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## **Mattel's Response to the Sethi International Center for Corporate Accountability's 2008 Audit Report for Mattel's Plants in China**

This summary responds to two audit reports prepared by the Sethi International Center for Corporate Accountability (SICCA) for Mattel plants in China. SICCA visited the Radica plant June 4-5 and the Chang An plant June 13-14, 2008. Mattel appreciates SICCA's independent audits, including field visits and employee interviews. While Mattel is satisfied with the overall SICCA findings that both plants have implemented GMP, there are findings that warrant improvement. Both factories have reviewed the audit findings and have implemented corrective action plans to address their specific findings as well as share best practices. Mattel's Corporate Responsibility organization is working with Worldwide Operations to ensure clear direction and consistency in the implementation of our Global Manufacturing Principles (GMP). The Corporate Responsibility Audit and Policy department will monitor progress of the corrective action plans and communicate with leadership until all items are closed. The Global Sustainability (GS) department will provide technical support to the plants as they implement their plans. Major findings and recommendations are noted below along with Mattel's response.

- 1. Pre-Employment Medical Screening** - Mattel takes very seriously SICCA's finding that five percent of the female workers at Chang An reported that they believed their pre-employment medical screening included a pregnancy test and that the applicants were financially responsible for the exam. Mattel has investigated these concerns and found no evidence of such testing being conducted by the plant clinic. Mattel has never directed such testing to be included in the medical screening for applicants. In addition, Chang An has ceased conducting pre-employment medical screening unless specifically required by law for certain job categories e.g., food service. All Mattel owned and operated plants in China will cease pre-employment medical screening by December 1, 2008. Any medical monitoring required by law or our industrial hygiene programs for the purposes of job placement in the factory will be conducted after hiring. Furthermore, all such medical examinations will be properly documented to ensure compliance and continued monitoring of covered employees with legally mandated standards.
- 2. Holding Deposit** - Mattel has investigated the concern expressed about Chang An holding a payroll deposit from the workers' first check as an incentive to complete their full contract. All deductions from the initial pay check were consistent with GMP and related to meals, dorm charges and other permissible matters. We recognize that the former contract language may have created confusion because there was a penalty provision for early termination imposed on both the worker and the factory. It is understandable that this contract language could have been interpreted by some workers as a deposit. In order to address this situation and comply with changes in the Chinese contract labor law, the language related to early termination penalties is not part of new employment contracts. In addition, all workers under an existing contract have been notified in writing that the penalty provisions for early termination are void.
- 3. Automation of Time Keeping and Payroll Records** - SICCA has expressed concerns that Chang An's continued use of manual recordkeeping methods for working hours lacks the necessary transparency to audit properly and may be prone to error. While GMP does not require an automated system for tracking working hours or payment of wages, it does require that time cards and pay records be signed by the worker to verify accuracy of their hours. Although SICCA did not find manual practices inconsistent with GMP, Mattel acknowledges that auditing a manual system is more arduous and may be more difficult for workers to understand. Mattel is committed to continuously improving the systems that support our GMP values and therefore has decided to assume additional responsibility for time keeping and payroll calculation for our China partner. The first component of the conversion process is to implement an automatic time keeping by December 31, 2008. The complete conversion is expected to be completed in the second quarter 2009.

4. **GMP Awareness** - SICCA found noticeable improvement in GMP awareness at Chang An, but additional attention needed at Radica, as it is still a fairly new factory for Mattel. Chang An has taken several steps to enhance communication with employees through the new hire orientation process and other means, but additional progress can still be made. The GS department is working with plant management to identify additional means to raise awareness about GMP. Emphasis on GMP will be part of communicating to employees the launch of the new automated payroll and time keeping systems. In addition to including GMP training in the new hire orientation, Radica is also emphasizing GMP as part of tea-talks and other periodic worker training activities in order to raise the awareness of GMP among those workers who have been with Radica prior to the acquisition.
5. **Working Hours** - Mattel was pleased that the auditors were able to confirm overall compliance with GMP standards for working hours. The company has taken action to remedy the instances at Radica where there were instances where the maximum hours were exceeded. Most of these cases represented a worker exceeding the standard for a single week per year. In response, Radica has implemented additional controls that will prevent a worker from being scheduled for working hours in excess of the maximum limit.
6. **Annual Leave** - SICCA found that Radica workers in 2006 believed that they were required to take annual leave during a factory shutdown and paid for less than the full day. Mattel has investigated these circumstances that took place prior to its acquisition of the factory. The company's standard procedures to notify workers of a planned shutdown have been adopted at Radica. In accordance with the employee handbook and Chinese labor law, workers are given the choice of taking the shutdown day as leave without pay or they may apply any accumulated annual leave to cover the shutdown period.
7. **Distribution of Maternity Leave Benefits** - SICCA found that Radica has a policy of paying for 90 days of maternity leave, but raised concerns about the benefit being paid upon the worker's return to the plant. The plant has changed the policy on distribution of the benefit and will make arrangements to continue payments on the regular schedule via bank deposits or other method.
8. **Deductions for Tardiness** - SICCA expressed concerns about Radica's policy of docking wages a quarter hour for tardy arrival after the start of a shift. The policy was changed in May 2008 to pay the worker based on the exact number of minutes they are clocked in after the start of their shift. The policy has been communicated to all employees and is compliant with GMP. Mattel is also documenting efforts taken by our other plants to encourage good attendance that can be implemented by Radica.
9. **Dormitory standards** – Mattel has reviewed SICCA's findings regarding the facilities at Chang An and the initial first month deduction from all Radica employees for use of the dorms. Chang An is identifying means to minimize the use of the 4<sup>th</sup> and 5<sup>th</sup> floors of dorms 2 and 3. Mattel acknowledges that the co-location of shower and toilet facilities on the same floor as dorm rooms is part of the GMP standard. Chang An has already taken steps to minimize the use of these floors to peak season only. The long term plan is to eliminate the use of these floors completely. Radica has changed the procedure for workers who elect to live in the dorms. As of August 1, 2008, all new employees must declare their intention to live in the dorms and accept the associated payroll deduction. Radica has reimbursed all eligible employees who were subject to this initial monthly dorm deduction back to the date Mattel acquired the plant in late 2006.
10. **Meal Plan Deductions** – In response to SICCA's finding that a small number of workers at Chang An claimed that meal deductions were automatically taken for the first month of their employment, the plant has improved communication with new employees during the initial orientation process to ensure understanding of the choices that all workers must make for fee based services such as use of the canteen and dormitories. Since many employees were relocating and it was their first job, the plant was automatically enrolling the employees in meal service for the first month and then offering the choice to continue. This practice was discontinued in June 2008.

**11. Environmental Health and Safety Issues** - Both plants have reviewed the EHS related findings and are developing a corrective action plan which identifies the order of priority, remedial actions to be taken and timeline. The plan will be reviewed jointly with Corporate Responsibility Audit and the Asia operations leader. Internal GMP audits will be scheduled in order to verify items on the corrective action list are resolved.

Several specific findings are addressed below:

- With regard to domestic wastewater discharge, both plants are in compliance with the direct discharge limits cited in the audit report. Compliance is achieved by discharging for a fee to the municipal treatment system.
- A new ventilation system has been installed in the workshop at Radica and the tampon printing lines have been converted to a closed ink pot design. Air quality sampling at Radica has been completed in September 2008 and all 22 sampling points were in compliance with China National Standards, including those measurements for volatile organic compounds (VOCs) in the painting areas. In addition, the results of three personal monitoring devices used to sample for VOCs were in compliance with industrial hygiene exposure limits.
- Radica has clarified the emergency evacuation signage and addressed with supervisors the importance of keeping evaluation aisles clear at all times. New fire suppression sprinklers are scheduled to be installed in the first quarter of 2009.
- Radica has reinforced with all supervisors and workers in areas of the plant subject to the hearing conservation program the importance of wearing hearing protection at all times.
- The planned upgrades this year at Radica to relocate the high voltage transformers into a new building in June and the installation in July of dry scrubbers on the roof of Building A were both completed on schedule.