

# Intellectual property 102-12, 102-15, 103-1, 103-2, 103-3

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 / business divisions 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

In addition to global-scale social issues such as global environmental issues and the COVID-19 pandemic, there are also a diverse range of IP-related issues, including ongoing discussions from economic security perspectives. Collaboration with a wide range of industries is essential to solve these issues. In addition, while there are needs to quickly provide highly varied new value, recently counterfeit products mainly in Asia have also become an issue.

In order to solve these social issues, develop industries and contribute to society, we are working to promote activities in line with our ESG Strategy, the Kirei Lifestyle Plan (KLP). We give importance to utilizing our technologies that we created through our fundamental values of *Yoki-Monozukuri*, not only in our own products but also in ways that lead to solutions for social issues, the development of industry and contribution to society. We believe that it is necessary to acquire IP and appropriately utilize it in order to achieve adequate social implementation and to prevent counterfeiting.

Moreover, in collaboration with outside entities in order to solve social issues, it is also necessary for both parties to make considerable use of IP.

### 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 due to developed technologies easily being counterfeited and hindering expected profits, posing a risk related to realization of What Kao Aims to Be by 2030. 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. In order to eliminate these risks, it is necessary to secure IP and exercise our rights properly.

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

Our R&D Division is working on research and development by establishing themes for solving social issues, in order to realize our KLP. However when it comes to solving these social issues more quickly and certainly, there are numerous themes that go beyond our traditional business domain and are too difficult for our company alone. In light of this, we are also working to find partners with the same goals and partners who make beneficial use of technology developed at Kao for achieving social implementation.

Therefore, in addition to using the IP rights acquired through fundamental technologies and product development for our own products, going forward we are creating opportunities to contribute to industry and society by taking into consideration

making IP rights available through open innovation.

### 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 (JPO) 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.

### Contributions to the SDGs



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## Policies

At Kao, our business divisions employ matrix management, where various functions including R&D, production and sales are encouraged to dynamically interact, and work together organically. In order to realize our business and research strategies, we acquire IP, including patents, design rights, trademarks and other IP rights, for R&D results and names representing brand image generated from the management system, and conduct our business activities.

Under this matrix management, the R&D Division is also carrying out inter-divisional activities between fundamental technology research and product development research, building an IP portfolio based on each of our business strategies that make up Another Kao and Reborn Kao. We are building a system made of the technological assets we have created to utilize in multiple business areas, and putting together a strategic IP portfolio to effectively utilize in our business activities.

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 for researchers aligned with, for example, their years of experience and roles. Not only providing seminars on the patent system as well as seminars and practical training for creating patent specifications, we also provide education that fosters IP management taking business into account and strategic thinking utilizing patents. In 2021, 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. In fact, through these continuous education we believe we have been able to maintain high standards of annual applicant numbers and registration rates.

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

## 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 JPO 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 2021, at a JPO-sponsored discussion meeting with companies, the commissioner of the JPO, our top management and the Senior Vice President of our R&D had the opportunity to exchange opinions on IP strategies. Through this type of dialogue, while gaining an understanding of recent examinational developments, which is useful for establishing more stable IP rights, we also request government support for solutions to social issues we have come up with.

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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 Governance).

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 R&D.

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 Governance.

The IP Department and the Brand Legal Department exchange information through regular liaison meetings and strive to build IP mix strategies through organic cooperation.

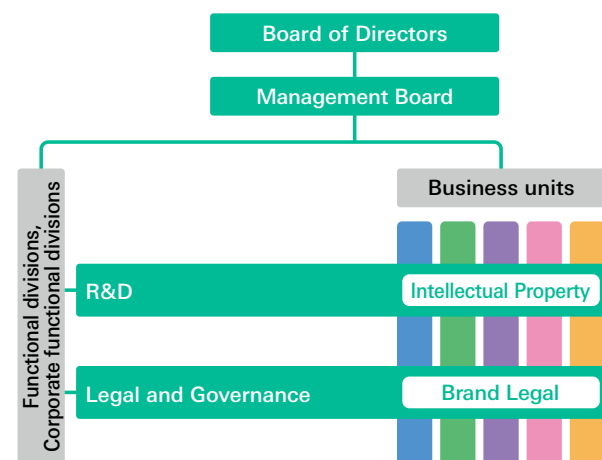
When an important issue arises, the IP Department and the Brand Legal Department submit it to the Management Board for deliberation, and the Board of Directors discusses proposals when necessary. Most recently, the Management

Board deliberated and finalized revisions to the rules for compensating inventors and other related parties as an important investment in IP, which is a source of our technological capabilities. Once each year, useful patents and other IP rights that have contributed to business are reported to the Management Board, which deliberates rewards for employee inventions.

Our group as a whole works closely together on R&D activities. In addition to existing IP operations (applications, rights acquisition, contracts, management, information analysis, IP education) conducted while collaborating with business divisions and group companies outside Japan, taking steps to fight counterfeit products and engaging in open innovation, we are also leveraging our IP from more strategic perspectives.

Looking to initiatives aimed at solving ESG issues, we are examining building an organizational team and external collaboration able to monetize not only IP in our existing business frameworks but also IP in new business domains.

### IP management structures in Japan



\* As of December 2021

## Management of trademarks and design rights

The Brand Legal Department, which forms part of Legal and Governance, 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.

# Intellectual property

## Mid- to long-term targets and performance

### Mid- to long-term targets

We continue to build 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. We also provide strong support for our R&D from an IP aspect, aiming for the realization of our KLP.

### 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.

## Performance in 2021

### Performance

The number of new patent applications in 2021 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. Following these explanations, we have 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 order to respond to social issues, in the past we publicly released technologies developed at our company, and also in recent years, we have gradually provided access to our packaging technology aimed at reducing the amount of plastic used. Moreover,



*Smart Holder and Raku-raku Eco Pack Refill that aim to reduce resource waste*

we have been promoting cooperation with several of our partners, including the recycling of plastic packaging, and are aiming for further co-creation with partners for faster and more reliable social implementation.



Making the world healthier & cleaner > Zero waste

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In the lead up to 2030, we will strive to be a company that continuously 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 (left) and current notches (right)

## 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 have a compensation system for our employees, including a compensation system as a bonus for new innovation, and an incentive to honor useful inventions that contribute to our business operations and incentivize further inventions. As for incentives, 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 offers words of appreciation and encouragement at an awards ceremony for presentation of the incentives to the inventors. In 2021 we continued to implement our incentive system based on internal usage of inventions and

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licensing income, marking 22 consecutive years since the launch of this system at Kao Corporation. This incentive system undergoes review to keep it up to date, and in 2021 we increased our compensation for inventions to support R&D aimed toward What Kao Aims to Be by 2030.

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



Awards ceremony for presentation of performance incentives in 2021

## 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 2021, 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.

We have set up an internal system that spans related departments, including those overseas, to handle counterfeit products. We will continue to take appropriate measures especially against exact copies and counterfeiting technology outside of Japan. 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).