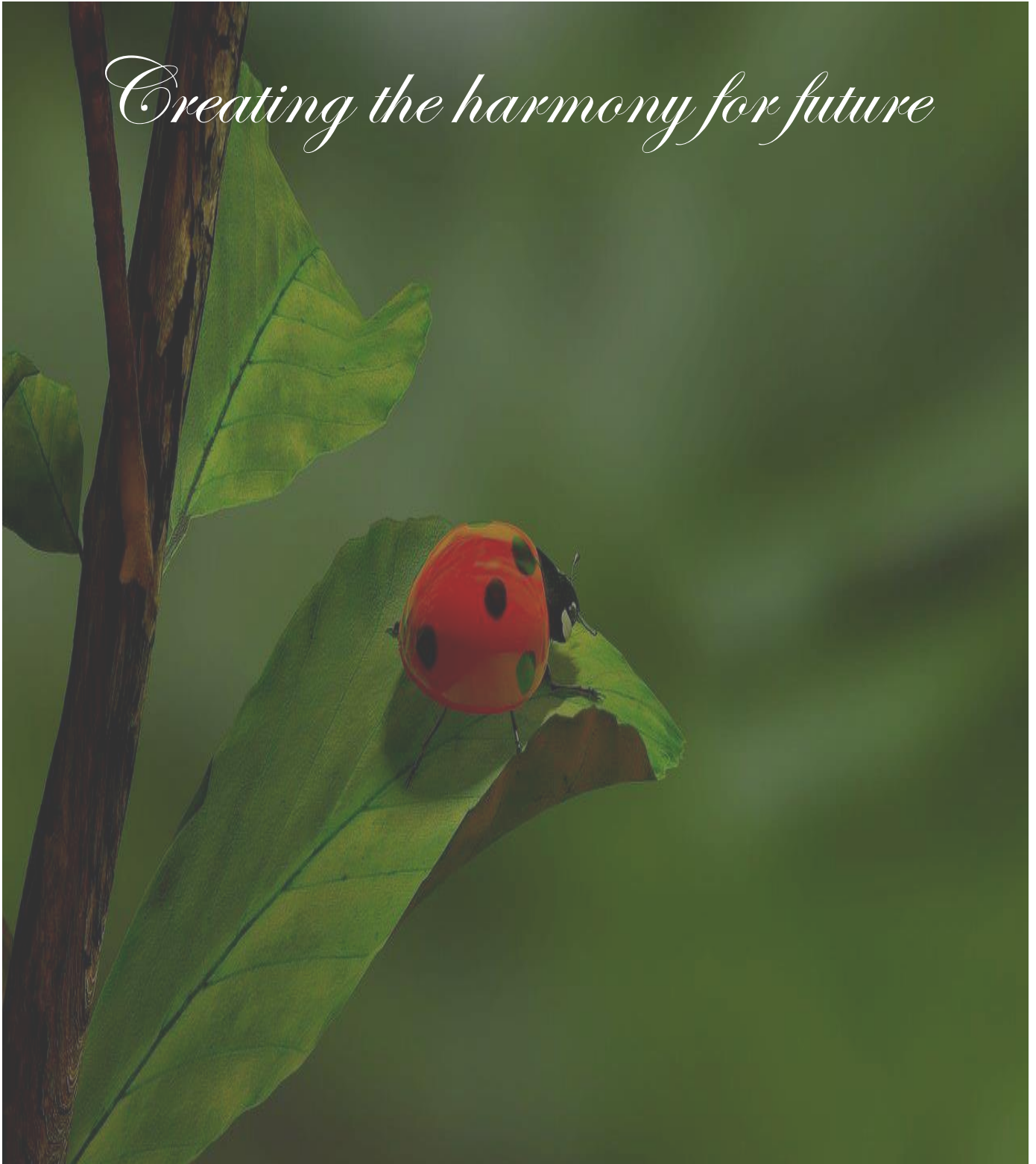


Creating the harmony for future



**CORPORATE SOCIAL
RESPONSIBILITY
REPORT 2016**

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MESSAGE FROM THE PRESIDENT

I am glad to present our second Corporate Social Responsibility (CSR) report.

CSR is a key element to DAITO KASEI business success.

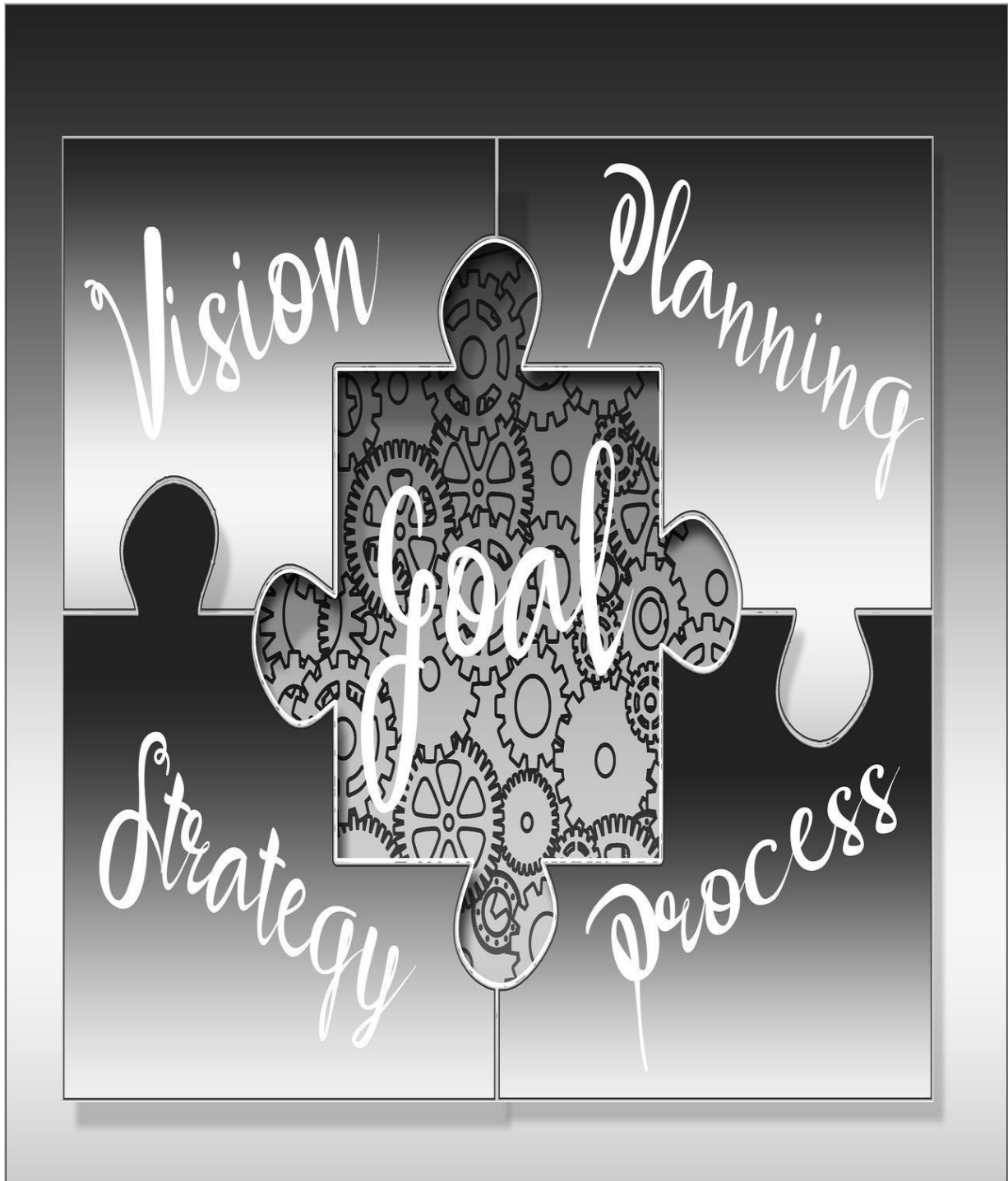
Our CSR efforts focus on three areas in which we believe we can have the most impacts: Environment, Employees and Clients.

This Report outline our accomplishments and ongoing efforts in these areas.

Today we firmly believe that Corporate Social Responsibility will make our business stronger and contribute to make a better world.



Yoshinori WAKI
President



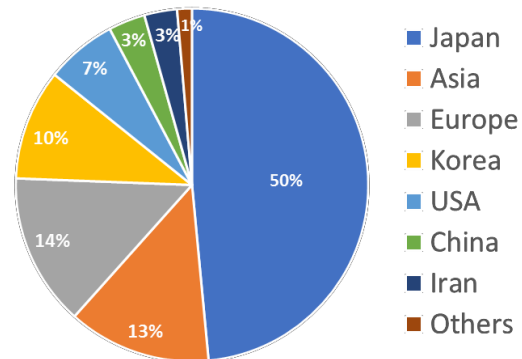
PROFILE & STRATEGY

1. Group presentation

1.1. Activities

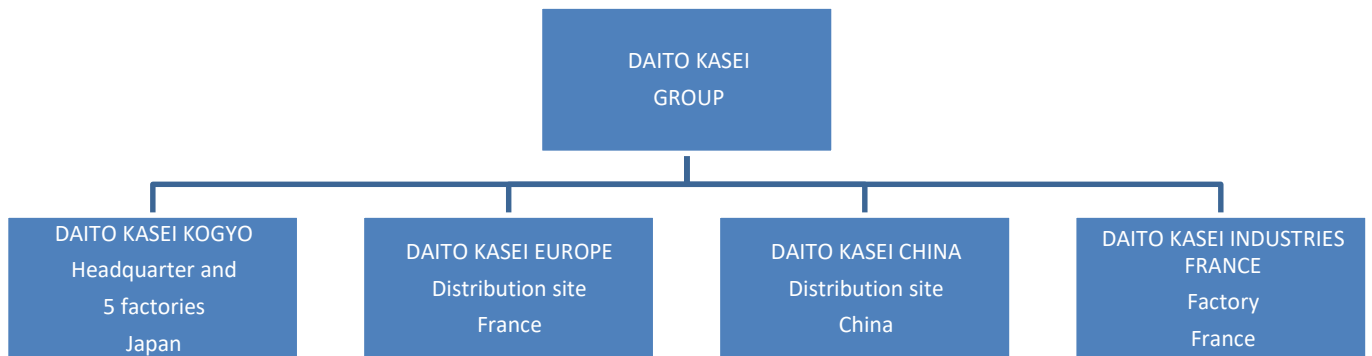
DAITO KASEI is a privately owned, medium-sized, Japanese company, founded in 1950 in Osaka. We are manufacturer and distributor of treated powders and specialty ingredients for cosmetics. We have 6 manufacturing sites in Japan and France and two distribution sites in China and France. Our clients range from small-medium-sized companies to the world's largest multinational cosmetic companies. We have a presence in more than 50 countries through sales, distribution and manufacturing operations.

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



Geographical sales distribution

1.2. Organization



1.3. 2016 key figures



> 200 employees

3M\$ invested in R&D

> 20 employees dedicated to Research and development



> 200 suppliers around the world

Products distributed in more than **50** countries

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

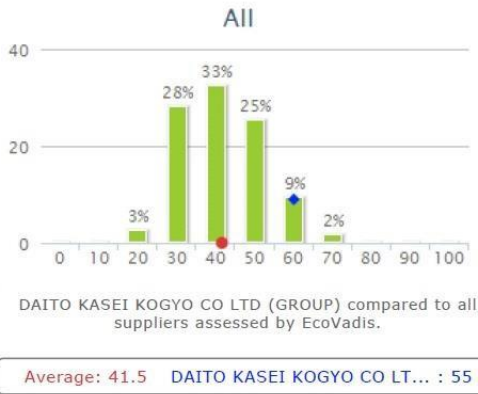
The evaluation covers 21 criteria across four themes: environment, fair labor practices, ethics/fair business practice, and supply chain. The methodology is based on international CSR standards including the Global Reporting Initiative, the United Nations Global Compact, and ISO 26000, and supervised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

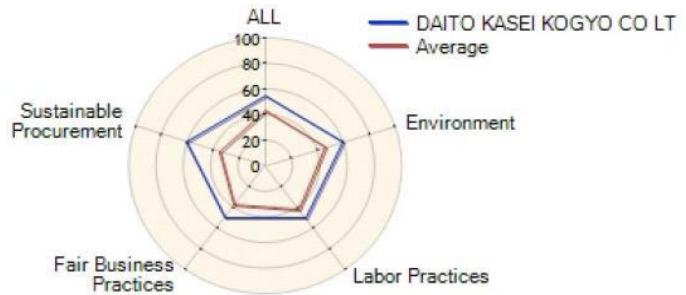
			Weight
Environment	60		4
Labor Practices	50		4
Fair Business Practices	50		2
Sustainable Procurement	60		1

Score distribution



Our result is 32% above the average Ecovadis supplier evaluation. DAITO KASEI GROUP is in the TOP 11 % of suppliers assessed by EcoVadis in all categories.

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

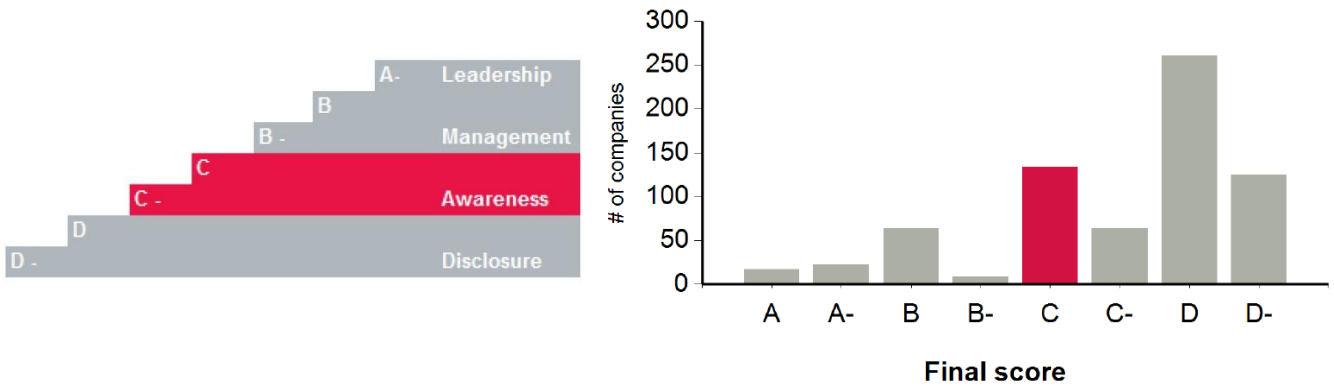


2016 Score
C

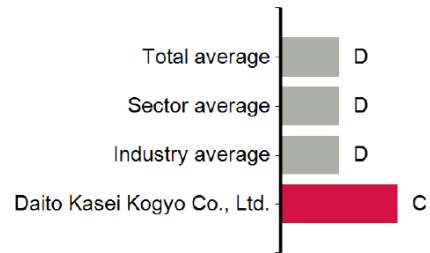
Score levels

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.



3. Governance and 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 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.

Since 2016, DAITO KASEI presents its CSR policy review in a report published in June.

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



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.

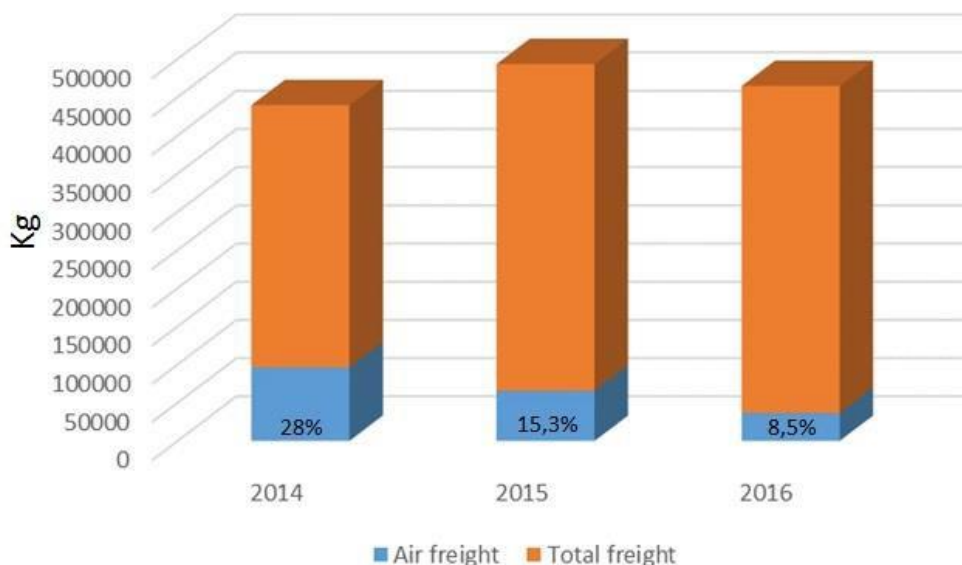
1.2. Supply chain management

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:

- Order planification based on annual client forecast
- Improving the loading rate of containers
- Expanding the storage space of our warehouse at Taverny (multiply by 2)
- Minimizing the importation by air. In 2016 compared to 2014 we divided the quantity of goods imported by air from Japan in France by 4.



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.

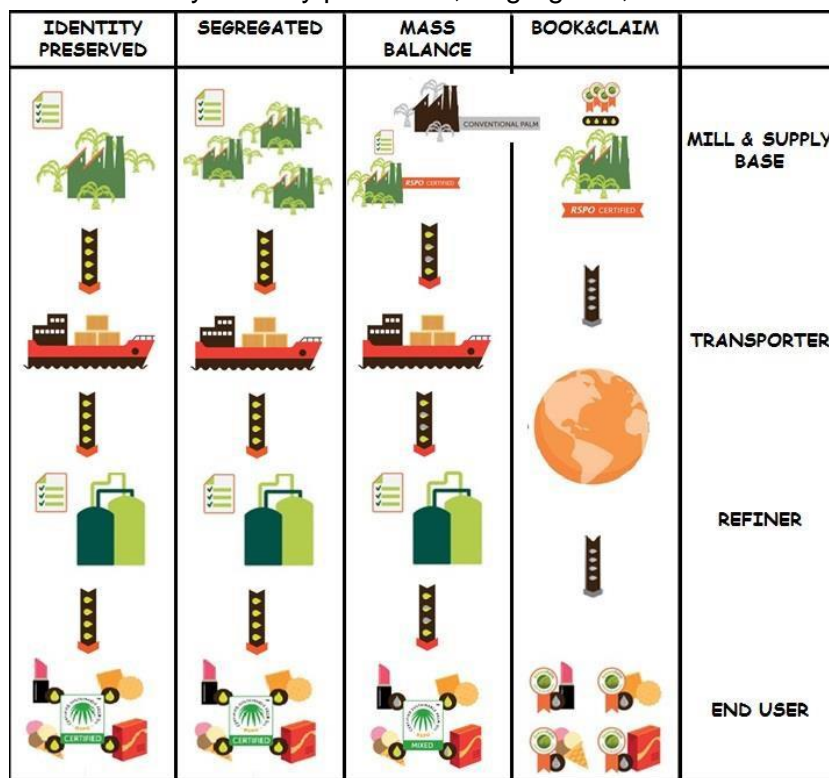
2.1. Sustainable palm oil

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.



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.greenpalm.org)

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 2016 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 was to only source ingredients obtained from Identity preserved or Segregated certified palm oil. Based on the difficulties that we met this year to even find MB certified sources for the raw materials used, it seems more reasonable to plan to achieve the target of 100% of the palm oil derived ingredients obtained from MB certified palm oil between 2020 and 2022.

2.2. Charcoal

One of the raw material we used is charcoal for its purifying and absorbent properties. 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

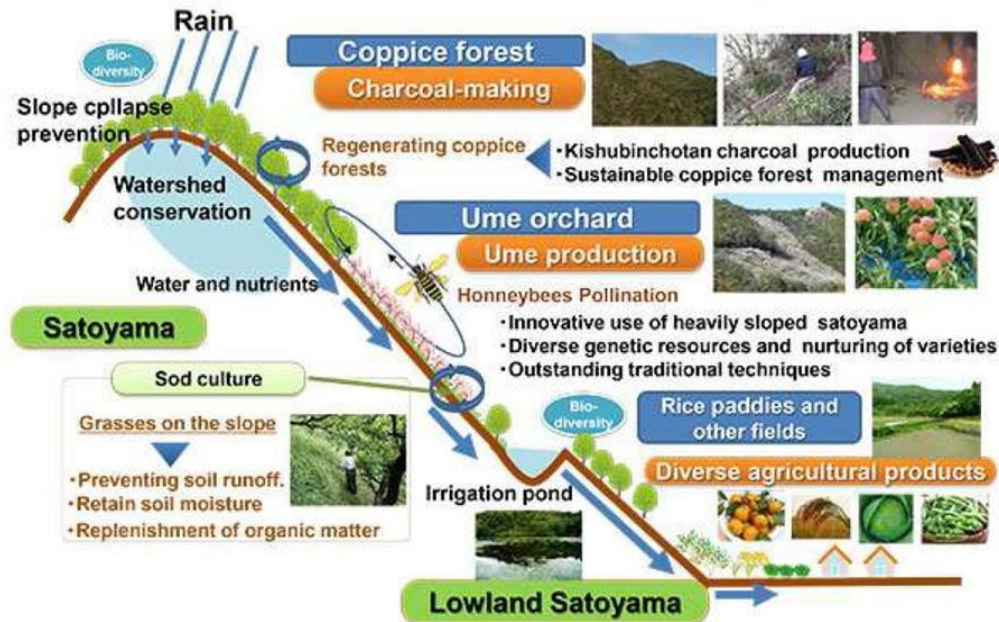
Ubame oaks are harvested using a method of selective cutting. Only trees of the right thickness (more than 7 cm of diameter) are cut down and the tree with thin trunk are left to grow. Unique coppice forest management techniques allow a stable supply of *Quercus phillyraeoides*.



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.

Tree cutting and planting techniques developed in line with observance of tree growing cycles.

Minabe -Tanabe ecosystem



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

At the top of the mountain, the coppice forest consisting mainly of ubame oak store rain water in the soil and prevent landside. Rain water flows little by little to ume orchards located on sloped underneath.

In ume orchards, grass has been planted to prevent drying and the run off 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.

The water flowing from the top through the coppice forest and the ume orchards is stored at irrigation ponds built under the ume orchards. This water is used to irrigate a variety of agricultural products, such as rice and vegetables.

Land use of ume and coppice forest has contributed to the formation of a unique agricultural landscape.

The FAO has recognized the whole ume production system.

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.

DAITO KASEI supports traditional sustainable charcoal production by using and promoting raw materials based on Kishu-binchotan and only harvested according to traditional selective cutting method. The traditional selective cutting demands a real know-how.

2.3. Natural label

We have 60 products certified ECOCERT and 15 products certified COSMOS. Since 2010 we almost multiplied by 3 the number of certified products.



COMMUNITY

1. Running for a cause



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



10 employees of DAITO KASEI EUROPE teamed up to run the 19th edition of “La Parisienne”. This race, exclusively feminine, takes place in the most beautiful streets of Paris. Its aim is to raise funds to fight against breast cancer. This year, 40 000 women met in Champs de Mars to cover 6.7km. Thanks to the involvement of the runners, companies, supporters and organizers, 985,400 euros collected and 25 projects financed in 11 years.

2. Solidarity purchasing



For new year wishes, DAITO KASEI EUROPE accompanied its traditional cards with a handmade butterfly magnet.

This Handicraft is made by adult patients with HIV/AIDS living in the Camillian social center in Rayong, a charitable institution in Thailand, established in 1995.

The Center provides shelter and care to homeless, indigent, and rejected people living with HIV/AIDS. The goal is to create a self-supporting community.

3. Donations

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

In 2016, we donated to Téléthon and 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. In 2016, our long support and contribution was recognized by the Central Community Chest and we received a Letter of Appreciation.



ACTION PLAN 2017

We plan to obtain ISO14001 certification for our factories in Japan by January, 2020. We will review in detail the situation of each site for environmental issues in 2017.

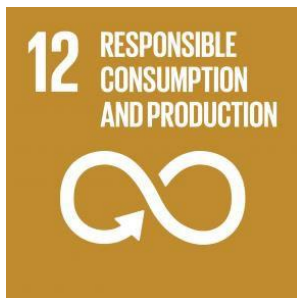
On September 25th 2015, countries adopted a set of goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. Each goal has specific targets to be achieved over the next 15 years. We will try to focus our actions to contribute to the following Sustainable Development Goals: 3 Good Health and well-being 12 Responsible consumption and production, 13 Climate action and 15 Life on land.



We will continue to participate to fundraising events which support medical research.

We will continue to ensure a safe working environment.

We will keep developing products without hazardous substances.



We will continue to develop new products taking into account the environmental aspects (traceability of raw materials, natural certified ingredients...).

We will identify high energy consuming operations/equipments and we will try to adapt/change our processes in order to optimize energy consumption.



In Europe, we will continue to reduce the carbon footprint linked to the transportation We identified several approaches:

- Looking for the possibility of using multimodal transport
- Use of green transport (electric or natural gas vehicles)
- Work closely with our customers to optimize our deliveries and encourage them to order same product not more than once per month.



Some of our products contain wood derived materials. To help protect and preserve the forests we will participate to tree planting in Japan.

