



Mattel's Response to the International Center for Corporate Accountability's 2007 Audit Reports for Mattel's Vendor Plants in China

This plan has been prepared in response to a series of audits of Mattel vendors conducted by the International Center for Corporate Accountability (ICCA) in 2007. In order to track the progress of vendor plants over time they have been assigned numbers. In 2007, ICCA conducted three initial audits and four follow-up audits as follows:

<u>Vendor</u>	<u>Audit History</u>
• Plants 5 and 6:	Second report for Plant #5, Third report for Plant #6
• Plant 7:	Third report
• Plant 13:	Third report
• Plants 19 and 20:	First report
• Plant 21:	First report

Mattel appreciates ICCA's independent audits and comprehensive reports. Mattel has reviewed the reports and the Global Sustainability department has already begun working with Worldwide Operations and vendors to correct deficiencies. Mattel takes seriously the issues that ICCA has raised and acknowledges the concern that some were identified in previous audits. As part of the efforts to improve GMP performance of vendors, the Global Sustainability department is developing programs to build the compliance capabilities of vendors. These programs will include corrective action tracking tools and education programs to address common challenges and share best practices. In addition the newly launched Corporate Responsibility Audit and Policy department will implement measures to monitor vendor progress and communicate with Mattel Worldwide Operations until all items are closed.

It will be consistently communicated that Mattel values the relationship with its vendors and will seek to provide them support to understand and implement GMP. It will also be made clear that Mattel will not continue a relationship with a vendor that does not demonstrate a commitment to comply with GMP.

Mattel has grouped the ICCA findings into 8 areas for which we intend to concentrate our efforts with vendors in order to achieve improved GMP implementation.

1. **Working Hours** – In response to ICCA's findings that at some vendors, working hours or the number of peak work weeks exceeded GMP standards:

All five vendors were operating under the terms of their consolidated working hours permissions commonly referred to as the local waiver system. Essentially these site specific waivers granted by the local labor bureau allow working hours in excess of the national law.

Mattel's GMP is intended to provide a reasonable maximum in terms of working hours taking into consideration the diversity of the specific terms included in each waiver and the seasonal nature of the plant's operations. In summary, the GMP standard calls for limiting working hours to 60 per week during normal operations and 72 hours per week during peak periods and other extraordinary situations. Under these conditions, all overtime must be voluntary and paid at the appropriate wage rate. In addition peak production periods must not exceed 17 weeks per year for each employee. Furthermore, workers must receive one day off per week except during times of extraordinary circumstances when a worker may work a seventh day but cannot work more than 13 days consecutively without a day of rest.

Although ICCA identified instances where regular scheduled hours and the number of peak production weeks have exceeded the GMP standard, we believe that some progress has been made in the Mattel vendor community in this issue. Mattel has helped vendors implement systems to document instances when workers exceed the 60-hour workweek, as well as work on the seventh day. We believe that improved management of tracking time, as well as, ensuring proper payment of wages and the voluntary nature of overtime are important to achieving progress on working hours. In all seven plants ICCA audited, overtime was documented to be voluntary and wages were properly paid. Rest days were regularly scheduled and met GMP standards.

We will continue to actively engage with vendors to understand what additional measures can be taken to manage working hours and examine those aspects we can influence. In those cases where Mattel is only one of several firms that a vendor is producing for, we will seek to collaborate with others in a collective effort. The challenge of working hours is one of the many reasons that Mattel fully supports the continuing implementation of the industry-wide code of conduct for toy manufacturing.

2. **Payroll Record Keeping, Pay Period and Understanding of Wages** - In response to ICCA's finding that there were instances where payroll recordkeeping was not automated, payment of wages was delayed and some workers did not adequately understand their wage statements:

Mattel will address the payment of wages with vendors to ensure compliance with the local labor district requirements regarding the payment of wages after the close of the pay period. This subject will be included in 2008 vendors training as part of emphasizing the GMP requirements to inform workers about payroll procedure and how their wages are calculated. Terms in the employee contracts will be reviewed by Mattel's internal auditor to ensure the necessary changes have been made to conform to local requirements and GMP.

ICCA expressed concerns about one plant's continued use of a manual recordkeeping for working hours was prone to error. GMP does not require an automated system for tracking working hours or payment of wages. For manual systems, GMP requires that time cards and pay records be signed by the worker to verify accuracy of their hours. ICCA did not find these practices inconsistent with GMP. Mattel takes seriously the concern that a manual system can be more difficult to explain to workers and challenging to audit. Mattel will seek to ensure the vendor improves communication with workers regarding the calculation of wages and overtime.

3. **GMP Awareness** – In response to ICCA's finding that some workers did not report that they recalled receiving information about Mattel's GMP:

Many of Mattel's vendors produce products for other toy and consumer product companies. This fact makes it difficult for a vendor to create communications programs that cover multiple company and industry adopted codes of conduct. We have realized that in practice it is also difficult to expect that a worker will recall and attribute the terms of a code of conduct to a specific firm such as Mattel. GMP requires that the facility provide an orientation to new employees on GMP, facility policies and environmental health and safety (EHS) procedures. The intent of this requirement is to inform workers about their new environment and those practices that have been established to ensure their safety and fair treatment. We intend to review the GMP requirements in this respect and wish to work with ICCA during 2008 audits to determine if those surveyed workers that are unsure of a benefit or procedure are sufficiently informed and comfortable about how to obtain such information. We will also revisit the GMP awareness as part of vendor training and share best practices related to maintaining awareness of GMP and related codes of conduct among the vendor workforce.

4. **Leave Benefits** – In response to ICCA’s findings that one vendor did not adequately include information about leave benefits in their handbook, that in several instances the taking of annual leave was restricted and payment of maternity leave was not consistent with stated policy:

GMP requires that a vendor provide their workers with the proper benefits in accordance with applicable labor regulations. We address the specific issues raised regarding leave benefits in order. Mattel will review vendor handbooks in order to ensure that benefits for each type of leave provided for by labor regulation are included in the handbook or communicated to the employee in an otherwise appropriate manner.

In regard to annual leave, Mattel has sought a legal interpretation in order to ensure we respond to the finding in a manner that complies with recently enacted regulation. Employees are entitled to annual leave after one year of continuous service; however until recently there was no legally mandated minimum amount of annual leave. Mattel will seek to ensure vendors understand their obligation to comply with the new Annual Leave Regulations enacted January 1, 2008 which for the first time established a minimum of five days of annual leave for workers with one to ten years of service. The regulations do not prohibit an employer from prescribing when annual leave may be taken, such as during a plant shutdown for Chinese New Year. In the event that the taking of annual leave is restricted Mattel believes it is reasonable to require that the employment contract clearly state when leave will be granted.

In regard to the payment of maternity leave benefits, ICCA has identified instances where eligible workers that chose not to return to work did not receive the full wages provided for in the maternity leave policy. We agree that returning to the factory should not be a condition or barrier to receipt of the benefit. Mattel will take immediate steps to communicate this understanding to vendor factories and require that they develop a plan to ensure eligible employees receive their full benefit. The GMP standards will be reviewed to determine if clarifications are appropriate. Payment of maternity benefits will be included in vendor training and Mattel’s internal audit team will track the corrective action plans.

5. **Employee Uniform Expenses** - In response to ICCA’s finding that one vendor that required uniforms deducted the expense of more than one set from employee pay:

GMP states that payroll deductions for required uniforms are not permitted. Mattel agrees with ICCA that an adequate number of uniforms should be provided for an employee to be properly dressed while in the plant. If maintaining and laundering uniforms is the worker’s responsibility a minimum of two uniforms is a reasonable expectation. It would be acceptable to charge for additional uniforms purchased at the discretion of the employee.

6. **Medical Examinations** – In response to ICCA’s finding that several vendors required applicants to pay for pre-employment medical screening:

Mattel will clarify that if applicants are required to have pre-employment medical examinations the vendors will be required to adopt one of the following options:

- a. Provide free medical examinations, or
- b. Permit an applicant to produce the results of a recent medical examination from a clinic or hospital of their own choice.

7. **Hiring Practices** – In response to ICCA's finding that interviewed workers expressed concern that hiring practices used by some vendors may have been unfair.

Although Mattel was pleased by the audit findings that at all seven plants, interviewed workers uniformly reported that they were neither harassed nor discriminated against, Mattel is investigating hiring concerns and we intend to take steps to address them. First, GMP requires that the factory implement a policy on hiring practices to prevent discrimination. Mattel will take immediate steps to reinforce the importance of this GMP requirement with vendors and seek to ensure these practices are discontinued. Vendors will be required to include information about their hiring practices and their employee handbook and other related communication materials. Vendors will also be required to document that applicants are informed of hiring practice to prevent discrimination. Mattel will work with vendors to develop a training program for human resource staff responsible for hiring workers. Mattel's internal audit team will verify the implementation of corrective actions by June 30, 2008.

8. **Environmental, Health and Safety Issues** – ICCA highlighted environmental, health and safety (EHS) issues as a concern in the audit reports at some of the factories:

The Global Sustainability department has launched a review of the specific EHS audit findings with each vendor and will guide the development of corrective action plans. Capability building initiatives in 2008 will include a focus on improving EHS management systems including the implementation of enhanced industrial hygiene and environmental compliance training.

ICCA notes that the use of personal protective equipment, material storage, housekeeping are issues that need attention and will be addressed in capability building training as well as called out for specific attention at some of the factories during internal GMP audits. Mattel will also examine the practices of those audited factories which had best practices on EHS issues to facilitate and expand those practices to the other factories.