



**CORPORATE SOCIAL
RESPONSIBILITY
REPORT 2015**

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MESSAGE FROM THE PRESIDENT

We are conducting our business with the following priorities:

- To remain in the top-tier of treated powder producers
- Be attentive to our clients expectations and satisfy their needs
- Reduce the environmental footprint of our activities
- Collaborate with all of stakeholders including our clients, suppliers, employees and local communities
- Ensure the well-being of our employees



Today we believe that financial performance is linked to corporate social responsibility. Global performance drives competitiveness, durability and creates value.

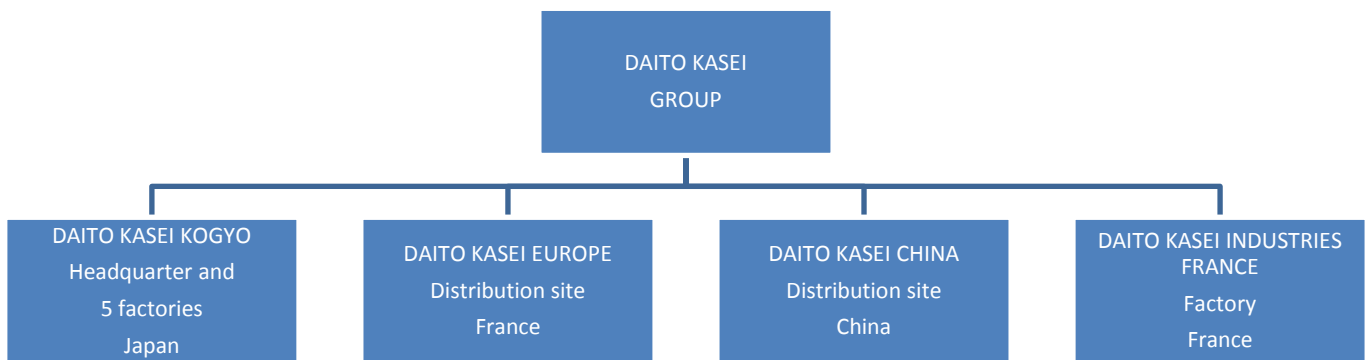
Yoshinori WAKI
President

1. PRESENTATION OF THE GROUP

1.1. Activities

DAITO KASEI is a privately owned, medium sized, Japanese company, founded in 1950 in Osaka. We are a manufacturer and distributor of treated powders and specialty ingredients for cosmetics. We have six manufacturing sites in Japan and France and two distribution sites in China and France. Our clients range from small-medium size companies to the world's largest multinational cosmetic companies.

1.2. Organization



1.3. 2015 key figures



> 200 employees

3M\$ invested in R&D

23

employees dedicated to Research and development



> 200 suppliers around the world

Products distributed in more than **30** countries

2. CORPORATE SOCIAL RESPONSIBILITY - COMMITMENT

“Creating the harmony for future”

DAITO KASEI is committed to working more closely with people and society, in respect of the environment, for sustainable future development.

We conduct honest business activities in compliance with national and international laws and regulations.

We manage our company to be fair and open for all the stakeholders.

2.1. Our CSR standard documents

- Code of ethics
- Risk management policy
- Environmental policy
- Sustainable development charter
- Safety and health policy

2.2. Evaluation by third party

2.2.1. EcoVadis



On March 2015, we received “Silver Level Recognition” by an external third party “EcoVadis”, a global CSR evaluation platform.

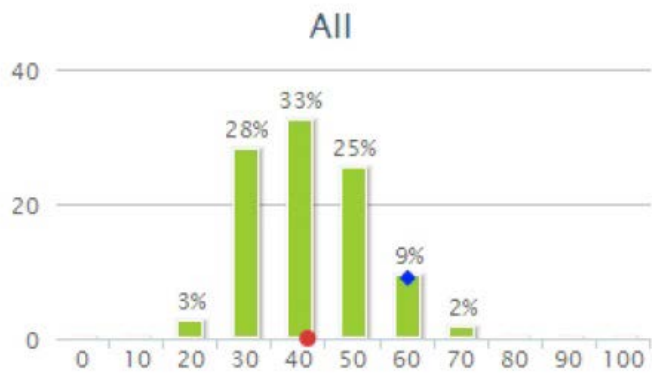
The evaluation covers 21 criteria across four themes: environment, fair labor practices, ethics/fair business practice, and supply chain. The methodology is based on international CSR standards including the Global Reporting Initiative, the United Nations Global Compact, and ISO 26000, and is supervised by a scientific committee of CSR and supply chain experts to ensure reliable third party CSR assessment.

The performance is evaluated on the 4 CSR themes. The overall score is the weighted average of the theme score

Theme scores

			<u>Weight</u>
Environment	60		4
Labor Practices	50		4
Fair Business Practices	50		2
Sustainable Procurement	60		1

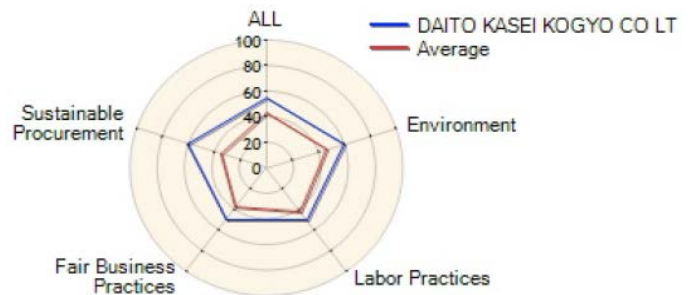
Score distribution



DAITO KASEI KOGYO CO LTD (GROUP) compared to all suppliers assessed by EcoVadis.

Average: 41.5 DAITO KASEI KOGYO CO LT... : 55

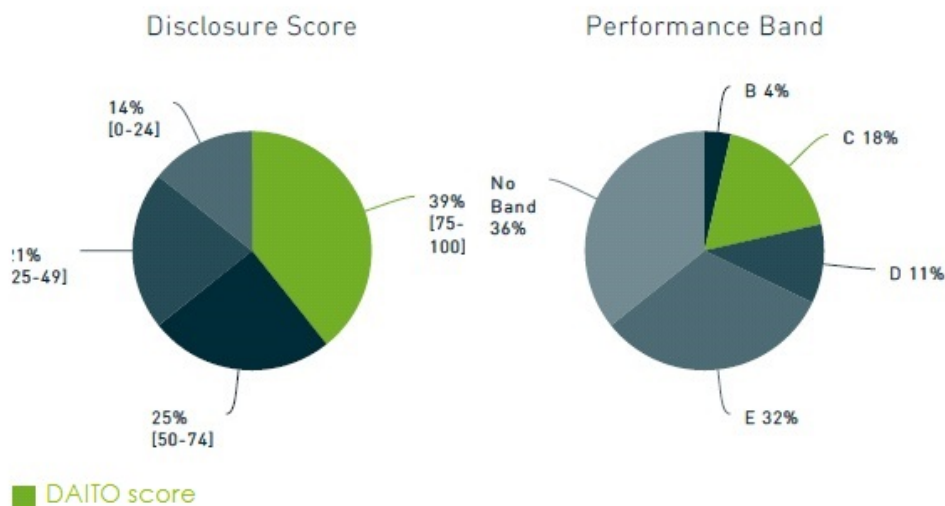
This is the position of DAITO KASEI compared to the average of all companies assessed by Ecovadis in the same industry.



2.2.2. Carbon Disclosure Project

CDP 2015 climate disclosure score

INDUSTRY GROUP COMPARISON



We received score of 86, which is 26 points above the average of CDP supply chain.

CDP 2015 climate performance band. Our performance was ranked "C" which is better than the average of CDP supply chain.

3. GOVERNANCE & ETHICS

3.1. CSR committee

The president appointed a Corporate Social Responsibility committee composed of the top management of each business unit. The committee will meet once a year.

The first meeting of the committee took place in December 2015 and the committee defined the actions to implement for the next two years.

The role of the committee is to:

- Define the CSR goals and targets
- Approve program and actions
- Follow up the implementation of the actions

In each business unit the CSR committee appointed a CSR coordinator.

3.2. Code of ethics

We support UN framework, consider and incorporate key elements, which are human rights, intellectual property, work condition, environment, and integrity.

3.3. Risk management

We regularly identify, analyze, control and monitor the strategic and operational risks for the issues of economical, human, legal, operational and information risks.

We have established a Business Continuity Plan and maintained it to comply with operational risks.

DKK has 5 factories producing raw materials for cosmetics, located in different areas in Japan. We opened a new factory in France and started production in 2015. We have organizations which comply with operational risks, accidents and natural disasters.

Inspection tours of each work place by employees are essential to identify operational risks and eliminate them.

In our new factory in France, a remote surveillance central control system is operational 24 hours a day, 7 days a week and reports fire alarms and intrusion notifications.

We have regular contact with IT specialists, to manage security risk, and ensure that adequate security measures are in place. In our smaller units we have secured our activity by hosting our IT data at a cloud computing service.

3.4. Quality system

DKK's quality system has been certified under ISO9001 since February 2014. Based on this international standard we continue to have regular management review, internal audit and develop actions for improving this system to increase reliability and customer satisfaction.

DKIF started production in 2015. This unit is on the way to implement the good manufacturing practice according to EFfCi guidelines.

3.5. Organizations

We are members of the following organizations:

- Osaka Chamber of Commerce and Industry
- Osaka Prefectural Manufacturing & Industrial Association
- The Society of Cosmetic Chemists of Japan
- West-Japan cosmetic industry association
- CSR workshop coordinated by Osaka Chamber of Commerce and Industry
- EFfCI European Federation for Cosmetic Ingredients
- Association of traffic safety
- Association for Safety of Hazardous Materials
- Association of labor laws

3.6. Stakeholders

We disclose to shareholders our financial data at annual shareholders meeting and disclose company information to all stakeholders regularly in order to allow them to voice their concerns or support.

3.7. Compliance

We comply with laws and regulations and behave with good common sense.

We respect certified auditors, certified accountants, licensed social insurance consultants, industrial physicians and other licensed specialists.

We strive to develop socially beneficial goods and services, with a manner that respects safety, health and environment.

We promote fair, transparent and free compensation.

We strive to respect individuality and differences of employees, to promote safe and comfortable workplaces and to ensure well-being of employees.

We respect the culture and customs of other nations. We do not apply discrimination based on religion or social and cultural origins.

We fight against any kind of harassment

We reject any contact with antisocial forces

We respect fundamental human rights and engage in activities of social benefit

4. CUSTOMERS

4.1. Corporate philosophy

“Not BIG, Just the BEST”

We aim not to be a big company, but the best company. Although making a profit is important, we feel that our profit is the end result of our many customers being satisfied. We may not be able to change the world, but we can contribute to happiness in our own way. By listening to and working side-by-side with our customers, we can get to the root of their needs and find the perfect solution. It is our dream and mission to cross borders and continue to be the best company for our customers. Our customers need us and we want them to know that they can rely on us even in times of trouble – now and into the future.

“See your need, Fill your need”

We believe that communication with our customers is the starting point of everything. Here, there are many hidden treasures. But they will remain undiscovered if we are not sensitive enough to our customers' needs. Therefore, we place great value on perfecting our sensitivities.

“We aim at 3S - SPEED, SIMPLE and SMILE”

We live in an age of information and all that comes with it. In this present age, one thing is certain - speed is of the essence. In order to maintain the ability to react quickly to the changing needs of our customers, we keep our organization simple and focus on the fields in which we excel.

4.2. Regulatory compliance

We strive to comply with all regulations in relation to our products and their identified usage.

4.3. Safety

DAITO KASEI must guarantee the safety of its products. We evaluate the safety of our products by testing them or collecting the available information of the ingredients used in their composition. In 2015, we evaluated the safety of 6 products.

5. SUPPLY CHAIN

We continue to maintain transparent and fair purchasing activities.

We comply with laws, environment, safety and respect to human rights through engaging purchasing activities.

We respect all suppliers as good partners and ask them to have same attitude with us.

A key element of our responsible sourcing approach is our Supplier Code of Conduct, which defines our expectations to our suppliers. Our major suppliers have already signed it.

6. WORKPLACE

6.1. Safe, Health and Environment committee

In each production site safety, health and environment committees (SHE committees) are organized to implement, maintain and improve concrete matters relating to CSR issues. Each committee has the main function of examining basic plans on CSR and verifying the progress.

In the other units (headquarters and distribution sites) we have a dedicated employee who is charge of verifying our compliance with laws and regulations and handling the requests from our customers.

To ensure a safe and high quality working environment, we continuously evaluate the risks and invest in equipment and resources enabling optimum productivity and safe operations.

6.2. Employee training

To develop our business, we strongly believe that our people should have the opportunity to develop their skills and build the careers they want and deserve. Raising the overall ability level of employees is the key to strengthening our organization.

We encourage employees to develop their career and improve their abilities.

We offer a variety programs and training courses for technical, professional and career development.

6.3. Employee well-being

The health and wellness of our employees is very important to us.

At the head office at Osaka, a rooftop vegetable garden is available for the employees.

In Daito Kasei Europe, the employees are allowed to arrange their lunch break time to practice sport.

7. ENVIRONMENT

We intend to focus attention on protecting and helping the environment and conducting appropriate business activities which respect the environment.

We also continue to develop technologies and products for protecting and helping the global environment.

Our plastic plant in Okayama has acquired certification of Kyoto environment management system.

Starting production at DKIF will allow us to reduce carbon dioxide emission of our group.

DKIF follows the ISO14001 guidelines, with the scope to be certified by the end of 2017.

7.1. Reduction of the environmental footprint

7.1.1. Energy

DKK comply with energy saving law introduced by Japanese government introduced in 2009.

We have implemented several actions to decrease energy consumption and report to the government every year. We have continued to accomplish the saving target since 2009.

Our factory in France is purchasing 100% of electricity obtained from sustainable sources of energy.

7.1.2. Process optimization

We regularly review the opportunities for improvements at the different steps of the manufacturing of our products: sourcing, manufacturing and packaging. We are trying to adapt our processes to reduce waste generation and the quantity of raw materials used

7.1.3. Optimizing transport

We strategically located the new manufacturing site in France to be closer to our European customers and to increase the efficiency of our supply chain.

We try to encourage our clients to group their order in as few deliveries as possible, or to accept multiple batches or mixed items on one pallet.

7.1.4. Employee environmental initiative

Once a year the employees of Okayama factory participate to a cleaning day of the area around their factory. Armed with gloves, bags and pick-up sticks, employees collect trash, in an effort to clean up and beautify their facility's backyard.



7.2. Toward a natural and ethical sourcing

7.2.1. Sacran

“SACRAN” – Unique material from Japanese pure spring water

“Suizenji nori”, is an algae which only lives in pure spring water in Kyusyu, Japan.

In 1872, Willem Frederik Reinier Suringar, Dutch botanist found “Suizenji nori” (*scientific name: Aphanothece Sacrum*) at Suizenji park in Kumamoto, Japan.

He was impressed with beautiful environment which “Suizenji nori” lives and named this Cyanophyceae “Sacrum”. This name idea comes from the word “Sacred”.

“Suizenji nori” has been used as luxury food in Japanese dishes, but Natural “Suizenji nori” is quite rare and listed in the Red Data Book (by the Ministry of the environment) as an endangered species. With the great effort of local people, we have pure water with a beautiful environment in Fukuoka and Kumamoto, supplying and succeeding to establish a “Suizenji nori” farm for stable supply.

~ THINK NATURE ~

Pure natural water from Mt. Aso, Kyusu is required to farm “Suizenji nori” – the raw material of SACRAN. This natural water is rich in minerals, clean and it's temperature stays at 18 -20°C.

In recent years, economic development disrupted the quality of spring water and endangered the production of “Suizenji nori”. The development of SACRAN, which is based on “Suizenji nori” has helped to maintain the original environment in pure nature.

7.2.2. Sustainable palm oil

The use of palm oil and their derivatives in cosmetics has been controversially discussed over the past years.

90% of the world's palm oil is currently being produced in Malaysia and Indonesia. Palm oil plantations are currently the leading cause of rainforest destruction in Malaysia and Indonesia.

According to official Ministry of forestry maps, Indonesia lost at least 1 240 000 hectares of forest over the period 2009 to 2011.

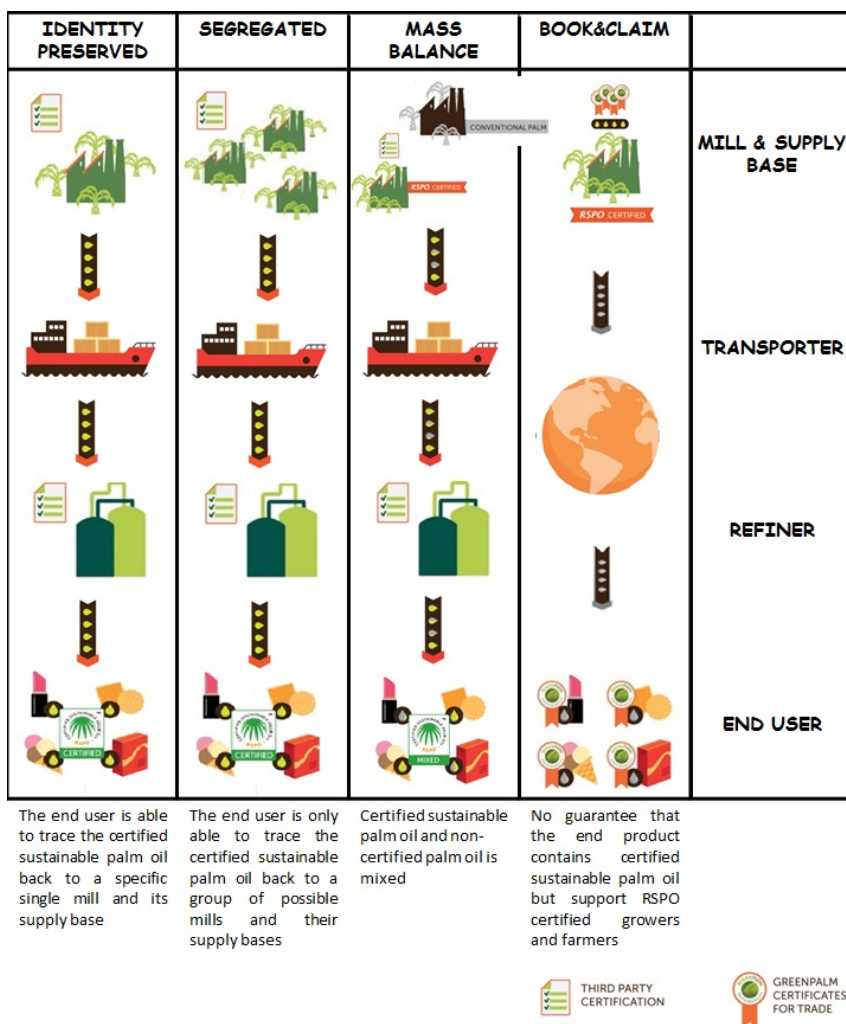
Some of the emulsifiers used in DAITO KASEI references are derived from palm oil. DAITO KASEI is a minor user of derived palm oil ingredients. Nevertheless we recognize that responsible users of even small amounts of ingredients can impact issues via ethical purchasing practices and we are committed to ensure that our sourcing of palm derived ingredients does not contribute to deforestation and respects the rights of workers or indigenous people.

Our supply chain is longer and more complex than conventional users of palm oil and for now the best solution to support sustainable palm oil is to purchase GreenPalm certificates.

All the palm oil derivatives bought in 2015 have been covered with Book&Claim certificates.

We are working with suppliers to find sustainable palm oil derivatives to replace existing non-sustainable materials.

Our ambition for 2025 is to only source ingredients obtained from Identity preserved or Segregated certified palm oil.



Supply chain model (Source: www.greenpalm.org)

7.2.3. Forest based material



By 2020 we will want to be able to know the country of origin for all forest-based raw materials that we buy. To achieve these goals we will work closely with our suppliers to collect and confirm data about the raw material.

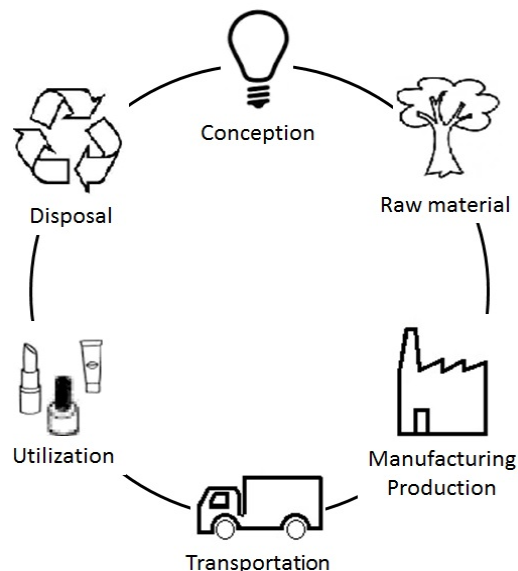
We are also committed to source 100% of forest based raw material preferentially from FSC certified forests but other recognized certification programs, including the Programme for the Endorsement of Forest Certification (PEFC) and the Sustainable Forestry Initiative (SFI) could be accepted.

7.3. Development of sustainable products

7.3.1. Innovation

In 2011 we started to develop a new MAKI line of ingredients (MAKIGREEN, MAKIBASE ...). This lines actually consist of a number of ingredients with various functionalities (texturing agents, rheology modifiers...) and are made from sustainable resources.

We are trying to take account the entire life cycle of our products for the new developments.



Product life cycle

In 2015 we launched MAKIGREEN SOLVE+, a natural solubilizer which is a perfect example of our new policy of development.

Raw materials: based on renewable vegetable feedstock

Manufacturing process: the manufacturing process only requires gentle mixing at room temperature

Customer uses: MAKIGREEN SOLVE+ is a multifunctional ingredient (solubilizer with antibacterial properties) and can be used at room temperature

Disposal: All the raw materials used are biodegradable

Development of new products is guided by the twelve principles of Green chemistry which are described below.

1. Prevent waste
2. Maximize atom economy
3. Design less hazardous chemical synthesis
4. Design safer chemicals and products
5. Use safer solvents and auxiliaries
6. Increase energy efficiency
7. Use renewable feedstocks
8. Reduce chemical derivatives
9. Use catalysts, not stoichiometric reagents
10. Design chemicals and products to degrade after use
11. Analyze in real time to prevent pollution
12. Minimize the potential for accidents

Moreover we have established research partnerships with local Japanese universities.

Microbeads are widely used in cosmetics as exfoliating agents and personal care products. These beads are too small to be filtered by standard filters used at sewage treatment plants and they are accumulating in the marine environment.

Our line CELLULOBEADS which are made from cellulose are natural replacement for microbeads. These beads are biodegradable (OECD 301F, 28 days, 67%). The wood pulp comes from PEFC (Programme for Endorsement of Forest Certification) certified woodlands and FSC (Forest Stewardship Council) certified or controlled wood.

7.3.2. Natural label

We have 62 products certified by ECOCERT and 3 products certified by COSMOS.

8. ACTION PLAN IN 2016

We will continue and improve our concrete actions.

We will have our second global CSR meeting in 2016 and share the CSR issues of our group.

We will introduce an idea generation program for all employees to help improve safety, health and environmental issues.

We will support all employees to join social activities and social bodies to implement programs to protect environment and respect biodiversity.

