

# KĀDANT

2020  
CORPORATE  
SUSTAINABILITY  
REPORT



Kadant Recognized for Excellence in Sustainability with the 2020 AIM Sustainability Award

Kadant was recognized by the Associated Industries of Massachusetts (AIM) for excellence in environmental stewardship, promotion of social well-being, and contributions to economic prosperity. The annual award distinguishes organizations that transparently manage their corporate social responsibilities while being held accountable to its stakeholders.

Kadant Named to Newsweek's List of America's Most Responsible Companies 2021

Kadant was named to Newsweek's 2021 list of America's Most Responsible Companies based on a detailed analysis of Environmental, Social and Corporate Governance (ESG) factors. America's Most Responsible Companies were selected based on publicly available key performance indicators derived from CSR Reports, Sustainability Reports, and Corporate Citizenship Reports as well as an independent survey. The final list, which spans 14 industries, recognizes 400 companies with the highest scores as the most responsible companies in the United States. More information about the 2021 rankings is available at [www.newsweek.com/americas-most-responsible-companies-2021](http://www.newsweek.com/americas-most-responsible-companies-2021).

Kadant Named One of 100 Fastest-Growing Companies by Fortune

Kadant was included in Fortune's 2020 list of the 100 fastest-growing companies in the world. In its debut appearance on the list, Kadant was ranked by Fortune as one of the world's best three-year performers in revenue growth, EPS growth, and annualized total return for the period ending June 30, 2020. More information about the 2020 rankings is available at [www.fortune.com/100-fastest-growing-companies/2020](http://www.fortune.com/100-fastest-growing-companies/2020).

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## Dear Stakeholder,

While the past year was dominated by the global pandemic that shook communities around the world, I am proud of the pivotal role Kadant played in helping critical infrastructure manufacturers continue to operate. Our engineered products and technologies were utilized by our customers to produce life-sustaining consumer products in a responsible and efficient manner that helped ease the tremendous difficulties experienced by communities around the globe.

Our manufacturing facilities were able to operate while working under enhanced safety protocols designed to safeguard our workplaces and protect the health and safety of our employees. The precautionary measures we implemented required our workforce to adapt to a new way of work and they performed exceptionally well under challenging circumstances. I am proud of our talented and dedicated employees for the work they have done and continue to do to serve our customers and each other.

In 2020, we were honored to be recognized for our Environmental, Social, and Governance (ESG) efforts by several organizations, including the Associated Industries of Massachusetts and Newsweek where we were named one of America's Most Responsible Companies based on various ESG factors. We are proud to be recognized by these organizations for our efforts to deliver value to our customers in a responsible manner while taking care of our people and communities in the process.

Our asset-light business model continues to enable us to minimize our consumption of resources and the environmental footprint we create. During 2020, we formalized our process to identify opportunities to reduce energy consumption and have used this information to set formal energy goals in 2021. We expect to make investments targeted at further reducing our electrical and gas energy consumption across our 19 major manufacturing facilities worldwide. Our products also help our customers efficiently use renewable natural resources in their manufacturing processes which can help them achieve their own sustainability goals, including the reduction of greenhouse gas emissions.

In this sustainability report, we highlight the ESG topics that are most important to our stakeholders and several areas we have been working on to improve our key sustainability metrics. We also included an update to our GRI index and, for the first time, have reported information with reference to the Sustainability Accounting Standards Board (SASB) framework.

Thank you for your interest in Kadant's sustainability story and in supporting our efforts to make the world a better place for all humanity.



Jeffrey L. Powell  
President and Chief Executive Officer

## About Kadant

Kadant is a global supplier of high-value technologies and engineered systems that help our customers reduce energy consumption and water use and enhance efficiencies for long-term sustainability.

We have customers in a wide range of process industries from packaging and wood products to mining, metals, textiles, and food and beverage, among others.

Kadant became a fully independent public company in 2001 and is listed on the New York Stock Exchange (KAI). However, our story began long before 2001, and many of our businesses have been serving industrial customers for over 100 years. We are headquartered in Westford, Massachusetts, with 19 major manufacturing locations and approximately 2,600 employees in 20 countries around the world. Of our full-time employees, approximately 47% were in North America, 27% were in Europe and 22% were in Asia.

### Employees, Diversity and Inclusion

We embrace the diversity of our employees, including their unique backgrounds, experiences, and talents. Everyone is valued and appreciated for their distinct contributions to the growth and sustainability of our business. We strive to cultivate a culture of diversity and inclusion that supports and enhances our ability to recruit, develop, and retain talent at every level.

Our management team places significant focus and attention on matters concerning our employees, particularly diversity, capability development, and succession planning. We have numerous programs to attract and retain our talent, including leadership and executive development programs as well as technical and other training. We build partnerships with universities and associations to promote future careers in manufacturing. We also have a well-established performance management and talent development process in which managers provide regular feedback and coaching to develop employees.

### Goals

We recognize the value of setting quantitative goals, not only for financial performance but for our ESG performance. In 2020, we started the internal process to establish performance goals related to our energy usage and greenhouse gas (GHG) emissions.

We have set a goal to reduce our Scope 2 GHG emissions in 2021 by 20% from 2020 levels, and we will explore sourcing our electricity from renewable sources to help achieve that target. Moving forward each of our business units will continue to seek opportunities to further reduce energy usage and associated GHG emissions.

In 2021, all suppliers will receive and be requested to acknowledge our Global Supplier Code of Conduct, and we will screen 80% of our supply chain spend for ESG-related risks.

We will also explore opportunities to set performance goals for other relevant topics.

## Highlights from 2020

### Governance

In 2020, we became a signatory to the United Nations Global Compact (UNGC), the world's largest corporate sustainability initiative. Under the UNGC, members are encouraged to align their operations and strategies with universal principles on human rights, labor, environment, and anti-corruption and take strategic actions to advance broader societal goals, such as the UN Sustainable Development Goals.

Launched in 2000, the UNGC is the world's largest corporate citizenship initiative with over 12,000 member companies in over 160 countries. More information about the UNGC is available at [www.unglobalcompact.org](http://www.unglobalcompact.org).

Our commitment to responsible governance extends to the policies and procedures we have put in place to manage our actions and impacts. In the past two years, we have developed and implemented a supplier code of conduct that establishes the standards we expect our business partners to maintain. Contained within our Business Code of Conduct and Ethics, which governs the expectations for our own team, there are multiple provisions covering topics such as anti-bribery and corruption, human-trafficking and slavery, and anti-discrimination, among others.

In 2020, we implemented two new policies: a Human Rights Policy and an Environmental, Health and Safety (EHS) Policy. The Human Rights Policy outlines our expectations for how we manage and improve upon the protection of human rights in our own operations and throughout our value chain. Covering issues such as workplace security, child labor, forced labor and human trafficking, diversity and inclusion, health and safety and freedom of association, this policy is part of the commitment we made as a signatory to the UNGC. More importantly, it outlines how we, and those we work with, must take concrete steps to live up to our values as a company.



## Business Conduct

Our comprehensive Code of Business Conduct and Ethics clearly states our values and outlines appropriate business conduct. For instance, it includes provisions on:

- Compliance with Laws, Rules, and Regulations
- Ethical Conduct and Fair Dealing
- Conflicts of Interests
- Confidential Information
- Anti-bribery and Anti-corruption
- Political Contributions
- Insider Trading
- Global Trade Compliance and Export Control Awareness
- Maintaining Free Competition
- Health and Safety
- Equal Employment Opportunities
- Human Trafficking and Slavery

Our EHS Policy outlines our commitment to protecting the environment and health and safety of our employees, customers and the communities where we operate. Covering issues such as compliance with applicable EHS laws, implementation of sound EHS management practices and training, minimization of environmental impact, improvement in sustainability, reduction of environmental risk, and continuous improvement in EHS performance, this policy underpins our goals to reduce our environmental impact. We also expect our global suppliers to operate in an environmentally responsible and efficient manner in compliance with these standards.

These policies, together with our Global Supplier Code of Conduct, form a solid foundation from which Kadant operates as a responsible corporate citizen and better help us manage the impact we have on the world around us.

## Innovation

In 2020, we continued the rollout of advanced vision systems designed to help Oriented Strand Board (OSB) producers increase production rates and improve strand quality in the production process.

The ARGUS-FMS™ fines measurement system continuously scans the strander outfeed conveyor to provide real-time fines percentages for every cutting pass. By constantly scanning all strands produced, the system greatly reduces the error rates inherent with manual strand sampling. The steady flow of data allows OSB manufacturers to make better production decisions both in the wood room and in downstream processes.

The ARGUS-LFO™ log fill optimizer and ARGUS-LPO™ load pocket optimizer provide data on the volume of logs staged on the log deck and in the load pocket. Together, these devices help operators increase strander fill-rates and wood room production. Additionally, the data produced by the systems provides new performance metrics for benchmarking operations and identifying opportunities for improvements.

In the corrugated packaging industry, our latest supervisory control technology is used to maximize heat transfer while improving steam energy management and efficiency. We combine controls and steam management expertise to automatically and continuously adjust steam pressure set points to create stable and efficient processes with our ThermoMax system. The PLC-based automation with graphical user interface offers simple, intuitive operation while providing rapid temperature response for real-time product-type changes. In addition, the ability to perform remote diagnostics and process analytics enables rapid troubleshooting and optimal energy utilization.

## Health and Safety

Throughout the coronavirus pandemic (COVID-19), we have remained focused on protecting the health and safety of our employees while meeting the needs of our customers. Shortly after the outset of COVID-19, we adopted enhanced safety measures and practices across our facilities to protect employee health and safety and ensure a reliable supply of essential products to our customers. We monitor and track the impact of COVID-19 on our employees and within our operations, and proactively modify or adopt new practices to promote their health and safety.

Throughout 2020, we continued to focus on the safety of our production processes and shop floors. A topic of particular interest was the safe operation of overhead cranes and forklifts. These pieces of equipment are essential to our production spaces, but they can also represent unique and significant safety risks if not managed properly and people aren't trained in their operation. Therefore, at several divisions, we provided additional training on crane and forklift safety to ensure that all safety protocols are followed, and that the operators of these pieces of equipment have the latest, up-to-date training in their safe use.

## Environment

The core of our business value proposition is that we make the industries that utilize natural resources much more efficient. Our forestry-related products allow for using smaller, faster growing wood resources, and our papermaking equipment brings greater efficiency to the packaging, tissue, and paper recycling industries. However, we also recognize our obligation to constantly seek efficiency in how we run our own operations.

We have taken steps to better understand and reduce our energy consumption in several key areas. We have installed new LED lighting retrofits in several business units, including on shop floors and in warehouses. In Mexico, we added station capacitor banks, which corrected the characteristics of the incoming electrical power and improved the voltage profile, during engine starting conditions or connection of large loads. These improvements help us to reduce electrical losses and wear and tear on equipment.



We seek energy savings when completing new projects or upgrading equipment and work closely with our energy supplier to determine the costs, benefits, and projected savings from these projects.

Several divisions are gradually replacing their fossil-fuel powered vehicles with electric or hybrid powered cars. While our vehicle fleet is small, these steps are a visible indication of our commitment to conserving energy in a meaningful and visible manner.

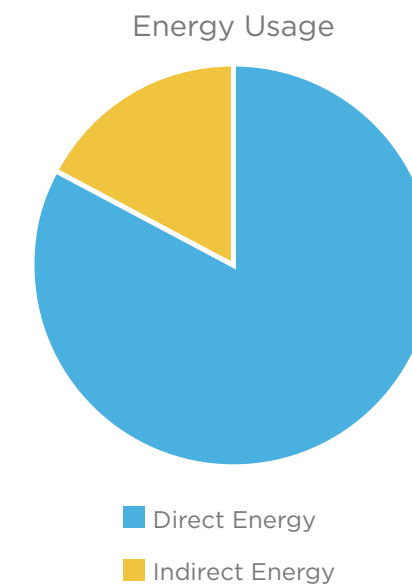
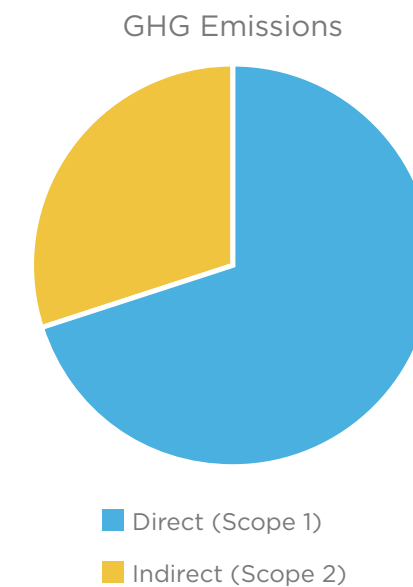
We also seek to recycle materials and minimize scrap wherever possible. Our supply chain groups analyze raw material usage for each product line, evaluate scrap, and adjust processes and purchasing as required. In 2020, we recycled over 620 metric tons of metal, including high value commodities such as aluminum, copper, bronze and stainless steel. Most of our sites also recycle other material such as plastic, corrugated packaging, and other forms of fiber-based materials.

Our energy and GHG data are presented in the table below. From 2019 to 2020, our total energy consumption increased slightly due primarily to increased natural gas usage. Our electricity consumption was relatively flat year-over-year at approximately 32,000 MWh. Our Scope 1 GHG emissions increased slightly from 2019, and our Scope 2 emissions decreased slightly. This is attributable to an increased proportion of renewable energy in the grid and several sites specifically sourcing renewable electricity. In 2020, we estimate that 9% of our total electricity usage was intentionally renewable and as much as 20% of our total electricity used was renewably generated when considering renewable energy in the grid mix.



## Environmental Data

Activities	Performance Indicator	Unit	2019	2020	
Energy	Electricity	MWh	31,832	32,287	
	Building or process heating	Natural gas, oil	MWh	146,031	153,915
	Building district heating	District energy	MWh	250	250
	Generators and Forklifts	Diesel and propane	MWh	2,088	1,257
	Vehicles	Diesel and gasoline	MWh	3,169	3,402
<b>Total Energy Usage</b>		<b>MWh</b>	<b>183,370</b>	<b>191,111</b>	
GHG	Building electricity	MTCO <sub>2</sub> e	14,177	12,271	
	Building or process heating	MTCO <sub>2</sub> e	26,452	27,842	
	Building district heating	MTCO <sub>2</sub> e	56	56	
	Generators and Forklifts	MTCO <sub>2</sub> e	466	269	
	Vehicles	MTCO <sub>2</sub> e	769	865	
<b>Total GHG Emissions</b>		<b>MTCO<sub>2</sub>e</b>	<b>41,919</b>	<b>41,303</b>	
GHG	Direct (Scope 1)	MTCO <sub>2</sub> e	27,687	28,976	
	Indirect (Scope 2)	MTCO <sub>2</sub> e	14,233	12,327	



- Other metrics:
- Over 620 metric tons metal recycled
  - Over 5,500 metric tons of metals used in our manufacturing processes
  - Over 400 cubic meters of corrugated packaging and cartonboard recycled

# GRI Content Index



This report has been prepared in accordance with the GRI Standards: Core option. Unless otherwise specified, this report was prepared using the 2016 versions of the Topic Specific Disclosures of the GRI Standards.

Kadant's 2020 Corporate Sustainability Report is an update to our first report, published in early 2020, and covers the reporting period of calendar year 2020.

For the Materiality Disclosures Service, GRI Services reviewed that the GRI content index is clearly presented and the references for Disclosures 102-40 to 102-49 align with appropriate sections in the body of the report. Data in the report represents all wholly-owned Kadant operations able to provide data for any topic.

GRI 101: Foundation 2016 GRI 102: General Disclosures 2016			Information / Location in Report
Organizational Profile			
102-1	Name of the organization	Kadant Inc.	
102-2	Activities, brands, products, and services	Available online at kadant.com	
102-3	Location of the headquarters	Westford, Massachusetts, United States	
102-4	Location of operations	Kadant's facilities are located in 20 countries worldwide. A full list of our manufacturing locations is available at kadant.com	
102-5	Ownership and legal form	Kadant Inc. is listed on the New York Stock Exchange (NYSE: KAI).	
102-6	Markets served	Kadant is a global supplier of high-value, critical components and engineered systems used in process industries worldwide. Kadant's products and services are sold to industries worldwide through our subsidiaries in North America, South America, Europe, and Asia. For a list of industries served, visit kadant.com	

Information / Location in Report		
Organizational Profile		
102-7	Scale of the organization	We are headquartered in Westford, Massachusetts, with 19 major manufacturing locations and approximately 2,600 employees in 20 countries around the world. Over the last 10 years, our revenue has grown 89% from \$335M in 2011 to \$635M in 2020.
102-8	Information on employees and other workers	Kadant has approximately 2,600 employees worldwide. At our corporate headquarters, our employees are 57% male and 43% female.
102-9	Supply chain	Kadant's supply chain consists of hundreds of upstream suppliers who primarily provide raw materials such as steel, stainless steel, ductile iron, brass, bronze, aluminum, elastomers and by-products of the paper-making industry.
102-10	Significant changes to the organization and its supply chain	We had no major acquisitions or changes in 2020 that materially affect our scale or footprint.
102-11	Precautionary Principle approach	The precautionary principle does not explicitly guide decisions made by Kadant.
102-12	External initiatives	Kadant observes fundamental labor and environmental standards. These basic values are included in Kadant's Code of Business Conduct and Ethics, which is used to guide employees in adhering to high levels of performance, integrity and professionalism.
102-13	Membership of Associations	Engineered Wood Technology Association (EWTA), Technical Association of the Pulp and Paper Industry (TAPPI) and the Conveyor Equipment Manufacturers Association (CEMA)

Information / Location in Report		
Strategy		
102-14	Statement from senior decision-maker	See page 3
Ethics and Integrity		
102-16	Values, principles, standards, and norms of behavior	Kadant's Code of Business Conduct and Ethics and other Corporate Governance and Sustainability documents are available online at kadant.com
Governance		
102-18	Governance structure	Kadant's Corporate Governance Guidelines and the Committee Charters of the Board of Directors are available online at kadant.com
Stakeholder Engagement		
102-40	List of stakeholder groups	Kadant's most important stakeholder groups are our customers, employees, investors, and local communities, and we are dedicated to maintaining open lines of communication and considering all their interests and needs.
102-41	Collective bargaining agreements	Other than certain of our Canadian employees and typical work councils outside of the U.S., none of our employees are represented by labor unions or covered by a collective bargaining agreement.
102-42	Identifying and selecting stakeholders	Our stakeholders were identified through a formal materiality process we conducted in 2019.

Information / Location in Report		
Stakeholder Engagement		
102-43	Approach to stakeholder engagement	<p><b>Customers:</b> We see our customers as partners and collaborators and work closely with them to find the most efficient solutions for their applications.</p> <p><b>Employees:</b> Avenues of engagement include job rotation and cross-training, multi-rater feedback surveys, leadership development programs, annual performance reviews, and career development programs.</p> <p><b>Investors:</b> We engage directly with investors to understand their perspectives on corporate governance, sustainability, and other matters. We hold "Investor Days", present at financial and industry conferences, meet with financial analysts and investment firms, and hold individual meetings with current and potential shareholders throughout the year or as deemed appropriate.</p> <p><b>Communities:</b> Our businesses find various ways to engage with their local communities, including volunteering, participating in local charitable events, leading community development boards, funding academic positions and scholarships, and engaging with local governments and non-governmental organizations.</p>
102-44	Key topics and concerns raised	Stakeholders have raised various issues in our engagement with them. They are captured in the list of material topics included in this index.
Reporting Practice		
102-45	Entities included in the consolidated financial statements	All data in the report represent all Kadant operations, including directly and indirectly owned subsidiaries and joint ventures, unless explicitly noted otherwise. Also, see Form 10-K for the 2020 fiscal year ended January 2, 2021.

Information / Location in Report		
Reporting Practice		
102-46	Defining report content and topic boundaries	By incorporating feedback from our most senior managers and representatives of key stakeholder groups, we identified key issues and determined which CR topics were most critical to address.
102-47	List of material topics	Material topics are as listed in this Index.
102-48	Restatements of information	None.
102-49	Changes in reporting	No changes.
102-50	Reporting period	1 January - 31 December 2020
102-51	Date of most recent report	This is Kadant's second sustainability report.
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Stacy Krause, Vice President, General Counsel, and Secretary stacy.krause@kadant.com
102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option.
102-55	GRI content index	See page 10
102-56	External assurance	At this time, Kadant has decided to not seek external assurance for the report.
Topic-specific Disclosures		
Material Topic: Economic Performance		
GRI 103: Management Approach 2016		
103-1 / 103-2 / 103-3		See page 20
GRI 201: Economic Performance 2016		
201-1	Direct economic value generated and distributed	See page 24 in our 2020 Annual Report on Form 10-K.
Material Topic: Governance		
GRI 103: Management Approach 2016		
103-1 / 103-2 / 103-3		See page 20

Topic-specific Disclosures		
Material Topic: Governance		
Non-GRI Topic Specific Disclosure: Governance		
Kadant's Committee Charters and other Corporate Governance documents are available online at kadant.com.		
Material Topic: Ethics and Compliance		
GRI 103: Management Approach 2016		
103-1 / 103-2 / 103-3		See page 20
GRI 205: Anti-Corruption 2016		
205-3	Confirmed incidents of corruption and actions taken	In 2020, there were no confirmed instances of corruption at Kadant.
GRI 419: Socioeconomic Compliance 2016		
419-1	Non-compliance with laws and regulations in the social and economic area	In 2020, there were no material fines for non-compliance with regulations.
Material Topic: Innovation		
GRI 103: Management Approach 2016		
103-1 / 103-2 / 103-3		See page 21
Non-GRI Topic-specific Disclosure: Innovation		
	R&D Expenses as percentage of revenue	R&D expenses in 2020 represented 2% of our revenue.
Material Topic: Health, Safety and Wellness		
GRI 103: Management Approach 2016		
103-1 / 103-2 / 103-3		See page 23



Topic-specific Disclosures		
GRI 403: Occupational Health and Safety 2018		
403-1	Occupational health and safety management system	See page 23
403-2	Hazard identification, risk assessment, and incident investigation	See page 23
403-3	Occupational health services	See page 23
403-4	Worker participation, consultation, and communication on occupational health and safety	See page 23
403-5	Worker training on occupational health and safety	See page 23
403-6	Promotion of worker health	See page 23
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	See page 23
403-8	Workers covered by an occupational health and safety management system	See page 23
403-9	Work-related injuries	Total Reportable Injury (TRIR) Rate = 3.33 Days Away/Restricted (DART) Rate = 1.82 These figures are below industry benchmarks.
Material Topic: Training and Education		
GRI 103: Management Approach 2016		
103-1 / 103-2 / 103-3		See page 22

Topic-specific Disclosures		
Material Topic: Training and Education		
GRI 404: Training and Education 2016		
404-3	Percentage of total employees by gender and by employee category who received a regular performance and career development review during the reporting period.	It is Kadant's practice that full-time employees receive annual performance reviews.
Material Topic: Equal Opportunity and Non-Discrimination		
GRI 103: Management Approach 2016		
103-1 / 103-2 / 103-3		See page 23
GRI 405: Diversity and Equal Opportunity 2016		
405-1	Diversity of governance bodies and employees	There are six members of Kadant's Board of Directors, one of whom is female. There are 11 Corporate Officers at Kadant, three of whom are women.
GRI 406: Non-Discrimination 2016		
406-1	Incidents of discrimination and corrective actions taken	In 2020, there were no judgments of discrimination at any of our businesses.
Material Topic: Energy and Emissions		
GRI 103: Management Approach 2016		
103-1 / 103-2 / 103-3		See page 24
GRI 302: Energy 2016		
302-2	Energy Consumption within the organization	See page 9
GRI 305: Emissions 2016		
305-1	Direct (Scope 1) GHG emissions	See page 9
305-2	Indirect (Scope 2) GHG emissions	See page 9

Topic-specific Disclosures		
Material Topic: Materials Used		
GRI 103: Management Approach 2016		
103-1 / 103-2 / 103-3		See page 24
GRI 301: Materials 2016		
301-1	Materials used by weight or volume	See page 9
Material Topic: Effluents, Waste and Recycling		
GRI 103: Management Approach 2016		
103-1 / 103-2 / 103-3		See page 24
GRI 306: Effluents and Waste 2016		
306-2	Waste by type and disposal method	See page 9
Material Topic: Environmental Compliance		
GRI 103: Management Approach 2016		
103-1 / 103-2 / 103-3		See page 24
GRI 307: Environmental Compliance 2016		
307-1	Non-compliance with environmental laws and regulations	In 2020, no Kadant businesses were subjected to material fines or sanctions for non-compliance with environmental laws or regulations.
Material Topic: Supply Chain Sustainability		
GRI 103: Management Approach 2016		
103-1 / 103-2 / 103-3		See page 20
Non- GRI Topic-specific disclosure: Supply Chain		
Suppliers are prohibited from engaging in any corruption, extortion, or embezzlement in any form. Suppliers must comply with anti-corruption laws and regulations of the countries in which they operate, including the U.S. Foreign Corrupt Practices Act and applicable international anti-corruption conventions.		
Kadant also has a Global Supplier Code of Conduct that outlines our expectations for our suppliers.		

## SASB Index

Topic	Accounting Metric	Disclosure	Code
Energy Management	(1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable	Pages 8 and 9	RT-IG-130a.1
Employee Health & Safety	(1) Total recordable incident rate (TRIR), (2) fatality rate, and (3) near miss frequency rate (NMFR)	Page 16	RT-IG-320a.1
Fuel Economy & Emissions in Use-phase	Not relevant to Kadant's products or business		
Materials Sourcing	Description of the management of risks associated with the use of critical materials	Kadant has built a robust and resilient supply chain, which includes redundancy for critical materials where possible. We seek to avoid sole-sourcing of critical materials where possible, and do not believe that we are at substantial risk for supply chain disruptions regarding essential materials.	RT-IG-440a.1
Remanufacturing Design & Services	Not relevant to Kadant's products or business		

# Management Approaches

## Governance and Policies

As a public company and steward of our stockholders' financial assets, ethics and compliance with our policies and applicable laws are important at Kadant. Compliance is managed by the corporate legal department in cooperation with our businesses' management teams. Compliance by our corporate management team and by the management of our various businesses through centralized policies is certified annually as an internal control. Our management team at corporate and geographic business levels are annually required to review and certify as to compliance with the Code of Business Conduct and Ethics, as well as the Insider Trading Policy, Anti-Harassment Policy, FCPA Policy and Global Export Compliance Policy.

The corporate legal department provides an annual report related to compliance to the Board of Directors and ongoing updates to its Audit and Risk Oversight and Sustainability Committees. The Board's Risk Oversight and Sustainability Committee provides additional oversight of our key strategic and operational risks as well as our sustainability efforts. In the reporting year, our management approach proved effective and required no additional adjustments.

## Supply Chain Sustainability

As a multi-national company that sources from hundreds of suppliers from around the world, we recognize the need for our suppliers to abide by and exceed various environmental, social, and economic regulations and standards both from an international perspective, e.g. human rights, and a country by country standard for countries where our suppliers operate. We manage these risks and regulatory issues in our supply chain primarily through our Supplier Code of Conduct, which is complemented by other relevant policies, such as the Kadant Code of Business Conduct and Ethics, Kadant Human Rights Policy and Kadant Environmental, Health and Safety Policy. The Supplier Code of Conduct is managed by our individual geographic businesses of Kadant across the globe. Each business manages its own suppliers through targeted audits and feedback processes, which will continue to grow in scope in 2021 and beyond.



## Financial Performance

Kadant's financial performance and management, including strategy and risk management, are the responsibility of the senior executive team and are overseen by our Board. As a public company, our financial disclosures are subject to the rules of the U.S. Securities and Exchange Commission and the New York Stock Exchange.

The Board, through its committees, review and approve annual targets for key financial performance metrics, as proposed by management. Performance against these targets is monitored throughout the year. The executive compensation program emphasizes compensation linked to objective performance measures, which we believe are related to the creation of stockholder value. In addition, our non-employee directors receive an annual equity award for their service. In 2018, the Board's Compensation Committee adopted a compensation framework that ties the size of the equity award to the company's financial performance.

Additional assessments occur during our quarterly review processes, annual performance reviews, and as part of our annual strategic planning. When deviations from projections and goals are encountered, a variety of remedies are considered, including cost-saving measures, enhanced revenue generation, and other measures as deemed appropriate.

## Research and Development

Innovation and continuous improvement are central to our organization. They keep us agile, ensure we are aligned with our customers' needs, and are vital to our continued success. This is relevant throughout our businesses, in particular those that house our research and development centers of excellence.

Research and development is managed by our various businesses. Most have a dedicated research and development department and director, who is responsible for the oversight of our innovation programs. Engineering, manufacturing and several other departments are also heavily involved. Technical steering committees meet regularly and innovation is discussed during regular senior leadership meetings. Success in innovation is reviewed by multi-departmental leadership and tracked against internal targets.

## Training and Education

The training and education of our employees is crucial for our continued success as a company. This extends throughout the organization. Many of our businesses operate in niche markets, which require specialized training. In our manufacturing facilities, safety trainings and trainings for operating advanced machinery are of particular importance. As an employer of choice, we need to keep all of our employees engaged, motivated and invested to maximize job satisfaction and performance. This leads to superior products and services and benefits our customers and all of our stakeholders.

Training and education is managed by our businesses individually. Responsibility lays with their senior management teams, in particular their human resource departments, and the departments under which the respective trainings occur. Programs used include business wide training plans, tuition reimbursement policies and paid certifications and trainings, and regular performance reviews. The effectiveness of our training programs is assessed through our safety records, feedback we collect from participants, and the capabilities that our employees possess and demonstrate to the organization. If gaps are identified, training programs are adjusted.

## Health, Safety, and Wellness

Health and safety is important throughout the organization, but primarily affects our employees on the shop-floor. Our employees are our most important asset. A strong safety record translates into better performance, fewer production delays, and better morale. It also increases our attractiveness as an employer of choice, ultimately making us more competitive. Moreover, it is a prerequisite of our customers to do business with us.

The topic is managed by the senior management of our various businesses and is adapted to their specific and regional requirements. They are supported by safety committees with representation from different departments. Our businesses follow an occupational health and safety management system that covers employees who receive all appropriate and necessary safety trainings to both protect their own health and safety as well as the people, equipment and environment around them. Safety policies are accessible to employees in our safety handbooks.

Often, external advisors review and make suggestions to augment our procedures, and several of our businesses have a variety of different safety certifications. Our businesses use different approaches to ensure management of health and safety is effective, including tracking of all relevant incidents, industry benchmarking, employee surveys, mock OSHA audits, or engagement of external reviewers, and react swiftly when needs for improvement are identified.

## Equal Opportunity and Non-Discrimination

The topic is managed by our various businesses, usually by their respective Human Resource departments. They are all bound by equal employment opportunity policies in their employee handbooks. The attraction, retention and development of exceptional employees is critical to our continued success. As part of these efforts, we strive to offer a competitive compensation and benefits program and to foster a safe and inclusive work environment where everyone feels respected, valued and empowered to do their best work. We embrace the diversity of our employees, including their unique backgrounds, experiences, and talents. Everyone is valued and appreciated for their distinct contributions to the growth and sustainability of our business. We strive to cultivate a culture of diversity and inclusion that supports and enhances our ability to recruit, develop and retain talent at every level. Our management team places significant focus and attention on matters concerning our employees – particularly its diversity, capability development, and succession planning. Accordingly, we regularly review talent development and succession plans for each of our functions and operating segments, to identify and develop a pipeline of talent to maintain business operations. We have numerous programs to attract and retain our talent, including leadership and executive development programs as well as technical and other training. We build partnerships with universities and associations to promote future careers in manufacturing. We also have a well-established performance management and talent development process in which managers provide regular feedback and coaching to develop employees.





## Environment

Environmental stewardship is central to Kadant's commitment to corporate responsibility. Environmental strategies, policies, compliance, and management systems are overseen at each Kadant business by the leadership team of that business, with oversight by our corporate management team and the Board.

The material issues included in environmental performance are:

- **Environmental compliance:** This is relevant to Kadant as non-compliance can impact operations, permitting for facilities and other aspects of the business. Kadant is committed to adhering to all applicable environmental regulations where it operates.
- **Energy and emissions:** Energy is relevant for Kadant as it is an expense for the company and is the source of the majority of its greenhouse gas emissions. Energy data is monitored by each business for cost management purposes. This is the second year that our global emissions have been calculated.
- **Material usage:** Kadant uses materials in its processes, primarily metals. The amounts of these materials, and related goals and targets, are monitored for cost-control.
- **Waste and recycling:** This topic is managed locally at each business by the leadership team. Goals and targets are set depending on local conditions, options for waste diversion, and cost factors.



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