

IP protection and utilization

Kao's approach

At Kao, we are endeavoring to protect Research and Development (R&D) outcomes and effectively utilize the rights derived from these outcomes through cooperation between our Intellectual Property Division and research institutes to realize "Business contributions through intellectual property (IP)."

Kao's creating value to address social issues

With the increasing globalization of R&D, it is more important than ever that IP-related activities be closely integrated between Kao Corporation and its Group companies both within and outside Japan. To meet this need, we are working to strengthen linkages with respect to IP-related activities.

In addition, we are strengthening our support functions for technical contracting to secure acceleration in the pace of open innovation based on our IP strategy.

Contributions to the SDGs



Policies

Kao conducts its business activities while protecting R&D results and naming representing brand image, etc., with industrial property rights, such as patents, design rights and trademarks, etc.

Kao also actively pursues the acquisition of rights in Asia, the Americas and Europe, while vigorously protecting itself against any infringements of its legal rights, both within and outside Japan. Recently, Kao has 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 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 by taking action as necessary.

Framework

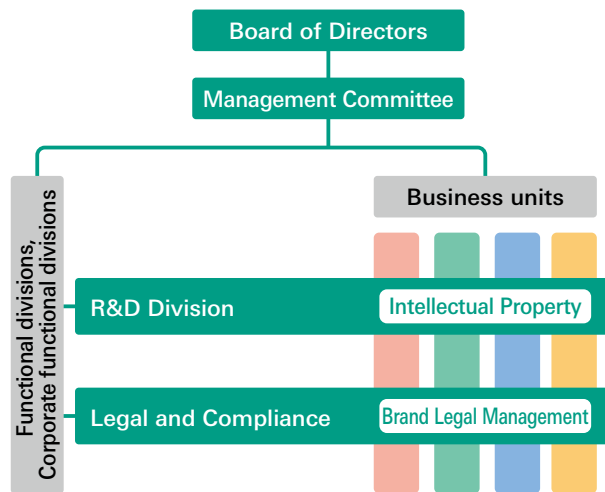
We implement Group-wide management of business-related intellectual property rights through the coordinated activities of our Intellectual Property Division (under R&D) and our Brand Legal Management Department (under Legal & Compliance).

The Intellectual Property Division plays a key role by promoting strategic applications for patents and technology-based design rights, which are indicators of key company values, from the perspective of technology development capability, in a broad range of fields.

Brand Legal Management collaborates closely with business divisions, considering cost-effectiveness while submitting and managing applications for design-based design rights and trademark rights.

IP protection and utilization

Industrial property rights management framework



*As of December 2017.

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, so that such researchers can play an active part in IP-related activities under their own initiative. In 2017, a total of around 750 researchers participated in IP education and training programs.

We also make effective use of an 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.

Mid- to long-term targets and performance

Main targets

- Continue to build and strategically utilize our own patent portfolio, which has been optimized for both volume and quality
- Ensure effective and efficient prevention of third party IP-related incidents

Performance in 2017

The number of new patent applications in 2017 exceeded the previous year's total thanks to active development of new inventions. Income from patent licenses also increased year-on-year, as a result of active utilization of patent rights. We have achieved greater freedom of action in our business operations thanks to the transfer of patents, knowhow etc. from Collins Inkjet Corporation (now Kao Collins Inc.) and Chimigraf Holding, S.L. (now Kao Chimigraf).

Kao's approach

Our initiatives

Collaboration with stakeholders

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. In 2017, we engaged in an exchange of views with the Director-General of Indonesia's Directorate General of Intellectual Property (DGIP).

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

Conservation

Community

Corporate Culture

Governance

Our initiatives

Handling of Intellectual Property issues with other corporations

We regard Intellectual Property, including patents, as critical business assets, and are making efforts to effectively and strategically utilize such resources. In addition, 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.

Remuneration and incentives for employee inventions

The incentive system for employee inventions is intended to celebrate significant inventions by researchers from our company which contribute to our business operations. We give weight to the perspective that this will incentivize further inventions. Incentives include those awarded for patents utilized internally at Kao, which have led to excellent commercial outcomes, and license income incentives for patents which have produced significant income as a result of licensing to third parties.

We continued to implement incentive systems based on internal utilization of inventions and licensing income in 2017, marking the 18 consecutive since the launching of this system at Kao Corporation. Every year the President offers words of appreciation and encouragement at an awards ceremony for presentation of the incentives to the inventors.

Group companies outside Japan have continued to put in place their own incentive systems as well as the employee invention system needs to be implemented on a country-by-country basis.

Promotion of industrial property rights management

We consider that the securing of the outcomes of R&D at Group companies as industrial property 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.

With the increase in the number of Group companies and the lively state of invention activity around the world, we are striving to ensure closer coordination between countries with respect to IP activities. In 2017, there were a large number of new patent applications from Group companies in five countries outside Japan.

IP protection and utilization

Response to the counterfeit goods problem in emerging nations

In regard to business expansion in emerging nations, the risk posed by the rapid diffusion of counterfeit goods 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 goods. Some counterfeit goods 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 goods in a lawsuit, depending on the particularities of the cases. As part of our measures against counterfeit goods, we have taken actions such as patent infringement litigations, each with a request for injunction and damage compensation against local manufacturers based on alleged infringement of Kao's patent rights at IP courts (courts specializing in IP) in Beijing and Shanghai.

In addition, to help prevent counterfeit goods 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 goods (border protection).

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Our initiatives

Management of trademarks and design rights

At Kao, the Brand Legal Management Department, which forms part of the Legal and Compliance Division, is in charge of trademark and design rights (some design rights are handled by the Intellectual Property Division 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 secured to maintain Kao's brand value.

Close collaboration with marketing teams is very important for our trademark activities in particular. For this reason, in addition to the Kao Corporation Head Office, we also have three offices in Europe and the U.S. for smooth communication with marketing teams worldwide. Furthermore, we manage the entire schedule of naming processes, from the beginning of name creation through trademark filing and decision of names, in order to ensure timely naming in synchronized with product development schedules.

We consolidate our system for the early elimination of counterfeit goods 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.

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