



A Letter to Our Shareholders from President and CEO, Clay Kiefaber

Building a Strong Foundation for Profitable Growth

In 2010, we took a series of actions aimed at building a foundation for long-term profitable growth. We codified our corporate values, built a new leadership team, focused our end market strategies, established a customer-centric organizational structure, rationalized our product offerings and intensified our application of the Colfax Business System (CBS).

These actions, along with the stabilization of most of our end markets, produced sequential quarterly improvements in revenues and operating income. We began to see year-on-year growth in both revenues and bookings in the third quarter, which we believe bodes well for 2011.

For the year, net sales were \$542 million, an organic increase of 3%. Total orders were \$533 million, an organic increase of 15%. In addition, the bookings rate strengthened throughout the year. Adjusted earnings per share of \$.92 was down slightly when compared to 2009, mainly driven by productivity improvements that offset pricing pressure in our commercial marine end market. We also announced the acquisition of Baric Systems in August of 2010. This brings us into new high-growth geographic markets, while also providing additional offerings for our existing channels.

Our financial position strengthened in 2010 due to improved working capital management. Working capital as a percent of sales declined from 23% to 19%, with our operations in Germany leading the way by reducing their inventory days by 30%. We believe our intensified focus on CBS will continue to produce improvements in working capital and cash flow.

While I'm pleased with this performance, I'm even more excited about the long-term outlook for Colfax.

Strategic Priorities

After completing a rigorous planning process, we focused on three strategic priorities in 2010, which we are carrying forward into 2011:

Realign the Fluid Handling Platform as a Global Organization

Since Colfax's inception, we have acquired fourteen fluid handling businesses, which have largely been managed as independent entities. Last year we created a global organization structured around our five primary end markets. This enables us to ensure we have the best team on the field and to optimize our resources.

For example, our sales organizations are now able to leverage all of our brands to deliver solutions to customers that best address their specific application needs. We are now selling



Imo applications in China through former Allweiler sales channels. We are set to repeat this process across the world with all of our brands.

Our new structure also enables us to accelerate product development. Late last year, we chartered a global team to rationalize our overlapping product lines. This team has already reduced the number of two-screw products by 65% and the number of pitches by 90% while maintaining the same pressure and flow capabilities. This product rationalization will not only reduce operational complexity but also free up engineering resources to create differentiated products to accelerate future growth.

The operations group also benefits from the new structure. By consolidating our global sourcing we have reduced our supplier base by 50%, and continue to surface opportunities to reduce cost and working capital. In addition, product rationalization has enabled us to consolidate the production of mid- and high-end range of screw pumps in one highly skilled operation.

In short, our realigned structure positions us to address customer needs and also improve our cost position in ways that smaller or less global competitors can't.

Intensify the Application of the Colfax Business System

We believe that the CBS is critical to our success, as continuous improvement is a corporate value. Competitive athletes, who every day focus on shaving seconds off their times or improving their games, serve as role models. Making continuous improvement and the application of CBS tools a way of life positions Colfax for sustainable long-term value creation. Our Radolfzell operations provide evidence of this, with inventory days reduced by 30% through kaizen events using CBS tools.

For the first time in Colfax's history, we have unified management objectives for the Fluid Handling platform. This positions us to systematically ensure linkage throughout the organization, and more importantly to drive breakthrough improvements through the continuous application of CBS tools.

Drive Voice of the Customer-Aligned Product Development

Consistent organic growth in industrial markets requires differentiated products that resolve unmet customer needs and deliver superior value. To this end, gaining a deep understanding of VOC is a high priority for everyone in the organization.

The introduction of the Imo 8L912 in late 2010 is an example. This product, the world's largest three screw pump, was developed with extensive input from potential users and provides substantial energy savings in heavy crude oil transfer applications. We believe that it's solutions like these that set us apart from our competition.

Another example is the expansion of our lubrication services business. Colfax has long been a leader in screw pumps and related products for lubrication systems. Our Baric acquisition added high spec lube oil systems to our portfolio and expanded our presence in the Middle East. We believe that opportunities like these, to become a more value-added supplier, exist across our business.

Looking Ahead

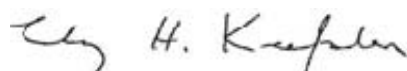
The economic recovery in 2010 contributed to our improved performance. However, the processes we are putting in place should enable Colfax to be a business that out performs in good times and bad. To accomplish this, we will build the best team – talented people capable of building and leading a multi-platform enterprise. The Colfax Business System must be an integral part of everything we do. We must have differentiated strategic positions in each end market rooted in the voice of our customers. We made good progress towards these objectives in 2010 and will use the momentum we've established to accelerate going forward.

Given our strong balance sheet, the cash generation driven by CBS application and the talent that we've added this year, we have a renewed emphasis on acquisitions. Dan Pryor, our new Senior Vice President of Strategy and Business Development, Lynne Puckett, our new General Counsel and Scott Brannan, our new Chief Financial Officer, form the core team that will pursue acquisition opportunities that strategically enhance our business.

In short, I'm excited about our future. We have a great portfolio of brands, a global footprint and a talented, unified global team focused intensely on our customers' needs. Our five core markets offer strong long-term growth prospects.

The Colfax Business System provides the operating discipline and tools needed for consistent and sustained improvement and growth. We look forward to continuing the journey, with our ultimate goal embodied by this corporate value: we compete for shareholders based on performance.

I would like to thank our associates for their dedication in a year of significant change, and our shareholders for their continued support.



Clay H. Kiefaber

