

CREATING THE HARMONY
FOR FUTURE



**CORPORATE SOCIAL
RESPONSIBILITY**

REPORT 2017

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MESSAGE FROM THE PRESIDENT



Through this third CSR report, we are pleased to share the results of our CSR strategy in 2017.

This report contains an overview of our CSR policy and some examples of our concrete actions to give you an idea of how we handle CSR at DAITO KASEI.

Economic growth and environmental sustainability are more and more linked. We firmly believe that by taking seriously into account CSR, we will sustain the company and improve its long-term growth.

All our decisions should take into consideration economic, environmental and social aspects.

After an initial evaluation and analysis of our activities, we defined a strategy and identified what actions could be implemented.

We believe that we can contribute to the achievement of the following sustainable development goals:

- Good Health and well-being (Goal No.3)
- Responsible consumption and production (Goal No.12)
- Climate action (Goal No.13)
- and Life on land (Goal No.15)

Our commitment to CSR and sustainable business practices reflects our will to contribute to make a better world.

Yoshinori WAKI



PROFILE & STRATEGY

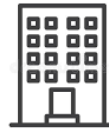
1. Group presentation

1.1. Activities

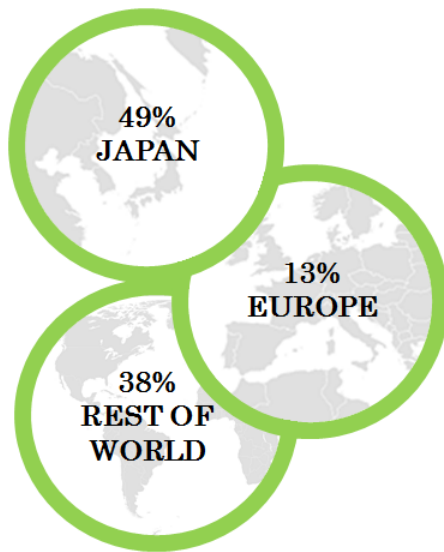
DAITO KASEI is a privately owned, medium-sized, Japanese company, founded in 1950 in Osaka. We are manufacturer and distributor of treated powders and specialty ingredients for cosmetics. Our clients range from small-medium-sized companies to the world's largest multinational cosmetic companies.



6 manufacturing sites in Japan and France



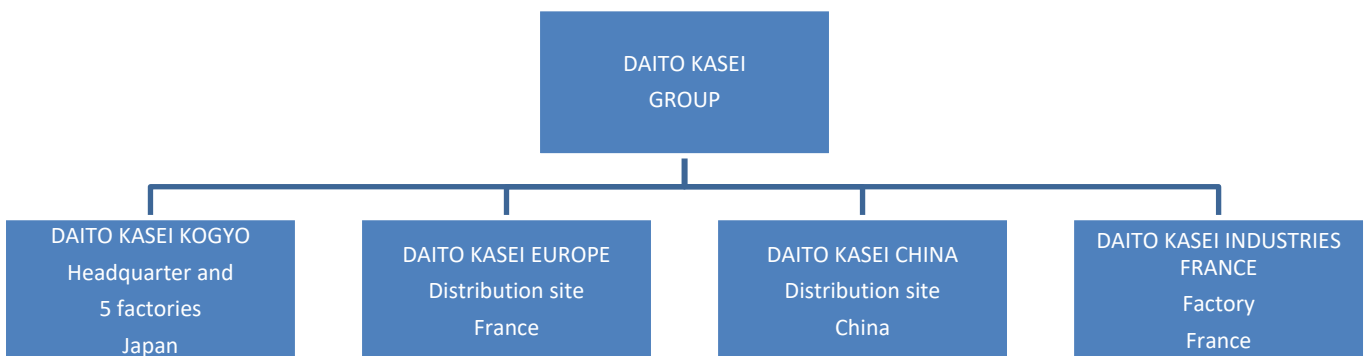
2 distribution sites in China and France.



Japan represents about half of DAITO KASEI sales. Europe is the second largest sales area.

We have a presence **in more than 50** countries through sales, distribution and manufacturing operations

1.2. Organization



1.3. 2017 key figures



> 200
employees

3M\$ invested in R&D

>20 employees dedicated to Research and development



>200 suppliers around the world

2. Our CSR 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 strategy

Our CSR efforts focus on three areas: Environment, Employees and Clients.

For each area, we establish the following priorities:

- Environment
 - Energy and carbon footprint
 - Water management
 - Waste management
- Employees
 - Health&safety
 - Well-being
 - Loyalty
- Clients
 - Service
 - Quality
 - Innovation

2.2. Evaluation by third party

Our performance in the sustainability area are evaluated by third party and by our clients. We strive to develop our operations on the basis of the feedback we receive.



On February 2017, we received “Golf Level Recognition” by an external third party “EcoVadis”, the first collaborative platform providing Sustainability Ratings for global supply chains. Since the last survey in 2015, we improved from Silver to Gold level.

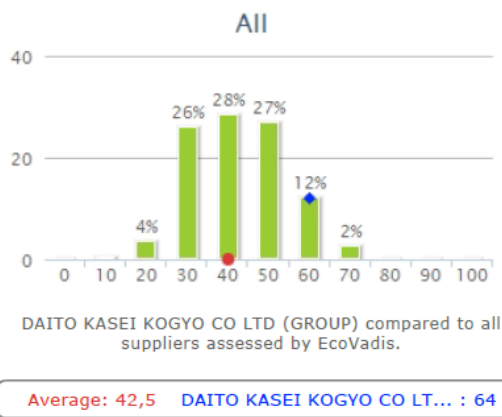
The evaluation covers 21 criteria across four themes: environment, fair labor practices, ethics/fair business practice, and supply chain. The methodology is based on international CSR standards including the Global Reporting Initiative, the United Nations Global Compact, and ISO 26000. It is supervised 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

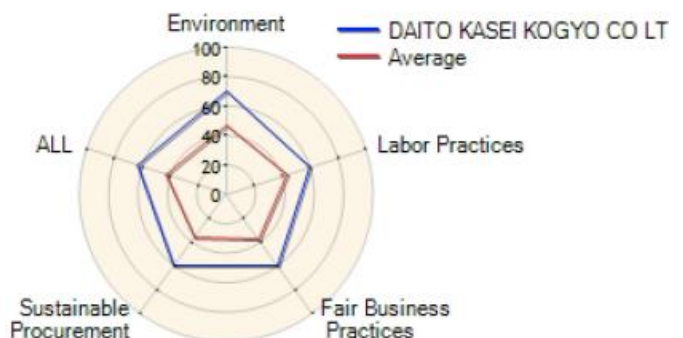
			<u>Weight</u>
Environment	70	↗	4
Labor Practices	60	↗	4
Fair Business Practices	60	↗	1
Sustainable Procurement	60	→	1

Score distribution



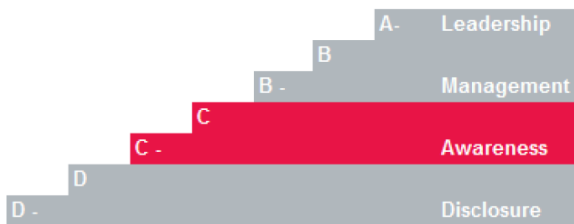
The average score across companies assessed by EcoVadis was 42.5. DAITO KASEI GROUP scored well above the average at 64. This new rating placed DAITO KASEI GROUP in the top 3 % of suppliers assessed by EcoVadis in all categories at the time the evaluation was performed.

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



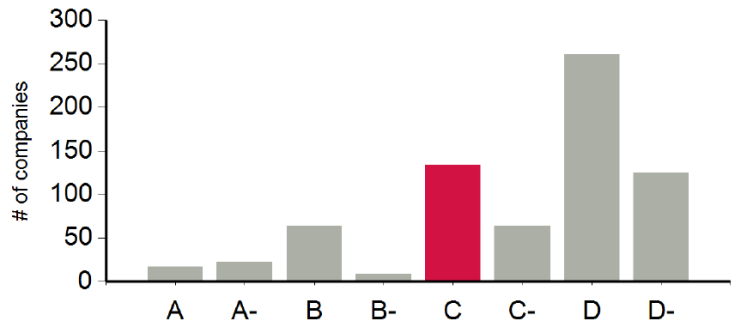
2016 Score
C

Score levels



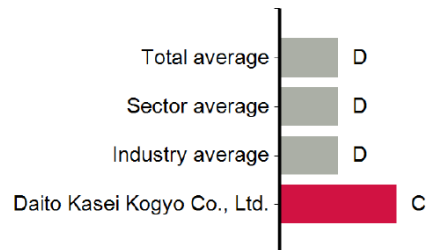
Score level
Awareness

Sector benchmark



We received score of C which is the score obtained by 16% of companies responding to CDP. The average score is D.

Final score



3. Governance and ethics

3.1. CSR committee

Last year we modified the composition of the CSR committee. The committee is composed of the CSR coordinators of each business unit and the financial director.

The committee meet once a year during the Global Challenge meeting.

The role of the committee is to:

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

The action plan is presented by the financial director to the PDG who validate it.

3.2. Code of ethics

Our actions are guided by our Code of Ethics, which is based on the Universal Declaration of Human Rights and the ten principles outlined in the UN Global Compact. We incorporate key elements, which are human rights, intellectual property, work condition, environment, and integrity.

3.3. 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 audits and develop actions to improve this system and to increase reliability and customer satisfaction.

3.4. Organizations

We are members of the following organizations:

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

3.5. 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.



CUSTOMERS

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 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.

2. 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.

Our approach involves:

- Internal monitoring of toxicological database (SCCS, CIR, TOXNET, OECD SIDS database and so on)
- Collect information from our suppliers
- Commission toxicological tests (alternative methods to animal testing)
- Follow the ingredients under the spotlight of the general public
- Full respect of all existing regulations

3. Client satisfaction

DAITO KASEI is 100% committed to customer satisfaction. Our goal is to develop, manufacture and deliver products of high quality which meet or exceed customer requirements.

The most frequently cited DAITO KASEI strengths by our clients



Our clients speak

“On behalf of everyone from the team, I would like to thank you for our meeting in Daito, it was truly interesting and stimulating. Thank you for the beautiful experience and for the warm welcome” A customer from Italia

“Daito for us is a synonym of innovation” a customer from Japan

“The more time goes by, the more arguments I have to justify why our raw materials department is considering DAITO as their number one supplier” a customer from France

“We love Daito raw materials so much” a customer from Brazil

“I’m such a fan of your formulas” a customer from France



WORKPLACE

Our employees are essential to our ongoing success. Our ability to satisfy our clients depends upon employee well-being. Health and safety must span every aspect of our global business.

1. Health and Safety

Hazardous chemicals are handled in our factories. We ensure the safety of the working environment through technical safety measures, appropriate protection (collective and individual protection), and readily available safety data sheets.

Before implanting a new process the first step is to determine whether the process and the chemicals used could be a hazard to our employees or to the environment and to estimate the risk extent to which our employee or the environment could be exposed.

An exhaustive list of the chemicals in workplace, where they are located, how muchis available. We control exposure to the hazardous substances or situation to as low level as is possible.

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.

3. Employee well-being

The health and wellness of our employees is very important to us. We believe that wellbeing at work is fundamental to the company's success. A good balance between work and personal life has a significant effect on well-being at work.

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

In Japan, they offer personnel leisure time activities, such as ski or gardening clubs.

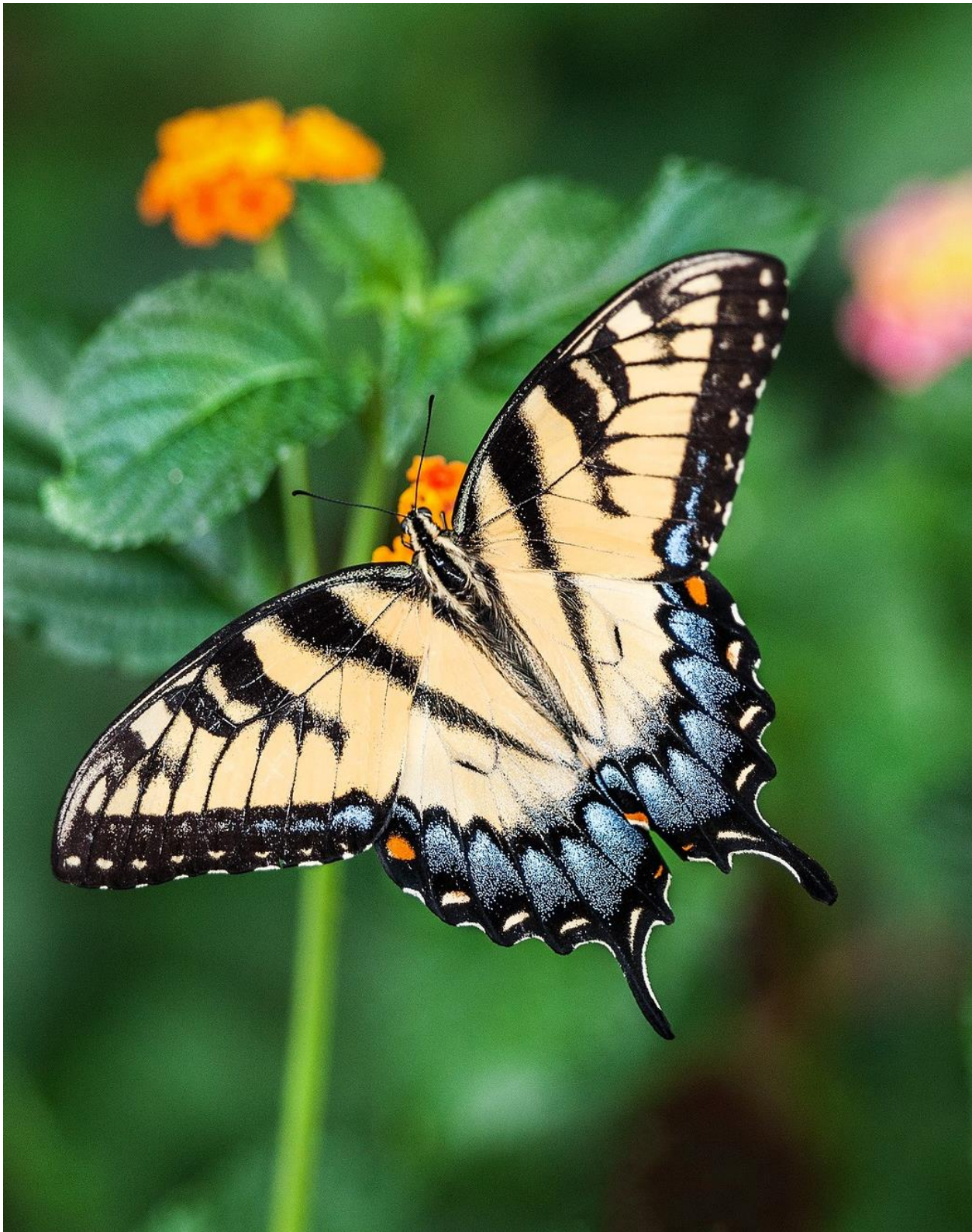


Ski club



Preparation of Miso, a Japanese traditional food

We like to share some great moments of conviviality together.

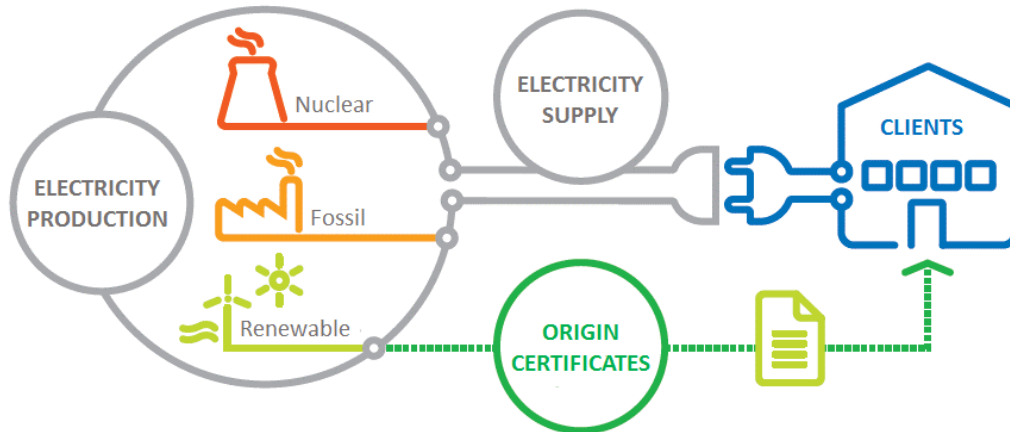


ENVIRONMENT

1. Reduction of the environmental footprint

1.1. 100% renewable electricity

Our sites in France subscribed 100% renewable energy tariff. It means that all of the electricity we consume is matched by the purchase of renewable electricity by our energy supplier. No renewable electricity and renewable electricity get mixed up together on the grid. Every kWh we use is helping to promote and support the development of green energy.

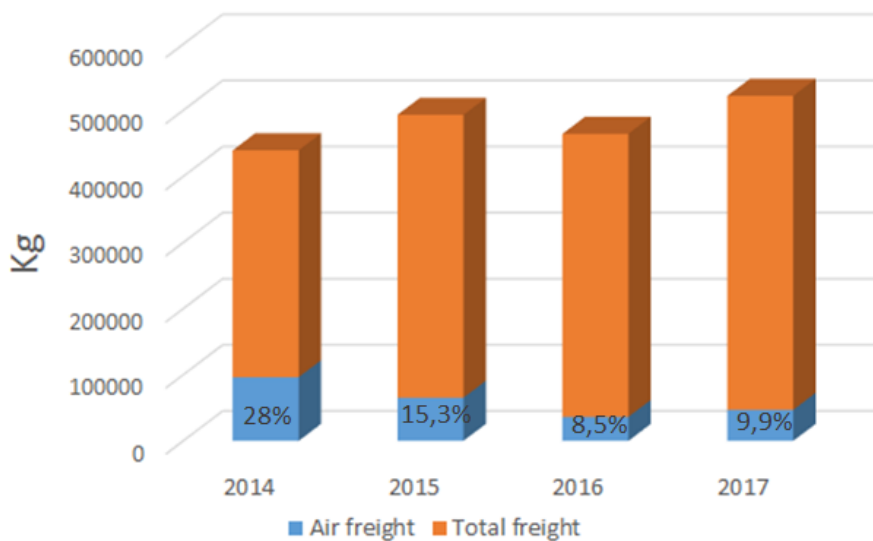


Principle of renewable energy tariff (source: EDF)

1.2. Supply chain management

Our products are primarily manufactured in Japan and with the expansion of our sales worldwide, the transportation sector is a major source of our greenhouse gas emissions.

In Europe, we consider transportation to be a key parameter for our sustainable development strategy. Amongst other things we adopted several measures to reduce the impact of this sector. One of these measures is to minimize the importation by air. Compared to 2014 we divided the quantity of goods imported by air from Japan in France by 3 but compared to last year the quantity increased slightly due to a huge market demand.



1.3. 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.

2. Sustainable raw materials

We are working to increase the proportion of our products based on renewable raw materials wherever this is both possible and appropriate. Our goal is to propose natural alternatives for some of our synthetic products but without compromising the performances.

2.1. 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.

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.

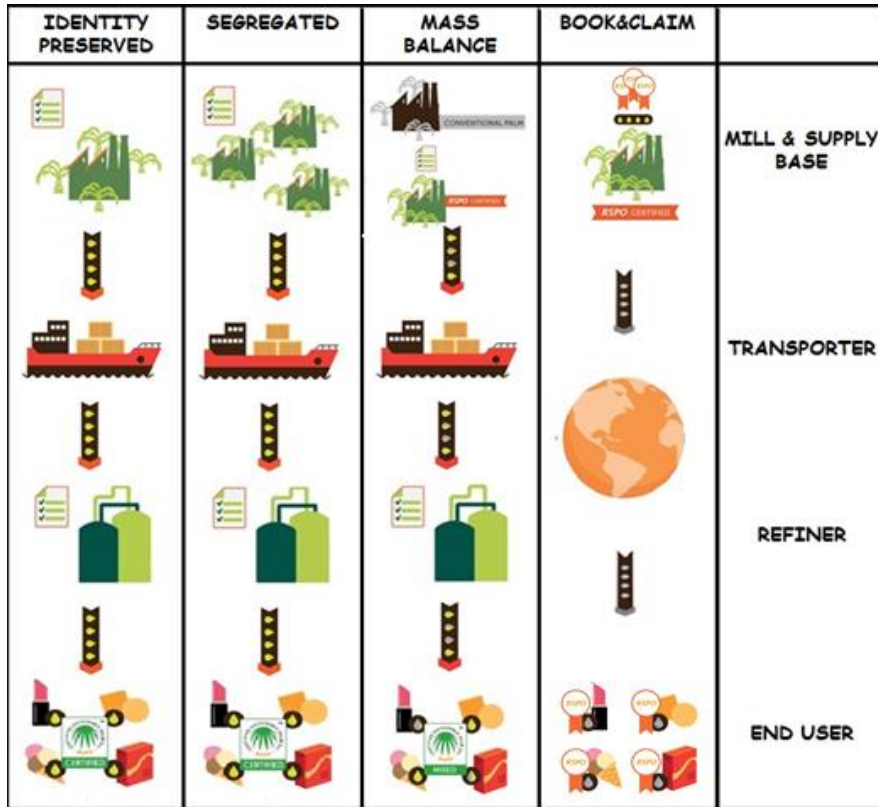
The Round Sustainable Palm Oil (RSPO) has set up four supply chain certification systems (SCCS) with different levels of traceability: Identity preserved, Segregated, Mass balance and Book&Claim (RSPO credits).

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 RSPO credits.

Since 2016 all the palm oil derivatives bought have been covered according to the Book&Claim supply chain model.

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

In 2016 our ambition for 2025 was to only source ingredients obtained from Identity Preserved or Segregated certified palm oil. Based on the difficulties that we met and the worldwide increase for sustainable palm oil our targets seem very ambitious maybe too much. We will adjust them depending on the market availability. In any case our priority is to use sustainable raw material.



The end user is able to trace the certified sustainable palm oil back to a specific single mill and its supply base

The end user is only able to trace the certified sustainable palm oil back to a group of possible mills and their supply bases

Certified sustainable palm oil and non-certified palm oil is mixed

No guarantee that the end product contains certified sustainable palm oil but support RSPO certified growers and farmers



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

In 2017 DAITO KASEI became a RSPO member as a supply chain associate.

In 2018 we will apply for supply chain certification according to SG model.

Key milestones

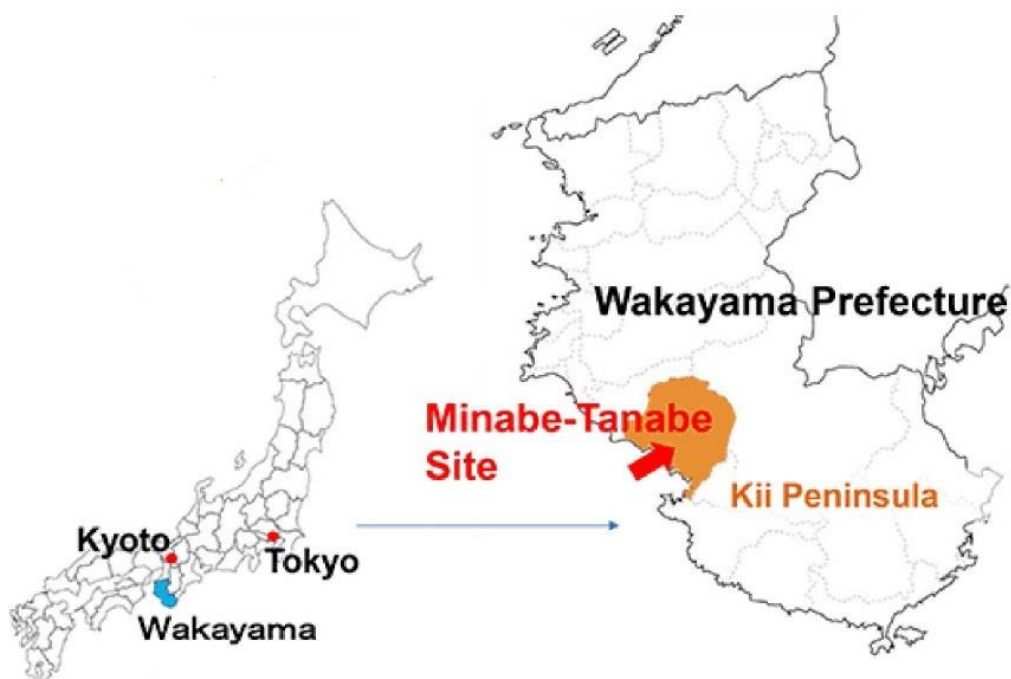


2.2. Charcoal: solidarity sourcing and traditional knowledge preservation



Our charcoal is made from Ubame Oak (*Quercus Phillyraeoides*) a very hard wood which grows in Minabe-Tanabe area.

Minabe-Tanabe area is located in the south-western part of the Kii peninsula in Wakayama prefecture.



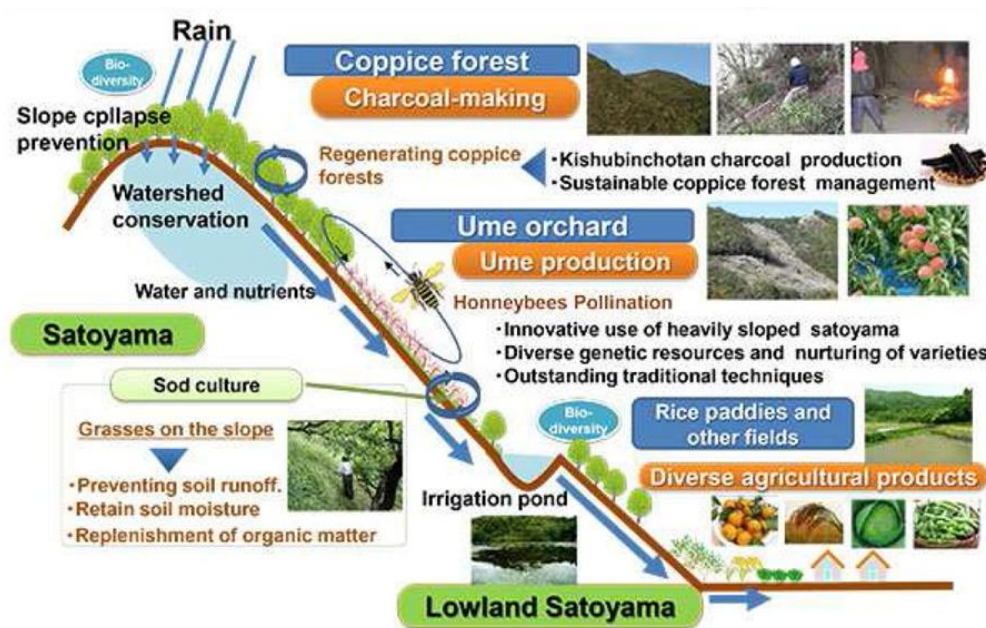
Harvesting method

Ubame oaks are harvested using a method of selective cutting. Only trees of the right thickness (more than 7 cm of diameter) are cut down and an appropriate amount of trees with thin trunks are left in the forests to grow. Only the upper part of the trees is used. The oak species is so vigorous that the roots and stumps will give rise to shoots. They originate from dormant buds at the base of stump.



This unique coppice forest management techniques allow a stable supply of *Quercus phillyraeoides*. The selective cutting method used is an outstanding technique in both productivity and sustainability because it allows logging about once in 10-15 years. In contrast, clearcutting can be done only once in 30 to 40 years.

Minabe-Tanabe system



Sustainable production of high-quality ume has been developed despite fragile slopes with poor nutrients and water retention ability.

At the top of the mountain coppice forests mainly consisting of ubame have been planted. Coppice forests function by storing rain water which flows little by little to ume orchards located on slopes underneath. These coppice forests prevent slopes collapsing. Slopes under coppice forests are covered with ume orchards. Since these slopes are well drained, they are suitable for ume cultivation. Furthermore, the necessary nutrients are supplied little by little from the coppice forests above. In ume orchards, grass has also been grown to prevent drying and the runoff of soil. The grasses are also cut and used as fertilizer for the ume trees.

Honeybees living in the surrounding area help pollinate the ume trees. Ume trees assist honeybee propagation in the early spring when few other flowers are blooming.

Land use of ume and coppice forest has contributed to the formation of unique agricultural landscape. This system can serve as a valuable model of sustainable agriculture which could be applied worldwide as the system has supported the livelihoods of local people

The FAO has recognized the whole ume production system.

This system can serve as a valuable model of sustainable agriculture which could be applied worldwide as the system has supported the livelihoods of local people

Role of Charcoal makers

The forest is an important piece for the ecosystem stability. The forest is maintained and secured by traditional selective cutting. The charcoal makers are the “caretakers” of this ecosystem.

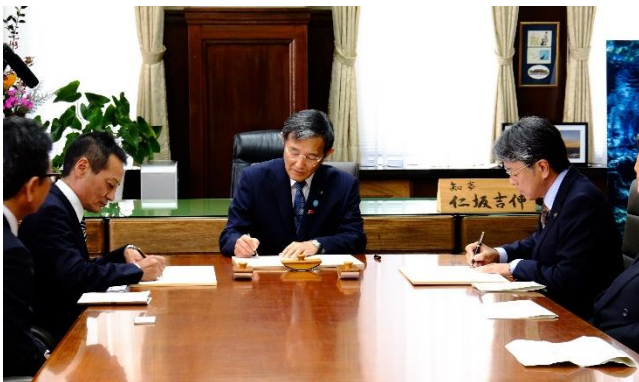
Biodiversity and local landscape preservation

Ume and charcoal production are important industries that support the livelihoods of the local population. 70% of local workers are engaged in ume production. The declined consumption of ume, the declining demand for charcoal, the advancing age of the workers and the decreasing number of farmers are serious risks for the survival of the ume system.

Wakayama prefecture promotes the ume and charcoal production.

DAITO KASEI supports the program of Wakayama prefecture and joined the Forest of Company program in 2017.

A signing ceremony held on 2017 December 14th.



The objective of the Wakayama prefecture program is:

- to promote the preservation of a traditional knowledge
- to create value locally
- and to protect the environment through the preservation of the forest.

The binchotan charcoal is prepared by highly trained craftsmen. The basics of making Kishu

Binchotan can be learned in a year or so but acquiring the needed knowledge to obtain charcoal of high quality is an instinct that takes several years to develop.

DAITO KASEI supports traditional sustainable charcoal production by using and promoting raw materials based on Kishu-binchotan, only harvested according to traditional selective cutting method and carbonize according to the centuries old process.

We work with a cooperative company, a group of 5 companies, located in Wakayama prefecture, working at different stages of the charcoal cycle.

We work closely with them and our business participate to the grow of their activities. The number of their employees was multiplied by two in 10 years.

2.3. Natural label

We have 60 products certified ECOCERT and 28 products certified COSMOS. Since 2010 we multiplied by 3 the number of certified products.



COMMUNITY

1. Running for a cause



A DAITO KASEI EUROPE team raced the second edition of “Lisa forever”. Its aim is to raise funds to fight against childhood brain tumor. This race takes place in Taverny.

2. Solidarity day



DAITO KASEI EUROPE participated to the solidarity day “Put your shoes in the company” of ELA foundation. Its aim is to raise funds to fight against leukodystrophies. This day of solidarity is an opportunity to create internal cohesion and an original way to alert on this disease. The concept is simple: employees should multiply their steps without changing their working day. For each step, the participating company undertakes to pay 0.1 € to ELA.

3. Solidarity operation



DAITO KASEI EUROPE participated to the collect of personal care and cleaning products of the cooperative and participatory association “Ça me regarde” for the “Samu social de Paris”.

Two employees went to the logistical platform of “Samu social” and spent a half day to sort the products and to discover the actions of “Samu social”.

4. Solidarity purchasing



For new year wishes, DAITO KASEI EUROPE associated its traditional cards with the planting of a tree in the world. Our clients could plant a tree through the digital platform of Reforest'ation thanks to a code.

The benefits of this operation are:



Environment

150 000km of car offsetted



Biodiversity

450 animal shelters created



Health

600 months of oxygen generated



Employment

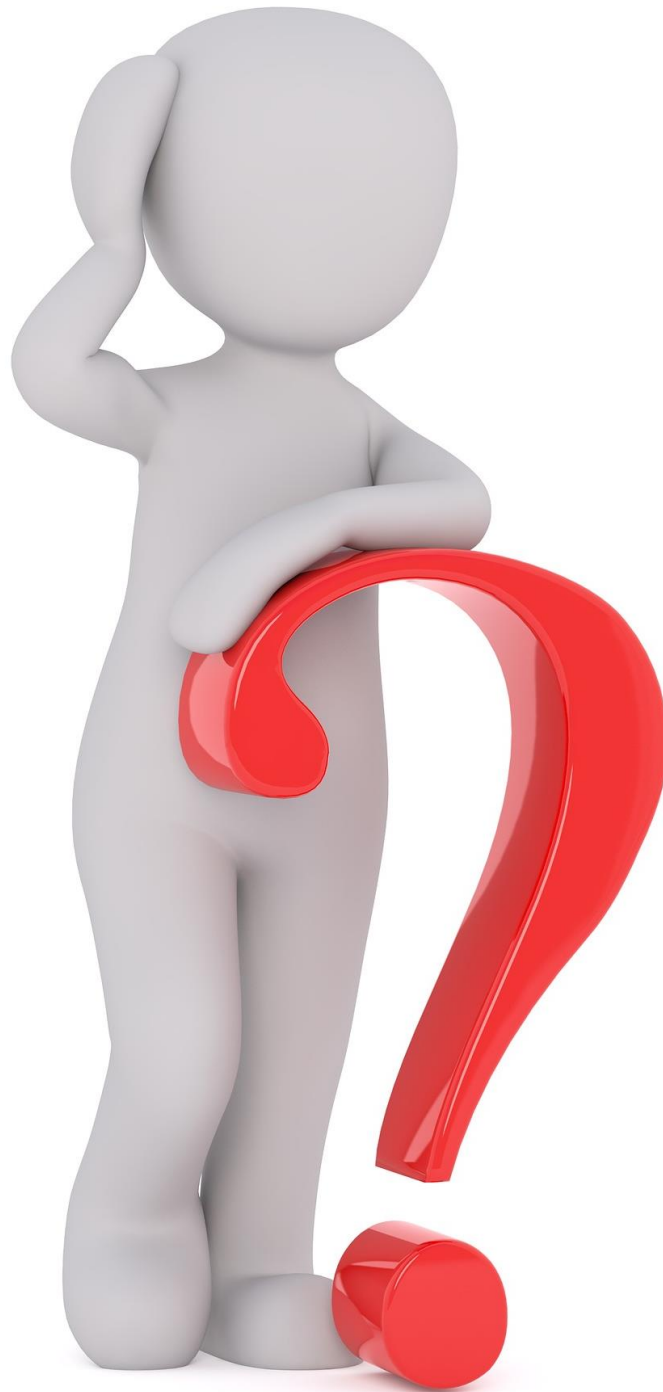
150 hours of work created

5. Donations

Our company gives financial donations to non-profit organizations in the fields of health or education for examples.

In 2017, we donated participated to Clarins crowdfunding for Arthritis Foundation.

Every year in Japan we donate to Central Community Chest, also known as the Red Feather. Red Feather has historically been a leader in solving social issues.



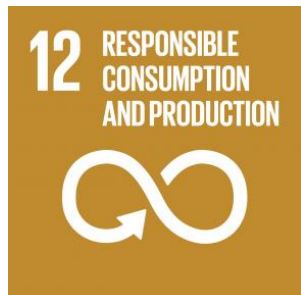
ACTION PLAN 2018



We will continue to ensure a safe working environment by limiting the use of hazardous substances.

We will keep developing products without hazardous substances.

Our people are fundamental for our success we will try to raise their awareness of healthy lifestyles



We will continue to promote a more rational use of natural resources and to minimize harmful emission and wastes.



In Europe, we will continue to find solution to reduce the carbon footprint linked to the transportation.



Through the Forest company program, we will plant 6000 trees in Wakayama prefecture in Japan to help protect and preserve the forests.

