



HEXCEL CORPORATION 2000 ANNUAL REPORT



Hexcel Corporation: the world's leading advanced structural materials company. Following a series of acquisitions, Hexcel today is a global enterprise with over \$1 billion in annual sales. ■ Hexcel is the largest US producer of carbon fiber; the world's largest manufacturer of structural fabrics; the leading global producer of fiberglass electronic materials; the number one producer of composite materials such as honeycomb, prepregs, film adhesives and sandwich panels; and a leading manufacturer of composite parts and structures. ■ The company markets its products to customers in the commercial aerospace, space and defense, electronics and industrial markets. Manufacturing facilities located in 10 countries around the world are operated by an experienced multinational management team. ■ Hexcel materials are used on virtually every commercial and military aircraft produced in the western world, and in thousands of other products, from satellites and launch vehicles, to high speed trains and ferries, cars and trucks, cellular telephones, laptop computers, skis and golf clubs and wind turbines. ■ Founded over 50 years ago, Hexcel has adopted a corporate mission to combine people, materials and science to deliver superior performance to our customers.

FORWARD-LOOKING STATEMENTS: Risks, Uncertainties, Other Factors with Respect to "Forward-Looking Statements"

Certain statements contained in this document constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements that are not of historical fact constitute "forward-looking statements" and, accordingly, involve estimates, assumptions, judgments and uncertainties. There are a number of factors that could cause actual results or outcomes to differ materially from those addressed in the forward-looking statements. Such factors are detailed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed with the Securities and Exchange Commission, along with Quarterly Reports on Form 10-Q subsequently filed with the SEC.

To Our Stockholders:

The year 2000 was a successful transition period for our company. As the year progressed commercial aerospace, our largest market, stabilized and we now expect moderate production increases in 2001 for both Airbus and Boeing, our two largest customers. Our electronics business expanded during the year as customer demand for lightweight electronic fabrics grew rapidly. And finally, our industrial market continued to grow strongly as key segments of wind energy, ballistics and automotive all experienced double-digit growth rates. This positive transition comes on the heels of a difficult year in 1999 when, as a result of the Asian economic crisis, Hexcel was buffeted by an industry-wide commercial aircraft inventory correction, a reduction in Boeing build-rates and oversupply in our electronics markets.

Financial Highlights

(In millions, except per share data; year ended Dec. 31)

	2000	1999	1998
Net sales	\$ 1,055.7	\$ 1,151.5	\$ 1,089.0
Gross margin	21.9%	21.1%	24.9%
Net income (loss)	\$ 54.2	\$ (23.3)	\$ 50.4
Adjusted EBITDA¹	\$ 144.9	\$ 150.4	\$ 177.2
Adjusted net income (loss)²	\$ 17.2	\$ 9.6	\$ 59.2
Diluted income (loss) per share	\$ 1.32	\$ (0.64)	\$ 1.24
Adjusted income per share (diluted)²	\$ 0.46	\$ 0.26	\$ 1.43

¹ Earnings before business acquisition and consolidation ("BA&C") expenses, interest, taxes, depreciation and amortization and equity in income (loss) and write-down of an investment in affiliated companies.

² Amounts exclude BA&C expenses and other acquisition related costs, the gain on the disposal of the Bellingham business in 2000, and a write-down of an investment in an affiliated company in 1999.

During the year Hexcel addressed two key strategic issues. We reduced our debt by over \$100 million through the sale of our Bellingham aircraft interiors business, a non-core asset, and we stabilized our stockholder base through the addition of the investor group led by Goldman Sachs' merchant banking group. As you may recall, our management team helped identify Goldman Sachs and other pre-eminent private equity firms as potential purchasers for most of Ciba Specialty Chemical's stake in Hexcel. Ciba had decided to sell their Hexcel position, since there were no longer any synergies with their core business after they made certain divestitures during 2000. At the conclusion of the transaction in December, Goldman Sachs purchased approximately 39% of Hexcel's outstanding stock from Ciba, entered into a new governance agreement with the company granting them three board seats and carrying over some of the governance provisions that existed in the prior agreement with Ciba. We look forward to working with the directors nominated by our new investors, as well as our new independent director to maximize the value of our company.

In the pages that follow, we will review Hexcel's performance over the past year, discuss the growth prospects in our core markets and outline some of the steps we are taking to improve the profitability of our company. Going forward, you can

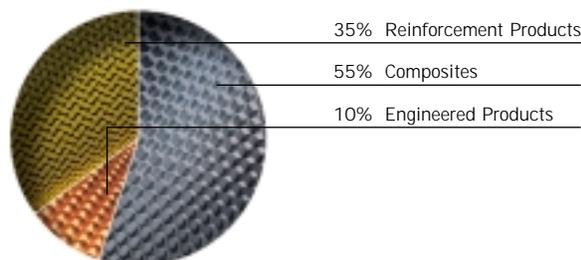
monitor Hexcel's performance throughout the year by visiting the Investor Relations section of our website at www.hexcel.com. As a result of the sale of the Bellingham business, actual financial comparisons between 1999 and 2000 are confusing because we owned this business for all of 1999 but for only the first few months of 2000. For this reason we have been providing you and the financial community with pro-forma financial information so that you can evaluate 2000 against 1999 on a comparable basis.

Pro-forma revenues in 2000 were \$1,037 million, down 4% from 1999's pro-forma figure of \$1,082 million. However, adjusted for changes in foreign currency exchange rates between the two years, revenues were basically flat with currency adjusted revenues being approximately the same in 2000 at \$1,082 million. The fluctuations in exchange rates masked some of the strong growth that we experienced in the electronics and wind energy markets in Europe. These sales helped to offset declines in Hexcel's commercial aerospace and space and defense markets. As a global manufacturer, Hexcel produces and sells materials in local currencies. Movements in foreign exchange rates affect the translation of these sales to US dollars for financial reporting purposes, so it is important to compare revenues on a constant currency basis.



A few final words on Hexcel's 2000 financial performance are in order before turning to our markets and our internal improvement activities. Although sales were relatively flat, we continued to improve our profitability throughout the year. For the year on a pro-forma adjusted basis we produced \$144 million in EBITDA as compared to \$141 million in 1999. You will recall that while 1999 started off strongly, EBITDA deteriorated in the three remaining quarters of the year. Pro-forma 2000

2000 Hexcel Pro-forma Sales
by Business Segment
Total \$1,036.8 million



gross margin was \$227 million or 21.9% of sales, compared with \$228 million or 21.0% of sales in 1999. Pro-forma adjusted operating income was \$86 million or 8.3% of sales in 2000 versus \$81.0 million or 7.5% of sales for 1999. Our profitability was also helped by our equity in the earnings of joint ventures of \$5.5 million, a major improvement over the breakeven results of 1999 before a write-down of an investment in an affiliated company totaling \$20.0 million. The majority of 2000 equity in earnings was the result of the strong operating performances of our Asian joint ventures in the electronics markets.

Turning to the year at hand, we believe 2001 will mark a return to growth in most, if not all, of Hexcel's primary markets. Like most companies we are carefully watching for changes in both the US and global economies that could affect the outlook for any of our markets this year. However, when you look at our core markets, we believe there are reasons to be optimistic. 2001 looks to be a year of modest growth in the commercial aerospace market. Boeing has announced production increases of 5% to 10%, which should increase their build-rate from 489 aircraft in 2000 to approximately 530 aircraft in 2001. Much of this increase is concentrated in the single aisle 737 and 717 models, both of which have relatively low levels of



composite content. Our other major customer, Airbus, had a record level of production in 2000 (311 aircraft) and expects to surpass that level by producing approximately 330 aircraft in 2001. Airbus also announced that they are going to produce the A380 (formerly the A3XX), a giant new commercial airliner that is larger than the 747. While the A380 is not expected to enter service until approximately 2006, the early designs indicate that it will be the largest commercial aerospace consumer of

2000 Hexcel Pro-forma
Sales by Market
Total \$1,036.8 million



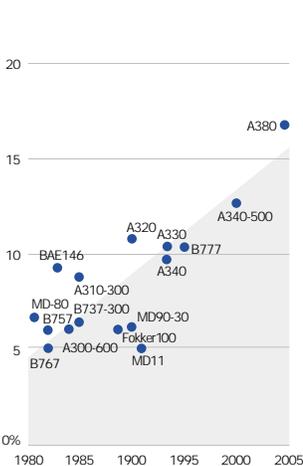
49% Commercial Aerospace
11% Space and Defense
18% Electronics
22% Industrial

composite materials. Almost 20% of its dry weight is expected to be from composites, a significant increase above the level found in today's most advanced wide body aircraft, the 777 and the A340-500/600. Furthermore, we expect regional aircraft production to remain strong for the year, continuing to be a key profit contributor.

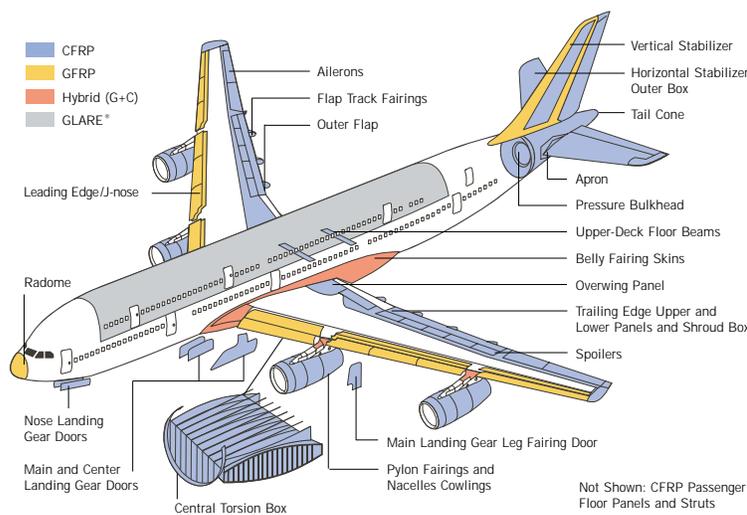
Space and defense markets should begin to turn up later in the year as production rates start to increase for several of the new military aircraft programs in both the US and Europe. Hexcel is a major supplier of carbon fiber, honeycomb and prepreg to the C-17, F-18 E/F, Eurofighter/Typhoon, F-22 and V-22 programs, as well as several helicopter programs like the NH90 and Tiger. The benefit Hexcel obtains from these programs will depend upon which ones are ultimately funded and the amount of such funding. Modern military aircraft like these utilize a high level of composite materials because of the superior strength, stiffness, fatigue resistance and lighter weight that composites provide compared to traditional materials. As a result, one F-22 can produce almost as much revenue to the company as an Airbus A320, despite the fact that the fighter



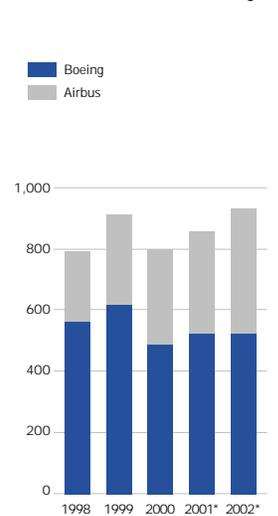
Growing Penetration of Composite Material
Composite Materials as % of Total Aircraft Weight



A380 Composite Materials Application



Deliveries for Commercial Aircraft 100 Seats and Larger



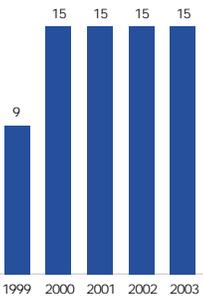
is significantly smaller. (Please see the charts below to get an idea of the production rates being projected by industry sources for several of these programs.)

Our electronics business rebounded throughout the course of 2000 as demand for lightweight electronic glass fabrics for multi-layer printed wiring board applications grew rapidly and we ended the year capacity constrained. 2001 has started with many manufacturers of finished telecommunication and consumer electronic products issuing warnings about their revenue outlook. As the first quarter has progressed, Hexcel has seen reductions in customer orders for electronic glass fabrics in the United States compared to the fourth quarter, 2000. However European demand has remained strong. While the net impact on total company performance has been relatively small, first half electronic product revenues now look likely to be lower than the second half, 2000, and we will continue to monitor developments closely. In the medium term, industry experts still expect significant growth in the electronics market driven by the demand for personal electronic devices (cell phones, pagers, laptop computers, personal palm type

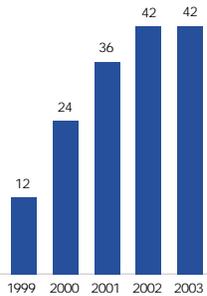


Military Aircraft Build-rate

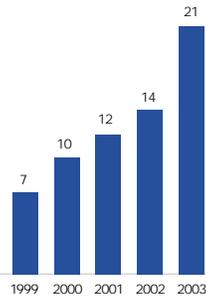
C-17



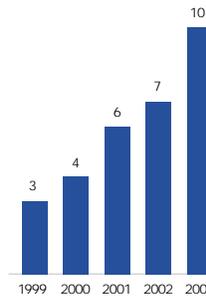
F-18 E/F



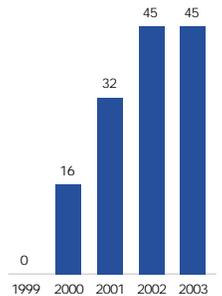
V-22



F-22



EFA



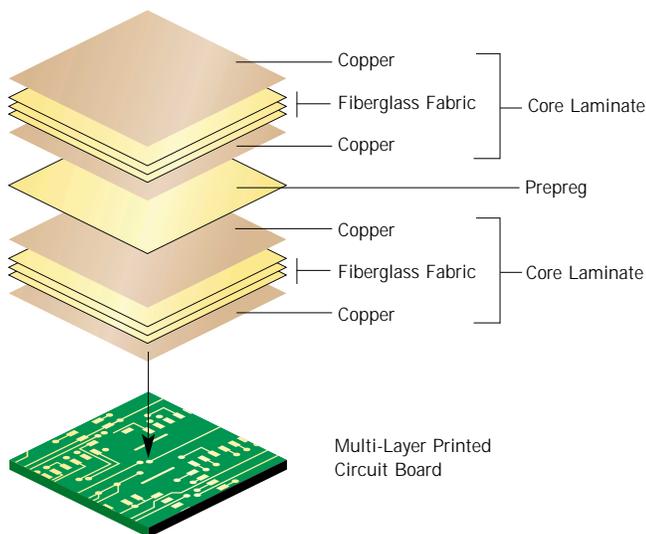
Industry Sources

organizers, etc.), consumer electronics and telecom and Internet infrastructure. Over time we will selectively add capacity in the higher end of our product range, so that we can continue to meet our customers' needs for high quality lightweight, multi-layer fabrics.

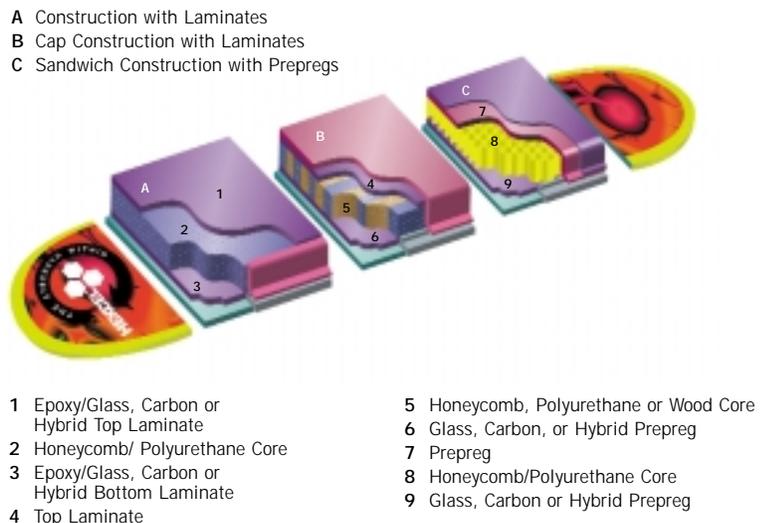
In 2000, we experienced strong growth in many of the industrial applications for our products and technologies, although some of that growth was masked by exchange rate changes as discussed earlier. In 2001, we expect continued growth from this segment. While we are closely monitoring changes in the general economy, we believe the open question is how fast our industrial market will grow this year rather than whether it will grow. The two fastest growing segments in our industrial market are wind energy and automotive applications. Industry experts were predicting 20%–30% annual growth in global wind power production before power shortages began occurring in the western United States. Since wind power now produces electricity at a roughly comparable price to traditional fossil fuels, one would expect this green power supply to continue growing in the future, regardless of the general economic climate. Our automobile market segment should also continue to



Fiberglass Fabric Application for Multi-Layer Printed Circuit Board



Snowboard Applications for Composite Materials

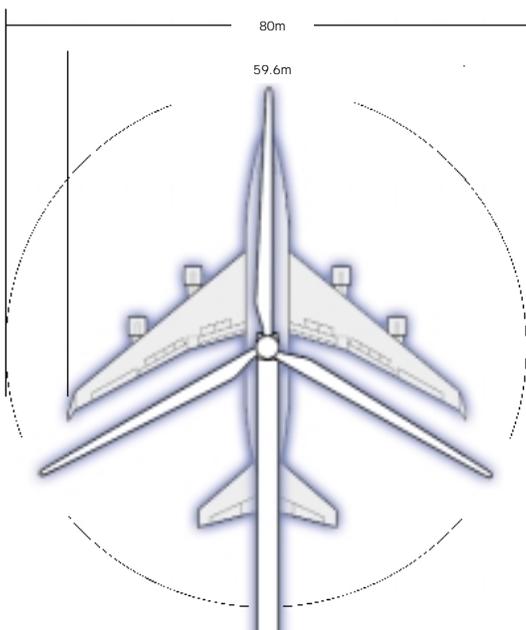


grow, but for very different reasons. Composite materials usage in autos is in its very early stages. We have had some initial success in the past few years, and anticipate introducing a number of new solutions and applications over the next few years. Besides replacing traditional structural materials, Hexcel products are being used in new automobile safety applications that leverage the energy absorption characteristics of our materials. Our automobile revenues should continue to grow over time as we further penetrate the market through the adoption of our applications and the spread of these applications to additional car and truck models. Opportunities such as these give us confidence that our industrial market revenues should grow in 2001 on a constant currency basis, despite concerns about macro-economic changes.

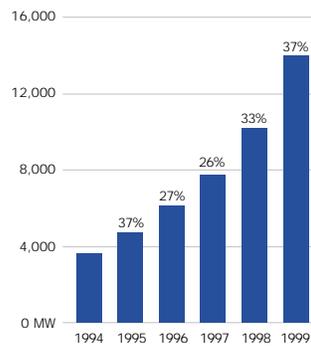
The people who make up Hexcel, our valued employees, are a big part of our improved financial performance in 2000 and are one of the reasons we expect the company to grow in 2001. Throughout this year's annual report we have included photos of our employees at work, as well as the end markets where our well crafted products are utilized. On a personal note,



Size Comparison of Wind Energy Blade and Boeing 747



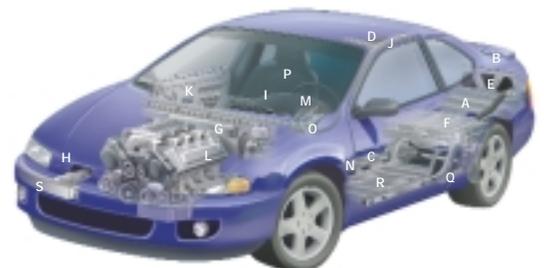
World Wind Energy Growth
Growth of Cumulative
Capacity Installed (%)



Source: BTM Consult

Automotive Application of Composite Materials

- | | |
|---------------------------------------|-------------------------------|
| A Floor Pan—Rear | J Roof Rails |
| B Spoiler | K Door Side Impact Protection |
| C Tunnel | L Engine Accessories |
| D Headliner | M Steering Column |
| E Trunk | N Drive Shaft |
| F Gas Tank | O Knee Protection Bolster |
| G Front of Dash | P Seats |
| H Energy Absorbing Front Side Members | Q Control Arm |
| I Instrument Panel | R Floor Pan—Front |
| | S Bumper Structure |



the Hexcel of today is a far stronger and larger enterprise than the one I was introduced to in 1993, and over the past two years with Tad's help, we have made progress in moving towards "one Hexcel." In 1998 we also introduced the concept of the "Lean Enterprise" to our workforce. Since that time, most of our facilities have adopted "Lean" to improve their productivity, and last year's actions are starting to show up in our bottom line results.

Hexcel's "Lean" activities are as varied as our facilities. In Dagneux, France we increased finished goods output by improving the productivity of the Quality Control labs by 25%. In Parla, Spain it has meant a 75% reduction in the time to confirm customer orders and a nearly 50% reduction in customer lead times. In our Casa Grande, Arizona honeycomb facility, Lean produced a 20% increase in throughput and a 39% increase in productivity by defining standard work for the flooring panel lay-up press operations and improving the flow of material. And in our Anderson, South Carolina Tech-Fab joint venture we greatly improved operating efficiencies, creating a 36% capacity gain, as well as 26% revenue growth and a 100% increase



in operating income. This year we are adding Six Sigma improvement methodologies to our program and expect our first "black belt" to be certified by mid-year. The Six Sigma process was first introduced in our fibers operations and we plan to roll it out to the rest of our US and European facilities during the course of the year.

In closing, Tad and I are proud of the strides we made in 2000 under challenging market conditions and we look forward to Hexcel's continuing progress in 2001. We want to thank all of our stockholders, our board of directors and our employees for their support and efforts over the past year. We would also like to thank the departing Ciba directors for their assistance over the past few years and wish them well in the future. To sum up, after the progress made in 2000, we are optimistic about Hexcel's prospects in 2001. We look forward to reporting our progress to you throughout the year.

Sincerely,

John J. Lee

Chairman and Chief Executive Officer

H. E. Tad Kinne

President and Chief Operating Officer

March 22, 2001

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Chairman and
Chief Executive Officer
Hexcel Corporation

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Nominating Committee*

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Nominating Committee

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Chief Operating Officer
Hexcel Corporation

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Merchant Banking Division,
Goldman, Sachs & Co.
Compensation Committee
Finance Committee
Nominating Committee

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Chief Executive Officer
XTRA Corporation
Audit Committee*

Peter M. Sacerdote
Advisory Director
Goldman, Sachs & Co.

Martin L. Solomon
Co-Chairman
American Country
Holdings, Inc.
Compensation Committee*
Finance Committee

*denotes committee chairman

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Executive Officer; Director

H. E. Tad Kinne
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Operating Officer; Director

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Executive Vice President
and Chief Financial Officer

Ira J. Krakower
Senior Vice President;
General Counsel; Secretary

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Corporate Planning and
Chief Information Officer

Robert F. Matthews
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Human Resources

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Fibers Business Unit

William Hunt
President,
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David R. Tanonis
President, Structures and
Interiors Business Unit

Justin P. S. Taylor
Vice President,
Manufacturing and
Environmental,
Health and Safety

Steven T. Warshaw
President,
Fabrics Business Unit

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Exchanges under the
symbol "HXL"



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Research and Technology Centers
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Décines, France

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Research and Technology Centers
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Duxford, United Kingdom

Hexcel Engineered Products
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USA 98032

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Gilbert, Arizona
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Lancaster, Ohio
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Anderson, South Carolina
Seguin, Texas
Salt Lake City, Utah
Burlington, Washington
Kent, Washington

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Décines, France
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Komatsu, Japan
Osaka, Japan
Alor Setar, Malaysia

