

ICCA Follow-up Audit

Mattel's Vendor Plants 15, 16, 17

Plants 15, 16, and 17 were formally audited by ICCA during the period of December 13-18, 2005. The audits revealed that these plants were making good overall progress in compliance with Mattel's Global Manufacturing Principles (GMP) and specific standards with regard to treatment of workers and the plants' physical operations. Nevertheless, the audits identified a number of important areas where their practices were inconsistent with GMP standards.

Mattel's formal response, dated June 2, 2006, to ICCA's findings was quite positive and constructive. In particular, Mattel made specific commitments with regard to improving vendor operations.

ICCA's follow-up audit was conducted to verify vendor compliance at Plant 15, 16, and 17 with the commitments made by Mattel in the company's formal response to ICCA's formal audit of these vendors.

Findings Common to the Three Vendors

Excessive Overtime Hours

ICCA's audit findings indicated that the three vendor plants were operating with overtime schedules that far exceeded Mattel's recently revised and expanded level of overtime hours on a daily, monthly, and yearly basis. This has been a persistent condition with most vendors. Managements of these plants have argued that they must work those hours to deal with short order and

production cycles. Otherwise they risk losing business to competitors. At the same time, ICCA's formal audit confirmed that workers were paid accurate applicable wages for regular and over time hours as well as for work on rest days and holidays. Furthermore, an overwhelming majority of the interviewed workers had expressed their satisfaction with the prevailing level of overtime work, while a significant minority expressed an interest in even more overtime work.

In Mattel's formal response the company had indicated that the company 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."

The follow-up audit revealed that the three vendor plants had not made any significant changes since the time of the initial formal audit to conform to the current GMP standards with regard to overtime hours. The responsibility for further action now rests with Mattel.

Maternity Leave

The Chinese labor law and Mattel's GMP require that all workers must be given paid maternity leave of 90 days. Moreover, workers cannot be required to

return to their place of employment as a condition of receiving payment for maternity leave.

At the time of the initial formal audit, all three plants were in non-compliance with this provision in some measure. However, in the follow-up audit it was confirmed that the three plants had instituted new policies to comply with the law and GMP. ICCA has requested Mattel's internal audit department to confirm the three plants' adherence to the new policy by the end of 2006.

Cost of Medical Examination

All new hires at the three plants were required to undergo a medical examination prior to being hired. ICCA's formal audit revealed that workers were required to pay for the cost of these examinations. This fee ranged between RMB30-80, which is not an insubstantial amount. ICCA felt that medical examination was part of a company's recruitment effort and that workers should not be required to pay for it.

In its formal response to ICCA, Mattel indicated that henceforth vendors will "either provide free medical examination 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's follow-up audit indicated that the three plants had not yet instituted the necessary changes to implement Mattel's directive. ICCA requests Mattel to

provide us with the necessary confirmation when this provision has been implemented.

Medical Clinics

ICCA's formal audit indicated that vendor plants did not have adequate on-site facilities to attend to the basic needs of a largely young, female, worker population. In response, Mattel instituted a policy whereby vendor plants would provide an appropriate facility with a qualified nurse on a 24/7 basis. The clinic would also provide for at least one bed per 1000 workers subject to a maximum of 5 beds for the entire factory. Each clinic would also have a stock of basic medicines appropriate for such a facility.

ICCA's follow-up audit confirmed that the three vendor plants have created the necessary clinic facilities in accordance with Mattel's guidelines.

Easy Access to Drinking Water and Toilet Facilities

ICCA's formal audit had indicated that all three plants used a "permit" system to regulate workers' access to drinking water and toilet facilities. Line supervisors were given 1-2 permits for a group of 40-50 workers, which meant that no more than two workers out of a group of 40-50 could leave the production line at a given time.

ICCA's follow-up visit confirmed that the situation has been satisfactorily resolved. Plant 15 now provides 2 permits for every 25 workers. Plants 16 and 17 have completely abandoned this practice.

Communication with Workers

ICCA's formal audit indicated that in a number of cases workers were poorly informed as to company's policies with regard to probation period, maternity leave, and other related.

At ICCA's recommendations, vendor plants have agreed to include all pertinent information in an employee handbook, which should be made available to all workers. ICCA would like Mattel's internal department to verify that vendor plants have prepared and distributed employee handbooks to their workers. ICCA would also like to receive copies of these handbooks.

Findings Pertaining to Individual Plants

Plant 15

Calculation of Bonus Payments

The formal audit of Plant 15 found that overtime wage rates at the factory did not include "position" bonus. While this had the effect of increasing an employee's minimum wage, it was not included in calculating the employee's overtime wage rates.

The follow-up audit indicated that Plant 15 had changed its policy with regard to the calculation of overtime wage rates. Effective starting July 1, 2006, workers are no longer provided a position allowance and are paid the minimum wage as their base pay. Instead, bonuses are now paid quarterly and calculated on a pro-rata basis. Although this change does not affect workers' take-home

pay, it brings the company policies in line with legal and GMP requirements. The revised practices has also been documented and verified by Mattel's internal audit team. ICCA is satisfied with the current policy.

Environment, Health, and Safety

The recommended improvements in environmental health, safety, and maintenance of Plant 15 were confirmed by the ICCA professional engineering team through an extensive 'walk-through' of the entire facility as part of the formal audit. ICCA team also undertook an in-depth review of factory records with respect to EHS requirements as stipulated in the GMP and detailed in the MCR.

The formal audit showed that overall Plant 15 had a good track record as to the condition of physical plant, maintenance of plant facilities with regard to health and safety standards, and employee welfare. The follow-up was intended to review the plant's actions toward implementing ICCA's recommendations given in the initial formal audit. The follow-up audit confirmed that all necessary actions recommended by ICCA in its original audit had been instituted.

Plant 16

Meal Break during Night Shift

ICCA's formal audit had found that in the Injection Molding department workers were given one hour for their meal break during the night shift. However, in practice, these workers were only using half an hour for their meals.

The workers spent the rest of their meal-break actually working on their machines. The plant management agreed that this was in fact the practice. In other words, night shift workers were doing extra work for 0.5 hours without being compensated for it.

The follow-up audit confirmed that this practice had been discontinued. Effective April 1, 2006, the new night shift schedule calls for a 30-minute meal break and two 15-minute rest breaks dispersed through the shift.

Access to Hot Water at the Factory Dormitory

ICCA's formal audit had revealed that hot water was available only on the first floor of the dormitory building making it difficult for the workers living on other floors to get hot water. Plant management has stated that they are planning to install hot water access on each floor. This task should be completed by January 2007.

Environment, Health, and Safety

At the time of the formal audit, ICCA's audit team found Plant 16 to be in a fairly good condition considering that the factory structures were built almost twelve years ago. The plant's management had been paying sufficient attention to the environmental health and safety of their employees. There were, however, a number of areas where further improvement was needed. These mainly included waste disposal measures, and general upkeep of the plant.

The follow-up audit confirmed that progress has been made in the past 7 months in dealing with the problem areas noted in the formal audit. This was also confirmed by Mattel's internal audit department.

Plant 17

Required Dormitory Living and Meals at the Factory Cafeteria

ICCA's formal audit had indicated that Plant 17 required all workers to live in the factory dormitories and eat at the factory canteen. This was a clear violation of Mattel's GMP. In its formal response, Mattel indicated that company policies require that these two conditions must be voluntary and that the company would work with vendors to ensure that these policies are followed.

ICCA's follow-up audit confirmed that Plant 17 had made the required change in its policies. Workers were no longer required to live in the dormitory. With regard to meals, the new policy states that workers are not required to purchase meals at the factory canteen any more. However, they have to notify management one day in advance and apply for a "meal stop" for the next day.

Improvements in the Dormitories with Regard to Hot Water and Security

In response to ICCA's formal audit findings, the factory has added a new hot water pump. The company has also added more security workers.

Sick Leave Policy

ICCA's formal audit of Plant 17 indicated that due to the lack of on-site clinic, most workers were unable to report to work and therefore had to forego their daily pay. It was also noted that as per employee contract, workers were required to request sick leave permission in person.

Plant 17 has agreed to revise its sick leave policy to provide leave benefits if workers submit medical documentation after they report back to work. The factory management is also working with the local hospital to set up a clinic in the factory. In the meantime, a night shift nurse has been hired. ICCA's follow-up audit confirmed that the factory has satisfactorily responded to ICCA's recommendations.

Employee Treatment and Communications

In response to ICCA's formal audit findings, the factory has instituted a policy of monthly meetings between workers and management. The company has also initiated a training program for line leaders and floor supervisors to eliminate verbal abuse of workers. Lastly, the factory has posted signs throughout the factory informing workers that they were not subject to cash fines for disciplinary offenses.

Environment, Health, and Safety

ICCA's initial formal audit of Plant 17 had discovered significant deficiencies and short-falls in the management of the physical plant. Although all

buildings at Plant 17 are only one to two years old, the overall condition of the facility reflected a state of disrepair and deterioration. ICCA's formal audit made a number of recommendations to address the most serious problems at the plant:

1. The plant must undertake a major effort to upgrade and clean the entire facility in order to make a safe and healthy place for all employees to work in.
2. Immediate attention should be paid to eliminating many of the safety hazards that were noted in the formal audit report.
3. The factory should consider strengthening its professional engineering staff to ensure that improvement and upgrading processes are continuously maintained.

At the time of the follow-up audit, ICCA's audit team found that Plant 17 had done very little to improve conditions in their buildings during the last seven months since the plant's formal audit. It was apparent that correcting plant problems and defects was not high on the management's priority list of tasks to be completed.

ICCA feels that making further recommendations would be a futile effort since Plant 17's management does not feel inclined to place necessary emphasis to plant maintenance and upkeep. However, its adverse impact on employee health and safety cannot be ignored.