KADANT INC

MEETING DATE	Wed, 17 May 2017 2:30 am	TYPE	AGM	ISSUE DATE	Mon, 08 May 2017
MEETING LOCATION	One Technology Park Drive, Westford, Massachusetts 01886				
CURRENT INDICES	PIRC Global				
SECTOR	Paper industries machinery				

	PROPOSALS	ADVICE
1.1	**Elect John M. Albertine** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board. He is chair of the Remuneration committee which is not fully independent which Triodos does not support.	**Oppose**
1.2	**Elect Thomas C. Leonard** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board. He is chair of the Audit committee which is not fully independent which Triodos does not support.	**Oppose**
2	**Advisory Vote on Executive Compensation** The Company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. For fiscal 2016, annual cash awards were not excessive, with overall pay levels below peer group averages. However, there is no clear maximum policy cap disclosed, which is not considered appropriate. Also, the Company failed to include non-financial metrics into the annual bonus structure. For the equity awards, there are concerns that, to the extent the performance targets are met, earned RSUs are subject to additional time-based vesting, and one-third of the RSUs vest on each anniversary of March 10, beginning on March 10, 2017, provided the named executive officer remains employed with the Company on each vesting date. The voting outcome for this resolution reflects the balance of opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: CD. Based on this rating, Triodos opposes this resolution.	**Oppose**
3	**Approve the Frequency of Future Advisory Votes on Executive Compensation** The Company is providing shareholders with an advisory vote on whether the advisory vote on executive compensation should be held every one, two or three years. The Board is required by Section 951 of The Dodd-Frank Wall Street Reform and Consumer Protection Act to offer this vote on the frequency of a say-on-pay proposal not less than every six years, although they have the option to offer this proposal more often. The Board of Directors recommends an annual vote. It is considered that an annual vote on executive compensation is best practice for companies. Executive compensation comprises both fixed and variable pay elements, with the variable including share based incentive awards and cash bonuses over which the compensation committee have discretion. Decisions affecting the quantum and design of variable pay are made annually by the committee and it is therefore appropriate that shareholder approval is sought at the maximum frequency permitted by the new legislation. Contentious compensation payments and issues could occur in the intervening years between votes, if the frequency is less than annually. Triodos recommends a one year frequency.	**1**

4 **Approve the Annual Cash Incentive Plan** **Oppose**

The Company has forward a resolution requesting shareholders to approve the Company's annual cash incentive plan (Plan) for the payment of performance-based annual cash compensation. The Company is requesting approval of the material terms of the performance goals under the Plan so that certain annual cash incentive awards granted under the Plan may qualify as tax-deductible performance-based compensation under Section 162(m) (Section 162(m)) of the Internal Revenue Code of 1986, as amended. The Plan is administered by the Compensation Committee which has the power to select the executive officers, officers or other key employees eligible to receive awards; determine the performance period applicable to the award; establish the performance goals that must be achieved in order for awards to be paid under the Plan; determine the extent to which cash payments are actually earned and amounts to be paid upon achievement of performance goals; and establish other terms and conditions applicable to any award.

The Plan identifies a number of performance criteria that may be used, but leaves it to the discretion of the Committee as to which metrics are chosen. Shareholders cannot tell what performance targets (if any) would be applied to the metrics selected by the Committee. Given that, there is no meaningful way that shareholders can approve or re-approve performance criteria of which they have scant prior knowledge.

Triodos opposes this resolution.

5 **Approve the Amendment and Restatement of the Amended and Restated 2006 Equity Incentive Plan** **Oppose**

The Company has put forward a resolution requesting shareholders to approve the amendment and restatement of the Company's 2006 amended and restated equity incentive plan (Equity Plan) including the following two amendments: an amendment to limit the maximum aggregate value of awards granted under the Equity Plan and cash payable to any individual non-employee director in any fiscal year to $750,000; and an amendment to incorporate minimum vesting periods of one year for any stock options and stock appreciation rights (SARs) granted under the Equity Plan, subject to a de minimis exception permitting shorter vesting periods in particular circumstances. As of March 20, 2017, the total number of shares of common stock available for issuance under the Equity Plan was 506,221 shares. Employees, officers, directors and consultants of the Company and the Company's subsidiaries are eligible to receive stock options, stock appreciation rights, restricted stock, restricted stock units (RSUs) and other stock-based awards under the Equity Plan. The Equity Plan is administered by the Compensation Committee which has the power to grant awards and to adopt, amend and repeal such administrative rules, guidelines and practices relating to the Equity Plan as it deems advisable. The maximum number of shares of common stock that may be granted to any participant under the Equity Plan is 500,000 per calendar year.

As performance conditions may be attached to awards at the Committee's discretion, there are concerns that the Committee will have considerable flexibility in the payout of discretionary awards and as a result awards may not be subject to robust enough performance targets, and be insufficiently challenging.

Triodos opposes this resolution.

6 **Appoint the Auditors** **For**

KPMG LLP proposed. Non-audit fees represented 0.51% of audit fees on a three-year aggregate basis. This level of non-audit fees does not raise serious concerns about the independence of the statutory auditor.

Triodos supports this resolution.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 2 - Advisory Vote on Executive Compensation

The Company has achieved: an average level of disclosure; and a below average balance for rewards.

Disclosure: C- Annual cash incentives are based on growth in adjusted diluted earnings per share (EPS) as compared to the average adjusted diluted EPS for the prior two fiscal years and adjusted return on average stockholders' equity. The Company granted long-term incentives in the form of performance-based restricted stock unit awards

and time-based restricted stock unit awards. Performance-based RSUs are based on adjusted EBITDA (adjusted to exclude the effects of restructuring costs and other non-recurring items, results from acquisitions made during the year, depreciation and amortization expenses, and non-cash compensation expenses). The Company has disclosed the financial targets for its short-term incentives. However, the use of "adjusted" targets is not considered best practice.
Balance: D- For fiscal 2016, annual cash awards were not excessive, with overall pay levels below peer group averages. However, there is no clear maximum policy cap disclosed, which is not considered appropriate. Also, the Company failed to include non-financial metrics into the annual bonus structure. For the equity awards, there are concerns that, to the extent the performance targets are met, earned RSUs are subject to additional time-based vesting, and one-third of the RSUs vest on each anniversary of March 10, beginning on March 10, 2017, provided the named executive officer remains employed with the Company on each vesting date. A five-year vesting period is considered best practice.

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