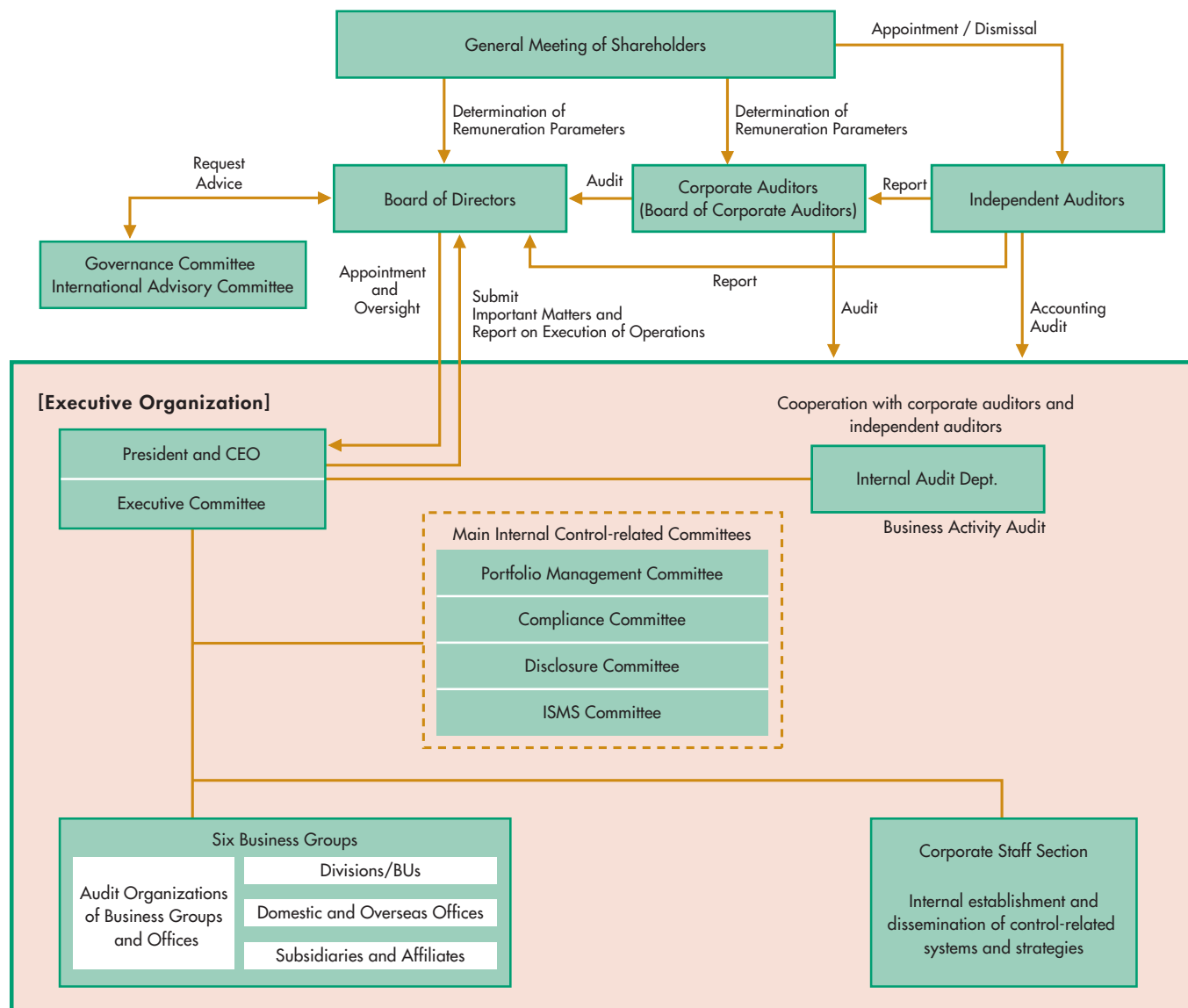
Compliance

Compliance, which is defined as acting in compliance with laws, regulations and in conformity with social norms, is regarded as a

matter of the highest priority in conducting business activities. MC has formulated internal regulations, including a corporate philosophy, as well as a Code of Conduct, which specifies matters all officers and employees must pay particular attention to in relation to compliance. Efforts are made to ensure that all officers and employees are familiar with these internal regulations and the Code of Conduct.

To promote compliance, MC has established a cross-organizational framework headed by the Chief Compliance Officer. Under this framework, MC also established an internal whistleblower system, is working to identify compliance problems and share information, and takes preventive and corrective measures such as offering relevant training.

► MC's Corporate Governance and Internal Control Framework



Risk Management

Regarding risks associated with business activities, MC has designated categories of risk and has established departments responsible for each category. MC also has in place policies, systems and procedures for managing risk. Furthermore, MC responds to new risks by immediately designating a responsible department to manage such risks.

In regards to individual projects, the person responsible for the applicable department makes decisions within the scope of his/her authority after analyzing and assessing the risk-return profile of each project in accordance with companywide policies and procedures. Projects are executed and managed on an individual basis in accordance with this approach.

In addition to managing risk on an individual project basis, MC assesses risk for the company as a whole with respect to risks that are capable of being monitored quantitatively and manages these risks comprehensively, making reassessments as necessary.

Financial Reporting

To ensure the proper and timely disclosure of financial statements, MC has appointed personnel responsible for financial reporting and prepares financial statements in conformity with legal requirements and accounting standards. These financial statements are released after being discussed and confirmed by the Disclosure Committee.

Furthermore, to further enhance the credibility of its financial reporting, work is under way to document, evaluate and improve processes for the preparation of financial statements with the goal of meeting the requirements of the U.S. Sarbanes-Oxley Act of 2002.

Management and Storage of Information

Regarding information related to business activities, personnel responsible for managing business activities classify information individually in accordance with its degree of importance. These individuals also instruct users on the handling of this information. The aim is to ensure information security while promoting efficient administrative processing and the sharing of information.

Administrative personnel retain documents that are required to be stored by law as well as those deemed important by MC.

For all other information, administrative personnel determine the necessity and period for storage of information and store such information accordingly.

Ensuring Proper Business in Group Management

MC specifies a department responsible for the oversight of each subsidiary and affiliate and quantitatively monitors business performance, management efficiency and other operational aspects of each company every year. Efforts are also made to monitor qualitative issues such as compliance and risk management.

MC demonstrates its commitment to making improvements to subsidiaries and affiliates by sending directors to sit on their boards, signing shareholders agreements, exercising its voting rights and in other ways. These actions are taken to raise the corporate value of MC on a consolidated basis.

Internal Auditing

Each organization takes responsibility for reviewing and improving its business activities on a regular basis. In addition, to more objectively review and evaluate the business activities of each organization, MC conducts regular audits through an internal audit organization.

Corporate Auditors

Corporate auditors attend and express opinions at meetings of the Board of Directors and other important management meetings. In addition, corporate auditors gather information and conduct surveys, keeping channels of communication open with directors, employees and others who cooperate with these efforts.

If there is a risk of a certain level of financial loss or a major problem, the person responsible for the department concerned is required to immediately report to the corporate auditors in accordance with predetermined standards and procedures.

To raise the effectiveness of audits conducted by corporate auditors, personnel are appointed to assist corporate auditors in carrying out their duties.

MC's Compliance Framework

MC has long engaged in creating a framework to ensure that it continues to conduct business activities that are legal and fair. The cornerstones of this longstanding company-wide commitment are the Three Corporate Principles and the Corporate Standards of Conduct. Year after year, society is requiring companies to raise their standards of compliance. Amid this trend, MC in September 2000 formulated its Code of Conduct and established the post of Compliance Officer. These and other actions have been taken to ensure legal compliance by each and every employee, as well as to instill an awareness of proper conduct that reflects social norms. In April 2003, the Code of Conduct was revised, and all officers and employees of MC, the parent company, were required to sign a written oath of adherence to this Code. Effective from this year, we have decided to require such an oath from all officers and employees every year as part of ongoing actions to upgrade and reinforce the compliance system.

We believe that it is important to promote compliance on a consolidated basis, not just at the parent company. This is why we have stepped up actions to put in place a compliance system at our subsidiaries and affiliated companies around the world that meets the same high standards. One specific measure in this regard is a suggestion box system that was established in February 2005 at the outside legal counsel for the MC Group. The system is used by officers and employees of subsidiaries in Japan. This move is an extension of suggestion boxes established in November 2001 inside MC and at outside legal counsel, as part of an internal whistleblower system.

As an important strategy for raising value on a consolidated basis, we will continue to upgrade and reinforce compliance initiatives that are effective in instilling awareness of compliance issues in each and every employee, including employees of MC's subsidiaries and affiliated companies.

► MC's Compliance Framework

