



PLAY FAIR. PLAY WITH PASSION. PLAY TO GROW. PLAY TOGETHER.

2007 Global Citizenship Report



1 Letter from the CEO
 2 Company Profile

PLAY FAIR

4 The Business Case
 5 Corporate Governance
 6 Managing Global Citizenship Initiatives
 6 Global Citizenship-Related Stockholder Resolutions
 7 Commitment to Responsible Manufacturing

PLAY WITH PASSION

16 The Value of Play
 16 Age Grading
 16 Stages of Play
 18 Product Safety Procedures
 20 Addressing Consumer Concerns

PLAY TO GROW

22 Mattel's Global Sustainability Strategy
 26 Conservation of Natural Resources
 29 Mattel's Workplace Practices

PLAY TOGETHER

34 Stakeholder Outreach
 36 Our Approach to Giving
 40 Stakeholder Feedback

1945
 Mattel is born

1959
 Barbie® doll makes her debut

1960
 Mattel becomes a publicly traded company

1968
 Hot Wheels® cars hit the streets

1978
 Mattel Children's Foundation is established

1993
 Fisher-Price® joins the Mattel family

1997
 Mattel establishes Global Manufacturing Principles (GMP) and is first in the toy industry to employ independent monitoring with public reporting

1998
 American Girl® joins the Mattel family

2004
 Mattel publishes the first Corporate Social Responsibility (CSR) report in the toy industry

2006
 Radica® joins the Mattel family

2007
 GMP marks ten years



MATTEL, INC.



Dear Stakeholders,

At the end of 2004, I participated in our Global Leadership Seminar with other Mattel leaders and experienced a surprising disconnect. While everyone there was highly aware of Mattel's business strategies, not one of us, including myself, could recite the company's values. It was surprising because we all agreed that Mattel's strength is our company culture, which for generations has been focused on creating innovative, safe and high quality toys that inspire children to play, learn and have fun. The disconnect occurred when we realized that our stated values did not reflect our culture—or vision—and therefore were not memorable. This prompted a team of employees to spearhead an effort aimed at defining our values to capture the spirit of Mattel today, and serve to guide the company's future course.

After much discussion and collaboration, the team concluded that “play” is the central theme behind everything we create at Mattel. The team unveiled four value statements that articulate the connection between what we do and how we do it. Very simply, we play fair, play with passion, play to grow and play together.

We have organized most of the content of our 2007 Global Citizenship Report into four main chapters, focusing each around one of Mattel's values. The title, Global Citizenship Report, underscores another ideal we share, our commitment to ongoing improvement and excellence by living our four values every day.

We strive to be a role model for global citizenship. For instance, in 2004 Mattel became the first—and remains the only—company in the toy industry to release such a report and openly share with our stakeholders what we, as the largest designer, manufacturer and marketer of toys and family products, are doing to help lead the way in both responsible manufacturing practices and sustainability. We also shared some of the challenges we were facing and our plans for continual improvement.

This report, our second, serves as a follow-up to our stakeholders regarding the ongoing efforts to ensure Mattel's products are manufactured under safe, fair and environmentally responsible conditions. Mattel's Global Manufacturing Principles (GMP), which we pioneered in 1997 and have been advancing ever since, mark 10 years in 2007 and are the foundation that defines our expectations of responsible manufacturing practices. Now, a decade since the inception, Mattel continues to evolve as a responsible company by promoting broader efforts, including collaboration within the toy industry to develop a common code of manufacturing principles. These industry-wide principles have been founded on many of the same tenets as our GMP.

We have also begun to develop a long-term Global Sustainability Strategic Plan that will help us maximize our energy efficiency, minimize waste and produce Mattel products in a manner that is more environmentally sustainable. In the process of advancing our environmental stewardship initiatives, we have realized cost savings and greater product innovation that will ultimately help to maintain Mattel's leadership position in the industry.

While we take great pride in what Mattel has already accomplished, there is and will always remain much to be done. Like other industry-leading companies, Mattel operates in a highly competitive, dynamic marketplace and global society where circumstances are forever changing. Our job is to stay the course of ethical practices and continually strive to exceed the expectations our stakeholders have for Mattel as a responsible company. Thus, we play to learn—today, tomorrow and well into the future.

Finally, this report together with the 2007 Global Reporting Initiative (GRI) report has been prepared in accordance with the 2002 GRI Guidelines. Collectively they represent a balanced and reasonable presentation of our organization's economic, environmental and social performance. I encourage you to tell us how you think Mattel is doing. We place a high value on stakeholder feedback, and will consider it as we shape Mattel's path forward.

Sincerely,

Robert A. Eckert, Chairman and Chief Executive Officer

COMPANY PROFILE

More than 60 years ago, a big idea began to take shape in the modest Southern California garage workshop of Elliot and Ruth Handler, co-founders of Mattel. Today, Mattel is the largest designer, manufacturer and marketer of toys and family products in the world. Our robust portfolio consists of globally recognized brands, including Barbie®, Hot Wheels®, American Girl®, Radica® and Fisher-Price® as well as a wide array of educational and entertainment-inspired toy lines.

Headquartered in El Segundo, California, today Mattel employs more than 30,000 people in 43 countries and territories and sells products in more than 150 nations throughout the world. Mattel products are sold through retailers with the exception of our American Girl® product line, which is sold directly to consumers through three company-owned retail stores, our catalog business and www.americangirl.com.

Mattel Inc. is a publicly traded Fortune 500 company listed on the New York Stock Exchange (“NYSE”) under the symbol “MAT.” We are also listed on the FTSE4Good and Domini 400 Socially Responsible Investment (SRI) indices. These SRI indices only include companies that meet their specific corporate responsibility standards. As of March 16, 2006, there were 40,866 Mattel stockholders of record.

ABOUT THIS REPORT

This report provides information related to Mattel’s global citizenship initiatives for the operations owned, operated or managed by the company and describes measures taken to address its social, environmental and economic impacts. During the past 10 years, Mattel has established various metrics to track and measure its performance in key areas and has included related performance data in this report, specifically for fiscal years 2003 to 2005. In addition, this report contains some anecdotal results for 2006 activities.

This two-part report includes the printed summary focused on the company’s significant initiatives, accomplishments and next steps and a 2007 Global Reporting Initiative (GRI) supplemental report, which is available on our website at www.mattel.com/csr. Our combined report was developed in accordance with the 2002 GRI guidelines. More information on GRI is available at www.globalreporting.org. All monetary figures in this report are in U.S. dollars.

FISCAL YEAR	2003	2004	2005
Operating Results			
in \$ Thousands, except per share data			
Gross Sales	\$5,379,523	\$5,546,098	\$5,623,553
Total Domestic	3,203,814	3,209,862	3,159,569
International	2,175,709	2,336,236	2,463,984
Net Sales*	4,960,100	5,102,786	5,179,016
Net Income	537,632	572,723	417,019
Net Income per Common Share (diluted)	1.22	1.35	1.01
Provision for Income Taxes	203,222	123,531	235,030
Financial Position (as of December 31)			
in \$ Thousands			
Total Assets	\$4,510,950	\$4,756,492	\$4,372,313
Long-term Liabilities	826,983	643,509	807,395
Stockholders’ Equity	2,216,221	2,385,812	2,101,733
Corporate Statistics (as of December 31)			
Number of Employees	25,000	25,000	26,000

*Gross sales minus sales adjustments, such as trade discounts and other allowances.



play fair

Act with **UNWAVERING INTEGRITY** on all occasions

Treat each other with **RESPECT AND DIGNITY**

TRUST each other to make the right decisions

Be **ACCOUNTABLE** for all that passes in front of us

The Business Case	4
Corporate Governance	5
Managing Global Citizenship Initiatives	6
Citizenship-Related Stockholder Resolutions	6
Commitment to Responsible Manufacturing	7

At Mattel, we are committed to acting with integrity in our decision-making, adhering to high ethical standards, and constantly striving to improve our social and environmental performance. More simply, we believe in “Playing Fair,” a value that is central to Mattel’s culture and which serves as a guiding principle in our interactions with stakeholders.

In this section, we explain our corporate ethics and governance practices and how we manage global citizenship initiatives at Mattel, including our efforts to ensure fair and safe working conditions in the facilities that manufacture products for Mattel.

THE BUSINESS CASE

We view global citizenship responsibilities as not just ‘the right thing to do,’ but as fundamental to strengthening our competitive position in the marketplace and delivering benefits to our stakeholders, including stockholders. A few of these benefits include:

- Attracting and retaining employees—Mattel is committed to providing competitive wages, benefits and safe and healthy working conditions, as well as offering our employees leadership and career development opportunities and benefits that are designed to help retain talented people.
- Increasing customer loyalty—Our research indicates that consumers associate Mattel with safe, high-quality products. A variety of studies have revealed that consumers are increasingly seeking products that are responsibly manufactured. We strive to meet consumers’ expectations on all fronts, which in turn help to attract new consumers and repeat business.
- Achieving operating efficiencies—Many of our initiatives, such as adopting LEAN supply chain practices, not only reduce environmental impacts and improve worker safety, but also result in lower material costs and increased productivity.
- Mitigating risks to the company—By proactively managing our social, economic and environmental risks, we are able to identify and correct issues early thereby minimizing their impact.



CORPORATE GOVERNANCE

Board of Directors

Our commitment to responsible practices begins at the top with Chairman of the Board and Chief Executive Officer (CEO), Robert A. Eckert, and 11 independent members who serve on Mattel's Board of Directors. The Board is charged with evaluating corporate policies and strategies to ensure the sustainable long-term profitability of the company, while balancing the interests of our stakeholders, which include our employees, consumers, stockholders, business partners, communities, governments and the toy industry.

Members of the Board are selected based upon their expertise, experience, diversity and independence, as defined by the NYSE. Board members do not have set term limits, but must retire once they reach the age of 72. We are actively working to increase the diversity of the Board, which is evidenced by the addition in 2006 of Dominic Ng, Chairman, CEO and President of East West Bancorp, Inc. and Dr. Frances D. Fergusson, President Emeritus and Professor of Art of Vassar College.

The Board has five committees to oversee specific aspects of our business operations. Committees include: Executive, Audit, Compensation, Finance, and Governance and Social Responsibility. The Audit, Compensation, and Governance and Social Responsibility committees have separate charters and are composed entirely of independent Board members.

In 2005, the Board met five times and no Director attended less than 75% of the aggregate of all Board of Director meetings and all committee meetings on which he or she served.

In 2004, we expanded the scope of the Governance Committee to include Social Responsibility, signaling the importance Mattel places on its commitment to global citizenship. The Committee has been charged with providing guidance on and reviewing strategies related to Mattel's Global Manufacturing Principles (GMP); Environmental, Health and Safety (EHS) matters; relevant stockholder resolutions; diversity and equal opportunity matters; and community involvement and corporate donations to the Mattel Children's Foundation. For example, in 2005, the Committee endorsed the new focus and direction of the Foundation (for more information, see Our Approach to Giving on page 36). The Committee also reviews the company's Global Citizenship Report.

Executive Compensation

The Compensation Committee reviews and approves all forms of compensation to be provided to Executive Leadership Officers, including the CEO, and acts as an administrator of equity and incentive compensation plans for Mattel's employees. In 2005, the Committee worked with an independent consultant to ensure that executive compensation was competitive with peer companies and that annual performance goals were linked to appropriate compensation levels, which included base salary, short- and long-term incentives, stock options and other benefits. We disclose compensation information for our top executives in our yearly 'Notice of Annual Meeting of Stockholders and Proxy Statement,' which can be found online at www.mattel.com.





MATTEL RECOGNIZED FOR GOVERNANCE PRACTICES

For the third year in a row, Mattel was recognized for our corporate governance practices and received the highest overall global rating of 10 from GovernanceMetrics International (GMI). This ranking placed Mattel among the top 1% of more than 3,400 global companies as of July 2006. GMI rating criteria are based on securities regulations, stock exchange listing requirements and various corporate governance codes and principles.

Additional information related to Mattel's governance practices, specific committee charters, executive compensation and our compliance with laws is available online at www.mattel.com.

Corporate Ethics—Mattel's Code of Conduct

In addition to our governance practices at the Board level, every Mattel employee is bound by our Code of Conduct. The Code defines our responsibilities to our stakeholders. In 2006, Mattel conducted mandatory online training and certification for all employees about their responsibilities under the Code. The interactive training posed relevant ethical dilemma scenarios as a way of illustrating appropriate and responsible decision-making.

If employees observe conduct that they believe may be unethical, illegal or in violation of the Code or other company policies, they are encouraged to report their concerns to their supervisor, the Human Resources, Law, Internal Audit or Global Security departments. However, if employees feel uncomfortable addressing issues through these avenues, we also maintain the Mattel EthicsLine, a 24-hour, toll-free hotline through which employees can confidentially report breaches in conduct, and do so anonymously if they choose. The EthicsLine, which is operated by an independent third-party, records issues of concern and submits formal reports to our Office of General Counsel. Each complaint is reviewed and routed to appropriate departments for resolution.

Compliance with Laws

Mattel is committed to complying with all local and national laws in countries where we operate. We also actively monitor emerging laws and in many cases, work to comply with these laws, well before they become effective.

For example, nine months before the January 2007 effective date, Mattel began complying with the European Union (EU) Council Directive 76/769/EEC, which restricts the use

of six phthalates (plastic softeners) in children's toys. Since April 1, 2006, all Mattel toys destined for the EU have been manufactured in compliance with this EU directive. Mattel also has taken steps to eliminate the restricted phthalates from toys on a worldwide basis. In short, all Mattel toys manufactured and shipped from any manufacturing facility around the world will be in compliance with this EU Directive in 2007.

MANAGING GLOBAL CITIZENSHIP INITIATIVES

Mattel's global citizenship initiatives are led by a diverse group of functional areas across the company that collaborate throughout the entire process of strategic planning, goal setting, project management and assessment of results. This integration of talents and energy is reflected in the achievements and challenges addressed in this report.

GLOBAL CITIZENSHIP-RELATED STOCKHOLDER RESOLUTIONS

One stockholder resolution concerning responsible manufacturing practices was acted on at the 2006 Annual Meeting of Stockholders, which we addressed as follows:

An individual stockholder filed a resolution requiring Mattel to report yearly on the investment in and improvement of working and living conditions in Mattel's owned and contract manufacturing facilities. Because we publish the results of independent monitoring activities, as well as undertake a number of initiatives to promote responsible manufacturing practices throughout our supply chain (see GMP on page 7 to learn more), we recommended that stockholders vote against this proposal. In April 2006, less than 7% of the votes cast by stockholders supported this resolution.



COMMITMENT TO RESPONSIBLE MANUFACTURING

At Mattel, the loyalty of consumers will never be taken for granted as we continually strive to earn their trust by delivering on our promise of quality, safety and innovation and ensuring that our toys are manufactured responsibly and ethically.

Global Manufacturing Principles

A decade ago, Mattel pioneered our Global Manufacturing Principles (GMP), the first code of conduct of its type within the toy industry (see a summary of Mattel's GMP on page 8). As we look at how far we've come in the past 10 years, we see an evolutionary process. GMP are the framework as well as the guiding path forward. GMP define our standards and expectations for fair and safe working conditions and environmental protection in our global network of manufacturing facilities, which fall into three categories:

- **Tier I** includes eleven manufacturing and tooling facilities owned, operated or managed by Mattel located in China, Indonesia, Malaysia, Thailand and Mexico. Approximately half of all Mattel products are manufactured in these facilities.
- **Tier II** includes approximately 75 contract factories, or vendors, that are not owned, operated or managed by Mattel. Most are located in China, and other facilities are in India and Brazil and manufacture the remaining half of Mattel's products. We estimate our products may account for as little as 30% and up to 90% of a vendor's total annual production.
- **Tier III** applies to the approximately 1,000 licensees that, through signed agreements with Mattel, are permitted to use our logos and characters on various products such as apparel, electronics, sporting goods and room decor. Our licensees independently

manufacture these products in approximately 3,000 contract factories around the world. Generally, licensed products bearing Mattel's brands account for approximately 5% of a vendor's total production.

Today, all Tier I facilities are audited every two years with self audits conducted in between. An eleventh plant joined the Mattel family in September 2006 as part of the acquisition of Radica® and will be part of the Tier I audit cycle. Tier II vendor manufacturing facilities are audited at least twice annually. Audits are conducted by Mattel's Global Sustainability staff or by contract providers.

While Mattel has been engaged with licensees about responsible manufacturing for more than eight years, we expanded our formal GMP auditing to Tier III licensees in 2003. Although we have increased our audit efforts of Tier III factories, it's unlikely that Mattel will be able to audit all of these facilities. Therefore, we have begun accepting Equivalent Codes Of Conduct (ECOCs) that other corporations or nonprofit organizations use to verify compliance at Tier III factories. In 2005, an additional 55 audits were accomplished by recognizing ECOC audit programs.

In addition to our internal audit process, Mattel has relied on the International Center for Corporate Accountability (ICCA), an independent third party, to conduct its own audits of Tier I and Tier II facilities on a rotating basis. ICCA compiles the results of its findings, along with its recommendations for follow-up actions, and submits a report to Mattel. These reports are posted on Mattel's website (see page 11 for more information). As the only toy company to publicly disclose audit reports for the world to see, Mattel knows that transparency positively impacts the industry overall and we continuously work to raise the bar for responsible practices.



MATTEL RECOGNIZES 10 YEARS OF GMP

Mattel's GMP apply to all parties that manufacture, assemble, license or distribute any product or package bearing any of Mattel's brands. These principles are dynamic and continue to evolve to ensure ongoing protection of employees and the environment. In addition, Mattel has developed a comprehensive and detailed set of underlying procedures and standards that enable us to apply and administer our GMP in the countries where we operate.

1. Management Systems

Facilities must have systems in place to address labor, social and EHS issues.

2. Wages and Working Hours

Employees must be paid for all hours worked. Wages for regular and overtime work must be compensated at or above the legally mandated rates. Wages must be paid in legal tender and at least monthly. Working hours must be in compliance with country and Mattel requirements. Regular and overtime working hours must be documented, verifiable and accurately reflect all hours worked by employees. Overtime work must be voluntary. Employees must be provided with rest days in compliance with country and Mattel requirements. Payroll deductions must comply with applicable country and Mattel requirements.

3. Age Requirements

All employees must meet the minimum age for employment as specified by country and Mattel requirements.

4. Forced Labor

Employees must be employed of their own free will. Forced or prison labor must not be used to manufacture, assemble or distribute any Mattel products.

5. Discrimination

The facility must have policies on hiring, promotion, employee rights and disciplinary practices that address discrimination.

6. Freedom of Expression and Association

The facility must recognize all employees' rights to choose to engage in, or refrain from, lawful union activity and lawful collective bargaining through representatives selected according to applicable law. Management must create formal channels to encourage communications among all levels of management and employees on issues that impact their working and living conditions.

7. Living Conditions

Dormitories must be separated from production and warehouse buildings. Dormitories and canteens must be safe, sanitary and meet the basic needs of employees.

8. Workplace Safety

The facility must have programs in place to address health and safety issues that exist in the workplace.

9. Health

First aid and medical treatment must be available to all employees. Monitoring programs must be in place to ensure employees are not exposed to harmful conditions (e.g., chemical exposures, noise exposures, excessive temperature).

10. Emergency Planning

The facility must have programs and systems in place for dealing with emergencies such as fires, spills and natural disasters. Emergency exit doors must be kept unlocked at all times when the building is occupied. Emergency exits must be clearly marked and free of obstructions.

11. Environmental Protection

Facilities must have environmental programs in place to minimize their impact on the environment.

Addressing Violations

When issues are discovered, we work quickly to develop a corrective action plan to address concerns. Audit findings and corrective action plans are tracked and monitored through the Mattel Global Auditing System (MGAS). We also respond publicly to all ICCA reports with corrective action plans.

While all GMP audits include an assessment of many social and environmental factors, we pay particular attention to zero tolerance and highly critical findings across all tiers.

Zero tolerance findings include whether...

- Employees meet the minimum age for employment as specified by country and Mattel requirements.
- Employees are employed of their own free will.

Highly critical findings include whether...

- Employees are paid appropriately for all hours worked.
- Wages are paid in legal tender and at least monthly.
- Deductions from gross wages are allowed under the labor law regulations.
- Overtime is voluntary.
- Employees are provided with the appropriate holidays and days off.
- Time records correctly reflect the hours worked by the employees.
- Dormitory buildings are separated from production buildings.
- All emergency exit doors are kept unlocked when the building is occupied.

Zero tolerance findings must be immediately corrected by facility management. For highly critical findings, factories have up to five months to implement corrective actions. Follow-up audits are conducted to ensure changes have been implemented.

If and when issues arise, Mattel is committed to working closely with factory managers to help them correct problems and improve performance. If we determine a vendor is unable or unwilling to resolve a systemic issue, we will withdraw our business. In the case of a Tier III facility, we may require the relevant licensee to discontinue use of the non-compliant facility in connection with products bearing Mattel's brands, or in some cases we may even terminate our relationship with that licensee.



Audit Findings

Our audit process is designed to improve conditions and identify issues, which we then work to resolve. The discovery of highly critical findings is not unusual, occurring in 40% to 50% of the facilities audited across Tiers II and III. Mattel analyzes audit results, looking for common issues that can be addressed through system improvements and training.

Our 2003 through 2005 audit findings for Tiers I through III are below:

INTERNAL GMP AUDIT RESULTS			
Tier I (Mattel Owned, Operated or Managed)	2003	2004	2005
# of Facilities Audited	9	10	10
# of Facilities with Zero Tolerance Findings	0	0	0
# of Facilities with Highly Critical Findings	7	5	5
# of Facilities with Open Highly Critical Findings	0	0	0
Tier II (Vendors)			
# of Facilities Audited	77	79	65
# of Facilities with Zero Tolerance Findings	0	0	0
# of Facilities with Highly Critical Findings	36	46	36
# of Facilities with Open Highly Critical Findings	20	40	29
Tier III (Licensees)*			
# of Facilities Audited	66	40	145
# of Facilities with Zero Tolerance Findings	7	4	2
# of Facilities with Highly Critical Findings	49	26	79
# of Facilities with Open Highly Critical Findings	30	13	26

Tier I

Between 2004 and 2005, Mattel identified 10 highly critical findings in five Tier I facilities. The highly critical findings were related to work hours and emergency exits. By the end of 2005, corrective actions were implemented to resolve each highly critical finding. We train employees at our Tier I facilities to ensure continued compliance with the GMP. In 2005, employees collectively received more than 75,000 hours of training covering environmental, labor and health and safety topics.

Tier II

In 2005, Tier II highly critical findings were identified at 36 factories. Until a highly critical finding is resolved, it is tracked as an “open” case. There were 29 open highly critical findings among Tier II facilities at the end of 2005, which can partly be attributed to Mattel’s production cycle. (Production in one factory may shift to another before Mattel is able to ensure that corrective action plans have been implemented in the first facility.) Tier II highly critical findings were primarily related to wages and work hours. Other open findings may be related to factories where we ended relationships because of management’s lack of desire to comply with our GMP.

Tier III

In 2005, Tier III highly critical findings involved 79 factories. Highly critical findings for Tier III were primarily related to wages and work hours. We anticipate that our capacity-building initiative, which was implemented in 2004 to help our Tier II vendors strengthen their social compliance and EHS programs, will help to curb the number of future violations in Tier III (for more information on our capacity-building initiative see page 12). Progress continues to be made to resolve a number of highly critical findings. In 2005, we worked with licensees to correct more than 65% of these violations, compared to 50% in 2004. Despite these efforts, Mattel was forced to terminate 71 facility relationships between 2004 and mid-2006. For instance, in 2006, Mattel ended a licensing relationship with Rubie’s Costume Company, Inc., a Tier III licensee, which manufactured Barbie® costumes in its Rubie’s de Mexico factory (see Rubie’s Costume Company on page 11).

ENFORCING GMP: RUBIE'S COSTUME COMPANY

Mattel had a licensing arrangement with Rubie's Costume Company, Inc. in the United States and Canada, pursuant to which Rubie's independently produced, marketed and sold a line of Barbie® costumes for girls. Mattel responded promptly upon learning of allegations that one of Rubie's manufacturing facilities, Rubie's de Mexico, was violating portions of our GMP. Mattel audited the facility in May 2005 and identified several violations. From human rights advocacy groups, we also learned of a labor dispute at the facility where allegedly union employees were fired for demanding better working conditions.

Mattel developed an action plan with Rubie's to correct the violations, including a requirement that Rubie's settle its labor union dispute in a fair and reasonable manner while respecting employees' right to freely associate. Following repeated attempts to work with Rubie's on a resolution, Mattel imposed a January 2006 final deadline for Rubie's to either secure a satisfactory resolution or face termination of its licensing arrangement with Mattel. Regretfully, all of the issues were not resolved by our deadline, and Mattel was forced to terminate the relationship. We stand firm in our commitment to our GMP and expect that our licensees and their suppliers do so as well.

Independent Auditing

Mattel is proud to publish the results of our independent monitoring efforts. For more than seven years, the International Center for Corporate Accountability (ICCA)—formerly the Mattel Independent Monitoring Council (MIMCO)—has been conducting annual audits on all Tier I and a portion of Tier II facilities to ensure compliance with the GMP. Tier I factory audits, which began in 1999, have occurred on a three-year cycle. In 2002, ICCA began conducting audits on a portion of Mattel's Tier II factories. The selection of Tier I and Tier II factories and the timing of the audits are at the sole discretion of ICCA. Results of ICCA's audit findings are presented below:

ICCA AUDIT FINDINGS		
	Tier I	Tier II
Number of Audits Performed	10	18
Year of Audits	2003-2005	2002-2005
Number of Findings		
Labor	25	51
EHS	19	64
% Closure on Finding	100	78

Tier I

Between 2003 and 2005, ICCA audited all 10 of our Tier I facilities. ICCA noted GMP concerns primarily related to wages, work hours and EHS issues such as air emission and wastewater discharge permits, secondary containment of hazardous materials and blocking of emergency exits. Mattel has implemented a management systems approach and has made the corrections to ensure sustained compliance with GMP. Auditors identified 44 findings (25 labor findings & 19 EHS), all of which have since been corrected.

Tier II

Between 2002 and 2005, ICCA audited 18 Tier II facilities representing 54% of total dollar value of our subcontracted production, and found GMP violations related to wages, work hours, benefits and workplace safety. We continue to implement corrective action plans to remedy outstanding issues.

To ensure transparency, ICCA publishes its complete audit findings online at www.icca-corporateaccountability.org. This same information is also available on Mattel's website at www.mattel.com.

International Council of Toy Industries CARE (Caring, Awareness, Responsible, Ethical) Process

While we are steadfast in our commitment to Mattel's GMP, we understand that the issue of responsible manufacturing is not limited to our supply chain. Therefore, we are working in collaboration with industry partners to extend responsible manufacturing practices to the global toy industry as a whole.

Mattel has been instrumental in the creation and expansion of the International Council of Toy Industries (ICTI) CARE Process, which launched in 2004. The CARE Process is based on a code of ethical operating practices designed to ensure safe working conditions in toy factories across the globe, and more specifically in China where more than 75% of the world's toys are made. The ICTI CARE Process provides toy companies with a unified approach to responsible manufacturing, ensuring that factories maintain safe and humane workplace environments for manufacturing employees. Mattel shared our GMP with ICTI to serve as a foundation for developing the code of business practices. Mattel continues to play an active role on both the ICTI Governance Board and the Technical Advisory Board. Our goal is to advance the ICTI CARE Process by encouraging:

- Adoption of robust processes that promote continuous improvements in labor, health, safety and environmental practices.
- Increase in the number of participating factories.
- Support enhancing transparency.

Mattel Capacity-Building Initiative

In 2004, Mattel developed and launched a capacity-building initiative to help Tier II and Tier III suppliers strengthen their social compliance and EHS programs. Since that time, we have trained 35% of our Tier II vendors on how to manage industrial hygiene issues, conduct hazard assessments, investigate incidents and measure and report outcomes.

In early 2006, we expanded our capacity-building initiative activities to include Mattel's extended supply chain for licensed product (Tier III). We engaged with our licensee business partners and their manufacturers in Brazil and Argentina to improve working conditions and establish quality systems for ensuring responsible products. The initiative included combining several local audits with tailored training to aid licensees in correcting GMP noncompliance issues and to proactively operate in compliance with product quality requirements (see Mattel Capacity-Building Initiative sidebar below).

We believe that the successful implementation of our capacity-building initiative requires ongoing effective education and training of employees in our owned, operated or managed, vendor and licensee manufacturing facilities. Accordingly, we give high priority to communication and cooperation in order to promote understanding and compliance with our requirements. Consultations and trainings are an essential component of our capacity-building efforts.

MATTEL CAPACITY-BUILDING INITIATIVE

Mattel is committed to building the long-term capacity of our vendors and licensees in ways that strengthen their practices and improve their ability to comply with GMP and product quality requirements while minimizing recurrence of issues. During a five-month period in 2006, we engaged with 100% of our Tier III licensee partners in Brazil (our second largest licensee market) and conducted consultations and facility audits against our GMP and product integrity standards. Based upon the results, we developed targeted training which addressed local requirements and the most frequent issues of non-compliance to correct findings and put in place systems to ensure continuous improvement over time. Throughout the process, we listened to the challenges our licensees face in

managing working conditions and product quality issues and shared our own experiences and recommendations.

The success of the Mattel capacity-building program in Brazil prompted us to expand and implement this initiative to licensees based in Argentina, and in Asia specifically Malaysia, Thailand and Singapore. Licensee participation was high and favorable at each capacity-building exercise, and feedback from licensees was positive.

"We truly value and appreciate the role Mattel played in sharing and training its partners in GMP and local requirements. It provides my company an opportunity to meet not only legal, and Mattel requirements, but also other brand requirements as well."

—Malaysia licensee partner.

Tackling Our Challenges

While we are proud of the significant progress made over the last 10 years to implement Mattel's GMP, ensuring factory compliance is an ongoing process. Mattel remains firmly committed to improving GMP compliance across all three Tiers. Establishing goals—and striving to achieve them—is part of this process.

Our goals are described below:

Tier I

As Mattel's business evolves, new employees are hired and manufacturing processes advance, we must continually review and enhance our GMP and training curriculum, ensuring they are up-to-date and relevant. More specific goals include:

- In 2007, conduct independent audits at our Tier I factories in Mexico and China.
- In 2007, ensure 100% of our Asian toy manufacturing factories are recertified under the ICTI CARE Process (Mattel will seek to certify our plants in Mexico when the ICTI auditor training process is expanded beyond Asia).
- From 2007-2009, conduct relevant EHS training for the Tier I employees to improve GMP compliance.

Tier II

While we have a consistent audit process for Tier II vendor factories, our ability to influence management change is limited due to the fact that Mattel's products represent only a portion of their business. We have found that successful relationships involve supporting training and development along with clear and consistent communication that Mattel will not work with firms that systematically

fail to meet our GMP. In 2005, we hired an EHS engineer in China who is dedicated to supporting vendor factories by helping them to identify their own site specific practical solutions to meet GMP and increase operating efficiency. We intend to expand our efforts to include additional vendors and in doing so, we aim to shift the perception of compliance from that of a burden to an opportunity as suppliers learn that they may increase the financial sustainability of their businesses by being socially and environmentally responsible. Our goals for Tier II facilities include:

- In 2007, expand the capacity-building initiative to additional vendors and provide supplementary EHS training to the 19 vendors that participated in the initial program.
- Expand the ICTI CARE certification to 100% of printers and specialty vendors in China by 2009.

Tier III

Given that Mattel's approximately 1,000 licensees source from approximately 3,000 facilities at any one time, we are taking the following steps to promote fair and safe working conditions within this extended and constantly changing supply chain:

- By 2009, increase annual audit coverage utilizing both ECOC and GMP audits by 30% from a baseline of 200 conducted in 2005.
- By 2009, increase the number of licensees participating in our capacity-building initiatives by 50% from 50 licensees to 75 licensees, as well as expanding our efforts to Europe and the U.S. where the majority of our licensees are based.



MATTEL OWNED AND OPERATED FACILITIES



play with passion

Make a **POSITIVE** impact on the lives
of children and families around the globe,
with unparalleled **CREATIVITY** and **INNOVATION**

LOVE what you do

And have the **COURAGE** to make a difference

The Value of Play	16
Age Grading	16
Stages of Play	16
Product Safety Procedures	18
Addressing Consumer Concerns	20

We believe Mattel's continued success in the toy industry is based upon our passion for creating toys that are not only innovative and fun, but also facilitate children's development through play. With each product, Mattel strives to create toys that are safe, age appropriate and help children learn as they grow.

THIS SECTION HIGHLIGHTS:

- Our research about the value of play.
- Mattel's product safety procedures.
- Our commitment to product responsibility through consumer feedback.

THE VALUE OF PLAY

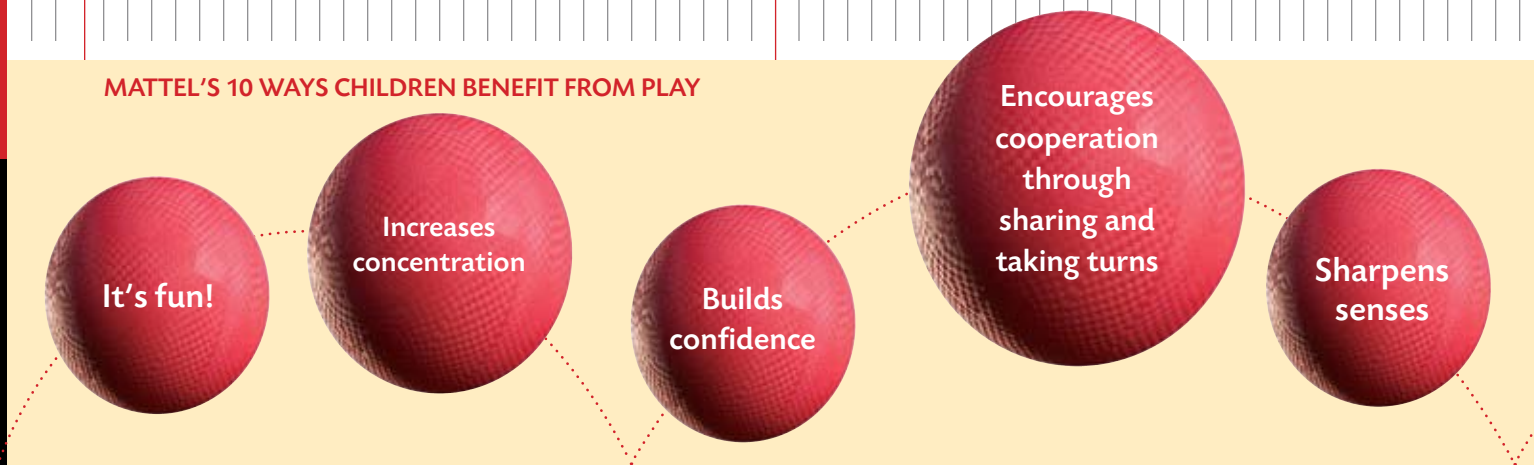
At Mattel we value play, not just because it's fun but because it helps children explore and learn new skills. Through Mattel's Imagination Center and Play Labs, children teach us about the many benefits of play. We continue to learn from them new ways to support and enhance their cognitive, emotional, social and physical development. As a child learns to play, boundless opportunities unfold.

AGE GRADING

As part of Mattel's design process, we age grade toys to ensure that our products are safe and age-appropriate for children. Age grades are determined by both internal and external tests and by observing children playing with specific toys. For instance, we recognize that toys created for our youngest consumers must be designed such that they are able to enjoy and be rewarded by every feature the toy offers.

Mattel's toy products include an age grade on the outside packaging. The process of determining the correct age grade helps ensure that our products are safe, and we believe it enables parents to make wise purchases of age appropriate toys for their children to enjoy.

MATTEL'S 10 WAYS CHILDREN BENEFIT FROM PLAY



4 STAGES OF PLAY

Mattel creates toys appropriate for children at various developmental stages, designing products to match their current abilities while stretching them beyond those abilities, so that they can learn and grow.

STAGE 1

0 to 2 years

Skills and behaviors include:

- Imitating others.
- Developing reflexes through repetition of sounds and movements.
- Beginning sensory and imaginary play.
- Developing spatial skills.

Popular toys for this age group include large blocks, clay, sand, oversized puzzles, picture and story books, doll houses, playmobiles and telephones.

Brand/toy best represented:

Fisher-Price® Infant and Preschool Toys, Laugh & Learn™

STAGE 2

3 to 5 years

Skills and behaviors include:

- Pretending toys and dolls are imaginary friends.
- Working toys with moving parts and building structures.
- Understanding numbers and counting games.
- Dressing up and role playing.
- Participating in group activities like sports.

Girls and boys at this stage are drawn to playing house, building with tools, playing with trucks and cars, pretending to be superheroes and playing with fairytale- and super-hero-themed toys.

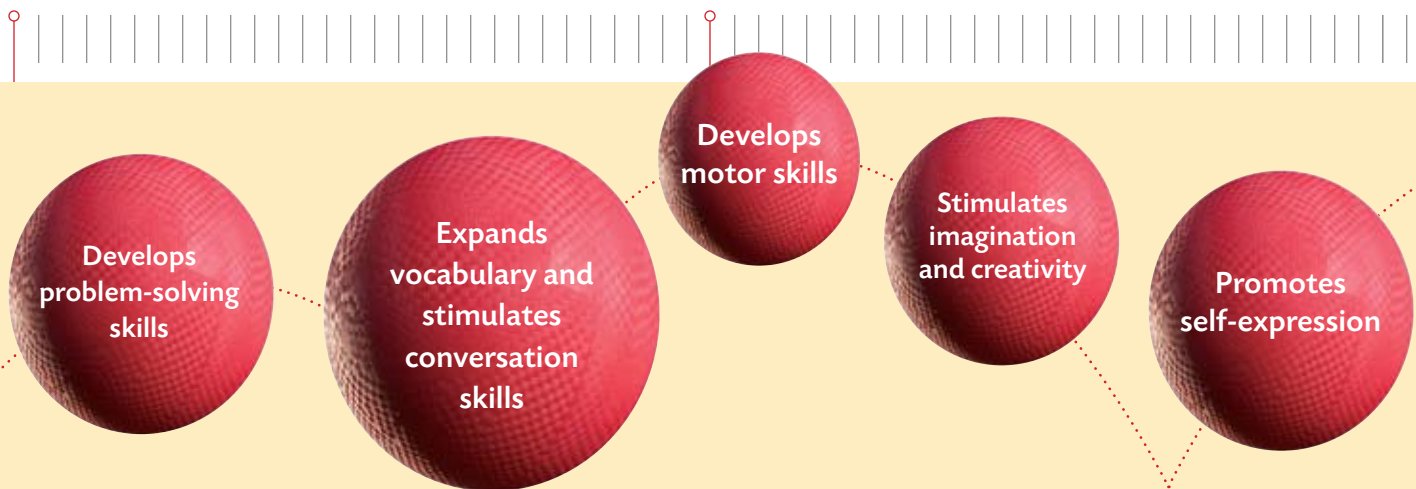
Brand/toy best represented:

Geo Trax™, Dora the Explorer™, Barbie®, Hot Wheels®



BENEFITS FROM PLAY

Mattel's diverse product lines include toys that have been designed to engage children of different ages and developmental stages to realize these important benefits of play.



STAGE 3

6 to 7 years

Skills and behaviors include:

- Setting and reaching goals.
- Following rules.
- Sorting and classifying items using more than one criterion.
- Beginning reading, writing and simple arithmetic.
- Expressing individuality and creativity through toys that are customizable.

Boys and girls at this stage are very logical and interested in puzzles, competitive board games and science and art kits. Their physical and verbal skills have advanced and they are showing an interest in bikes, jungle gyms, kites and sports.

Brand/toy best represented:

Tyco® R/C, Polly Pocket!™, Mattel Classic Games™

STAGE 4:

8 and older

Skills and behaviors include:

- Purposeful play dominates.
- Academic, physical and social achievement becomes more important.
- Starting to understand and recognize “value.”
- Seeking challenges, new experience, innovation.

In this stage of play, children take an important step forward toward identity formation and the adults they will become. Mattel also has brands that appeal to these older children, including American Girl® and Radica® electronic games, as well as many games that encourage family interaction.

Brand/toy best represented:

American Girl®, Hot Wheels®, Scene It?™

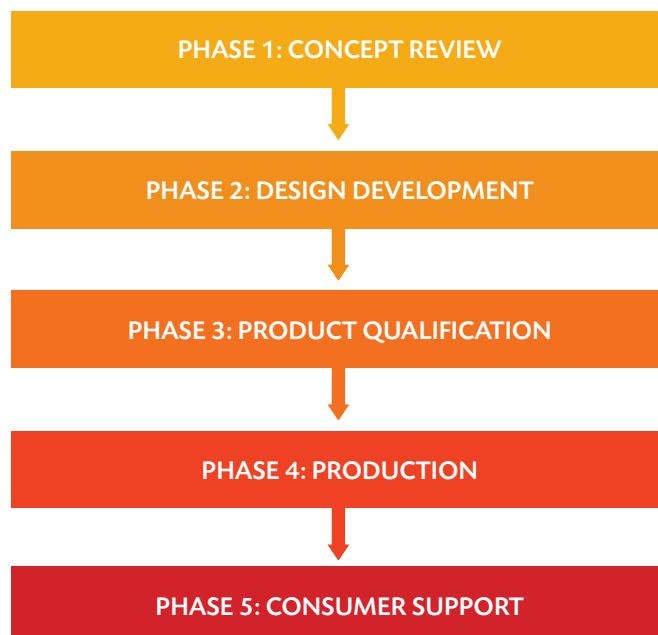


PRODUCT SAFETY PROCEDURES

The integrity, safety and quality of our products are all fundamental to Mattel's success in the marketplace. We strive to meet or exceed the laws and regulations for manufacturing toys, which are enforced by the U.S. Consumer Product Safety Commission (CPSC) and similar safety agencies in other countries. Moreover, we have an ongoing commitment to the development of toy safety standards and dedicate professional time and testing resources to regularly update and enhance our safety requirements. Mattel products are designed and manufactured according to our proprietary Quality and Safety Operating Procedures (QSOPs) which meet or exceed the safety regulations of every country in the world.

Product Integrity Process

Working closely with our design, engineering and manufacturing teams, Mattel's Corporate Product Integrity (CPI) department is involved throughout the entire product lifecycle to ensure compliance with the QSOPs. This includes:



Phase 1: Concept Review

Mattel reviews new product concepts for quality and safety issues and recommends changes if needed.

Phase 2: Design Development

Mattel tests products to make sure that all safety and reliability concerns are addressed. This includes checking prototypes for compliance with the product's design specifications, conducting observational child studies to determine children's abilities to use the product and comparing product performance against competitors. Product testing is conducted in both internal and external labs that are independently certified.

Phase 3: Product Qualification

Mattel conducts a series of pilot tests to check product quality against internal requirements at various stages of development prior to production. If necessary, Mattel adjusts the design and/or the manufacturing process based upon the test results.

Phase 4: Production

During production, each Mattel manufacturing facility performs quality assurance tests to ensure that products continue to meet the high standards established during the design and development phase. Audits are also performed at the manufacturing facility, and our CPI group randomly samples products from distribution centers.

Phase 5: Consumer Support

Addressing consumer questions and concerns is important to Mattel. We closely monitor consumer satisfaction. All Mattel products contain contact information for the Consumer Relations department. We monitor all consumer comments concerning product quality and safety, and use this information to help improve internal quality standards and future products.

LAUGH & LEARN™ MUSICAL LEARNING CHAIR RECALL

In early 2006, Fisher-Price announced a voluntary recall of its Laugh & Learn™ Musical Learning Chair. The toy chair was designed to play music and teach numbers and letters to children between the ages of 12 and 36 months of age. Of the 1.5 million units sold, Mattel received three similar reports from individuals involving a child getting stuck between the chair and the table. Although these reported incidences did not involve any injuries, Mattel chose to conduct a voluntary recall of this product in an effort to prevent future occurrences. We worked directly with the Consumer Product Safety Commission to recall this item. An additional piece that prevents entrapment between the table and side chair was designed. The modified chair continues to be a popular toy with parents and children alike.

We periodically review and update our QSOPs as necessary to reflect new laws and regulations or consumer feedback. Our CPI group gathers information from various Mattel teams and external sources to help improve the design process and our QSOPs.

Despite having a robust system to ensure product safety and quality, unforeseen issues occasionally arise. When this occurs, consumers are encouraged to contact Mattel via toll-free telephone numbers, through our Internet sites or through the company's international subsidiaries. Contact information is printed on all product packaging and instructions. Mattel investigates individual cases and analyzes all consumer data to identify trends that may be cause for concern.

Mattel diligently works to manage potential product hazards in the rare event that a product modification, withdrawal or public recall is necessary to protect our consumers. With literally thousands of product lines

manufactured each year, between January 2004 and June 2006, Mattel worked with the CPSC to voluntarily recall products on six occasions.

The products, reason for the recall and our remedy for each are listed below.

The individual items voluntarily recalled represent less than 0.2% of the 6,000 new toy products introduced by Mattel between 2003 and 2005. During the same time period, Mattel is not aware of any mandated recalls by the CPSC.

In addition to recalling these products, we communicate issues to our design and manufacturing teams for incorporation in our QSOPs. Consumer feedback is also shared with our CPI group on a regular basis, even when no incidents have occurred with a product. In this manner, we continually improve the quality and safety of our existing product lines, as well as update our QSOPs for future use.

VOLUNTARY PRODUCT RECALLS (2003-JUNE 2006)

PRODUCT	REASON	REMEDY
American Girl® Children's Jewelry (3/30/06)	Jewelry contains high levels of lead, which can cause adverse health effects if ingested	Take jewelry away from child and return
Laugh & Learn™ Musical Learning Chair™ (1/18/06)	Child may become lodged between the seat back and side table of chair	Plastic piece inserted between seat back and side table
Power Wheels® Lightning PAC™ Power Wheels® MX3™ Mini Bike (6/14/05)	If tires are over inflated, the plastic rim within the wheel can break, causing the tire to rupture	New warning label and a free tire gauge
Grow-to-Pro® Pogo (5/10/05)	Internal metal pin may wear down causing the Pogo to stick in down position and release unexpectedly	Replacement Pogo stick with corrective action preventing issue
Lil' Wagster Dragster™ (5/10/05)	Child's chin, jaw and teeth may get lodged in the opening of the handle	Cap that snaps into the opening at the handle
Batman™ Batmobile™ (4/14/04)	Rear tail wings come to a point and may scrape or puncture child	Replacement wings without pointed ends

ADDRESSING CONSUMER CONCERNS

In 2005, across all our brands, we received approximately 1,405,000 calls, 28.6% of which were classified as quality-related and 1.7% of which were classified as safety-related.

CALL CENTER ANALYSIS, 2003-2005			
	2003	2004	2005
Total Calls	1,696,000	1,573,000	1,405,000
Safety-Related*	1.8%	1.9%	1.7%
Quality-Related*	34.3%	25.5%	28.6%

**Percentages are based on total call volume.*

The three products which generated the most consumer calls between 2003 and 2005 were InteracTV™ Learning System, Power Wheels® Kawasaki® Ninja® and Ocean Wonders™ Cradle Swing. To address these issues, we prepared our call center agents with troubleshooting scripts, and we stocked replacement parts to best assist our consumers. Information and feedback were immediately shared with our CPI and Product Engineering teams in an effort to head off future consumer issues in continued manufacturing.

In addition to addressing product concerns, we have worked to increase information resources available to consumers. Since 2003, the Consumer Relations department

has greatly expanded its online presence. Consumers may now access instruction sheets, product recall information and other types of information at www.service.mattel.com. With the addition of this resource, service to our customers has increased and our call volume has steadily decreased, which in turn allows us to focus our trained agent resources on better servicing calls related to product quality or reliability issues.

We have also increased the hours of our U.S. call center. In fall 2005, Mattel expanded our call center hours to include Saturdays and later evening hours, Monday through Friday. During our busiest weeks surrounding the holidays, we expand our hours even further, to include Sundays and later evening hours.

In seeking new ideas for improving our service, Mattel conducts an ongoing Consumer Satisfaction Survey via our website which is linked to all our major brand sites, listed on our packaging and instructions. The top three themes we've recognized via this survey are requests for:

1. Increased availability of parts online.
2. An easier search tool to find replacement parts available online.
3. The ability to interface with the Consumer Relations department via email and live chat.

We will continue to work to further enhance the functionality of our website to accommodate this valuable feedback.



play to grow

SEEK continuous improvement and deliver quality results in **EVERY PART** of our business

Provide **OPPORTUNITIES** and **SUPPORT** for personal and professional growth

Reward **EXCELLENCE** and achieve financial goals so that we can continue to **PLAY!**



Even as children have fun playing with toys, they also learn, develop skills and grow from their playtime experiences. A core value of Mattel—Play to Grow—emphasizes the importance of continual learning and development as the means toward improvement, growth and achievement.

In the following section, we describe the approach Mattel is taking to grow in a socially and environmentally responsible manner. Our approach focuses on three key aspects:

- Developing a long-term Global Sustainability Strategic Plan.
- Implementing environmental initiatives and measuring our performance.
- Creating a work environment that inspires and develops our employees.

MATTEL'S GLOBAL SUSTAINABILITY STRATEGY

In the global marketplace, a company's success and viability are often measured by its market share and profits earned. We also realize that to sustain Mattel's success over the long term we must uphold a deep respect for, and acknowledgement of, the world around us. This requires that we carefully balance what are often perceived as competing needs—those of people, planet and profit.

This is our motivation for creating a Global Sustainability Strategic Plan, an effort that began in 2006 and will be completed in 2007. The plan will promote a new way of thinking—a sustainability mindset—about providing value to the company by reducing Mattel's environmental footprint. The plan will include: sustainable products (what), sustainable processes (how) and sustainability teams (who). Specific sustainability initiatives will be developed around:

- Sustainable product design and development.
- Sustainable manufacturing and procurement processes.
- Creating a sustainability culture at Mattel.

Both short- and long-term goals will be identified for each initiative, so that we can track and measure performance over time. The plan will emphasize increasing engagement with stakeholders (see the Play Together section, page 34 for more information). Senior leadership will be engaged in both development and review to ensure integration with corporate strategic goals and objectives.

Once implemented, we believe our efforts will lead to greater innovation in how we create and produce products which will ultimately help us to sustain Mattel's competitive advantage. We plan to provide an update on our progress in our next Report.



Environmental Stewardship

Over the years, Mattel has established various environmental initiatives that support the company’s commitment to environmental stewardship. As part of this commitment, Mattel uses a number of metrics—or key performance indicators (KPIs)—to track and measure our performance related to the environmental impacts associated with our operations. Some of these KPIs will later be incorporated as part of Mattel’s Global Sustainability Strategic Plan (see Measuring Our Performance on page 28).

The focus on our most recent environmental initiatives includes:

- Adoption of the LEAN process.
- Efficiency in our logistical operations.
- Energy and water conservation.
- Paper usage related to our American Girl catalogs.

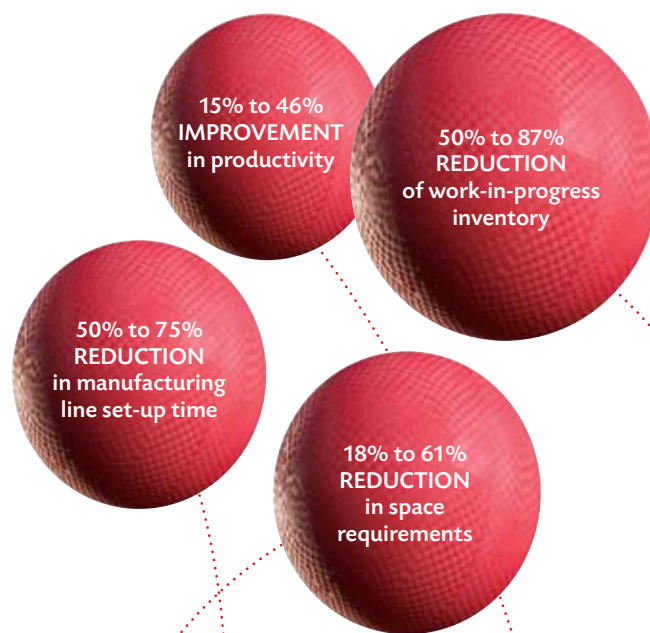
LEAN

A key element of Mattel’s global sustainability efforts is the LEAN process, a business model that focuses on promoting efficiencies in the production process, eliminating waste and using time effectively. Mattel believes this approach will also lead to cost savings as the method of thinking and designing is applied not only to our manufacturing operations but across many different business processes.

Employee involvement and empowerment are critical to the successful implementation of LEAN processes. Mattel uses “Kaizen” events, meaning continuous improvement, to form teams of process operators, managers and technical experts—who together identify new ways to reduce the

over-production of products, wait time for transport and inventory supply or simplify a process. These events have resulted in specific modifications to line layouts, space reductions and improved worker comfort and changes that have been accomplished without any workforce reductions. Along with a rise in productivity, environmental benefits are also gained, such as decreased energy consumption.

More than 80 Kaizen events have been held through early 2006, involving more than 4,000 employees. Each event has resulted in:



Logistical Operations

A number of programs involving our distribution and transportation operations were recently initiated to reduce fuel consumption and corresponding carbon dioxide emissions (CO₂)—a greenhouse gas associated with moving our manufactured goods from factory floors to store shelves. Our first year results are not yet available, but given the great promise these initiatives hold for reducing our environmental footprint and increasing efficiencies, we believe they are worthy of mention. These efforts include:

South China Drayage Reduction Program

This initiative aims to reduce the number of miles our U.S.-bound cargo travels from our manufacturing facilities in mainland China to our distribution centers in the U.S. In the past, products manufactured at various factories were trucked to the Port of Yantian in southeast China and shipped from there to the U.S. (see Map 1 below). In 2006,

we began implementing a new approach, which involves shipping our manufactured products to the U.S. from three different ports in China that are located closer to where these products are manufactured (see Map 2 below). We anticipate these changes will reduce an estimated 50,000 travel miles on an annual basis. We hope to expand this effort to other parts of our shipping and distribution network.

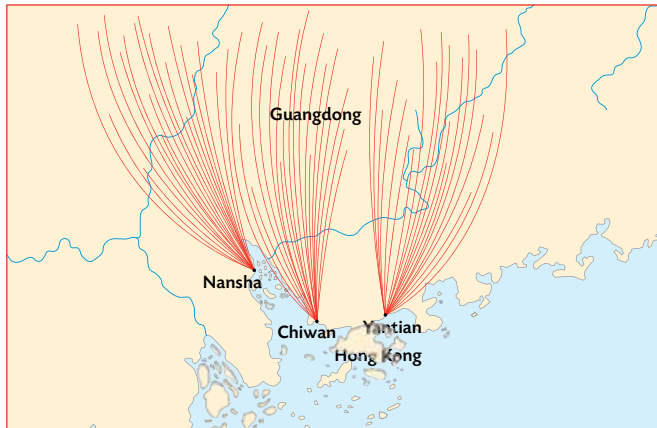
Domestic Outbound Trucking Reduction

Until recently, we maintained separate distribution centers for Mattel branded products. The result was a less efficient distribution system that had products crisscrossing the U.S. en route to thousands of retail points (see Map 3 below). In 2006, Mattel initiated a Full Mix Distribution Center program to address this issue and seek improvements. As a result fewer miles are being traveled to get our products from the warehouse to retail stores where they are sold (see Map 4 below).

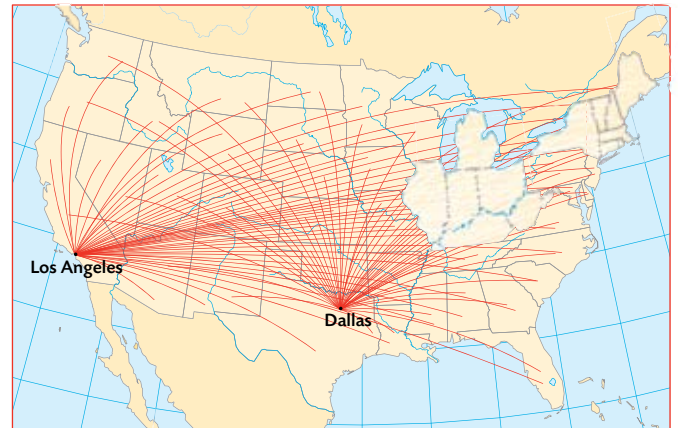
MAP 1: SHIPPING PATTERNS PRIOR TO DRAYAGE REDUCTION PROGRAM



MAP 2: SHIPPING PATTERNS AFTER DRAYAGE REDUCTION PROGRAM

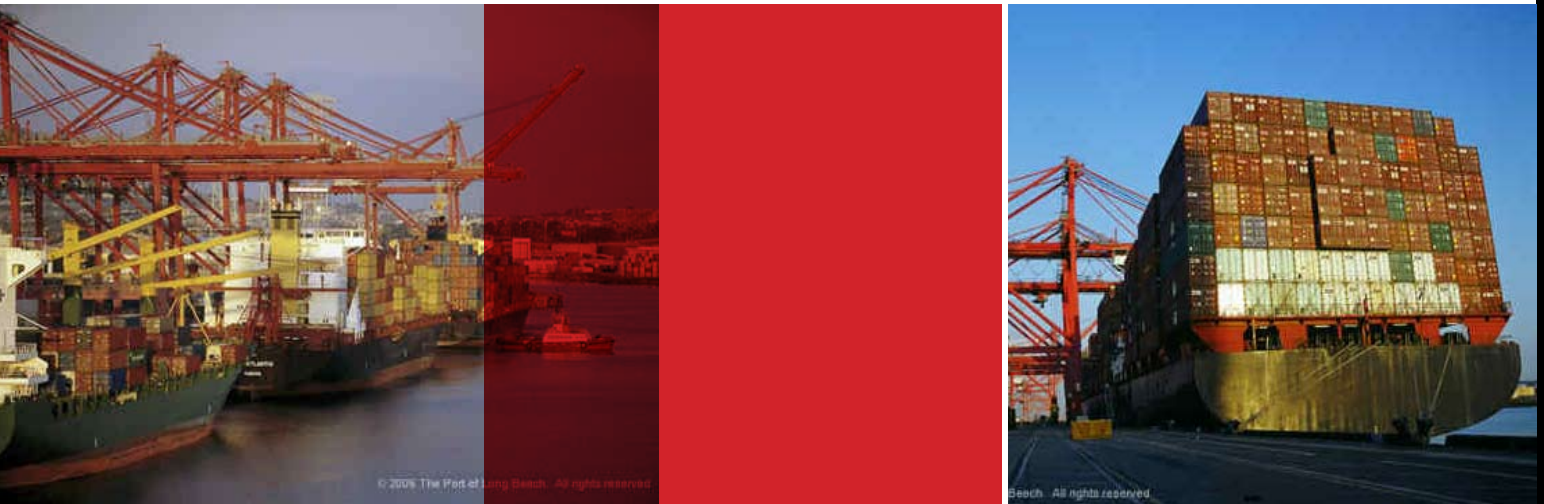


MAP 3: DISTRIBUTION PATTERNS PRIOR TO FULL MIX DISTRIBUTION CENTER PROGRAM



MAP 4: DISTRIBUTION PATTERNS AFTER FULL MIX DISTRIBUTION CENTER PROGRAM





MaxLoad Program

Mattel set a 2006 goal of increasing vendor container density by 2%. To accomplish this, we provided vendors with MaxLoad software to help them load their containers more efficiently. In the first six months of 2006 alone, increased load density has eliminated the need to ship approximately 500 containers.

Distribution Center Emissions and Recycling Improvements

We are continuing to focus on measures that help reduce emissions and improve recycling at our distribution centers in San Bernardino and City of Industry, California, and in Dallas/Fort Worth, Texas. Some examples of ongoing and newly initiated programs include:

- Newly installed skylights to capture more natural light, thus lessening the need for electric-powered artificial lighting. The use of skylights has cut electricity usage for lighting by 75% at two of our distribution centers.
- A cardboard recycling program. Mattel recycled more than 2,200 tons in 2005.

Port of Los Angeles and Port of Long Beach Initiatives

We are working with our ocean carriers on implementing port-related environmental measures aimed at reducing the level of greenhouse gas and smog-forming emissions generated as they approach and dock at the ports. Two of these initiatives are:

- **Ocean Carrier Green Initiatives:** These initiatives require that ships coming into Los Angeles/Long Beach ports reduce their approaching speed to 12-knots within 20 nautical miles of shore; use low sulfur marine fuel within this 20-nautical-mile range of shore; use shore-based electric power while docked; and install devices to control nitrous oxide and particulate matter on auxiliary and main engines.
- **PierPass Off-Peak Program:** In conjunction with the ports, we are working toward our 2006 goal of having 90% of our cargo arrive at the dock, be unloaded and trucked to our distribution centers during the off-peak hours of 6 p.m. to 3 a.m. This approach will decrease wait times, time spent in traffic and overall fuel usage. Results as of July 2006 indicate that we are on track to meet or exceed this goal, a marked improvement over 2005 when only two-thirds of our cargo was being transported during the off-peak period.



CONSERVATION OF NATURAL RESOURCES

In 2005, Mattel implemented a number of energy and water conservation measures in our manufacturing facilities (Mattel's total energy and water usage is reported on page 28). Our facility in Bangkok reduced electricity consumption for air conditioning and lighting by 36% by improving preventive maintenance programs on the electrical supply systems. Our Mattel Hong Kong facilities in China reduced energy consumption by installing energy-saving devices in sewing and injection molding machines. Our Mattel Die Cast plant in China installed frequency invertors in their injection molding machines to save electricity. Our Malaysia facility also improved their injection molding and die casting processes by recycling the hydraulic oil used in the machines. The facility reduced oil consumption by an impressive 50% between 2003 and 2005. Mattel Indonesia has the ability to collect rain water and reuse it for washrooms and general cleaning purposes, thereby saving 20% of the normal water consumption.

Packaging

Mattel recognizes that one way to help decrease the amount of materials, energy and waste within our business is to focus not only on how we design our packaging, but also on the types of materials we use in our packaging.

We have been working on environmental-friendly packaging projects during the past 10 years and in 2005 adopted a Sustainable Packaging Initiative to focus on the following major objectives:

- Reduce overall packaging size and the amounts of materials used in our packaging.
- Increase use of post-consumer recycled materials in our packaging.
- Design packaging with more recyclable materials.
- Continue our efforts to design packaging as part of the product.

We are working to implement these objectives through the following efforts:

- **Plastics Reduction Program:** "Plastics" are the restraints—rubber bands, fasteners, staples and other materials—used to hold our packaged products in place. This program focuses on reducing the amount of plastics, as well as making it easier for consumers to open and access our products. We plan to report more complete results of this program in our next report.
- **Increasing use of post-consumer recycled materials:** We are currently conducting an internal packaging materials survey with our packaging suppliers. The results will help us determine the percentage of post-consumer recycled paper materials used in our packaging.

As part of our packaging initiatives we are seeking to identify adequate sources of sustainable paper and plastic materials—especially in our Southeast Asian and Chinese markets. This challenge reminds us that our sustainability efforts must be balanced with the need to manage costs, reduce our impact and meet consumer expectations.





American Girl® Catalog Paper Usage

The majority of American Girl products are sold through direct mail catalogs. American Girl recently implemented several strategies aimed at reducing the volume of paper associated with its catalog mailings, measures that are providing both environmental and cost-saving benefits.

Specifically, American Girl decreased the total number of pages in each catalog, reduced the number of mailings to consumers and carefully trimmed its mailing list to reach a more targeted audience. As a result, American Girl successfully reduced total paper usage in 2005 by 1,200 tons.

American Girl works exclusively with paper mills that incorporate sustainable forestry practices. These suppliers must demonstrate transparency in their supply chain, have clear policies that prohibit sourcing from endangered forests, employ long-term sustainability strategies and take action toward independent certification.

In addition, American Girl is increasing its use of recycled paper. In 2006, American Girl surpassed its goal to include a minimum of 10% post-consumer fiber in 50% of the paper used in its catalogs. Moving forward, we will continue to seek and implement ways that reduce the environmental impact of our catalog activities, including:

- Leveraging our paper buying power to promote cleaner manufacturing, better forest management, biodiversity, and increased use of both certified and recovered fiber.
- Seeking innovative approaches in paper manufacturing, and testing new, lighter-weight grades.
- Decreasing the use of fossil fuels in transporting paper from mill to press.
- Tightening press efficiencies and reducing paper waste.
- Increasing our use of e-commerce to further reduce mailings and paper use.



Measuring Our Performance

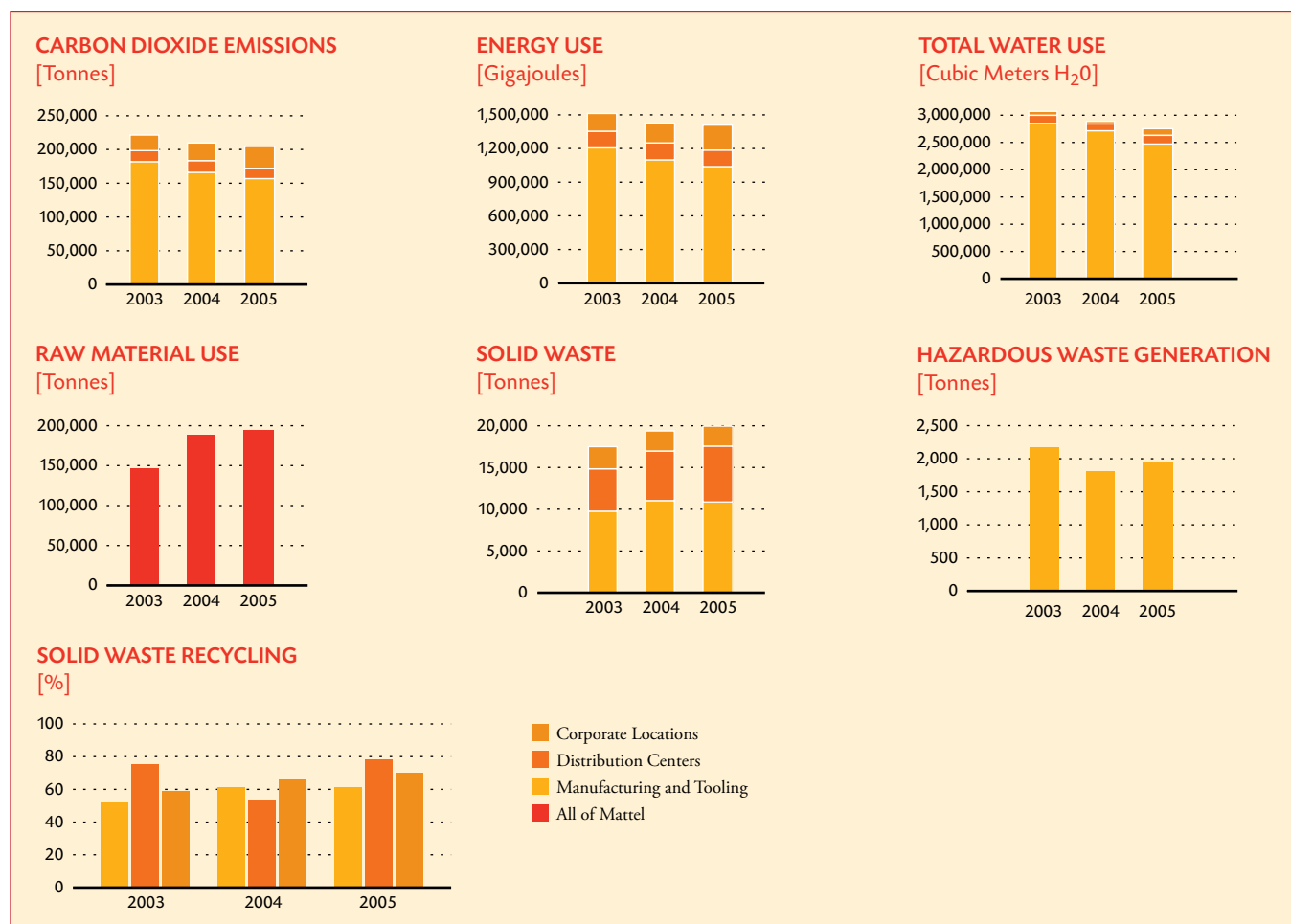
Our environmental initiatives have helped us minimize our impact over time. To measure our progress, we monitor key performance indicators (KPIs) for 96% of the facilities owned, operated or managed with greater than 20,000 square feet in size. As an initial step to evaluate the appropriateness of our KPIs for our specific business activities we collaborated with the University of California at Los Angeles (UCLA) Anderson School of Management. Together we developed a course project conducted by a team of five business school students to evaluate Mattel's KPIs. Their research included benchmarking other firms, visiting a manufacturing plant to review the data collection process and evaluation of the various potential methods of presenting results to stakeholders. The open dialogue and constructive feedback about the need to develop meaningful normalization factors to explain performance over time has been valuable in advancing our process. We intend to continue to seek such feedback and expand our data validation initiatives in the future.

In our first report we shared our commitment to establish and measure the environmental impacts of our operations. In this report we are presenting data collected for six KPIs from three components of our business:

- Manufacturing and tooling plants owned, operated or managed by Mattel.
- Corporate locations in the U.S.
- Distribution centers in the U.S.

Mattel is proud to have made substantial progress in the implementation of our KPI measurement program. These results for 2003 through 2005 are being presented as absolute values. We are exploring how to consolidate KPI data from corporate owned manufacturing plants producing very different products such as Hot Wheels® or Barbie® as well as anticipating how we will eventually expand reporting to include information from vendor manufacturing operations. As part of developing the Global Sustainability Strategic Plan we will develop appropriate normalizing factors to effectively set goals, manage performance and report progress to our stakeholders in future reports.

This initial three years of monitoring data establishes a baseline that will support the development of relevant management strategies and improvement goals for specific operations, as well as for Mattel's overall performance. While we are developing specific goals, we are committed to continue efforts already underway to identify measures that minimize raw material use and increase recycling at our facilities.



MATTEL'S WORKPLACE PRACTICES

Mattel's long-term sustainability also depends on having capable, talented and passionate employees who share a commitment to the company's success. Recognizing the importance of this, Mattel CEO Robert A. Eckert prioritized the need for a comprehensive workforce strategy shortly after he assumed the leadership of Mattel in 2000. His vision was to cultivate a collaborative workplace culture that would unify Mattel's worldwide family of more than 30,000 employees across the world.

Since that time, we have established and strengthened various initiatives to support our workforce development strategy. And at the same time, we have maintained our commitment to essential workplace practices. Some of these initiatives and commitments include:

- Focusing on people development.
- Providing competitive wages and benefits.
- Promoting an inclusive and diverse workplace.
- Maintaining a healthy and safe work environment.

People Development

The focus on people development at Mattel, a key element of our overall workforce strategy, is designed to cultivate, engage and reward the individual and combined talents of our employees around the world. Our focus includes three key aspects:

- Performance management.
- Talent management and succession planning.
- Leadership development and employee training.

Performance management begins with the establishment of well-defined corporate goals. Mattel supervisors are then given a set of objectives that support these overarching goals, linking their contributions to the company's success, as well as defining what is expected of them and how they will be measured. In addition to performance management, 360-degree feedback is available to help employees with their career development.

Mattel also instituted a formalized approach to talent management and succession planning, both key when it comes to sustaining the company's long-term viability. Consequently, managers have overall improved their ability to identify outstanding performers for career advancement opportunities. Since 2001, our Operations division, which represents approximately 80 percent of

our global workforce, has experienced a 25% increase in the ability to internally fill open positions. In fact, our approach has helped significantly reduce turnover. Among operations non-manufacturing personnel, turnover has decreased from 14% to 7% annually over the same time period.

Leadership development and employee training are fundamental to our workforce strategy and focused on providing a variety of training opportunities for employees at all levels of the organization. At Mattel headquarters in El Segundo, California, we operate a state-of-the-art leadership and development center where employees can either learn in a classroom setting or through our digital training center, which offers more than 2,000 online courses on business-related issues. In 2005, approximately 650 employees participated in online learning courses to sharpen their skills. In 2005, Mattel employees received eight hours of classroom training on average. Employees at the manager level or above averaged 20 hours of classroom training.

Mattel managers, supervisors and executive leadership can take part in our customized Leadership Development program. This initiative is designed to provide our emerging leaders with the highest level of strategic training and consists of three distinct programs:

Foundations of Leadership

This training is designed to help supervisors, managers, directors and vice presidents develop both tactical and strategic management skills, enabling them to better address the day-to-day challenges they face in their role.

Global Leadership

This course, presented in partnership with Thunderbird, The American Graduate School of International Management, is designed to train high potential Mattel directors and executives from around the globe on topics related to global business growth and management excellence.

SOAR

(Strategize, Open your eyes, Act to energize and Realize the future)

This executive program, designed for members of Mattel's senior management team and presented in partnership with The University of Southern California and other international institutions of higher learning, prepares managers to handle current strategic issues facing the corporation. Annual topics are selected by Mattel's CEO.



Providing Competitive Compensation and Benefits

At Mattel, our ability to recruit and retain committed employees—from factory employees to corporate staff—is essential to our continued success. Mattel offers attractive compensation and benefits packages, as well as incentives aimed at rewarding individual, team and total company performance to employees around the world. For instance, at some of our corporate locations in the U.S., the workplace is designed to give employees more flexibility, which includes such benefits as compressed schedules that allow employees to work half-days on Fridays, on-site fitness centers, child care facilities and credit unions.

To help distinguish Mattel further as an employer-of-choice, we offer additional benefits that have been tailor-made to meet the unique needs of our employees throughout the world.

More information about compensation and benefits at Mattel is available online at www.mattel.com.

Specific Benefits Geared for Manufacturing Employees

Today's competitive labor market in Mexico and Asia makes it challenging to attract and retain capable workers for our factories. Mattel knows that to be regarded as a good and trusted employer, we must first understand what workers want and need.

In China for example, young adults from rural areas often leave home to find work, save money and return home after several years. Typically, this population of employees wants to reside at the same place where they are employed. Onsite dormitories are customary at factories, although they differ in quality and amenities. We believe the quality of our dormitories, which reflect Mattel's high standards and include libraries, recreation facilities, health clinics and other on-site amenities, strengthen our ability to attract and retain employees.

Many employees at manufacturing facilities also want to further their career, language and life skills. Mattel offers an array of continuing education courses geared for our factory employees, such as computer, language, writing, management, traffic safety and many other classes. Some of our factories even offer employees the opportunity to acquire beautician, cooking and sewing skills. In 2005, Mattel provided instruction to more than 5,000 participants through our continuing education programs.

In addition to continuing education courses, Mattel encourages employees to pursue their formal education. For example, employees who want to complete their high school education or pursue higher education in both our Tijuana and Monterrey, Mexico, manufacturing plants can receive financial support from Mattel.



Respecting Worker Rights

Mattel has workplace policies and procedures in place to provide for equal employment opportunities and protect employees from discrimination and harassment as prohibited by local laws. Mattel also respects workers' right to associate, or not associate, with any legally sanctioned organization and mandates that management provide formal channels to encourage communications between management and employees on issues that impact working conditions. These protections are incorporated in our GMP and apply to the facilities owned, operated or managed by Mattel, as well as our vendors and licensees (see our GMP on page 8 for more information). Eight of the 11 manufacturing and tooling plants owned, operated or managed by Mattel have unions.

Diversity

At Mattel, we strive to create an inclusive and diverse workplace in which everyone feels respected, regardless of age, race, gender, national origin, religious affiliation, sexual orientation or physical and mental attributes. Our goal on a global basis is to ensure Mattel's management and workforce reflects the communities in which we operate and the consumers whom we serve. Our recruiting and inclusion strategies are aimed at increasing and promoting diversity at all levels of the company, including our leadership.

Currently we track and report on the percentage of women in leadership roles globally. Within the U.S., we also track the percentage of People of Color, based on the U.S. Equal Employment Opportunity Commission's definition of minorities, in our overall workforce and in leadership positions at Mattel. The percentage of women globally serving in positions of vice president and above has increased from 25% in 2003 to 27% in 2005. In order to increase the number of women in leadership roles in the coming years, Mattel is developing an initiative to promote mentoring and networking opportunities in order to advance the careers of female employees. People of Color in Mattel's U.S. workforce increased from 26% in 2003 to 31% in 2005 and those serving in positions of vice president and above in the U.S. increased from 7% in 2003 to 8% in 2005. In order to accelerate progress on our diversity initiatives, Mattel is developing a Diversity Strategic Plan that will set objectives and align them with business strategies.

We believe that the promotion of opportunities for talented diverse candidates starts much earlier in the career preparation process. As a corporate sponsor of the INROADS program, Mattel not only provides internships for ethnically diverse students but also serves on local and regional governance boards. In partnership with INROADS for more than 14 years, in 2006 Mattel provided internships for 17 students at its California headquarters. During the next three years we have set a goal to increase the number of internships by 50% and include two additional locations in the program.

SPECIAL RECOGNITION FOR OUR HEALTH AND SAFETY PERFORMANCE

- The Mattel Die Cast plant and the Mattel Hong Kong plant in Guanyao, China were both named Safe Production and Occupational Insurance Enterprises of 2005 by the Nanhai Labor and Social Security Bureau and Safe Production Supervision Bureau.
- Our Mattel Indonesia plant received the Golden Flag Award for Occupational Safety and Health Management System and the Zero Accident Award/Zero Lost Day Incident Award, both of which were presented by the Vice President of the Republic of Indonesia on behalf of the National Department of Man Power.
- The Mattel Hong Kong plant in Chang An, China was recognized by the local government as a Safe Production Enterprise for the Years 2004 and 2005.
- Our Tijuana facility (Mabamex) has been certified by the Mexican Federal Government in November 2005 as a Socially Responsible Company (Empresa Incluyente), for providing equal job opportunities and special facilities for physically challenged individuals.
- Mattel Bangkok in Thailand won the Energy Conservation Award from the Industrial Estate Authority of Thailand in 2004.
- Our Mattel plant (Montoi) in Monterrey, Mexico won the 2005 Award in Safety and Hygiene at Workplace from the Nuevo Leon State Labor Relationship Council and the 2005 Risk Prevention Nationwide Award from the Secretary of Labor Board and Mexican Institute of Social Security.

Environmental, Health and Safety

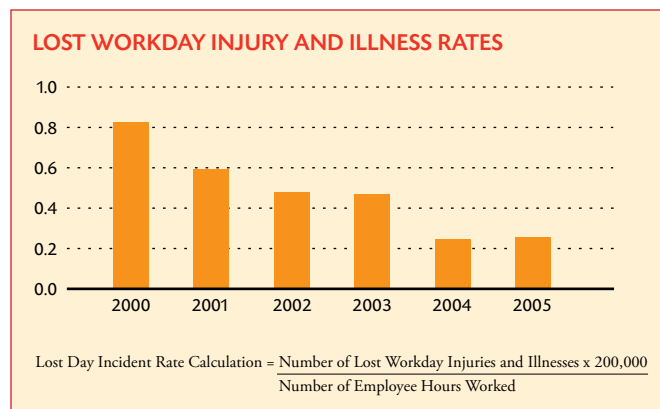
Mattel is committed to protecting the health and safety of our global workforce. As part of our GMP, each facility has an EHS committee, consisting of both management and employees that meets at least every 60 days to conduct workplace inspections and investigate incidents. These committees also are tasked with reviewing policies, procedures and inspection reports, as well as other responsibilities.

In addition to the EHS committee, each manufacturing facility conducts health and safety training and has an incident reduction program to track, investigate and report lost day incidents. If a work-related accident occurs, it is investigated and documented immediately, and a corrective action plan is developed.

Since 2000 Mattel has been using the U.S. Occupational Health and Safety Administration's lost work day incident rate (LDIR) as a means to measure the safety performance of our global operations. Performance data in this report includes all manufacturing and tooling plants owned, operated or managed by Mattel worldwide, as well as North America distribution centers and North America corporate locations.

In 2005, Mattel's LDIR was 0.256 (see graph below). We attribute our improved performance to safety programs implemented over the past five years. These include:

- Training programs geared for both employees and contractors that increase their awareness of safety practices.
- Job hazards analyses that help identify potential hazards in the workplace and lead to measures that eliminate or minimize risk.
- Incident investigations that identify the root causes of incidents and appropriate actions needed to prevent reoccurrence.
- Regular safety audits to ensure compliance with implemented safety programs.





play together

Play as a **TEAM** to realize our full potential

Form deep **PARTNERSHIPS**
with the people and companies with whom we work

ENRICH the communities in which we work and play

Stakeholder Outreach	35
Our Approach to Giving	36
Stakeholder Feedback	40

Mattel is committed to forging and building positive, trusted relationships with our stakeholders, a process that is strengthened through engagement and dialogue. Moreover, we are dedicated to giving back to the communities that manufacture and buy our toys. This section highlights our stakeholder engagement and philanthropic activities.

STAKEHOLDER OUTREACH

Over the years, Mattel has benefited from the constructive feedback and external perspectives of our stakeholders. This section highlights current measures we are using to dialogue with stakeholders and what we are doing to become more proactive in our approach.

There are a number of ways in which we interact with different stakeholder groups, which are outlined in the chart below. We also have included three specific examples of Mattel's engagement with non-governmental organizations (NGOs), an industry trade organization and the community of Beaverton, Oregon.

COMMUNITIES IN WHICH WE OPERATE		MEDIA	
Engagement	<ul style="list-style-type: none"> Employee volunteerism projects Philanthropic donations Community events sponsorship 	Engagement	<ul style="list-style-type: none"> Interviews, meetings and briefings Participation in media interviews on articles and books about global sustainability
Examples	<ul style="list-style-type: none"> Earth Day events Clean-up of local highways, schools and parks Product and funding support for local children's charities Volunteer efforts at local schools and youth centers 	Examples	<ul style="list-style-type: none"> Article on CSR in <i>USA Today 2006</i> Article on our professional development program in <i>Workforce Magazine 2006</i>
RETAIL CUSTOMERS		NON-GOVERNMENTAL ORGANIZATIONS (NGOS)	
Engagement	<ul style="list-style-type: none"> Customer surveys Customer relations inquiries Participation in sustainability initiatives 	Engagement	<ul style="list-style-type: none"> Direct engagement on topics of interest Leadership of and participation in safety and quality standard setting organizations Membership in trade associations and business organizations Transparent auditing by third-party Partnerships with philanthropy partners
Examples	<ul style="list-style-type: none"> Customer dialogue on sustainable packaging Wal-Mart Sustainable Value Network for China 	Examples	<ul style="list-style-type: none"> Chair of International Council of Toy Industries' (ICTI) U.S. Technical Advisory Board Member of the ICTI Governance Board Engagement with ICCA as an independent auditing organization for Mattel GMP Signature partnerships with Special Olympics, Save the Children, National Association of Children's Hospitals and Related Institutions, Children Affected by AIDS Foundation and the Mattel Children's Hospital at UCLA
EMPLOYEES		SUPPLIERS AND LICENSEES	
Engagement	<ul style="list-style-type: none"> Employee surveys Employee newsletters Networking groups Regular communications from leadership 	Engagement	<ul style="list-style-type: none"> Auditing Capacity-building initiatives
Examples	<ul style="list-style-type: none"> 2003 and 2006 "What's On Your Mind" Employee Surveys Mattel One Global Newsletter Global Sustainability Newsletter Quarterly employee communication meetings Global "What's On My Mind" emails from the CEO Small group employee feedback sessions Mattel On Demand Intranet 	Examples	<ul style="list-style-type: none"> GMP audit program Equivalent Code of Conduct program Environmental Health & Safety training for Chinese suppliers and GMP capacity training for Latin American licensees (see Mattel capacity-building initiative sidebar on page 12)
STOCKHOLDERS			
Engagement	<ul style="list-style-type: none"> Regulatory disclosures and reporting SRI fund questionnaires 		
Examples	<ul style="list-style-type: none"> Annual filings and stockholders meeting Stockholder communications 		
LEGISLATORS AND REGULATORS			
Engagement	<ul style="list-style-type: none"> Site visits Inspections Comments on regulatory decisions and proposed actions 		
Examples	<ul style="list-style-type: none"> Participation in local emergency planning organizations Participation with Malaysian government to develop toy standards 		

Business for Social Responsibility (BSR) Women's Health Study

Women comprise a majority of the workforce in manufacturing industries, such as apparel, toys and electronics. In 2006, BSR approached member companies, including Mattel and other leaders in labor intensive manufacturing industries, and asked for our participation in a study to identify best practices in promoting women's reproductive health. The project was initiated by BSR with the support of the David and Lucile Packard Foundation. BSR recognizes Mattel's educational and screening program for hypertension, high cholesterol and cancers (including breast and cervical); health fairs; and athletic facilities at our plants as examples of best practices for supporting female employees' health. The information gained from the study will be used to develop education and communications programs to reduce the risk of health problems in female employees while also enhancing productivity and reducing absenteeism.

Beaverton, Oregon

In 1997, Mattel acquired Tyco Toys, maker of View-Master™. The acquisition included a lease for a plant in Beaverton, Oregon, where View-Master products were manufactured at the time. One year after the acquisition, an analysis of the plant revealed the presence of trichloroethylene (TCE) and other chemicals in smaller amounts in the factory water supply. Mattel did not use those chemicals in its manufacturing processes. It immediately shut off the water supply and initiated a cooperative investigation as part of the State of Oregon's voluntary cleanup program. This investigation determined that the chemicals were used and spilled at the Beaverton plant before 1980 by a prior landowner and plant operator.

Mattel sought to address the concerns of employees and the local community. Immediate steps were taken to identify and reach out to present and past employees and to communicate information about the chemicals from Mattel and the government, including the State Department of Environmental Quality (DEQ) and the federal Agency for Toxic Standards and Disease Registry. Those outreach efforts included advertisements in the media, a health fair with stakeholders from the government agencies and a website with information and links to other government and private health organizations.

In addition, Mattel conducted more than 130 employee meetings in seven different languages in cooperation with the DEQ and has additionally met on hundreds of occasions with other stakeholders, including community groups, federal and state health organizations and the media. Mattel also set up a toll-free hotline with interpreters to answer questions from its former workers.

Mattel also consulted with medical experts including those at the Oregon Center for Environmental Health to design a medical screening program, which it then offered to all of its employees. Under the program, employees are able to obtain an examination by a doctor provided by Mattel or their own personal doctor free of charge. For some employees who worked for the former owner and not Mattel, Mattel paid for their health screenings when the former owner defaulted. Although the facility was closed in 2001, Mattel has continued with its communications, medical screening and stakeholder outreach programs, now in its seventh year.

Mattel also resolved enforcement action by the Oregon Department of Health Services under the safe drinking water laws with a settlement and contributed to investigation, design and government approval of the environmental cleanup. This work is being performed by the former owner, and the property is being placed back into productive use under the supervision of the DEQ.

Redefining Stakeholder Engagement

Although Mattel has several established channels to engage and interact with stakeholders, we are committed to strengthening our overall approach in ways that lead to more meaningful two-way dialogues (see page 40 for Stakeholder Feedback on this report). To assist with this process, Mattel recently began working with Future 500, an organization specializing in stakeholder engagement strategies.

Our goal in 2007 is to develop a comprehensive strategy for stakeholder engagement, including a process for identifying and proactively engaging key stakeholder groups, to help us better understand their needs and concerns, identify emerging issues and resolve issues in a collaborative manner.

OUR APPROACH TO GIVING

Toys play a powerful role in the nurturing and positive development of a child. They are an immense source of fun, discovery and security. As the largest toy company in the world, we are committed to producing safe and reliable products, and believe it is important to give back to children globally through our philanthropic efforts.

For more than 28 years, we have supported a variety of philanthropic programs, including charitable grants, corporate contributions, employee matching gifts and scholarships. While we take immense pride in Mattel's long tradition of philanthropy and community support, we recently examined our giving initiatives to see how they could be enhanced. In 2005, as a result of our exploration, we refined our approach to giving through the following means:

- Refocused our giving to directly impact children in need.
- Combined domestic and international philanthropic efforts under one program with the same Mattel philanthropic vision and values.
- Where possible, found ways to focus philanthropic efforts to support learning and literacy, health and active lifestyles, girls' empowerment and bringing joy to children worldwide.

In 2005, Mattel contributed more than \$25 million in cash, products and services to more than 5,000 organizations serving children worldwide. This level of giving represents more than 2% of our pre-tax profits. Our total giving from 2004 to 2005 is shown below.

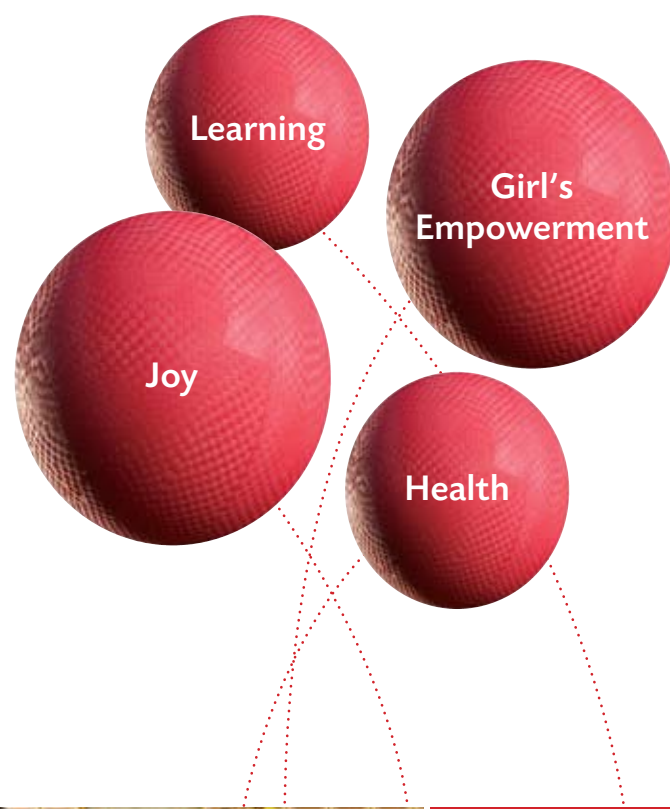
MATTTEL CHARITABLE CONTRIBUTIONS		
in \$ Thousands	2004	2005
Foundation (990 expense)	\$6,082,982	\$4,768,567
Total Contribution (Cash contributions, product and Foundation)	\$26,760,000	\$29,250,000

New Foundation Focus

Much of our charitable giving is executed through the Mattel Children's Foundation, which operates as a separate charitable organization funded exclusively by Mattel, Inc. In 2005, Mattel contributed more than \$4 million in cash to the Mattel Children's Foundation.

In 2005, the Foundation adopted a new strategic vision which concentrated on more focused efforts to support the current needs of children in the world. Along with this new vision, the Foundation identified four giving priorities. These new priorities, which will continue to shape the Foundation's giving strategy moving forward, include:

- **Learning:** To increase access to education and literacy.
- **Health:** To support the health and well-being of children and active, healthy lifestyles for youth.
- **Girls' Empowerment:** To promote self-esteem in girls.
- **Joy:** To bring joy to children globally.



SPECIAL OLYMPICS

When the 2005 Special Olympics (SO) Team Mattel was formed, it marked the first time Mattel employees around the world joined together for a shared volunteer experience, thus creating one of the largest SO global volunteer teams in the organization's history. More than 1,000 Mattel employees in 10 countries participated in Team Mattel in 2005, with the number expected to double in future years.



New Signature Partners

To support the Foundation's new focus and help extend its philanthropic reach, the Foundation established five signature partnerships with leading organizations dedicated to assisting children around the world. These signature partners include:



Special Olympics

Special Olympics (SO)

This international organization is dedicated to empowering individuals with special

intellectual disabilities to become physically fit, productive and respected members of society through sports training and competition. In 2005, Mattel employees attended local events in 10 countries cheering on athletes and providing help as needed. We also provided \$1 million of funding to SO (for more information see the Special Olympics description on page 36).

2005 Highlights:

- Provided seed funding for the SO Young Athletes Program™, which, for the first time, involved children ages 2 through 8 in seven countries impacting more than 3,500 children worldwide.
- Supported the expansion of SO Get Into It®, a school-based curriculum in 14 countries.
- Established Team Mattel, with more than 1,000 employee volunteers supporting events, growing in 2006 to more than 2,000 volunteers participating across 10 countries.



Save the Children

Save the Children

This international organization provides real and lasting change directly impacting children in

need in the U.S. and around the world through child-oriented emergency response, development assistance and advocacy of children's rights in more than 100 countries. The

partnership between the Mattel Children's Foundation and Save the Children focuses on creating educational opportunities for young children worldwide. In 2005, our Foundation provided Save the Children with an initial cash donation of \$600,000.

2005 Highlights:

- Supported literacy and education programs in seven countries impacting more than 10,000 children worldwide.
- Built four new schools in Mali and Malawi.
- Developed new literacy programs in Uganda, Guinea, the Philippines and in rural communities throughout the southeast U.S.



National Association of Children's Hospitals and Related Institutions (NACHRI)

NACHRI is an association of approximately 190 children's hospitals in the U.S., Canada, Mexico, Italy and Puerto Rico that promotes the health and well-being of all children and their families through support of children's hospitals and health systems.

2005 Highlights:

- Established a toy donation program for all member children's hospitals.
- Donated more than 50,000 toys to its member hospitals.
- Provided \$100,000 to support the Children's Hospitals Injury Prevention Cooperative, an initiative that allows children's hospitals to share injury prevention resources and tools in order to reduce the number of preventable injuries nationwide.



DISASTER RELIEF

Mattel and its employees have contributed money and personal time to help victims of recent natural disasters, such as the hurricanes that devastated the Gulf Coast and the tsunami and earthquakes that struck Southeast Asia. In 2005, Mattel donated more than \$350,000 in cash and toys valued at \$4 million specifically for victims of disasters such as these. Cash donations were given to organizations like Save the Children to support the delivery of food, water, materials needed for temporary shelter and other essential non-food items that were desperately needed by children and families in affected coastal communities.



EMPLOYEE VOLUNTEERS

Nanhai Hospital Mattel Playing Center—For Children’s Day in China, Mattel employees volunteered to play games and spend time with sick children at the Nanhai Hospital.



Children Affected by AIDS Foundation (CAAF)

Founded in 1993 by Joe Cristina, a Mattel executive, CAAF is an

organization devoted to supporting social, educational, recreational and other support programs to children impacted by HIV and AIDS in the U.S. and other countries.

2005 Highlights:

- Pledged \$500,000 over two years to support the start of the CAAF Orphan International Program, which addresses the needs of children orphaned because of HIV/AIDS in Latin America and the Caribbean.
- Continued general support through employee volunteerism, product donations and ongoing fundraising efforts.



Mattel Children’s Hospital at University of California, Los Angeles (UCLA)

The hospital serves tens of

thousands of children every year from around the world and is committed to providing state-of-the-art treatment for children in a compassionate atmosphere, as well as to improving the understanding and treatment of pediatric diseases. The hospital was renamed in recognition of the commitment that the Mattel Children’s Foundation made when it pledged \$25 million in 1998 toward the construction of the new hospital. At the time, this contribution was the largest single donation made by a corporation or corporate foundation to a children’s hospital in the U.S.

2005 Highlights:

- Pledged \$500,000 a year for four years to support the Mattel Children’s Hospital at UCLA, beginning in 2005.
- Served 100,000 children.
- Continued product donations and volunteerism, event sponsorship and Barbie® visits to hospitalized children.

Looking forward, the Mattel Children’s Foundation has made a multi-year commitment to each of its signature partners, including a \$2 million commitment to the Mattel Children’s Hospital at UCLA, to support the Hospital through the sponsorship of an endowed Chair of Pediatrics.

International Grant Making

Recognizing the increasingly global nature of Mattel’s business, the Foundation has expanded its focus to include international giving. In 2005, the Foundation awarded 28 grants of \$25,000 each to organizations located in areas where the company operates, ranging from Latin America to Asia and across Europe. Along with these grants, the Foundation also provided support to a number of children’s hospitals and pediatric units in Argentina, Austria, Finland, Holland, Mexico and Portugal through toy and/or cash donations (for more information on our initiatives in China, see page 39).

Mexico

Ser Humano, A.C.: The Ser Humano home for Mexican children with HIV/AIDS provides home services, health programs, educational programs and creative outlets, so the children can express themselves. The Mattel Children’s Foundation grant was specifically used to purchase a van, as well as cover the costs of meals and psychotherapy for more than 100 children in this residential program.

India

Pratham India Mumbai Initiative: The Pratham India Mumbai Initiative is one of the largest nonprofits in India working toward universal primary education in India. Its mission is “Every child in school and learning well.” The organization directly serves an estimated 200,000 children in 12 states and reaches more than 3 million indirectly through its programs annually. Funding provided by the Mattel Children’s Foundation helped create 100 libraries, which are expected to function as resource and learning centers for more than 15,000 primary school-age children.

CHINA, GUANGDONG CHARITY FEDERATION

The Guangdong Charity Federation was founded in 1997 to provide financial assistance and charitable services to help the poor; those suffering from illness; in war or disasters; or in need of education. The Mattel Children's Foundation contributed \$75,000 at the recommendation of three Mattel locations in China in 2005 to the Guangdong Charity Federation to help low income sick and handicapped children with necessary surgeries, therapies and rehabilitation through support of the Nanhai and Shenzhen projects. The Nanhai project sent select children to the Nanhai Social Welfare Center's rehabilitation department to receive intensive physical therapy for four months. The Shenzhen project provided reconstructive surgery and speech therapy to 30 children with cleft lips and palates.



Domestic Grant Making

In 2005, the Mattel Children's Foundation awarded 72 grants to nonprofit organizations in the U.S., totaling \$800,000. To make domestic grants more accessible, the Foundation for the first time made it possible for nonprofits to apply for grants through an online application process.

The domestic grants were awarded to non-profit organizations that have a direct impact on children in need and focus on one of the Foundation's priority areas: learning, health, girls' empowerment and joy. Row New York, Discovery Arts and Carolina Canines for Service provide a few examples of the philanthropic activities that the Mattel Children's Foundation supported in 2005 in the U.S.

Row New York

Row New York's mission is to build young people's academic and athletic strengths through a highly structured competitive rowing, academic and guest speakers program. Row New York serves at-risk, underprivileged teenage girls from New York City schools.

Discovery Arts, California

Discovery Arts is an interactive in-hospital outreach program. Through the Arts Adventures Program, Discovery Arts supports the emotional well-being of children with cancer and other life threatening illnesses undergoing treatment in Southern California hospitals. Activities, which include music, dance, art and drama, provide a positive outlet for children coping with the devastation of an illness.

Carolina Canines for Service, North Carolina

Carolina Canines is dedicated to empowering people with disabilities to achieve greater independence and enhanced quality of life through the services of specially trained dogs. The Foundation supports the Carolina Canines for Service Paws for Reading! Campaign, which works to improve the literacy of children by getting them to read aloud to registered therapy dogs rather than experience the pressure of reading aloud to peers.

Employee Programs

Mattel employees around the world contribute their personal time and money to their local communities, benefiting a variety of deserving charities, schools and hospitals that focus on the needs of under-served children. Mattel supports employees' personal acts of giving through matching gifts and by helping to identify and coordinate various volunteer opportunities.

Matching Gifts

In addition to encouraging their gifts of time and talent, the Mattel Children's Foundation also encourages U.S. employees to support nonprofit organizations monetarily by matching their contributions to educational institutions or nonprofits that serve children. In 2005, 1,773 matching gifts were awarded to nonprofit community organizations supporting arts & culture, civic programs, education, the environment, health and human services and disaster relief efforts for a total of almost \$350,000.

Employee Volunteerism

Mattel employees continued to donate their personal time in 2005 to volunteer for various charitable organizations and events, including the Special Olympics (Team Mattel), blood drives, building playgrounds and local children's hospitals and pediatric centers.

Global Scholarships for Employees' Children

The Mattel Children's Foundation assists the children of employees globally with college or university education costs through its scholarship program. The program is offered worldwide and in 2005 provided 131 scholarships totaling more than \$200,000 to children of employees in Asia, Europe, North America and Latin America.

STAKEHOLDER FEEDBACK

Mattel values feedback on our Global Citizenship initiatives. As part of preparing this report, we asked six stakeholders to share their perspective on our performance, as well as areas they suggest we concentrate future efforts. We appreciate their engagement in this process and look forward to continuing dialogue.

For more information on Mattel's Global Citizenship activities, please visit our website at www.mattel.com. We will also continue to post updated information related to Mattel's Global Citizenship performance on our website.

To provide comments on this report:

Your feedback will help us improve our future social and environmental performance and reporting efforts. We encourage you to provide your candid feedback regarding Mattel's progress, as well as the content and structure of this report. Please submit your comments to GC-Report@mattel.com.

Tony Campos

Executive, Responsible Investment , FTSE Group

“Our experience of engaging with Mattel has been a very positive one. When we reached out to the company regarding an enhancement of its Global Manufacturing Principles, the response was coordinated and constructive. We worked together to identify and reach agreement on the issue that needed to be addressed, and in resolving it. As a result we were able to secure the continued inclusion of the company in the FTSE4Good Index - the responsible investment index calculated by global index provider, FTSE Group. Companies that are included in the index have demonstrated a commitment to internally recognized corporate responsibility standards, and Mattel is one of our valued constituent companies.

In terms of initiatives highlighted in the 2007 Report, the level of disclosure on suppliers audit results is very transparent, and is an example that more companies should follow. Investors are increasingly looking for greater transparency on a company's environmental, social, and governance (ESG) performance, and the commitment to continue to update the website with further auditing results is also beneficial in maintaining a steady flow of information to stakeholders.

There is always room for improvement, which is exactly why we reached out to Mattel in the first place. The

challenge will be to continue to identify which ESG issues are the most important to address, while at the same time broadening the depth and scope of recently begun initiatives. In that light, taking supplier audits to a greater proportion of first tier suppliers, along with deepening the audit program further down the supply chain is a big challenge for most companies. As far as improving engagement with stockholders, and other stakeholders, a crucial aspect, and one that means a lot to FTSE, is transparency and being open. This can be as simple as including contact details for relevant CSR practitioners in reports and online, and is about highlighting how your company is managing ESG issues and providing performance data where appropriate.”

Stephen Coats

Executive Director, U.S./Labor Education In The Americas Project

“In the case of Rubie's, Mattel drew the ultimate line in the sand: resolve the labor dispute fairly, or else. In the end, one couldn't have asked Mattel for a more aggressive position. Mattel is to be commended. But we share Mattel's regret that the unsatisfactory outcome was a closed factory, making workers pay a severe price for voicing their complaints.

The Rubie's case reveals the difficult challenge of monitoring 3,000 licensees. Yet it's critical that Mattel engage its licensees on responsible manufacturing practices. While recognizing that a licensee is a different company responsible for manufacturing its own product, consumers, of course, make no distinction between a Mattel-branded product made by a licensee or one by a Mattel-owned factory. It's all the same to them—and for the workers who manufacture the product.”

Stephen Frost

Director, CSR Asia

“On balance, I believe that Mattel's 2007 Global Citizenship Report is a strong one. I think there are significant strengths to your approach in Asia, and these strengths are reflected in the report in appropriate ways. The Global Manufacturing Principles are measurable and allow for real comparisons between factories and regions across time. I'm pleased to see the detailed reporting on transportation and logistics issues as they are often an invisible impact as part of sourcing in Asia. The environmental footprint is given plenty of coverage. I truly believe that environmental practices are not dealt with

nearly enough in most brands' CSR reports, and I think this is one of Mattel's real strengths. Moving forward I encourage Mattel to provide more information about how it is conducting meaningful engagement with unionized workers in China and about its engagement with vendors and licensees to improve workplace practices.

I believe that the single most important thing that Mattel can do with regard to initiatives in Asia is to engage in thorough and ongoing stakeholder dialogue. This requires a significant commitment (though not necessarily in dollar terms); it requires the company to engage honestly and transparently with stakeholders in a systematic manner. Unless CSR initiatives result from dialogue with stakeholders they run the risk of failing or alienating important communities. Almost every other improvement that Mattel could make in Asia is premised on improved dialogue."

Rajan Kamalanathan
Vice President of Ethical Standards, Wal-Mart

"Mattel has actively engaged in meaningful dialogue with Wal-Mart to lessen the manufacturing industry's footprint on the environment and to promote social performance and social responsibility in factories. Specifically, Mattel has participated in Wal-Mart Sustainable Value Networks, notably the China Network and Packaging Network. Mattel has also been actively involved with multiple stakeholders in the creation of the ICTI CARE Process and gaining Wal-Mart's approval of this toy industry code.

Based on Mattel's past retail customer engagement, Wal-Mart expects the company to continue to dialogue and work collaboratively with retailers to strengthen the retail and manufacturing industries' social responsibility in global sourcing. Specifically, Mattel's learning from Tier I factories could be a tool to educate other suppliers and their factories regarding the business benefits of manufacturing in environmentally and socially compliant facilities with efficient operations.

Wal-Mart appreciates the opportunity to comment on Mattel's retail customer engagement and looks forward to continued engagement."

S. Prakash Sethi, Ph.D.
President and Founder, International Center for Corporate Accountability

"In 1997 Mattel took a leadership role among global brands by establishing its voluntary code of Global Manufacturing Principles (GMP) to promote the fair and ethical treatment

of workers that produce products in its own factories and vendor plants. The GMP audit program's strength comes from clear expectations, measurable outcomes and submitting to independent auditing and transparent reporting. Mattel's second report documents the advancements in working conditions that have been achieved and openly identifies areas where additional efforts are needed to resolve non-compliance with GMP standards and prevent such occurrences in the future. Mattel's GMP program in spirit and action stands as an example of how a committed business can achieve dramatic improvements in people's lives.

But much more needs to be done and can be done. In order to address the most challenging problems in the future, Mattel must take steps to accelerate the implementation of the GMP program throughout the vendor base and licensee community. I urge Mattel to set measurable goals and to find ways to further incorporate GMP into decision making about engagement with both new and existing vendors and licensees."

Harold D. Stratton, Jr.
Former Chair, U.S. Consumer Product Safety Commission (2002-2006)

"As the former Chairman of the U.S. Consumer Product Safety Commission (CPSC) I had the opportunity to work with Mattel in its mission to build toys that are safe for consumers and that comply with applicable safety standards. Mattel's commitment to worldwide toy safety is exemplified by its proactive and constructive cooperation with regulators around the world such as the CPSC to ensure the safety of toys as well as its work with the International Organization for Standardization and other standard development organizations toward worldwide harmonization of meaningful safety standards for toys.

In 2005, Mattel participated in and supported the first US-Sino Consumer Product Safety Summit in Beijing. Mattel's participation in this effort has helped the CPSC in its mission to assist the Chinese government and manufacturers appreciate the importance of manufacturing toys that are exported to the United States to U.S. safety standards, both mandatory and voluntary, and the role that product testing plays in this effort.

Greater safety will be achieved through the cooperative efforts of companies such as Mattel with government regulators and other stakeholders toward a goal of safer consumer products around the world."



NOTE: Certain statements made in this report are “forward-looking statements”, which include any statement that may predict, forecast, indicate, or imply future results, performance, or achievements. Forward-looking statements can be identified by the use of terminology such as “believe,” “anticipate,” “expect,” “estimate,” “may,” “will,” “should,” “project,” “continue,” “plans,” “aims,” “intends,” “likely,” “strive,” or other similar words or phrases. The matters discussed in this report and other statements made by Mattel from time-to-time may be forward-looking statements. Management cautions you that forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. The following important factors could cause actual results to differ materially from past results or those suggested by any forward-looking statements. These include without limitation: the company’s dependence on the timely development, manufacture, introduction and customer acceptance of new products; the seasonality of the toy business; customer concentration and pricing; significant changes in buying and payment patterns of major customers, including as a result of bankruptcy and store closures; adverse changes in general economic conditions in the U.S. and internationally, including adverse changes in the retail environment, employment and the stock market; order predictability and supply chain management; the impact of competition, including from private label toys, on revenues and margins; the supply and cost of raw materials (including oil and resin prices), components, employee benefits and various services; the effect of currency exchange rate fluctuations on reportable income; risks associated with acquisitions and mergers; the possibility of product recalls and related costs; risks associated with foreign operations; negative results of litigation, governmental proceedings or environmental matters; changes in laws and regulations; possible work stoppages, slowdowns or strikes; possible outbreaks of SARS, bird flu, or other diseases; political developments and the threat or occurrence of war or terrorist acts; the possibility of catastrophic events; the inherent risk of new initiatives; and other risks and uncertainties as may be detailed from time to time in the company’s public announcements and SEC filings. Mattel does not update forward-looking statements and expressly disclaims any obligation to do so.







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PHOTOS on page 25 courtesy Port of Long Beach

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