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MATTEL COMMENTS ON

ICCA 2004 FOLLOW-UP REPORT OF
MATTEL OWNED & OPERATED PLANTS IN
CHINA

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This correspondence is in response to the 2004 audit results of Mattel's owned and operated facilities in China released by the International Center for Corporate Accountability (ICCA).

Mattel has reviewed the audit report on its Guan Yao, Chang An, Mattel Die Cast and Hwa Tai tooling operations and is providing its corrective actions to the major audit findings described in detail in the ICCA report from March 29, 2004. Mattel appreciates the thoroughness and objectivity of the ICCA audits, which has contributed to a culture of continuous improvement of Mattel's Global Manufacturing Principles.

The ICCA report addresses in detail issues associated with Mattel's GMP. We have provided ICCA with our internal audit results since the release of the original report and ICCA is satisfied with corrective actions that have been implemented by Mattel on the minor audit findings. We will address the major topics in this response.

Regular and Overtime Work Hours – In response to ICCA's finding that Mattel's plants were scheduling work hours in excess of Mattel's 60 hour per week requirement, we offer the following. At the time of the ICCA audit Mattel's GMP only allowed work hours up to 60 per week. In the beginning of 2004 Mattel elected to modify its GMP requirements to allow for a maximum of 72 hours per week during peak production and other extraordinary business situations. This change was prompted to provide a reasonable and enforceable maximum in terms of working hours, and also to balance the needs of business with the needs and protection of our employees. Beyond any

variances issued by local governments allowing hours in excess of these, Mattel has elected to limit the maximum number of working hours to 60 per week during normal operations, and 72 hours per week during peak periods and other extraordinary situations, provided that overtime is voluntary, the employees are paid appropriately and work hours in excess of 60 hours per week, but less than 72 hours per week, do not exceed 1/3 of the year for each employee.

Furthermore, employees must receive one day off per week except during times of extraordinary circumstances, when an employee is allowed to work a seventh day. But under no circumstances will an employee be asked to work more than 13 days consecutively. This represents a modification to Mattel's GMP program, which has been clearly communicated to all facilities and suppliers. And as stated above, Mattel continues to emphasize that all work must be voluntary; the employees must be paid appropriately and the extension of work hours and the workweek must not exceed 1/3 of the year for each employee.

In order to monitor compliance with this standard, the company has required its facilities to develop a management system, which clearly documents instances when employees exceed the 60-hour workweek, as well as work on the seventh day. Furthermore, if the facility gives employees time off in lieu of double pay it must be given within the next pay cycle and documented in a system that is easily understandable and verifiable.

1. Payment of Minimum Wages – Mattel’s China partner at the Guan Yao facility had made a good faith effort in negotiating a minimum wage that was competitive with other local cities, and had sought out and received approval for the reduced minimum wage originally stipulated for their area. With respect to this reduction of minimum wage at Mattel’s Guan Yao plant, Mattel has instituted a policy in conjunction with the new minimum wage increase slated for early 2005, which requires Mattel’s China partner to pay the stated minimum wage for the area. Due to the inconsistency in legal opinion regarding local waivers allowing a reduction of the minimum wage, Mattel will no longer accept these types of waivers from the local labor bureau.

2. Inappropriate Wage Rate During Temporary Shut Downs and Other Circumstances

There are three separate and distinct situations with respect to the amount of money employees are compensated for hours worked. In each case that ICCA has identified, Mattel has gone back and assessed an acceptable corrective action. Each case and corrective action is described below.

Guan Yao & Chang An – With respect to the payment of minimum wages during down time for internal factors within control of the plant operations, Mattel has instituted a policy of paying the employees minimum wage during these unexpected shutdown periods. This policy change was instituted in January 2004.

Chang An – With respect to overtime for line leaders who work in excess of 10 hours per day, Mattel has reviewed its policy to clarify how these employees are

compensated. Previously they were compensated for a 10-hour workday even though they may only work 9 hours per day. However, if they worked in excess of 10 hours per day they were not compensated. To alleviate any confusion on being appropriately compensated for hours worked Mattel has required these employees to be compensated on an hourly basis regardless of their work schedule. This policy change was instituted in January 2004.

Mattel Die Cast – With respect to compensatory time off if overtime is less than 30 minutes or exceeds 3.67 hours per day, Mattel discontinued this practice in January 2004. Mattel now compensates employees for all the overtime hours worked and has removed the practice for compensatory time off for hourly employees. Employees will be compensated correctly for all the hours worked.

4. Mandatory Deductions and Legally Mandated Benefits – Mattel's annual leave policy has been amended to reflect the actual days of service an employee has worked over the length of their tenure at Mattel. In 2004, Mattel will compensate employees with 5 days of paid leave for those who quit before the end of the year and have one year of service.

Mattel's policy with respect to maternity leave was updated in 2004. All employees seeking maternity leave, regardless of whether they return to work, will be compensated for the full 90 days, as allowed under Chinese labor law.

Mattel's policy on deductions for room and board was changed in 2004. All employees who stay in the dorm and eat at the cafeteria will be charged no more than 50 percent of their minimum wage rate. It should further be noted that staying in the dorms is voluntary for employees.

Mattel has worked closely with ICCA over the course of 2004 to ensure that all audit findings addressed in their report have had corrective actions implemented in a timely manner. Furthermore, Mattel and ICCA will continue to seek out new and innovative means to address ongoing GMP compliance while maintaining a strategic competitive advantage in a challenging market place.