

**Mattel Independent Monitoring Council for Global
Manufacturing Principles**

Audit Report August 8, 2001

**For Mattel Manufacturas DE Monterrey, S.A. DE C.V. (MX3),
Monterrey, Mexico**

Copyright © 2001 by MIMCO

**C/o MIMCO
Zicklin School of Business
Baruch College- CUNY
17 Lexington Avenue
New York, NY 10010**

**E-mail: MIMCO@Baruch.Cuny.edu
Prakash_Sethi@Baruch.Cuny.edu**

MATTEL MANUFACTURAS de MONTERREY, S.A. de C.V. (MX3), MEXICO

This report contains the findings of MIMCO's audit of Mattel Manufacturas de Monterrey, S.A. de C.V. (MX3) in Mexico. The report covers two separate auditing events at MX3, an initial audit in November 2000 and a follow-up in February 2001. First, the report details MIMCO's findings of the initial audit of the facility that took place on November 7-8, 2000. This initial audit discovered a number of serious deficiencies in the plant's operations with regard to compliance with Mattel's Global Manufacturing Principles (GMP). Following established procedures, MIMCO provided a copy of the draft report on MX3 to the plant's general manager who shared its contents with his senior manager at Mattel. Their combined response was swift and unequivocal. Both the plant management and Mattel's headquarters management committed to taking prompt action in making the necessary changes in the plant's operational policies and procedures. It was agreed that a follow-up audit would be undertaken within sixty days to examine the improvements made in MX3 to bring it in compliance with GMP.

The follow-up audit by MIMCO team was conducted on February 5, 2001. For purposes of this report, in areas where there were deficiencies, the corrective action will be set out immediately following the discussion of the finding,

The follow-up audit showed that the conditions at MX3 had been dramatically improved since MIMCO's initial visit. The plant management had corrected the defects in the physical facilities that could be immediately repaired or replaced. Where repairs and alterations required a longer time-frame due to structural changes in physical facilities or management training, we were shown documentation to indicate that all the necessary processes had been put in place to implement these changes in an expeditious and timely fashion.

SECTION 1 – INTRODUCTION

Mattel Manufacturas de Monterrey, S.A. de C.V. (MX3) plant in Mexico is located in Monterrey, Mexico. It is a new facility which started operations in November 1998. The plant covers a floor area of 28,500 sq. meters. The plant manufactures toys solely on injection

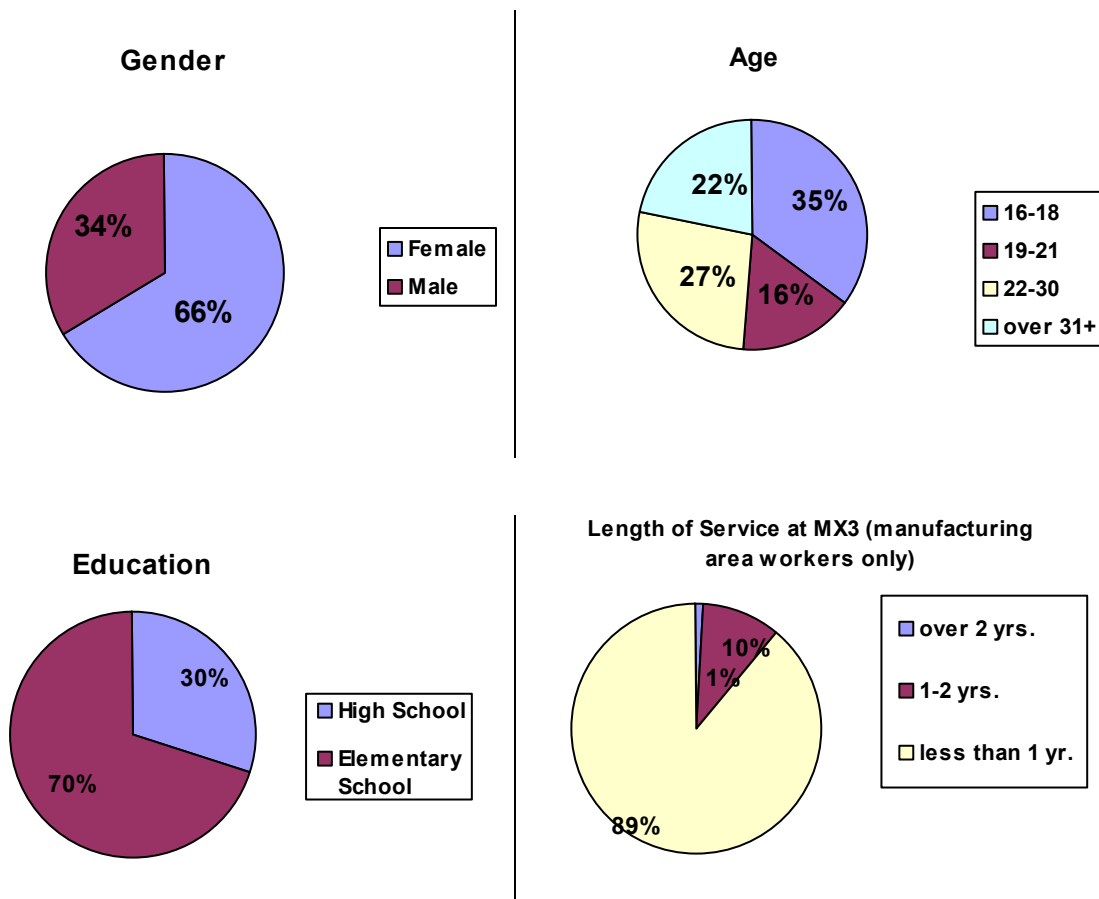
molding and blow molding machines. In 2000, MX3 produced approximately 5.6 million toys, an increase of 51% over the previous year.

SECTION 2 – EMPLOYEE PROFILE

MX3 currently employs over 1500 workers. However, during non-peak periods the employment level can fall to around 500. The workforce is predominantly female. It is also relatively young with low level of education and little prior work experience (Figure 1). The plant has extremely high levels of worker turnover, i.e. 235% a year, but may go as high as 34.75% a month.

Figure 1

MX3 WORKERS' PROFILE



SECTION 3 – RECRUITMENT, ORIENTATION AND TRAINING

Recruitment: MX3 recruits new workers to ensure that it has the required number of workers to staff its production lines. Among the workers interviewed by MIMCO, 60% got their jobs simply by walking in and applying directly at the plant. Another 20% got their jobs through referrals from friends and current workers. The remaining 20% found their jobs through other sources including the help of professional recruiters.

Orientation and Training: Each worker receives one-day (7.0 hours) of orientation training before starting work. This orientation includes a brief description of the plant's history, discussion of GMP, policies and procedures regarding working conditions, wages and benefits, pay days, safety training and training related to specific jobs, description of canteen and food services, location of bathrooms and toilet facilities, the specific information relating to rest periods, shift and work schedules for various job classifications, information on transportation to and from the work site, and a tour of the plant.

By large majorities, workers interviewed by MIMCO indicated that they received a signed copy of their employment contract during orientation (74%). They were also provided information about discipline, grievance procedures, and rules of conduct (83%, 70% and 93%), pay and working hours (93%), transportation to and from the factory (97%); and, speech by a senior manager (47%).

Follow-Up Audit February 5, 2001: MX3 briefed MIMCO on an aggressive training and education program for both production employees and supervisors and managers. These training programs were related to both job related skills enhancement, environmental, health and safety training and general plant awareness training. Resources to complete this training were both internal and in some cases drawn externally from local universities. This training represents a significant commitment and the HR department should be commended for the detailed program presented to MIMCO.

Awareness of GMP: Among the workers interviewed by MIMCO, 80% indicated that they were familiar with GMP, although most of them stated that they were not sure about some

of GMP's provisions and what they meant for workers at the plant. A majority of the workers indicated that they received GMP-related information at the orientation meeting (53%). However, only 33% indicated that they were given a copy of the GMP at the orientation meeting. Workers were unanimous in reporting that with the exception of the orientation period, they did not receive any additional information about GMP either from their supervisors or from the information posted on the factory notice boards.

Follow-Up Audit February 5, 2001: As mentioned above, with the changes made in consolidating the management of the two plants and the specific plan on training to GMP standards will be addressed in detail during employee orientation. The General Manager has initiated weekly meetings which are held with small groups of employees to discuss common problems, and solicit employee suggestions on all issues of employee concern. The program includes a feedback loop to ensure that employee suggestions and concerns are addressed in a timely manner.

SECTION 4 – WORKING HOURS, WAGES, BONUSES AND BENEFITS

MX3 operates on a three-shift basis. The normal shifts are: 6:30am – 3:00pm, 3:00pm – 11:00pm, and 11:00pm – 6:30am. All the molding operations are run on a 3-shift basis, while the assembly lines operate on a 2-shift basis.

Mexican labor law states that a normal workweek in manufacturing operations shall consist of 48 hours. The overtime is paid at 2.0x normal daily wages, and there is a premium of 25% for work on Sundays. The wage rate for holiday work is triple the normal daily rate. MX3 meets and exceeds all relevant provisions of the Mexican labor law with regard to wages, overtime, benefits, e.g., paid vacations, maternity leave, and social security taxes. While MIMCO found that MX3 meets minimum wage requirements, the plant management indicated that it planned to implement a new wage structure in the early part of 2001.

The normal workweek consists of 6 days a week. The normal working hours are: 8.0 hours for the day shift, 7.5 hours for the afternoon shift, and 7.0 hours for the night shift.

Workers between the ages of 16 and 18 are not assigned to night shifts. Employees punch their own time cards at time clocks upon arrival and checkout times.

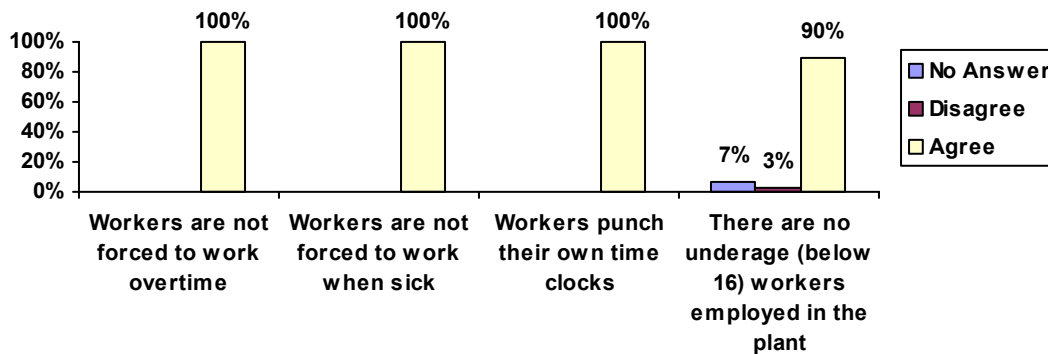
The minimum wage for factory work in MX3's area of operation is 35.10 pesos a day. MX3, however, pays a minimum wage of 54 pesos a day. MX3 pays overtime pay at double the daily rate for the first 9 hours of overtime a week and triple the daily rate after 9.0 hours of overtime a week. All overtime work is voluntary. There are no performance bonuses and other incentive payments.

Workers are paid on a weekly basis. Salaries for administrative staff employees are paid through direct deposit into their bank accounts. Factory employees are paid in cash. Each employee receives a pay-stub that provides all the pertinent information with regard to normal and overtime hours, wages paid for normal and overtime hours, and deductions for taxes and social security.

When asked whether or not workers were forced to work overtime, there was unanimous agreement that all overtime was voluntary. Workers also indicated (90%) that, to the best of their knowledge, the factory did not employ workers who were younger than 16 years of age. This was also confirmed by MIMCO through desk audit of payroll data and personnel files of a randomly selected sample of the plant employees. All of the workers interviewed also indicated that they punched their own time clock and that their recorded hours matched the hours shown on their pay stubs (Figure 2).

Figure 2

WORKERS' OPINIONS ON WAGES AND WORKING HOURS



Follow-Up Audit February 5, 2001: The plant management advised that effective January 1, 2001, a new wage structure has been implemented at MX3. Wages have been raised for entry-level production operators and experienced production operators. In addition, significant expansions have been made in benefits such as food subsidies, holiday pay, and paid days off for personal reasons (child birth, funerals, etc). MX3 has taken steps to ensure that they are in line with Mattel’s other manufacturing facility in Monterrey. Many of the management team, Human Resources, Environmental, Health and Safety, now service both Mattel locations in Monterrey.

SECTION 5 - FACILITY CONDITIONS AND OPERATING ENVIRONMENT

A thorough "walk through" inspection of the plant's physical facilities was undertaken by the MIMCO team. The team found conditions that were considerably below GMP standards in most areas of the plant. The plant showed signs of neglect in both routine and preventive maintenance. Furthermore, the flow of materials, processing, waste handling, storage and disposal, suggested a disregard of normal safe handling procedures.

MIMCO had previously visited this plant in August 1999 when it was in the process of preparing for full-scale operations. We did not find these same conditions in August 1999 while visiting the plant. In our opinion, MX3 as observed in November 2000, raises significant issues of potential risk to workers’ health and safety, and safe environmental practices.

Working Conditions on Assembly Lines and Molding Machines: All MX3 workers, whether in molding or assembly areas, are required to stand on their feet through their entire work shifts, which can be either 7 or 8 hours long depending on the shift. This is an unprecedented situation in MIMCO's experience. In all of MIMCO audits of Mattel owned and operated facilities in Asia and Mexico, we did not find a single plant where workers were not provided with some type of stool or chair and were instead required to stand through their entire work shifts. An examination of the workers' interview data showed that, by a vast majority (87%), the interviewed workers complained about the lack of stools and chairs at their workstations and about being asked to work while standing for 7 to 8 hours. MIMCO also observed that in the molding area employees were sitting or leaning on turned-over empty cases. This is an unsafe working practice. It contributes to workers' tiredness and stress and may lead to worker dissatisfaction as well as a reduction in efficiency. It also raises the risk of increased work-related injuries.

Follow-Up Audit February 5, 2001: All assembly and molding positions have been evaluated by Industrial Engineering and the EHS departments and currently 50% of the positions have been designated as positions where sitting is permitted. The remaining positions require standing due to frequent movements or heavy lifting of the product. The future product of MX3 will be even larger cube products and the number of positions which will permit sitting will probably decrease. Stress mats are currently provided for all positions where standing is a requirement. In addition, when operators are on break, they will be able to sit either in the break rooms or in the cafeteria. MIMCO has been notified by MX3 that the plant has completed the evaluation of all positions and made the corrections. Further evaluation of the work-positions will be an ongoing process as the product mix changes.

New roller type assembly lines are being installed which will allow more orderly, efficient movement of product and flexibility of production operations.

Given the rather large number of significant changes that have been undertaken at MX3, MIMCO has decided to make an unannounced visit to MX3 in the upcoming months. Our

objective would be to ensure that all the plant improvements - indicated by the management in various parts of this report – have been implemented and they are being continuously maintained.

Work Environment and Housekeeping: The molding area of the plant was unkempt with oil spills on the floor. Part of the oil spills from the molding machines drained into an open channel and then ran down the wall into the regrinding area. Oily rags were found lying on the floor under and between machines. Discarded materials were found in many places in both the assembly and molding floor areas. Workers stated that while they tried to keep clean work areas around their machines, there was insufficient staff assigned to clean and maintain the areas nearby where machines were idle.

Follow-Up Audit February 5, 2001: MIMCO found the area was clean and as mentioned above layouts improved significantly. Additional staff has been assigned to ensure that plastic and trash is cleared on a timely basis. Molding machines are now repaired to stop leaks and when leaks occur, oil is cleaned up immediately. The trenches are going to be filled in to ensure that oil and water do not run into the regrind area. This work is approximately 60% complete.

Electrical Hazards: There was an appreciable amount of makeshift electrical wiring and bare electrical connections resulting from temporary lines set up to handle peak workloads. The wiring does not meet Mattel GMP standards for safe installation and maintenance of electrical wiring. Many improper junction boxes were lying on the plant floor with several of them in oily areas. We observed misuse of masking electrical tape that employees used to attach and hold in place temporary electrical wiring. A similar situation was also observed for hydraulic lines on the molding machines. In several places, live electrical cords were lying across employee pathways. In our opinion, this situation creates an unacceptable level of hazard for workers. It also increases the danger of fire hazard in the plant.

Follow-Up Audit February 5, 2001: All electrical outlets have been secured and cords removed from employee walk ways. Bare connectors have been repaired and wiring secured

with proper connectors. Hydraulic lines were now secured with the proper clamps. Temporary wiring has been replaced with permanent electrical wiring.

Painting Areas: The paint stations on the assembly floor were dark and dirty with accumulated paint residue. One employee, who was not wearing protective clothing, stood in a puddle of dried paint and debris, spraying plastic parts under conditions of insufficient light. Although the paint itself was water based, the working conditions were, nevertheless, below GMP standards. Employees performing painting work were not wearing proper personal protection equipment (PPE).

Follow-Up Audit February 5, 2001: The paint booths were lighted, clean and all paint over spray was cleaned from the booth. The floor was clean and the area neat and orderly. The employees were wearing the proper Personal Protective Equipment (PPE) and re-trained to understand the requirements.

Use of Personal Protection Equipment (PPE), Material Storage and Forklift Operation: There appeared to be little emphasis on the use of personal protection equipment. Most employees working in high noise contaminated areas, did not wear earplugs. Production employees trimming “flash” were using “exacto” type knives. When questioned, they appeared unaware of the fact that the “green” tape provided to them was to be used to protect their fingers from cuts. We also noted that workers were not using safety glasses and protective shoes in areas where these PPE should have been worn. MIMCO also noticed a red metal cabinet standing in the middle of the assembly area. It was full with open containers of volatile flammable liquids.

Employees using forklifts on the factory floor were driving them at excessive speeds and did not appear to be properly trained in their safe operation. Several employees were not using seat belts and supervisors were not aware if the employees had been trained on the proper use of industrial trucks. Safety lines, both yellow and red, used to mark evacuation routes, were often missing or worn out and had not been repainted.

Follow-Up Audit February 5, 2001: During the visit MIMCO observed that all employees were wearing the proper PPE. In addition, the training program outlined included training of all employees on the proper use of PPE. The chemicals in the cabinet were properly stored and all containers closed. No forklift operators were observed operating vehicles in an unsafe manner. The training plan included specific training for all operators to ensure proper inspection and operation of forklifts. Safety lines had been repainted marking the evacuation routes.

Ventilation: The entire plant is air-conditioned. However, from our ground observation point, we noticed that most of the factory air-conditioning outlets were in need of cleaning. Accumulation of dust can partially block the flow of system air and reduce the effectiveness of the air-conditioning system. MX3 had not conducted Industrial Hygiene monitoring to determine employee exposures.

Follow-Up Audit February 5, 2001: Ducts and ventilation had been cleaned and were no longer visibly dirty. MX3 has committed to conduct Industrial Hygiene monitoring regularly in accordance with GMP requirements.

Improper Maintenance Practices: During the walk-through examination of the MX3 plant, in two instances MIMCO observed that an electrically alive injection-molding machine was being repaired by a mechanic working on the interior of the machine without using the proper procedure. This is an unsafe and highly dangerous work practice.

Follow-Up Audit February 5, 2001: No employees were observed performing maintenance on molding machines where Lock-Out/Tag-Out procedures were required. The training programs were specifically targeted to all employees who perform routine maintenance. According to records, training on Lock-Out/Tag-Out had been conducted for all molding maintenance personnel.

Waste Storage and Environmental Protection: In the rear of the plant, we observed an open waste oil drum stored outside. Oil had spilled from the drum on to the pavement, which was very close to the drainage ditch and no one had cleaned the spill. Inside the storage area, oil soaked containers were observed. MIMCO was told that the materials warehouse was going

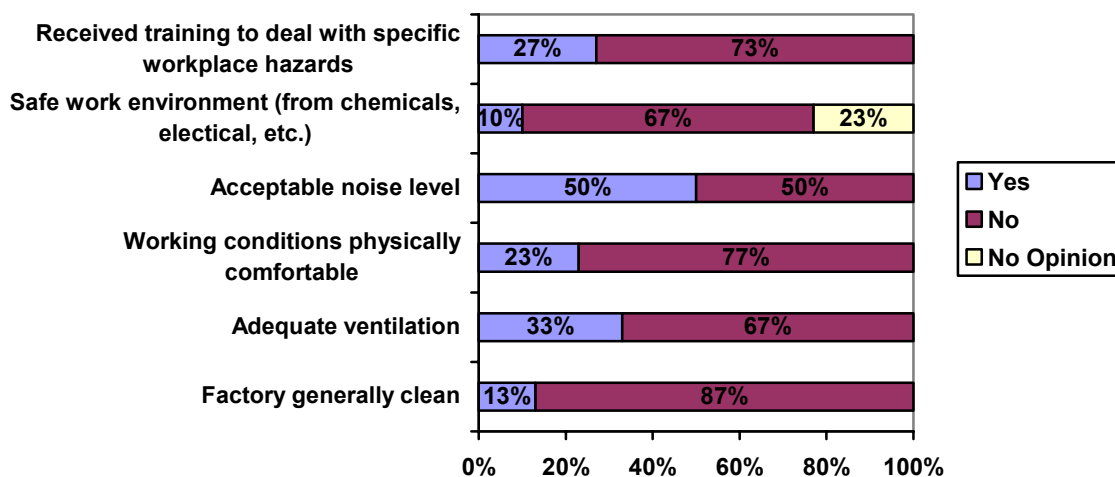
to be modified into two areas and the materials separated during the December shutdown. Generally, containers were not properly labeled and not stored in an orderly manner.

Follow-Up Audit February 5, 2001: The storage area had been reorganized and incompatible chemicals separated as planned during the previous audit. All containers were labeled and no spills or leaks were observed. Specific training has been provided to chemical handlers to ensure that materials are not spilled and enter the drainage trench.

Responses from the workers interviewed, as part of the audit process, were generally disapproving (Figure 3).

Figure 3

WORKERS' OPINIONS WITH REGARD TO WORKING CONDITIONS IN THE MX3 PLANT



SECTION 6 – CANTEEN AND KITCHEN FACILITIES, DRINKING WATER, AND PERSONAL HYGIENE FACILITIES

The kitchen area was unclean and below GMP standards. Several pieces of kitchen equipment were grease encrusted as were places on the tile walls and the floor. There were two major traps in the kitchen floor that no one seemed to know their function. One was partially bolted to the floor and the other one had all the bolts missing. We were unable to open

one of the trap doors that was without bolts. It was jammed and could not be opened. The large venting hood over the cooking area apparently had not been cleaned for a long time and was thick with congealed and smelly grease. There was no drainpipe connection to a large sink. Instead, a pail beneath the sink opening was being used to catch wastewater.

As in other parts of the plant, there were bare electrical connections. The outside area directly behind the kitchen was water soaked due to a faulty water pump and a leaking filter pipe from a large, black water tank.

Follow-Up Audit February 5, 2001: MIMCO observed that all kitchen appliances have been cleaned and grease removed. All plumbing was repaired and proper drains were operating. Leaks were sealed and all electrical connections were repaired and in compliance with GMP standards. Flooring had been replaced according to the stated plan during the initial audit.

Personal Hygiene Facilities - Toilets, Bathrooms, and Drinking Water: Workers' hygiene and sanitation conditions as reflected in the toilet facilities were below GMP standards. The lavatory facilities on the production floor were mostly non-operational and unclean. Wash bowls, soap containers, toilet seats, automatic flushing devices and faucets were missing and were non-operable. In one of the men's lavatories, there was no running water in any of the sinks tested. Employees were not able to wash their hands after relieving themselves. Soiled toilet paper was on the floor adjacent to the toilet bowls because it could not be flushed down the inoperable drains.

Routine housekeeping was non-existent or deficient as indicated by severely discolored sinks, toilets and urinals. Most toilet stall doors were covered in graffiti and were, for the most part, inoperative. Half of one of the two men's toilet areas was blocked off with a makeshift partition reducing the availability of the facilities by 25%. Our inspection revealed that the toilets in the blocked off area were broken and unusable.

Follow-Up Audit February 5, 2001: In our follow-up audit, MIMCO found that lavatories and hygiene facilities had been repaired and were properly operating. All new fixtures were stainless

steel which would allow proper cleaning and ease of repair. Additional maintenance and service personnel have been added to ensure that all repair work is completed in a timely manner, and that lavatories are kept clean at all times.

SECTION 7 – FREEDOM OF ASSOCIATION AND ACCESS TO MANAGEMENT

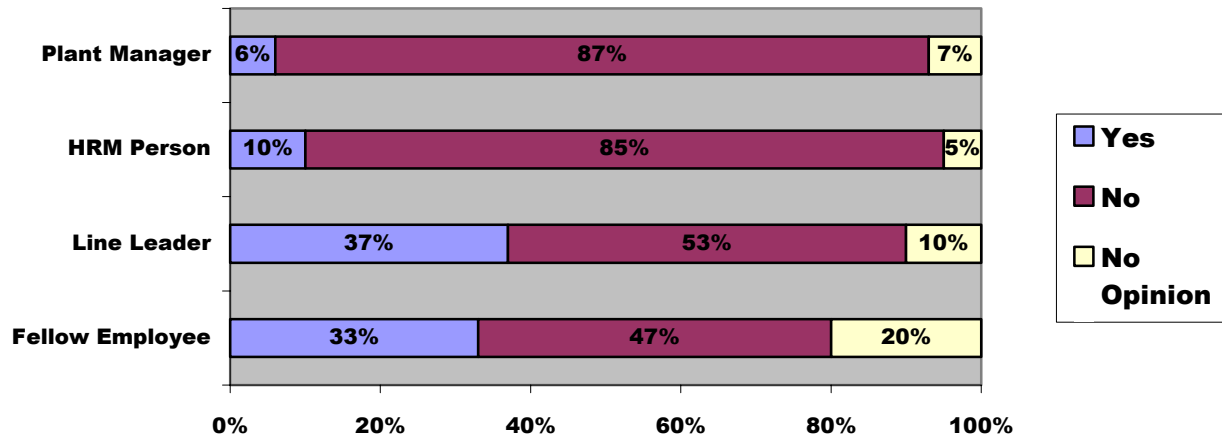
During the employee interview phase, workers were asked a series of questions designed to elicit information about their experiences pertaining to (a) freedom of speech and the right to organize, and (b) the extent to which they felt that they had access to various levels of management with regard to grievances and whether or not their views were taken into consideration on issues that affected their working and living environment.

Despite union leadership participation during the one-day new employee orientation, some employees stated that they did not know they had a union. However, all of the employees stated that neither they nor anyone they knew had been intimidated harassed or fired for union-related activity. The employees, however, presented a mixed picture when asked about their access to different levels of management when they had questions pertaining to work related or personal problems. While a majority of workers (67%) indicated that they could freely talk to their supervisors, 10% stated they could not, and another 23% declined to answer.

Data from employee interviews indicated that there was a low level of communication between the employees and plant management. Figure 4 shows the range of employee responses.

Figure 4

PERSON MOST LIKELY TO BE APPROACHED BY EMPLOYEES FOR ADVICE IN CASE OF QUESTION OR PROBLEM



This sense of distance between the management and workers was further confirmed to the interviewers in the open-ended unstructured comments made by the employees. A number of employees stated that plant supervisors were unfriendly and indifferent. One employee stated, “Whenever you have a problem they pity you rather than help you.” Another employee stated that it was always better to consult your fellow workers because they cannot expect any help from the management.

Most of the workers stated that there were frequent meetings where different supervisors, and at one time the general manager, talked to them and discussed GMP, wages, etc. One employee stated, “These meetings did no good. The managers were always in a hurry. They did not take any questions.” It was reported that the meetings would take only 15-20 minutes and then employees would rush to go home.

In MIMCO’s opinion, the overwhelming direction of these comments is adverse to GMP standards. It suggests that MX3 management should undertake a more systematic and concerted effort to communicate with the workers and gain their trust and confidence.

Follow-Up Audit February 5, 2001: As previously reported, management has made additional efforts to ensure that employees have a forum to voice concerns about working conditions. Training programs with supervisors and employees will focus on communicating effectively. The suggestion program and the follow-up should improve employee communication and access to management.

Mattel Management Response to MIMCO Report

We recognize that this report does not reflect favorably on the performance of our MX3 facility. There are a number of reasons that led to these conditions but none justify MIMCO's findings in November 2000. We will not accept this performance and will not make excuses. As evidenced by the follow-up audit in February 2001, we did take immediate action to correct the discrepancies found. Our senior management team at Mattel is new and committed to full implementation of GMP. MX3 is a valuable part of our manufacturing strategy and will fully comply with GMP. We also welcome MIMCO's intent to conduct an unannounced visit of the MX3 facility.