



Scott A. Buckhout
President and Chief Executive Officer
CIRCOR International, Inc.

March 31, 2017

To Our Stockholders:

Although volatile energy markets and geopolitical uncertainty affected much of our industry in 2016, we focused, as always, on the factors within our control. During the year, we continued to build our foundation for strong organic growth, further optimized our organization, reduced structural costs, and improved operational execution — steps that we believe will make CIRCOR more competitive and profitable over the long-term.

In 2016, we reorganized the group structure at CIRCOR, creating the Advanced Flow Solutions (AFS) Group to improve organic growth by better aligning our organization with end markets. AFS is a diversified flow control technology platform that will help CIRCOR further penetrate the aerospace, defense, power, process, and industrial end markets. In addition, our new structure allows the Energy Group to focus exclusively on oil & gas-related markets.

In October 2016, we diversified our revenue base with the acquisition of Critical Flow Solutions (CFS). CFS products serve the downstream refining market, increase our exposure to aftermarket services, and strengthen our severe service valve and automation equipment portfolio. CFS brings differentiated technology and strong customer relationships, including strategic alliances with Chevron and Foster Wheeler. With increased exposure to high margin aftermarket sales and a large installed base, we expect CFS to deliver earnings accretion with strong margins.

The integration of CFS is proceeding well. We are excited about the growth prospects for its existing products as well as the pipeline of new products in development. As part of the integration, we will leverage our existing low-cost manufacturing facility in India for CFS products. Operationally, we've integrated CFS into our low-cost sourcing organization and are leveraging our common direct material spend.

Talented people are the primary source of our competitive advantage. In addition to promoting Sumit Mehrotra to lead AFS, we expanded Jay Lapointe's global operations role to include CIRCOR's supply chain function. We welcomed Jennifer Allen as our new chief legal counsel. Her strong manufacturing and aerospace & defense background, as well as her deep mergers & acquisitions experience, have further strengthened our management team. We added new talent in critical areas such as sales, marketing, and engineering, and we firmly established a strong product management discipline across the company.

Along with building and developing our team, we increased our pipeline of new products in development and expanded our presence into new channels and markets, both organically and through acquisitions. We expanded our product line serving the midstream oil & gas market and increased our order intake by over 10%. We signed a JV agreement to establish a service center in the Middle East. Our mid-2015 acquisition of Schroedahl increased our presence in the growing Asian power segment and created cross-selling opportunities with our legacy power market products. In our AFS Group, we expanded our product portfolio of pneumatic launching systems for unmanned drones, and doubled our commercial aerospace maintenance, repair, and overhaul (MRO) revenue.

Business Segment Review

We ended 2016 with adjusted operating margin of 7.2% and adjusted earnings per share of \$1.99. Our restructuring and simplification actions mitigated the margin impact from challenging energy end markets by delivering \$11 million of savings. In addition, we generated \$47 million of free cash flow in large part by improved working capital performance.

We continue to aggressively reduce structural costs across CIRCOR. Our Energy segment further adjusted its cost structure in 2016, delivering 10.7% in adjusted operating margin despite a 16% drop in sales. Our aggressive restructuring and cost-cutting actions helped reduce the margin impact from significantly lower volume. In AFS, our margin expansion initiatives in our aerospace & defense businesses helped improve the AFS adjusted operating margin to 12.5% in 2016, with strong momentum through the year. Our aerospace & defense businesses exited the year with Q4 margin of 11.4%, up 100 basis points from Q4 2015.

Strategic Initiatives

Easy to Do Business With. We are committed to making CIRCOR the easiest company in our industry to do business with. Customer on-time delivery increased to 91% overall in 2016. Improving lead times and enhancing customer service remain important objectives for us.

New Products. Our philosophy in developing new products is simple: provide customers with a unique solution that enables them to solve critical problems as efficiently and cost-effectively as possible. We are excited by our linear control valves initiative that will create a comprehensive global portfolio of products to serve a broad array of applications in the power and process markets. The acquisition of CFS introduced a number of new products to CIRCOR, led by the market-leading DeltaValve and TapcoEnpro brands, for the downstream refining market. We are also leveraging our unique technologies in innovative ways to win new platforms, such as the main hydraulic supply for the Airbus X6 heavy helicopter, and we have broadened our product line of pneumatic launching systems for unmanned aerial systems.

New Channels and Markets. In 2016, our aggressive growth strategy in our commercial aerospace MRO business was successful. We doubled our revenues over 2015 by dramatically reducing lead times, building a direct sales team, and leveraging our installed base. We are encouraged by the results of this initiative and now are applying these principles to our products in the defense, maritime, and power and process markets. On the Energy side, we secured a foothold in the North American midstream market. Eleven major pipeline companies have selected our products for their approved vendor lists. In addition, we signed a joint venture agreement to open a service center in Saudi Arabia that enables us to service and support our installed base, as well as increase the sales of new products.

Exceptional Sales & Marketing. Having an exceptional sales and marketing function starts with having the right talent, appropriate tools, and effective training and support. We made great strides over the last few years in building a world-class team. While this effort will continue, our 2017 focus will include improved training and development and the rollout of a new CIRCOR-wide Customer Relationship Management (CRM) tool. In addition, we expanded our Energy group’s central marketing function to better understand our global markets and better exploit opportunities.

A Simpler Company

We have taken advantage of the oil and gas downturn over the past two years to accelerate our simplification and restructuring plans. The table below highlights the progress (excluding acquisitions) we have made toward our 2018 goals compared to the 2013 baseline:

| | 2013 | 2016 | 2018 Goal |
|-----------------------|--------|-------|-----------|
| Factories | 24 | 15 | 15 |
| P&Ls | 22 | 15 | 12 |
| ERP Systems | 24 | 16 | 15 |
| Suppliers | ~5,000 | 2,555 | 1,200 |

During 2016, the CIRCOR Operating System (COS) continued to expand and mature across the company. COS is the foundation of our continuous improvement culture and provides the protocol, methods, and tools to simplify our business, drive operational excellence, and better satisfy our customers. As of year-end, all manufacturing facilities completed site assessments, and developed detailed action plans to improve their operational performance on all major dimensions: customer satisfaction, quality, delivery, cost, safety, and inventory.

In 2017, we will continue to simplify our operations and enhance our bottom line by leveraging our low cost manufacturing locations in India and Morocco.

Disciplined Capital Deployment

We concluded 2016 with \$58 million of cash and \$251 million of total debt on the balance sheet and a leverage ratio slightly over 3.0. CIRCOR's strong financial position at year-end was the result of our disciplined capital deployment strategy, which last year included the following significant actions:

- \$21 million on restructuring and internal capital projects. Our investments were focused on accelerating our simplification plans and reducing structural cost. These initiatives, along with other internal growth and productivity projects, provide an exceptional Return on Invested Capital (ROIC).
- \$205 million on the CFS acquisition, which provides accretive margins and a strong ROIC. Going forward, our acquisition strategy will continue to focus on opportunities in markets that we know well. We are most interested in targets that bring great technology, operate in strong growth markets, and enhance our customer offerings. ROIC above our cost of capital is the primary financial criterion that we use to ensure a strong return for stockholders.

In conclusion, we are committed to creating long-term value for our stockholders by investing in organic growth and acquisitions, expanding margins, generating strong free cash flow, and exercising discipline in deploying capital. None of this would be possible without our outstanding team, whose effort and dedication are transforming CIRCOR into the best company in Flow Control. On behalf of everyone at CIRCOR, I want to thank you, our stockholders, for your confidence in us this past year. We are committed to rewarding that confidence in 2017 and beyond.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott Buckhout". The signature is fluid and cursive, with a long horizontal stroke at the end.

Scott Buckhout
President and Chief Executive Officer