

consistent growth

textron is

an \$11.6 billion global, multi-industry company focused on delivering inspired solutions to our customers and consistent growth to our shareholders. In the Aircraft, Automotive, Industrial and Finance industries, customers around the world know us for our marquee brands such as Bell Helicopter, Cessna Aircraft, Kautex, Lycoming, E-Z-GO, Greenlee, Ransomes, Camcar and David Brown, among others. Our market-leading companies are redefining industries and generating strong growth and profitability.

financial highlights

	1999	1998	change
Operating Results (\$ in millions)			
Revenues	\$11,579	\$9,683	20%
Operating income	\$ 1,201	\$1,040	15%
Income from continuing operations	\$ 623	\$ 443	41%
Free cash flow from manufacturing operations	\$ 479	\$ 232	106%

Common Share Data

Diluted earnings per share from continuing operations	\$ 4.05	\$ 2.68	51%
Dividends per share	\$ 1.30	\$ 1.14	14%



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1999 was another *year of* record

To Our Shareowners, Employees and Customers:



In 1999, Textron delivered the strongest financial results in our 76-year history. Our market leadership, industry-changing products and rigorous financial and management discipline delivered another year of record growth while we aggressively reshaped our portfolio of businesses.

- Earnings per share increased 51% – our tenth straight year of consistent growth, and seventh consecutive year of double-digit increases.
- Revenues increased a record 20%, our fourth consecutive year of double-digit revenue growth...with an exceptional 9% organic growth rate (our highest in ten years).

- Free cash flow from manufacturing operations rose to \$479 million, a marked improvement from \$232 million in 1998.
- Our year-end debt-to-capital ratio was 27%, ensuring the financial flexibility to support our future growth.
- We acquired 18 businesses and created two joint ventures with approximately \$1.6 billion in annual revenues.
- We continued to expand our geographic reach, generating 36% of our revenues outside the United States.

esults.

We exceeded the market's expectations in each of these measures as we redeployed \$2.9 billion in capital from the 1999 divestiture of Avco Financial Services – the largest disposition in Textron's history. This redeployment, evident in our significant acquisition activity, caused a temporary reduction in our margins and return on invested capital (ROIC) to 10.4% and 12.6%, respectively. As we realize the increasing returns from our recent investments, we should continue to make significant progress in these important measures.

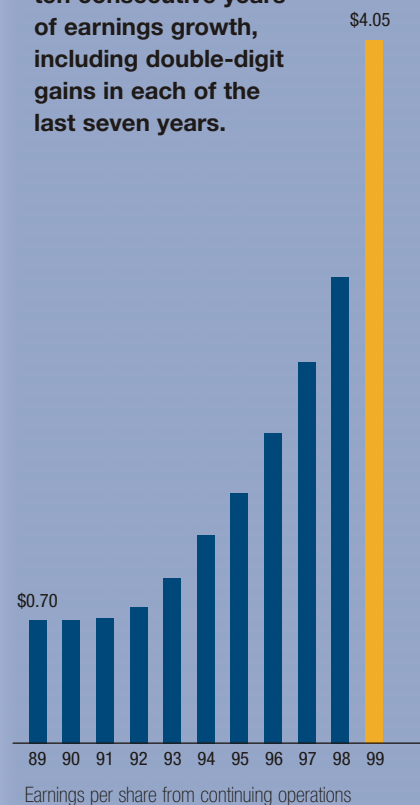
Our ten-year record of 23% average annual returns to shareowners underscores the fundamental

strength of Textron. However, our strong financial performance and strategic momentum were not rewarded in the stock market in 1999. This disappointment only fueled our determination to execute our well-defined strategies to build the great company we aspire to be.

Our approach for delivering value is straightforward: adhere to established financial goals, execute clear growth strategies, and demand operating excellence from each member of the Textron team. We are confident that Textron's market valuation will ultimately reflect our sustained, outstanding results.

Consistent EPS Growth

Textron has reported ten consecutive years of earnings growth, including double-digit gains in each of the last seven years.



We're managing our business mix for higher growth

Our Foundation for Growth

Textron's market-leading businesses and world-renowned brands are our foundation for growth. In all of our business segments, we are aggressively driving the top line while improving the bottom line at an even faster pace. In 1999:

- Our world-class aircraft businesses achieved a record \$7.3 billion order backlog, testimony to the strength of our markets and outstanding customer relationships.
- Our Automotive segment improved its return on invested capital by 300 basis points and received 17 awards for innovation and quality from customers around the world.
- We acquired 12 industrial businesses in high-growth markets such as telecommunications and

fiber optics while stepping up the pace of integration, evidenced by our 370 basis point margin improvement in Golf, Turf Care And Specialty Products.

- Our Finance segment marked its 21st consecutive year of net income growth while expanding its position in higher-growth niche markets.

Levers of Performance

In our world of vigorous competition and accelerating change, success boils down to one singular, potent concept: *execution*.

At Textron, our *Operations Management Process* is the very blueprint of how we run the company. It is a rigorous discipline that aligns our near- and long-term strategies with financial and operating goals. It compels us to anticipate issues that could negatively

impact performance, helping us avoid surprises and achieve consistent results. It also ensures that we have the right people in the right place to successfully execute our strategies and achieve our goals.

With the *Operations Management Process* as our guide, we are:

Investing for Growth – extending our leadership positions in existing and new high-growth global markets.

Driving Operational Excellence – accelerating the speed and depth of operating improvement through Textron Quality Management.

Leveraging E-Business – using the enabling technologies of the internet to drive growth and achieve quantum improvements in how we conduct business.



Investing for Growth

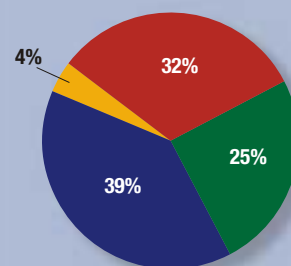
One of our core strengths is our ability to accurately assess the potential of our businesses and plot a course to maximize results while minimizing risk. We have demonstrated this competence for over ten years by divesting non-core businesses – which have not met our return targets – while investing, both internally and through acquisitions, in those businesses with a potential to achieve at least 15% ROIC.

Our exceptional 9% organic growth rate in 1999 is testimony to the success of our new products and strong customer relationships. Over the past three years, we have funded \$2 billion in research and development. This strategic investment has

produced industry-changing innovations such as the world's fastest business jet, the world's first tiltrotor aircraft, an automobile seat that automatically adjusts to each unique body contour, and a revolutionary fastener that allows ultra-fast assembly and ultra-easy servicing of Pentium® chips.

This internal investment is complemented by our “bolt-on” acquisition strategy. In 1999 we acquired 18 companies and created two joint ventures that complement our existing core competencies while bringing us into new, higher-growth markets, providing new technologies, and expanding our geographic reach. These acquisitions will contribute approximately \$1.6 billion to 2000 revenues.

1999 Revenues



- Aircraft \$3,744 (32%)
- Automotive \$2,916 (25%)
- Industrial \$4,456 (39%)
- Finance \$463 (4%)

(\$ in millions)

Financial Goals

Setting and achieving ambitious financial goals are fundamental to Textron's management process.

- ▶ **Double-Digit Earnings Per Share Growth**
- ▶ **Annual Revenue Growth of 8-11%**
- ▶ **Operating Margins Exceeding 12%**
- ▶ **Return on Invested Capital Exceeding 15%**
- ▶ **Debt-to-Capital Ratio of 30-35%**

... and stronger perform

Driving Operational Excellence

A commitment to operational excellence has always been a cornerstone of Textron's strategy. And like every other aspect of business, it requires continuous renewal and redefinition.

At Textron, we drive continuous improvement and operational excellence through *Textron Quality Management* (TQM). TQM defines the way we approach every aspect of our business – the quality of our products, the efficiency of our processes and the level of our customer commitment. Our goal is to *delight our customers* – design it right, develop it right, test it right and launch it right – the first time.

Championed by our President and Chief Operating Officer John Janitz, TQM is unifying and intensifying the various continuous improvement techniques that our managers use across our diverse businesses. Success is measured by common metrics that

track our performance in growth, quality, cost, efficiency, safety and customer satisfaction.

The backbone of our TQM program is an in-depth, rigorous quarterly review process reinforced by a new management incentive program triggered only when stretch goals are reached and sustained.

Through Textron Quality Management we will make significant progress toward two of our key financial goals: margins and ROIC. We are attacking margins with a vengeance, committed to achieving at least a 200 basis point increase by 2003. This, coupled with a renewed focus on reducing invested capital, should drive ROIC to 15% by 2003. Key initiatives include aggressive supply chain management, strategic outsourcing, inventory reduction, investment in technology and accelerated acquisition integration. Selected segment-specific programs are outlined in the following pages.

Leveraging E-Business

Textron is embracing the transformational technologies of the internet to drive growth and achieve quantum improvements in the very way we do business. E-business is revolutionizing the way we think – from the way we serve our customers and design our products, to the way we make them on the shop floor.

In 1999, we initiated an intense, company-wide e-business initiative that began to hit its stride as we entered the new millennium. Every aspect of every business strategy is being examined to ensure we are making *e-progress* at *e-speed*.

Supporting our e-business strategy, in January 2000 we announced a first-of-its-kind strategic alliance with Safeguard Scientifics Inc., a unique internet operating company with interests in 250 internet-based technology companies. Through this partnership, Textron has preferred access to the most advanced and emerging e-business

ance.

solutions developed by the entire network of Safeguard companies.

Our e-business initiative should begin to generate bottom-line results before year-end, but perhaps more important, it will allow us to service customers in unprecedented ways, radically improve the efficiency of our employees and deliver the continued innovation and success that our shareowners demand.

A Passion for Excellence

At the close of my first full year as Chairman and CEO, I'm proud to say that Textron is a very good company, poised to become a truly great company.

We aspire to be a benchmark-setting, global, multi-industry company that delivers exceptional value to our shareowners and customers while providing a challenging and fulfilling work experience for our employees. We have the right businesses, the right growth strategies, and the right people to take us to the next level

of performance and make that aspiration a reality.

Ultimately it is a *passion for excellence* – the determination to achieve – that aligns the talents and energy of 68,000 Textron employees for our common purpose of growth and value creation. I extend my personal thanks to each of our employees for their continued dedication and commitment.

We have very high expectations of ourselves – matched only by your expectations of us. 2000 will mark an outstanding start to an exciting, rewarding decade.

It's a great time to build a great company. We know what we need to do, and we will get it done.

Sincerely,



Lewis B. Campbell
Chairman and Chief Executive Officer

"We aspire to be a benchmark-setting, global, multi-industry company that delivers exceptional value to our shareowners and customers while providing a challenging and fulfilling work experience for our employees."

Corporate Vision

Textron's Vision is to be:

- ▶ **One of the World's Best Managed Companies**
- ▶ **Excellent Managers of Shareholder Resources**
- ▶ **A Multi-industry Company with Global Leadership Positions in Each of Our Businesses**

consistent growth in...

Airer



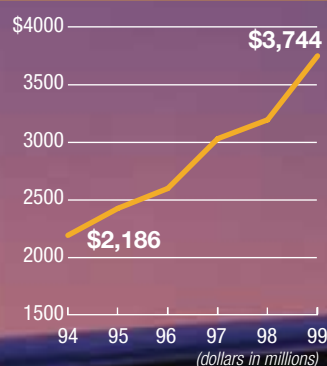


aircraft

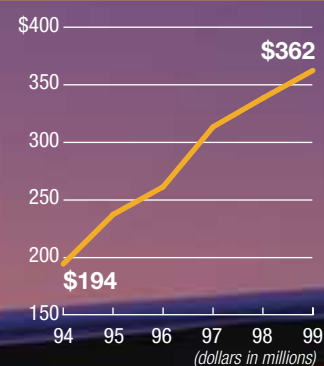
Bell Helicopter is a leading international producer of commercial and military helicopters and the pioneer of the revolutionary tiltrotor aircraft. Bell continues to strengthen its leadership position by exploiting tiltrotor technology, investing in next-generation products and leveraging its global support network.

Cessna Aircraft, the world's largest manufacturer of light- and mid-size business jets and utility turboprops, is also the leading manufacturer of single-engine piston aircraft. Cessna continues to grow through new products that support a proven "step-up" strategy reinforced by close, long-term customer relationships and an unrivaled global marketing and support network.

Total Aircraft Revenues 11% CAGR



Total Aircraft Operating Income 13% CAGR



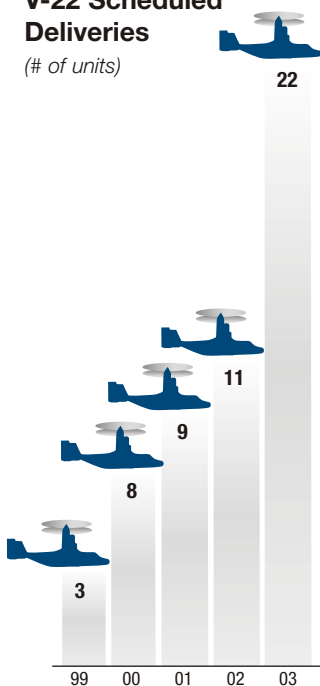
where Inspire



Inspired from the start, the Bell Boeing V-22 tiltrotor is destined to change the way we fly.

V-22 Scheduled Deliveries

(# of units)



Redefining air travel for the 21st century requires visionary thinking – from new product development and the innovative use of materials to building the best global product support network in the world. At **Bell Helicopter**, vision is both a heritage and a proven business strategy.

Bell's revolutionary tiltrotor technology is making an indelible mark on the history of aviation by combining the versatility of a helicopter with the speed and range of a fixed-wing aircraft. 1999 marked the delivery of the first three production Bell Boeing V-22 tiltrotors to the U.S. Marines.

For four decades, Bell has been working to bring this vision to life through engineering ingenuity and the breakthrough use of composite technology.

Bell engineers determined that composite materials are essential to achieve the strength, weight, damage tolerance, corrosion resistance and survivability requirements necessary for the V-22's military missions. Today, composites account for over 75 percent of the V-22. This creative thinking has placed Bell at the forefront of its industry in the use of composites.



"At Bell Helicopter, we are inspired to innovate – it's our business and we do it well."

Juanita Washington
Supervisor, Composite Structures
Bell Helicopter Textron

d Ideas *take off...*

The applications – and long-term growth potential – for tiltrotor technology in both military and commercial aviation are tremendous. We expect to deliver over 450 of these aircraft to the U.S. military by 2013 for a total contract value to Bell exceeding \$15 billion. And we intend to leverage the success of the V-22 into other domestic and international military applications.

In the commercial arena, Bell continues to differentiate itself from the competition by developing the most reliable helicopters in the industry. From the 206B JetRanger to the Bell 430, Bell's commercial line of helicopters serves the emergency medical, law enforcement, search and rescue, executive transport and other commercial markets.

Bell will continue this legacy of performance with the commercial Bell Agusta 609 tiltrotor. The BA 609 has over 77 orders from 42 different customers in 18 countries – a testimony to the high customer demand for this aircraft.

Bell is widely recognized for having a customer support network that is second to none. Our new on-line service capabilities enable customers to order replacement parts and download service manuals anytime, from anywhere in the world.

Textron Quality Management Initiatives – **Bell Helicopter**

- Improve margins through an aggressive series of process improvement initiatives, the introduction of **Continuous Flow Manufacturing** and by **Outsourcing** non-core manufacturing and business processes.
- Lower investment and increase customer satisfaction by aligning our operations into three **Centers of Excellence** – tiltrotor, commercial and military technologies.
- Re-structure our **Supply Chain** to reduce material costs using **E-business** technology. Enhanced business-to-business communication will also be utilized to drive efficiencies in our logistics support network.

Bell Helicopter's innovative use of composite materials – made possible by employees like Clovis Bailey – is essential to the success of the tiltrotor program.



...and

"Cessna's tremendous product offering, combined with outstanding service and support, keep us coming back, time and again!"



New Pr

Jake Harouny

Medallion Exploration (Cessna Customer)

Textron Quality Management Initiatives – Cessna Aircraft

- ▶ Implement **Cessna 2020** Operating Excellence plan, including a key performance indicator system to measure and manage progress.
- ▶ Improve productivity, reduce costs and improve asset management by focusing on **Lean Manufacturing**.
- ▶ Improve operational efficiencies, lower cycle times and increase quality by increasing investment in structured **On-the-Job Training** and expanding **Six Sigma** implementation.
- ▶ Adopt **Malcolm Baldrige Quality Criteria** to gauge overall performance against leading U.S. companies.
- ▶ Expand **Supply Chain Management** initiatives to reduce cost and improve inventory management and supplier quality.



Cessna Aircraft's new on-line Citation Parts Distribution capability provides 24-hour, 7-day-a-week spares support to customers around the world.

At Cessna Aircraft Company, we set the standard in aviation by producing the highest quality, most reliable aircraft in the world. With a product line ranging from entry-level to the world's fastest business jet and an unprecedented backlog of \$5.3 billion, Cessna is the undisputed leader in the industry. Since deliveries began in 1972, we have delivered 3,000 business jets, 50 percent more than our nearest competitor.

Our newest Citation models – the CJ1, CJ2, Encore and Sovereign – support our proven “step-up” strategy, which enables Citation owners to upgrade to larger aircraft as their needs evolve. Our goal is to transform a customer's first purchase into a long-term relationship, maintained by ongoing dialogue, unparalleled service and a range of product offerings that fulfills our promise of performance, reliability, quality and value. Customer advisory councils, satisfaction surveys, technical conferences and frequent personal contact between Cessna and Citation owners help us stay attuned to customers' needs and expectations.

Products

soar



Integral to Cessna's "step-up" strategy, the Citation Sovereign complements the most comprehensive family of business jets in the world.

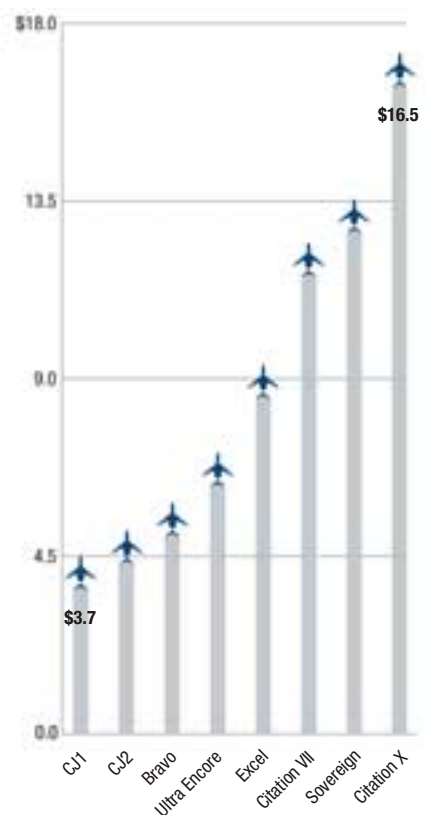
Cessna delivers on these expectations by continuing to offer new, market-leading aircraft and the industry's most comprehensive sales and service network. This organization comprises 10 company-owned Citation Service Centers and 29 independent service centers in 20 countries.

Cessna is now using advanced information technology to deliver even faster service and responsiveness. For aspiring pilots, we offer our exclusive Computer-Based Instruction, a comprehensive, interactive

training tool which makes learning to fly a more enjoyable experience. For business partners, we offer an internet site that gives designated suppliers access to Cessna's parts and material ordering information. We are improving our service capabilities with an internet-based Citation Parts Distribution program which provides any Citation Service Center, and all Citation owners worldwide, access to Cessna's on-hand parts inventory.



**Cessna Citation Family
Price Points** (\$ in millions)



consistent growth in...

Autom



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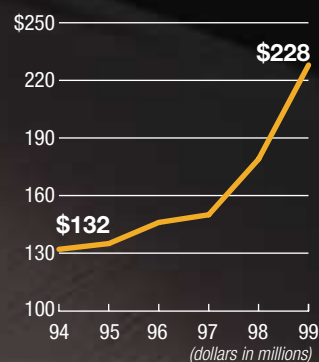
Textron Automotive is a leading, global supplier of instrument panels, cockpit modules, fuel systems, interior/exterior trim, seat comfort systems and other functional components. With manufacturing facilities in 15 countries, our innovative automotive solutions can be found on over 100 different car and light truck platforms worldwide.

1999 was a banner year for Textron Automotive, with strong growth and continued operational improvement. Looking ahead, Automotive is well positioned to achieve consistent growth by delivering technology-driven solutions and integrated systems on a global basis.

**Total Automotive
Revenues 14% CAGR**



**Total Automotive
Operating Income 12% CAGR**



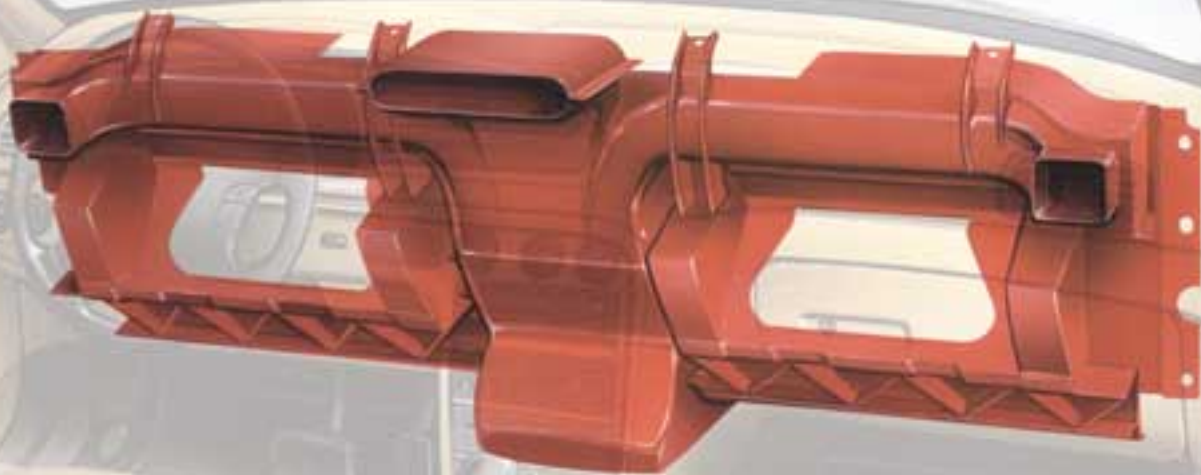
"Technology is the differentiating factor that keeps us ahead of the competition!"



Driving Te

Stephen Hiltner

North American Sales Manager
McCord Winn Textron



Textron Automotive's integrated HVAC System improves heating and cooling performance by 40 percent and gives consumers a glove box large enough to hold a laptop computer.

By combining breakthrough technology, systems integration and a culture of craftsmanship, **Textron Automotive** develops engineered solutions that delight customers and enhance the driving experience for consumers around the world. We apply this strategy globally – meeting the needs of customers through manufacturing facilities in 15 countries.

Our engineered solutions include our proprietary *Invisitec* invisible airbag technology (shown on previous page), which has earned eight patents and myriad accolades from original equipment manufacturers (OEMs). Currently, more than three million minivans and luxury vehicles sport

this new instrument panel technology, which hides unsightly airbag door seams and provides an aesthetically appealing, smooth appearance. Marking the first Ford-branded invisible seam solution, this technology will be incorporated into Ford's Mondeo 2001 model, saving the OEM both time and money.

While consumers enjoy our innovations inside the vehicle, global OEMs reap the benefits of our ingenuity under the hood. Our patented **McCord Winn RITec** system – another example of our focus on integrated, technology-driven solutions – combines five separate components, including washer fluid and radiator overflow

reservoirs, into a single molded fan shroud. The benefits include lower weight, reduced cost and valuable space savings.

Similarly, our **Kautex** plastic fuel tanks are delivering value-added, engineered solutions to customers. These lightweight, environmentally friendly blow-molded tanks can be made in infinite shapes and sizes, allowing OEMs to maximize space beneath the vehicle.

Textron Automotive's dedication and creativity extend beyond new product development to operating excellence. A laser-sharp focus on cost-cutting, lean manufacturing and internal synergies continues to offset customer pricing pressures.

chnology

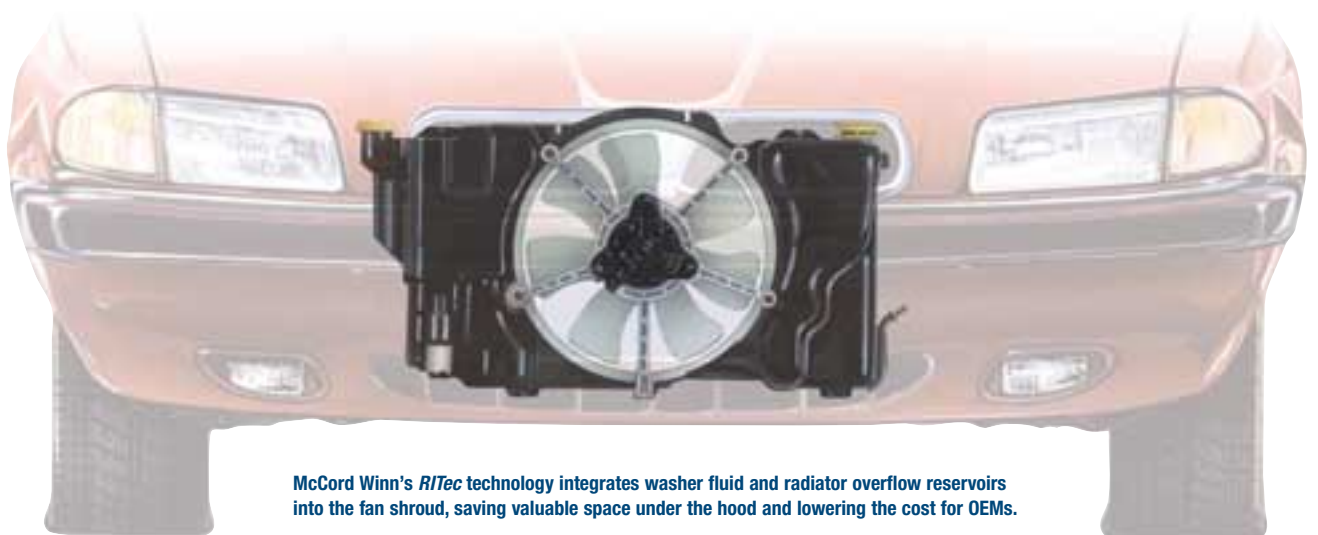
around the world

Operating excellence also means applying information technology in all areas of our business. We were one of the first suppliers to participate in the Automotive Network Exchange, an extranet instituted by the automotive industry to provide a semi-public network for the OEMs and their suppliers to communicate product specifications, receive quotes and place orders.

Customers around the world are recognizing Textron Automotive as a company that stands for technology, innovation, craftsmanship and quality. In 1999, we received 17 awards from the industry and major OEMs including DaimlerChrysler, Volkswagen, Ford, Audi and others – a testimony to the value our customers place on their partnership with Textron.

Textron Quality Management Initiatives – **Textron Automotive**

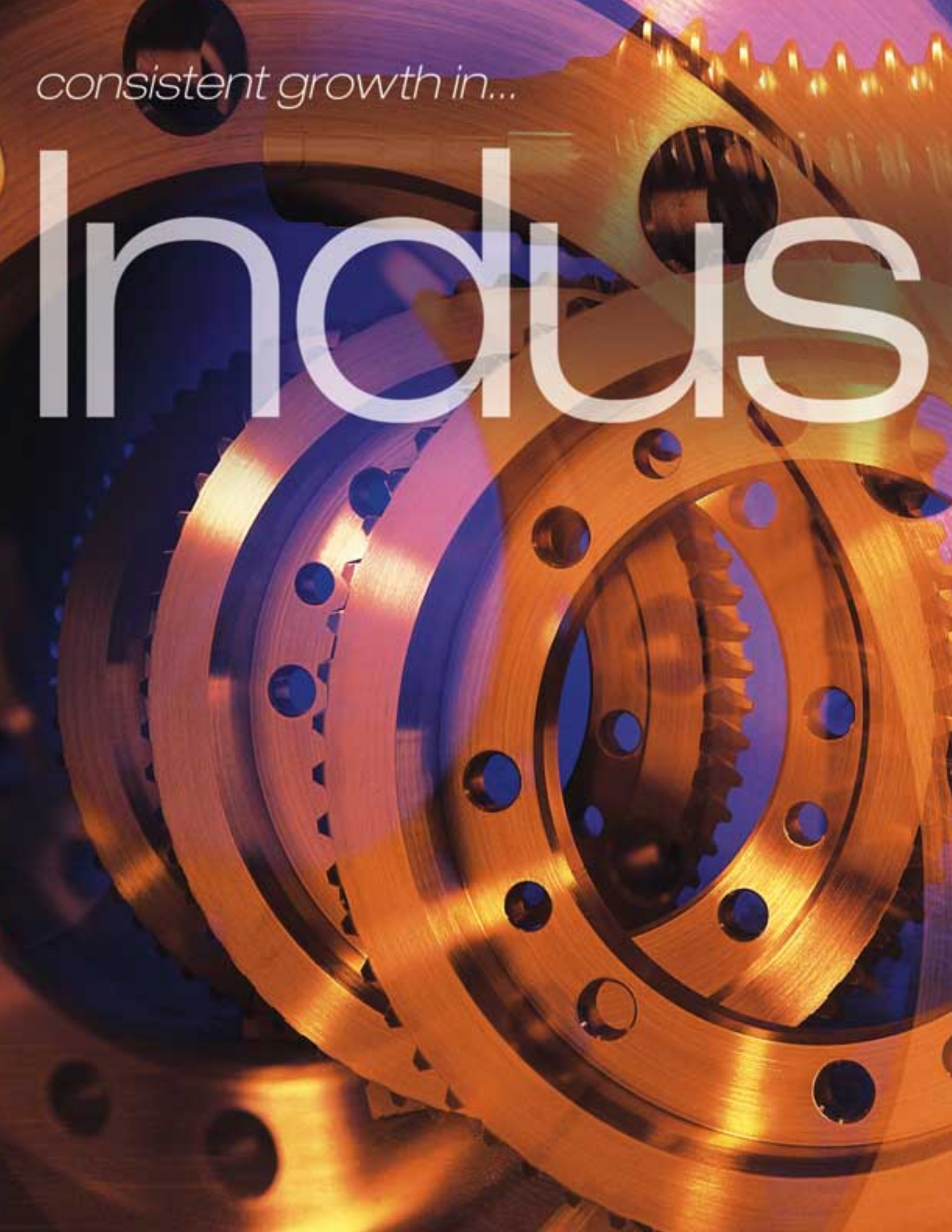
- ▶ Achieve margin and ROIC improvement through cost reduction initiatives including:
 - **Global Purchasing**
 - **Product Design and Standardization**
 - **Lean Manufacturing**
 - **Shared Services**
- ▶ Improve product quality measured by defects per million and cost of quality through **Advanced Product Quality Planning** and **Mistake Proofing** our processes.
- ▶ Leverage **E-business** opportunities in areas including procurement, customer interface and logistics to drive improved efficiencies and enhance our competitive position for growth.



McCord Winn's *RITec* technology integrates washer fluid and radiator overflow reservoirs into the fan shroud, saving valuable space under the hood and lowering the cost for OEMs.

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Indus



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Textron's **Industrial** Segment serves the fastening systems, fluid handling, motion control, power transmission, golf and turf-care, light construction, and electrical testing and installation industries.

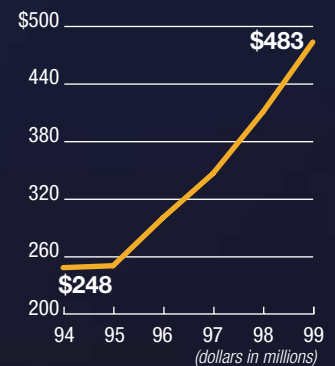
Our Industrial businesses offer leading, globally-recognized brands such as Avdel, Cherry, Camcar, Elco, InteSys, David Brown, Maag, Jacobsen, Ransomes, E-Z-GO, OmniQuip and Greenlee.

This segment focuses on developing products and solutions that meet the needs of diverse end-user markets. And we make strategic acquisitions that complement our existing manufacturing capabilities, expand our global reach and maximize our operating potential.

**Total Industrial
Revenues 8% CAGR**



**Total Industrial
Operating Income 14% CAGR**



staying globally

Connec

through solutions,

Textron Fastening Systems (TFS) is the global leader in providing engineered solutions that improve the quality, speed of assembly and cost-effectiveness of customers' products and processes. Over the past five years, we've acquired 14 complementary businesses and continued to expand our global manufacturing, sales and service capabilities, growing from \$635 million to \$2.1 billion.

Through our leading product brands such as Avdel, Camcar, Elco, Cherry, Ring Screw and Sükosim, TFS serves myriad industries in 40 countries.

Organized into four global, market-focused groups – Automotive, Commercial, Supply Chain and Advanced Solutions – we are leveraging our combined strengths to bring the most advanced fastening and assembly technologies to customers around the world. Cross-selling, collaboration and manufacturing centers of excellence are some of the ways we're accomplishing this.

Customers like Nokia, Mitsubishi and Motorola look to InteSys as a one-stop source for customized solutions, including multi-colored plastic cellular telephone covers.



ted

service and speed



"We combine small company service and speed with big company capability – it's a formula that works!"

Mike Silberlicht
Operations Manager
InteSys Technologies

We're redefining our role with customers, becoming more critical to their "value chain" by immersing ourselves in their products and processes and offering alternative fastening solutions that save time and money. Comprehensive product teardowns and assembly line reviews for customers such as Harley-Davidson, Hewlett-Packard and Ford Motor Company have resulted in significant savings and product improvements, demonstrating the added value that TFS delivers.

Looking ahead, we will continue to grow by penetrating new, higher-growth markets and by delivering unprecedented levels of service and speed to our customers.

InteSys Technologies, our newest acquisition, is a leading, full-service provider of engineered assemblies serving the telecommunications, computer/business machine, medical and other high-growth markets. Known for its innovative, high-quality products such as precision-molded cellular phone covers for Nokia, Mitsubishi and Motorola, InteSys also has the agility to satisfy these demanding customers' need for speed. By using the latest CAD/CAM technologies and maximizing its team-based culture, InteSys has cut product lead times by 50 percent.

As we continue to redefine our role in the value chain, service is pivotal to success. Vendor Managed Inventory (VMI) –

the just-in-time delivery and overall inventory management of customers' fasteners – is an example of our service orientation. With VMI leader **Flexalloy**, TFS is a one-stop source for customers' fastening needs – from product solutions to on-site inventory management. And by harnessing the power of e-business, we are bringing VMI to new levels of speed, efficiency and convenience.

In 1999, we won a groundbreaking VMI contract with Ford Motor Company. Under this landmark contract, TFS manages all of Ford's fastening systems needs at Ford's Dagenham (U.K.) and Cologne (Germany) plants.

Textron Quality Management Initiatives – Textron Fastening Systems

- Improve productivity and profitability through:
 - **Simplification:** supplier consolidation, plant rationalization and reduction in part numbers.
 - **Standardization:** in our processes, machinery and equipment, raw material purchases.
 - **Kaizen** (continuous improvement) workshops: focus on a single assembly line or process and identify bottlenecks, improve throughput, reduce labor requirements and balance processes.
- Achieve organic growth through **Cross-Selling** and **Inter-Company Collaboration**.
- Leverage **E-business** technologies to lower customer transaction costs and create a seamless and real-time connection with customers.



Textron Fastening Systems provides a wide array of fastening and assembly solutions to customers in a variety of industries.



Noelia Quintanilla
International Sales Coordinator
Greenlee Textron

Industrial

"Out-of-the-box thinking is essential to every new product we develop, every new market we enter and every process we improve. It's a mindset and a way of life."

Textron Quality Management Initiatives – Textron Industrial Products

- ▶ Improve margins by:
 - Achieving **Supply Chain Excellence**.
 - Reducing manufacturing cycle times through programs such as **Six Sigma, Kanban, Kaizen, Process Flow** and **Pull Manufacturing**, among others.
 - Improving inventory turnover through **Total Productive Maintenance, MRO Vendor Programs, Downtime Analysis, Common Platforms, Vendor Managed Inventories** and **Kanban**.
 - Employing an effective **E-business** strategy to capitalize on speed, efficiency, technology enhancements and competitive positioning.

OmniQuip's **LULL** telescopic handlers help contractors move heavy loads faster, farther and more smoothly, saving time and money on the job site.



Success within **Textron Industrial Products** requires ingenuity – staying ahead of the competition by setting the pace in new product development, finding new ways to run our businesses more efficiently, and making acquisitions in solidly growing markets.

Accelerating New Product Development

We have picked up the pace in our pursuit of strong organic growth. At **Golf, Turf Care And Specialty Products**, this means 43 new product introductions in 1999 alone – making us the preferred one-stop source for turf-care professionals around the world. At **Greenlee Textron**, a group of highly motivated employees developed a new line of electrical test equipment in five short months – 88 new products in all. And at **Textron Systems**, we are applying defense technology to non-traditional commercial markets. For example, our revolutionary “smart” grain sensor uses laser sensing technology to analyze and measure protein, oil and moisture content in farmers’ crops. This helps farmers better utilize their fields and get higher prices for their quality products.



Ingenuity:

unleashing our potential

Improving Our Operations

We continue to look for opportunities to streamline our operations, reduce material costs and develop synergies among our businesses. This involves initiatives such as Supply Chain Excellence.

Improving our operations also requires us to broaden our use of e-business and information systems. At Golf, Turf Care And Specialty Products, for example, we are installing an Enterprise Resource Planning system, giving us the ability to consolidate purchases, production and inventory throughout the entire global organization.

Entering New, High-Growth Markets

Strategic acquisitions complement our focus on organic growth and operational excellence. Our recent addition of **Progressive Electronics**, a leading manufacturer of wire and cable identification and testing equipment for the telecommunications market, expands our position in the data-signal-voice industry – a promising platform for global growth. Progressive brings a respected brand with strong customer loyalty to Greenlee Textron's existing capabilities.

Greenlee also added **Rifocs Corporation** – a manufacturer of fiber

optic test and measurement instruments – to its family of businesses. Fiber optics is the fastest growing sector of the data-signal-voice market and will become increasingly important as internet technology continues to expand.

And we acquired **OmniQuip International**, a leading manufacturer of light construction equipment. OmniQuip brings market leadership,

brand equity and solid growth prospects to the Industrial Products group.

We have already begun to capitalize on process improvements and synergies with other Textron businesses, reaping benefits from common manufacturing processes with our golf and turf care business, global sourcing opportunities, and captive financing programs through **Textron Financial Corporation**.



Newly acquired Rifocs Corporation expands our presence in emerging markets like the data-signal-voice market and more specifically, fiber optics.

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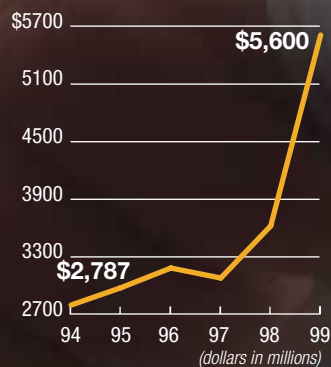
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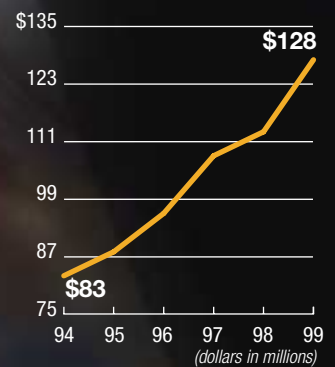
Textron Financial is a diversified commercial finance company specializing in term financing for the purchase of aircraft, golf-related products and general equipment, as well as revolving credit and specialty financing.

Textron Financial has achieved over 21 consecutive years of net income growth. We expect to continue this outstanding record by leveraging our expertise in niche, high-return markets through select acquisitions and start-up operations. We will also continue to maintain our superior operational performance, evidenced by our industry-leading operating efficiency ratio and consistent profitability.

**Total Finance
Receivables 15% CAGR**



**Total Finance
Operating Income 9% CAGR**



financing customers'

Business Dreams

at the speed of inspiration

Textron Quality Management Initiatives – **Textron Financial**

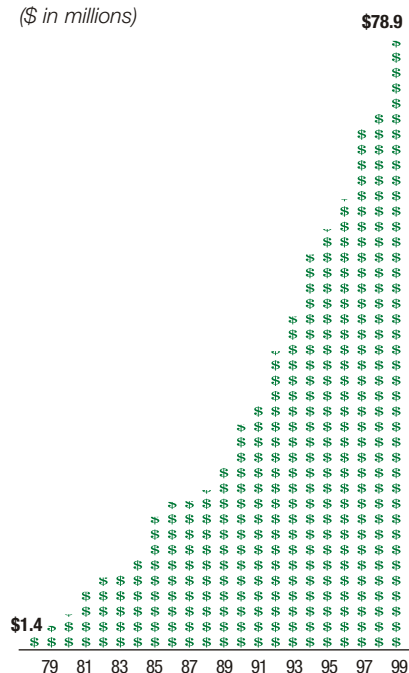
- ▶ Leverage **E-business** opportunities by:
 - Working with established internet portal providers to establish e-loan origination and electronic payment capabilities.
 - Improving business-to-business response time through on-line access to account information.
- ▶ Through **Work Flow Analysis** and **Process Improvements**, streamline internal operations and improve response times to customers.



Textron Financial employees, such as Angelo Butera, Debra Raymond and John Salvator (from left), are committed to bringing our business-to-business financing solutions on-line – just a click away from the customer.

21 Consecutive Years of Net Income Growth

(\$ in millions)



At **Textron Financial**, we know what it means to keep pace with the rapid changes in the commercial lending landscape. Competition is fierce and customers' need for speed, value and convenience is escalating. Through a comprehensive line of commercial lending solutions, we meet these evolving customer needs every day.

We know that processes need to be simpler in an increasingly complex world. With our state-of-the-art information technology and unparalleled knowledge of the markets we serve, we improve our customers' competitive advantage. We understand their financing needs and are inspired by them.

Our investments in technology have allowed us to launch business-to-business

financing solutions electronically over the internet. Through Textron Financial's web site and third-party sites, we are bringing our products on-line. The response has been tremendous. At our Aviation Finance Division, over one third of new business is now generated over the internet.

Textron Financial has enjoyed a stellar record of growth and profitability over the past 21 years. We continue to grow our seasoned businesses in aviation finance, golf finance, and vendor and floorplan finance, while applying our niche expertise to newer businesses serving high-return, specialty markets like timeshare, telecommunications and franchise finance.

1999 financial *report*

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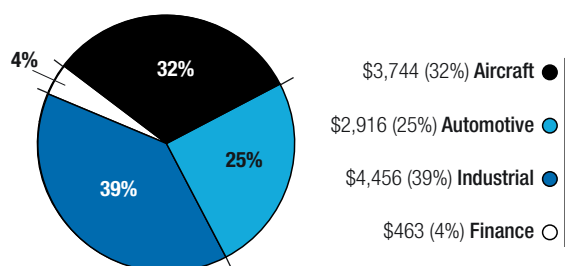
Business Segment Data

For a description of the businesses comprising each segment, see pages 66 through 68.

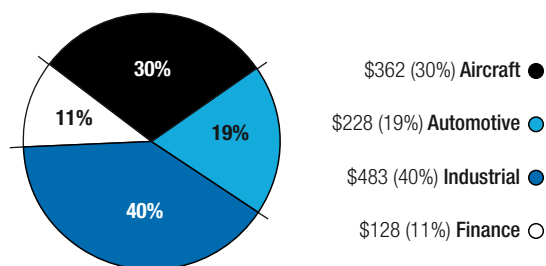
(In millions)	Revenues			Operating Income			Operating Income Margins		
	1999	1998	1997	1999	1998	1997	1999	1998	1997
Aircraft	\$ 3,744	\$3,189	\$3,025	\$ 362	\$ 338	\$ 313	9.7%	10.6%	10.3%
Automotive	2,916	2,405	2,127	228	179	150	7.8	7.4	7.1
Industrial	4,456	3,722	3,181	483	410	346	10.8	11.0	10.9
Finance	463	367	350	128	113	108	27.6	30.8	30.9
	\$11,579	\$9,683	\$8,683	1,201	1,040	917	10.4%	10.7%	10.6%
Gain on sale of division				–	97	–			
Special credits/(charges)				1	(87)	–			
Corporate expenses and other – net				(143)	(141)	(152)			
Interest income				27	–	–			
Interest expense				(56)	(146)	(117)			
Income from continuing operations before income taxes*				\$1,030	\$ 763	\$ 648			

*Before distributions on preferred securities of subsidiary trusts.

1999 Revenues – \$11.6 billion

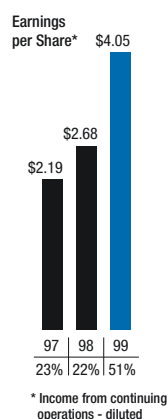


1999 Operating Income – \$1.201 billion



Management's Discussion and Analysis

Results of Operations



Textron Inc.

1999 vs. 1998

- Diluted earnings per share from continuing operations for 1999 were \$4.05 per share, up 51% from the 1998 amount of \$2.68. Income from continuing operations in 1999 of \$623 million was up 41% from \$443 million in 1998. Revenues increased 20% to \$11.6 billion in 1999 from \$9.7 billion in 1998.
- In August 1998, Textron announced that it had reached an agreement to sell Avco Financial Services (AFS) to Associates First Capital Corporation for \$3.9 billion in cash. The sale of AFS was completed on January 6, 1999 and a gain of \$1.62 billion on the sale of AFS was recorded in the first quarter 1999. Textron also recorded an extraordinary loss of \$43 million (net of tax) on the early retirement of debt in the first quarter 1999. Textron increased the gain on the sale of AFS to \$1.65 billion in the fourth quarter 1999, as a result of finalizing all activities associated with the sale. Net income, including the gain and extraordinary loss, was \$2.23 billion vs. \$608 million in 1998, which included \$165 million from AFS, a discontinued operation.
- Operating income of Textron's four business segments aggregated \$1.201 billion in 1999, up 15% from 1998, as a result of continued improved financial results across all business segments, reflecting the benefit of organic growth and acquisitions.
- Total segment margins decreased to 10.4% in 1999 from 10.7% in 1998, due primarily to lower Aircraft margins and the impact of lower margin acquisitions.
- Interest income and expense – the net interest expense for Textron Manufacturing decreased \$117 million as a result of the proceeds received in January 1999 from the divestiture of AFS. Interest income increased \$27 million, as a result of Textron's net investment position during the year, while interest expense decreased \$90 million due to a lower level of average debt, resulting from the pay down of debt with the AFS proceeds, partially offset by incremental debt associated with acquisitions and share repurchases.

1998 vs. 1997

- Diluted earnings per share from continuing operations for 1998 were \$2.68 per share, up 22% from the 1997 amount of \$2.19. Income from continuing operations in 1998 of \$443 million was up 19% from \$372 million in 1997. Revenues increased 12% to \$9.7 billion in 1998 from \$8.7 billion in 1997. Net income including the results of AFS which is a discontinued operation was \$608 million vs. \$558 million in 1997.
- Operating income of Textron's four business segments aggregated \$1.040 billion in 1998, up 13% from 1997, as a result of continued improved financial results across all business segments.
- Total segment margins increased to 10.7% in 1998 from 10.6% in 1997.
- Corporate expenses and other – net decreased \$11 million due primarily to 1997 costs associated with the termination of interest rate swap agreements no longer qualifying as accounting hedges and 1997 litigation expenses related to a divested operation.
- Interest income and expense – the net interest expense for Textron manufacturing increased \$29 million due to higher average debt resulting from the incremental debt associated with acquisitions and share repurchases, partially offset by the payment of debt with proceeds in 1997 from the divestiture of Paul Revere.



Aircraft

1999 vs. 1998

The Aircraft segment's revenues and income increased \$555 million (17%) and \$24 million (7%), respectively, due to higher results at Cessna Aircraft.

- Cessna Aircraft's revenues increased \$435 million as a result of higher sales of business jets, primarily the Citation X and the Citation Excel, higher single-engine piston aircraft sales, and increased spares and service revenues. Its income increased as a result of the higher sales, partially offset by increased manufacturing costs associated with the ramp-up in production of new aircraft, higher warranty expense and increased new product development expense related to the Citation CJ2.**
- Bell Helicopter's revenues increased \$120 million, due primarily to higher revenues on the V-22 production contract (\$105 million) and the Huey and Cobra upgrade contracts (\$63 million) and higher foreign military sales (\$42 million), partially offset by lower commercial and U.S. Government helicopter sales (\$102 million). Bell's income was unchanged from the 1998 level. 1999 results reflected the full year recognition into income (\$37 million in 1999 vs. \$10 million in 1998) of cash received in the fourth quarter of 1998 on the formation of a joint venture on the Bell Agusta commercial tiltrotor program (BA609), partially offset by higher expense related to new product development, while 1998 results reflected favorable contract adjustments related to the Bell-Boeing V-22 Engineering, Manufacturing and Development contract.**

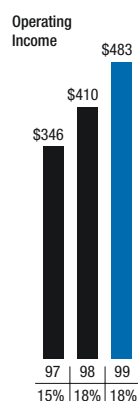
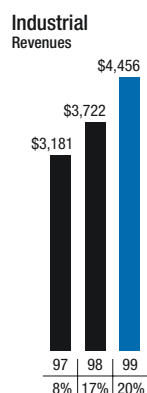
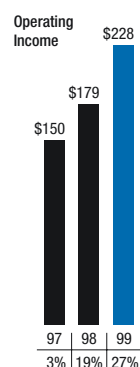
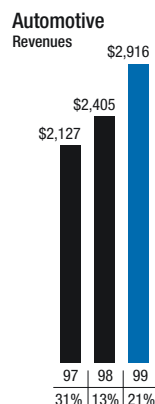
Research and development efforts for the BA609 program are provided by each joint venture partner in accordance with work plans developed at the time of the venture formation. Under the agreement, the venture is jointly controlled by both partners, with the individual parties retaining management responsibility for individual programs within the venture. Bell's research and development effort under the program is classified as company-funded research and development and totaled approximately \$60 million in 1999. This amount is net of approximately \$23 million of reimbursements from the joint venture partner, but excludes all amounts spent by Agusta for development activities that it is responsible for under the joint venture agreement. In addition, a portion of Bell's development responsibilities under the partnership agreement are being performed by risk-sharing subcontractors. The joint venture agreement provides for the sharing of marketing and production efforts and related profits on the BA609 program, as well as on other aircraft under development.

1998 vs. 1997

The Aircraft segment's revenues increased \$164 million (5%) and income before special charges increased \$25 million (8%) due to higher results at Cessna Aircraft.

- Cessna Aircraft's revenues increased \$301 million, primarily as a result of higher sales of business jets, single-engine piston aircraft and Caravans. Income increased as a result of the higher sales combined with improved results in the single-engine piston aircraft business.**
- Bell Helicopter's revenues decreased \$137 million, due primarily to the completion in 1997 of the Canadian Forces contract (\$180 million), partially offset by higher commercial spares sales (\$23 million) and higher revenues to the U.S. Government (\$29 million). The higher U.S. Government revenues were due to higher revenues on the V-22 program (\$89 million) and the Huey and Cobra upgrade contracts (\$51 million), partially offset by lower foreign military sales (\$39 million) and lower revenues on other U.S. Government aircraft and spares (\$72 million). Bell's income decreased due to the lower revenues and a change in product mix, primarily resulting from lower margins on U.S. Government contracts. This unfavorable impact was partially offset by the benefit on the BA609 program from the joint venture with Agusta described above, and a lower level of product development expense in 1998.**

Under the joint venture agreement, Bell has received \$100 million in cash and its partner has assumed a significant portion of product development effort for joint venture aircraft. The benefit from the joint venture contribution in the fourth quarter 1998 (\$10 million) has been recognized in relation to total projected product development spending. The quarter also benefited by \$7 million for development spending that will be reimbursed by the venture partner.



Automotive

1999 vs. 1998

The Automotive segment's revenues increased \$511 million (21%), while income increased \$49 million (27%). The increase in revenues was due primarily to higher North American market penetration by Kautex and higher sales at Trim, reflecting increased production at DaimlerChrysler, Ford and General Motors, which was depressed in 1998 by a strike. The increase in revenues also reflected the benefit of the Textron Breed Automotive S.r.l. joint venture and the Midland Industrial Plastics acquisition. Despite customer price reductions, income increased due to the contribution from higher organic sales and improved operating performance at Trim and Kautex.

1998 vs. 1997

The Automotive segment's revenues increased \$278 million (13%), while income before special charges increased \$29 million (19%). The revenue increase was due to higher North American market penetration by Kautex and higher sales at Trim, due primarily to increased Chrysler production (which was depressed by a strike at Chrysler in the second quarter of 1997) and the contribution from acquisitions. These revenue increases were partially offset by the impact of a strike at General Motors in 1998 and the impact of customer price reductions. The increase in income reflected the above factors and improved operating performance at Trim.

Industrial

1999 vs. 1998

The Industrial segment's revenues and income before special charges increased \$734 million (20%) and \$73 million (18%), respectively.

- Fastening Systems revenues increased \$324 million (18%) as a result of the contribution from acquisitions, primarily Flexalloy, Ring Screw Works, Peiner, Sükosim and InteSys, partially offset by lower revenues in Europe, which were negatively impacted by foreign exchange. Its income increased as the benefit from acquisitions more than offset the lower revenues in Europe. Results were also affected by unfavorable operating performance at certain plants in Europe caused by production scheduling issues, integration costs in the Vendor Managed Inventory business, lower income at an automotive plant related to economic conditions in Brazil and non-recurring costs associated with restructuring programs started in 1999.

- Other Industrial Products revenues increased \$410 million (21%) as a result of the contribution from acquisitions, primarily David Brown, OmniQuip, Ransomes and Progressive Electronics, and higher organic sales at Golf, Turf Care And Specialty Products and Greenlee. Its income increased as a result of the higher sales combined with strong margin improvement at Golf, Turf Care And Specialty Products and Textron Systems, and a gain on the sale of a product line. These benefits were partially offset by lower organic sales at Power Transmission Products, reflecting a decline in the worldwide mechanical power transmission market, and Turbine Engine Components due to lower customer requirements, and the impact of the divestiture of Fuel Systems in the second quarter 1998. In addition, 1998 results were depressed by a one-month strike at a Turf Care plant.

1998 vs. 1997

The Industrial segment's revenues and income before special charges increased \$541 million (17%) and \$64 million (18%), respectively.

- Fastening Systems revenues increased \$260 million (17%) as a result of the contribution from acquisitions, primarily Ring Screw Works, Sükosim and Peiner. Its income increased as a result of the higher sales and improved operating performance. These benefits were partially offset by a strike at General Motors in 1998.

- Other Industrial Products revenues increased \$281 million (17%) as a result of the contribution from acquisitions, primarily Ransomes and David Brown and higher organic sales across all business groups. Its income increased as a result of the higher sales combined with

ongoing margin improvement, primarily at Golf, Turf Care And Specialty Products and Textron Systems. These benefits were partially offset by the divestitures of Speidel in the fourth quarter 1997 and Fuel Systems in the second quarter 1998, the impact of a one-month strike at a Textron Turf Care And Specialty Products plant in the second quarter 1998, and unfavorable contract adjustments related to certain Industrial Component products.



Finance

1999 vs. 1998

The Finance segment's revenues increased \$96 million (26%), while income increased \$15 million (13%). Revenues increased due to a higher level of average receivables (\$4.252 billion in 1999 vs. \$3.190 billion in 1998), reflecting both acquisitive and organic growth, and an increase in syndication and servicing fee income. This was partially offset by lower yields on receivables, reflecting lower prevailing interest rates. Income increased as the benefit of higher revenues was partially offset by higher expenses related to growth in managed receivables and a higher provision for loan losses related to growth in receivables and higher charge-offs in the revolving credit portfolio. This was partially offset by a lower provision for loan losses in the real estate portfolio. Included in 1999 results was a gain of \$4.7 million on the sale of an investment in the third quarter, while third quarter 1998 results included a gain of \$3.4 million on the securitization of Textron-related receivables.



1998 vs. 1997

The Finance segment's revenues increased \$17 million (5%), while income increased \$5 million (5%). Revenues increased due to a higher level of average receivables (\$3.190 billion in 1998 vs. \$3.128 billion in 1997) and an increase in residual, prepayment and portfolio servicing income. Income increased as the benefit of the higher revenues and a lower provision for losses was partially offset by higher expenses related to growth in managed receivables. Both years included a gain of approximately \$3 million on the securitization of Textron-related receivables.

Special (credits)/charges

As discussed in Note 16, Textron has recorded pre-tax charges of \$18 million and \$87 million in 1999 and 1998, respectively, related to restructuring activities. The charges include asset impairments, severance costs, and other exit related costs associated with cost reduction programs and announced plant closures. Textron continues to evaluate additional programs and expects cost reduction efforts to continue over the next year. Additional charges may be required in the future when such programs become finalized.

In the third quarter of 1999, Textron recorded a gain of \$19 million as a result of shares granted to Textron from Manulife Financial Corporation's initial public offering on their demutualization of Manufacturers Life Insurance Company.

Discontinued Operations

Discontinued Operations

In August 1998, Textron announced that it had reached an agreement to sell Avco Financial Services (AFS) to Associates First Capital Corporation. The sale was completed on January 6, 1999. AFS has been classified as a discontinued operation for all periods.

1998 vs. 1997

Income from discontinued operations of \$165 million was \$21 million lower than 1997's income from discontinued operations of \$186 million. The decrease was due to (a) lower earnings in the U.S. Finance business as a result of an increase in the provision for receivables (receivables increased in 1998 while receivables decreased in 1997) and a decrease in the gain on sales of receivables, (b) lower earnings in Hong Kong due to a weakening economy and (c) the unfavorable impact of foreign exchange rates primarily in Australia and Canada. This unfavorable impact was partially offset by an increase in insurance earnings due to improved loss experience and an increase in capital gains.

Liquidity & Capital Resources

The liquidity and capital resources of Textron's operations are best understood by separately considering its independent borrowing groups, Textron Manufacturing and Textron Finance. Textron Manufacturing consists of Textron Inc., the parent company, consolidated with the entities which operate in the Aircraft, Automotive and Industrial business

segments, whose financial results are a reflection of the ability to manage and finance the development, production and delivery of tangible goods and services. Textron Finance consists of Textron's wholly-owned commercial finance subsidiary, Textron Financial Corporation, consolidated with its subsidiaries. Textron Finance's financial results are a reflection of its ability to provide financial services in a competitive marketplace, at the appropriate pricing, while managing the associated financial risks. The fundamental differences between each borrowing group's activities result in different measures used by investors, rating agencies and analysts.

Operating Cash Flows

Textron's financial position continued to be strong at the end of 1999. During 1999, cash flows from operations was the primary source of funds for operating needs and capital expenditures of Textron Manufacturing. Operating activities have generated increased cash flow in each of the past three years. The Statements of Cash Flows for each borrowing group detailing the changes in cash balances are on pages 42-43. Textron Manufacturing's operating cash flow includes dividends received from Textron Finance. Beginning in early 1999, the methodology used by Textron Finance to determine the amount of dividends to be paid to Textron Manufacturing changed from payments based on Textron Finance maintaining a leverage ratio of 6.5 to 1 to payments based on maintaining a leverage ratio of 7.5 to 1.

Financing

Textron has a financial target of maintaining its debt to capital ratio in the low to mid-30% range. Consistent with the analytical methodology used by members of the financial community, leverage of the manufacturing operations excludes the debt of Textron Finance for the purposes of calculating leverage pursuant to Textron's financial targets. In turn, Textron Finance evaluates its leverage by limiting borrowing so that its leverage will not exceed a ratio of debt to tangible equity of 7.5 to 1. As a result, surplus capital of Textron Finance will be returned to Textron, and additional capital required for growth will be infused or left in the business, assuming Textron Finance's returns are consistent with Textron's standards.

Borrowings have historically been a secondary source of funds for Textron Manufacturing and, along with the collection of finance receivables, are a primary source of funds for Textron Finance. Both Textron Manufacturing and Textron Finance utilize a broad base of financial sources for their respective liquidity and capital requirements. The Company's strong credit ratings from Moody's (A2 – Long-Term; P1 – Short-Term), Standard & Poor's (A – Long-Term; A1 – Short-Term) and Duff & Phelps (A – Long-Term; D1 – Short-Term) provide flexibility in obtaining funds on competitive terms. The Company's credit facilities are summarized on pages 49-50.

During 1999, Textron retired \$553 million of long-term high coupon debt and terminated \$479 million of interest rate exchange agreements designated as hedges of the retired borrowings. As a result, Textron recorded, as an extraordinary item, an after-tax loss of \$43 million.

During 1999, Textron issued \$300 million of 6.375% senior notes which mature in 2004. The proceeds from the sale of notes will be used for general corporate purposes. Textron entered into two \$300 million interest rate swaps in connection with these notes. The first swap effectively converts the fixed rate notes to floating rate. The second swap was to insulate Textron against potentially higher floating rate interest rates around year-end 1999.

In 1999, Textron filed a shelf registration statement with the Securities and Exchange Commission registering up to \$2 billion in common stock, preferred stock and debt securities of Textron and preferred securities of trusts sponsored by Textron. During the third quarter of 1999, Textron issued \$500 million of 6.75% senior notes due 2002 under this registration.

During the fourth quarter of 1999, Textron Finance filed a Form S-3 registration statement with the Securities and Exchange Commission under the Securities Act of 1933. Under this shelf registration, Textron Finance may issue debt securities in one or more offerings up to a total maximum offering price of \$3 billion. In December 1999, Textron Finance issued \$600 million of fixed rate notes and \$400 million of variable rate notes under this facility, the proceeds of which were used to refinance maturing commercial paper and long-term debt.

At year-end 1999, Textron and Textron Finance have \$1.5 billion and \$2 billion, respectively, available for the issuance of unsecured debt securities under shelf-registration statements with the Securities and Exchange Commission. In early 2000, Textron

established a two billion Euro medium term note facility. Textron Finance also has a medium-term note facility of which \$115 million is available at year-end 1999. The Company believes that both borrowing groups, individually and in the aggregate, have adequate credit facilities and have available access to capital markets to meet their long-term financing needs.

Dispositions

On January 6, 1999, Textron completed its sale of Avco Financial Services to Associated First Capital Corporation for \$3.9 billion in cash. Net after-tax proceeds were approximately \$2.9 billion, resulting in an after-tax gain of \$1.65 billion. Proceeds from the AFS disposition had a significant short-term impact on Textron's capital structure. Textron assessed the potential incremental benefits that it could earn from investing the AFS proceeds (within the Company's established investment policies) versus the interest cost avoidance from the retirement of borrowings and determined that the latter provided the greatest value to shareholders. Therefore, in early 1999, the Company used the proceeds to repay long-term and short-term borrowings of Textron Manufacturing and Textron Finance commercial paper. Interest rate swaps designated as hedges of retired borrowings were also terminated.

Uses of Capital

Textron measures its existing businesses, and evaluates proposed capital projects and acquisitions on the basis of their ability to achieve a return on invested capital (ROIC) of at least 15 percent. ROIC measures the ability of a business or project to achieve an acceptable return on its capital irrespective of how it is financed. Textron sets rigorous financial criteria for evaluating potential acquisitions. Potential acquisitions must:

- ▶ *Contribute to EPS immediately, or have significant earnings growth potential.*
- ▶ *Achieve "economic profit" – earnings over and above the cost of capital, which Textron estimates at 10 percent after tax for domestic manufacturing (13 percent for domestic finance) – within a three-year time period. If an acquisition cannot produce an economic profit within this time frame, it must have a sound strategic justification (such as protecting an existing business with acceptable returns on capital) or the capital is better returned to shareholders.*
- ▶ *Have a capability to achieve an ROIC of at least 15 percent (18% for Textron Finance).*

Acquisitions by Textron Manufacturing are evaluated on an enterprise basis, so that the capital employed is equal to the price paid for the target company's equity plus any debt assumed. During the past three years, Textron acquired 30 companies in the Manufacturing segments for an aggregate cost of \$2.8 billion, including notes issued for approximately \$234 million, treasury stock issued for \$32 million and \$571 million of debt assumed.

Acquisitions of Textron Finance are evaluated on the basis of the amount of Textron parent company capital that Textron would have to set aside so that the acquisition could be levered at a debt to tangible equity ratio with the Finance Company of 7.5 to 1. During the past three years, Textron Finance acquired six companies. The capital required for these acquisitions was \$387 million. The actual cost of the acquisitions was \$1.5 billion, including debt assumed of \$595 million.

Capital spending increased in 1999 by approximately \$57 million. This increase was primarily used to expand aircraft and industrial capacity. Capital spending for 2000 is expected to increase from 1999, as a result of initiatives to increase aircraft and automotive capacity and to expand fluid and power capabilities.

In 1999, Textron repurchased 9.8 million shares of common stock under its Board authorized share repurchase program at an aggregate cost of \$751 million. Textron's Board of Directors raised the annual dividend per common share to \$1.30 in 1999 from \$1.14 in 1998. In 1999, dividend payments to shareholders included four payments as opposed to 1998 when three payments were paid. Dividend payments to shareholders in 1999 amounted to \$192 million, an increase of \$49 million from 1998.

Interest Rate Risks

Textron's financial results are affected by changes in U.S. and foreign interest rates. As part of managing this risk, the Company enters into interest rate exchange agreements to convert certain variable-rate debt to long-term fixed-rate debt and vice versa. The overall objective of Textron's interest rate risk management is to achieve a prudent balance between floating and fixed-rate debt. The Company's mix of fixed and floating rate debt is continuously monitored by management and is adjusted, as necessary, based on evaluation of internal and external factors.

Historically, Textron Manufacturing has financed foreign acquisitions with domestic borrowings. In most cases, such borrowings are converted synthetically into foreign currency borrowings by means of foreign currency exchange agreements. Under the terms of the agreements, Textron is obligated to make floating rate foreign currency interest payments to the counterparties, and the counterparties, in turn, are obligated to make floating rate U.S. dollar interest payments to Textron. These payments are recorded as an adjustment to interest expense. At year-end 1999, Textron Manufacturing has begun to utilize actual foreign currency borrowings to finance foreign acquisitions and will continue to use those instruments to manage its interest rate risks.

In June 1999, Textron entered into fixed rate interest rate exchange agreements to fix the interest rate on certain foreign currency exchange agreements and other floating rate debt. The purpose of the fixed rate interest rate exchange agreements, which all mature by March 21, 2000, was to insulate Textron against potentially higher interest rates around year-end 1999. The fixed rate interest rate exchange agreements have the following notional principal amounts: \$297 million in Euros; \$344 million in British Pound sterling; and \$300 million in U.S. dollars.

The difference between the rates Textron Manufacturing received and the rates it paid on interest rate exchange agreements did not significantly impact interest expense in 1999 or 1998.

Textron Finance's strategy is to match interest-sensitive assets with interest-sensitive liabilities to limit the Company's exposure to changes in interest rates. As part of managing this matching strategy, Textron Finance has entered into interest rate exchange agreements. At year-end 1999, Textron Finance has also entered into a basis swap to lock-in desired spreads between certain interest-earning assets and certain interest-bearing liabilities. The difference between the variable-rate Textron Finance received and the fixed rate it paid on interest rate exchange agreements increased its reported interest expense by \$2 million in 1999; \$2 million in 1998 and \$1 million in 1997.

Foreign Exchange Risks and Euro Conversion

Textron's financial results are affected by changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which products are manufactured and/or sold. Textron Manufacturing's primary currency exposures are the European Common Currency (Euro), British Pound, and Canadian Dollar.

Textron Manufacturing manages its exposures to foreign currency assets and earnings primarily by funding certain foreign currency denominated assets with liabilities in the same currency and, as such, certain exposures are naturally offset. In addition, as part of managing its foreign currency transaction exposures, Textron enters into foreign currency forward exchange contracts. These contracts are generally used to fix the local currency cost of purchased goods or services or selling prices denominated in currencies other than the functional currency.

The notional amount of outstanding foreign exchange contracts and currency swaps was approximately \$1.3 billion at year-end 1999 and 1998.

Effective January 1, 1999, the European Economic and Monetary Union entered into a three-year transition phase during which a common currency, the Euro, was introduced in participating countries. The legacy currencies will remain legal tender for cash transactions between January 1, 1999 and January 1, 2002 at which time all legacy currencies will be withdrawn from circulation and the new Euro denominated bills and coins will be used for cash transactions. Textron has operations within the eleven participating countries that began utilizing the Euro as their local currency in 1999. Additionally, Textron's operations in other European countries and elsewhere in the world are conducting business transactions with customers and suppliers that are denominated in the Euro. The Euro conversion has not had a material impact on Textron's business.

Quantitative Risk Measures

Textron has used a sensitivity analysis to quantify the market risk inherent in its financial instruments. Financial instruments held by the Company that are subject to market risk (interest rate risk and foreign exchange rate risk) include finance receivables (excluding lease receivables), debt, interest rate exchange agreements, foreign exchange contracts and currency swaps.

Presented below is a sensitivity analysis of the fair value of Textron's financial instruments at year-end. The following table illustrates the hypothetical change in the fair value of the Company's financial instruments at year-end assuming a 10% decrease in interest rates and a 10% strengthening in exchange rates against the U.S. dollar. The estimated fair value of the financial instruments was determined by discounted cash flow analysis and by independent investment bankers. This sensitivity analysis is most likely not indicative of actual results in the future.

(In millions)	1999			1998		
	Carrying Value	Fair Value	Hypothetical Change In Fair Value	Carrying Value	Fair Value	Hypothetical Change In Fair Value
Interest Rate Risk						
Textron Manufacturing:						
Debt	\$1,745	\$1,740	\$ 22	\$2,615	\$2,706	\$ 27
Interest rate exchange agreements	—	7	(10)	—	(11)	(18)
Textron Finance:						
Finance receivables	4,647	4,665	57	2,774	2,837	28
Debt	4,551	4,535	38	2,829	2,836	12
Interest rate exchange agreements	—	(2)	1	—	1	1
Foreign Exchange Rate Risk						
Textron Manufacturing:						
Debt	285	286	23	319	334	33
Foreign exchange contracts	—	(6)	(22)	—	9	(23)
Currency swaps	(21)	(25)	88	14	10	84
Interest rate exchange agreements	—	1	—	—	—	—

Other Matters

Environmental

As with other industrial enterprises engaged in similar businesses, Textron is involved in a number of remedial actions under various federal and state laws and regulations relating to the environment which impose liability on companies to clean up, or contribute to the cost of cleaning up, sites on which their hazardous wastes or materials were disposed or released. Expenditures to evaluate and remediate contaminated sites approximated \$16 million, \$10 million and \$10 million in 1999, 1998, and 1997, respectively. Textron currently projects that expenditures for remediation will range between \$10 million and \$15 million for each of the years 2000 and 2001.

Textron's accrued estimated environmental liabilities are based on assumptions which are subject to a number of factors and uncertainties. Circumstances which can affect the accruals' reliability and precision include identification of additional sites, environmental regulations, level of cleanup required, technologies available, number and financial condition of other contributors to remediation, and the time period over which remediation may occur. Textron believes that any changes to the accruals that may result from these factors and uncertainties will not have a material effect on Textron's net income or financial condition. Textron estimates that its accrued environmental remediation liabilities will likely be paid over the next five to ten years.

Year 2000 Disclosure

Year 2000 Program

In early 1997, Textron began a company-wide program (the "Program") to assess the possible vulnerability of Textron to the Year 2000 problem and to minimize the effect of the problem on Textron's operations. The Program was centrally directed from the Year 2000 Program Office at Textron's corporate headquarters and was executed at each Textron business unit. The Program addressed five "Major Elements" at the corporate headquarters and each business unit:

- Business Systems: management information systems and personal computer applications, including the computing environments that support them.
- Factory and Facilities Equipment: equipment that uses a computer to control its operation either for producing an end-product or providing services.
- End-Products: software products, delivered either alone or as a component of another product, that are supplied to Textron customers.
- Suppliers: assurance that those who sell goods and services to Textron will not interrupt Textron operations due to the Year 2000 problem.
- Customers: assurance that those who buy goods and services from Textron will not interrupt Textron operations due to the Year 2000 problem.

As of January 1, 2000, the Program is complete for all systems critical to operations. Subsequent to January 1, 2000, there have been no system failures or significant incidents reported at any Textron location. Certain activities remain to be completed relating to further enhancements to or replacement of non-critical systems. These are not expected to have an adverse impact on the operations of Textron.

Year 2000 Costs

The total cost of the Year 2000 Program for continuing operations is estimated to be approximately \$115 million. Approximately \$58 million is for modifications to existing items and other program expenses and \$57 million is for replacement systems which have been or are expected to be capitalized in accordance with Company policy. Through January 1, 2000, total expenditures were \$111 million. The estimated future cost to complete the Program is expected to be approximately \$4 million including approximately \$1 million for replacement systems. The Year 2000 Program has delayed certain other Textron information management projects. Delay of these projects has not had an adverse impact on Textron.

Backlog

Textron's commercial backlog was \$7.2 billion and \$5.6 billion at the end of 1999 and 1998, respectively, and U.S. Government backlog was \$2.0 billion at the end of 1999 and \$2.1 billion at the end of 1998. Backlog for the Aircraft segment was approximately 81% and 78% of Textron's commercial backlog at the end of 1999 and 1998, respectively, and 80% and 73% of Textron's U.S. Government backlog at the end of 1999 and 1998, respectively.

Foreign Military Sales

Certain Company products are sold through the Department of Defense's Foreign Military Sales Program. In addition, Textron sells directly to select foreign military organizations. Sales under these programs totaled approximately 1.8% of Textron's consolidated revenue in 1999 (0.6% in the case of foreign military sales and 1.2% in the case of direct sales) and 1.6% in 1998 (0.3% and 1.3%, respectively). Such sales include military and commercial helicopters, armored vehicles, turrets, and spare parts and in 1999 were made primarily to the countries of Venezuela (41%), Taiwan (34%), Japan (4%), Jamaica (4%), Bulgaria (3%), Israel (2%), and Germany (2%). All sales are made in full compliance with all applicable laws and in accordance with Textron's code of conduct.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued FAS 133 "Accounting for Derivative Instruments and Hedging Activities." FAS 133 requires an entity to recognize all derivatives as either assets or liabilities and measure those instruments at fair value. In June 1999, the FASB issued FAS 137 which deferred the effective date of FAS 133 to all fiscal quarters of all fiscal years beginning after June 15, 2000. Textron is evaluating the potential impact of this pronouncement on future reporting.

At the September 23, 1999 meeting, the EITF reached a consensus on Issue 99-5, "Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements." The Issue addresses pre-production costs incurred by original equipment manufacturers (OEM) suppliers (e.g., automotive manufacturers) to perform certain services related to the design and development of the parts they will supply to the OEM as well as the design and development costs to build molds, dies and other tools that will be used in producing the parts. The consensus generally requires all design and development costs for products to be sold under long-term supply arrangements to be expensed unless there is a contractual guarantee that provides for specific required payments for design and development costs.

The Task Force concluded that the provisions of this consensus should be applied prospectively for costs incurred after December 31, 1999, with the option to elect adoption through a cumulative effect of change in accounting principle. At January 1, 2000, other assets includes approximately \$93 million of customer engineering costs for which customer reimbursement is anticipated but not contractually guaranteed. Textron will comply with the provisions of this consensus by writing-off all capitalized customer engineering costs that would not qualify for capitalization. In the first quarter of fiscal 2000, Textron will report a Cumulative Effect of Change in Accounting Principle of \$59 million (net of tax), or approximately \$0.39 per diluted share related to the adoption of this consensus. The effect of this change in accounting on future results will not have a significant impact on income from continuing operations in the affected segments (principally Automotive).

* * * * *

Forward-looking Information: Certain statements in this Report, and other oral and written statements made by Textron from time to time, are forward-looking statements, including those that discuss strategies, goals, outlook or other non-historical matters; or project revenues, income, returns or other financial measures. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements, including the following: (a) the extent which Textron is able to successfully integrate acquisitions, (b) changes in worldwide economic and political conditions and associated impact on interest and foreign exchange rates, (c) the occurrence of work stoppages and strikes at key facilities of Textron or Textron's customers or suppliers, (d) the extent to which the Company is able to successfully develop, introduce, and launch new products and enter new markets, and (e) the level of government funding for Textron products. For the Aircraft Segment: (a) the timing of certifications of new aircraft products and (b) the occurrence of a severe downturn in the U.S. economy that discourages businesses from purchasing business jets. For the Automotive Segment: (a) the level of consumer demand for the vehicle models for which Textron supplies parts to automotive original equipment manufacturers ("OEM's") and (b) the ability to offset, through cost reductions, pricing pressure brought by automotive OEM customers. For the Industrial Segment: the ability of Textron Fastening Systems to offset, through cost reductions, pricing pressure brought by automotive OEM customers. For the Finance Segment: (a) the level of sales of Textron products for which Textron Financial Corporation offers financing and (b) the ability of Textron Financial Corporation to maintain credit quality and control costs when entering new markets.

Report of Management

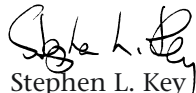
Management is responsible for the integrity and objectivity of the financial data presented in this Annual Report. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States and include amounts based on Management's best estimates and judgments. The independent auditors, Ernst & Young LLP, have audited the consolidated financial statements and have considered the internal control structure to the extent they believed necessary to support their report, which appears below.

We conduct our business in accordance with the standards outlined in the Textron Business Conduct Guidelines which is communicated to all employees. Honesty, integrity and high ethical standards are the core values of how we conduct business. Every Textron division prepares and carries out an annual Compliance Plan to ensure these values and standards are maintained. Our internal control structure is designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded and that transactions are properly executed and recorded. The internal control structure includes, among other things, established policies and procedures, an internal audit function, and the selection and training of qualified personnel. Textron financial managers are responsible for implementing effective internal control systems and monitoring their effectiveness, as well as developing and executing an annual internal control plan.

The Audit Committee of our Board of Directors, on behalf of the shareholders, oversees management's financial reporting responsibilities. The Audit Committee, comprised of seven directors who are not officers or employees of the Company, meets regularly with the independent auditors, management and our internal auditors to review matters relating to financial reporting, internal accounting controls and auditing. Both the independent auditors and the internal auditors have free and full access to senior management and the Audit Committee.



Lewis B. Campbell
Chairman and Chief Executive Officer



Stephen L. Key
Executive Vice President and Chief Financial Officer
January 25, 2000

Report of Independent Auditors

To the Board of Directors and Shareholders
Textron Inc.

We have audited the accompanying consolidated balance sheets of Textron Inc. as of January 1, 2000 and January 2, 1999, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended January 1, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Textron Inc. at January 1, 2000 and January 2, 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 1, 2000, in conformity with accounting principles generally accepted in the United States.



Boston, Massachusetts
January 25, 2000

Consolidated Statements of Income

For each of the three years in the period ended January 1, 2000

(In millions except per share amounts)

	1999	1998	1997
Textron Manufacturing			
Revenues	\$11,116	\$9,316	\$8,333
Costs and Expenses			
Cost of sales	9,111	7,572	6,836
Selling and administrative	1,075	958	840
Gain on sale of division	—	(97)	—
Special (credits)/charges, net	(1)	87	—
Interest expense	56	146	117
Interest income	(27)	—	—
Total costs and expenses	10,214	8,666	7,793
Manufacturing income	902	650	540
Textron Finance			
Revenues	463	367	350
Costs and Expenses			
Interest	204	155	153
Selling and administrative	99	79	66
Provision for losses on collection of finance receivables	32	20	23
Total costs and expenses	335	254	242
Finance income	128	113	108
Total Company			
Income from continuing operations before income taxes and distributions on preferred securities of subsidiary trusts	1,030	763	648
Income taxes	(381)	(294)	(250)
Distributions on preferred securities of subsidiary trusts, net of income taxes	(26)	(26)	(26)
Income from continuing operations	623	443	372
Discontinued operations, net of income taxes:			
Income from operations	—	165	186
Gain on disposal	1,646	—	—
	1,646	608	558
Income before extraordinary loss	2,269	608	558
Extraordinary loss from debt retirement, net of income taxes	(43)	—	—
Net income	\$ 2,226	\$ 608	\$ 558
Per common share:			
Basic:			
Income from continuing operations	\$ 4.14	\$ 2.74	\$ 2.25
Discontinued operations, net of income taxes	10.94	1.03	1.13
Extraordinary loss from debt retirement, net of income taxes	(.28)	—	—
Net income	\$ 14.80	\$ 3.77	\$ 3.38
Diluted:			
Income from continuing operations	\$ 4.05	\$ 2.68	\$ 2.19
Discontinued operations, net of income taxes	10.70	1.00	1.10
Extraordinary loss from debt retirement, net of income taxes	(.27)	—	—
Net income	\$ 14.48	\$ 3.68	\$ 3.29

See notes to the consolidated financial statements.

Balance Sheets

As of January 1, 2000 and January 2, 1999

(Dollars in millions)

	1999	1998
Assets		
Textron Manufacturing		
Cash and cash equivalents	\$ 192	\$ 31
Commercial and U.S. government receivables – net	1,363	1,160
Inventories	1,859	1,640
Other current assets	321	348
Investment in discontinued operations	–	1,176
Total current assets	3,735	4,355
Property, plant, and equipment – net	2,484	2,185
Goodwill – net	2,807	2,119
Other assets	1,378	1,277
Total Textron Manufacturing assets	10,404	9,936
Textron Finance		
Cash	17	22
Finance receivables – net	5,487	3,528
Other assets (including goodwill of \$211 in 1999 and \$27 in 1998)	485	235
Total Textron Finance assets	5,989	3,785
Total assets	\$16,393	\$13,721
Liabilities and shareholders' equity		
Liabilities		
Textron Manufacturing		
Current portion of long-term debt and short-term debt	\$ 688	\$ 1,735
Accounts payable	1,262	1,010
Income taxes payable	87	76
Other accrued liabilities	1,219	1,098
Total current liabilities	3,256	3,919
Accrued postretirement benefits other than pensions	741	762
Other liabilities	1,336	1,367
Long-term debt	1,079	880
Total Textron Manufacturing liabilities	6,412	6,928
Textron Finance		
Other liabilities	234	162
Deferred income taxes	307	322
Debt	4,551	2,829
Total Textron Finance liabilities	5,092	3,313
Total liabilities	11,504	10,241
Textron Finance – mandatorily redeemable preferred securities of Finance subsidiary holding debentures	29	–
Textron – obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Textron junior subordinated debt securities	483	483
Shareholders' equity		
Capital stock:		
Preferred stock:		
\$2.08 Cumulative Convertible Preferred Stock, Series A (liquidation value – \$11)	5	6
\$1.40 Convertible Preferred Dividend Stock, Series B (preferred only as to dividends)	7	7
Common stock (194,858,000 and 193,277,000 shares issued)	24	24
Capital surplus	1,009	931
Retained earnings	5,817	3,786
Accumulated other comprehensive income (loss)	(98)	(96)
	6,764	4,658
Less cost of treasury shares	2,387	1,661
Total shareholders' equity	4,377	2,997
Total liabilities and shareholders' equity	\$16,393	\$13,721

See notes to the consolidated financial statements.

Statements of Cash Flows

For each of the three years in the period ended January 1, 2000

(In millions)

Consolidated

1999 1998 1997

Cash flows from operating activities:

Income from continuing operations	\$ 623	\$ 443	\$ 372
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Earnings of Textron Finance (greater than) less than distributions	—	—	—
Dividends received from discontinued operations	—	187	108
Depreciation	349	292	254
Amortization	91	69	56
Provision for losses on receivables	34	21	25
Gain on sale of division, net of income taxes	—	(54)	—
Special (credits)/charges	(1)	87	—
Deferred income taxes	63	(16)	68
Changes in assets and liabilities excluding those related to acquisitions and divestitures:			
Decrease (increase) in commercial and U.S. government receivables	34	(116)	44
Decrease (increase) in inventories	13	(157)	(89)
Decrease (increase) in other assets	(144)	(111)	(67)
Increase (decrease) in accounts payable	149	46	74
Increase (decrease) in accrued liabilities	(85)	262	(103)
Other — net	(10)	8	1

Net cash provided by operating activities

1,116 961 743

Cash flows from investing activities:

Proceeds from disposition of investments	—	—	251
Finance receivables:			
Originated or purchased	(4,920)	(4,069)	(2,712)
Repaid or sold	4,090	3,459	2,441
Proceeds on sales of securitized assets	—	260	373
Cash used in acquisitions	(1,574)	(956)	(364)
Net proceeds from dispositions	2,950	117	549
Capital expenditures	(532)	(475)	(374)
Other investing activities — net	29	22	48

Net cash provided (used) by investing activities

43 (1,642) 212

Cash flows from financing activities:

Increase (decrease) in short-term debt	(1,131)	1,571	(425)
Proceeds from issuance of long-term debt	3,195	438	401
Principal payments and retirements on long-term debt	(2,174)	(534)	(427)
Proceeds from exercise of stock options	50	71	38
Purchases of Textron common stock	(751)	(712)	(328)
Dividends paid	(192)	(143)	(202)
Dividends paid to Textron Manufacturing	—	—	—
Capital contributions to Textron Finance	—	—	—

Net cash (used) provided by financing activities

(1,003) 691 (943)

Net increase (decrease) in cash and cash equivalents

156 10 12

Cash and cash equivalents at beginning of year

53 43 31

Cash and cash equivalents at end of year

\$ 209 \$ 53 \$ 43

Supplemental information:

Cash paid during the year for interest	\$ 239	\$ 345	\$ 293
Cash paid during the year for income taxes (includes \$912 in 1999 for AFS disposal)	1,167	260	156

*"Textron Manufacturing" income from continuing operations includes income from of Textron Inc., the parent company, consolidated with the entities which operate in the Aircraft, Automotive, and Industrial business segments and the pretax income from "Textron Finance." Textron Finance consists of Textron's wholly-owned commercial finance subsidiary, Textron Financial Corporation, consolidated with its subsidiaries. All significant transactions between Textron Manufacturing and Textron Finance have been eliminated from the "Consolidated" column. The principles of consolidation are described in Note 1 to the consolidated financial statements.

Textron Manufacturing*			Textron Finance		
1999	1998	1997	1999	1998	1997
\$ 623	\$ 443	\$ 372	\$ 79	\$ 70	\$ 68
(43)	(8)	6	—	—	—
—	187	108	—	—	—
337	282	243	12	10	11
84	66	56	7	3	—
2	1	2	32	20	23
—	(54)	—	—	—	—
(1)	87	—	—	—	—
68	(18)	61	(5)	2	7
34	(116)	44	—	—	—
13	(157)	(89)	—	—	—
(143)	(130)	(54)	(1)	8	(1)
147	21	70	2	37	(12)
(113)	245	(99)	28	17	(4)
(1)	18	8	(9)	(10)	(7)
1,007	867	728	145	157	85
—	—	251	—	—	—
—	—	—	(4,920)	(4,069)	(2,712)
—	—	—	4,090	3,459	2,444
—	—	—	—	260	373
(859)	(753)	(364)	(715)	(203)	—
2,945	117	549	5	—	—
(521)	(462)	(366)	(11)	(13)	(8)
55	37	35	(26)	(16)	14
1,620	(1,061)	105	(1,577)	(582)	111
(1,045)	1,220	(484)	(86)	351	59
799	8	201	2,396	430	200
(974)	(190)	(52)	(1,200)	(344)	(375)
50	71	38	—	—	—
(751)	(712)	(328)	—	—	—
(192)	(143)	(202)	—	—	—
—	—	—	(36)	(62)	(74)
(353)	(59)	—	353	59	—
(2,466)	195	(827)	1,427	434	(190)
161	1	6	(5)	9	6
31	30	24	22	13	7
\$ 192	\$ 31	\$ 30	\$ 17	\$ 22	\$ 13
\$ 57	\$ 192	\$ 140	\$ 182	\$ 153	\$ 153
1,132	230	112	35	30	44

See notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

For each of the three years in the period ended January 1, 2000

	Shares outstanding* (In thousands)			Dollars (In millions)		
	1999	1998	1997	1999	1998	1997
\$2.08 Preferred stock						
Beginning balance	178	201	243	\$ 6	\$ 6	\$ 7
Conversion to common stock	(19)	(23)	(42)	(1)	—	(1)
Ending balance	159	178	201	\$ 5	\$ 6	\$ 6
\$1.40 Preferred stock						
Beginning balance	86	92	107	\$ 7	\$ 7	\$ 7
Conversion to common stock	(12)	(6)	(15)	—	—	—
Ending balance	74	86	92	\$ 7	\$ 7	\$ 7
Common stock						
Beginning balance	154,742	162,343	82,809	\$ 24	\$ 24	\$ 12
Purchases	(9,779)	(10,189)	(4,121)	—	—	—
Stock dividend declared	—	—	82,397	—	—	12
Conversion of preferred stock to common stock	129	123	166	—	—	—
Exercise of stock options	1,428	2,465	1,066	—	—	—
Other issuances of common stock	482	—	26	—	—	—
Ending balance	147,002	154,742	162,343	\$ 24	\$ 24	\$ 24
Capital surplus						
Beginning balance				\$ 931	\$ 830	\$ 793
Conversion of preferred stock to common stock				1	1	1
Exercise of stock options and other issuances				77	100	48
Stock dividend declared				—	—	(12)
Ending balance				\$1,009	\$ 931	\$ 830
Retained earnings						
Beginning balance				\$3,786	\$3,362	\$2,969
Net income				2,226	608	558
Dividends declared:						
Preferred stock				(1)	(1)	(1)
Common stock (per share: \$1.30 in 1999; \$1.14 in 1998; and \$1.00 in 1997)				(194)	(183)	(164)
Ending balance				\$5,817	\$3,786	\$3,362
Treasury stock						
Beginning balance				\$1,661	\$ 939	\$ 612
Purchases of common stock				748	722	328
Issuance of common stock				(22)	—	(1)
Ending balance				\$2,387	\$1,661	\$ 939
Accumulated other comprehensive income (loss)						
Beginning balance				\$ (96)	\$ (62)	\$ 7
Currency translation adjustment				8	(33)	(73)
Securities valuation adjustment				(13)	—	4
Pension liability adjustment				3	(1)	—
Other comprehensive income (loss)				(2)	(34)	(69)
Ending balance				\$ (98)	\$ (96)	\$ (62)
Comprehensive income						
Net income				\$2,226	\$ 608	\$ 558
Other comprehensive income (loss)				(2)	(34)	(69)
Comprehensive income				\$2,224	\$ 574	\$ 489

*Shares issued at the end of 1999, 1998, 1997, and 1996, were as follows (in thousands): \$2.08 Preferred – 228; 247; 270; and 312; shares, respectively; \$1.40 Preferred – 561; 573; 579; and 594 shares, respectively; Common – 194,858; 193,277; 190,689; and 94,456; shares, respectively.

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Financial Statement Presentation

Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States. Significant accounting policies appear in italics as an integral part of the notes to the financial statements to which the policies relate.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term, highly liquid securities with original maturities of ninety days or less.

Revenue Recognition

Revenue is generally recognized when products are delivered or services are performed. With respect to aircraft, delivery is upon completion of manufacturing, customer acceptance, and the transfer of risks and rewards of ownership. Specific policies for the Finance segment and long-term contracts are included in the related notes.

Nature of Operations and Principles of Consolidation

Textron is a global, multi-industry company with manufacturing and finance operations. Its principal markets (listed within segments in order of the amount of 1999 revenues) and the major locations of such markets are as follows:

Segment	Principal markets	Major locations
Aircraft	<ul style="list-style-type: none"> • Business jets • Commercial and military helicopters • General aviation • Overnight express package carriers • Commuter airlines, relief flights, tourism, and freight 	<ul style="list-style-type: none"> • North America • Asia and Australia • South America • Western Europe
Automotive	<ul style="list-style-type: none"> • Automotive original equipment manufacturers and their suppliers 	<ul style="list-style-type: none"> • North America • Western Europe
Industrial	<ul style="list-style-type: none"> • Fastening systems: automotive, electronics, aerospace, other OEMs, distributors, and consumers • Golf and turf-care products: golf courses, resort communities, and commercial and industrial users • Industrial components: commercial aerospace and defense • Fluid and power systems: original equipment manufacturers, distributors, and end-users of a wide variety of products • Light construction equipment: commercial customers, national rental fleets, and the U.S. Government 	<ul style="list-style-type: none"> • North America • Western Europe • Asia and Australia • South America
Finance	<ul style="list-style-type: none"> • Commercial loans and leases 	<ul style="list-style-type: none"> • North America

The consolidated financial statements include the accounts of Textron and all of its majority- and wholly-owned subsidiaries. All significant intercompany transactions are eliminated. Avco Financial Services is reflected as a discontinued operation for all periods presented.

Textron's financings are conducted through two borrowing groups, Textron Finance and Textron Manufacturing. This framework is designed to enhance the Company's borrowing power by separating the Finance segment, which is a borrowing unit of a specialized business nature. Textron Finance consists of Textron Financial Corporation consolidated with its subsidiaries, which are the entities through which Textron operates its Finance segment. Textron Finance finances its operations by borrowing from its own group of external creditors. Textron Manufacturing is Textron Inc., the parent company, consolidated with the entities which operate in the Aircraft, Automotive and Industrial business segments.

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect these statements and accompanying notes. Some of the more significant estimates include inventory valuation, residual values of leased assets, allowance for losses on finance receivables, product liability, workers compensation, environmental, and warranty reserves, and amounts reported under long-term contracts. Management's estimates are based on the facts and circumstances available at the time estimates are made, past historical experience, risk of loss, general economic conditions and trends, and manage-

ment's assessments of the probable future outcome of these matters. Consequently, actual results could differ from such estimates.

During 1999, Textron Manufacturing entered into a promissory note agreement with Textron Finance, whereby Textron Finance could borrow up to \$1.25 billion from Textron Manufacturing. The maximum amount outstanding under this agreement during 1999 was \$1.0 billion. The amount of interest expense/income incurred/earned by Textron Finance and Textron Manufacturing, respectively, was approximately \$15 million for 1999. Textron Finance's operating income includes interest expense incurred under this agreement. This agreement was cancelled during the second quarter of 1999.

2. Acquisitions and Dispositions

Acquisitions

During 1999, Textron Manufacturing segments acquired 14 companies and entered into two joint ventures which in turn, each acquired companies. The largest of these acquisitions were Flexalloy Inc. – a provider of vendor managed inventory services for the North American fastener markets; OmniQuip International, Inc. – a leading manufacturer of light construction equipment including telescopic material handlers, aerial work platforms and skid steer loaders and InteSys Technologies Inc. – a provider of plastics and metal engineered assemblies. The total cost of the acquisitions and investments in joint ventures was approximately \$1.2 billion, including treasury stock issued for \$32 million and debt assumed of \$308 million.

In addition, in 1999 Textron Finance had acquisitions totaling \$1.3 billion, including debt assumed of \$547 million. The largest of these acquisitions were Litchfield Financial Corporation, a commercial finance company specializing in the vacation ownership (timeshare) industry and the aircraft and franchise finance divisions of GreenTree Financial Servicing Corporation. Capital contributions made by Textron Manufacturing to Textron Finance in support of these acquisitions were \$337 million.

During 1998, Textron acquired nine companies. The largest of these acquisitions were Ransomes PLC – a UK-based manufacturer of commercial turf-care machinery; Ring Screw Works – a Michigan-based supplier of specialty threaded fasteners to the automotive industry; and David Brown Group PLC – a UK-based designer and manufacturer of industrial gears and mechanical and hydraulic transmission systems. The total cost of these acquisitions was approximately \$1.1 billion, including notes issued for approximately \$160 million. In addition, approximately \$230 million of debt was assumed as a result of these acquisitions.

In 1997, Textron acquired Germany-based Kautex Group, a worldwide supplier of blow-molded plastic fuel tanks and other automotive components and systems for approximately \$350 million, which includes the assumption of debt. In addition, Textron acquired Brazil-based Brazaco Mapri Industrias, S.A.S., South America's leading maker of fasteners for a purchase price of \$70 million paid in the first quarter of 1998. Smaller acquisitions made in 1997 aggregated approximately \$70 million.

The acquisitions were accounted for as purchases and accordingly, the results of operations of each acquired company are included in the statement of income from the date of acquisition.

Dispositions

On August 11, 1998, Textron announced that it had reached an agreement to sell Avco Financial Services (AFS) to Associates First Capital Corporation for \$3.9 billion in cash. The sale was completed on January 6, 1999. Net after-tax proceeds were approximately \$2.9 billion, resulting in an after-tax gain of \$1.65 billion. Textron has presented AFS as a discontinued operation in these financial statements.

Fuel Systems Textron was sold to Woodward Governor Company for \$160 million in cash in June 1998, at a pretax gain of \$97 million (\$54 million after-tax). In 1997, Textron completed the sale of its 83.3% owned subsidiary, the Paul Revere Corporation to Provident Companies, Inc. Net proceeds to Textron after adjustments and contingent payments were approximately \$800 million (which included the value of shares of Provident common stock subsequently sold for \$245 million).

3. Finance Receivables

Interest income is recognized in revenues using the interest method to provide a constant rate of return over the terms of the receivables. Direct loan origination costs and fees received are deferred and amortized over the loans' contractual lives. The accrual of interest income is suspended for accounts which are contractually delinquent by more than three months. Accrual of interest resumes and suspended interest income is recognized when loans become contractually current.

Provisions for losses on finance receivables are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover losses in the existing receivable

portfolio. Management evaluates the allowance by examining current delinquencies, the characteristics of the existing accounts, historical loss experience, the value of the underlying collateral, and general economic conditions and trends.

Finance receivables are written-off when they are determined to be uncollectible. Finance receivables are written down to the fair value of the related collateral (less estimated costs to sell) when the collateral is repossessed or when no payment has been received for six months, unless management deems the loans collectible. Foreclosed real estate loans and repossessed assets are transferred from finance receivables to other assets at the lower of fair value (less estimated costs to sell) or the outstanding loan balance.

Commercial installment contracts have initial terms ranging from one to 12 years. Commercial real estate and golf course mortgages have initial terms ranging from three to seven years. Finance leases have initial terms up to 12 years. Leveraged leases have initial terms up to approximately 30 years. Floorplan and revolving receivables generally mature within one year.

At the end of 1999 and 1998, Textron Finance had nonaccrual loans and leases totaling \$84 million and \$70 million, respectively. Approximately \$65 million and \$46 million of these respective amounts were considered impaired, which excludes finance leases and homogeneous loan portfolios. The allowance for losses on receivables related to impaired loans was \$21 million and \$15 million at the end of 1999 and 1998. The average recorded investment in impaired loans during 1999 and 1998 were \$47 million and \$51 million, respectively. The percentage of net write-offs to average finance receivables was 0.5% in 1999, 0.5% in 1998, and 0.6% in 1997.

The following table displays the contractual maturity of the finance receivables. It does not necessarily reflect future cash collections because of various factors including the refinancing of receivables and repayments prior to maturity. Cash collections from receivables, excluding finance charges and portfolio sales, were \$3.9 billion and \$3.4 billion in 1999 and 1998, respectively. In the same periods, the ratio of cash collections to average net receivables was approximately 96% and 108%, respectively.

(In millions)	Contractual maturities			Less finance charges	Finance receivables outstanding	
	2000	2001	After 2001		1999	1998
Installment contracts	\$ 435	\$327	\$1,577	\$202	\$2,137	\$1,339
Floorplan receivables	573	78	7	1	657	572
Revolving loans	614	176	619	9	1,400	556
Finance leases	153	139	323	106	509	424
Real estate and golf course mortgages	124	38	391	4	549	375
Leveraged leases	29	11	589	281	348	346
	\$1,928	\$769	\$3,506	\$603	5,600	3,612
Less allowance for credit losses					113	84
					\$5,487	\$3,528

The net investment in finance leases and leveraged leases were as follows:

(In millions)	1999	1998
Finance and leveraged lease receivables	\$ 656	\$ 590
Estimated residual values on equipment and assets	589	559
	1,245	1,149
Unearned income	(388)	(379)
Investment in leases	857	770
Deferred income taxes arising from leveraged leases	(260)	(256)
Net investment in leases	\$ 597	\$ 514

The activity in the allowance for losses on finance receivables is as follows:

(In millions)	1999	1998	1997
Balance at the beginning of the year	\$ 84	\$ 77	\$ 75
Provision for losses	32	20	21
Charge-offs	(28)	(21)	(25)
Recoveries	5	5	6
Acquisitions and other	20	3	—
Balance at the end of the year	\$113	\$ 84	\$ 77

Textron had both fixed-rate and variable-rate loan commitments totaling \$1,134 million at year-end 1999. Because interest rates on these commitments are not set until the loans are funded, Textron is not exposed to interest rate changes.

A portion of Textron Finance's business involves financing the sale and lease of Textron products. In 1999, 1998, and 1997, Textron Finance paid Textron \$1,260 million, \$980 million, and \$736 million, respectively, for receivables and operating lease equipment. Operating agreements with Textron specify that Textron Finance generally has recourse to Textron with respect to these purchases. At year-end 1999, finance receivables and operating lease equipment of \$841 million and \$69 million, respectively, (\$540 million and \$77 million, respectively, at year-end 1998) were due from Textron or subject to recourse to Textron. Included in the finance receivables balance guaranteed by Textron are past due loans of \$72 million at the end of 1999 (\$55 million at year-end 1998) that meet the non-accrual criteria but are not classified as non-accrual by Textron Finance due to the guarantee from Textron Manufacturing units. Textron Finance continues to recognize income on these loans. Concurrently, Textron Manufacturing is charged for their obligation to Textron Finance under the guarantee so that there are no net interest earnings for the loans on a consolidated basis.

Textron Finance manages finance receivables for a variety of investors, participants and third party portfolio owners. The total managed finance receivable portfolio, including owned finance receivables, was \$6,825 million and \$4,509 million, respectively for 1999 and 1998.

Textron Finance's finance receivables are diversified geographically across the United States. There are no significant industry or collateral concentrations at the end of 1999.

4. Inventories

Inventories are carried at the lower of cost or market.

<i>(In millions)</i>	January 1, 2000	January 2, 1999
Finished goods	\$ 608	\$ 483
Work in process	970	878
Raw materials	489	454
	2,067	1,815
Less progress payments and customer deposits	208	175
	\$1,859	\$1,640

Inventories aggregating \$1,051 million at year-end 1999 and \$1,008 million at year-end 1998 were valued by the last-in, first-out (LIFO) method. (Had such LIFO inventories been valued at current costs, their carrying values would have been approximately \$174 million and \$170 million higher at those respective dates.) The remaining inventories, other than those related to certain long-term contracts, are valued generally by the first-in, first-out method.

Inventories related to long-term contracts, net of progress payments and customer deposits, were \$181 million at year-end 1999 and \$178 million at year-end 1998.

5. Long-Term Contracts

Revenues under fixed-price contracts are generally recorded as deliveries are made. Certain long-term fixed-price contracts provide for the periodic delivery after a lengthy period of time over which significant costs are incurred or require a significant amount of development effort in relation to total contract volume. Revenues under those contracts and all cost-reimbursement-type contracts are recorded as costs are incurred. Revenues under the V-22 production contract with the U.S. government, which presently is a cost-reimbursement-type contract, are recorded as costs are incurred.

Certain contracts are awarded with fixed-price incentive fees. Incentive fees are considered when estimating revenues and profit rates, and are recorded when these amounts are reasonably determined. Long-term contract profits are based on estimates of total sales value and costs at completion. Such estimates are reviewed and revised periodically throughout the contract life. Revisions to contract profits are recorded when the revisions to estimated sales value or costs are made. Estimated contract losses are recorded when identified.

Long-term contract receivables at year-end 1999 and 1998 totaled \$156 million and \$166 million, respectively. This includes \$112 million and \$102 million, respectively, of unbilled costs and accrued profits that had not yet met the contractual billing criteria. Long-term contract receivables do not include significant amounts (a) billed but unpaid due to contractual retainage provisions or (b) subject to collection uncertainty.

6. Long-Term Assets

The cost of property, plant, and equipment is depreciated based on the assets' estimated useful lives.

(In millions)	January 1, 2000	January 2, 1999
At cost:		
Land and buildings	\$1,083	\$ 942
Machinery and equipment	3,499	3,150
	4,582	4,092
Less accumulated depreciation	2,069	1,887
	\$2,513	\$2,205

Goodwill is amortized on the straight-line method over 20 to 40 years. Accumulated amortization of goodwill totaled \$463 million at January 1, 2000 and \$388 million at January 2, 1999.

Goodwill is periodically reviewed for impairment by comparing the carrying amount to the estimated future undiscounted cash flows of the businesses acquired. If this review indicates that goodwill is not recoverable, the carrying amount would be reduced to fair value.

Customer engineering and tooling project costs for which customer reimbursement is anticipated are capitalized and classified in other assets. Effective January 2, 2000, Textron adopted Emerging Issues Task Force Issue 99-5 "Accounting for Pre-production Costs related to Long-Term Supply Agreements." This consensus requires that all design and development costs for products sold under long-term supply arrangements be expensed unless there is a contractual guarantee that provides for specific required payments for these costs. Textron will report a Cumulative Effect of Change in Accounting Principle of \$59 million (net of tax), or approximately \$0.39 per diluted share in the first quarter of 2000 related to the adoption of this consensus.

7. Debt and Credit Facilities

At the end of 1999 and 1998, debt consisted of the following:

(In millions)	January 1, 2000	January 2, 1999
Textron Manufacturing:		
Short-term debt:		
Borrowings under or supported by long-term credit facilities*	\$ 626	\$1,671
Current portion of long-term debt	62	64
Total short-term debt	688	1,735
Long-term senior debt:		
Medium-term notes due 2000-2011 (average rate – 9.71%)	63	230
6.375% due 2004	300	–
6.75% due 2002	500	–
8.75% due 2022	36	200
6.63% due 2007	32	200
Other long-term debt (average rate – 7.36%)	210	314
	1,141	944
Current portion of long-term debt	(62)	(64)
Total long-term debt	1,079	880
Total Textron Manufacturing debt	\$1,767	\$2,615

*The weighted average interest rates on these borrowings, before the effect of interest rate exchange agreements, were 5.8%, 5.8%, and 4.8% at year-end 1999, 1998, and 1997, respectively. Comparable rates during the years 1999, 1998, and 1997 were 4.9%, 5.4%, and 4.8%, respectively.

Textron Manufacturing maintains credit facilities with various banks for both short- and long-term borrowings. At year-end, Textron Manufacturing had (a) a \$1.0 billion domestic credit agreement with 24 banks available on a fully revolving basis until April 1, 2003, (b) \$105 million in multi-currency credit agreements with three banks available through December 29, 2002, and (c) \$241 million in other credit facilities available with various banks. At year-end 1999, \$797 million of the credit facilities was not used or reserved as support for commercial paper or bank borrowings.

(In millions)	January 1, 2000	January 2, 1999
Textron Finance:		
Senior:		
Borrowings under or supported by credit facilities*	\$1,339	\$1,425
7.01% average rate debt; due 2000 to 2004	1,507	472
6.39% average rate variable notes; due 2000 to 2002	1,705	932
Total Textron Finance debt	\$4,551	\$2,829

*The weighted average interest rates on these borrowings, before the effect of interest rate exchange agreements, were 6.4%, 6.3%, and 6.1% at year-end 1999, 1998, and 1997, respectively. Comparable rates during the years 1999, 1998, and 1997 were 5.4%, 5.8%, and 5.8%, respectively.

Textron Finance has lines of credit with various banks aggregating \$1.2 billion at year-end 1999, of which \$196 million was not used or reserved as support for commercial paper or bank borrowings. Lending agreements limit Textron Finance's net assets available for cash dividends and other payments to Textron Manufacturing to approximately \$332 million of Textron Finance's net assets of \$869 million at year-end 1999. Textron Finance's loan agreements also contain provisions regarding additional debt, creation of liens or guarantees, and the making of investments.

The following table shows required payments during the next five years on debt outstanding at the end of 1999. The payments schedule excludes amounts that are payable under credit facilities and revolving credit agreements.

(In millions)	2000	2001	2002	2003	2004
Textron Manufacturing	\$ 62	\$ 56	\$ 510	\$ 38	\$305
Textron Finance	508	833	1,040	213	618
	\$570	\$889	\$1,550	\$251	\$923

Textron Manufacturing has agreed to cause Textron Finance to maintain certain minimum levels of financial performance. No payments from Textron Manufacturing were necessary in 1999, 1998, or 1997 for Textron Finance to meet these standards.

Extraordinary Loss from Debt Retirement

During 1999, Textron retired \$168 million of 6.625% debentures originally due 2007, \$165 million of 8.75% debentures originally due 2022, \$146 million of medium term notes with interest rates ranging from 9.375% to 10.01%, and other debt totaling \$74 million with effective interest rates ranging from 8.25% to 10.04%. In connection with the retirement of this long-term high coupon debt, Textron terminated \$479 million of interest rate exchange agreements designated as hedges of the retired borrowings. As a result of these transactions, Textron recorded an after-tax loss of \$43 million, which has been reflected as an extraordinary item.

8. Derivatives and Foreign Currency Transactions

Interest rate exchange agreements

Textron is exposed to adverse movements in domestic and foreign interest rates. Interest rate exchange agreements are used to help manage interest rate risk by converting certain variable-rate debt to fixed-rate debt and vice versa. These agreements involve the exchange of fixed-rate interest for variable-rate amounts over the life of the agreement without the exchange of the notional amount. *Interest rate exchange agreements are accounted for on the accrual basis with the differential to be paid or received recorded currently as an adjustment to interest expense. Premiums paid to terminate agreements designated as hedges are deferred and amortized to expense over the remaining term of the original life of the contract. If the underlying debt is then paid early, unamortized premiums are recognized as an adjustment to the gain or loss associated with the debt's extinguishment.*

Some agreements that require the payment of fixed-rate interest are designated against specific long-term variable-rate borrowings, while the balance is designated against existing short-term borrowings through maturity and their anticipated replacements. Textron continuously monitors variable-rate borrowings to maintain the level of borrowings above the notional amount of the designated agreements. If it is probable that variable-rate borrowings will not continuously exceed the notional amount of the designated agreements, the excess interest rate exchange agreements are marked to market and the associated gain or loss is recorded in income.

Agreements that effectively fix the rate of interest on variable-rate borrowings are summarized as follows:

	January 1, 2000			January 2, 1999		
Fixed-pay interest rate exchange agreements						
(Dollars in millions)	Notional amount	Weighted average interest rate	Weighted average remaining term	Notional amount	Weighted average interest rate	Weighted average remaining term
Textron Manufacturing	\$ 941	4.69%	0.3	\$ —	—	—
Textron Finance	300	5.76%	0.8	250	6.26%	0.6
	\$1,241	4.95%	0.4	\$250	6.26%	0.6

Textron Manufacturing's and Textron Finance's fixed-pay interest rate exchange agreements were designated against specific long-term variable-rate debt. Textron Manufacturing's agreements were entered in June 1999 to insulate Textron against potential interest rate increases on variable-rate debt around year-end 1999. These agreements, which expire in March 2000, effectively adjusted the average rate of interest on variable-rate debt in 1999 to 4.69% from 4.76%. Textron Finance's agreements effectively adjusted the average rate of interest on variable-rate debt in 1999 to 5.64% from 5.57%. These agreements expire as follows: \$200 million (5.72%) in 2000 and \$100 million (5.85%) in 2001.

Agreements that have the effect of varying the rate of interest on fixed-rate borrowings are summarized as follows:

	January 1, 2000			January 2, 1999		
Variable-pay interest rate exchange agreements						
(Dollars in millions)	Notional amount	Weighted average interest rate	Weighted average remaining term	Notional amount	Weighted average interest rate	Weighted average remaining term
Textron Manufacturing	\$852	6.39%	2.5	\$635	8.26%	5.5
Textron Finance*	125	5.84%	0.4	50	5.22%	0.5
	\$977	6.32%	2.2	\$685	8.04%	5.1

*Amounts at January 1, 2000 represent basis swaps to lock-in desired spreads between certain interest-earning assets and certain interest-bearing liabilities. These basis swaps require United States Prime Rate-based payments (5.84%) and LIBOR-based receipts (6.07%) at year-end 1999.

During 1999, Textron Manufacturing terminated \$479 million variable-pay interest rate exchange agreements related to the retirement of \$553 million of debt. Textron Manufacturing's and Textron Finance's variable-pay interest rate exchange agreements were designated against specific long-term fixed-rate debt. Textron Manufacturing's agreements effectively adjusted the average rate of interest on fixed-rate notes in 1999 to 5.92% from 6.18%. These agreements expire as follows: \$437 million (6.13%) in 2000, \$26 million (10.64%) in 2001, \$36 million (9.77%) in 2002, and \$353 million (6.06%) through 2020. Textron Finance had agreements (\$50 million notional amounts) which expired in 1999 that adjusted the average rate of interest on fixed-rate notes during the current year to 6.74% from 6.79%.

Textron had minimal exposure to loss from nonperformance by the counterparties to its interest rate exchange agreements at the end of 1999, and does not anticipate nonperformance by counterparties in the periodic settlements of amounts due. Textron currently minimizes this potential for risk by entering into contracts exclusively with major, financially sound counterparties having no less than a long-term bond rating of "A," by continuously monitoring the counterparties' credit ratings, and by limiting exposure with any one financial institution. The credit risk generally is limited to the amount by which the counterparties' contractual obligations exceed Textron's obligations to the counterparty.

Translation of foreign currencies, foreign exchange transactions and foreign currency exchange contracts

Foreign currency denominated assets and liabilities are translated into U.S. dollars with the adjustments from the currency rate changes being recorded in the currency translation adjustment account in shareholders' equity until the related foreign entity is sold or substantially liquidated. Non-U.S. dollar financing transactions, including currency swaps, are used to effectively hedge long-term investments in foreign operations with the same corresponding currency. Foreign currency gains and losses on the hedge of the long-term investments are recorded in the currency translation adjustment with the offset recorded as an adjustment to the non-U.S. dollar financing liability.

Forward exchange contracts are used to hedge certain foreign currency transactions and certain firm sales and purchase commitments denominated in foreign currencies. Gains and losses from currency rate changes on hedges of foreign currency transactions are recorded currently in income. Gains and losses relating to the hedge of firm sales and purchase commitments are included in the measurement of the underlying transactions when they occur. Foreign exchange gains and losses included in income have not been material.

The table below summarizes by major currency Textron's forward exchange contracts and currency swaps in U.S. dollars. The buy amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies and the sell amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies. The foreign currency amounts have been translated into a U.S. dollar equivalent using the exchange rate at the balance sheet date.

(In millions)	Buy Contracts		Sell Contracts	
	Contract Amount	Unrealized Gain/(Loss)	Contract Amount	Unrealized Gain/(Loss)
January 1, 2000				
British Pound	\$ 74	\$ 1	\$485	\$ 7
Canadian Dollar	263	5	15	—
Euro	7	—	447	18
Other	11	—	35	—
Total	\$355	\$ 6	\$982	\$ 25
January 2, 1999				
British Pound	\$ 45	\$ —	\$375	\$ —
Canadian Dollar	228	(9)	8	—
German Mark	135	—	339	(5)
French Franc	1	—	119	(4)
Other	6	—	43	(1)
Total	\$415	\$(9)	\$884	\$(10)

9. Textron Finance – Mandatorily Redeemable Preferred Securities of Finance Subsidiary Holding Debentures

Litchfield Financial Corporation (Litchfield, a subsidiary of Textron Financial Corporation) was acquired by Textron Financial Corporation during 1999. Prior to the acquisition, Litchfield issued Series A Preferred Securities to the public (for \$26 million), the proceeds of which were invested by the trust in \$26 million aggregate principal amount of Litchfield's newly issued 10% Series A Junior Subordinated Debentures (Series A Debentures), due 2029. The debentures are the sole asset of the trust. The preferred securities were recorded by Textron Financial Corporation at the fair value of \$29 million as of the acquisition date. The amounts due to the trust under the subordinated debentures and the related income statement amounts have been eliminated in Textron's consolidated financial statements.

The preferred securities accrue and pay cash distributions quarterly at a rate of 10% per annum. The trust's obligation under the Series A Preferred Securities are fully and unconditionally guaranteed by Litchfield. The trust will redeem all of the outstanding Series A Preferred Securities when the Series A Debentures are paid at maturity on June 30, 2029, or otherwise become due. Litchfield will have the right to redeem 100% of the principal plus accrued and unpaid interest on or after June 30, 2004.

**10. Textron-Obligated
Mandatorily
Redeemable
Preferred
Securities of
Subsidiary Trust
Holding Solely
Textron Junior
Subordinated
Debt Securities**

In 1996, a trust sponsored and wholly-owned by Textron issued preferred securities to the public (for \$500 million) and shares of its common securities to Textron (for \$15.5 million), the proceeds of which were invested by the trust in \$515.5 million aggregate principal amount of Textron's newly issued 7.92% Junior Subordinated Deferrable Interest Debentures, due 2045. The debentures are the sole asset of the trust. The proceeds from the issuance of the debentures were used by Textron for the repayment of long-term borrowings and for general corporate purposes. The amounts due to the trust under the debentures and the related income statement amounts have been eliminated in Textron's consolidated financial statements.

The preferred securities accrue and pay cash distributions quarterly at a rate of 7.92% per annum. Textron has guaranteed, on a subordinated basis, distributions and other payments due on the preferred securities. The guarantee, when taken together with Textron's obligations under the debentures and in the indenture pursuant to which the debentures were issued and Textron's obligations under the Amended and Restated Declaration of Trust governing the trust, provides a full and unconditional guarantee of amounts due on the preferred securities. The preferred securities are mandatorily redeemable upon the maturity of the debentures on March 31, 2045, or earlier to the extent of any redemption by Textron of any debentures. The redemption price in either such case will be \$25 per share plus accrued and unpaid distributions to the date fixed for redemption.

**11. Shareholders'
Equity**

Preferred stock

Textron has authorization for 15,000,000 shares of preferred stock. Each share of \$2.08 Preferred Stock (\$23.63 approximate stated value) is convertible into 4.4 shares of common stock and can be redeemed by Textron for \$50 per share. Each share of \$1.40 Preferred Dividend Stock (\$11.82 approximate stated value) is convertible into 3.6 shares of common stock and can be redeemed by Textron for \$45 per share.

Common stock

Textron has authorization for 500,000,000 shares of 12.5 cent per share par value common stock. New shares in connection with a two-for-one stock split in the form of a stock dividend were issued and distributed on May 30, 1997 to shareholders of record on the close of business on May 9, 1997. Average shares outstanding, stock options, and per share amounts were restated for all periods.

Performance share units and stock options

Textron's 1999 Long-Term Incentive Plan (the "1999 Plan") was approved by shareholders in April 1999. The 1999 Plan authorizes awards to key employees of Textron and its related companies in three forms: (a) options to purchase Textron shares; (b) performance share units; and (c) restricted stock. The maximum number of share awards that are authorized by the 1999 Plan are: (a) 8,000,000 options to purchase Textron shares; (b) 1,000,000 performance units; and (c) 500,000 shares of restricted stock.

Stock-based compensation awards to employees under the Plan are accounted for using the intrinsic value method prescribed in APB 25, "Accounting for Stock Issued to Employees" and related interpretations.

Compensation expense under Textron's performance share program, measured under the intrinsic value method, was approximately \$25 million in 1999, \$77 million in 1998, and \$65 million in 1997. To mitigate the impact of stock price increases on compensation expense, Textron has a cash-settlement option program on Textron's common stock. This program generated income of approximately \$5 million in 1999, \$40 million in 1998, and \$37 million in 1997. Textron did not incur compensation expense related to common stock options in 1999, 1998, or 1997.

Pro forma information regarding net income and earnings per share has been determined using the fair value method. For the purpose of developing the pro forma information, the fair values of options granted after 1995 are estimated at the date of grant using the Black-Scholes option-pricing model. The estimated fair values are amortized to expense over the options' vesting period. Using this methodology, net income would have been reduced by \$9 million or \$.06 per diluted share in 1999, \$9 million or \$.06 per diluted share in 1998, and \$11 million or \$.07 per diluted share in 1997.

The assumptions used to estimate the fair value of an option granted in 1999, 1998, and 1997, respectively, are approximately as follows: dividend yield of 2%; expected volatility of 22%, 18%, and 16%; risk-free interest rates of 6%, 4%, and 6%, and weighted

average expected lives of 3.5 years. Under these assumptions, the weighted-average fair value of an option to purchase one share granted in 1999, 1998, and 1997 was approximately \$15, \$12, and \$10, respectively.

At year-end 1999, 5,933,000 stock options were available for future grant under the 1999 Plan. Stock option transactions during the last three years are summarized as follows:

(Shares in thousands)	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	8,342	\$47.23	9,001	\$36.74	9,290	\$31.08
Options granted	2,176	\$73.75	1,909	\$74.08	1,333	\$62.54
Options exercised	(1,451)	\$34.86	(2,465)	\$29.52	(1,541)	\$24.56
Options canceled	(245)	\$67.06	(103)	\$51.48	(81)	\$43.40
Options outstanding at end of year	8,822	\$55.26	8,342	\$47.23	9,001	\$36.74
Options exercisable at end of year	5,815	\$45.60	5,818	\$36.80	6,641	\$30.21

Stock options outstanding at the end of 1999 are summarized as follows:

(Shares in thousands)	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price
January 1, 2000:					
\$13 – \$37	2,564	4.6	\$28.38	2,564	\$28.38
\$38 – \$63	2,399	7.4	\$53.57	2,377	\$53.50
\$64 – \$94	3,859	9.4	\$74.09	874	\$74.28

Reserved shares of common stock

At year-end 1999, 3,023,000 shares of common stock were reserved for the subsequent conversion of preferred stock and 8,822,000 shares were reserved for the exercise of stock options.

Preferred stock purchase rights

Each outstanding share of Textron common stock has attached to it one-half of a preferred stock purchase right. One preferred stock purchase right entitles the holder to buy one one-hundredth of a share of Series C Junior Participating Preferred Stock at an exercise price of \$250. The rights become exercisable only under certain circumstances related to a person or group acquiring or offering to acquire a substantial block of Textron's common stock. In certain circumstances, holders may acquire Textron stock, or in some cases the stock of an acquiring entity, with a value equal to twice the exercise price. The rights expire in September 2005 but may be redeemed earlier for \$.05 per right.

Income per common share

A reconciliation of income from continuing operations and basic to diluted share amounts is presented below.

For the years ended	January 1, 2000		January 2, 1999		January 3, 1998	
(Dollars in millions, shares in thousands)	Income	Average Shares	Income	Average Shares	Income	Average Shares
Income from continuing operations	\$623		\$443		\$372	
Less: Preferred stock dividends	(1)		(1)		(1)	
Basic						
Available to common shareholders	622	150,389	442	161,254	371	164,830
Dilutive effect of convertible preferred stock and stock options	1	3,365	1	4,120	1	4,673
Diluted						
Available to common shareholders and assumed conversions	\$623	153,754	\$443	165,374	\$372	169,503

Comprehensive Income

The components of Textron's other comprehensive income for 1999, 1998, and 1997 were as follows:

<i>(In millions)</i>	1999	1998	1997
Currency translation adjustment			
Beginning balance	\$(104)	\$ (71)	\$ 2
Change, net of income taxes	(71)	(33)	(73)
AFS disposal	79	—	—
Ending balance	\$ (96)	\$(104)	\$(71)
Unrealized gains (losses) on securities			
Beginning balance	\$ 13	\$ 13	\$ 9
Gross unrealized gains (losses) arising during the period*	—	8	7
Reclassification adjustment for realized gains in net income**	—	(8)	(3)
AFS disposal (Net of income tax expense of \$8)	(13)	—	—
Ending balance	\$ —	\$ 13	\$ 13
Pension liability adjustment			
Beginning balance	\$ (5)	\$ (4)	\$ (4)
Change, net of income taxes	3	(1)	—
Ending balance	\$ (2)	\$ (5)	\$ (4)
Accumulated other comprehensive income (loss)			
Beginning balance	\$ (96)	\$ (62)	\$ 7
Other comprehensive income (loss)	(2)	(34)	(69)
Ending balance	\$ (98)	\$ (96)	\$(62)

*Net of income tax expense (benefit) of \$4 million and \$4 million for 1998 and 1997, respectively.

**Net of income tax expense (benefit) of \$4 million and \$2 million for 1998 and 1997, respectively.

12. Leases

Rental expense approximated \$94 million, \$83 million, and \$65 million in 1999, 1998, and 1997, respectively. Future minimum rental commitments for noncancellable operating leases in effect at year-end 1999 approximated \$80 million for 2000; \$64 million for 2001; \$44 million for 2002; \$34 million for 2003; \$29 million for 2004; and a total of \$185 million thereafter.

13. Research and Development

Textron carries out research and development for itself and under contracts with others, primarily the U.S. Government. Company initiated programs include independent research and development related to government products and services, a significant portion of which is recoverable from the U.S. Government through overhead cost allowances.

Research and development costs for which Textron is responsible are expensed as incurred. These company funded costs include amounts for company initiated programs, the cost sharing portions of customer initiated programs, and losses incurred on customer initiated programs. The company funded and customer funded research and development costs for 1999, 1998, and 1997 were as follows:

<i>(In millions)</i>	1999	1998	1997
Company funded	\$257	\$219	\$222
Customer funded	413	394	380
Total research and development	\$670	\$613	\$602

14. Pension Benefits and Postretirement Benefits Other Than Pensions

Textron has defined benefit and defined contribution pension plans that together cover substantially all employees. The costs of the defined contribution plans amounted to approximately \$40 million, \$40 million, and \$36 million in 1999, 1998 and 1997, respectively. Defined benefits under salaried plans are based on salary and years of service. Hourly plans generally provide benefits based on stated amounts for each year of service. Textron's funding policy is consistent with federal law and regulations. Pension plan assets consist principally of corporate and government bonds and common stocks. Textron offers health care and life insurance benefits for certain retired employees.

The following summarizes the change in the benefit obligation; the change in plan assets; the funded status; and reconciliation to the amount recognized in the balance sheet for the pension and postretirement benefit plans:

	Pension Benefits		Postretirement Benefits Other than Pensions	
	January 1, 2000	January 2, 1999	January 1, 2000	January 2, 1999
<i>(In millions)</i>				
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 3,836	\$ 3,206	\$ 665	\$ 640
Service cost	109	83	7	6
Interest cost	252	235	41	45
Amendments	9	2	—	2
Effects of acquisitions	10	293	5	20
Effects of dispositions	(6)	(14)	—	(3)
Plan participants' contributions	4	1	4	4
Actuarial (gains)/losses	(299)	258	(54)	13
Benefits paid	(227)	(229)	(65)	(62)
Foreign exchange rate changes	(23)	1	—	—
Benefit obligation at end of year	\$ 3,665	\$ 3,836	\$ 603	\$ 665
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 4,824	\$ 4,130	\$ —	—
Actual return on plan assets	740	557	—	—
Employer contributions	21	15	—	—
Plan participants' contributions	4	1	—	—
Effects of acquisitions	12	363	—	—
Effects of dispositions	(5)	(12)	—	—
Benefits paid	(227)	(229)	—	—
Foreign exchange rate changes	(27)	(1)	—	—
Fair value of plan assets at end of year	\$ 5,342	\$ 4,824	\$ —	—
Funded status of the plan	\$ 1,677	\$ 988	\$ (603)	\$ (665)
Unrecognized actuarial gain	(1,331)	(679)	(122)	(78)
Unrecognized prior service cost	88	96	(16)	(19)
Unrecognized transition net asset	(61)	(78)	—	—
Net amount recognized in the consolidated balance sheet	\$ 373	\$ 327	\$ (741)	\$ (762)
Amounts recognized in the consolidated balance sheet consists of:				
Prepaid benefit cost	\$ 506	\$ 452	\$ —	\$ —
Accrued benefit liability	(144)	(157)	(741)	(762)
Intangible asset	7	24	—	—
Accumulated other comprehensive income	4	8	—	—
Net amount recognized in the consolidated balance sheet	\$ 373	\$ 327	\$ (741)	\$ (762)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$191 million, \$159 million, and \$16 million, respectively, as of year-end 1999, and \$267 million, \$231 million, and \$78 million, respectively, as of year-end 1998.

The following summarizes the net periodic benefit cost for the pension benefits and postretirement benefits plans:

	Pension Benefits			Postretirement Benefits Other than Pensions		
	January 1, 2000	January 2, 1999	January 3, 1998	January 1, 2000	January 2, 1999	January 3, 1998
<i>(In millions)</i>						
Components of net periodic benefit cost						
Service cost	\$ 109	\$ 83	\$ 71	\$ 7	\$ 6	\$ 5
Interest cost	252	235	223	41	45	46
Expected return on plan assets	(378)	(323)	(298)	—	—	—
Amortization of unrecognized transition asset	(17)	(17)	(17)	—	—	—
Recognized actuarial (gain)/loss	2	1	1	(10)	(9)	(9)
Recognized prior service cost	16	14	15	(4)	(4)	(4)
Net periodic benefit cost	\$ (16)	\$ (7)	\$ (5)	\$ 34	\$ 38	\$ 38

Major actuarial assumptions used in accounting for defined benefit pension plans are presented below.

	January 1, 2000	January 2, 1999	January 3, 1998	December 28, 1996
Weighted average assumptions at year-end				
Discount rate	7.50%	6.75%	7.25%	7.50%
Expected return on plan assets	9.25	9.25	9.00	9.00
Rate of compensation increase	4.80	4.80	5.00	5.00

Postretirement benefit plan discount rates are the same as those used by Textron's defined benefit pension plans.

The 1999 health care cost trend rate, which is the weighted average annual assumed rate of increase in the per capita cost of covered benefits, was 8.0% for retirees age 65 and over and 7.0% for retirees under age 65. Both rates are assumed to decrease gradually to 5.5% by 2001 and 2003, respectively, and then remain at that level. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(In millions)	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 5	\$ (5)
Effect on postretirement benefit obligation	58	(52)

15. Income Taxes

Textron files a consolidated federal income tax return for all U.S. subsidiaries and separate returns for foreign subsidiaries. *Textron recognizes deferred income taxes for temporary differences between the financial reporting basis and income tax basis of assets and liabilities based on enacted tax rates expected to be in effect when amounts are likely to be realized or settled.*

The following table shows income from continuing operations before income taxes and distributions on preferred securities of subsidiary trust:

(In millions)	1999	1998	1997
United States	\$ 831	\$582	\$441
Foreign	199	181	207
Total	\$1,030	\$763	\$648

Income tax expense is summarized as follows:

(In millions)	1999	1998	1997
Federal:			
Current	\$222	\$225	\$ 82
Deferred	54	(25)	71
State	36	33	27
Foreign	69	61	70
Income tax expense	\$381	\$294	\$250

The following reconciles the federal statutory income tax rate to the effective income tax rate reflected in the consolidated statement of income:

	1999	1998	1997
Federal statutory income tax rate	35.0%	35.0%	35.0%
Increase (decrease) in taxes resulting from:			
State income taxes	2.3	2.7	2.8
Goodwill	2.2	4.3	2.7
Other – net	(2.5)	(3.5)	(1.9)
Effective income tax rate	37.0%	38.5%	38.6 %

Textron's net deferred tax asset consisted of gross deferred tax assets and gross deferred tax liabilities of \$1,966 million and \$1,810 million, respectively, at the end of 1999 and \$1,775 million and \$1,576 million, respectively, at the end of 1998.

The components of Textron's net deferred tax asset were as follows:

<i>(In millions)</i>	January 1, 2000	January 2, 1999
Textron Finance transactions, principally leasing	\$(353)	\$(350)
Self insured liabilities (including environmental)	184	205
Obligation for postretirement benefits	171	186
Fixed assets, principally depreciation	(164)	(171)
Deferred compensation	144	152
Inventory	(51)	(48)
Allowance for credit losses	38	33
Other, principally timing of other expense deductions	187	192
	\$ 156	\$ 199

Deferred income taxes have not been provided for the undistributed earnings of foreign subsidiaries, which approximated \$500 million at the end of 1999. Management intends to reinvest those earnings for an indefinite period, except for distributions having an immaterial tax effect. If foreign subsidiaries' earnings were distributed, 1999 taxes, net of foreign tax credits, would be increased by approximately \$65 million.

16. Special (Credits)/Charges

To enhance the competitiveness and profitability of its core businesses, Textron recorded a pretax charge of \$87 million in the second quarter of 1998 (\$54 million after-tax or \$0.32 per diluted share). This charge was recorded based on the decision to exit several small, nonstrategic product lines in Automotive and the former Systems and Components divisions which did not meet Textron's return criteria, and to realign certain operations in the Industrial segment. The pretax charges associated with the Automotive and Industrial segments were \$25 million and \$52 million, respectively. The charge also included the cost of a litigation settlement of \$10 million related to the Aircraft segment. Severance costs were included in special charges and are based on established policies and practices. The provision does not include costs associated with the transfer of equipment and personnel, inventory obsolescence, or other normal operating costs associated with the realignment actions.

In 1999, the Company reassessed the remaining actions anticipated in the 1998 program and determined that certain projects should be delayed or cancelled while other provisions were no longer necessary. Specifically, provisions for severance and exit costs associated with the decision to exit certain automotive product lines were no longer required due to a decision to build different products in a plant originally anticipated to be closed. In the Industrial segment, certain cost reduction programs in the Fluid and Power Group have been suspended as a result of management's evaluation of the opportunities presented by the David Brown acquisition. Some smaller programs have been delayed as the Company re-examines strategic alternatives. Others were completed at costs less than originally anticipated.

Concurrently, the Company initiated a series of new cost reduction efforts in the Industrial segment designed to significantly reduce headcount from levels at the beginning of the year. Significant actions include the downsizing of an underperforming plant in Europe and targeted headcount reductions across most Industrial divisions. Headcount reductions were also effected at Bell Helicopter.

As a result of the above, the Company reversed approximately \$24 million of reserves no longer deemed necessary for the 1998 program and recorded severance accruals of approximately \$21 million and recorded a charge related to asset impairment of \$5 million.

Textron recorded additional restructuring charges for the Industrial segment, primarily for severance (\$7 million) and asset impairment (\$9 million) associated with the announced closing of seven facilities. The Company continues to evaluate additional programs and expects cost reduction efforts to continue over the next year. Additional charges may be required in the future when such programs become finalized. As of January 1, 2000, approximately 1,700 employees had been terminated under these programs.

The following table summarizes the activity associated with 1998 and 1999 programs:

<i>(In millions)</i>	Asset impairments	Severance & other	Total
Initial charge	\$ 28	\$ 49	\$ 77
Utilized in 1998	(28)	(9)	(37)
Balance January 2, 1999	\$ –	\$ 40	\$ 40
Additional programs	14	28	42
Utilized in 1999	(14)	(22)	(36)
No longer required	–	(24)	(24)
Balance January 1, 2000	\$ –	\$ 22	\$ 22

Included in special (credits)/charges, net is a gain of \$19 million as a result of shares granted to Textron from Manulife Financial Corporation's initial public offering on their demutualization of the Manufacturers Life Insurance Company.

17. Fair Value of Financial Instruments

The estimated fair value amounts shown below were determined from available market information and valuation methodologies. Because considerable judgment is required in interpreting market data, the estimates are not necessarily indicative of the amounts that could be realized in a current market exchange.

	January 1, 2000		January 2, 1999	
<i>(In millions)</i>	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets:				
Textron Finance:				
Finance receivables	\$4,647	\$4,665	\$2,774	\$2,837
Other	46	46	46	46
Liabilities:				
Textron Manufacturing:				
Debt	1,745	1,740	2,615	2,706
Interest rate exchange agreements	–	7	–	(11)
Textron Finance:				
Debt	4,551	4,535	2,829	2,836
Interest rate exchange agreements	–	(2)	–	1
Foreign exchange contracts	–	(6)	–	9
Currency swaps	(21)	(25)	14	10

(i) Finance receivables – The estimated fair values of real estate loans and commercial installment contracts were based on discounted cash flow analyses. The estimated fair values of variable-rate receivables approximated the net carrying value. The estimated fair values of nonperforming loans were based on discounted cash flow analyses using risk-adjusted interest rates or the fair value of the related collateral.

(ii) Debt, interest rate exchange agreements, foreign exchange contracts and currency swaps – The estimated fair value of fixed-rate debt was determined by independent investment bankers or discounted cash flow analyses. The estimated fair values of variable-rate debt approximated their carrying values. The estimated fair values of interest rate exchange agreements were determined by independent investment bankers and represent the estimated amounts that Textron or its counterparty would be required to pay to assume the other party's obligations under the agreements. The estimated fair values of the foreign exchange contracts and currency swaps were determined by Textron's foreign exchange banks.

18. Contingencies and Environmental Remediation

Contingencies

Textron is subject to a number of lawsuits, investigations and claims arising out of the conduct of its business, including those relating to commercial transactions, government contracts, product liability, and environmental, safety and health matters. Some seek damages, fines or penalties in substantial amounts or remediation of environmental contamination, and some are class actions. Under federal government procurement regulations, certain claims could result in suspension or debarment of Textron or its subsidiaries from U.S. government contracting for a period of time. On the basis of information presently available, Textron believes that any liability for these suits and proceedings would not have a material effect on Textron's net income or financial condition.

Environmental Remediation

Environmental liabilities are recorded based on the most probable cost if known or on the estimated minimum cost, determined on a site-by-site basis. Textron's environmental liabilities are undiscounted and do not take into consideration possible future insurance proceeds or significant amounts from claims against other third parties.

Textron's accrued estimated environmental liabilities are based on assumptions which are subject to a number of factors and uncertainties. Circumstances which can affect the accruals' reliability and precision include identification of additional sites, environmental regulations, level of cleanup required, technologies available, number and financial condition of other contributors to remediation, and the time period over which remediation may occur. Textron believes that any changes to the accruals that may result from these factors and uncertainties will not have a material effect on Textron's net income or financial condition. Textron estimates that its accrued environmental remediation liabilities will likely be paid over the next five to ten years.

19. Segment Reporting

Textron has four reportable segments: Aircraft, Automotive, Industrial and Finance. See Note 1 for principal markets and pages 66 through 68 for products of Textron's segments.

Textron's reportable segments are strategically aligned based on the manner in which Textron manages its various operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies within the notes to the consolidated financial statements. Textron evaluates segment performance based on operating income from operations. Segment operating income excludes Textron Manufacturing interest expense, special (credits)/charges, and gains or losses from the disposition of businesses. The Finance segment includes interest income and interest expense as part of operating income from operations. Provisions for losses on finance receivables involving the sale or lease of Textron products are recorded by the selling manufacturing division.

The following summarizes the revenues by type of products:

	Revenues		
<i>(In millions)</i>	1999	1998	1997
Aircraft:			
Fixed-Wing Aircraft	\$ 2,219	\$1,784	\$1,483
Rotor Aircraft	1,525	1,405	1,542
Automotive:			
Trim	1,796	1,481	1,372
Fuel Systems and Functional Components	1,120	924	755
Industrial:			
Fasteners	2,082	1,758	1,498
Fluid & Power	895	619	489
Golf, Turf-Care and Specialty Products	773	719	483
Industrial Components and Other	706	626	711
Finance	463	367	350
	\$11,579	\$9,683	\$8,683

The following tables summarize selected financial information by segment:

(In millions)	Assets			Property, Plant and Equipment Expenditures		
	1999	1998	1997	1999	1998	1997
Aircraft	\$ 2,348	\$ 2,199	\$ 1,941	\$164	\$140	\$107
Automotive	1,860	1,681	1,515	134	111	103
Industrial	5,142	3,882	2,596	215	208	153
Finance	5,990	3,785	3,178	11	13	8
Corporate (including investment in discontinued operations)	1,743	2,717	2,557	8	3	3
Eliminations	(690)	(543)	(457)	—	—	—
	\$16,393	\$13,721	\$11,330	\$532	\$475	\$374

(In millions)	Amortization*			Depreciation		
	1999	1998	1997	1999	1998	1997
Aircraft	\$10	\$10	\$10	\$ 97	\$ 82	\$ 70
Automotive	19	15	14	84	72	69
Industrial	50	36	29	152	124	100
Finance	7	3	—	12	10	11
Corporate	5	5	3	4	4	4
	\$91	\$69	\$56	\$349	\$292	\$254

*Amortization is principally amortization of goodwill.

Geographic Data

Presented below is selected financial information by geographic area of Textron's operations:

(In millions)	Revenues ¹			Property, Plant and Equipment ²		
	1999	1998	1997	1999	1998	1997
United States	\$ 7,360	\$6,291	\$5,550	\$1,718	\$1,466	\$1,232
Latin America and Mexico	704	634	447	68	84	40
Canada	701	589	640	118	115	92
Germany	690	575	458	187	205	138
United Kingdom	475	273	209	161	171	71
Asia and Australia	435	309	447	14	3	3
France	344	332	301	82	82	68
Other	870	680	631	165	79	126
	\$11,579	\$9,683	\$8,683	\$2,513	\$2,205	\$1,770

¹Revenues are attributed to countries based on the location of the customer.

²Property, plant and equipment is based on the location of the asset.

Revenues include sales to the U.S. Government of \$1.3 billion, \$1.1 billion, and \$1.0 billion in 1999, 1998, and 1997, respectively and sales of \$1.6 billion, \$1.3 billion, and \$1.1 billion in 1999, 1998, and 1997, respectively to DaimlerChrysler.

20. Other Information

– Textron Manufacturing Current Liabilities

Included in accrued liabilities at the end of 1999 and 1998 were the following:

(In millions)	January 1, 2000	January 2, 1999
Customer deposits	\$ 253	\$ 195
Salary, wages and employer taxes	232	226
Reserve for warranties	193	148
Other	541	529
Total accrued liabilities	\$1,219	\$1,098

Quarterly Data

(Unaudited)

(Dollars in millions except per share amounts)

	1999				1998			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Aircraft	\$1,133	\$ 899	\$ 885	\$ 827	\$ 849	\$ 826	\$ 858	\$ 656
Automotive	763	662	757	734	670	534	583	618
Industrial	1,197	1,026	1,141	1,092	984	893	952	893
Finance	141	122	104	96	92	99	91	85
Total revenues	\$3,234	\$2,709	\$2,887	\$2,749	\$2,595	\$2,352	\$2,484	\$2,252
Income								
Aircraft	\$ 129	\$ 91	\$ 75	\$ 67	\$ 95	\$ 91	\$ 91	\$ 61
Automotive	66	38	62	62	51	29	43	56
Industrial	112	116	133	122	104	103	108	95
Finance	34	38	30	26	28	33	27	25
Total operating income	341	283	300	277	278	256	269	237
Gain on sale of division	—	—	—	—	—	—	97	—
Special credits/(charges)	—	3	(2)	—	—	—	(87)	—
Corporate expenses and other — net	(33)	(37)	(35)	(38)	(38)	(35)	(34)	(34)
Interest income	1	4	6	16	—	—	—	—
Interest expense	(29)	(11)	(3)	(13)	(40)	(37)	(36)	(33)
Income taxes	(103)	(90)	(97)	(91)	(73)	(70)	(86)	(65)
Distributions on preferred securities of subsidiary trusts, net of income taxes	(7)	(6)	(7)	(6)	(7)	(6)	(7)	(6)
Income from continuing operations	170	146	162	145	120	108	116	99
Discontinued operations, net of income taxes:								
Income from operations	—	—	—	—	40	34	48	43
Gain on disposal	31	—	—	1,615	—	—	—	—
	31	—	—	1,615	40	34	48	43
Income before extraordinary loss	201	146	162	1,760	160	142	164	142
Extraordinary loss from debt retirement, net of income taxes	—	—	—	(43)	—	—	—	—
Net income	\$ 201	\$ 146	\$ 162	\$1,717	\$ 160	\$ 142	\$ 164	\$ 142
Earnings per common share								
Basic:								
Income from continuing operations	\$ 1.14	\$.97	\$ 1.08	\$.95	\$.76	\$.67	\$.71	\$.60
Discontinued operations, net of income taxes	.21	—	—	10.59	.26	.20	.29	.27
Extraordinary loss from debt retirement, net of income taxes	—	—	—	(.28)	—	—	—	—
Net income	\$ 1.35	\$.97	\$ 1.08	\$11.26	\$ 1.02	\$.87	\$ 1.00	\$.87
Average shares outstanding (in thousands)	148,309	150,069	150,512	152,517	157,225	162,156	163,613	162,809
Diluted:								
Income from continuing operations	\$ 1.12	\$.95	\$ 1.05	\$.93	\$.74	\$.65	\$.70	\$.59
Discontinued operations, net of income taxes	.21	—	—	10.34	.26	.20	.28	.26
Extraordinary loss from debt retirement, net of income taxes	—	—	—	(.27)	—	—	—	—
Net income	\$ 1.33	\$.95	\$ 1.05	\$11.00	\$ 1.00	\$.85	\$.98	\$.85
Average shares outstanding (in thousands)*	151,267	153,406	154,096	156,112	160,980	166,116	168,027	167,155
Operating income margins								
Aircraft	11.4%	10.1%	8.5%	8.1%	11.2%	11.0%	10.6%	9.3%
Automotive	8.7	5.7	8.2	8.4	7.6	5.4	7.4	9.1
Industrial	9.4	11.3	11.7	11.2	10.6	11.5	11.3	10.6
Finance	24.1	31.1	28.8	27.1	30.4	33.3	29.7	29.4
Operating income margin	10.5	10.4	10.4	10.1	10.7	10.9	10.8	10.5
Common stock information								
Price range: High	\$ 77 ³ / ₄	\$ 90 ¹ / ₂	\$ 97	\$ 81 ¹ / ₆	\$ 79 ¹ / ₄	\$ 76 ¹ / ₂	\$ 80 ⁵ / ₆	\$ 79
Low	\$ 68 ⁵ / ₆	\$ 74 ¹ / ₂	\$ 78 ⁵ / ₆	\$ 70	\$ 52 ¹ / ₆	\$ 56 ⁵ / ₆	\$ 69 ⁵ / ₆	\$ 56 ⁵ / ₆
Dividends per share	\$.325	\$.325	\$.325	\$.325	\$.285	\$.285	\$.285	\$.285

*Assumes full conversion of outstanding preferred stock and exercise of stock options.

Selected Financial Information

(Dollars in millions except where

otherwise noted and per share amounts)

	1999	1998	1997	1996	1995	1994	1993	1992
Revenues								
Aircraft	\$ 3,744	\$ 3,189	\$ 3,025	\$ 2,593	\$ 2,420	\$ 2,186	\$ 1,987	\$ 1,521
Automotive	2,916	2,405	2,127	1,627	1,534	1,511	1,178	788
Industrial	4,456	3,722	3,181	2,959	2,515	2,982	3,106	3,308
Finance	463	367	350	327	311	277	259	258
Total revenues	\$11,579	\$ 9,683	\$ 8,683	\$ 7,506	\$ 6,780	\$ 6,956	\$ 6,530	\$ 5,875
Income								
Aircraft	\$ 362	\$ 338	\$ 313	\$ 261	\$ 237	\$ 194	\$ 172	\$ 128
Automotive	228	179	150	146	135	132	89	68
Industrial	483	410	346	300	250	248	237	285
Finance	128	113	108	96	88	83	74	62
Total operating income	1,201	1,040	917	803	710	657	572	543
Gain on sale of division	—	97	—	—	—	—	—	—
Special credits/(charges)	1	(87)	—	—	—	—	—	—
Corporate expenses and other — net	(143)	(141)	(152)	(125)	(128)	(101)	(109)	(89)
Interest expense — net	(29)	(146)	(117)	(138)	(169)	(181)	(208)	(230)
Income taxes	(381)	(294)	(250)	(211)	(165)	(160)	(87)	(87)
Distributions on preferred securities of subsidiary trusts, net of income taxes	(26)	(26)	(26)	(23)	—	—	—	—
Income from continuing operations*	\$ 623	\$ 443	\$ 372	\$ 306	\$ 248	\$ 215	\$ 168	\$ 137
Per share of common stock								
Income from continuing operations-basic*	\$ 4.14	\$ 2.74	\$ 2.25	\$ 1.82	\$ 1.45	\$ 1.21	\$.95	\$.78
Income from continuing operations-diluted*	\$ 4.05	\$ 2.68	\$ 2.19	\$ 1.78	\$ 1.43	\$ 1.19	\$.94	\$.77
Dividends declared	\$ 1.30	\$ 1.14	\$ 1.00	\$.88	\$.78	\$.70	\$.62	\$.56
Book value at year-end	\$ 29.67	\$ 19.27	\$ 19.78	\$ 19.10	\$ 19.96	\$ 16.72	\$ 15.59	\$ 14.05
Common stock price: High	\$ 97	\$ 80 ⁵ / ₁₆	\$ 70 ³ / ₄	\$ 48 ⁷ / ₈	\$ 38 ¹¹ / ₁₆	\$ 30 ⁵ / ₁₆	\$ 29 ⁷ / ₁₆	\$ 22 ³ / ₈
Low	\$ 68 ⁷ / ₁₆	\$ 52 ¹ / ₁₆	\$ 45	\$ 34 ⁹ / ₁₆	\$ 24 ⁵ / ₁₆	\$ 23 ³ / ₄	\$ 20 ³ / ₁₆	\$ 16 ⁷ / ₈
Year-end	\$ 76 ¹¹ / ₁₆	\$ 75 ¹⁵ / ₁₆	\$ 62 ⁵ / ₈	\$ 46 ¹¹ / ₁₆	\$ 33 ³ / ₄	\$ 25 ³ / ₁₆	\$ 29 ⁷ / ₈	\$ 22 ³ / ₈
Common shares outstanding (in thousands):								
Basic average	150,389	161,254	164,830	167,453	169,848	176,474	176,071	173,334
Diluted average**	153,754	165,374	169,503	171,652	173,252	180,208	179,713	177,087
Year-end	147,002	154,742	167,315	169,745	173,340	174,616	180,509	178,366
Financial position								
Total assets	\$16,393	\$13,721	\$11,330	\$11,514	\$11,207	\$10,374	\$10,462	\$10,009
Debt:								
Textron Manufacturing	\$ 1,767	\$ 2,615	\$ 1,221	\$ 1,507	\$ 1,774	\$ 1,582	\$ 2,025	\$ 2,283
Textron Finance	\$ 4,551	\$ 2,829	\$ 2,365	\$ 2,441	\$ 2,277	\$ 2,162	\$ 2,037	\$ 1,873
Preferred securities of subsidiary trusts:								
Textron Manufacturing	\$ 483	\$ 483	\$ 483	\$ 483	\$ —	\$ —	\$ —	\$ —
Textron Finance	\$ 29	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Shareholders' equity	\$ 4,377	\$ 2,997	\$ 3,228	\$ 3,183	\$ 3,412	\$ 2,882	\$ 2,780	\$ 2,488
Textron Manufacturing debt to total capital	27%	43%	25%	29%	34%	35%	42%	48%
Investment data								
Capital expenditures	\$ 532	\$ 475	\$ 374	\$ 312	\$ 258	\$ 274	\$ 227	\$ 199
Depreciation	\$ 349	\$ 292	\$ 254	\$ 213	\$ 188	\$ 201	\$ 196	\$ 188
Research and development	\$ 670	\$ 613	\$ 602	\$ 576	\$ 656	\$ 611	\$ 514	\$ 430
Other data								
Number of employees at year-end	68,000	64,000	56,000	49,000	46,000	43,000	46,000	44,000
Number of common shareholders at year-end	22,000	23,000	24,000	25,000	26,000	27,000	28,000	30,000

*Before cumulative effect of changes in accounting principles in 1992.

**Assumes full conversion of outstanding preferred stock and exercise of stock options.



Left to right:

Jack W. Sights

Chairman, President and Chief
Executive Officer
Textron Fastening Systems

Kenneth C. Bohlen

Senior Vice President Corporate
Information Management and
Chief Information Officer
Textron Inc.

John D. Butler*

Executive Vice President Administration
and Chief Human Resources Officer
Textron Inc.

Lewis B. Campbell*

Chairman and Chief Executive Officer
Textron Inc.

executive

leadership

team

Left to right:

Frank J. Feraco

President
Textron Industrial Products

Gary W. Hay

Chief Executive Officer
Cessna Aircraft Company

John A. Janitz*

President and Chief Operating Officer
Textron Inc.

Stephen A. Giliotti

Chairman, President and
Chief Executive Officer
Textron Financial Corporation

Mary L. Howell*

Executive Vice President Government,
International, Communications and
Investor Relations
Textron Inc.



Left to right:

Sam Licavoli

Chairman, President and
Chief Executive Officer
Textron Automotive Company

Wayne W. Juchatz*

Executive Vice President
and General Counsel
Textron Inc.

Stephen L. Key*

Executive Vice President and
Chief Financial Officer
Textron Inc.

Terry D. Stinson

Chairman and Chief Executive Officer
Bell Helicopter Textron



* Member of the
Management Committee

Board of Directors

Lewis B. Campbell (1)
Chairman and Chief
Executive Officer
Textron Inc.

John A. Janitz (1)
President and Chief
Operating Officer
Textron Inc.

H. Jesse Arnette (2,4)
Of Counsel
Womble Carlyle Sandridge
& Rice

Teresa Beck (2,3)
Former President
American Stores Company

R. Stuart Dickson (1,3)
Chairman of the Executive
Committee
Ruddick Corporation

Lawrence K. Fish (3,4)
Chairman, President and
Chief Executive Officer
Citizens Financial Group,
Inc.

Joe T. Ford (3,4)
Chairman and Chief
Executive Officer
ALLTEL Corporation

Paul E. Gagné (1,2)
Consultant, Corporate
Strategic Planning and
Acquisitions
Kruger, Inc.

John D. Macomber (1,4)
Principal
JDM Investment Group

Brian H. Rowe (2,4)
Retired Chairman
GE Aircraft Engines

Sam F. Segnar (2,4)
Retired Chairman and
Chief Executive Officer
Enron Corporation

Jean Head Sisco (3,4)
Partner
Sisco Associates

Martin D. Walker (2,3)
Principal
MORWAL Investments

Thomas B. Wheeler (3,4)
Retired Chairman and
Chief Executive Officer
Massachusetts Mutual Life
Insurance Company

*Numbers indicate committee
memberships*

*(1) Executive Committee:
Chairman,
Lewis B. Campbell*

*(2) Audit Committee:
Chairman,
Paul E. Gagné*

*(3) Nominating and Board
Affairs Committee:
Chairman,
R. Stuart Dickson*

*(4) Organization and
Compensation Committee:
Chairman,
John D. Macomber*

Corporate Officers

Edward C. Arditte
Vice President and
Treasurer

Kenneth C. Bohlen
Senior Vice President
Corporate Information
Management and Chief
Information Officer

Frederick K. Butler
Vice President
Business Ethics and
Corporate Secretary

James L. Chamberlin
Vice President Textron
Quality Management

John R. Curran
Vice President
Business Development
Textron Industrial Products

Peter B.S. Ellis
Vice President Strategy and
Business Development

Douglas A. Fahlbeck
Vice President and
Assistant Controller

Arnold M. Friedman
Vice President and Deputy
General Counsel

Gregory E. Hudson
Vice President Taxes

Barbara B. Kacir
Vice President and
Deputy General
Counsel – Litigation

Mary F. Lovejoy
Vice President
Communications and
Investor Relations

Frank W. McNally
Vice President
Labor and Employee
Relations

George E. Metzger
Vice President
Human Resources and
Benefits

Gero K.H. Meyersiek
Vice President International

Freda M. Peters
Vice President
Executive Development

Karen Quinn-Quintin
Vice President
Human Resources
Textron Industrial Products

Daniel L. Shaffer
Vice President
Internal Audit

Richard F. Smith
Vice President
Government Affairs

Richard L. Yates
Vice President and
Controller

International Advisory Council

Richard R. Burt
Chairman
IEP Advisors, LLP
U.S.A.

Lewis B. Campbell
Chairman and Chief
Executive Officer
Textron Inc.
U.S.A.

In Yong Chung
Advisor to Chairman
Korean Air
Korea

Juan Gallardo
Chairman and Chief
Executive Officer
Grupo Embotelladoras
Unidas, S.A. de C.V.
Mexico

Jean Gandois
Président de Cockerill
Sambre
France

Toyoo Gyohten
President
Institute for International
Monetary Affairs
Japan

Carl H. Hahn
Former Chairman of the
Board of Management
Volkswagen AG
Germany

Mary L. Howell
Executive Vice President
Government,
International,
Communications and
Investor Relations
Textron Inc.
U.S.A.

John A. Janitz
President and Chief
Operating Officer
Textron Inc.
U.S.A.

Angelo J. Koo
President and Chief
Operating Officer
China Securities Co., Ltd.
Taiwan

BG Lee Hsien Yang
President and Chief
Executive Officer
Singapore
Telecommunications Ltd.
Singapore

Gero K.H. Meyersiek
Vice President International
Textron Inc.
U.S.A.

**Marcilio Marques
Moreira**
Former Finance Minister
Brazil

Andrzej Olechowski
Chairman
Central European Trust
Poland

**Lord Powell of
Bayswater KCMG**
Director
Jardines Matheson
Holdings Ltd.
United Kingdom

Sir William Purves
Former Chairman
HSBC Holdings plc
United Kingdom

Ratan N. Tata
Chairman
Tata Industries Limited
India

Horst Teltschik
Member of the
Management Board
BMW AG
Germany

Aircraft	Bell Helicopter Textron	Terry D. Stinson Chairman and CEO	Vertical takeoff and landing aircraft for the U.S. government, foreign governments and commercial markets.
	The Cessna Aircraft Company	Gary W. Hay Chief Executive Officer	Light- and mid-size business jets, utility turboprops and single-engine piston aircraft.
Automotive	Textron Automotive	Sam Licavoli Chairman, President and CEO	Automotive interior and exterior trim; fuel systems; functional components.
	CWC Textron	Jed A. Larsen President	Gray iron and ductile iron castings, primarily camshafts for automobile and engine manufacturers.
	Kautex Textron	Joachim V. Hirsch President and CEO	Fuel tank systems and other automotive functional components.
	McCord Winn Textron	William N. White President	Automotive windshield and headlamp washing systems, seating comfort systems and electro-mechanical components; blow-molded modular fluid management systems.
	Micromatic Textron	Michael J. Brennan President	Proprietary machine tools, components and assembly systems for automotive and commercial markets.
	Textron Automotive Trim	William F. Maclean President	Instrument panels, cockpit systems, door trim panels, center consoles, painted fascias and exterior lighting.
Industrial	Textron Fastening Systems	Jack W. Sights Chairman, President and CEO	Engineered fastening systems, components, assemblies and value-added services for the automotive, telecommunications, aerospace, electronics, construction, do-it-yourself and transportation markets.
	Automotive Solutions	Charles R. O'Brien President	Engineered fastening systems, components, and assemblies for the automotive market. Includes: <i>Ring Screw, Elco, Camcar, Mapri, Textron Industries S.A., Textron Fastening Systems-Germany, Siikosim, Peiner, and Boesner.</i>
	Commercial Solutions	George W. Dettloff President	Engineered fastening systems, components, and assemblies for commercial markets. Includes: <i>Avdel, Avdel Cherry, Camcar, Elco, Textron Aerospace Fasteners, Tri-Star, and Aylesbury.</i>
	Advanced Solutions	Gregory W. Layne President	Plastic and metal engineered assemblies for the telecommunications, automotive, computer/business machines, medical and general consumer industries. Includes: <i>InteSys.</i>
	Supply Chain Solutions	Andrew K. Rayburn President	Vendor managed inventory of fasteners and other products for a variety of industries, including automotive and do-it-yourself markets. Includes: <i>Flexalloy</i> and <i>Textron Logistics Company.</i>

Industrial (continued)	Textron Industrial Products	Frank J. Feraco President	Fluid and power systems; golf, turf-care and specialty products; electrical tools and technologies; light construction equipment; and industrial components.
	Textron Fluid and Power	Robert A. Geckle President	Motion control, power transmission, fluid handling products for the industrial, commercial, pharmaceutical, aerospace, transportation and defense industries.
	Textron Motion Control	Robert A. Geckle (Acting President)	Motion control components and systems for industrial, defense and aerospace markets. Includes: <i>David Brown Hydraulics, HR Textron, Energy Manufacturing and Williams Machine and Tool.</i>
	Textron Power Transmission	Anton Elsborg President	Mechanical power transmission components and systems for the industrial, mining, mobile equipment and transportation markets. Includes: <i>Cone Drive Textron, David Brown, Textron Industrial S.p.A., AB Benzlers and Alstom Gears.</i>
	Textron Fluid Handling	Gregory C. Schreiber President	Pumps and systems used in the plastics, chemical, oil and gas, and pharmaceutical industries. Includes: <i>David Brown Union Pumps, Maag Pump Systems and David Brown Guinard Pumps.</i>
	Textron Systems	Richard J. Millman President	Sensor-based, autonomous, real-time control systems and specialty materials for weapon systems, surveillance, agriculture, pharmaceutical and industrial applications.
	Textron Golf, Turf Care And Specialty Products	Frank J. Feraco (Acting President)	Golf cars, lawn and turf-care products, and multi-purpose utility vehicles.
	E-Z-GO Textron	L.T. Walden, Jr. President	Electric- and gasoline-powered golf cars and multi-purpose utility vehicles. Includes: <i>E-Z-GO and Cushman.</i>
	Textron Turf Care And Specialty Products Americas	Philip J. Tralies President	Professional mowing and turf maintenance equipment. Includes: <i>Bob-Cat, Burton, Cushman, Jacobsen, Ransomes, Ryan, Steiner and Brouwer.</i>
	Textron Turf Care And Specialty Products Europe/Asia	Harold C. Pinto Managing Director	Turf-care machinery for the golf, municipal and commercial markets, and multi-purpose utility vehicles and cleaning equipment. Includes: <i>Cushman, E-Z-GO, Jacobsen, Ransomes, Ryan and Iseki.</i>
	Greenlee Textron	Barclay S. Olson President	Products for wire and cable installation, maintenance and testing in residential, commercial and industrial facilities. Includes: <i>Greenlee, Rifocs, Progressive, Datacom, Fairmont and Klauke.</i>

Industrial (continued)	OmniQuip Textron	P. Enoch Stiff President and CEO	Light construction equipment, including telescopic material handlers, aerial work platforms and skid steer loaders.
	Material Handling Technologies	James Wilcox President	Telescopic material handlers. Includes: <i>SKY TRAK</i> and <i>LULL</i> .
	Compact Technologies	James Hook President	Compact construction equipment. Includes: <i>SCAT TRAK</i> .
	Snorkel International	P. Enoch Stiff Acting President	Aerial work platforms. Includes: <i>SNORKELIFT</i> .
	Alliance	Rich Mueller President	Managing and developing strategic partnerships between OmniQuip businesses and key national rental fleets.
Textron Industrial Components			Components for the commercial aerospace and defense industries.
	Textron Lycoming	James A. Koerner President	Piston aircraft engines and replacement parts for the general aviation market.
	Textron Marine & Land Systems	Laszlo G. Bujdoso President	Amphibious air cushion vehicles, special usage lightweight/high strength aluminum marine systems and lightweight armored vehicles for the U.S. and foreign governments and commercial markets.
	Turbine Engine Components Textron	James A. Koerner President	Air and land-based gas turbine engine components for engine OEMs.
Finance	Textron Financial Corporation	Stephen A. Giliotti Chairman, President and CEO	Commercial lending and leasing of Textron products, golf courses, timeshare resorts, aircraft, franchise concepts, telecommunications, floorplanning, factoring, vendor programs, portfolio servicing, asset management, insurance brokerage and syndications.

TEXTRON, TAC, Textron Advanced Solutions, Textron Aerospace Fasteners, Textron Automotive Company, Textron Automotive Solutions, Textron Automotive Trim, Textron Commercial Solutions, Textron Fastening Systems, Textron Financial Corporation, TFC, TFS, Textron Fluid Handling, Textron Fluid and Power Systems, Textron Golf, Turf Care And Specialty Products, Textron Industrial Components, Textron Industrial S.p.A., Textron Industries S.A., Textron Logistics Company, Textron Lycoming, Textron Marine & Land Systems, Textron Motion Control, Textron Power Transmission, Textron Supply Chain Solutions, Textron Systems, AB Benzlers, AB139, Alstom Gears, ASCTec, Avdel, Avdel Cherry, Aylesbury, BA609, Bell 206B Jet Ranger, Bell 206L-4 Long Ranger, Bell 212, Bell 407, Bell 412, Bell 427, Bell 430, Bell AH-1W Super Cobra, Bell AH-1Y, Bell AH-1Z, Bell Boeing V-22 Osprey, Bell Helicopter Textron, Bell OH-58D Kiowa Warrior, Bell TH-67 Trainer, Bell UH-1Y, Boesner, Brouwer, Bunton, Burkland, Camcar, Cam Tool, Cessna 182 Skylane, Cessna Citation, Cessna Caravan 208, Cessna Caravan 208B, Cessna Skyhawk 172, Cessna Skyhawk 172SP, Cessna Stationair 206, Cessna Stationair T206, Cherry, Citation Bravo, Citation CJ1, Citation CJ2, Citation Excel, Citation Sovereign, Citation Ultra, Citation Ultra Encore, Citation VII, Citation X, CitationJet, Cone Drive, Cushman, CWC Textron, Datacom, David Brown, David Brown Guinard Pumps, David Brown Hydraulics, David Brown Union Pumps, Edwards & Associates, Elco, Energy/Williams, E-Z-GO, Fairmont, Flexalloy, Greenlee Textron, HR Textron, InteSys, Jacobsen, Kautex Textron, Klauke, Lull, Maag Italia, Maag Pump Systems, Mapri, McCord Winn Textron, Micromatic Textron, OmniQuip Textron, Optical Boring, Peiner, Progressive Electronics, Ransomes, Rifocs, Ring Screw, RITec, Ryan, Scat Trak, Sky Trak, Snorkel, Steiner, Sukosim, The Cessna Aircraft Company, Tri-Star, Turbine Engine Components Textron, Wildcat, Williams Machine & Tool, Wolverine, Workpro, Xact Products and their related trademark designs and logotypes (and variations of the foregoing) are service/trademarks or trade names of Textron Inc., its subsidiaries, affiliates, or joint ventures.

