

## MESSAGE FROM THE VICE PRESIDENT OF CSR



Barbara J. Couch VP, Corporate Social Responsibility

In 2011, we published our first Corporate Social Responsibility (CSR) Report. We committed, at that time, to providing an annual update on how we are measuring against our short-term and long-term goals. We are pleased to report that we have made significant progress on multifaceted goals, and we are excited to share that progress with you, our Associates, our business partners and our communities at large.

One cannot make mention of CSR without underscoring the importance of ethics and integrity. These values are embedded in everything we do at Hypertherm – from the way we recruit talent to the way we educate Associates about our values and weave them into our everyday life. We have a zero tolerance policy for unethical behavior and hold all Associates accountable to our Code of Ethics. Integrity at Hypertherm means doing what's right, even when no one's looking. These values are never compromised.

This year's report will highlight two key areas of importance under our CSR umbrella, specifically, Community Engagement and Environmental Stewardship. Our CSR efforts were amongst the highest corporate priorities set by the management team and board of directors in 2011 and, as you will read, we have made significant investments in this area.

Why do we care about these topics; is our focus simply an act of altruism? We believe there are compelling business reasons for focusing our attention both on the communities where our Associates live and work and on the environment.

We have found that when Associates have the opportunity to give back, to give time to their communities, they return to Hypertherm with a renewed sense of purpose and fulfillment. We are building stronger communities and creating a more dedicated and engaged workforce. It's a win-win.

As global demand for resources rises, costs and scarcity will likely increase. We believe if we can develop the most efficient and environmentally sound products and processes, we will not only maintain financial strength for our global Associate-owners at Hypertherm, but will contribute to the global need for real and permanent environmental preservation.

At the highest level, our Community Engagement goals included achieving a higher level of global participation in Community Service Time (paid time off for community service work). As you will read in the report, we exceeded goal and achieved an impressive participation rate of 78 percent.

In addition, the Hypertherm Owners' Philanthropic Endeavors (HOPE) Team continued to work on becoming more strategic and effective in its grant-making process. It's easy to give money to charitable organizations, of which there are many. It is more difficult to give where the needs are greatest and align those needs with the concerns and interests of our Associates and business. It is at this intersection where strategic philanthropy begins.

On the environmental front, we worked diligently in 2010 to establish baselines upon which to measure improvement toward our 2020 vision. We are pleased to report that in 2011 we saw measureable improvement. The year may best be summarized as one in which we deepened and strengthened the roots of our Environmental Stewardship commitment and started to sprout early successes and lessons toward fulfilling our obligations and our mission to be strong environmental stewards. We worked hard in 2011 to integrate environmental impact reduction work throughout our organization. All of our business and regional teams incorporated environmental impact goals into their business and operating strategies. In addition, they set metrics of success and defined ongoing milestones that together will help achieve our goals.

At Hypertherm, we believe in supporting the needs of our society today while respecting the ability of future generations to meet their needs. This is a core value. While we are proud of the work we are doing in this space, we recognize there is much more we can do. We look forward to updating you along our journey, as we strive to be a world-class example of Corporate Social Responsibility.

Together, all of us can make a difference.

Sincerely yours,





# COMMUNITY ENGAGEMENT

The Hypertherm Community Service Time Program, launched in 2003, embodies the inclusive culture at our Associate-owned company. All Associates, regardless of their geographic location or position within the company, are given paid Community Service Time (CST) to volunteer at nonprofit organizations. By giving Hypertherm Associates paid time off to do community service work, we build stronger communities and more compassionate Associates.

With record-breaking participation in the program reaching 78 percent in 2011 the management team increased paid CST hours per Associate to 24 hours annually beginning in January 2012. Our Associate engagement in 2011 included team events and individual Associates volunteering in every region where Hypertherm has a major presence. These efforts exceeded 9,000 hours of tracked volunteer time in 2011.

Associates are able to choose which nonprofit organizations they want to support with volunteer time. The groups they choose and the activities they partake in are as diverse as our Associates. Activities can include teen mentorship, literacy reading programs, youth sports team coaching, weatherizing mobile homes, trail maintenance, staffing crisis hotlines, painting homeless shelters, stocking food bank shelves, cooking meals at soup kitchens, cleaning animal shelters, and dozens more.

Some of our teams are called upon for their professional expertise. For example, our Talent Acquisition team helps local students with their job acquisition skills by conducting mock interviews, reviewing resumes, or giving tours of our workplace. Our engineers speak at high schools to promote careers in engineering and manufacturing. In addition, Associates serve on the boards of many nonprofit organizations and volunteer on their own time.

In 2012, our goal is for 80 percent of Associates to use CST.



"I am so honored to work at a company that values the community." Quotes contained in this report are the words of our Associates.

# THE HOPE FOUNDATION

The Hypertherm Owners' Philanthropic Endeavors (HOPE) Foundation experienced a record year for grant applications in 2011. The HOPE Foundation is a nonprofit 501(c)3 organization established in 2010 to complement our CST program and philanthropy team which makes grant allocation decisions. Our model for giving considers the needs of the community, Hypertherm's corporate values and business interests, and the interests of our Associates.

"I am proud to represent **Hypertherm at one of** our partner agencies."

614

American Red Cross

USDOT 845123

In 2011, the HOPE Foundation donated to 106 different nonprofit organizations including:

Children's Hospital at Dartmouth-Hitchcock (CHaD) **COVER Home Repair** Good Neighbor Health Clinic Lebanon Opera House Montshire Museum of Science Norris Cotton Cancer Center

Northern Stage **United Way** 

Upper Valley Haven

**Upper Valley Hostel** 

Visiting Nurse Association & Hospice of VT/NH

Vital Communities



www.redcressblood.org/nne





# At Hypertherm, philanthropic endeavors include gifts of time and/or money.

**COVER:** As their mission fits closely with ours from a philanthropy and environmental stewardship perspective, COVER is a strong strategic partner. A team of Associates is out in the community with COVER volunteers and staff at least one day a month. They are helping to repair or weatherize homes for people in need. The HOPE Foundation contributes financially to COVER's operating expenses, to their weatherization program, and recently to a pilot home energy efficiency improvement loan program.

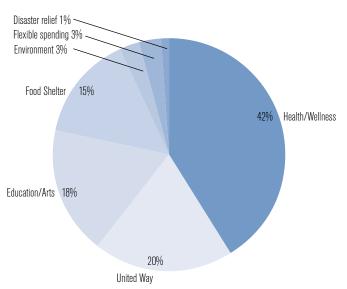
Hurricane Irene: Unfortunately, 2011 brought Hurricane Irene, which devastated many areas close to our corporate headquarters. Hypertherm Associates immediately stepped up to the plate, volunteering wherever there was a need. No job was too far or too messy for our hard-working Associates. Whether it was cleaning out water and mud soaked buildings the day after the storm or helping months later with rebuild projects, pride in our communities and in each other was felt by all. In addition to financial donations to the American Red Cross, which were matched by the HOPE Foundation, our Associates donated food, clothing, and other household items needed by those affected by the storm.

Upper Valley Business and Education Partnership (UVBEP): Our partnership with the UVBEP encompasses many different programs. Our Associates volunteer as Learn to Earn Volunteers, Junior Achievement leaders, and Everybody Wins Mentors. These programs encourage our Associates to use their education backgrounds and business skills to mentor students of various ages. Hypertherm first provided the investment needed to start Junior Achievement in our area in 2004. The HOPE Foundation now contributes financially to UVBEP's operating expenses for all of their programs.

"One of the things I like best about Hypertherm is being able to volunteer."



#### DONATIONS BY FOCUS AREA





"CST is one of the reasons Hypertherm is the best company to work for."





Environmental stewardship is a lens that has ignited a passion for change across our organization and is fueled by our long-standing commitment to continuous improvement and dedication to improving the lives of our Associates and our communities. In the past year, we have seen the awareness we started to develop in 2010 turn into action across our entire organization.

Significant investments made this year have created a strong foundation and a more thorough understanding of our impacts and our path forward. An Environmental Black Belt in the Lean-Six Sigma discipline is now part of our team and is working with other similarly trained Associates to develop standardized best environmental practices.



In 2010, we engaged stakeholders across our organization in looking at where our greatest impacts are and where we have the greatest opportunity to improve. That work resulted in a set of environmental sustainability goals for our organization to achieve by 2020 that are aggressive, yet attainable.

"I appreciate
Hypertherm's efforts
and am inspired to
look at and make my
personal life choices
in a new light."

Working groups have formed behind all areas of our 2020 environmental sustainability strategies, which include goals such as becoming a zero landfill waste organization and improving the energy efficiency of our global operations (kWh/sales\$) by 30%. We go into depth on the work of those two working groups in this year's report. However, we do not want to overlook the early work in other areas of our footprint and 2020 goals. In 2011 we piloted shipping more of our international freight, 4% of total weight, by ocean instead of air, which will lower the carbon impacts of our logistics. Our product development engineering community increased focus on how to reduce the impacts of our metal cutting systems. The working groups have built strong foundational understanding and measurement of their impacts and have planned their path forward by setting annual goals and action plans with project by project definitions of success and milestones.

"I am proud to be part of a culture that promotes environmental awareness."

# FOOTPRINT

While our 2020 environmental sustainability goals are generally driven around metrics tied to our sales and product volume, we also strive for the ideal of absolute impact reduction. We report both here. We saw great improvement in 2011 over our baseline year in 2010. In part, the gain was due to an improvement in our sales, as the global economy and metal cutting markets continued to strengthen. However, our improvement was also driven by a lot of hard work and solid project execution among our teams and Associates. While many of our absolute impacts rose, they did not do so commensurate with our sales growth. We are proud of these curtailments.

Proportional carbon intensity of our business operations (metric tons  $CO_{2a}$ /sales\$mm)



2010

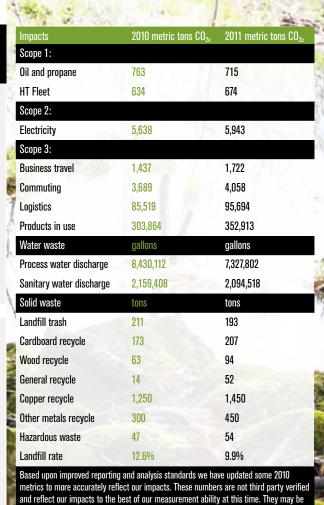
Scope 1: Oil and propane, HT fleet



Scope 2: Electricity



Scope 3: Business travel, commuting



I believe Hypertherm is doing a Verto reduce the impact on our environment, but there is much more we could still do."

revised for accuracy in the future.



# OUR PATH TO ZERO WASTE

Our ultimate lean goal is to eliminate waste from our operations. When we started to show the close parallel of environmental waste to lean waste our organization immediately saw an opportunity. Our primary focus is the elimination of all waste. If waste prevention is not possible then we follow the sustainability waste hierarchy and look to reduce, reuse, recycle, and finally beneficially dispose. With this approach we saw our waste profile change in 2011.

- Deeper understanding: We started with a broad scale data collection of the inbound packaging from our top suppliers. We built a database to capture this information and now our Supply Base Managers are working across our supply chain to eliminate unnecessary packaging and convert it to reusable, returnable systems. We also conducted a full-scale 24-hour audit of our landfill bound waste, which showed plenty of opportunity for improved waste streams.
- Waste prevention: In 2011, we have started the long path toward a full-scale returnable packaging portfolio within our supply chain. We are just scratching the surface, but our early pilot projects have already eliminated 14,000 pounds of waste per year. Our cafeterias now use metal utensils, eliminating 175,000 pieces of plastic waste per year. Our Associates use reusable drinking containers when possible instead of disposable cups for a 1,600 pound annual reduction. Water saving devices installed in our cutting labs and restrooms will save more than 300,000 gallons of water annually.
- is the metal scrap that results from machining our consumable products. While we completely recycle this scrap, shipping bar stock to our plants and then returning that scrap to our supplier for recycling has an impact. A manufacturing engineering project is bringing the outside diameter of the raw bar stock as close to the net shape of the final product as possible. This not only reduces the amount of waste created, but also saves on electricity and the amount of time it takes to machine our

products. An initial pilot in one machine cell alone has dropped our annual copper consumption by almost 50 tons.

- Waste recycling: We made the transition in 2011 to a full-scale, single-stream, expanded recycling program. This helped us achieve an absolute reduction of our landfill bound waste by 18 tons. This is despite a growth in sales and an increase in our Associate population. In addition, we also took care to make sure the packaging and material entering our facilities was recycled.
- Beneficial waste disposal: The largest success in 2011 came from our transition to a composting program in our main cafeteria.
   Composting pre-consumer food waste, post-consumer food waste, soft tissues, paper towels, and compostable bowls and plates now diverts 12 tons of waste annually from the landfill.





# **ELECTRICAL EFFICIENCY**

Most of our electricity consumption is used to machine our consumables, cool our buildings, deliver compressed air, and power the cutting machines in our labs. Previously, the cost and environmental impacts were not apparent to most of our teams. Our environmental sustainability initiative highlighted the opportunities to improve our use of electricity, and just the first group of "low-hanging fruit" projects has resulted in tremendous savings.

We reconfigured our footprint to include the kWh estimated to have been used by our local contract machine operations whom we utilize for extra machining capacity. This gives a more complete picture of our impacts. Year over year, our absolute electricity usage only increased by a little more than 5 percent, but our normalized efficiency (when our 2011 sales growth is considered) reached well above 15 percent. Other steps that we took to increase our electrical efficiency include:

- Installing a building management system that now gives us transparency to electricity usage by operational area. This system has also enabled us to program setbacks and controls anticipated to save us 250,000 kWh per year, in one building alone.
- Beginning the process of replacing older HVAC roof top units for a savings of 48,000 kWh per unit per year.
- Replacing 10 ovens we use to stabilize our lava rock consumables with 5 high-efficiency models, and running them on an improved setback schedule, saves us 240,000 kWh per year.
- Upgrading to more efficient servers in our data center for a savings of 120,000 kWh per year.



# ASSOCIATE ENGAGEMENT

We have layered our engagement initiatives across all areas of our organization. At the broadest level, our Green Team of volunteer Associates continued their focus on general education and engagement in 2011. They executed several "passive learning" techniques such as posting tips for reducing paper usage at all of our printers. We launched our first on-site, organic vegetable garden. As a result, a team of volunteer Associates now plants, weeds, and harvests tomatoes, basil, onions, cucumbers, and beans, and then donates the proceeds to the Vermont and New Hampshire Food Banks. Additionally, our Associates utilized Community Service Time at dozens of environmental projects such as pulling invasive weeds from local parks, improving public trails, and countless cleanup projects at local nonprofit agencies.

Associates utilized the continuous improvement process to capture their environmental ideas, creating 192 "Green CIAs" in 2011. Green CIAs cover a wide variety of topics such as our usage of electricity, water, paper and all other resources. A few examples and their individual project savings are:

- Installation of shutoff valves on 3 laboratory cutting tables resulted in a savings of an average of 1,200 gallons of water/day.
- Switching from plastic tubs to refill pouches for grease wipes resulted in a savings of \$7,400 annually, and a reduction of 2,000 lbs/year into our recycling waste stream.
- Elimination of plastic bag inner packaging on an incoming part saved 500 lbs of waste annually from the landfill.

At the team level, we continued our Green Business Indicator (or GBI) program, in which each team sets a metric that measures their progress toward an environmental goal. Teams were able to save thousands of sheets of paper by taking steps such as adding an electronic proof review process, transitioning to electronic quality control data sheet storage, and redesigning payroll and tax processes to eliminate paper. GBIs also realized resource use reduction by reusing packaging in our parts area, adopting team-based zero waste initiatives, piloting water saving devices in some of our restrooms, and creating fun challenges to encourage low impact commuting. Almost every team in our company has environmental impact reduction integrated

into their annual operating plans. Some teams are more directly involved with the working groups described earlier.

We continue to see the key to our success of improving our stewardship of the environment hinging on its deep and broad integration throughout our organization.



