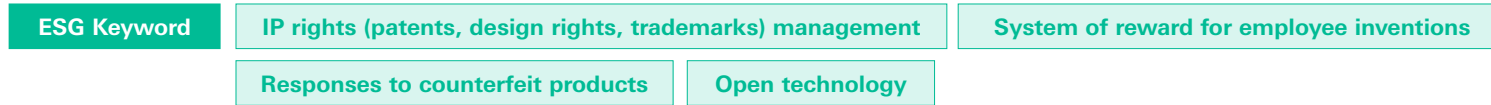


Intellectual property 102-12, 102-15, 103-1

At Kao, we are endeavoring to protect R&D outcomes and effectively utilize the rights derived from these outcomes through cooperation between the Intellectual Property Department and research institutes to realize “Contributions to business and social through intellectual property (IP).”



Kao’s creating value to address social issues

Social issues we are aware of

It is necessary to acquire IP and appropriately utilize one in order to use the technologies that we have created through *Yoki-Monozukuri* in ways that lead to the development of industry and contribute to society. Recently, counterfeit products in Asia and other regions have become an issue, and there is a need to quickly provide highly varied new value.

In addition, collaboration with a wide range of industries is essential for solving global social issues such as global environmental issues and COVID-19. With such collaboration, reciprocal use of IP in a high level will be important.

Kao’s creating value

We create value that contributes to industry and society and transform IP into assets by pursuing its true nature through particular attention to fundamental technology research and product development research. Amidst the need for rapid creation of new value, we see not just independent development, but also co-creation with outside parties as an important method of development. This is the fundamental concept announced in the Co-creation Innovation and IP Strategy to Accelerate ESG Management presentation that the Senior Vice President

of the R&D Division gave at the Global IP Strategy Forum 2020 held by the Japan Patent Office on January 28, 2020.

We use the results obtained through research to make global contributions through IP-related activities conducted by Kao Corporation and its group companies both within and outside Japan working in tandem. In addition, we are reinforcing collaboration with external organizations to respond to social issues and ensuring acceleration in the pace of open innovation based on our IP strategy.

Risks related to realization of What Kao Aims to Be by 2030

In cases where it is not possible to acquire technology development linking industry and public benefit in the form of IP, difficulties arise in the ongoing development of products and pose risks to the realization of the company that we seek to be. Furthermore, the appearance of counterfeit products with inferior quality gives rise to the risk of failing to meet the expectations of consumers regarding the value of our products, which makes it necessary to acquire IP and appropriately use one.

Opportunities related to realization of What Kao Aims to Be by 2030

In addition to using the IP rights acquired through fundamental technologies and product development for our own products, we create opportunities to contribute to industry and society by making IP rights available through open innovation.

Contributions to the SDGs



Policies

We conduct our business activities by acquiring IP, such as patents, design rights, trademarks and other IP rights as R&D results and names representing brand image and so on.

We also actively pursue the acquisition of rights in Asia, the Americas and Europe while vigorously protecting ourselves against any infringements of our legal rights, both within and outside Japan. Recently, we have been pursuing measures against counterfeit products in Asia and other regions.

At the same time, we are strengthening our global efforts to respect and avoid infringing on the IP rights of other companies, through undertaking R&D in such a way as to avoid infringing upon them from the initial stages and reconfirming existing patents before new product launches and taking action as necessary.

Meanwhile, in order to maximize the use of IP, we promote open innovation through collaboration with outside parties and strive to provide products and services with even higher value to consumers and society. In order to help solve global social issues, we will co-create new technologies in cooperation with industry and government, and will also flexibly license and provide access for others to use Kao's technological assets.

Education and promotion

We have implemented a wide range of IP education and training programs with continual fine-tuning, for researchers aligned with, for example, their years of experience and roles. In 2020, a total of around 450 researchers participated in IP education and training programs. We also make effective use of e-learning program to enhance the effectiveness of our educational activities. Online learning has already been adopted as a tool for IP education and training by our researchers in Asia, the Americas and Europe.

As a result, researchers have been taking more initiative in acquiring IP rights for technologies and in building IP portfolio. It is expected that repeatedly taking these educational programs according to the number of years of experience enhances the IP literacy of researchers and the technologies and products that they develop will become sources for the creation of functions and appeals that differentiate them from competitors.

Our IP educational programs were reported in Volume 295 of *Tokugikon* (November 2019), a journal published by the Japanese Patent Office.

Collaboration and engagement with stakeholders

In order to achieve What Kao Aims to Be by 2030, we respond with determination to counterfeiting. By working with IP industry organizations and other companies in our industry, we have reinforced our measures and are contributing to the development of the IP industry as a whole.

As a part of those initiatives, we have created opportunities for direct dialogue with management levels in the Japan Patent Office and European Patent Office, as well as in patent offices in emerging economies, in order to allow us to maintain an accurate grasp of the latest trends in IP administration. We also had the opportunity to engage in dialogue with the Intellectual Property High Court in 2020. Through this type of dialogue, we are gaining an understanding of recent judicial developments, which is useful for establishing more stable IP rights.

We have also created opportunities for direct dialogue with patent attorneys in major countries and regions (including Europe, the Americas, South Korea, China and Taiwan) and multiple emerging nations to deepen our understanding of global IP practice and acquire rights in accordance with the legal systems of each country.

Framework

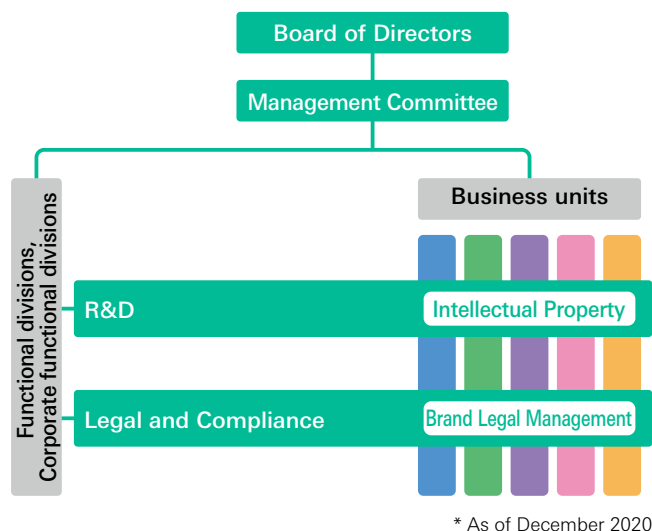
We implement company-wide management of business-related IP through the coordinated activities of the IP Department (under R&D) and the Brand Legal Department (under Legal and Compliance).

The IP Department plays a key role strategically applying for and exercising rights relating to patents and technology-based designs, which are indicators of key company values from the perspective of technology development capability, in a broad range of fields. The responsible party is the Senior Vice President in charge of research.

The Brand Legal Department collaborates closely with Business divisions when submitting applications and exercising rights relating to design-based designs and trademarks, taking into consideration cost effectiveness. The responsible party is the Senior Vice President in charge of Legal and Compliance. When an important issue arises, the IP Department and the Brand Legal Department submit it to the Management Committee for deliberation, and the Board of Directors discusses proposals when necessary. Once each year, useful patents and other IP rights that have contributed to business are reported to the Management Committee, which deliberates rewards for employee inventions.

The Kao Group as a whole works closely together on R&D, and in addition to IP operations (applications, rights acquisition, contracts, management, information analysis, IP education and so on) conducted in close collaboration with Business divisions and overseas group companies, we respond to counterfeit products and promote open innovation.

IP management structures in Japan



Management of trademarks and design rights

The Brand Legal Department, which forms part of Legal and Compliance, is in charge of trademark and design rights (some design rights are handled by the IP Department under R&D). We conduct adequate availability searches for new names or designs in order not to infringe any rights of third parties. We also try to widen the scope of rights acquired to maintain Kao's brand value.

Close collaboration with marketing teams is very important for our trademark activities in particular. Between the Kao Corporation Head Office and three offices in Europe and the U.S., we strive for smooth communication. Furthermore, in order to ensure timely naming, we manage the entire schedule of naming processes, from the beginning of name creation through trademark filing and name decision. Through these activities, we are able to use the product names and catchphrases that become the faces of our products, and we are able to provide products that consumers can use with reassurance.

We consolidate systems for the early elimination of counterfeit products which have been on the rise in recent years. We cooperate with governmental authorities, e-commerce site managers, and peer companies in the industry, while we also reinforce our monitoring of markets including e-commerce sites. By steadily undertaking these measures in response to the damage caused on a daily basis by sophisticated counterfeit products, we are contributing to the elimination of counterfeit products and the elimination of businesses that handle them.

Mid- to long-term targets and performance

Mid- to long-term targets

- Continue to build and strategically utilize our own patent portfolio, optimized for both volume and quality, and create cross-category, global structures that can strategically use Essential Research results that can generate diverse product value
- Ensure effective and efficient prevention of third party IP-related incidents

Anticipated benefits from achieving mid- to long-term targets

Business impacts

Kao, which deploys numerous products, is able to apply Essential Research results to product development in multiple fields, and therefore, will be able to increase the efficiency of R&D through appropriate IP protection, which will lead to higher product revenues.

Social impacts

To be an essential company in a sustainable world, we aspire to protect future lives from infectious diseases, etc. and lead the sustainable society. In addition to contributing to the advancement of technology by publicly releasing inventions that we create, we seek maximum utilization of Kao IP by undertaking open innovation in collaboration with outside parties to solve social problems. Also, public release of socially-beneficial inventions contributes to the public good (see to the right).

Performance in 2020

Performance

The number of new patent applications in 2020 remained at the previous year's high level thanks to active development of new inventions. In addition, income from patent licenses also remained at a high level as a result of active utilization of patent rights, and we are building an optimal patent portfolio.

When we develop new technologies and formulations, we employ a mechanism to check clearance implementation concerning the patents of other companies, to prevent omissions and avoid IP disputes with other companies.

In November 2018, we held a technology innovation session and gave explanations of five innovations with the aims of creating a forum for open innovation, expanding technology exits, and proving an even more diverse range of products. In 2020, we encouraged external collaboration relating to these technologies and encouraged activities for their social implementation.

Reviews of performance

By engaging in close communication with research laboratories and collaborating with Business divisions, this year we were able to submit necessary applications, acquire rights, avoid infringement of the patents and other rights of other companies, and respond to counterfeit products.

With the aims of becoming a company with a global presence and rapidly providing new and diverse value in the future, we will apply for additional new patents and other rights and encourage their use globally with an eye toward broad deployment including overseas.

In the lead up to 2030, we will strive to be a company that contributes to the creation of a sustainable society

and provides the services most strongly needed by consumers.

To that end, we will continue R&D, secure IP rights, and fully leverage our technology assets.

Examples of technologies publicly released: Shampoo bottle notches

We have been placing a notch with a jagged shape on the sides of shampoo bottles since 1991. This enables people with visual impairments as well as people with normal vision who wash their hair with their eyes closed to identify the bottle by touch.

Believing that a lack of uniformity in the industry concerning the use of these notches would lead to consumer confusion, we withdrew our utility model application and worked through the Japan Cosmetic Industry Association to call on other companies to adopt an industry standard. As a result, the agreement of numerous companies in the industry was obtained. Now, most shampoo bottles have notches, and the use of notches has become an international standard due to Japan taking the initiative (ISO 11156: 2011).



Notches first developed in 1991 and current notches

Our initiatives

Handling of IP issues with other corporations

We regard IP, including patents, as critical business assets, and are making efforts to effectively and strategically utilize such resources. In cases where IP issues with other corporations arise, we make efforts to resolve these issues through dialogue with those corporations when feasible, and through patent licensing where necessary.

System of reward for employee inventions

We celebrate useful inventions by our employees which contribute to our business operations. We give weight to the perspective that this will incentivize further inventions. Employees are awarded for patents utilized internally at Kao, which have led to excellent commercial outcomes, as well as license income incentives for patents which have produced significant income as a result of licensing to third parties. Every year the President and Chief Executive Officer offers words of appreciation and encouragement at an awards ceremony for presentation of the incentives to the inventors. In 2020 we continued to implement our incentive system based on internal usage of inventions and licensing income, marking 21 consecutive years since the launch of this system at Kao Corporation.

Employee invention systems are implemented on a country-by-country basis, and group companies in Asia, the Americas and Europe continued to establish their own incentive systems.

Promotion of IP rights management

We consider that the acquiring of the outcomes of R&D at group companies as IP rights is an important step in realizing our *Yoki-Monozukuri* globally and in responding to local consumers and client needs. For this reason, we actively provide platforms for exchange and mutual inspiration among employees with responsibility for IP at Kao Corporation and group companies both within and outside Japan, while taking measures to execute related work duties collaboratively. We also focus our capacities to support IP-related activities at different localities, with an emphasis on IP education for researchers in each country and region.

In conjunction with the increase in group companies and more energetic invention activity in each country and region, we are undertaking IP activities with closer ties to countries and regions. In 2020, there were a large number of new patent applications from overseas group companies, dialogue among personnel in IP divisions in Japan and each overseas country and region increased, and we deployed the Kao IP policy globally.

Response to the counterfeit products problem in emerging nations

In regard to business expansion in emerging nations, the risk posed by the rapid diffusion of counterfeit products increases for products which are well-received locally. It is thus very important to find appropriate countermeasures after having developed a clear picture of the current situation with regard to counterfeit products. Some counterfeit products are associated with safety concerns. In such cases it is not merely a question of protecting the brand value of the Kao product being counterfeited. It also becomes imperative that countermeasures to ensure the health and safety of local consumers are put in place.

China in particular could be described as a highly litigious society compared to Japan, as there are many more cases of IP-related litigation. There may thus be times when a resolute stance must be taken to address the issue of counterfeit products in a lawsuit, depending on the particularities of the case.

In addition, to help prevent counterfeit products from being imported, we have arranged for Kao personnel to act as instructors in Customs training sessions, teaching Customs personnel the key points to identify counterfeit items, and we have also been actively involved in seizure of imported counterfeit products (border protection).