



## Governance Principles

The Board of Directors (the "Board") is elected by the Company's shareholders to oversee the management and conduct of the Company's business. It is the ultimate decision-making body of the Company, except with respect to matters reserved to the shareholders. The Board appoints the Company's senior management and then oversees their operation and performance, and provides advice and counsel, all in the interests of enhancing the long-term value of the Company for the benefit of shareholders.

In fulfilling its role, the Board will be governed by the following principles:

### Selection and Composition of the Board

#### 1. Size of the Board

In recent years, the Board has ranged in size from twelve to fifteen members. The Board believes that this is an appropriate size range, although the total membership of the Board may change if circumstances so warrant. The precise number of members will be determined from time to time by resolution adopted by a majority of Directors in office at the time of the vote, with the objective of achieving a size sufficiently large to encompass members with significant breadth in experience and skills, while still small enough to function efficiently.

#### 2. Election of Directors

Members of the Board are elected or appointed to serve until the next Annual Meeting of Shareholders and until their successors are duly elected and qualified, or until their earlier death, resignation or removal.

#### 3. Director Independence and Qualifications

The Company will have a substantial majority of Directors who meet the criteria for "independence," as required by The NASDAQ Stock Market in its corporate governance listing standards (the "NASDAQ Governance Standards"). Because it believes that Director independence is important for good corporate governance, the Board has adopted a set of Director Independence Standards providing specific guidance that the Board uses in determining the independence of its members.

#### 4. Board Membership Criteria

The Nominating, Governance and Social Responsibility Committee of the Board is responsible for screening potential director candidates and recommending nominees for election, re-election or appointment to the Board. In considering potential candidates for election, re-election or appointment to the Board, the Committee and the Board consider a number of factors, including employment and other experience, qualifications, attributes, skills, expertise and involvement in areas that are of relevance to the Company's business, business ethics and professional reputation, other Board service, judgment, independence and the desire to have a Board that represents a diverse mix of backgrounds, perspectives and expertise.

#### 5. Retirement Age

The Board has established a target retirement age of 72. Normally, a Director who has reached this age will serve out his or her current term and not stand for re-election at the end of that term. However, the Board recognizes that from time to time there may be unusual circumstances where exceptions need to be made to this general rule to retain needed continuity and expertise, or for other business reasons.

#### 6. Term Limits

The Board does not believe that fixed term limits are advisable, as they can interfere with the overall objective of maintaining the highest possible functionality and contribution from its members. The Board believes there is a benefit to maintaining a significant degree of continuity among Directors, as members are able to gain greater insight into the Company over time, increasing the value of their contributions. At the same time, however, the Nominating, Governance and Social Responsibility Committee has the responsibility to monitor and assess the contribution of every Director standing for re-election to assure that each such Director is meeting the expectations necessary for continued service on the Board.

## 7. Change in Principal Employment

Because the current employment of a prospective Board member is one of the factors considered by the Nominating, Governance and Social Responsibility Committee in assessing the suitability of director candidates, Board Members who experience a material change in job status are expected to offer to submit their resignations to the Committee, which is then responsible for recommending to the full Board whether the affected Director should remain as a Board member.

## **Board Leadership**

### 8. Selection of the Chairman

The Chairman will normally be elected by the Board on an annual basis, typically in May of each year. Although the positions of Chief Executive Officer and Chairman are currently held by separate individuals, the Board does not believe that a firm policy mandating the separation of the two positions is necessary or advisable.

### 9. Presiding Director

The Board believes that the role of a Presiding Director is a helpful one in the promoting of good board governance. Typically, the Presiding Director will be elected by the Board on an annual basis, and the position will be rotated among the Chairs of the Audit, Compensation, Finance, and Nominating, Governance and Social Responsibility Committees, although exceptions may be made from time to time because of continuity or other considerations. The Presiding Director's principal duties include developing the agenda for, and moderating, executive sessions of the Board's non-management Directors; acting as the principal liaison between non-management Directors and the Chairman and C.E.O. on sensitive issues that arise at the executive sessions or otherwise; serving as a conduit for third parties to contact the non-management Directors as a group; and providing feedback with regard to proposed agendas of Board meetings.

## **Operation of the Board**

### 10. Board Meeting Agendas; Advance Materials

The Board is responsible for its agenda, and members are encouraged to suggest items for inclusion in the agenda. Based on feedback from Board members and a schedule adopted prior to the start of each calendar year, the Chairman establishes the agenda for each Board meeting. The agenda is provided to Board members in advance of the meeting, along with written materials on certain matters being presented for consideration.

### 11. Executive Sessions

Time will be made available during each regularly scheduled meeting of the Board for an executive session of the non-management Directors. The Board will determine during the course of the meeting whether an executive session is necessary. At least two executive sessions each year will take place with only independent directors in attendance.

### 12. Board Self-Assessment

The Board will assess its performance on an annual basis, through a self-evaluation process coordinated by the Nominating, Governance and Social Responsibility Committee. The results will be analyzed by the Committee and reported to the full Board annually. The Committee will identify any areas for potential improvement and develop recommendations for future upgrades to the performance, processes and operation of the Board.

### 13. Evaluation of the Chief Executive Officer

The Chief Executive Officer of the Company will be evaluated on an annual basis by the Board, with the evaluation process coordinated by the Chair of the Nominating, Governance and Social Responsibility Committee, and the feedback delivered jointly by the Chair of that Committee along with the Chair of the Compensation Committee. The evaluation will cover those matters set forth under applicable legal and regulatory requirements as well as other areas that the Board views to be relevant in assessing the C.E.O.'s performance.

### 14. Interaction with Senior Management

Board members have complete access to members of senior management and to other employees of the Company with whom they want to speak. It is understood that Board members will use judgment to assure that this contact is not distracting to the business operation of the Company. It is understood that certain members of senior management such as the Chief Financial Officer and the Chief Legal Officer will be regular attendees at Board meetings to help facilitate the operations of the Board. In addition, the Board encourages management to periodically invite other executives to make presentations at Board meetings and attend Board functions in order to provide the Board with additional insight into the Company and provide the Board with

exposure to individuals that management believes are potential succession candidates.

#### 15. Succession Planning

Management shall periodically report to the Board on management development and succession planning for the Chief Executive Officer and other members of senior management. In addition, the Board formally reviews the Company's succession plan with appropriate members of senior management at least once each year.

#### 16. Board Interaction with Third Party Constituencies

The Board believes that management speaks for the Company, and therefore it will not normally be appropriate for Board members to speak on behalf of the Company to investors, employees, the press or other third parties. However, there may be instances in which selected Board members, may be asked to participate in conversations with representatives of various constituencies, although those interactions will be coordinated with appropriate members of management. In addition, the Company has established a process for interested shareholders to contact the Board directly, on a confidential basis, c/o the Presiding Director, Hasbro, Inc., P.O. Box 495, Pawtucket, Rhode Island 02860.

#### 17. Access to Independent Advisors

The Board and its Committees have the right at any time to retain independent financial, legal or other advisors, and all expenses incurred in connection with such independent advisors are paid by the Company.

#### 18. Director Orientation and Continuing Education

New directors receive an orientation to assist them in assuming their roles as Board and Committee members. The orientation includes such matters as Board governance and operation, as well as the Company's history, strategic plans, business operations, financial position and legal and regulatory environment. In addition, management will provide further information on an ongoing basis to assure that Board members are aware of the business, legal and other developments necessary to fulfill their role, and will make available such outside educational opportunities as the Board deems relevant and appropriate.

### **Requirements of Board Service**

#### 19. Attendance at Board Meetings

It is the expectation that directors will attend all Board meetings, and all meetings of Committees upon which they serve, and spend the time necessary to properly discharge their responsibilities, including the time necessary to carefully review all materials provided in advance of meetings. In the unusual instance when a Board member cannot attend in person, he or she will make every effort to participate by telephone.

#### 20. Code of Conduct; Conflicts of Interest

All Board members are subject to the Company's Code of Conduct, the "Guide to Corporate Conduct" (the "Code"). The Code, and any waivers granted thereunder for directors and executive officers, will be disclosed in compliance with the NASDAQ Governance Standards and other applicable legal requirements. Any transaction which would require disclosure under Item 404(a) of Regulation S-K of the rules and regulations of the Securities and Exchange Commission, with respect to a Director or nominee for Director, must be reviewed and approved or ratified by the Board, excluding any Director(s) interested in such transaction. All other related party transactions which would require disclosure under Item 404(a) (including without limitation those involving executive officers of the Company) will be reviewed and approved or ratified by either the Board of Directors or a committee of the Board delegated with such duty by the Board. Any such related party transactions will only be approved or ratified if the Board, or the applicable committee, determines that such transaction will not impair the involved person(s)' service to, and exercise of judgment on behalf of, the Company, or otherwise create a conflict of interest which would be detrimental to the Company.

#### 21. Share Ownership by Directors

The Board believes that share ownership by Directors is desirable, in that it aligns the interests of Directors and shareholders. Accordingly, the Board has adopted mandatory share ownership guidelines, whereby Directors are prohibited from selling shares of Company stock unless, after consummating the sale, they are still owners of shares with a market value of at least five times the then-current Board retainer.

#### 22. Limits on Service With Other Boards

The Board does not believe that there is a "one size fits all" approach to the issue of service by its members on other boards of directors. In most cases, the number of for-profit boards that a Director serves upon bears only a limited relationship to that Director's ability to devote sufficient time to his or her service on the Hasbro, Inc. Board. It is expected that each Director will

devote the time and effort necessary to discharge his or her duties in an appropriate and diligent fashion, irrespective of other activities and commitments. In the event this is not occurring, whether because of service on other boards or for some other reason, the matter will be addressed by the Nominating, Governance and Social Responsibility Committee.

## **Committee Matters**

### **23. Number and Types of Committees**

The Board has determined that the following five committees serve important functions in assisting it to fulfill its role: the Audit Committee, the Compensation Committee, the Executive Committee, the Finance Committee and the Nominating, Governance and Social Responsibility Committee. The Board does not believe that any additional committees are necessary at this time.

### **24. Independence of Committee Members**

Each member of the Audit Committee, the Compensation Committee, and the Nominating, Governance and Social Responsibility Committee shall meet the independence requirements set forth in the NASDAQ Governance Standards, any other applicable legal or regulatory requirements and the Board's Director Independence Standards.

### **25. Committee Charters**

Each Committee has a written Charter, which will be reviewed annually. The Charters of the Audit Committee, the Compensation Committee, and the Nominating, Governance and Social Responsibility Committee will comply in all respects with the NASDAQ Governance Standards.

### **26. Committee Agendas**

The agendas for each Committee meeting will be determined by the Chair of that Committee, in conjunction with fellow Committee members and appropriate members of management. The agenda is provided to Committee members in advance of each meeting, along with written materials on certain matters being presented for consideration.

### **27. Committee Operation**

Committees will meet at such times and places as are necessary to conduct their assigned business. Each Committee has the ability to delegate matters to a sub-committee to the extent it believes such delegation will assist in the evaluation or decision-making process. The Chairs of each of the Committees are responsible for providing timely reports to the Board regarding the deliberations, recommendations and decisions of their respective Committees.

### **28. Assignment and Rotation of Committee Members**

Assignment of Board members to various Committees, and selection of Committee Chairs, are reviewed at least annually by the Nominating, Governance and Social Responsibility Committee, and are approved by the Board. It is the sense of the Board that a balance should be struck between the desirability of continuity in Committee assignments – which allows for greater depth of understanding by Committee members of their roles – and the need to periodically add new perspectives and avoid stagnation. These factors are taken into account in determining annual Committee assignments, but the Board does not believe that an inflexible, formal rotation schedule would be productive. With regard to the leadership of its Committees, the Board believes that Chairs should generally be changed at least every three years, although it anticipates that exceptions may be made from time to time for reasons of continuity or the particular relevant experience of an individual director.

### **29. Committee Self-Assessments**

In addition to the self-assessment process for the Board as a whole, each of the Audit Committee, the Compensation Committee, the Finance Committee and the Nominating, Governance and Social Responsibility Committee will conduct an annual self-assessment. That process will be overseen by the Nominating, Governance and Social Responsibility Committee.

## **Board Compensation**

### **30. Determination of Compensation**

The Nominating, Governance and Social Responsibility Committee is responsible for making recommendations to the full Board regarding Director compensation. Such recommendations are based on compensation levels at entities comparable to the Company, and will be set at levels necessary to attract and retain high caliber Board members and appropriately compensate them for their time and effort.

### **31. Mix of Compensation**

The Board believes that compensation for directors should include a mix of elements, but should include a significant component of equity, to align the interests of Board members with shareholders.

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