



Keeping Our Direction and Focus



BARNES GROUP INC. ANNUAL REPORT 2002

corporate profile

Barnes Group Inc.

Barnes Group Inc. (NYSE: B) is a diversified international manufacturer of precision components and assemblies and distributor of industrial supplies, serving a wide range of markets and customers. Founded in 1857 and headquartered in Bristol, Connecticut, the Company was organized as a Delaware corporation in 1925. The Company consists of three businesses: Associated Spring, one of the world's largest manufacturers of precision mechanical and nitrogen gas springs, retaining rings and plastic injection-molded components; Barnes Aerospace, a manufacturer and repairer of highly engineered assemblies and products for aircraft engines, airframes and land-based industrial gas turbines; and Barnes Distribution, an international distributor of industrial maintenance, repair and operating supplies. The Company has more than 5,100 employees at over 50 locations worldwide.

Associated Spring

Associated Spring is the largest manufacturer of precision springs in North America, and one of the largest precision spring manufacturers in the world. Associated Spring is equipped to produce virtually every type of precision spring, from fine hairsprings for electronics and instruments to large, heavy-duty springs for machinery. Associated Spring also manufactures nitrogen gas springs and manifold systems, used to precisely control stamping presses; retaining rings; and injection-molded plastic-on-metal and metal-in-plastic components and assemblies. Nearly all of Associated Spring's products are highly engineered custom solutions. These products are made of various metals and plastic types, and are purchased primarily by durable goods manufacturers in industries such as consumer products, farm equipment, telecommunications, medical devices, home appliances, electronics and transportation.

Associated Spring provides complete engineering solutions from concept to manufacturing. These include product design and development, physical product and material testing, rapid prototyping and reduction of manufacturing-cycle times.

Associated Spring has manufacturing operations in the United States, Brazil, Canada, China, Germany, Mexico, Singapore and Sweden. Associated Spring owns a 45% interest in a joint venture corporation in the United States with NHK Spring Co., Ltd. of Japan. The joint venture corporation, NHK-Associated Spring Suspension Components Inc. (NASCO), manufactures suspension springs at its facility in Bowling Green, Kentucky.

Barnes Aerospace

Barnes Aerospace is a world-wide producer of precision machined and fabricated components and assemblies for OEM turbine engine, airframe and industrial gas turbine builders and the United States military. Barnes Aerospace also provides jet engine component overhaul and repair services for many of the world's major commercial airlines and the United States military. Barnes Aerospace products and services, which have earned a reputation for excellence throughout the international aerospace community, are sold primarily through Barnes Aerospace's sales employees.

Barnes Aerospace's machining and fabrication operations, with facilities in Arizona, Connecticut, Michigan, Ohio and Utah, produce critical engine and airframe parts through processes such as laser drilling, multi-axis milling and turning, and electrical discharge machining, and specialize in hot and cold forming of complex parts made from titanium and other aerospace alloys. Additional capabilities include super-plastic forming and diffusion bonding, and machining of aluminum and other sheet metal products. Customers include airframe and gas turbine engine manufacturers for commercial and military jets, business jets and land-based industrial gas turbines.

Barnes Aerospace's overhaul and repair facilities, located in Connecticut, Ohio, and Singapore, specialize in the refurbishment of jet engine components such as cases, rotating air seals, honeycomb air seals and housings. Processes performed at these facilities include electron beam welding, plasma coating, vacuum brazing and water jet cleaning. Customers include worldwide major airlines and engine overhaul businesses and the United States military.

Barnes Distribution

Barnes Distribution is an industry leader in the distribution of maintenance, repair and operating (MRO) supplies. Since 1927, it has grown into one of the world's largest value-added MRO distributors and international logistics management service businesses. Barnes Distribution distributes under six widely recognized brands: Bowman, Curtis, Mechanics Choice, Raymond, Autoliasons and Motalink.

Bowman, Curtis, Mechanics Choice, Autoliasons and Motalink distribute a wide variety of replacement parts and other products, and provide related inventory management and logistics services. These products include fasteners, special-purpose hardware, electrical supplies, hydraulics, chemicals and security products. Raymond distributes die and nitrogen gas springs, mechanical struts and standard parts such as coil and flat springs, most of which are manufactured by Associated Spring.

Using innovative methods and new technology to solve complex supply problems, Barnes Distribution becomes a critical partner in the operation and profitability of its customers. Barnes Distribution has a well-diversified customer base ranging from small automobile dealers and repair shops to the largest railroads and utilities. Barnes Distribution's products are sold in the United States, Brazil, Canada, France, Ireland, Mexico, Spain, the United Kingdom, and Asia through a sales force of over 1,000 people, and in many other countries through distributors.

to our stockholders

Your Company enjoyed another profitable year in 2002, as we set a new record for sales and generated significant operating cash flow and a 42 percent increase in our net income. We also delivered a total return to our stockholders that again exceeded that of both the Standard and Poor's SmallCap 600 Index and the Russell 2000 Index, despite an equity market that declined for a third straight year for the first time since the 1940s.

It was particularly satisfying that these results occurred in a year that saw significant external challenges to our business, the most pervasive of which was an industrial economy that showed little sign of improvement. While many companies rushed to adopt a 'flavor of the month' approach to their strategic direction in an effort to deal with the sustained economic downturn, we maintained our direction and focus on building lasting value for our stockholders by generating sustainable, profitable growth. Our steady commitment to our strategic direction, regardless of temporary external forces, speaks for itself.

By remaining focused on long-term value generation, each of our three businesses delivered solid results during 2002. At Associated Spring, sales of nitrogen gas springs and products for the transportation sector grew nicely, more than offsetting a drop in sales of telecommunications and electronics products. Through their investments to diversify the customer base, Barnes Aerospace was able to hold their backlog essentially steady year-over-year, despite the disruption in the commercial aerospace market. And Barnes Distribution was able to roll out numerous new customer growth initiatives, while at the same time reducing their overall cost of doing business.

The 'Group' Becomes Bigger

As we have mentioned in our past letters to you, there are two primary elements in our approach to generating sustainable, profitable growth: creating internal sales growth to new and existing customers and markets, and finding strategic acquisitions for each of our three businesses. In addition to several internal growth initiatives that were under way last year, we also continued down that second path in 2002 by acquiring two businesses that fit extremely well with Associated Spring.

First, in February, we acquired Seeger-Orbis. Seeger-Orbis, which is based in Germany, is a leading manufacturer of retaining rings — often called 'Seeger rings' in Europe — used in a number of transportation and industrial applications. Seeger-Orbis extends the product line reach of Associated Spring and gives the Company a critical geographic expansion into the automotive and industrial manufacturing markets of Europe, where previously Associated Spring did not have a large customer presence. A key business driver of the acquisition was the cross-selling opportunity for Seeger-Orbis into the North American market and from our other Associated Spring operations into Europe; to date, the business development opportunities have been excellent.

In April, we acquired Spectrum Plastics. Spectrum, which is based in Connecticut, is a premier, fully integrated precision plastic injection-molding company. Spectrum services many of the same customers as Associated Spring, and by adding advanced plastic molding capabilities, Associated Spring is able to supply metal-in-plastic and plastic-on-metal assemblies for the

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model. A recovery in industrial economic activity would have the greatest impact on Barnes Distribution's revenue, but these two growth drivers should clearly augment the operation in 2003 and beyond.

As expected in the post-9/11 environment, global aircraft production and airline passenger traffic was down substantially in 2002, impacting revenue at Barnes Aerospace. Because of this, the management team at Aerospace acted quickly to curtail costs, cutting employment in the business by nearly 20 percent and reducing operating costs throughout the organization. Despite the turmoil in the commercial aircraft industry, sales efforts made by Barnes Aerospace to diversify the customer base paid dividends in 2002, as sales were down only modestly and the business remained profitable. Our customer orders and order backlog also benefited from those efforts; Barnes Aerospace generated \$178 million in customer orders, while order backlog remained strong at \$152 million at year end. A particular bright spot was new orders for direct and indirect military customers, which were roughly one third of the total orders received this year. And, although the environment for commercial aircraft is likely to remain flat in 2003, we continue to be excited about several new commercial engine programs, in which Barnes Aerospace is a major supplier, that will be entering service over the next several years.

Corporate Governance

We've always regarded our disclosures to investors as open and transparent. And, we're eager to comply with the new enhanced disclosures passed by Congress in the Sarbanes-Oxley Act of 2002; you'll find some of these new disclosures in this annual report, while many more will begin next year. Our current accounting policies, processes and internal controls, combined with a conscientious Board of Directors that includes an active and informed Audit Committee, give us confidence in affirming that the information we present to you in our periodic reports is a fair and accurate representation of the health and performance of your Company. Thus, in the case of Barnes Group, we think that the quantity of disclosure may change, but the high quality will remain the same.

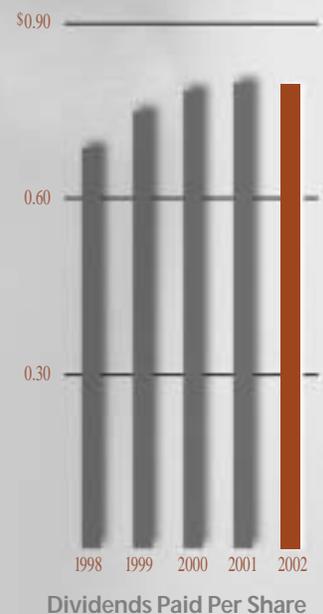
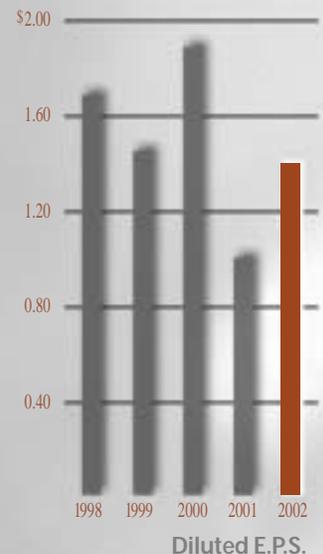
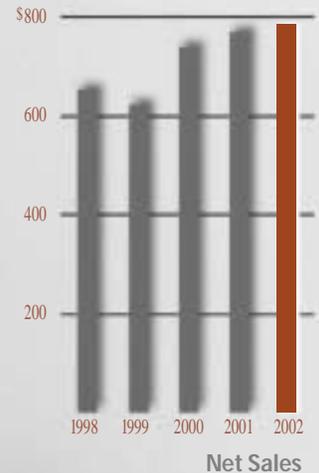
Our Board of Directors also reached its full complement of 10 business leaders, as Mylle H. Mangum joined the Board in December. Mylle, the CEO of True Marketing Services, brings strong executive management, marketing and manufacturing experience — gained at companies such as BellSouth Corporation, Holiday Inn Worldwide and General Electric — that will be highly valued by our Board and our senior management team.

Keeping Our Direction and Focus

In summary, despite a tough environment in 2002, Barnes Group continued to grow; we rebounded financially from 2001 and generated cash to further invest in the business; we integrated two strategic acquisitions; and we successfully positioned each of our three businesses to remain profitable through, and beyond, this current economic cycle. Looking ahead to the future, we remain confident that your Company will continue to generate sustainable, profitable growth and build lasting value for you, our stockholders.

Thomas O. Barnes
Chairman of the Board

Edmund M. Carpenter
President and Chief Executive Officer





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