



CIRCOR International
Letter to Shareholders 2009

To Our Shareholders

A year ago we expected that 2009 would be challenging. Economic conditions were deteriorating, oil and natural gas prices were down, and capital investments were being scaled back in markets around the world. In this environment, we knew we needed to focus all of CIRCOR's assets—human, physical and financial—on emerging from the recession as a stronger company and a more effective competitor. This letter chronicles the progress we made during the year and how our success positions us to execute on our growth strategy in 2010 and beyond.

Our progress in 2009 stemmed from the systematic transformation that CIRCOR has been undergoing during the past few years with a recent focus on implementing our CIRCOR Business System (CBS). CBS is at the heart of our growth strategy; it is our vision of how we run the company and how we add value across our segments, regardless of the business unit, or the end-markets we serve. Through CBS we are building a foundation upon which to capture leading positions in key end markets and execute our strategy to grow the company to double its current size and beyond.

This transformation began with two key building blocks for the future. We launched Lean throughout the company, and simultaneously, we began recruiting top-notch talent from a diverse range of industries to lead the transformation. We focused the entire business on continuous improvement and problem solving to build a culture of operational excellence, while at the same time delivering world-class service to our customers. As we progressed, we invested in organic growth with new product development and global expansion, especially in emerging markets, all while continuing our legacy of growth through acquisitions.

One way in which we navigated the tough business environment in 2009 was to intensify our longstanding focus on quality of earnings. We moved aggressively to right-size the business to align our production with current demand. Our previous space-saving and process improvements enabled our management teams to move quickly to consolidate facilities, drive efficiency, improve customer service and enhance our working capital position.

Taking operational excellence to the next level of performance, we launched an intensified effort to build world-class production processes called "model lines." A model line is a complete value stream process that is connected end-to-end from customers to suppliers. It employs a new organizational structure and operational design that is highly tuned to customer demand, lowers cost, and serves as a benchmark for best practices and organizational learning.

Developing a model line is far more than designing a new factory layout. It involves teaching employees how to visualize a future state process and build a roadmap to eliminate waste and to synchronize flow in every step of the process; it involves training employees to solve problems systematically and in cross-functional teams with the intent to rebuild the working culture into one that is collaborative and fast; and it involves aligning everything we do to deliver better value to our customers. At its best, a model line is a learning center of Lean, a big step toward building a results-oriented, high-performance, customer-focused operational excellence culture.

We have model line projects in each of our business segments. In Energy, we are transforming our short-cycle KF valve production system, in Flow Technologies, our Hoke product line, and in Aerospace, our CH-47 landing

gear line. All three of these efforts move the needle for CIRCOR and present opportunities for growth as we improve performance and competitiveness. As we exited 2009, we were laying the plans for additional model lines to be added in 2010.

CIRCOR begins 2010 with a more extensive global sales, supply chain and manufacturing footprint than we had a year ago. Our facility in Suzhou, China has developed into a world-class Lean manufacturing plant and provides us with not just its traditional Energy capabilities but also now supports sales, manufacturing and low-cost sourcing for Aerospace and Flow Technologies. We incorporated a business entity in India in 2009, hired a country manager and a team of people, including sales and marketing experts, design engineers and sourcing professionals. We also began to more aggressively seek strategic acquisition candidates and opportunities for our products in this rapidly emerging market.

Through the downturn, we have maintained an unwavering commitment to product development. As we move forward, a key part of our strategy is to leverage our expertise in components, such as valves, actuators and control devices, by designing and manufacturing engineered systems and integrated solutions that provide higher value to our customers. For example, we were recently awarded the Airbus A350 XWB landing gear actuation sub-system, including the integrated speed sensing and control solutions for this next-generation aircraft program. This is a significant program win, and a result of our investment in product development and improved operational performance to our customers. It is also the result of a global approach to our sales through an expanded reach evidenced by opening three new sales offices in Asia and the Middle East.

At the same time, we are continuing to execute on our acquisition strategy. During 2009, we acquired Pipeline Engineering & Supply Co., which gave us a stronger presence in the international pipeline market, as well as Bodet Aero and Atlas, which expanded our aerospace presence in Europe and provided us with low-cost sourcing capabilities in Morocco. Looking to the future, our top M&A objective is to complement our historic focus on tuck-in acquisitions with larger, more strategic deals. While tuck-ins typically allow us to insert new product lines into our existing facilities, we view strategic transactions as a way to penetrate attractive end-markets where our products and solutions are highly valued. These initiatives will be spearheaded by our new vice president of business development, A.J. Sharma, a seasoned M&A professional who joined our management team this past year.

Although conditions have started to improve in some of our end markets as we begin 2010 – the short-cycle energy business, pipeline, power generation and naval defense among them – the overall demand and pricing environment continues to reflect the lingering effect of the recession and visibility is limited. We are confident, however, that CIRCOR's progress in 2009 provides us with both the momentum and the resources to manage our way through the challenges ahead.

Our quality of earnings initiatives built on the foundation of CBS have enabled CIRCOR to enter 2010 a much leaner and stronger organization. Our lower cost structure, which now is more closely aligned with near-term demand, should enable us to deliver significant profitability improvement when sales volumes rebound to more normalized levels. We begin 2010 with a healthy balance sheet and continue to seek acquisitions that fit our growth strategy. Finally, we believe the investments we are making in attracting and developing the best talent, in our growth strategy, in our Lean initiatives, and in developing a low-cost global supply chain will position CIRCOR as an even stronger company in 2010. We expect that all the progress we have made ultimately will reward our shareholders for their confidence in us.

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