

Intellectual Property

To realize our goal of “contributing to business and society through intellectual property (IP),” our R&D and business divisions work together to create and protect IP and strategically utilize IP rights.

Social issues

The environment for intellectual property activities is changing, with demands for technological innovation and the rapid delivery of new and diverse value to address global social issues such as global environmental problems and infectious diseases, as well as the legislation of a patent non-disclosure system from the perspective of Japan's economic security. In this environment, the problem of counterfeit products, particularly in the Asian region, is becoming more complex and sophisticated, so more advanced countermeasures are required. Solving these problems requires not only our own companies but also the industry at large to work together.

In order to resolve 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 emphasize utilizing 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 it is necessary to acquire IP and appropriately enforce rights in order to achieve adequate social implementation and to prevent counterfeiting.

In addition, there is a need for a high degree of reciprocal use of intellectual property in collaboration with external parties to solve social problems.

Policies

At Kao, our business divisions employ matrix management, where various functions including R&D, production, and sales are encouraged to collaborate and work together organically. To bear fruit from 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 from there.

Under this matrix management, the R&D 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 framework that comprises the technological assets we have created to utilize in multiple business domains, and putting together a strategic IP portfolio to apply effectively in our business activities.

We also actively pursue the acquisition of rights in Asia, the Americas and EMEA (Europe, the Middle East and Africa) 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 where necessary.

At the same time, to maximize the use of intellectual property, we will promote open innovation through collaboration with external parties and encourage activities to deliver higher value products and services to consumers and society. To help solve global social issues, we will co-create new technologies in collaboration with industry and government, and will also flexibly license them and provide access for others to use Kao's technological assets.

Strategy

Risks and opportunities

Risks

In cases where it is not possible to acquire developed technology 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 realizing What Kao Aims to Be by 2030. Furthermore, the appearance of low-quality counterfeit products gives rise to the risk of failing to meet the expectations of consumers regarding the value of our products. To eliminate these risks, we need to properly secure our IP and exercise the rights.

Opportunities

To bring about the KLP, our R&D is working on research and development by establishing themes for solving social issues. However, when it comes to solving these social issues more quickly and surely, 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

Intellectual Property GRI 3-3

partners with the same goals and partners who make beneficial use of technology developed at Kao for achieving social implementation.

As such, we will not only employ the intellectual property rights acquired through developing fundamental technologies and the like for our own products, but will also have opportunities to contribute broadly to industry and society in cooperation with our business divisions, with a view to utilizing them in the future and releasing them to the public as part of our commitment to open innovation.

Strategy

Based on these risks and opportunities, we will develop intellectual property activities that capture the entirety of our business and R&D activities.

In the short term, we will promote the establishment of a system to comprehensively and inclusively acquire and utilize intellectual property rights, including not only industrial property rights such as patents, utility model rights, design rights, and trademarks, but also copyrights, trade secrets, and other intellectual property rights. We will also strengthen collaboration with external parties who will examine globalized intellectual property risks together. This reduces the risk of imitation with multi-layered rights that can address any risk.

In the mid- to long-term, we will further expand the system that enables us to co-create solutions to social issues that Kao aims to address with a variety of like-minded partners outside the company. To this end, we will foster a mindset of co-creation within the company, establish a framework for expanding business earnings through this initiative, and take on the challenge of creating a better system. We believe this will enable us to propose solutions to social issues more quickly and reliably.

Social impact

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. Amid the need to build new value without delay, 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 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.

To become an essential company in a sustainable world, we aspire to protect future lives from infectious diseases, etc. and lead the charge to sustainability. In addition to helping to advance 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.

Contributions to the SDGs



Business impact

Since Kao is a prolific product developer, we can apply Essential Research results to product development in broad range of fields, making it possible to increase the efficiency of R&D through appropriate IP protection. This will enable us to increase product revenues. At the same time, we aim to become an entity that society expects us to be by sincerely addressing and contributing to the resolution of social issues.

Governance

Framework

We implement company-wide management of business related IP through the coordinated activities of the Intellectual Property (under R&D) and the Brand Legal Management (under Legal) (Hereinafter, both divisions will be referred to as the Intellectual Property Department).

The Intellectual Property 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 Management collaborates closely with business divisions when submitting applications

Intellectual Property GRI 3-3

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.

The Intellectual Property Department and the Brand Legal Department exchange information in regular liaison meetings. In the past, the discussion was limited to design rights, which are common to both, but in recent years, the weight of the discussion has shifted to the establishment of IP MIX strategies and coordination of anti-counterfeiting measures in response to changes in the diversified use of technology.

Important matters are proposed to and discussed by the Management Board and, if necessary, by the Board of Directors. Most recently, the Management Board deliberated and decided to revise the regulations regarding compensation for inventors, etc., as this is the source of Kao's technological strength and an important investment in intellectual property. 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. The results of the deliberations are also reported to the Board of Directors.

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.

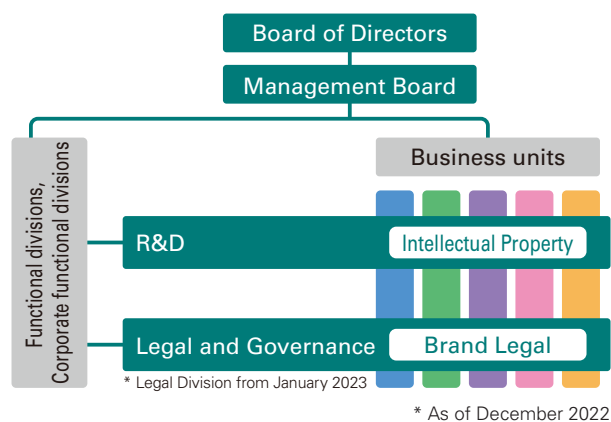
Looking to initiatives aimed at solving ESG issues, we are examining building an organizational team and external structure able to monetize not only IP in our

existing business frameworks but also IP in new business domains.

On the other hand, these activities related to intellectual property involve various risks and opportunities, and risk management is carried out by the Internal Control Committee and the ESG Managing Committee under the supervision of the Board of Directors. These committees are both headed by the President & CEO.

The Internal Control Committee (which meets twice a year) and its subordinate Risk & Crisis Management Committee (which meets four times a year) also manage risks related to countermeasures against counterfeit products outside Japan. These committees are headed by the Executive Officer Responsible for Corporate Strategy.

IP management framework in Japan



Management of trademarks and design rights

The Brand Legal Department, which forms part of Legal, is in charge of trademark and design rights (some design rights are handled by the Intellectual Property under R&D). We conduct adequate availability searches for new names or designs so as 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, to ensure timely naming, we support 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 safely the product names, logos and catchphrases that become the faces of our products, and we are able to provide products that consumers can select and use with reassurance.

We have consolidated systems for promptly eliminating counterfeit products that have been on the rise in recent years. We cooperate with governmental authorities, e-commerce site managers, and peer companies in the industry to this end, 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 aiming to eliminate counterfeit products and expose their traders so that consumers will not receive counterfeit products.

Furthermore, in anticipation of co-creation with other companies, we are also working on trademarking various

Intellectual Property GRI 3-3, 404-2

names for the purpose of penetration, establishment, and recognition of our superior technologies and services.



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 2022, a total of around 430 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 EMEA.

As a result, researchers have been taking more initiative in acquiring IP rights for technologies and in

building IP portfolio. We expect 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.

On the other hand, we recognize that the population aging of IP department members and the restructuring of member education as a new issue to improve the environment in preparation for generational change are new challenges, and we have begun to address these issues.

Collaboration with stakeholders

To realize "What Kao Aims to Be by 2030," we will take a firm stand against counterfeiting, which is a challenge in the field of intellectual property. By collaborating with IP industry organizations and other companies in our own industry, we have reinforced our measures and are helping to advance 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 countries, in order to allow us to maintain an accurate grasp of the latest trends in IP administration. Most recently, in 2021, the Commissioner of the Japan Patent Office and Kao's top management had an opportunity to exchange views on IP strategies and other issues. In 2022, we invited an

examiner from the JPO to explain the technology and to ask the Indian government, in cooperation with the JPO, to expand the ceiling of examination cooperation with Japan in India and the fields of application. Through this type of dialogue, while gaining an understanding of recent developments related to examination, which is useful for establishing more stable IP rights, we also request government support for solutions to social issues we have identified.

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



Management Strategy and Mid-term Plan 2025 (K25)
<https://www.kao.com/global/en/corporate/strategy-and-mid-term-plan/>

Risk management

Business activities involve a variety of risks, and it is important to quickly identify and assess these risks and feed them back to business activities. Kao's Risk Management Department has established subcommittees to address various corporate risks, and the IP Department participates in the counterfeit product risk outside Japan subcommittee, with the General Manager of the Brand Legal Management serving as the promotion leader. There, all stages of mimicry are divided into subcommittees to examine the response at each stage. The results of the study are compiled into a casebook for use within Kao. We are also strengthening our injunction framework with customs authorities and

Intellectual Property

other government agencies, while sharing information in the anti-counterfeiting subcommittee of an external organization, and collaborating not only with all arms of the Kao Group but also with the government and other companies to develop activities to minimize risk. We conduct these risk and opportunity assessments, which are approved by the Internal Control Committee and the ESG Managing Committee, respectively.

Targets and metrics

Mid- to long-term targets and 2022 results

Mid- to long-term targets

We will continue to build an IP portfolio that is optimized in terms of both quantity and quality, and will not only make strategic use of key research results that can create diverse product value globally and across categories, but also provide strong IP support to the R&D to realize the Kirei Lifestyle Plan.

2022 results

The number of new patent applications in 2022 remained at the previous fiscal year's high level thanks to active development of new inventions. The filed applications are held as appropriate IP rights through the process of rights acquisition. Since all of these IP activities are investment activities, we believe that it is necessary to build an optimized IP portfolio for Kao. This year, we developed activities aimed at portfolio optimization, specifically, with a view to mid- to long-term business strategies, extracting IP rights that have reached the end of their usefulness or have little potential for use, and reducing the costs of acquiring and maintaining rights by discontinuing or abandoning rights, so that costs can be allocated to filing and

acquiring rights for new technologies. 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 2022 results

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.

When responding to social issues in the past, we publicly released technologies developed at our company. In recent years, we have likewise gradually provided access to our packaging technology with the aim of reducing the amount of plastic used. Moreover, we have been promoting collaboration 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.



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

P120 Zero Waste

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

Intellectual Property

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)

Intellectual Property

Main initiatives

Handling of IP issues with other corporations

We regard IP rights, including patents, as critical management resources, 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 and CEO offers words of appreciation and encouragement at an awards ceremony for presentation of the incentives to the inventors. In 2022 we continued to implement our incentive system based on licensing income, marking 23 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 EMEA continued to establish their own incentive systems.

IP portfolio optimization

With the aim of realizing the Kirei Lifestyle Plan, we are extending our research and development activities beyond the conventional business domain and into various methods through new initiatives such as Another Kao and Reborn Kao. While filing activities will increase accordingly, there will also be activities to obtain rights for previously filed applications, and those that have been granted rights will be maintained by paying annuities. Since the rights that have become assets through these investment activities are a mixture of those that have already fulfilled their roles and those that are no longer needed due to changes in business plans, periodic inventories have been developed in the past.

In 2022, we reinforced this activity and conducted a more rigorous examination of all foreign patents held, not only to control costs but also to reduce the number of man-hours required for rights acquisition, etc. This allows for the allocation of costs and man-hours to new technological developments (change of investment destination). Through this activity, we have established a framework to sustainably optimize the IP portfolio by suspending or abandoning the rights of approximately 3,000 IP rights in total by making changes to the future inventory policy.

Responding to the problem of counterfeit products in emerging countries

In business expansion outside Japan, especially in emerging countries, the more locally accepted a product (popular product) is, the higher the risk of counterfeit products and their rapid expansion, making it important to quickly identify counterfeit products and take appropriate countermeasures.

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. Rather, it also becomes imperative that countermeasures to ensure the health and safety of local consumers are put in place.

To combat counterfeit products, we have established a cross-sectional framework of affiliates and divisions within and outside Japan, and continue to take appropriate and prompt action to deal with cases outside Japan, where counterfeit products are frequently discovered. We believe it is also vital to take a firm stand by filing lawsuits to deter the manufacture and distribution of counterfeit products.

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).