

HEXCEL CORPORATION

Annual Report 2010

# Hexcel's Strength Within



## Financial Highlights

(in millions except per share amounts)	2010	2009	2008
Net Sales	<b>\$1,173.6</b>	\$ 1,108.3	\$ 1,324.9
Operating Income	<b>\$ 129.8</b>	\$ 103.7	\$ 130.9
Net Income	<b>\$ 77.4</b>	\$ 56.3	\$ 111.2
Diluted Net Income per share	<b>\$ 0.77</b>	\$ 0.57	\$ 1.14
Non-GAAP Measures for year-over-year comparisons (see page 20 for reconciliation)			
	2010	2009	2008
Adjusted Operating Income	<b>\$ 133.3</b>	\$ 111.2	\$ 144.9
As a % of sales	<b>11.4%</b>	10.0%	10.9%
Adjusted Net Income	<b>\$ 77.5</b>	\$ 61.9	\$ 79.7
Adjusted Diluted Net Income per share	<b>\$ 0.78</b>	\$ 0.63	\$ 0.82
Free Cash Flow	<b>\$ 77.7</b>	\$ 74.4	\$ (78.4)

In 2010 we reported net sales of \$1,173.6 million, up 5.9% from 2009 levels due primarily to growing sales in our core commercial aerospace market for large passenger aircraft. Adjusted net income rose to \$77.5 million, a 25.2% increase over 2009 levels. We continued to prudently manage assets and generated free cash flow of \$77.7 million. This performance allowed us to reduce our debt, net of cash, to \$215.0 million, the lowest level since 1996.

Our return to double-digit growth over the prior year began in the second quarter of last year thanks to the recovery of our markets and the numerous composite-rich aerospace programs coming into production. Our sales and results closely matched 2007 despite the addition and staffing of five new factories. We are encouraged that our performance improvement programs have already covered the incremental costs associated with these facilities and look forward to good earnings leverage from growth off this new foundation.

For the full financial results, please turn to page 13 of this annual report.



### At Hexcel, we value ...

**Responsibility.** We work with uncompromised integrity on behalf of our shareholders, employees and customers. We strive to be good citizens in the communities in which we live and work.

**One Hexcel.** We thrive on the contributions each person brings to the Company by valuing diversity, developing talent, fostering teamwork, and rewarding success.

**Innovation.** We embrace the curiosity to explore ideas, the passion to challenge the impossible, and the conviction to succeed beyond expectations.

**Accountability.** We are accountable – to customers, shareowners, the community, suppliers and to ourselves – for achieving superior performance by expecting excellence in everything we do.

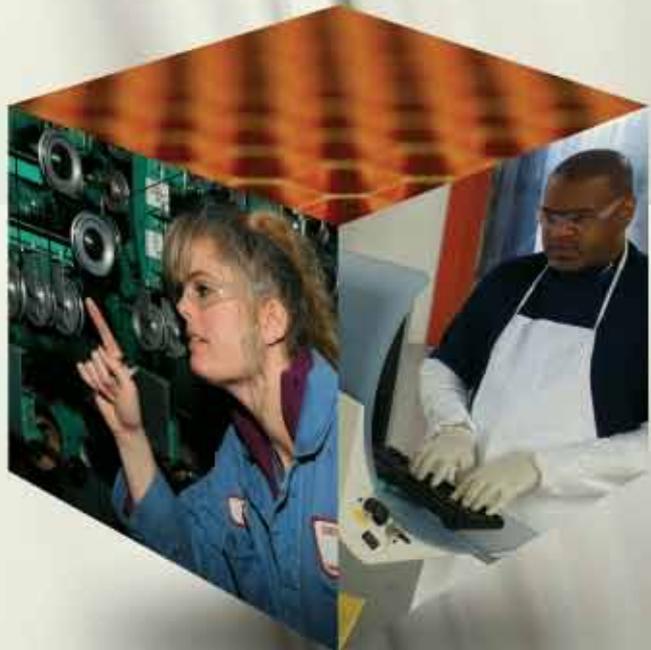
## To Our Shareholders,



In this letter last year, we focused on innovation, one of our four core values. In years past, we've outlined our capital expansion programs, key to supporting the sustained growth we expect at Hexcel. We regularly describe our important customer relationships, platform approvals, and breadth of advanced composite materials – all critical assets. But the foundation of our success is our people. This report is dedicated to the 4,000+ people who make your company great – Hexcel's strength within – and the focus of one of our four core values.

### **Core Value # 2:**

*One Hexcel – We thrive on the contributions each person brings to the Company by valuing diversity, developing talent, fostering teamwork, and rewarding success.*



### ***We thrive...by valuing diversity***

**T**o some in the U.S., the term “diversity” refers to individuals defined by such things as gender or race. Most U.S. companies keep detailed hiring records to prove they provide equal employment opportunity to all. To penetrate years of white male dominance in the industrial work place, some employers have had to go to substantial lengths to hire women and minorities to work towards an employment mix that mirrors the communities in which they work. At Hexcel, we believe that balance comes naturally if you just give everyone an equal opportunity. When hiring from the outside, we have provided hiring managers with candidate pools that average over 40% diversity candidates. Not surprisingly, our five year U.S. salaried hiring has a 43% diversity mix as a natural result of hiring the best from each hiring slate. During the same five year period, over 25% of our senior leaders are considered diverse by these U.S. standards. This is not due to a program or initiatives to achieve diversity goals, rather it is the result of providing opportunity and recognizing the value of hiring the best – not the “same.”

But we think of diversity in much broader terms. We work hard to align globally with our customers and be in the regions that we serve, not just with factories, but with our organizations. For instance, over 40% of our sales are to European customers and over 40% of our employees, our plant management teams, our research group, our systems organization, and our senior business leadership are European as well. This balance provides each of us with perspectives very different from our own, reminds us regularly to think globally, and gives us all a richness of experience that few companies can offer.





As important, our geographic diversity provides invaluable customer benefits. Our major customers define and control the material specifications on new programs, and then source components or parts from factories or partners around the world. For example, we qualified our materials for the A380 directly with Airbus, but we ship to and support over 30 different component suppliers in 11 countries around the world. Our sales of products for the Boeing 787 go to a similar number of destinations. The Hexcel global technical services team provides unparalleled support to each of these customers to assist with training, tool design, cure cycle development, and process optimization. Understanding the value of diversity has many dimensions. Our newest recruits and younger workers are particularly sensitive to environmental matters, sustainability, and our global footprint. We've benefited from their passion by engaging them in environmental projects. Plants across the globe have formed teams to monitor and target reduction of our waste effluents, scrap and landfill needs. A team in Les Avenières, France, attacked energy usage for motors, lighting, compressed air and installed an air-convection geothermal power unit, replacing conventional heating and air conditioning units to reduce energy consumption.

We believe that having diversity in our workforce and in leadership roles reflects well on us with our customers, enhances idea generation, teaches team-building skills, and adds to success in recruiting. It is a major strength of Hexcel and a growing contribution to our performance. It's also the right thing to do.

***“the value***  
*of diversity has many dimensions”*



### ***We thrive...by developing talent***

**I**n the last ten years, we have developed and enhanced our Management Development (MD) process for our professionals. Annual goal-setting, performance reviews, development plans and career discussions are held throughout the organization. In addition, layer-by-layer reviews of emerging talent, diversity progress, succession plans, hiring and other organizational needs take place. This all comes together to help us identify strategic human resource requirements for the future of the company.

One outcome of these sessions was the launch of Hexcel Academy, a multi-tiered program to provide training across the company. Four years ago it began with the Advanced Leadership Program, an intensive six day program that brings together mid-level professionals from around the globe to meet senior management and study a variety of critical topics taught by external professionals. Next came our Leadership Development Program, a modular curriculum rolled out to all locations to enhance front-line supervisory

skills around clarifying performance expectations, giving feedback, developing others, and problem-solving. Over 200 supervisors and professionals receive such training each year.

More recently, a conclusion of the MD process was that we needed to develop an Early Career Program. Hexcel is the world leader in advanced composites. As we grow, we find it is not always possible to recruit employees with the necessary composites experience. We concluded that in addition to developing our current technical talent, we needed to create a feeder system – a “grow your own” strategy. With this new program, we recruit recent graduates up to and including Ph.D.’s from targeted composite or chemical universities to join a three year rotational program. By offering challenging and varied assignments, Hexcel Academy training, short-cycle feedback and careful mentoring we will, over time, have an additional talent pipeline to feed our most critical future technical and managerial roles.

Our products are too unique, too technical and our applications too complex, to assume we can just hire from the open market when we have a need. As one of our training partners, the Levinson Institute, says, “Healthy human relationships depend on mutual and reciprocal commitments to the success of the other.” Developing talent is essential to our long-term success. It’s also the right thing to do.



### ***“Hexcel Academy,***

*a multi-tiered program to provide training across the company”*



***“developing talent***

*is essential to our long term success”*



A man with brown hair and safety glasses is focused on his work in a laboratory. He is wearing a grey t-shirt and is leaning over a large white object. In the foreground, there is a black object with a grid of orange dots. To the left, there is a complex piece of equipment with yellow tubes and wires. The background shows a laboratory setting with blue walls and various pieces of equipment.

***“new-found capabilities***

*utilizing the combined strengths of a broad cross-section of the company”*

### ***We thrive...by fostering teamwork***

**T**he Hexcel of today is the combination of a number of businesses acquired in the mid 1990's. Some were competitors, some were suppliers, but each had their own systems, cultures, and relationships. Over the last ten years we've moved from four distinct product-focused business units to one global customer-focused unit. We like to highlight accomplishments where teams unite across company boundaries to solve problems and demonstrate "the whole is better than the sum of the parts" performance.

In our Engineered Products segment, plants in Pennsylvania and Washington teamed to attack equipment capacity constraints at three sites and found a way to optimize utilization and avoid over a million dollars of capital expenditure. Then, in concert with other Hexcel product groups as well as sales and marketing, an expanded team demonstrated new-found capabilities utilizing the combined strengths of a broad cross-section of the company. The result is a significant expansion of our value-added proposition for rotorcraft customers working to develop new all-composite blades. While most companies in the defense business worry about a deteriorating sales outlook, our increased penetration of the helicopter blade business has allowed us to grow despite the cancellation of the F-22. As we've become more integrated, our end-products have grown more dependent on our inter-plant production planning and execution.

Our manufacturing groups didn't wait as we worked toward an integrated ERP system solution. A small team in Duxford, England, saw a need to develop a process for the global integration of sales, inventory, and operations planning and took the initiative for the entire company. They organized a cross-functional group from around the globe to define the goals, the process, the metrics, and a common language. They developed a training package and visited all 18 Hexcel plants to launch the process. Though the project is just beginning, we are already achieving improved on-time delivery and more efficient asset management.

In our research and technology group, where we align activities with the demands of our customers, we also encourage teams to spend 10 to 20% of their time working on "what could be" in addition to the daily requirements of current program demands. While aluminum and other competing metals have served our customers well for over 70 years, the real potential of advanced composites is just starting to be realized.



***“A small team in Duxford, England,***

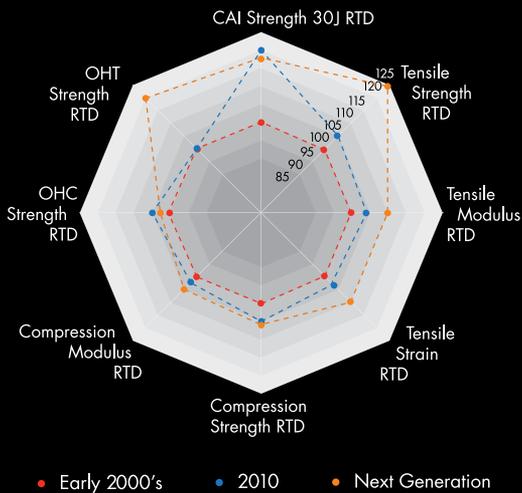
*saw a need to develop a process for the global integration of sales, inventory, and operations planning”*

# "explore

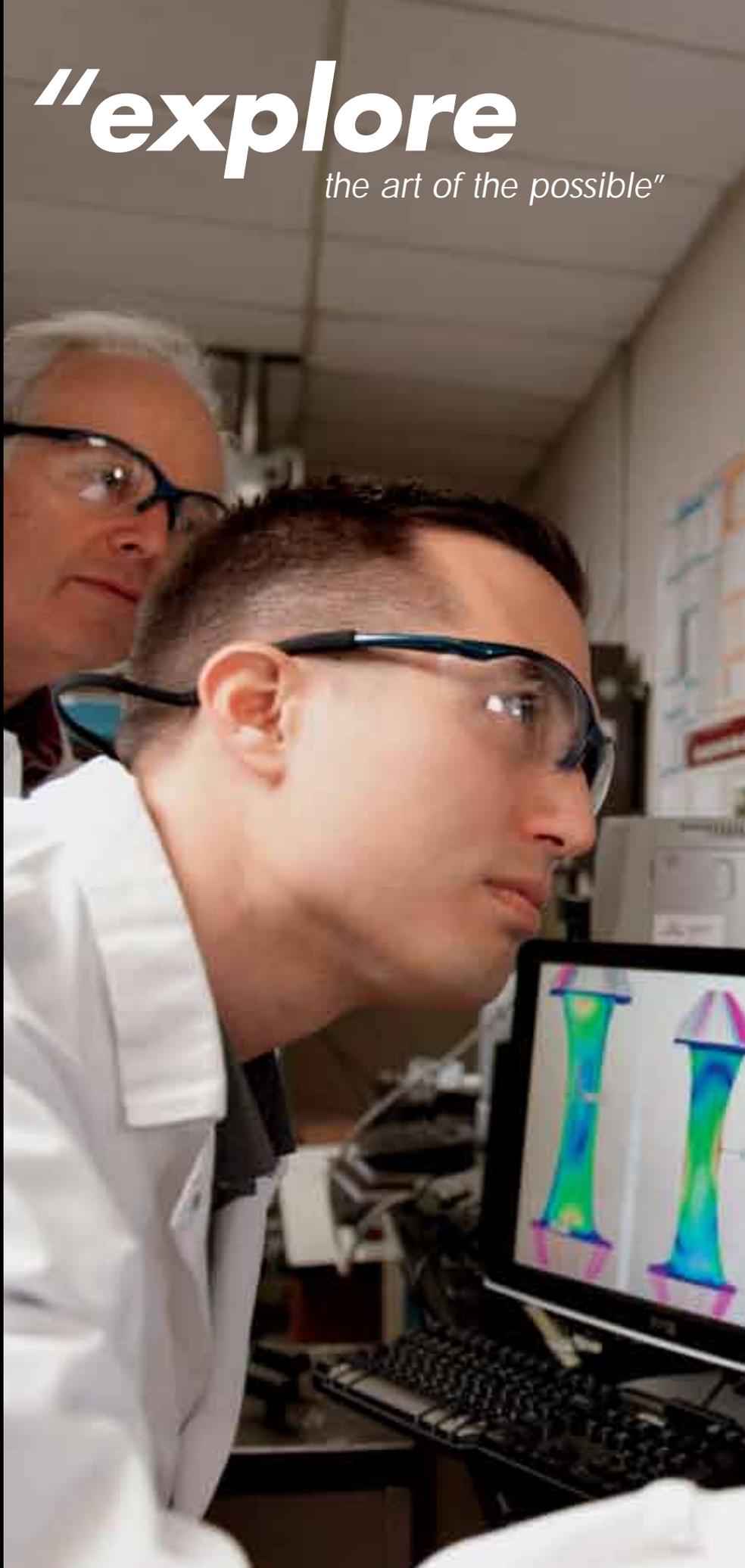
*the art of the possible"*

While we listen to our customers, we also want to help them explore the art of the possible. Some of these backroom projects have great potential. Our carbon fibers team last year brought us IM10, the highest performing intermediate modulus fiber on the market – beyond what most thought possible. Combining our best fiber with our latest generation resin matrix, we are developing M91/IM10, a new carbon prepreg with over 10% tensile strength improvement from today's best aerospace prepregs.

## Hexcel continues to improve all-round performance of prepregs



Our reinforcements group has developed PrimeTex™, a weaving technology enhancing the cosmetic aspect of carbon fabrics and mechanical performances for both Aerospace and Industrial customers. Our wind energy team has developed a stronger, uni-directional spar concept that can be co-infused with large turbine blades needing more stiffness. Our honeycomb core group has successfully introduced Acousti-Cap®, a superior noise-suppressing, structural core for jet engines. And our applications team has demonstrated a method to use our HexMC® product to mold hollow outer guide vanes that may one day replace the stationary structural vanes in





the cold section of new, lightweight aircraft engines. Each of these innovations is the result of cross-functional teamwork, and each has the potential to add to our future growth.

In recent years, we've added new plants in Spain, France, Germany, Colorado, and China. While the experience needed to operate our complex processes is rarely available in new locations, we did not resort to sending teams of "ex-pats" to run the new facilities. Instead, we hired bright, energetic local talent and rotated these new employees to sister plants across the globe so they could work side-by-side with experienced counterparts. A new team of operators and leaders from Illescas, Spain, spent months in Salt Lake City, Utah, learning how to run a highly sophisticated and complex fiber line. Teams from Tianjin, China, and Windsor, Colorado, spent weeks in Neumarkt, Austria, learning how to run our wind prepreg manufacturing systems. They not only learned from the experts, they got to experience the Hexcel energy and culture. After all of the acquisitions, the goal of a "One Hexcel" spirit took time to develop, but it is now in full bloom. Technologies like multi-location video conferencing are allowing us to extend the concept with very little incremental cost. International teaming builds a connectivity and passion for Hexcel that's invigorating. It's also the right thing to do.



***“celebrate***

*successes, big or small”*



**We thrive...by rewarding success**

**W**hen you mention “rewards” most people think of money, and we don’t shy away from talking about that. It’s always a balance to stay competitive, with both costs and recruiting, so we regularly monitor and adjust to keep market alignment. But unlike many others, we’ve not frozen wages, not during the market fall after September 11, 2001, nor after the financial crisis of 2008. We had to take difficult cost-cutting measures, including layoffs, but for those who remained, pay increases were still granted on schedule as our commitment to the long view. We also appreciate the motivational value of incentive compensation. Almost every Hexcel employee in every country, union or non-union, executive or factory worker, has some element of incremental incentive based on performance to look forward to when we have a good year. Beyond financial rewards, we love to celebrate successes, big or small. Safety achievements, hitting interim stretch goals, service milestones – we’re always looking for an excuse to celebrate and give positive reinforcement.



**“Safety achievements,  
hitting interim stretch goals, service milestones”**



After a tremendous cash flow achievement during the difficult environment of 2009, Wayne Pensky, our CFO, proposed to shave his head if we delivered as much cash again in 2010. The organization responded with vigor and topped all expectations, causing Wayne to give up his locks in the middle of the coldest winter in years. When the French Defense Minister visited our matrix and reinforcements teams in Dagneux, France, to thank them for their work, he offered an open invitation to visit an operational Rafale fighter jet base. We took him up on it. In fact, we sent the entire special products manufacturing team 250 miles to spend a day at an active military airfield. Rose-Marie, a long-time Hexcel employee said, "I've worked on the Rafale for 25 years and I had tears in my eyes when I actually saw one taking off in front of me."



We want everyone – our employees, our managers, our customers and our shareholders – to value the people of Hexcel. We want to expand the bounds of our thinking by savoring diversity, developing the talent and capabilities of each of our employees, leveraging our potential through company-wide teamwork, and celebrating the successes that will surely follow. We thrive when we do these things well – and they're the right things to do.

**Team Hexcel –**  
*the strength within.*

Thank you for your continued support.

**David E. Berges**  
Chairman and CEO



# Hexcel Corporation

## BOARD OF DIRECTORS

**David E. Berges**  
Chairman of the Board,  
Chief Executive Officer  
Hexcel Corporation

**Joel S. Beckman**  
Managing Partner  
Greenbriar Equity Group LLC  
Finance Committee\*  
Compensation Committee

**Lynn Brubaker**  
Retired Aerospace Executive  
Compensation Committee  
Nominating & Corporate Governance  
Committee

**Jeffrey C. Campbell**  
Executive Vice President & CFO  
McKesson Corporation  
Audit Committee\*

**Sandra L. Derickson**  
Retired Financial Services Executive  
Compensation Committee  
Nominating & Corporate Governance  
Committee\*

**W. Kim Foster**  
Executive Vice President & CFO  
FMC Corporation  
Audit Committee

**Thomas A. Gendron**  
Chairman, President & CEO  
Woodward Governor Company  
Compensation Committee

**Jeffrey A. Graves**  
President & CEO  
C&D Technologies, Inc  
Finance Committee  
Nominating & Corporate Governance  
Committee

**David Hill**  
Former President & CEO  
Sun Chemical Corporation  
Audit Committee  
Finance Committee

**David C. Hurley**  
Former Vice Chairman  
PrivatAir  
Audit Committee

**David L. Pugh**  
Chairman & CEO  
Applied Industrial Technologies  
Compensation Committee\*

\*Denotes Committee Chair

## EXECUTIVE OFFICERS

**David E. Berges**  
Chairman of the Board,  
Chief Executive Officer

**Nick Stange**  
President

**Wayne Pensky**  
Senior Vice President,  
Chief Financial Officer

**Ira J. Krakower**  
Senior Vice President,  
General Counsel and Secretary

**Robert G. Hennemuth**  
Senior Vice President,  
Human Resources

**Kimberly Hendricks**  
Vice President, Corporate Controller  
and Chief Accounting Officer

**Michael MacIntyre**  
Treasurer

**Andrea Domenichini**  
Vice President Operations

## CORPORATE INFORMATION

Executive Offices  
Hexcel Corporation  
Two Stamford Plaza  
281 Tresser Boulevard  
Stamford, CT 06901-3238  
(203) 969-0666  
www.hexcel.com

## INVESTOR RELATIONS

To receive Hexcel's 10-K and other financial publications free of charge, please contact the Investor Relations Department at Hexcel's Executive Offices, or at www.hexcel.com

## TRANSFER AGENT & REGISTRAR

American Stock Transfer & Trust Company  
40 Wall Street  
New York, NY 10005  
(800) 937-5449  
info@amstock.com

## STOCK EXCHANGES

Hexcel common stock is listed on the New York Stock Exchange under the symbol "HXL"

Hexcel has included as exhibits to its Annual Report on Form 10-K for fiscal year 2010 filed with the Securities and Exchange Commission the certificates of Hexcel's Chief Executive Officer and Chief Financial Officer required under section 302 of the Sarbanes-Oxley act. Hexcel's Chief Executive Officer submitted to the New York Stock Exchange (NYSE) in 2010 a certificate certifying that he is not aware of any violations by Hexcel of NYSE corporate governance listing standards.

## ABOUT HEXCEL

Hexcel is a leading international producer of advanced composites, serving commercial aerospace, space and defense and various industrial markets. The Company is a leader in the production of honeycombs, prepregs and other fiber-reinforced matrix systems, woven and specialty reinforcements, carbon fibers and aircraft structures. Hexcel materials are used in thousands of products, making everyday life easier and safer for millions of people around the world. The lightweight, tailorable nature of our materials has helped transform numerous industries over the past 62 years by making products lighter, stronger and faster. We are the strength within many of today's lightweight, high-performance products.

Stock Price	2010	2009	2008
High	\$19.21	\$13.56	\$26.46
Low	\$10.13	\$4.59	\$5.76

As of March 15, 2011, Hexcel had approximately 25,500 stockholders.



Two Stamford Plaza  
281 Tresser Boulevard  
Stamford, Connecticut  
USA 06901

