



## **CIRCOR International, Inc. Letter to Shareholders 2013**

To Our Shareholders:

CIRCOR performed well in 2013. We made significant progress on our top three priorities: positioning our businesses to grow, simplifying our structure, and driving exceptional cash flow through operational excellence. We closed the year with strong orders growth of 14%. Adjusted earnings per share grew 24% to \$3.21. Our adjusted operating margin reached 9.9%, up 210 basis points from 2012. At the same time, our free cash flow grew to \$55 million, 116% of net income.

During the fourth quarter of 2013, we changed CIRCOR's organizational structure by consolidating three segments into two – Energy and Aerospace & Defense. This change better aligns our businesses with end markets and enables better organic growth. In addition, operating as two segments allows us to streamline management layers, consolidate back-office operations and further expand margins.

The new CIRCOR Energy is a single, global source for integrated flow control solutions. The newly formed group is focused on the primary Oil & Gas markets: upstream, midstream and downstream; as well as the global power generation market. CIRCOR Energy includes all of the businesses from the former Energy group and most of those from the legacy Flow Technologies group.

CIRCOR Aerospace & Defense is positioned to better serve our most important markets, including those in Europe. The group is focused on the global commercial aerospace and defense markets. Aerospace & Defense includes all of the businesses that were part of our former Aerospace group, plus the defense-oriented UK-based businesses from the legacy Flow Technologies group. Specific technologies include actuation, fluid control, and landing gear.

The actions we took in 2013 to reduce complexity in the business and improve operations at CIRCOR contributed to our strong margin and cash flow performance. During the year, we closed or downsized several facilities resulting in reduced overhead, fewer legacy IT systems, and increased utilization of our low-cost manufacturing and design capabilities in emerging markets.

During the past year, we implemented several operational initiatives designed to expand margins and improve working capital performance. Chief among them is an effort to address our fragmented procurement processes and create a global sourcing organization focused on cost, quality and supplier delivery across the enterprise. I am pleased to report that we are making progress. We have reshaped our organization to address our material spend globally, strategically and in aggregate. In addition,



we are optimizing our own operations with ongoing strategic “make-versus-buy” decisions. We expect that this new organizational structure will enable us to continue to expand our margins and improve our working capital performance.

## **A Growth Company**

The progress we made last year marked the beginning of the new CIRCOR. We are transforming ourselves into a company focused on customers, technology, and outstanding service to deliver best-in-class organic growth. One of our top priorities for 2014 is to achieve operational excellence in our customers’ eyes: flawless quality and on-time delivery. This is the backbone that will enable us to succeed with our go-to-market strategies in high growth geographies, including Asia and Brazil. To successfully expand into new markets, our sales and marketing strategy will be precisely targeted, and we will deliver a higher level of service than our competitors.

We will redouble our efforts to develop better technology and products to solve our customers’ most difficult problems. We are excited about the new products that we intend to launch in 2014. One of our most anticipated new products is our “zero-leak” turbine bypass valve that we expect to launch into the power market in late 2014. In addition, the warm gas regulator capabilities that we are developing for anti-ballistic missile applications could be used across many future platforms in our Aerospace & Defense markets.

Acquisitions will be a part of our growth strategy in the future. Our approach is to pursue opportunities with an eye toward companies with great technologies, in markets that we understand, where we expect exceptional growth. Every acquisition will have to meet our criterion for return on invested capital.

## **A Simpler Company**

We will continue our journey to simplify CIRCOR. The progress we made this past year was just the beginning. We have additional opportunities to enhance the Company’s margins by further reducing complexity. CIRCOR continues to operate with a large number of facilities, IT systems, suppliers, and back-office organizations. Simplifying this structure will not only reduce costs but will improve our operations and controls.



## World Class Operations

As we strive to achieve world-class operational excellence at CIRCOR, we will focus on building a more robust CIRCOR Business System that reaches beyond the four walls of our existing manufacturing facilities. This program will include more effective training and standardization across the organization, robust processes and metrics, and clear lines of accountability. The CIRCOR Business System will be driving force behind our operational improvements in the future.

Finally, it is our belief at CIRCOR that the best team wins. The best people combined with robust process, appropriate metrics, and individual accountability will deliver extraordinary results. We will continue to focus on recruiting, developing, challenging and engaging the best people in our industry. At the most fundamental level, this is how CIRCOR will become an exceptional company.

In closing, I would like to thank our worldwide team for their commitment and dedication. On behalf of everyone at CIRCOR, I would like to thank you, our shareholders, for placing your trust in us this past year. We are committed to continuing to reward your confidence in CIRCOR in 2014 and beyond.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott Buckhout". The signature is fluid and cursive, written in a professional style.

Scott Buckhout  
President and Chief Executive Officer

\* Please see CIRCOR's fourth quarter and year-end 2013 financial results news release on the "Investors" page of the Company's website at [www.CIRCOR.com](http://www.CIRCOR.com) for a reconciliation of adjusted earnings per share, adjusted segment operating margins and free cash flow to the comparable GAAP financial metrics.