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MATTEL COMMENTS ON

ICCA 2004 FOLLOW-UP REPORT OF MATTEL CHINA SUPPLIERS

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Mattel is very pleased with the progress being made at its vendor manufacturing facilities. The follow-up report from ICCA, released in December 2004, highlights many of the improvements realized as a result of the collaborative efforts between Mattel and ICCA. Mattel has dedicated internal resources to work with suppliers ensuring that additional improvements, as identified by Mattel and ICCA, are made in a timely manner. ICCA has agreed to oversee Mattel's Corrective Action Plan to ensure that corrective actions are implemented.

As part of this continuing effort, ICCA would be making a field visit of a select group of vendors in China to assess Mattel's efforts in improving GMP compliance among its other vendors. It should be noted that these vendors have not been previously audited by ICCA and thus represent a broadening of Mattel's continuous efforts to create a better work environment among all of its vendors.

Mattel would like to comment on the decision to update its GMP program allowing up to 32 hours of overtime per week (72 hours total) for up to 17 weeks of the year. Mattel instituted this change as a result of numerous audits of various supplier facilities, discussions with legal counsel in China and discussions with various regional and national government officials. While the national law in China limits overtime to a greater extent than the Mattel policy, it is also an accepted practice to allow local governments to issue waivers, allowing factories to work in excess of the China national law.

Mattel found that these waivers vary significantly in terms of what they would allow and felt that, in some cases, waivers allowed hours in excess of what Mattel felt were acceptable. Based on this, Mattel established a policy allowing overtime hours per week of up to 32 hours (72 hours/week total), provided the following conditions are met:

- an acceptable waiver must have been obtained from a recognized local government labor bureau
- all overtime worked must be voluntary
- all employees are compensated appropriately for all overtime hours worked

Mattel elected to limit overtime to a maximum of 32 hours (72 hours/week total) despite the existence of a waiver allowing hours in excess of this. Mattel further elected to limit overtime in excess of 20 hours (60 hours/week total) but not to exceed 32 hours (72 hours/week total) to a period of no more than 17 weeks per year per employee. Further, Mattel insists that any overtime in excess of 20 hours (but not to exceed 32 hours) must be related to peak production periods or other extraordinary business circumstances. And finally, Mattel insists on evidence of the existence of either peak production periods or other extraordinary circumstances whenever employees are allowed to work in excess of 20 hours overtime per week.

Mattel has elected not to define a predetermined “peak production period” since these periods are often difficult to predict. Often times these periods vary within a supplier due to multiple customer requirements that the vendor must accommodate. Mattel has

determined that the best policy for the employees and the supplier is to allow business conditions to dictate when peak production periods exist – and then to audit for compliance to the policy outlined above. With strict adherence to a policy requiring appropriate pay and voluntary overtime, Mattel believes this policy allows employees to work overtime when the work is available, while not allowing suppliers to offer working hours to employees that may be deemed excessive.

While Mattel respects ICCA's concerns, the company also must face the reality of operating under competitive conditions in China. No company is immune to these pressures. However, Mattel has opted for transparency in the hope that it will encourage industry-wide discussions and creation of standards that could be more widely implemented.

Mattel will be working closely with suppliers and the industry on the new standard for the next two years. We will carefully evaluate its impact on employees and suppliers. At the end of the two-year period, Mattel will revisit the situation and, in consultation with ICCA, take appropriate action.

THE CASE OF PLANT #7

Under heading III ICCA's Follow-up Action. "The Case of Plant #7", it is stated that Mattel elected to cease doing business with plant #7 supplier audited by ICCA. It is important to note the following developments subsequent to the ICCA audit. Mattel had informed this supplier of its intention to cease the business relationship, based on numerous noncompliance issues. Consequently, ICCA at that time decided not to undertake a follow-up audit of this plant.

When informed of Mattel's intention to cease doing business, this vendor agreed to a corrective action plan, which was developed by Mattel in order to conform with Mattel's GMP requirements. Based on this as well as work being done at the facility by other groups that share Mattel's commitment to social compliance issues, Mattel elected to continue business with this supplier. Mattel is regularly monitoring progress of the corrective action plan. To date, follow-up audits done by Mattel have shown improvement of the wage and hours issues that had been previously identified. Mattel and ICCA will continue to monitor their efforts on a regular basis through October 2005. Furthermore, to ensure transparency of its efforts, Mattel has asked ICCA to undertake its previously postponed follow-up audit of Plant #7. ICCA has agreed to this proposition and would undertake such an audit during the summer of 2005.