

EXECUTIVE SUMMARY

GLOBAL MANUFACTURING PRINCIPLES

In November 1997, Mattel announced the creation of a global code of conduct for its production facilities and contract manufacturers. Called the Global Manufacturing Principles (GMP), the code covered such issues as wages and hours, child labor, forced labor, discrimination, freedom of association, legal and ethical business practices, product safety and product quality, protection of the environment, and respect for local culture, values, and traditions.

Through the GMP, Mattel committed itself, its strategic partners and primary suppliers, to comply with all provisions of the GMP. As part of its commitment to operate as a responsible company and a good corporate citizen, Mattel also undertook three hitherto unprecedented initiatives in implementing the code.

1. GMP audits would not be a one-time phenomenon. Instead, they would be undertaken on a regular basis as an integral part of the company's operational philosophy.
2. The GMP-related compliance efforts by Mattel, its strategic partners and primary suppliers would be audited by an independent outside group of respected and knowledgeable experts. This group would have complete access to all the facilities, workers and supervisors, and payroll and financial records pertaining to the plants owned and operated by Mattel, its strategic partners and primary suppliers.

3. The external monitoring group would have complete discretion in making its findings public, both as to their content and frequency.

To initiate this process, Mattel invited Professor S. Prakash Sethi of the Zicklin School of Business, Baruch College, The City University of New York (CUNY), to organize this independent group. Dr. Sethi and his group would also develop systems and procedures for implementing the GMP; and, for credible monitoring and public reporting of the group's findings.

The Formation of MIMCO

The independent monitoring group, called Mattel Independent Monitoring Council for Global Manufacturing Principles (MIMCO), consisted of Dr. S. Prakash Sethi as chairman, and Dr. Paul F. McCleary and Dr. Murray L. Weidenbaum as Council members. Dr. Sethi is Academic Director of Executive Programs and University Distinguished Professor at Baruch College, CUNY. He is also an advisor to the Executive Office of the U.N. Secretary-General on the UN-sponsored code of conduct called the Global Compact. Dr. McCleary is President of ForCHILDREN, an independent development agency based in Arlington, Virginia, the goals of which are drawn from the World Summit for Children and Rights of the Child. Dr. Weidenbaum is the Mallinckrodt Professor of Economics and Chairman, Center for the Study of American Business, Washington University in St. Louis, Missouri. He is also a former chairman of the President's Council of Economic Advisors, which is the highest economic policy-making body of the U.S. Government in Washington D.C. All three are widely recognized experts in international business, economic development, codes of conduct, corporate social responsibility, and children's and labor issues in foreign countries.

Development of Quantifiable Objective Standards for Performance Measurement

Both MIMCO and Mattel realized that any set of principles are at best an expression of policy goals and operating philosophies that can be subjected to widely divergent interpretations. To this end, Mattel created a task force of 50 managers and technical experts from within the company to work with MIMCO and its own team of academic experts in developing a series of standards that would be used to measure and evaluate compliance with each principle.

These standards had to meet three criteria:

1. The standards must be *quantifiable* and *objective* in performance measurement and evaluation. In other words, two different people observing compliance on a given criterion must draw similar conclusions.
2. They must be *outcome-oriented*. An important distinguishing characteristic of the compliance standards is their outcome-orientation. It is not enough to indicate that moneys are being spent or that policies and procedures exist. Instead, the plant management is required to show that there are so many bathrooms per 100 workers, so many square feet of living space per worker in a dormitory, or the injury rate per 1,000 worker-hours, etc.
3. At a minimum, these standards must meet the legal criteria mandated by a country's labor and environmental laws where a plant is located. Where country-specific standards do not exist, or are lower than Mattel standards, local plants must meet Mattel's own standards. As a long-term proposition, Mattel must endeavor to have its plants meet or exceed the best industry practices prevailing in their specific regions or localities.

This process led to the creation of more than 200 specific standards. They define the compliance parameters for each principle and cover all aspects of manufacturing operations; environment health and safety standards; worker hiring and training; working conditions; working hours, performance bonuses, wages and overtime; living conditions in the dormitories, and recreational facilities; and, non-job related skill enhancement programs. This process was completed in October 1998 with the agreement of Mattel's top management to these standards.

Audit Schedule and Protocols

MIMCO developed a three-phase audit schedule. The first year of the cycle concentrates on Mattel facilities. These include all of the company-owned plants and those plants where Mattel controlled 100% of the output. The second year will focus on a statistically selected sample of the plants that are owned and operated by Mattel's strategic partners and primary suppliers, and where Mattel buys 70% or more of the plant's output. The third year of the audit cycle will focus on a statistically selected sample of second-tier plants where Mattel buys between 40% and 70% of the plant's output. MIMCO also has complete discretion to add more plants in its audit sample in order to get a more accurate picture of the level of GMP compliance on the part of Mattel's strategic partners and primary suppliers.

Audit Instruments

Field audits contained four elements: Management Compliance Reports; Payroll and Personnel Files Desk Audits; Systematic Walk-Through Examination of the Plant and Dormitories; and, one-on-one Worker Interviews.

Management Compliance Reports. This document is prepared by the plant management and provides the plant's compliance in considerable detail with regard to all the standards pertaining to GMP. This report is furnished by the plant management to MIMCO at least one week prior to the field audit.

Systematic "Walk-Through" of the Plants. MIMCO team leaders and other experts accompanying the team undertake an extensive "walk-through" of the plant, storage facilities, work areas, dormitories and recreation facilities. "Walk-throughs" take between 4-6 hours on the part of 2-3 MIMCO team members either working together or individually. These are followed by meetings between MIMCO and the plant's top management to seek clarifications and explanations for observations made by the MIMCO team.

Payroll and Personnel Files Desk Audits. This document is designed to examine the system of recording regular and overtime working hours, wages paid for regular and overtime work, performance and other types of bonuses paid to workers, and any deductions from the workers' pay. The intent is to ensure that all workers receive wages and benefits, and work regular and overtime hours, in accord with local laws and GMP Standards. The pay-stubs are analyzed to ensure that workers understand how their wages and deductions are calculated and that these are in accord with what they should have received. Examination of personnel files is designed to ensure that workers are treated fairly, any disciplinary action is recorded properly and is processed in accordance with company policies and local labor laws; and, that there are accurate records of worker training, incidents of injury and other pertinent data.

Worker Interviews. These are conducted through a questionnaire that elicits information from the workers on all aspects of their working and living conditions at the plant. Data sought are factual and experiential-perceptual, and, quantitative and qualitative. The questionnaire

contains over 100 questions, many with multiple choices, and provides opportunities for both structured and unstructured open-ended responses.

Workers selected for one-on-one interviews are the same ones whose personnel files and payroll data are examined in the Personnel and Payroll Data phase of the audit. One of the purposes of this approach is to seek verification from the workers of the accuracy of data contained in the plant's financial records of their wages and working hours, and personnel-related activities.

Field Audits

Each field audit takes a between 2 and 3 days. The audit team consists of between 8-12 people. There are at least one and generally two MIMCO council members present at each audit to supervise the field audit. They are accompanied by two or three academic experts in sample selection, financial audits, manufacturing operations, and environmental, health and safety standards.

The actual audit of payroll data and personnel files is conducted by a 3-4 person team of accountants from Price Waterhouse Coopers (PWC), who follow a strict protocol, and use audit instruments, designed by MIMCO in auditing the personnel and payroll files of the selected sample of workers. At all times, these auditors work under the direct supervision of a MIMCO council member and an academic advisor attached to the MIMCO team.

The one-on-one worker interviews are conducted by a 3-4 person team of professionally trained and experienced interviewers provided by Verite, Inc. The interviewers are based in the country or region of the plant's location. They speak the local language and are sensitive to the nuances of local culture and traditions of the workers. The interviewers also tend to reflect the

demographic profile of the workers to be interviewed at each facility. These interviewers follow strict interviewing protocols and use a questionnaire instrument designed by MIMCO. All interviews are conducted with individual workers in complete privacy and in the language of the workers.

Upon the completion of the audit, the MIMCO team leader takes personal charge of the data collected through questionnaires, payroll audits and examination of personnel files, and other documents. These are brought to New York for further analysis.

SUMMARY OF AUDIT FINDINGS

The findings of our audit indicate that, in general, Mattel plants and those of its strategic partners, covered in this report, are in compliance with the GMP provisions. In many cases, they have exceeded both the country laws and current GMP standards. This should not be surprising. It was Mattel that created the Global Manufacturing Principles and committed the company to independent external monitoring.

It is apparent from the audit that Mattel has devoted considerable financial resources and management attention to ensure that all of its facilities are brought up to meet the GMP standards. There were, however, a number of areas where plant performance fell short of GMP standards. In most cases, the plant management has responded positively to our recommendations and has initiated necessary corrective action.

In other areas disagreements remain because of: (a) physical and financial constraints in immediate compliance; or (b) MIMCO's recommendations go beyond the requirements of country laws and prevailing GMP standards. Both Mattel and managers of audited plants have agreed to review and evaluate our recommendations and effect necessary changes as soon as

possible. These recommendations have long-term implications for Mattel and raise significant issues of economic feasibility and operational efficiency. The manner and scope of Mattel's implementation of these recommendations will be made public by MIMCO in its future reports.

A summary of our important findings pertaining to individual plants is provided in the following sections. These include areas where plant compliance is in accord with GMP standards; management responses to corrective action and a time-line where they are indicated; and, review process for making long-term changes in the plant operating procedures.

INDONESIA

The MIMCO audit in Indonesia covered two plants. These are Mattel Indonesia Cikarang Plant (MJS), and Mattel Indonesia Cikarang Baru Plant (MJD). They employ approximately 7,000 workers. MJS is the larger and older of the two plants and employs over 5,200 workers. MJD is a new facility, which was built only two years ago and currently employs 1,760 workers.

Physical Environment

Both the plants are air-conditioned with the exception of one small section in the MJS where air-conditioning is scheduled for completion before March 31, 2000. Both plants provide a safe and pleasant work environment. MIMCO experts conducted on-site inspections of all parts of the plant's facilities and storage areas, including handling of hazardous materials. This inspection indicated that both plants were in general compliance with GMP's standards for physical work environment, health and safety standards. They were well lighted. Work areas and location of machines were organized in a manner that was conducive to safe working conditions. MJD, the newer of the two plants, had more flexibility in organizing assembly operations, e.g., ergonomically designed chairs for the workers. These observations were further

confirmed through examination of company records pertaining to work-place injuries and accidents, health and safety records, EHS reports prepared by the plant management, and one-on-one confidential interviews conducted by MIMCO with a randomly selected and representative group of workers.

The audit also uncovered a number of problems with regard to air quality and physical facilities. Most of these were location-specific and not pervasive. These pertained to the presence of chemical odors, noise and some hazardous working conditions, e.g., the potential for electric shocks when safety boots were not used. Plant management of both MJS and MJD agreed with MIMCO's findings and initiated immediate corrective actions.

Both plants have instituted a job rotation system that encourages workers to learn different skills. It also helps to minimize boredom that inevitably comes with performing routine and repetitive tasks.

Hiring, Orientation and Familiarity with GMP

All MJS and MJD workers signed, and received a copy, of an employment contract detailing the terms of their employment and working conditions at the plant and living conditions in the dormitories. They also received extensive orientation, including pre-job training, about the various aspects of their work and living arrangements at the plant. All new hires also receive a medical check-up paid for by the company. Employees also receive on-job-training of varying duration based on the nature of their jobs.

The managements of both plants have devoted considerable attention and energy to making all level of workers familiar with various aspects of the GMP and what it means to them. This effort has focused on creating a culture where GMP is treated as a living document that

must be incorporated in all aspects of plant's operations and especially in terms of the company's responsibility to its employees and the surrounding community.

Payment of Wages and Working Hours

An examination of payroll records indicated that both plants were in complete compliance with the Indonesia law and GMP standards with regard to normal and overtime working hours, and payment of wages for different types of working hours. The payroll records were current, well maintained, and transparent. These facts were also confirmed by worker interviews. These workers also indicated a large measure of satisfaction with their pay and working hours. Workers understood their pay-stubs, confirmed their accuracy, and were able to explain different items included in the stubs. A very large majority of the workers indicated that they were not pressured into working overtime, although some indicated that there was pressure to work overtime "to meet the quota or deadlines".

Food and Lunch Facilities

All workers receive lunch free-of-charge at the plant's canteen at MJS and MJD. The food is wholesome and balanced and its quality is regularly checked by an independent laboratory. The menu is varied and is determined in consultation with the workers' designated menu committee. Worker interviews indicated a large measure of satisfaction with food and serving facilities.

Freedom of Association and Consultation with Management

MJS employees are represented by a union. Most issues pertaining to wages, working conditions, disciplinary action and employee communications are conducted under the provisions of the union contract. At MJD, workers are not currently represented by a union, although among the interviewed workers, some indicated to being members of a union or taking

part in union-related activities. Interviewed workers at both the plants indicated that they did not know of any intimidation or harassment of workers on the part of management for union-related activities.

MJS and MJD also have a highly structured system of worker consultation and access to management. Top management is easily accessible to all levels of employees and frequently participates in employee meetings. Interviewed workers indicated substantial participation and a large measure of satisfaction with these meetings. However, a small number of workers indicated that these meetings often dealt with issues of interest to the management and did not give enough time to discussion of issues of interest to the workers. Workers also noted that they found their line leaders and supervisors to be most helpful to them in discussing and handling issues of concern to them.

In response to MIMCO's audit and recommendations, management of the two plants have initiated a system-wide review of their operational procedures and human resource management practices. These should ensure that employee consultations are more relevant and user friendly; sources of noise and chemical odors are eliminated; and, there are more and frequent training programs available to employees, to name a few.

Principal Areas of Concern and Disagreement

There were two areas of significant disagreement between the MIMCO team and plant management of MJS and MJD.

1. Lunch Breaks. Workers receive a 30-minute lunch break and no other formal breaks during the workday. Of these 30 minutes, approximately 5 minutes are lost waiting in line at the canteen and another 5 minutes are devoted to prayers thus leaving approximately 20 minutes for

lunch. There are no other formal breaks during the remaining workday although workers are free to leave the assembly line to use toilet facilities, drinking water, etc.

This short lunch-break is permissible under the Indonesian labor law. It is also not specifically prohibited by the GMP standards. Notwithstanding, we believe that this is unsatisfactory, a fact confirmed through repeatedly voiced concerns by the workers in personal interviews. We strongly urge that management carefully examine the issue and consider extending this break period to 45 or even 60 minutes and through a reorganization of the workday.

MJS management has recognized the need for improving the situation with regard to the 30-minute lunch break and is investigating various alternatives. This is being done in consultation with and input from the employees.

2. Overtime Pay for Time Between Regular Shift and Extra-Hours Work. In the event that workers are required to work overtime beyond the normal work-day, they are currently given another 30-minute break before starting work for the next overtime cycle. Workers do not receive any compensation for this 30-minute break. We understand that this practice is clearly stated and endorsed by government regulation and is widely practiced. Nevertheless, we believe that MJS should review this policy since, in our opinion, this transition period is an integral part of operating the second shift and not a voluntary activity on the part of the workers.

Dormitories

At MJS, almost 45% of the workers live in the dormitories. At MJD, 74% of the workforce and 94% of its female workers live in the dormitories. Residency is restricted to single female workers. Both plants subsidize dormitory charges. The dormitories are modern with 24-hour security, hot and cold running water, enough bathrooms and toilet facilities,

laundry facilities, indoor recreation facilities, TV and radio rooms, and a library. Each worker has a private bed and a locker.

Among the interviewed workers, however, there was expression of dissatisfaction with regard to noise, insufficient locker space, and, also inadequate number of bathrooms and toilet facilities. In response, the management of the two plants concurred that there was room for further improvement in the dormitories. A major renovation plan is currently underway and is designed to remedy the situation and demonstrably enhance the workers' living condition. It is scheduled to be completed by December 1999. These renovations would provide, among others, a new library, a duplex theater, direct dial telephones in-room, new canteens, and a one hectare fruit and vegetable garden.

Principal Areas of Concern and Disagreement

Workers are currently housed in dormitories that sleep 32 people in large halls. This is permissible under the Indonesian law. This also meets the criteria of minimum space per worker as specified in the GMP standards. Nevertheless, we believe that this level of density is quite intrusive. Moreover, it is all but impossible to contain noise and allow workers to sleep during the time of shift changes, etc. This has been one of the major complaints aired by workers about their living conditions some of whom equated the situation to warehousing of workers. We strongly urge that plant management give serious consideration to alternative arrangements, perhaps through reconfiguration of "sleeping halls" into smaller areas with fewer people.

CHINA

MIMCO's China audit covered three plants. They are all owned and operated by Mattel's China partners where Mattel pays a processing fee and accounts for 100% of the three

plants' output. The three plants are: The Guan Yao (Zongmei) plant, the PML (precision tools) plant and the Chang An (Meitei) plant. Of these, the Chang An and Guan Yao plants are fully dedicated to the production of Barbie and other fashion dolls, while the PML plant produces molds, toy samples, and toy development tools. The Guan Yao plant employs approximately 6,000 workers and the Chang An plant another 5,000 workers. The PML plant is a smaller facility employing only 330 workers.

The audit of the three plants in China revealed a number of similarities that prevailed in all three. The audit findings also indicated certain problem areas that were unique to Mattel's operations in China and were not found elsewhere in the Mattel family of company owned and controlled operations.

Physical Environment and Working Conditions

All three plants had undergone major renovation and upgrading of their plant facilities and dormitories during the 12-month period preceding the MIMCO audit. Examination of company records through Management Compliance Reports and a thorough "Walk Through" of plant facilities by the MIMCO experts revealed an overall state of well-maintained and safely operated facilities. Workers operated machines under well-lit conditions with floor areas that were clean, properly organized and free of obvious hazards. The three plants also had clearly marked and segregated storage areas for storing toxic and potentially hazardous solvents and paints. The employees with close exposure to these materials and other operational risks wore protective masks. All of the three plants had low noise levels, adequate ventilation, and reasonable protection from noise, heat, cold, and dirt. The three plants also had significantly improved their in-plant toilets, bathrooms, and drinking water facilities and were in compliance

with the GMP standards. Workers, in general, expressed general satisfaction with their work environment.

The three plants had adequate time for lunch breaks, and provided food to their workers which was well-balanced and in sufficient quantity, and was served in a clean and comfortable environment. The workers, in general, were satisfied with food and canteen facilities.

The audit team also found certain superior operating conditions and certain problem areas that were unique to the individual plants. The latter call for special attention and remedial action.

The Chang An Plant. The Chang An plant has excellent on-site medical facilities that far exceeded the GMP standards. Chang An's orientation programs and pre-job as well as on-the-job training received high marks in the audit report.

Notwithstanding the overall satisfactory condition of the plant's facilities, the audit team found instances of chemical odors, incompletely installed ventilation system, and, insufficient provisions to protect employees from extreme hot and cold operating environment. In response, the management has already initiated a number of actions to improve and expand the ventilation system and undertake more frequent measurements of air quality in the plant.

The company recruits workers *en bloc* through the local government's central recruiting service, paying the agency a recruitment fee of US\$50.00 per worker. Interviews with workers, however, indicated that most workers endured a heavy financial burden of transportation costs from home and also a recruiting fee for their employment. In addition, the Chang An plant required workers to make security deposits of varying amounts that were returned to them when they left their jobs.

In response, the Chang An plant management indicated that it would review the situation with regard to the recruiting fee and transportation cost burden on employees with a view to

finding a more satisfactory solution to the problem. With regard to the security deposit, we were informed by Mattel that it would work with the China partner to ensure that no worker is required to make security deposits and that all deposits currently held will be returned forthwith.

The Guan Yao Plant. The Guan Yao plant also has an excellent orientation program and puts considerable emphasis on pre-job as well as on the job training programs. Guan Yao recruits its workers on a year-round basis. Guan Yao is considered an employer of choice in its location and has no difficulty in hiring workers as needed. Most of the workers are hired through "walk in" into the company's recruitment office and through referrals from current employees. Guan Yao plant does not withhold security deposits from its employees.

Although Guan Yao had a generally well-maintained plant facility, the MIMCO audit team found problems pertaining to worker exhaustion during extremely hot days, not enough preventative measures to protect employees during extreme changes in weather, and use of hazardous materials. These issues were brought to the attention of the plant management. We were assured that they would receive prompt attention and necessary remedial action.

Guan Yao plant has no on-site medical facility but it has a contractual arrangement with a nearby local hospital. This situation is permissible under the Chinese law. However, MIMCO found this condition troublesome given the fact that the plant employs 5000 workers most of whom are young women and who are working with machines for the first time. Furthermore, MIMCO's assessment of the plant's record-keeping of incidents of accidents and injury is deemed unsatisfactory.

The management's response to this concern has been prompt and positive. A new full-fledged medical facility is being installed in the new dormitory, adjacent to the plant and now

under construction. The new medical facility is scheduled to be operational by June, 2000. The plant management has also undertaken to maintain better records of work-related injuries.

The PML Plant. The operating conditions and localized problems at the PML plant are quite similar to those at the Guan Yao plant, which is located nearby. The plant is generally well maintained and has a good record of safe operations, worker-interviews indicated instances of exposure to chemical odors and discomfort from noise, health and safety hazards while working under very hot and cold conditions. A greater concern, however, is the lack of an on-site medical facility. Instead, the plant relies on a nearby local hospital under a contractual arrangement. MIMCO also found the plant's record keeping of work-place injuries to be inadequate.

In response to MIMCO's concerns, the PML management has undertaken to create a full-fledged medical facility to be located on site. We were informed that the facility would be fully operational by December 31, 1999. The management has also agreed to maintain more detailed records of workplace injuries.

Dormitories

At Chang An, all workers live in dormitories provided by the plant and within walking distance. Depending on the room size, 8 or 12 workers share a room, all within GMP standards. Each worker has a private bed and a personal locker. The dormitories provide sufficient toilet and bathrooms, laundry facilities, and recreational facilities. Overall, workers expressed satisfaction with their living environment.

The dormitory facilities at Guan Yao have been considerably improved over the last 12-month period. The plant management has devoted substantial financial resources to upgrade dormitories and bring them to GMP standards in terms of living space, toilet and bathroom facilities, security systems, and recreational activities. Nevertheless, some crowding remains and

some dormitories remain below the GMP standards of minimum living space and other associated amenities. The plant currently has under construction two new dormitories that are scheduled to be completed by December 31, 1999. With the addition of these two dormitories, the worker density in all dormitories will be reduced to 6-10 workers per room, bringing it in line with GMP standards.

The dormitory facilities at the PML plant meet or exceed the GMP standards in all respects. A little over 30% of the PML workers live in the dormitories. No more than 4 workers share a room. Each worker has a private bed and a personal locker. There are ample recreational facilities for the workers. Overall, workers expressed overwhelming satisfaction with their living environment.

Payment of Wages and Working Hours

The accounting system used to determine wages, hours, and overtime paid to direct workers at the China plants is unique to the region and difficult to understand by Western standards. MIMCO believes that it is not feasible to make a definitive determination pending such time that payroll records can be reconstructed to make them more transparent and understandable. MIMCO is planning to undertake a second wage/hour audit of China plants' payroll data no later than March 31, 2000.

Hiring and Orientation

Many newly hired workers at the Chang An plant were subjected to recruitment fees, transportation charges from home, and security deposits. MIMCO believes that the combination of these costs impose a burden on workers. Concurring this statement, the plant management is investigating the situation.

The China plants offer a number of non-job related employee training programs; however, it appears that further programs need to be developed that are more in tune with workers' stated needs. In response to the MIMCO audit, Mattel-China has agreed to institute a worker survey to determine worker interest in developing different types of non-job related training programs.

Principal Areas of Concern and Disagreement

The MIMCO audit revealed three major areas of concern and disagreement with regard to the operations of the three plants and as they relate to the GMP standards. These are calculation of wages and working hours and maintenance of employee personnel records; worker orientation and familiarity with the GMP; and, freedom of expression and access to plant management.

1. Employee Records of Compensation and Personnel Action. In analyzing the hours worked and wages paid to workers in all the three plants, MIMCO and its auditors from PWC experienced difficulty in verifying certain elements of the pay structure. The accounting system used to determine wages, hours worked, and overtime paid to workers at the three plants is unique to the region and is difficult to understand by Western standards. While MIMCO has no reason to believe that any problem exists, we believe it is not feasible to make a definitive determination pending such time that payroll records can be reconstructed to make them more transparent and understandable. A similar problem exists with regard to the pay stubs given to workers. With the exception of PML, a large majority of workers in the other two plants expressed a lack of understanding of their pay stubs.

The top managers at the three plants have agreed to MIMCO's recommendation. The three plants, with the assistance of Mattel, are in the process of redesigning their payroll records, including the pay stubs, to meet the GMP standards in terms of simplicity of understanding,

completeness, and transparency. As soon as the redesign of payroll data system has been completed, MIMCO will undertake a second payroll audit of a randomly selected group of workers in each of these plants. This audit will be conducted by MIMCO's auditing partner, PWC, under the direct supervision of MIMCO, and will include an observer from Mattel's internal audit department, to ensure that wages paid and hours worked are in accordance with the Chinese labor laws and Mattel's GMP standards. All parties have agreed that this audit will take place no later than March 31, 2000.

2. Awareness of GMP. Workers expressed, at best, a perfunctory knowledge of GMP and what it meant for them. Where workers were able to explain some elements of the GMP, it appeared that these were memorized answers rather than reflecting an in-depth understanding of various principles embodied in the GMP. This was disappointing in view of the fact that the three plants had taken so many other steps to improve the plants' physical and operating conditions as well as the workers' living environment.

We recommend that management of the three plants take additional steps to familiarize the workers with their rights and responsibilities enumerated in the GMP. Furthermore, this should go beyond merely disseminating information, but done in such a way as to ensure depth of understanding. The managements at the three plants have concurred with the MIMCO recommendation and have promised to take additional steps through orientation, training, and management-worker meetings to more effectively address various issues contained in the GMP.

3. Freedom of Expression and Access to Management. Workers interviewed by MIMCO indicated by a large majority that they were not represented by a union. They also indicated that there were no formal procedures for handling complaints or grievances. Further unstructured discussions with workers revealed that most of them were either not conscious or

were reluctant to talk about the freedom of association or unionization issues. Workers, however, also indicated by large majorities that they sought help and counsel from their fellow workers or line leaders, and that they were not afraid to talk to senior plant managers, although many did not feel any need for such talks.

We believe the situation calls for further action on the part of the plant management to involve workers in issues that impact their working and living environment. Efforts need to be taken to help workers feel that they are part of the company and their opinions are sought and respected. In response to MIMCO audits, plant management have asserted that, given the strong cultural adherence to Confucianism, workers are unlikely to turn to senior management and instead are more likely to seek help and advice from their own peers and immediate supervisors. While we agree with the management's statements as to Confucianism, we do not believe that it provides the total explanation. Efforts can and should be made to create further channels of communication where workers can express their concerns without fear of negative impact on them. We are pleased that the plant managements agree with MIMCO's assessment and will take additional steps to ensure that workers have access to all levels of management on issues relating to working and living conditions.

MALAYSIA

The MIMCO audit included four plants in Malaysia. However, since then Mattel has closed two plants due to a shift in demand for its products and resultant downsizing of its worldwide production facilities. Our audit findings covered in this report include two plants that are still in operation. These are: Mattel (Malaysia) Sdn. Bhd. (MMSB), and Mattel Tools Sdn. Bhd. (MTSB). MMSB, a dedicated facility for the production of "Hot Wheels" toy cars,

employs approximately 3,500 workers. MTSB is devoted to the production of specialized tools used in the manufacture of toys at various Mattel facilities worldwide. It employs approximately 340 workers.

Physical Environment and Working Conditions.

The MMSB plant has a well-maintained physical facility and provides a safe and comfortable working environment for its workers. The plant keeps detailed maintenance and safety records for various aspects of manufacturing operations. Overall, workers appeared highly satisfied with the safety and quality of their work environment. MIMCO's plant visit of physical facilities, examination of records, and also worker interviews indicated certain localized shortcomings that needed attention. These include: improvement in the ventilation system, reduction in noise levels, and a strong emphasis on the use of safety equipment by workers. The plant management has responded positively to these recommendations and has initiated corrective actions that should remove these problems.

The MTSB plant also displayed similar characteristics of efficient organization of equipment and safe operations. The plant also kept detailed records of its various manufacturing operations. Workers seem generally satisfied with their working conditions. However, a "walk through" examination of the plant's facilities by the MIMCO team detected some localized conditions of chemical odors, noise, and potential safety hazards. These were also mentioned by some of the interviewed workers. The plant had a slightly higher incident rate of work-place injuries than the prevailing GMP standard. The plant management recognized both these conditions and has undertaken the necessary corrective measures to remedy the situation. With regard to somewhat higher incidence rate of work-place injuries, the plant management has indicated that some minor injuries are inevitable given the fact that the work involves use of

heavy pieces of metal and graphite for tool making. However, it is analyzing its work processes and using enhanced safety training. The plant management has assured us that it would take all possible measures to minimize workplace injuries.

Both plants have adequate bathroom and drinking water facilities in the plants that meet the GMP standards. The MMSB plant provides a 45-minute lunch break with another 15-minute break during the workday. The MTSB plant provides a 30-minute lunch break with two 15-minute breaks during the workday. These arrangements reflect the nature of different types of work at the two plants. Interviewed workers in both the plants expressed a large measure of satisfaction with these arrangements.

Wages, Hours and Overtime

Both the MMSB and the MTSB plants are in compliance with prevailing provisions of the Malaysian labor law and GMP standards with regard to financial record keeping and calculation of regular and overtime working hours, and payment of wages of workers. Workers receive regular pay stubs that are simply designed. Interviewed workers indicated that they understood the pay stubs and found them to be accurate.

The MIMCO audit, however, discovered one area of disagreement with regard to calculation of wages for determining employer-employee contributions to the government-sponsored retirement fund. According to MIMCO auditors, the Malaysian law requires that all allowances should be included in the total salary for calculating employee-employer contributions. However, MMSB and MTSB payroll data indicated that some allowances were excluded from these calculations. The management of the two plants indicated that they were not aware of this situation. They are seeking a clarification from the appropriate government

agency and would correct their procedures accordingly and take necessary remedial action where such an action is required.

Orientation, Pre-job and On-the-Job Training

Both plants hire their workers primarily through referrals while MMSB hires some foreign workers through recruitment agencies. All workers undergo a company-paid medical examination. The orientation appears to be quite thorough. Each employee is required to sign an employment contract and is provided a copy of it.

On-the-job training is heavily emphasized in both plants and contributes to employee productivity and safe operations. At MMSB this training can last up to 3 months while at MTSB it could range between 3 – 24 months given the higher level of technical skill required in that plant.

Awareness of GMP.

Both MMSB and MTSB have devoted considerable attention and energy to making all levels of workers familiar with various aspects of GMP and what it means to them. From our audits, we conclude that Mattel plants in Indonesia and Malaysia have done the most to make the GMP an integral part of the employees' work and living experience at these plants. Workers interviewed confirmed that employees, in general, understood and believed in the GMP and were enthusiastic about the company's actions in implementing various aspects of the GMP.

Dormitory Conditions

At MMSB, almost two-thirds of the workers, 97% of whom are female, live in the dormitories. The dormitories consist of apartment complexes with no more than 16 workers per apartment house. Each unit is equipped with cooking facilities, two bathrooms, hot and cold running water, washing facilities, TV/radio room for entertainment, private lockers, individual

reading lights, and 24-hour security. In the opinion of the MIMCO audit team, the domicile situation at the MMSB plant is perhaps the best among similar facilities provided at other plants visited by MIMCO. Both in terms of the density of living space, and also in relative level of comfort, these facilities provide a good benchmark for other plants to emulate.

The MTSB plant does not provide any dormitory facilities. Most of its workers are skilled, highly paid, and prefer to make their own living arrangements.

Freedom of Expression and Access to Management

MMSB and MTSB are not unionized facilities. However, interviewed workers were unanimous in their view that there was no harassment in the plant for union-related activity and, to the best of their knowledge, no worker was ever fired or demoted for union-related activity.

The MMSB plant has a highly structured and proactive system for management-employee communications containing both formal and informal communication channels where employees can meet different levels of supervisors on issues relevant to them and yet have unhindered access to senior management. The Human Resource Management Department at MMSB maintains extensive records of employee complaints, follow-ups and disposition, and also various types of meetings between workers and supervisors and amongst different levels of supervisors. In the opinion of the MIMCO team, the HRM department at MMSB, and its communication and worker-management relation programs offer an excellent example which could benefit some of Mattel's other overseas operations.

The MTSB plant does not have a highly structured management-worker consultation system. This is understandable because of the relatively small size of the workforce, the high skill level, and a hands-on type of management. Workers are in constant touch with their supervisors and higher level of management since most jobs require that workers and first and

second level of supervisors work together on the shop floor. MTSB is one of the few Mattel plants that conducts exit interviews with employees who leave the facility. These data are used to develop better HR policies and improve retention rates.

Other Notable Points.

MMSB's handicapped worker program deserves special note. Under this program, MMSB hires and trains blind workers and places them in regular assembly line jobs. During the walk through of the plant, MIMCO members had the opportunity to observe these workers at their workstations and talk to them about their work experience. Without exception, these workers appeared happy and proud of their work. We also noted that there was no difference in the production efficiency and safety levels of these and other plant workers. We recommend that Mattel explore the possibility of introducing these programs in all of its facilities, not only for blind people, but also for people with other types of disabilities who are otherwise capable of becoming productive and self-sufficient workers.

MTSB has an innovative work-study program wherein its workers combine in-class learning with on-the-job training. These programs are organized in cooperation with a local university and successful completion leads to the award of government-approved technical degrees.

THAILAND

Mattel Bangkok Ltd., (MBK) is a 100% Mattel-owned facility, is totally dedicated to the production of "Hot Wheels" toy cars. The plant was thoroughly renovated in 1998. It has an installed capacity of 60 million toy cars a year, which is expected to increase to 100 million cars a year. Currently, it employs approximately 1400 workers.

Physical Environment and Working Conditions

The renovated MBK plant provides a safe and healthy work environment for its workers. A thorough walk through of the plant by the MIMCO team showed that the arrangement of machinery and workspace was conducive to safe operations; the plant was well-lit, fire safety equipment was properly installed and there were enough exits for emergency evacuation. All solvents and hazardous materials were labeled and properly stored. The plant also has sufficient number of bathrooms and drinking water fountains that meet the GMP standards. The plant provided a 40-minute lunch break and another 20-minute formal break during each work-shift. The plant gives all employees daily coupons, which are used to subsidize meals at the canteen and cover approximately 75% of the cost of the average lunch at the cafeteria.

In general, workers expressed satisfaction with their work environment. They are also happy with the quality of food, lunch breaks, and lunch subsidy. Nevertheless, the MIMCO audit team noticed a number of localized problems (also confirmed in the interviews) which need management attention. These included chemical odors, excessive noise, and, inadequate ventilation resulting in hot temperature in the work area. The management has recognized these problems and has initiated corrective action.

Principal Area of Concern and Disagreement

A persistent and widespread complaint amongst the workers is that the plant is not air-conditioned. This is particularly relevant, as Bangkok tends to be hot and humid. Moreover, the nature of the production process, i.e., for the “Hot Wheels,” causes high temperature in the work areas requiring an extra large ventilation system that may negatively affect productivity.

MBK management has indicated that the current plant configuration makes it economically unfeasible to air-condition the entire plant, although, the cafeteria is being air-

conditioned. In addition, the management plans to examine other avenues of improving air circulation and ventilation in the plant. MIMCO believes that in-plant temperature is a serious problem and urges the management to re-examine the issue of air-conditioning. MIMCO has also requested that the plant management provide it with a report by February 2000 to indicate the measures that it has taken in this regard.

Hiring, Orientation and Familiarity with GMP

MBK hires most of its workers through “walk-ins”, referral from current employees, and through advertisements in local media. The workers do not pay any recruitment fee, nor are they required to pay any type of security deposit.

All employees undergo a comprehensive orientation prior to starting work at the plant. This orientation includes tour of the plant, explanation of different types of work, environment, health and safety standards, and conditions of employment. They also sign a written contract and receive a personal copy for their records. All new hires receive a 22-page document entitled “Mattel Bangkok Ltd. – Rules and Regulations.” Employees also undergo a mandatory company-paid medical checkup prior to starting work at the plant. There is a 3-month probationary period before an employee becomes a regular worker and participates in various incentives and bonus programs.

MBK initiated GMP training and familiarization in March 1999 as an integral part of the worker orientation. Workers hired before March 1999 learned about the GMP either through their friends or by reading the plant notice board.

Interviews with workers indicated a general level of satisfaction with orientation. However, the level of knowledge of GMP was perfunctory and its implications not well understood by the workers. MIMCO’s audit of the company records also revealed a high level

of turnover among the workers during the probationary period. This would indicate the need for more effective worker selection process or better training during the probation period. The management also needs to take a more aggressive stance in making workers aware of their rights and responsibilities under the GMP.

Freedom of Expression and Access to Management

A union represents MBK workers. All work-related issues, including grievance procedures, disciplinary actions, working conditions, and wages are governed by a union contract. Nevertheless, the company has an extensive and systematic communication program involving all levels of workers and managers. Employees have unhindered access to top management. MBK senior management also organizes regular plant-wide meetings. Social events are organized in consultation with workers' representatives with strong support and participation from the management.

Interviews with workers indicated overall satisfaction in terms of access to management. Although, there was some concern that many meetings focused primarily on what the management wanted to communicate to the employees rather than listening to the concerns of the workers. There was also some dissatisfaction with line leaders such as lacking in empathy for the workers. The workers suggested that line leaders should receive more training in developing their managerial and interpersonal skills.