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MATTEL RESPONSE TO ICCA VENDOR REPORTS

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The plan outlined in this letter is in response to the series of vendor audit result reports prepared by the International Center for Corporate Accountability (ICCA) in 2005.

Plant # 7

July 13-14, 2005
December 19, 2005 (*follow-up audit*)

Plant #13

July 15-16, 2005
December 20, 2005 (*follow-up audit*)

Plant #14

July 11-12, 2005
December 19, 2005 (*follow-up audit*)

Plant #15

December 14, 2005

Plant #16

December 13, 2005

Plant #17

December 16, 2005

Plant #18

December 15, 2005

Mattel has performed an in-depth review analyzing audit reports on seven vendor manufacturing facilities. The company has committed both corporate and local resources to review findings and discuss corrective action plans with each vendor. Furthermore, Mattel is working with each vendor to implement a labor and EHS management systems approach for sustaining compliance with Mattel's GMP. While the ICCA report listed many specific issues, Mattel has grouped these findings into eight key areas that have been targeted for improvement. The areas that Mattel is concentrating efforts include:

1. **Working Hours** – In response to ICCA's findings that vendors have exceeded China's national labor law and Mattel's GMP standards pertaining to working hours: The challenge of working hours is a common industrial labor problem in China. While Mattel has been aggressive in addressing the issue of working hours, including a modified approach to the problem throughout its supply chain, it is limited to effectively resolve this issue alone. To solve this issue it will take commitment from the Chinese government, retailers, brands and vendors working together to provide a sustainable platform that can improve worker conditions and productivity while enhancing profitability and competitiveness. Mattel is exploring collaborative opportunities to engage in these issues.
2. **Overtime Wages** – In response to ICCA's findings that workers who receive a higher hourly wage for night work receive overtime rates based on the basic (minimum) hourly rate applicable to day-time workers. In accordance with GMP, Mattel will require that vendor calculations of overtime wages comply with China labor regulations and that vendors pay night worker overtime rates based on the night worker's basic hourly wage. Mattel will work closely with vendors to ensure that this practice is implemented within 90 days.

3. **Maternity Leave** – In response to ICCA's findings that there was an absence of maternity leave benefits and confusion among the interviewed workers with regard to vendor maternity leave policies: Mattel's GMP standards require that vendors provide employees with the proper benefits in accordance with applicable labor regulations. Mattel has required its vendors to revise its maternity leave policy to bring it in line with the PRC labor law as well as Mattel's GMP. In order to address issues with workers so they understand their benefits, including maternity leave, Mattel has reiterated to vendors its requirement to clearly communicate this policy to all workers during initial orientation and subsequent trainings.

Mattel has required all vendors to offer maternity leave to eligible workers in compliance with country regulation, which allows for 90 days of paid maternity leave. Newly adopted vendor policies make these benefits available to pregnant workers while on maternity leave. Henceforth, all workers on maternity leave will receive their wages on a monthly basis as they become due rather than wait until after they have returned to their jobs upon completion of their maternity leave.

In order to monitor compliance with this standard, maternity leave payments would be made through direct deposit in the employees' account instead of cash. Mattel will work closely with vendors to ensure that this benefit is offered and implemented.

4. **Medical Examinations** – In response to ICCA's findings that interviewed workers indicated that they were required to take a medical examination at the time of hiring at a cost to the worker: Mattel will require vendors to either provide free medical examinations at the factory site, to allow the worker to produce a doctor's certificate for undergoing a medical check-up at a location of their own choice, or reimburse this amount to the worker once he/she has completed three months of employment at the factory.

ICCA reported findings that female workers were also given a pregnancy test and where those test were positive the workers were not hired. In order to monitor compliance, Mattel will work closely with vendors to ensure that a more effective system of monitoring medical examinations is created that does not include pregnancy tests to screen workers.

5. **Clinic & Medical Facilities** – In response to ICCA's findings that vendors do not have adequate licensed clinic or medical facilities: Mattel's GMP has required that first aid and medical treatment is available on-site or at a location within a reasonable amount of travel time and during all shifts. If the facility requires certain employees to provide first aid, every three years those employees are trained and certified in providing first aid.

Mattel will work with vendors to create an on-site clinic with at least one qualified nurse on 24/7 basis, an essential supply of medication and one bed per thousand workers with a maximum of five beds.

6. **Meal Breaks** – In response to ICCA's findings that workers spend a portion (30 minutes) of their one-hour meal-break working on the machines without compensation. Mattel

standards require that workers are provided a meal break during each 8-hour shift of at least 30 minutes, and are paid for all hours worked. Mattel will require that vendors pay workers for all hours worked, and recommend that the meal break be reduced to 30 minutes to help accommodate this requirement. Mattel will work closely with vendors to ensure that this policy is implemented.

7. **Dormitories & Canteen Deductions** – In response to ICCA’s findings that vendors require mandatory dormitory living and eating food in the canteen. Mattel’s GMP maintains that workers may choose to live or not to live in dormitories or eat meals in the vendor provided canteen. If workers choose not to live in dormitories or eat in vendor canteens, then those corresponding deductions are not taken. Mattel will require that vendors allow workers a choice whether or not to live in dormitories and eat in the vendor canteen with pay deductions applied accordingly. Mattel will work closely with vendors to ensure that this policy is implemented.
8. **Environmental, Health and Safety Issues** – ICCA highlighted Environmental, Health and Safety (EHS) issues as a concern in the audit reports. Implementation of an EHS Management System and Capacity Building Initiatives will address the majority of concerns raised by ICCA. Mattel has also provided Capacity Building programs with our vendors that will help them to develop management systems and the infrastructure necessary to support manufacturing programs in their facilities.

EHS Management Systems: In Mattel’s continuous effort to improve the work environment, Mattel has required its vendors to apply a systematic approach to control the environmental, health and safety impact of its activities.

Mattel has required that the vendor maintain current copies of applicable Environmental, Health, and Safety (EHS) regulations and permits. (Mattel has recognized the difficulty confronted by most vendors in obtaining necessary permits and/or certificate of compliance from the local Chinese authorities.) The vendor must have an adequate number of qualified and trained EHS staff for the facility. The vendor must also have a training plan that identifies training requirements by job responsibility. Mattel has required that each vendor facility maintain an EHS Committee that consists of both management and employees that meets at least every 60 days. The EHS committee meeting minutes must be documented.

Mattel has required that each vendor provide employees with an orientation on the Mattel Global Manufacturing Principles and facility policies. The orientation includes emergency evacuation procedures, the method for reporting an emergency (e.g., fire, chemical spill, or medical treatment). The vendor must also provide information concerning hazards in the workers’ respective work areas including container labeling system, a hazard assessment process for evaluating the required personal protective equipment (PPE) for each area; and safety (e.g., usage of personal protective equipment, reporting incidents, fire safety and prevention).

Capacity Building: Mattel has required vendor management to develop its professional and line staff to ensure that sustainable compliance programs are implemented. To support this effort, Mattel works directly with vendors to facilitate training and implementation of sustainable labor and EHS management systems. Mattel’s vendor capacity building initiatives are focused on strengthening and developing human resources and manufacturing capacities in terms of techniques and

skills necessary to manage a manufacturing environment within legal and Mattel requirements.

To date Mattel's vendor capacity building initiatives on EHS management systems has included industrial hygiene programs (work place air sampling, local exhaust ventilation, hearing protection) hazard evaluation and communication and incident investigation & reporting. To support efforts for continuous improvement, in 2006 Mattel is expanding its capacity building initiatives to additional Mattel vendors.

Mattel appreciates the thoroughness and objectivity of the ICCA audits. In response to the issues outlined in the detailed audit report by ICCA, Mattel has worked with ICCA on a detailed corrective action plan at Plants 15, 16 and 17. Additionally, ICCA will go through a verification process later this year to determine each vendor's compliance with their corrective action plans. In addition, a full audit is planned this summer for Plant 18.

Mattel is committed to continually improving GMP compliance at its vendor factories and effectuating positive change for the global work force making our products. As Mattel continues to support its vendor base through a collaborative partnership of experience and capacity building efforts, it anticipates the incremental changes that take place over time will minimize the recurrence of non-compliance.