

TEXTRON



Powerful Brands



Enterprise Excellence



Compelling Growth

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Financial Highlights

(Dollars in millions)

Operating Results

	2000	1999	change
Revenues	\$13,090	\$11,854	10.4%
Segment profit	\$ 1,410*	\$ 1,201	17.4%
Segment profit margin	10.8%*	10.1%	
Income from continuing operations	\$ 277	\$ 623	(56.0)%
Free cash flow	\$ 463	\$ 499	(7.2)%
Return on invested capital (ROIC)	13.1%*	12.6%	

Common Share Data

Diluted earnings per share:			
From continuing operations	\$ 1.90	\$ 4.05	(53.1)%
From continuing operations before special charges	\$ 4.65*	\$ 4.05	14.8%
Dividends per share	\$ 1.30	\$ 1.30	—

* Excludes \$483 million of pre-tax special charges related to restructuring activities and asset impairment writedowns.

Textron is a \$13 billion global, multi-industry company focused on delivering inspired solutions to our customers and compelling growth and value to our shareholders. In the Aircraft, Automotive, Fastening Systems, Industrial Products and Finance industries, customers around the world know us for our powerful brands such as Bell Helicopter, Cessna Aircraft, Kautex, Lycoming, E-Z-GO and Greenlee, among others. Our market-leading companies are redefining industries and generating compelling growth and profitability through a steadfast commitment to enterprise excellence.

To Our Shareowners, Employees and Customers:

"We have developed a new strategic framework aimed at delivering compelling growth by creating a portfolio of powerful businesses and brands, and by fostering enterprise excellence – with return on invested capital as our compass for guiding the way."

Lewis B. Campbell
Chairman and Chief Executive Officer

2000 was a defining year for Textron, as we proved our ability to manage through turbulent times. We drove organic growth by improving performance of our market-leading businesses and investing in innovation. We also strengthened our portfolio with the addition of 11 new companies. And, we continued to apply the rigorous principles of Textron Quality Management (TQM) to improve our operating performance and margins.

These actions helped our Company offset the impact of the year's challenging operating environment, which included a slowdown in both the U.S. and European economies. Our record performance in 2000 speaks for itself:

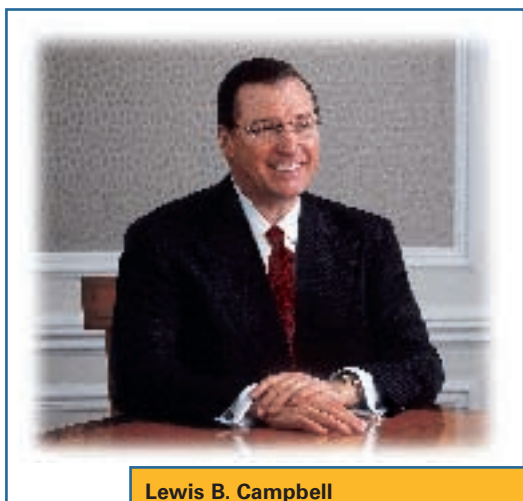
- ▶ Revenues rose to a record \$13.1 billion, a 10 percent increase, marking our fifth consecutive year of double-digit revenue growth.
- ▶ Earnings per share before special charges grew 15 percent this year, marking our 11th year of consistent earnings growth and our eighth year of double-digit increases.
- ▶ Segment profit margins improved by 70 basis points to 10.8 percent as a result of our aggressive cost reduction efforts under TQM.
- ▶ We continued to maintain a strong balance sheet, with debt-to-capital of 32 percent and free cash flow of \$463 million, both within our target range.

Our businesses made great strides in key areas during the year:

- ▶ In our Aircraft segment, Bell Helicopter and Cessna Aircraft continued to define their markets and exceed customer expectations – evidenced by a record backlog of \$8.1 billion.
- ▶ Our Automotive business achieved record results, improving segment margins by 60 basis points despite a rapid decline in North American automotive production at the end of the year. In addition, the segment was honored with numerous quality and innovation awards. We won \$829 million in new business, fueling continued growth for the future.
- ▶ Within Fastening Systems, we've begun to see positive quarter-over-quarter margin trends. During the last 12 months we've significantly strengthened our management team to lead this business to higher operating efficiency and growth.
- ▶ In our Industrial Products segment, our Data-Signal-Voice (DSV) business grew to over \$150 million in annualized sales as a result of acquisition and internal investment. This group is emerging as a strong player in this niche of the broader telecommunications market. And within our Golf and Turf business, we leveraged our brand strength to penetrate new, non-traditional markets with products such as E-Z-GO's new rough-terrain vehicle which serves the rural sportsman and agriculture markets.
- ▶ At Textron Financial, we achieved our 22nd consecutive year of net income growth by focusing on high-growth, niche markets and maintaining industry-setting standards for credit quality in our portfolio.

Despite our outstanding 15 percent earnings growth, we faced a major disappointment in 2000 as our stock price fell 39 percent by year end. We believe that, at today's levels, Textron stock represents a real value. In fact, during 2000 we invested \$358 million to repurchase approximately 6.6 million shares.

Meeting the challenge of an increasingly competitive business environment, we initiated a Company-wide restructuring program in 2000 to optimize operating efficiencies within our Automotive, Fastening Systems and Industrial Products segments. We began to consolidate manufacturing facilities, rationalize product lines, divest non-core units and outsource non-core production. When the restructuring is complete, it will generate annual savings of approximately \$100 million to \$120 million.



Lewis B. Campbell
Chairman and Chief Executive Officer

A New Strategic Framework to Drive Growth

For the past 11 years, Textron has distinguished itself through a profound commitment to consistent growth. Indeed, we have fulfilled this commitment unfailingly, reporting 45 consecutive quarters of increased earnings.

However, it is clear that consistent growth alone is no longer sufficient to make Textron a convincing and compelling investment. As a result, we are committed to transforming Textron using a new strategic framework aimed at delivering compelling growth. We will accomplish this by creating a portfolio of powerful businesses and brands, and by fostering enterprise excellence – with return on invested capital (ROIC) as our compass for guiding the way.

Creating a Portfolio of Powerful Businesses and Brands

Consistent growth has been a Textron hallmark over the past decade and we intend to continue that tradition. Under the tenets of our new strategic framework, we will create a simpler, more focused portfolio of strong businesses with powerful brands. Textron businesses will operate only in *attractive industries* – industries that are growing faster than GDP levels; where competition is based on value and innovation rather than cost; and where leading players have the potential to earn high returns on capital. Increasingly, industry attractiveness will be a key criterion in our portfolio decisions. Our reinvigorated portfolio will be recognized for its substantial brand equity as measured by indices such as market share, competitive differentiation and margins.

Many of the businesses in the Textron portfolio are powerful brands and already demonstrate these characteristics. Bell Helicopter is just one example. Here, the strength of our brand has allowed us to capture leading market share as we invest in tiltrotor technology. And at Cessna Aircraft, we continue to differentiate ourselves with the fastest business jet in the world and a record delivery of three new models in 2000. E-Z-GO and Greenlee have become their customers' first choice by consistently delivering leading-edge products and technologies. And the list continues. We are focused on transitioning all of our businesses into strong, power-brand positions to deliver improved growth across our portfolio.

Achieving Enterprise Excellence

Another strategic imperative is to leverage the potential of the Textron enterprise. Throughout our history, our primary focus has been on optimizing each business individually. We have launched a new initiative called "Enterprise Excellence," which enables us to tap our collective potential to gain greater leverage in areas such as e-business, supply chain management, shared services and global Internet infrastructure. These new efforts will foster organic growth while dramatically reducing costs.

E-business offers tremendous enterprise-wide opportunity for Textron. During the year, we engaged in a range of Internet-related alliances aimed at fostering organic growth and reducing costs. For example, we began to implement universal B2B procurement processes for the purchase of goods and services worldwide. We created AssetControl Corporation, the industry's most comprehensive B2B marketplace specializing in the online resale of surplus industrial equipment, excess inventory and commercial real estate. We also recruited a new senior executive to oversee all aspects of our enterprise-wide supply chain management program.

Using ROIC as Our Key Performance Metric

We believe that ROIC is the best indicator of how well a company deploys shareholder resources. As such, we have adopted ROIC as our primary financial measure of growth and value for our shareholders. It now guides every investment choice. To reflect the importance now placed on ROIC, we have more directly linked executive compensation to our ability to improve this target.

Our goal is to achieve ROIC of at least 400 basis points greater than our weighted average cost of capital. During 2000, we increased ROIC to 13.1 percent from 12.6 percent in 1999 – a respectable improvement but still 190 basis points from our goal. Other key financial objectives through 2005 include:

- ▶ Organic revenue growth of approximately five percent annually;
- ▶ Segment profit margins in excess of 13 percent; and
- ▶ Earnings per share growth averaging 10 percent per year.

A World-Class Management Team Leading Textron's Transformation

In 2000, we fortified our management team with the appointments of Ted French, our new Chief Financial Officer and Terry O'Donnell, our new General Counsel. Complementing our external recruitment efforts, we also filled several key positions by tapping our own internal talent pool.

Looking forward, our new strategic framework will require widespread transformation at Textron. Accordingly, we have formed a Transformation Leadership Team consisting of Textron's top 14 leaders and a number of other key executives. This team is charged with leading the transformation process and translating our new strategic framework into compelling, sustainable performance.

A Case for Compelling Growth

Building on our fundamental strengths, Textron's future has an expanding horizon. We are an experienced industry leader with an increasingly powerful portfolio of businesses. We have a clear strategic framework that will deliver better value for Textron and our shareowners, and we have the right leadership team in place to execute it. Further, our strong balance sheet provides the flexibility to make opportunistic investment decisions. All of this supports our well-deserved reputation for excellence, illustrated by our rankings among *Industry Week's* "World's 100 Best Managed Companies," and *Fortune Magazine's* "Global Most Admired Companies" in 2000.

We believe that our new strategic framework is built on a solid foundation established through a decade of excellent performance. Moreover, our strong performance this past year has prepared Textron to face economic uncertainties and implement the necessary changes to become an even stronger company in the future. These accomplishments, combined with our managerial commitment to succeed, will unlock the power of the Textron enterprise. As we turn the key and open the door to a new Textron in 2001, I would like to extend my warm thanks to our shareowners, employees and customers for your continued loyalty and support.

Sincerely,



Lewis B. Campbell
Chairman and Chief Executive Officer



Textron has earned a reputation for consistency, with 45 straight quarters of earnings improvement. In today's economy, however, we recognize that being consistent is not enough. That's why in 2000, we made a commitment to deliver **compelling growth – long-term, sustainable growth that makes Textron an attractive investment, a preferred business partner, a producer of innovative products and a company where talented people want to work.**

"Return on Invested Capital is our competitive advantage. We focus on building powerful brands and enterprise excellence."



CREATING POWERFUL BRANDS

- ▶ **Build on our existing brand equity:** Use our established brand leadership to grow faster than our markets, increase the value of our products and move into related new markets.
- ▶ **Simplify our portfolio:** Manage only market-leading, global brands and businesses that hold first or second positions in attractive markets.
- ▶ **Focus on "profit adding" versus "profit sustaining" investments:** Invest in higher growth, higher return businesses, with an emphasis on well-branded companies that are leaders in their respective market niches.
- ▶ **Invigorate our brand builders:** Give employees the freedom to find new revenue streams, develop out-of-the-box ideas and bring a passion for excellence to everything we do.

ACHIEVING ENTERPRISE EXCELLENCE

- ▶ **Emphasize Supply Chain Management Program:** Reduce material costs through strategic sourcing that leverages the "power of the whole" versus the "sum of the parts."
- ▶ **Create value through e-business strategies:** Build strategic Internet alliances to increase productivity and reduce costs.
- ▶ **Create centers for shared services:** Actively look for and invest in those areas of expertise where consolidation across the enterprise makes sense.
- ▶ **Assimilate newly acquired companies with greater speed:** Move quickly to generate value from synergies across the enterprise.
- ▶ **Build on the foundation of Textron Quality Management:** Continue to drive the basic principles of Textron Quality Management (TQM). TQM is the institutionalization of professional controls and disciplines in every process and function we perform – from administration to engineering to manufacturing.

embrace as we build a company whose
excellence drive **compelling growth.**"

– Lewis B. Campbell
Chairman and Chief Executive Officer

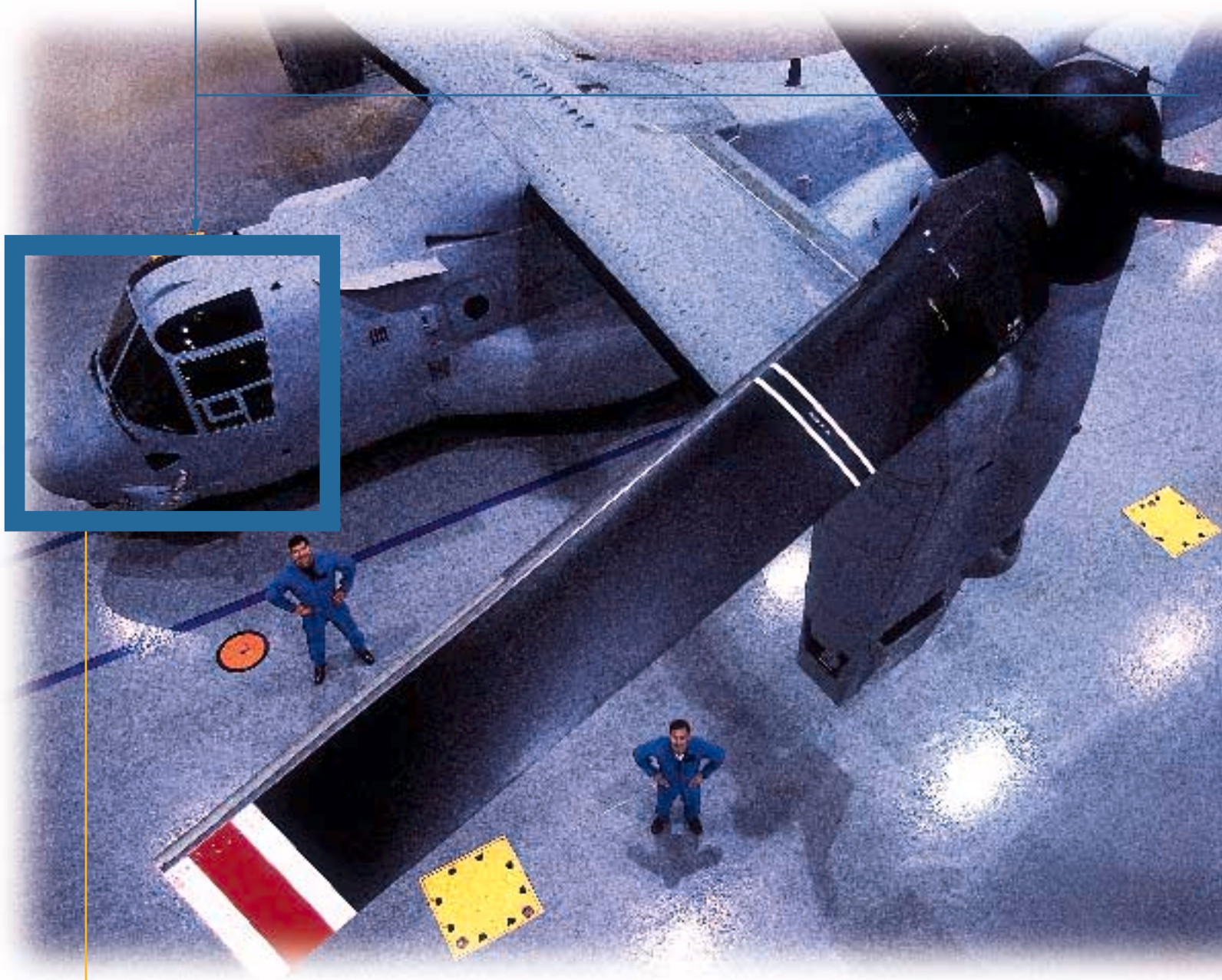


DELIVERING COMPELLING GROWTH

Delivering compelling growth means meeting the following financial goals:

- ▶ ROIC of 400 basis points above our weighted average cost of capital
- ▶ Organic revenue growth of approximately five percent annually
- ▶ Segment profit margins in excess of 13 percent by 2005
- ▶ Earnings per share growth averaging 10 percent per year
- ▶ Debt to capital ratio of 30 percent to 35 percent

Bell Helicopter: Leading the Way in Everything We Do.



Combining the flexibility of a helicopter with the speed and range of a fixed-wing aircraft, the Bell Boeing V-22 provides military services with capabilities never before attainable.



AIRCRAFT

► Bell Helicopter

AUTOMOTIVE

FASTENING SYSTEMS

INDUSTRIAL PRODUCTS

FINANCE

CREATING POWERFUL BRANDS

- Nurture close customer relationships to develop, build and deliver the most reliable, best-value helicopters in the world.
- Provide outstanding service through 170 customer support facilities strategically located around the world. This network is enhanced by VISTA, our new online customer service web site.
- Bring tiltrotor technology to new military and commercial markets.

ACHIEVING ENTERPRISE EXCELLENCE

- Reorganize around core competencies, outsource non-core activities and invest in web technologies to facilitate supply chain management and electronic commerce.
- Institute Six Sigma and continuous flow manufacturing to improve manufacturing efficiency.

Our leadership is indisputable: With Bell helicopters flying in over 100 countries – we are the number one helicopter maker in the world.

We've earned this leadership by being number one in technology ...number one in customer commitment...and number one in operating excellence, as we continually look for ways to better serve our customers.

Bell's technology leadership is embodied in tiltrotor flight. Fifty years ago, with the introduction of the Bell Model 47, the aviation industry established a new pilot-licensing category to accommodate the novelty of helicopter flight. Not since then has another category been established...until now, with the advent of the commercial Bell Agusta 609 Tiltrotor. This proprietary technology creates a unique combination of speed and flexibility. We've already received more than 80 orders for this aircraft. Similarly, we are seeing strong customer support for the military Bell Boeing V-22 Tiltrotor, with seven aircraft delivered to the U.S. Marines in 2000, and 346 additional deliveries expected through 2016.

We've earned our customers' trust by producing the most reliable, best-value helicopters in the world and by forging solid customer partnerships built on credibility and commitment. In 2000, we extended this customer commitment online with VISTA, a new web-based customer service center. Commercial customers can order spare parts and access quotes, warranty and parts information online, 24 hours a day.

Our continuous focus on operating excellence led us to initiate a multi-year program to dramatically improve our operations. We've reorganized our business around core competencies, outsourced non-core activities and invested resources in web technologies to facilitate supply chain management and electronic commerce.



AIRCRAFT

► Cessna Aircraft

AUTOMOTIVE

FASTENING SYSTEMS

INDUSTRIAL PRODUCTS

FINANCE



Three new Citation business jets FAA-certified in 2000...order backlog at \$6.6 billion...a record 415 new jet orders. The numbers tell a compelling story of Cessna's leadership – a story which has as its foundation Cessna's unwavering commitment to provide the best value and support to customers.

Delivering on that commitment means offering our customers aircraft designed to meet their needs. In 2000, with the certification and delivery of three new Citation business jet models – the Citation CJ1, CJ2 and Encore – we once again fulfilled our promise. It was an unprecedented new model roll-out rate for Cessna and for the industry. And we're not stopping there. The mid-size Citation Sovereign – scheduled for delivery in 2004 – will re-define the mid-size market.

To help Cessna deliver its brand promise in the future, we have intensified our focus on Lean Manufacturing, Process Based Management and Six Sigma performance tools through our Cessna 2020 Program. And with the www.Cessna.com web site, our industry-leading CPDXpress online worldwide parts distribution system, and our web-enabled supply chain management program, enterprise excellence is adding value to our global product and service offerings.

Now, we're taking Cessna's brand leadership into adjacent, high-growth markets such as the fractional business jet ownership segment. Together with TAG Aviation – the world leader in the management of corporate aircraft – Cessna created a new company, CitationShares. This new venture enables customers to enjoy the convenience and flexibility of owning a Citation business jet, combined with an unprecedented level of customer service – all for a fraction of the cost!



Cessna Aircraft: Delivering on the Promise of Our Brand.



Delivering on Cessna's promise of steadfast commitment to customers, CitationShares was created to offer an affordable alternative for people who want to enjoy the convenience and flexibility of owning a Citation business jet.

Textron Automotive: Driving Growth through Integration and Innovation.



At our new Advanced Design and Integration Center, Textron Automotive employees work side by side with customers to develop inspired solutions, long-term concepts and cost-reduction ideas.



AIRCRAFT

AUTOMOTIVE

FASTENING SYSTEMS

INDUSTRIAL PRODUCTS

FINANCE

CREATING POWERFUL BRANDS

- ▶ Forge close relationships with global Original Equipment Manufacturers and offer them an integrated systems approach.
- ▶ Focus on high-value, integrated components, such as cockpit and plastic fuel tank systems – areas where we have leadership positions.
- ▶ Combine technology with craftsmanship to enhance consumers' driving experience.

ACHIEVING ENTERPRISE EXCELLENCE

- ▶ Establish "virtual" relationships with other automotive suppliers to provide cost savings and efficient solutions to customers.
- ▶ Market vast intellectual property to generate new revenue streams.
- ▶ Continue to attack costs, defects per million and inventory turns through Textron Quality Management.

Textron Automotive has achieved strong organic growth and market-leading positions in vehicle interiors and fuel systems.

Automakers are shifting system design and engineering responsibility to suppliers – creating new opportunities for us to add value and grow profits. Today, at Automotive Trim, we supply complete, fully assembled cockpits – not just instrument panels. And at Kautex, we supply total fuel systems, right down to the fuel tank. Our status as a full-service supplier stems from a strategy of virtual integration – establishing partnerships with some of the world's leading automotive manufacturers and suppliers. These alliances broaden our technology base, systems capabilities and market reach, while keeping the company lean and flexible.

At our new Advanced Design and Integration Center in Michigan, employees work side by side with our customers' engineers using linked computer systems. Together they collaborate on advanced designs for future interiors that incorporate new technologies and reflect consumers' changing preferences.

With every new vehicle program, our interior specialists explore new uses of material, color, texture, aroma and sound to create unique, integrated vehicle environments. Through strategic alliances and key supplier partnerships, we can combine interior components, maximize space and save weight – all while enhancing convenience and appeal for drivers and passengers.

This kind of innovative thinking is a requirement in the competitive auto industry. And now we've started to license the valuable intellectual assets that result from our commitment to product and process innovation – creating an entirely new revenue source for our company. The first step: licensing our proprietary IntelliMold injection molding technology to companies in other industries.



AIRCRAFT

AUTOMOTIVE

FASTENING SYSTEMS

INDUSTRIAL PRODUCTS

FINANCE



With facilities in 19 countries, Textron Fastening Systems is a global powerhouse of powerful brands, such as Avdel, Cherry, Camcar and Elco. As the worldwide leader in fastening systems patents, we are committed to providing innovative fastening solutions to our customers.

To stay number one, we offer our global Original Equipment Manufacturers (OEMs) a comprehensive fastening solutions package to meet their demand for suppliers who can “do it all.” Our innovative plant provider programs allow OEMs to tap into a single source for their fastening systems requirements – saving significant amounts of time and money.

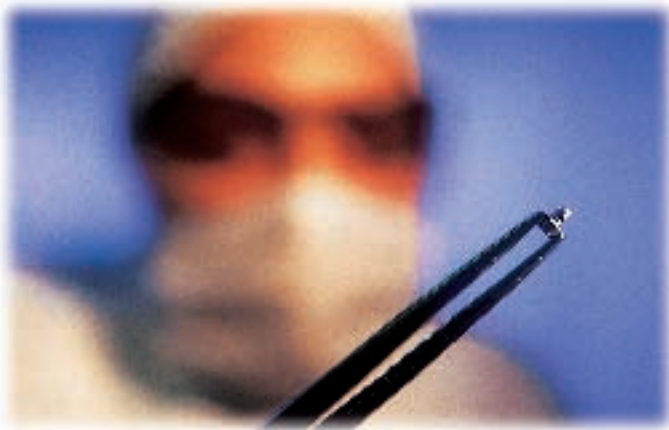
We also develop proprietary technologies that bring cost savings to our customers. Textron’s Sükosim – a strong brand in the European automotive marketplace – has master-minded an innovative cage nut that allows for greater flexibility and better fit and finish during the auto assembly process. We are now bringing this technology to our customers in North America.

And we are developing proprietary business models – like “Internet Manufacturing.” This model allows us to produce personalized cellular phone covers via a responsive injection molding process. Consumers can transmit a digital picture to a web site that is then sent electronically to Textron Fastening Systems. We transfer the image to the component and deliver it to the consumer – an unprecedented consumer-to-business approach applicable to a variety of consumer products.

We benchmark best practices and continuously upgrade our capabilities and performance for our customers. We will meet our goals through a focus on agility, innovation, operational excellence and worldwide teamwork.



Fastening Systems: Creating System Solutions through Innovation.



Textron Fastening Systems (TFS) stays well connected to customers by delivering innovative solutions and proprietary technologies. Novel ideas include personalized cellular phone covers (above). TFS receives digital images electronically from the consumer's desktop, transfers the image to the phone cover and delivers the final product directly back to the consumer.

TFS also creates micro fasteners (left) that meet critical requirements for the assembly of computer hard-disk-drive components.

Industrial Products: Taking Our Strong Brands to Exciting New Markets.



Electrical contractors look to Textron's Data-Signal-Voice group to help them install, test and troubleshoot electrical wires and cables – the infrastructure for today's communications.

In the golf market, the E-Z-GO name is synonymous with quality, value and versatility. With these qualities as a competitive edge, we are able to develop new products like our rough-terrain vehicle which serves the rural sportsman and agriculture markets.





AIRCRAFT

AUTOMOTIVE

FASTENING SYSTEMS

INDUSTRIAL PRODUCTS

FINANCE

CREATING POWERFUL BRANDS

- ▶ Cross sell key brands on a global basis – particularly within Golf and Turf – to extend the reach and breadth of our product offering.
- ▶ Create alliances with other well-established companies to enhance the value proposition of our products.
- ▶ Rely on existing brand strength and reputation to leverage new and complementary high-growth markets.

ACHIEVING ENTERPRISE EXCELLENCE

- ▶ Streamline global manufacturing facilities by consolidating facilities, rationalizing product lines and outsourcing non-core production at Fluid and Power, Golf and Turf and OmniQuip.
- ▶ Maximize value from recent Greenlee, Fluid and Power and Golf and Turf acquisitions. Effectively integrate and achieve synergies through cross selling and supply chain leverage.
- ▶ Drive costs down relentlessly by applying Textron Quality Management principles.

At Textron Industrial Products, we're creating compelling growth by taking our strong brands into new and complementary markets.

At Greenlee, this means developing tools and technologies to install, test and measure the performance of copper and fiber-optic networks – the very infrastructure of the booming telecommunications industry. With Internet traffic doubling every six months, the stakes are high to build a reliable network that can accommodate the demand. As high-speed Internet service to homes and businesses expands, electrical contractors need Greenlee's data communications and telecommunications test and installation equipment. Building on Greenlee's strong presence, we are investing in this business through acquisitions and aggressive R&D programs – growing the Data-Signal-Voice business to over \$150 million in annualized sales.

We are also bringing our brands into attractive niche markets and developing strategic relationships to increase revenues in core markets. E-Z-GO, the number one golf car in the world, is teaming with ProLink® to integrate Global Positioning Systems technology (GPS) on E-Z-GO golf cars around the world, increasing the value proposition of our product line. And through innovative engineering and design, the rugged, time-tested E-Z-GO Workhorse utility vehicle has been transformed into an exciting new rough-terrain trail vehicle serving the rural sportsman and agriculture markets.

Our competitiveness is sharpened by our focus on enterprise excellence. This means leveraging Textron's purchasing power to improve direct material costs for items like motors, engines and castings; consolidating underutilized facilities and reducing cycle times.



AIRCRAFT

AUTOMOTIVE

FASTENING SYSTEMS

INDUSTRIAL PRODUCTS

FINANCE

CREATING POWERFUL BRANDS

- ▶ Bring market knowledge that is second to none to every lending arrangement.
- ▶ Offer customers a comprehensive package of lending solutions ranging from franchise and floorplan financing to golf course and aircraft financing.

ACHIEVING ENTERPRISE EXCELLENCE

- ▶ Maintain the portfolio quality and discipline that has become the hallmark of Textron Financial.
- ▶ Work closely with other Textron businesses – like Aircraft and Golf and Turf – to offer customers financing for their Textron purchases.
- ▶ Train, reward and recognize our people as the key ingredient to our success.

In a year of widespread consolidation in commercial finance, Textron Financial rose above the fray to achieve a record performance by any measure: a net operating profit increase of 48 percent, our 22nd consecutive year of income growth, and an increase in managed assets to \$8 billion at year end.

These accomplishments rest squarely on our ability to understand our customers' needs, bring extensive product knowledge to every lending situation and offer sound and comprehensive financing solutions – with speed and precision. Companies like ZTEL – a pioneer in consumer telecommunications – need to move swiftly to keep pace with changes in technology and consumer appetites. ZTEL turned to RFC Capital, a subsidiary of Textron Financial, knowing that our team would find just the right financing solution – one that was scalable for ZTEL's immediate and longer-term growth needs.

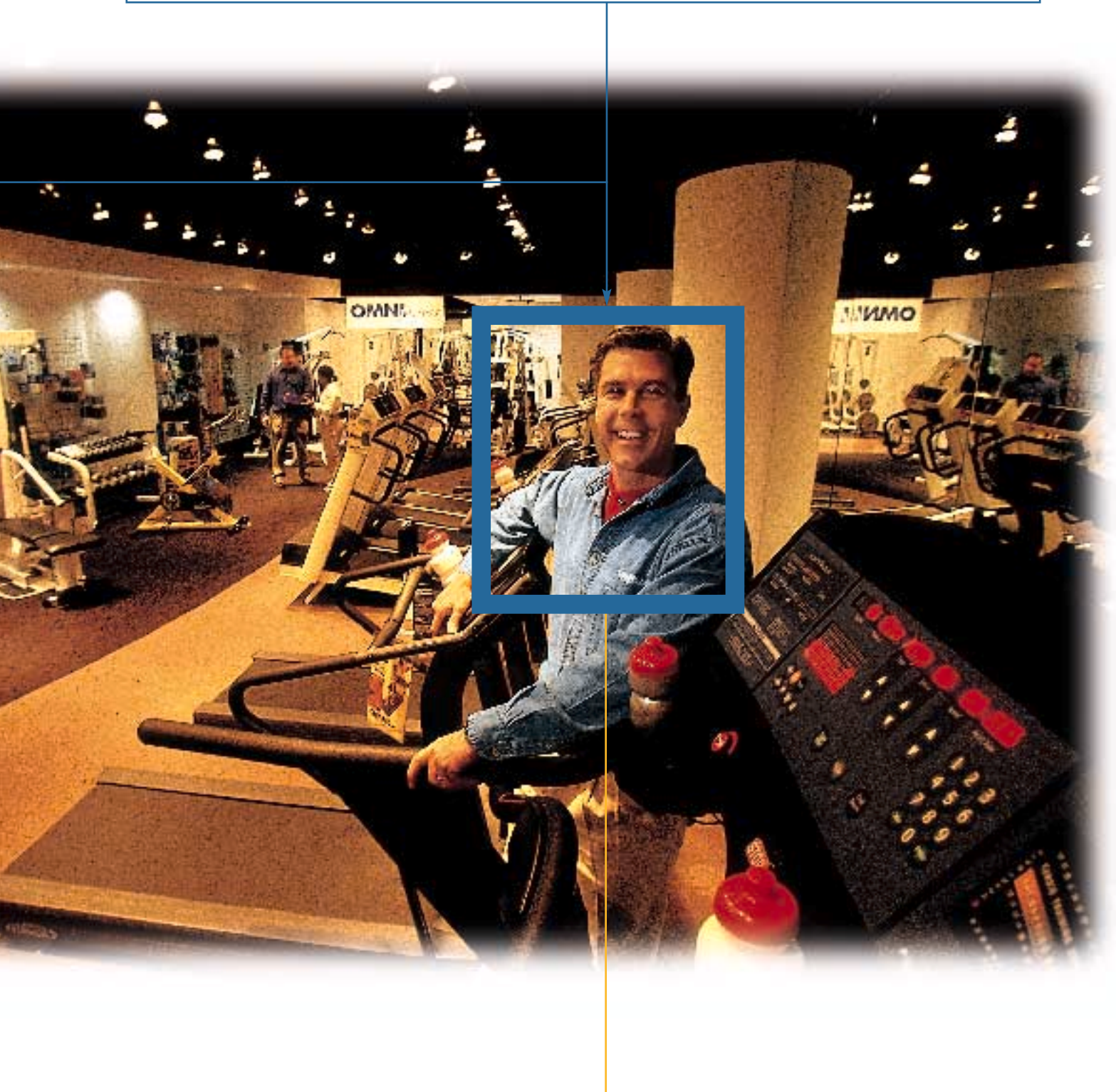
We also realigned our businesses to provide more market-focused solutions to help our customers compete effectively in their markets. Take OmniFitness for example, where we leveraged an existing vendor program relationship to provide an integrated floorplan financing solution to OmniFitness' dealers and distributors.

Because we appreciate the impact of e-business on the world of commercial finance, we are also building partnerships with key Internet-based companies to expand our reach into new markets and develop ways to service our customers more efficiently. And we launched AssetControl Corporation, a business-to-business e-commerce marketplace for the management and disposition of excess assets.

Our success continues to leverage a solid foundation of disciplined risk management, a diversified portfolio mix and an outstanding team of employees.



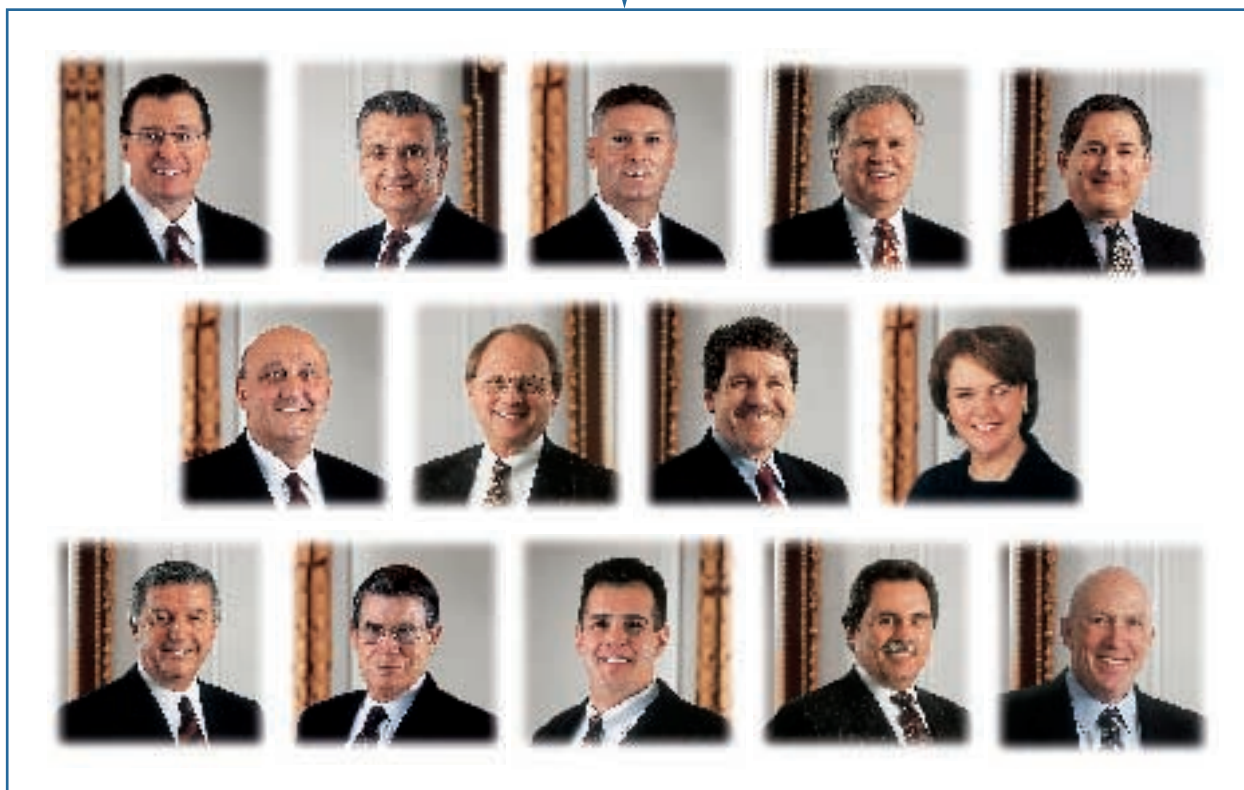
Textron Financial: Understanding Our Customers. Knowing Their Markets.



Satisfied customers – like this OmniFitness store manager – rely on Textron Financial to provide unique and comprehensive commercial lending solutions to meet their needs – with speed and precision.

Textron Management Team

SENIOR MANAGEMENT



Left to right: **Lewis B. Campbell***, Chairman and Chief Executive Officer, Textron Inc. **John A. Janitz***, President and Chief Operating Officer, Textron Inc. **Kenneth C. Bohlen***, Executive Vice President and Chief Innovation Officer, Textron Inc. **John D. Butler***, Executive Vice President Administration and Chief Human Resources Officer, Textron Inc. **Ted R. French***, Executive Vice President and Chief Financial Officer, Textron Inc.



Left to right: **Stephen A. Giliotti**, Chairman, President and Chief Executive Officer, Textron Financial Corporation **Gary W. Hay**, Chief Executive Officer, Cessna Aircraft Company **Joachim V. Hirsch**, Chairman, President and Chief Executive Officer, Textron Fastening Systems **Mary L. Howell***, Executive Vice President Government, Strategy Development and International, Communications and Investor Relations, Textron Inc.



Left to right: **Sam Licavoli**, Chairman, President and Chief Executive Officer, Textron Industrial Products **Terrence O'Donnell***, Executive Vice President and General Counsel, Textron Inc. **Edward H. Orzetti****, Vice President, Enterprise-Wide Initiatives, Textron Inc. **Jack W. Sights**, Chairman, President and Chief Executive Officer, Textron Automotive Company **Terry D. Stinson**, Chairman and Chief Executive Officer, Bell Helicopter

* Corporate Officer and member of the Management Committee

** Corporate Officer

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Of Counsel
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MORWAL Investments

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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

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Frederick K. Butler
Vice President Business Ethics and
Corporate Secretary

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John R. Curran
Vice President Mergers and
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Vice President Marketing, Strategy
and Innovation
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Vice President and Assistant Controller

Arnold M. Friedman
Vice President and Deputy General
Counsel

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

Mary F. Lovejoy
Vice President and Treasurer

Frank W. McNally
Vice President Labor and Employee
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George E. Metzger
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and Benefits

Gero K. H. Meyersiek
Vice President Strategy Development
and International

Freda M. Peters
Vice President Executive Development

Karen A. Quinn-Quintin
Vice President Human Resources
Textron Industrial Products

Norman B. Richter
Vice President Taxes

Daniel L. Shaffer
Vice President Internal Audit

Richard F. Smith
Vice President Government Affairs

Douglas R. Wilburne
Vice President Communications
and Investor Relations

Richard L. Yates
Vice President and Controller

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

Jean Gandois
President
Bureau de Jean Gandois, 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,
Strategy Development and
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 Strategy Development
and International
Textron Inc., U.S.A.

Andrzej Olechowski
Former Foreign Minister, Poland

Lord Powell of Bayswater KCMG
Former Foreign Affairs and
Defense Advisor to Prime
Minister Margaret Thatcher,
United Kingdom

Sir William Purves
Former Chairman
HSBC Holdings plc, United Kingdom

Horst Teltschik
Former Member of the
Management Board
BMW AG, Germany

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Business Segment Data

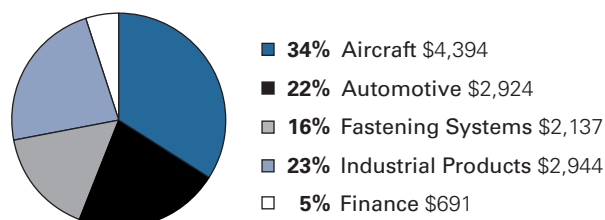
For a description of the businesses comprising each segment, see pages 61 through 63.

(In millions)	Revenues			Segment Profit*			Segment Profit Margins		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
Aircraft	\$ 4,394	\$ 4,019	\$3,380	\$ 451	\$ 362	\$ 338	10.3%	9.0%	10.0%
Automotive	2,924	2,868	2,356	244	220	171	8.3	7.7	7.3
Fastening Systems	2,137	2,082	1,758	182	190	186	8.5	9.1	10.6
Industrial Products	2,944	2,422	2,013	343	301	232	11.7	12.4	11.5
Finance	691	463	367	190	128	113	27.5	27.6	30.8
	\$13,090	\$11,854	\$9,874	\$1,410	\$1,201	\$1,040	10.8%	10.1%	10.5%
Special charges, net				(483)	1	(87)			
Gain on sale of division				—	—	97			
Segment operating income				927	1,202	1,050			
Corporate expenses and other, net				(164)	(143)	(141)			
Interest income				6	27	—			
Interest expense				(158)	(56)	(146)			
Income from continuing operations before income taxes**				\$ 611	\$1,030	\$ 763			

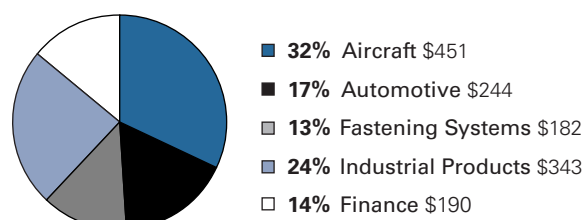
*Segment profit represents the measurement used by Textron to evaluate performance for decision making purposes. Segment profit for manufacturing segments does not include interest, certain corporate expenses, special charges and gains and losses from the disposition of significant business units. The measurement for the Finance segment includes interest income, interest expense and distributions on preferred securities of Finance subsidiary trust.

**Before distributions on preferred securities of manufacturing subsidiary trust.

2000 Revenues



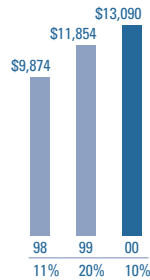
2000 Segment Profit



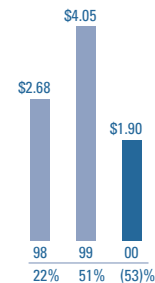
Management's Discussion and Analysis

Results of Operations

Revenues



Earnings per Share*



*Income from continuing operations – diluted

Textron Inc.

2000 vs. 1999

- ▶ Income from continuing operations for 2000 was \$277 million, down from the 1999 amount of \$623 million. Diluted earnings per share from continuing operations were \$1.90 and \$4.05 for 2000 and 1999, respectively. Textron recognized special charges of \$483 million in 2000 or \$2.75 per share after income taxes. Revenues increased 10% to \$13.1 billion in 2000 from \$11.9 billion in 1999.
- ▶ Special charges of \$483 million (pre-tax) in 2000 include accruable restructuring charges of \$16 million, associated with the modernization and consolidation of manufacturing facilities in the Automotive and Industrial Products segments, \$350 million for goodwill and fixed asset impairment and \$117 million for the write-down of the Company's e-business investment portfolio. The discussion that follows refers to results before special charges unless otherwise noted.
- ▶ Textron reorganized its management reporting structure into five segments, separately reporting Fastening Systems and Industrial Products, which previously comprised the Industrial segment. Additionally, management responsibility for one division previously reported in the Automotive segment has been transferred to the Industrial Products segment. Prior periods have been restated to reflect these changes.
- ▶ Segment profit of \$1.410 billion increased 17% from \$1.201 billion in 1999, as a result of continued improved financial results in Aircraft, Automotive, Industrial Products and Finance. Segment profit in Fastening Systems decreased slightly. Segment profit represents the measurement used by Textron to evaluate performance for decision making purposes and for manufacturing segments does not include interest, certain corporate expenses, special charges and gains and losses from the disposition of significant business units. The measurement for the Finance segment includes interest income, interest expense and distributions on preferred securities of Finance subsidiary trust.
- ▶ Segment profit reflected gains associated with the sale of several small non-core product lines and joint ventures, and fixed assets in the manufacturing segments and the benefit of higher income related to the syndication and securitization of several portfolios in the Finance segment. Additionally, segment profit benefited from higher income related to retirement benefits, reflecting a higher expected return on plan assets and revised actuarial estimates.
- ▶ Total segment margin increased to 10.8% in 2000 from 10.1% in 1999, due primarily to higher Aircraft and Automotive margins.
- ▶ Effective in the fourth quarter 2000, Textron reclassified certain items in its income statement and restated revenues and costs for prior periods. A substantial portion of the reclassifications related to the adoption of Emerging Issues Task Force (EITF) consensus on Issue No. 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent," whereby used aircraft sales are now reported as revenues; previously they were netted against costs. Prior period financial information has been reclassified to conform with the current year presentation. The result of the reclassifications was to increase revenue and costs by \$254 million, \$275 million and \$191 million for 2000, 1999 and 1998, respectively. There was no effect on income from continuing operations or net income.
- ▶ Effective January 2000, Textron implemented the EITF consensus on Issue 99-5 "Accounting for Pre-Production Costs Related to Long Term Supply Arrangements." As a result of this, in the first quarter 2000, Textron reported a cumulative effect of change in accounting principle of \$59 million (net of tax), or approximately \$0.41 per share related to the adoption of this consensus.
- ▶ Textron completed the sale of Avco Financial Services (AFS) to Associates First Capital Corporation for \$3.9 billion in cash on January 6, 1999 and recorded an after-tax gain of \$1.65 billion or \$10.70 per share. Textron also recorded an extraordinary loss of \$43 million (net of tax) or \$.27 per share on the early retirement of debt in 1999. Net income (including the cumulative effect of the change

in accounting principle and the special charges in 2000) was \$218 million or \$1.49 per share compared to 1999 net income of \$2.23 billion or \$14.48 per share, which included the gain on the sale of AFS and the extraordinary loss.

- ▶ Interest income and expense – the net interest expense for Textron Manufacturing increased \$123 million due to the re-leveraging that occurred following the divestiture of AFS. Interest expense increased \$102 million due to a higher level of average debt as a result of acquisitions and share repurchases. Interest income for 2000 of \$6 million was related to the settlement of a note receivable compared to income of \$27 million realized in 1999 as a result of its net investment position.
- ▶ Corporate expenses and other, net increased \$21 million due primarily to the impact of organizational changes in the first and fourth quarters and costs associated with strategic and e-business initiatives in 2000, partially offset by higher income related to retirement benefits.
- ▶ Income taxes – the effective income tax rate for 2000 was 50.4% primarily due to the impact of the non-tax deductibility of goodwill written off in the fourth quarter. The impact of the special charges on the effective tax rate was 14.9%. Excluding the tax impact of the special charges, the effective tax rate was 35.5% for 2000 compared to 37.0% in 1999. This reduction is primarily due to the benefit of tax planning initiatives being realized in 2000 and the tax benefit of a contribution of shares granted to Textron in 1999 from Manulife Financial Corporation's initial public offering on their demutualization of Manufacturers Life Insurance Company to the Textron Charitable Trust.
- ▶ As a result of the softening economy, especially in the automotive industry, Textron anticipates slower growth rates for 2001, particularly in the first quarter. To strengthen operating efficiencies and better align its operations with current economic and market conditions in its Automotive, Fastening Systems and Industrial Products segments, Textron expects to incur additional restructuring charges over the next four to five quarters as the restructuring efforts are implemented.

1999 vs. 1998

- ▶ Income from continuing operations in 1999 of \$623 million was up 41% from \$443 million in 1998. Diluted earnings per share from continuing operations in 1999 of \$4.05 were up 51% from \$2.68 in 1998. Revenues increased 20% to \$11.9 billion in 1999 from \$9.9 billion in 1998.
- ▶ Segment profit of Textron's five 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 margin decreased to 10.1% in 1999 from 10.5% in 1998, due primarily to lower Aircraft margins and the impact of lower margin acquisitions.
- ▶ Net income in 1999, including the gain on the sale of AFS and the extraordinary loss, was \$2.23 billion or \$14.48 per share, compared to \$608 million in 1998 or \$3.68 per share, which included \$165 million of discontinued operating income from AFS.
- ▶ 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.

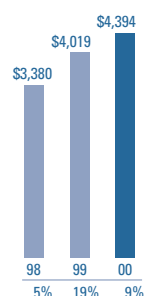
Aircraft

2000 vs. 1999

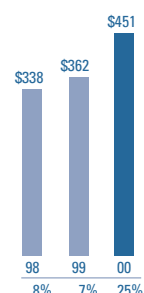
The Aircraft segment's revenues and profit increased \$375 million (9%) and \$89 million (25%), respectively, achieving a 130 basis point improvement in margin.

- ▶ Cessna Aircraft's revenues increased \$342 million due to higher sales of business jets, primarily the Citation Excel and the Citation Bravo, and increased spares and service revenues. Its profit increased as a result of the higher sales and improved operating performance, partially offset by increased engineering expense related to the Sovereign business jet.

Aircraft Revenues



Segment Profit



- ▶ Bell Helicopter's revenues increased \$33 million as higher foreign military sales (\$54 million), higher commercial spares sales (\$21 million) and higher revenues on the V-22 Osprey tiltrotor aircraft production contract (\$41 million) were partially offset by lower sales of commercial and other military helicopters (\$71 million). Bell's profit increased due to the higher revenues and higher income related to retirement benefits. This favorable impact was partially offset by the lower recognition into income (\$30 million in 2000 vs. \$37 million in 1999) of cash received from a joint venture partner in 1998 on the formation of the BA609 program. Product development expense for 2000 increased slightly as higher spending on the BA609 commercial tiltrotor aircraft (net of the benefit of the contribution from a new supplier for the BA609 fuselage) was offset by lower spending on other programs.

The Department of Defense is investigating a recent mishap of the V-22 tiltrotor aircraft. Pending the results of the investigation, the U.S. Marine Corps has temporarily restricted the use of their V-22 aircraft. While current production continues under a low rate production contract, approval of a full rate production contract by the Department of Defense will probably be delayed pending the outcome of the investigation. During 2000, the Company recognized total revenue of \$432 million under the V-22 program.

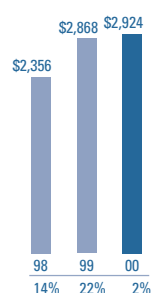
1999 vs. 1998

The Aircraft segment's revenues and profit increased \$639 million (19%) and \$24 million (7%), respectively, due to higher results at Cessna Aircraft.

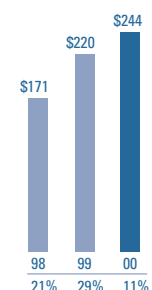
- ▶ Cessna Aircraft's revenues increased \$523 million as a result of higher sales of business jets, primarily the Citation X and the Citation Excel, higher single-engine piston aircraft sales and increased spares and service revenues. Its profit increased as a result of the higher sales, partially offset 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 \$116 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 profit 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 1998 on the formation of a joint venture on the BA609 program, 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.

Automotive Revenues



Segment Profit



Automotive

2000 vs. 1999

The Automotive segment's revenues increased \$56 million (2%) while profit increased \$24 million (11%) resulting in a 60 basis point increase in margin. These results were achieved despite North American automotive original equipment manufacturer (OEM) production decreases in the fourth quarter 2000.

- ▶ Trim revenues increased \$46 million due to the contribution from acquisitions, primarily the Plaspar and the Textron Automotive Italia, S.r.l. joint venture (formerly referred to as Textron Breed Automotive, S.r.l) and major new program launches, partially offset by customer price reductions. Profit increased 9% due to improved operating performance and the contribution from acquisitions partially offset by higher petroleum-based resin prices, customer price reductions and higher engineering and design expense to support future programs.
- ▶ Fuel Systems and Functional Components revenues increased \$10 million as a result of higher sales volume at Kautex, partially offset by the negative impact of foreign exchange and customer price reductions. Profit increased 14% due to improved operating performance at Kautex and a gain from the sale of two non-core product lines, partially offset by the unfavorable impact of foreign exchange, customer price reductions and higher petroleum-based resin prices.

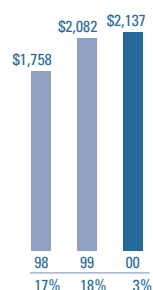
In order to address performance issues in certain businesses and better align itself with current economic and market conditions, Textron has approved restructuring programs at Trim and in the Fuel Systems and Functional Components businesses.

1999 vs. 1998

The Automotive segment's revenues increased \$512 million (22%), while profit increased \$49 million (29%).

- ▶ Trim revenues increased \$315 million (21%) 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 Automotive Italia, S.r.l. joint venture and the Midland Industrial Plastics acquisition. Profit increased 25% due to the higher sales, partially offset by customer price reductions.
- ▶ Fuel Systems and Functional Components revenues increased \$197 million (23%) due primarily to higher North American market penetration by Kautex. Despite customer price reductions, profit increased 37% due to higher sales and improved operating performance at Kautex.

Fastening Systems Revenues



Segment Profit



Fastening Systems

2000 vs. 1999

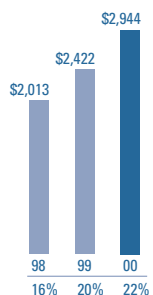
The Fastening Systems segment's revenues increased \$55 million (3%), while profit decreased \$8 million (4%). Revenues increased due to the contribution from acquisitions, primarily InteSys Technologies. This increase in revenues was partially offset by the unfavorable impact of foreign exchange in its European operations, lower volume in the heavy truck industry and customer price reductions. Segment profit decreased as improved operating performance at Commercial Solutions and Automotive Solutions and the benefit from acquisitions were offset by the unfavorable impact of customer price reductions, foreign exchange and lower volume in the heavy truck industry. As discussed on page 25 under "Special Charges, Net", Textron recorded a \$128 million goodwill impairment write-down related to Fastening Systems.

In order to address performance issues in certain businesses and better align itself with current economic and market conditions, Textron has approved restructuring programs at Advanced Solutions, Automotive Solutions and Commercial Solutions.

1999 vs. 1998

The Fastening Systems segment's revenues and profit increased \$324 million (18%) and \$4 million (2%), respectively. Revenues increased as a result of the contribution from acquisitions, primarily Flexalloy, Ring Screw Works, Peiner, Sükosim and InteSys Technologies, partially offset by the unfavorable impact of foreign exchange in its European operations. Its profit 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 profit at an automotive plant related to economic conditions in Brazil and non-recurring costs associated with restructuring programs started in 1999.

Industrial Products Revenues

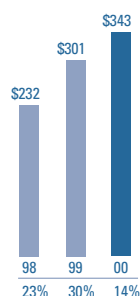


Industrial Products

2000 vs. 1999

The Industrial Products segment's revenues and profit increased \$522 million (22%) and \$42 million (14%), respectively. Revenues increased as a result of the contribution from acquisitions, primarily OmniQuip, and higher organic sales at Golf and Turf, Textron Marine & Land Systems, Greenlee, Textron Motion Control and Textron Lycoming. This increase in revenues was partially offset by lower revenues at Textron Systems, due to a change in contract mix, and lower demand at Textron Power Transmission, Textron Fluid Handling Products and Turbine Engine Components Textron (TECT). Profit increased primarily as a result of the contribution from acquisitions, higher income related to retirement benefits and improved margins at Textron Motion Control and Textron Systems. This

Industrial Products Segment Profit



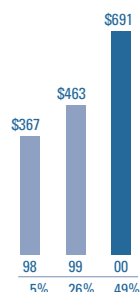
increase in profit was partially offset by lower organic sales and unfavorable operating performance at OmniQuip, TECT and Textron Fluid Handling Products. During the fourth quarter 2000, Textron recorded a write-down of TECT goodwill for \$178 million as discussed below under the heading "Special Charges, Net."

In order to address performance issues in certain businesses and better align itself with current economic and market conditions, Textron has approved restructuring programs at OmniQuip, Greenlee, Golf and Turf, Textron Motion Control, Textron Power Transmission, Textron Fluid Handling Products and Textron Systems.

1999 vs. 1998

The Industrial Products segment revenues and profit increased \$409 million (20%) and \$69 million (30%), respectively. Revenues increased as a result of the contribution from acquisitions, primarily David Brown, OmniQuip, Ransomes and Progressive Electronics, and higher organic sales at Golf and Turf and Greenlee. Its profit increased as a result of the higher sales combined with strong margin improvement at Golf and Turf and Textron Systems, and a gain on the sale of a product line. These benefits were partially offset by lower organic sales at Textron Power Transmission, reflecting a decline in the worldwide mechanical power transmission market, and TECT due to lower customer requirements, and the impact of the divestiture of Fuel Systems in 1998. In addition, 1998 results were depressed by a one-month strike at a Golf and Turf plant.

Finance Revenues



Finance

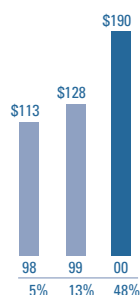
2000 vs. 1999

The Finance segment's revenues increased \$228 million (49%) while profit increased \$62 million (48%). Revenues increased due to a higher level of average receivables (\$5.782 billion in 2000 vs. \$4.252 billion in 1999), reflecting a balance of both acquisitive and organic growth, a higher yield on receivables and higher syndication and securitization income (\$34 million in 2000 vs. \$14 million in 1999). Segment profit increased as the benefit of the higher revenues was partially offset by higher expenses related to managed receivables and a higher provision for loan losses.

1999 vs. 1998

The Finance segment's revenues increased \$96 million (26%), while profit 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. Profit 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.

Segment Profit



Special Charges, Net

As discussed in Note 17, Textron recorded pre-tax charges totaling \$483 million in 2000. The charges include restructuring charges of \$16 million associated with the modernization and consolidation of manufacturing facilities in the Automotive (\$1 million) and Industrial Products (\$15 million) segments, \$350 million of asset impairment charges in the Industrial Products, Fastening Systems and Automotive segments, and \$117 million for the write-down of the Company's e-business investment portfolio.

In the fourth quarter 2000, Textron finalized its 2000 restructuring program to strengthen operating efficiencies and better align its operations with current economic and market conditions in its Automotive, Fastening Systems and Industrial Products segments. The Company expects to incur restructuring charges over the next four to five quarters as the restructuring efforts are implemented. Severance costs will be included in the restructuring charges and are based upon established policies and practices. The total cash cost of the program, before savings, is expected to be

between \$140 and \$160 million which will be incurred primarily during 2001. Ongoing annualized savings are expected to be \$100 to \$120 million, beginning in 2002, with \$50 to \$70 million realized in 2001. Substantially all planned actions will be executed by year-end 2001, with an estimated net reduction in the global workforce of over 3,600.

In conjunction with the initiation of the 2000 restructuring program and the Company's fourth quarter multi-year financial planning process, management identified certain indicators of potential impairment of long-lived assets including goodwill. As a result, the Company performed an impairment review which identified impaired goodwill of \$194 million in Industrial Products, \$128 million in Fastening Systems and \$27 million in Automotive, as well as impaired fixed assets of \$1 million in Automotive resulting in an aggregate write-down of \$350 million. The largest portions of the goodwill charge were at TECT (\$178 million) and Flexalloy (\$96 million). Key impairment indicators during 2000 with respect to TECT, a manufacturer of air and land-based gas turbine engines components and air-frame structures, were deteriorating margins and its inability to generate new contracts combined with declining sales from its largest customer representing approximately 50% of TECT's total revenues. Key indicators for Flexalloy, a vendor-managed inventory company, serving primarily the heavy truck industry within Fastening Systems, were its performance against plan and the negative effect on its vendor-managed business model by other supply chain competitors. Flexalloy's business is dependent upon large customers and the service level for larger customers cannot be easily replicated without substantial additional investment. Also, the synergies within Fastening Systems, which were initially viewed to be significant due to Textron's existing market share, have been considerably less than anticipated. The undiscounted cash flow projections performed for the applicable operating units were less than the carrying amounts of long-lived assets including goodwill indicating that there was impairment. Accordingly, Textron recorded the goodwill write-down to the extent the carrying amount of goodwill exceeded its fair value.

During the last several months of 2000, the value of Textron's e-business investment portfolio has fallen substantially. The Company has determined that this decline in value is other than temporary and has taken a pre-tax charge of \$117 million to write-down its e-business investment portfolio to its current value. The application of e-business technology across the Company remains an important strategic investment for Textron.

Textron recorded pre-tax charges of \$18 million and \$87 million in 1999 and 1998, respectively, related to restructuring activities. The charges include severance costs, asset impairments and other exit related costs associated with the cost reduction efforts and plant closures in the former Industrial segment, and headcount reductions in the Aircraft segment as discussed further in Note 17.

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

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 is classified as a discontinued operation in 1999 and 1998.

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, Fastening Systems and Industrial Products 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 2000. During 2000, cash flows from operations was the primary source of funds for operating needs and capital expenditures of Textron Manufacturing. The Statements of Cash Flows for each borrowing group detailing the changes in cash balances are on pages 36-37. 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 Manufacturing's debt to total capital ratio was 32% at December 30, 2000 up from 27% at January 1, 2000. The increase is consistent with Textron's 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 (Textron Manufacturing: A Long-Term; A1 Short-Term. Textron Finance: A- Long-Term; A2 Short-Term) and Fitch (A Long-Term; F1 Short-Term) provide flexibility in obtaining funds on competitive terms. The Company's credit facilities are summarized on page 45.

During 2000, Textron Manufacturing established a two billion Euro Medium-Term Note facility (EMTN), which provides for the issuance of debt securities denominated in the Euro or other currencies. Under the EMTN, Textron issued 300 million Euro-denominated (\$273 million U.S. dollar-equivalent as of December 30, 2000) 5.63% medium-term notes which mature in 2005 and 150 million British Pound Sterling-denominated (\$221 million U.S. dollar-equivalent as of December 30, 2000) 6.63% notes which mature in 2020. The proceeds from the sale of these notes were used to reduce existing short-term debt and for general corporate purposes.

During 2000, Textron Finance increased its medium-term note facility by \$300 million and issued \$415 million of one-year variable rate notes. The related proceeds were used to refinance maturing commercial paper. The medium-term note facility was fully utilized as of year-end 2000. Textron Finance also issued \$73 million in variable-rate notes that mature in 2003 through 2004, and \$75 million Canadian dollar-denominated (\$50 million U.S. dollar equivalent as of December 30, 2000) notes through private placements that mature in 2003. In April 2000, Textron Finance issued \$750 million in variable rate notes under its shelf registration statement facility of which \$275 million matures in 2001 and \$475 million matures in 2002. The proceeds from these notes were used to refinance maturing commercial paper and terminate \$220 million of other variable rate debt, which was prepaid at par.

During 2000, Textron Finance securitized approximately \$763 million of general aviation receivables, \$275 million of equipment loans and leases, \$70 million of franchise loans and \$69 million of land lot loans. In connection with the securitizations, Textron Finance terminated \$300 million notional interest

rate exchange agreements that were entered in 2000 to hedge the cash receipts associated with the securitization. The proceeds from the securitization sales were used to retire existing commercial paper. Realized gains recognized on these securitizations during 2000 was \$22 million. The securitizations provided Textron Finance with an alternate source of financing while maintaining desired debt to capital ratios. Textron Finance anticipates that it will enter additional securitization transactions in 2001.

At year-end 2000, Textron Manufacturing had \$1.5 billion available under its existing shelf registration filed with the Securities Exchange Commission (SEC) and approximately \$1.3 billion U.S. dollar-equivalent available under the EMTN. Also at year-end 2000, Textron Finance had \$1.25 billion available under its shelf registration filed with the SEC. 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.

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:

- ▶ *Have a capability to achieve an ROIC of at least 15 percent (18% for Textron Finance).*
- ▶ *Achieve "economic profit" – earnings over and above the cost of capital, which approximates 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.*
- ▶ *Nondilutive to EPS in the first twelve months and contribute to EPS thereafter.*

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 32 companies, acquired the minority interest of two entities and entered into three joint ventures in the Manufacturing segments for an aggregate cost of \$2.4 billion, including notes issued for approximately \$164 million, treasury stock issued for \$32 million and \$529 million of debt assumed. In December 2000, Textron agreed to acquire Tempo Research Corporation to further expand its growing presence in the telecommunications test equipment market. This transaction closed in early 2001.

Acquisitions of Textron Finance are evaluated on the basis of the amount of Textron Manufacturing capital that Textron would have to set aside so that the acquisition could be levered at a debt to tangible equity ratio with Textron Finance 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.

Textron has invested approximately \$100 million in Safeguard Scientifics, Inc. common stock as part of a strategic alliance with this Internet holding and operating company. Under the alliance, Textron is working with Safeguard partner companies to develop and execute global e-commerce strategies. Also, Textron invested approximately \$8 million in the common stock of a Safeguard partner company and purchased \$25 million of EqualFooting.com, Inc. convertible preferred stock in support of the Company's e-business initiative. These investments were made to accelerate the application of critical new technology across all of the Company's businesses. While this remains an important strategic objective for Textron, the value of the Company's investments has fallen substantially over the last several months of 2000. As a result, Textron has taken a charge in December 2000 of \$117 million (\$76 million after tax) to write down the Company's e-business investment portfolio to its current value. At year-end 2000, Textron's equity investments in its e-business portfolio had a carrying value of \$17 million with no unrealized gain or loss in accumulated other comprehensive loss.

Capital spending in 2000 continued at a level consistent with 1999, decreasing only slightly to \$527 million. Combined capital spending for the past three years totaled \$1.5 billion.

On February 23, 2000, Textron announced that its Board of Directors had authorized a new ten million share repurchase program. In 2000, Textron repurchased 6.6 million shares of common stock under its Board authorized share repurchase program at an aggregate cost of \$353 million. Textron's Board of Directors approved the annual dividend per common share of \$1.30 in 2000. Dividend payments to shareholders in 2000 amounted to \$189 million, a decrease of \$3 million from 1999.

Financial Risk Management

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. 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 2000 or 1999.

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, including basis swaps, to lock-in desired spreads between certain interest-earning assets and certain interest-bearing liabilities. During 2000, Textron Finance entered into interest rate exchange agreements to hedge the \$750 million of variable-pay medium term notes issued under its shelf registration statement. These included interest rate swaps with an aggregate notional amount of \$150 million to fix the interest rates on a corresponding amount of the new notes. Further, an aggregate \$600 million notional of basis swaps were entered to convert the variable interest rate payments on \$600 million of the new debt from LIBOR based payments to Prime based payments. Textron Finance terminated fixed-pay interest rate exchange agreements with an aggregate notional amount of \$150 million that were hedging existing variable rate debt. Textron Finance has entered forward starting interest rate exchange agreements with an aggregate notional amount of \$200 million to fix interest rates on debt expected to be issued in the first quarter of fiscal 2001. The net impact of these agreements was immaterial in 2000 and increased reported interest expense by \$2 million in both 1999 and 1998.

Foreign Exchange Risks

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. Prior to 2000, Textron Manufacturing had primarily used synthetic foreign borrowings to manage foreign currency exposures, however, during 2000, Textron Manufacturing primarily used actual foreign currency borrowings for these purposes.

In addition, as part of managing its foreign currency transaction exposures, Textron enters into foreign currency forward exchange and option 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, foreign currency options and currency swaps was approximately \$841 million at year-end 2000 and \$1.3 billion at year-end 1999.

Effective January 1, 1999, the European Economic and Monetary Union entered into a transition phase during which a common currency, the Euro, was introduced into participating countries. 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, foreign exchange rate risk and equity price risk) include finance receivables (excluding lease receivables), debt (excluding lease obligations), interest rate exchange agreements, foreign exchange contracts, currency swaps, marketable equity securities and marketable security price forward contracts.

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, a 10% strengthening in exchange rates against the U.S. dollar and a 10% decrease in the quoted market prices of applicable marketable equity securities. 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.

	2000			1999		
	Carrying Value	Fair Value	Hypothetical Change In Fair Value	Carrying Value	Fair Value	Hypothetical Change In Fair Value
<i>(In millions)</i>						
Interest Rate Risk						
Textron Manufacturing:						
Debt	\$2,061	\$2,105	\$31	\$1,745	\$1,740	\$ 22
Interest rate exchange agreements	—	(8)	(9)	—	7	(10)
Textron Finance:						
Finance receivables	4,767	4,840	31	4,624	4,642	57
Interest rate exchange agreements	—	(6)	(5)	—	—	—
Debt	4,667	4,688	33	4,551	4,535	38
Interest rate exchange agreements	—	17	10	—	(2)	1
Foreign Exchange Rate Risk						
Textron Manufacturing:						
Debt	1,101	1,113	111	285	286	23
Foreign exchange contracts	(1)	(1)	(15)	—	(6)	(22)
Currency swaps	—	—	—	(21)	(25)	88
Interest rate exchange agreements	—	—	—	—	1	—
Textron Finance:						
Debt	50	50	5	—	—	—
Foreign exchange contracts	—	—	(2)	—	—	—
Currency swaps	—	1	1	—	—	—
Equity Price Risk						
Textron Manufacturing:						
Available for sale securities	16	16	(2)	—	—	—
Marketable security price forward contracts	(26)	(26)	(8)	5	5	(12)

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 \$11 million, \$16 million and \$10 million in 2000, 1999 and 1998, respectively. Textron currently projects that expenditures for remediation will range between \$12 million and \$15 million for each of the years 2001 and 2002.

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.

Backlog

Textron's commercial backlog was \$8.5 billion and \$7.2 billion at the end of 2000 and 1999, respectively, and U.S. Government backlog was \$1.4 billion at the end of 2000 and \$2.0 billion at the end of 1999. Backlog for the Aircraft segment was approximately 84% and 81% of Textron's commercial backlog at the end of 2000 and 1999, respectively, and 74% and 80% of Textron's U.S. Government backlog at the end of 2000 and 1999, 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 1.7% of Textron's consolidated revenue in 2000 (1.0% in the case of foreign military sales and 0.7% in the case of direct sales) and 1.8% in 1999 (0.6% and 1.2%, respectively). Such sales include military and commercial helicopters, armored vehicles, turrets, and spare parts and in 2000 were made primarily to the countries of Taiwan (54%), Colombia (11%), Sri Lanka (6%), Japan (5%), Finland (3%), Italy (3%) and Korea (3%). 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 Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS 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 SFAS 137, which deferred the effective date of SFAS 133 to all fiscal quarters of years beginning after June 15, 2000. In June 2000, the FASB issued SFAS 138 which amended accounting and reporting standards and addressed issues causing implementation difficulties with SFAS 133 for certain derivative instruments and hedging activities. These statements became effective for the Company on December 31, 2000. The Company will record the effect of the transition to these new accounting requirements in the first quarter of 2001 as a cumulative effect of change in accounting principle. The effect of this change in accounting will not be material to the Company's results of operations and financial position.

Effective October 1, 2000, the Company adopted Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements." SAB 101 summarizes the Securities and Exchange Commission's views regarding the application of generally accepted accounting principles to selected revenue recognition issues. The adoption and implementation of SAB 101 did not have a material effect on the results of operations or financial position of the Company.

As discussed in the Results of Operations section, in the fourth quarter of 2000, Textron adopted the Emerging Issues Task Force (EITF) consensus on Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." See page 21 for further discussion.

In September 2000, the FASB issued SFAS 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a Replacement of FASB Statement No. 125." SFAS 140 revises criteria for accounting for securitizations, other financial-asset and collateral transfers and extinguishments of liabilities. The Statement also introduces new disclosure requirements related to securitizations, collateral and retained interests in securitized financial assets. Textron adopted these new disclosure requirements in the fourth quarter of 2000, as required by statement. The provisions for SFAS 140 related to the transfers and servicing of financial assets and extinguishments of liabilities are effective for transactions occurring after March 31, 2001. Based upon current activities, the adoption of this statement will not have a material effect on the Company's results of operations or financial position.

* * * * *

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 to which Textron is able to implement and complete its restructuring plans, (b) the extent to which Textron is able to successfully integrate recent acquisitions, (c) changes in worldwide economic and political conditions that impact interest and foreign exchange rates, (d) the occurrence of work stoppages and strikes at key facilities of Textron or Textron's customers or suppliers, (e) government funding and program approvals affecting products being developed or sold under government programs, (f) successful implementation of supply chain and e-procurement strategies, (g) the timing of certifications of new aircraft products, (h) the occurrence of a severe downturn in the economies in which Textron operates that could reduce demand for its products, (i) the level of consumer demand for the vehicle models for which Textron supplies parts to automotive original equipment manufacturers ("OEMs"), (j) Textron's ability to offset, through cost reductions, raw material price increases and pricing pressure brought by OEM customers, and (k) Textron Financial Corporation's ability 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 six 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
January 23, 2001



Ted R. French
Executive Vice President and Chief Financial Officer

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 December 30, 2000 and January 1, 2000, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 30, 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Textron Inc. at December 30, 2000 and January 1, 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 7 to the consolidated financial statements, in 2000 the Company changed its method of accounting for pre-production costs in accordance with Emerging Issues Task Force No. 99-5, "Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements."



Boston, Massachusetts
January 23, 2001

Consolidated Statements of Income

For each of the years in the three-year period ended December 30, 2000

(In millions except per share amounts)

	2000	1999	1998
Revenues			
Manufacturing revenues	\$12,399	\$11,391	\$9,507
Finance revenues	691	463	367
Total revenues	13,090	11,854	9,874
Costs and Expenses			
Cost of sales	10,028	9,242	7,692
Selling and administrative	1,445	1,318	1,108
Interest, net	486	233	301
Provision for losses on collection of finance receivables	37	32	20
Special charges, net	483	(1)	87
Gain on sale of division	—	—	(97)
Total costs and expenses	12,479	10,824	9,111
Income from continuing operations before income taxes and distributions on preferred securities of subsidiary trusts	611	1,030	763
Income taxes	(308)	(381)	(294)
Distributions on preferred securities of subsidiary trusts, net of income taxes	(26)	(26)	(26)
Income from continuing operations	277	623	443
Discontinued operations, net of income taxes:			
Income from operations	—	—	165
Gain on disposal	—	1,646	—
	—	1,646	165
Income before extraordinary loss and cumulative effect of change in accounting principle	277	2,269	608
Extraordinary loss from debt retirement, net of income taxes	—	(43)	—
Cumulative effect of change in accounting principle, net of income taxes	(59)	—	—
Net income	\$ 218	\$ 2,226	\$ 608
Per common share:			
Basic:			
Income from continuing operations	\$ 1.92	\$ 4.14	\$ 2.74
Discontinued operations, net of income taxes	—	10.94	1.03
Extraordinary loss from debt retirement, net of income taxes	—	(.28)	—
Cumulative effect of change in accounting principle, net of income taxes	(.41)	—	—
Net income	\$ 1.51	\$ 14.80	\$ 3.77
Diluted:			
Income from continuing operations	\$ 1.90	4.05	2.68
Discontinued operations, net of income taxes	—	10.70	1.00
Extraordinary loss from debt retirement, net of income taxes	—	(.27)	—
Cumulative effect of change in accounting principle, net of income taxes	(.41)	—	—
Net income	\$ 1.49	\$ 14.48	\$ 3.68

See notes to the consolidated financial statements.

Consolidated Balance Sheets

As of December 30, 2000 and January 1, 2000

(Dollars in millions)

	2000	1999
Assets		
Textron Manufacturing		
Cash and cash equivalents	\$ 282	\$ 192
Commercial and U.S. Government receivables (less allowance for doubtful accounts of \$58 in 2000 and 1999)	1,318	1,363
Inventories	1,871	1,859
Other current assets	443	321
Total current assets	3,914	3,735
Property, plant, and equipment, net	2,568	2,484
Intangibles, net	2,340	2,807
Other assets	1,417	1,378
Total Textron Manufacturing assets	10,239	10,404
Textron Finance		
Cash	7	17
Finance receivables, net	5,473	5,465
Other assets (including net goodwill of \$217 in 2000 and \$211 in 1999)	651	507
Total Textron Finance assets	6,131	5,989
Total assets	\$16,370	\$16,393
Liabilities and shareholders' equity		
Liabilities		
Textron Manufacturing		
Current portion of long-term debt and short-term debt	\$ 615	\$ 688
Accounts payable	1,200	1,214
Income taxes payable	77	87
Other accrued liabilities	1,371	1,267
Total current liabilities	3,263	3,256
Accrued postretirement benefits other than pensions	715	741
Other liabilities	1,224	1,336
Long-term debt	1,469	1,079
Total Textron Manufacturing liabilities	6,671	6,412
Textron Finance		
Other liabilities	211	234
Deferred income taxes	315	307
Debt	4,667	4,551
Total Textron Finance liabilities	5,193	5,092
Total liabilities	11,864	11,504
Textron Finance – obligated mandatorily redeemable preferred securities of Finance subsidiary holding solely junior subordinated debentures	28	29
Textron – obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Textron junior subordinated debt securities	484	483
Shareholders' equity		
Capital stock:		
Preferred stock:		
\$2.08 Cumulative Convertible Preferred Stock, Series A (liquidation value – \$11)	5	5
\$1.40 Convertible Preferred Dividend Stock, Series B (preferred only as to dividends)	7	7
Common stock (195,394,000 and 194,858,000 shares issued and 140,933,000 and 147,002,000 outstanding)	24	24
Capital surplus	1,026	1,009
Retained earnings	5,848	5,817
Accumulated other comprehensive loss	(172)	(98)
	6,738	6,764
Less cost of treasury shares	2,744	2,387
Total shareholders' equity	3,994	4,377
Total liabilities and shareholders' equity	\$16,370	\$16,393

See notes to the consolidated financial statements.

Statements of Cash Flows

For each of the years in the three-year period ended December 30, 2000

	Consolidated		
(In millions)	2000	1999	1998
Cash flows from operating activities:			
Income from continuing operations	\$ 277	\$ 623	\$ 443
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Earnings of Textron Finance greater than distributions	—	—	—
Dividends received from discontinued operations	—	—	187
Depreciation	382	349	292
Amortization	112	91	69
Provision for losses on receivables	41	34	21
Gain on sale of division, net of income taxes	—	—	(54)
Special charges, net	483	(1)	87
Deferred income taxes	9	63	(16)
Changes in assets and liabilities excluding those related to acquisitions and divestitures:			
Decrease (increase) in commercial and U.S. Government receivables	69	34	(116)
Decrease (increase) in inventories	5	13	(157)
Decrease (increase) in other assets	(206)	(144)	(111)
Increase (decrease) in accounts payable	(95)	149	46
Increase (decrease) in accrued liabilities	(43)	(85)	262
Other – net	(11)	(10)	8
Net cash provided by operating activities	1,023	1,116	961
Cash flows from investing activities:			
Finance receivables:			
Originated or purchased	(7,032)	(4,920)	(4,069)
Repaid	5,233	3,783	3,352
Proceeds on receivables sales and securitization sales	1,556	307	367
Cash used in acquisitions	(85)	(1,574)	(956)
Net proceeds from dispositions	(9)	2,950	117
Capital expenditures	(527)	(532)	(475)
Cash used to purchase investment securities	(134)	—	—
Other investing activities – net	76	29	22
Net cash (used) provided by investing activities	(922)	43	(1,642)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	(450)	(1,131)	1,571
Proceeds from issuance of long-term debt	2,005	3,195	438
Principal payments and retirements on long-term debt	(1,048)	(2,174)	(534)
Proceeds from exercise of stock options	14	50	71
Purchases of Textron common stock	(353)	(751)	(712)
Dividends paid	(189)	(192)	(143)
Dividends paid to Textron Manufacturing	—	—	—
Capital contributions to Textron Finance	—	—	—
Net cash (used) provided by financing activities	(21)	(1,003)	691
Net increase (decrease) in cash and cash equivalents	80	156	10
Cash and cash equivalents at beginning of year	209	53	43
Cash and cash equivalents at end of year	\$ 289	\$ 209	\$ 53
Supplemental information:			
Cash paid during the year for interest	\$ 479	\$ 239	\$ 345
Cash paid during the year for income taxes (includes \$9 and \$912 in 2000 and 1999, respectively, for AFS disposal)	\$ 327	\$ 1,167	\$ 260

*“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, Fastening Systems and Industrial Products 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		
2000	1999	1998	2000	1999	1998
\$ 277	\$ 623	\$ 443	\$ 118	\$ 79	\$ 70
(36)	(43)	(8)	—	—	—
—	—	187	—	—	—
365	337	282	17	12	10
97	84	66	15	7	3
4	2	1	37	32	20
—	—	(54)	—	—	—
483	(1)	87	—	—	—
(9)	68	(18)	16	(5)	2
69	34	(116)	—	—	—
5	13	(157)	—	—	—
(215)	(143)	(130)	9	(1)	8
(82)	147	21	(13)	2	37
(33)	(113)	245	(10)	28	17
17	(1)	18	(24)	(9)	(10)
942	1,007	867	165	145	157
—	—	—	(7,032)	(4,920)	(4,069)
—	—	—	5,233	3,783	3,352
—	—	—	1,556	307	367
(85)	(859)	(753)	—	(715)	(203)
(9)	2,945	117	—	5	—
(513)	(521)	(462)	(14)	(11)	(13)
(134)	—	—	—	—	—
80	55	37	(5)	(26)	(16)
(661)	1,620	(1,061)	(262)	(1,577)	(582)
(77)	(1,045)	1,220	(373)	(86)	351
516	799	8	1,488	2,396	430
(97)	(974)	(190)	(951)	(1,200)	(344)
14	50	71	—	—	—
(353)	(751)	(712)	—	—	—
(189)	(192)	(143)	—	—	—
—	—	—	(82)	(36)	(62)
(5)	(353)	(59)	5	353	59
(191)	(2,466)	195	87	1,427	434
90	161	1	(10)	(5)	9
192	31	30	17	22	13
\$ 282	\$ 192	\$ 31	\$ 7	\$ 17	\$ 22
\$ 154	\$ 57	\$ 192	\$ 325	\$ 182	\$ 153
\$ 249	\$ 1,132	\$ 230	\$ 78	\$ 35	\$ 30

See notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

For each of the years in the three-year period ended December 30, 2000

	Shares Outstanding*			Dollars		
	(In thousands)			(In millions)		
	2000	1999	1998	2000	1999	1998
\$2.08 Preferred stock						
Beginning balance	159	178	201	\$ 5	\$ 6	\$ 6
Conversion to common stock	(16)	(19)	(23)	—	(1)	—
Ending balance	143	159	178	\$ 5	\$ 5	\$ 6
\$1.40 Preferred stock						
Beginning balance	74	86	92	\$ 7	\$ 7	\$ 7
Conversion to common stock	(7)	(12)	(6)	—	—	—
Ending balance	67	74	86	\$ 7	\$ 7	\$ 7
Common stock						
Beginning balance	147,002	154,742	162,343	\$ 24	\$ 24	\$ 24
Purchases	(6,627)	(9,779)	(10,189)	—	—	—
Exercise of stock options	430	1,428	2,465	—	—	—
Conversion of preferred stock to common stock	97	129	123	—	—	—
Other issuances of common stock	31	482	—	—	—	—
Ending balance	140,933	147,002	154,742	\$ 24	\$ 24	\$ 24
Capital surplus						
Beginning balance				\$1,009	\$ 931	\$ 830
Conversion of preferred stock to common stock				1	1	1
Exercise of stock options and other issuances				16	77	100
Ending balance				\$1,026	\$1,009	\$ 931
Retained earnings						
Beginning balance				\$5,817	\$3,786	\$3,362
Net income				218	2,226	608
Dividends declared:						
Preferred stock				—	(1)	(1)
Common stock (per share: \$1.30 in both 2000 and 1999 and \$1.14 in 1998)				(187)	(194)	(183)
Ending balance				\$5,848	\$5,817	\$3,786
Treasury stock						
Beginning balance				\$2,387	\$1,661	\$ 939
Purchases of common stock				358	748	722
Issuance of common stock				(1)	(22)	—
Ending balance				\$2,744	\$2,387	\$1,661
Accumulated other comprehensive loss						
Beginning balance				\$ (98)	\$ (96)	\$ (62)
Currency translation adjustment				(74)	8	(33)
Securities valuation adjustment				—	(13)	—
Pension liability adjustment				—	3	(1)
Other comprehensive loss				(74)	(2)	(34)
Ending balance				\$ (172)	\$ (98)	\$ (96)
Comprehensive income						
Net income				\$ 218	\$2,226	\$ 608
Other comprehensive loss				(74)	(2)	(34)
Comprehensive income				\$ 144	\$2,224	\$ 574

*Shares issued at the end of 2000, 1999, 1998 and 1997, were as follows (in thousands): \$2.08 Preferred – 212; 228; 247; and 270 shares, respectively; \$1.40 Preferred – 554; 561; 573; and 579 shares, respectively; Common – 195,394; 194,858; 193,277; and 190,689 shares, respectively.

See notes to the 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.

Effective October 1, 2000, the Company adopted Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements." SAB 101 summarizes the Securities Exchange Commission's views regarding the application of generally accepted accounting principles to selected revenue recognition issues. The adoption and implementation of SAB 101 did not have a material effect on the results of operations or financial position of the Company.

Effective in the fourth quarter 2000, Textron reclassified certain items in its income statement and restated revenues and costs for prior periods. A substantial portion of the reclassifications related to the adoption of Emerging Issues Task Force (EITF) consensus on Issue No. 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent," whereby used aircraft sales are now reported as revenues; previously they were netted against costs. Prior period financial information has been reclassified to conform with the current year presentation. The result of the reclassifications was to increase revenue and costs by \$254 million, \$275 million and \$191 million for 2000, 1999 and 1998, respectively. There was no effect on income from continuing operations or net income.

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 2000 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• South America
Fastening Systems	<ul style="list-style-type: none">• Automotive• Distributors• Consumers• Other OEMs• Electronics• Aerospace	<ul style="list-style-type: none">• North America• Western Europe• Asia and Australia• South America
Industrial Products	<ul style="list-style-type: none">• Industrial components: commercial aerospace and defense• Golf and turf-care products: golf courses, resort communities, and commercial and industrial users• 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
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.

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. 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, Fastening Systems and Industrial Products business segments. During 2000, Textron reorganized its management reporting structure into five segments, separately reporting the financial results of Fastening Systems and Industrial Products, which previously comprised the Industrial segment. Additionally, management responsibility for one division previously in the Automotive segment has been transferred to the Industrial Products segment. Prior period data shown in the financial statements and related notes have been reclassified, as appropriate.

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 credit 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 management'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 2000, Textron Manufacturing acquired 11 companies, acquired the minority interests of two entities and entered into one joint venture at a total cost of \$121 million including debt assumed of \$36 million. The largest of these acquisitions were Plascar Indústria e Comércio Ltda. – the leading supplier of instrument panels and automotive trim products to global manufacturers producing vehicles in South America and Advantage Molding and Decorating – a leading supplier of injection molded parts, tooling and pad-printed designs.

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.

The purchase method of accounting has been used for all acquisitions during the past three years.

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 1998, at a pretax gain of \$97 million (\$54 million after-tax).

3 Finance Receivables and Securitizations

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.

Finance Receivables

Commercial installment contracts have initial terms ranging from one to 15 years. Golf course and resort mortgages have initial terms ranging from three to seven years. Finance leases have initial terms up to 15 years. Leveraged leases have initial terms up to approximately 30 years. Floorplan and revolving receivables generally mature within one to three years.

At the end of 2000 and 1999, Textron Finance had nonaccrual loans and leases totaling \$102 million and \$84 million, respectively. Approximately \$76 million and \$65 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 \$34 million and \$21 million at the end of 2000 and 1999. The average recorded investment in impaired loans during 2000 and 1999 were \$76 million and \$47 million, respectively. The percentage of net write-offs to average finance receivables was 0.7% in 2000, and 0.5% in both 1999 and 1998.

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 \$5.2 billion and \$3.8 billion in 2000 and 1999, respectively. In the same periods, the ratio of cash collections to average net receivables was approximately 91% and 89%, respectively.

(In millions)	Contractual Maturities			Less Finance Charges	Finance Receivables Outstanding	
	2001	2002	After 2002		2000	1999
Installment contracts	\$ 402	\$308	\$1,410	\$(135)	\$1,985	\$2,227
Floorplan receivables	810	77	8	(1)	894	657
Revolving loans	615	65	641	(16)	1,305	1,216
Finance leases	97	87	274	(97)	361	509
Golf course and resort mortgages	144	150	393	(4)	683	621
Leveraged leases	15	11	613	(278)	361	348
	\$2,083	\$698	\$3,339	\$(531)	5,589	5,578
Less allowance for credit losses					116	113
					\$5,473	\$5,465

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

<i>(In millions)</i>	2000	1999
Finance and leveraged lease receivables	\$ 508	\$ 656
Estimated residual values on equipment and assets	589	589
	1,097	1,245
Unearned income	(375)	(388)
Investment in leases	722	857
Deferred income taxes arising from leveraged leases	(265)	(260)
Net investment in leases	\$ 457	\$ 597

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

<i>(In millions)</i>	2000	1999	1998
Balance at the beginning of the year	\$113	\$ 84	\$ 77
Provision for losses	37	32	20
Charge-offs	(45)	(28)	(21)
Recoveries	7	5	5
Acquisitions and other	4	20	3
Balance at the end of the year	\$116	\$113	\$ 84

Textron had both fixed-rate and variable-rate loan commitments totaling \$1,531 million at year-end 2000. 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 2000, 1999 and 1998, Textron Finance paid Textron \$1,429 million, \$1,260 million, and \$980 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 2000, finance receivables and operating lease equipment of \$834 million and \$69 million, respectively, (\$841 million and \$69 million, respectively, at year-end 1999) were due from Textron or subject to recourse to Textron. Included in the finance receivables balance guaranteed by Textron are past due loans of \$105 million at the end of 2000 (\$72 million at year-end 1999) 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 \$7,965 million and \$6,802 million, respectively for 2000 and 1999.

Textron Finance's finance receivables are diversified geographically across the United States. There are no significant industry or collateral concentrations at the end of 2000.

Securitizations

Textron Finance securitized and sold without recourse (and servicing rights retained) \$1.2 billion and \$273 million of finance receivables in 2000 and 1998, respectively. Gains from securitized trust sales were approximately \$22 million and \$3 million in 2000 and 1998, respectively. Textron Finance retained subordinated interests in the trusts which are approximately 2% to 10% of the total trust. Servicing fees range from 30 to 75 basis points. Principal amounts sold and assumptions used in these securitization sales for 2000 were as follows:

<i>(Dollars in millions)</i>	General Aviation	Equipment Loans and Leases	Franchise	Land Lots
Principal balance	\$763	\$275	\$70	\$69
Weighted-average life (in years)	2.5	1.7	7.6	5.9
Prepayment speed (annual rate)	20%-23%	15%-20%	8%	20%
Expected credit losses (annual rate)	0.06%-0.35%	0.20%	0.25%	1.50%
Residual cash flows discounted at	10%	10%	10%	11%

At December 30, 2000 the carrying amount of Textron Finance's retained interests in securitized trusts was approximately \$130 million. Hypothetical adverse changes of 10% and 20% to the prepayment speed, expected credit losses and residual cash flows discount rates assumptions would not have a material impact on the current fair value of the residual cash flows associated with the retained interests.

4 Inventories

Inventories are carried at the lower of cost or market.

<i>(In millions)</i>	December 30, 2000	January 1, 2000
Finished goods	\$ 634	\$ 608
Work in process	1,023	970
Raw materials	454	489
	2,111	2,067
Less progress payments and customer deposits	240	208
	\$1,871	\$1,859

Inventories aggregating \$1,153 million at year-end 2000 and \$1,051 million at year-end 1999 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 \$192 million and \$174 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 \$161 million at year-end 2000 and \$181 million at year-end 1999.

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 2000 and 1999 totaled \$199 million and \$156 million, respectively. This includes \$135 million and \$112 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 Investment Securities

Investments in marketable securities, a component of other assets, are classified as available-for-sale and are recorded at their fair value. Unrealized gains and losses on these securities, net of related income taxes, are included in shareholders' equity as a component of accumulated other comprehensive income (loss). Non-marketable equity securities are accounted for under either the cost or equity method of accounting.

Textron invested in \$134 million of e-business securities. In December 2000, the decline in the fair value of e-business marketable securities below cost was determined to be "other than temporary" and accordingly, unrealized gross losses of \$93 million were recognized in 2000 earnings. The Company also recorded an impairment write-down of a non-marketable e-business investment of \$24 million. These write-downs have been included in special charges, net on the consolidated statement of income.

Investment securities included in other assets, had a carrying value of \$17 million at year-end 2000 with no unrealized gain or loss in accumulated other comprehensive loss.

7 Long-Term Assets

The cost of property, plant, and equipment is depreciated based on the assets' estimated useful lives. Expenditures for improvements that increase asset values and extend useful lives are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

(In millions)	December 30, 2000	January 1, 2000
At cost:		
Land and buildings	\$1,170	\$1,083
Machinery and equipment	3,729	3,499
	4,899	4,582
Less accumulated depreciation	2,294	2,069
	\$2,605	\$2,513

Intangible assets are principally comprised of goodwill which is amortized on the straight-line method over 20 to 40 years. Other intangible assets are amortized over their estimated useful lives. Accumulated amortization of intangible assets totaled \$564 million at December 30, 2000 and \$463 million at January 1, 2000.

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. In addition, the Company assesses long-lived assets, including associated goodwill, for impairment under Financial Accounting Standards Board's (FASB) Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

During 2000, Textron recorded a write-down of goodwill and certain other long-lived assets of \$350 million as further discussed in Note 17.

Prior to fiscal year 2000, customer engineering and tooling project costs for which customer reimbursement was anticipated were capitalized and classified in other assets. Effective January 2, 2000, Textron adopted EITF Issue No. 99-5 "Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements." 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 reported a cumulative effect of change in accounting principle of \$59 million (net of tax), or approximately \$0.41 per diluted share in the first quarter of 2000 related to the adoption of this consensus.

Pro forma income from continuing operations, net income and related diluted earnings per common share amounts as if the provisions of EITF 99-5 had been applied during the year ended 1999 and 1998 are as follows:

(In millions, except per share data)	1999	1998
Income from continuing operations		
As reported	\$ 623	\$ 443
Pro forma	\$ 612	\$ 430
Income from continuing operations per diluted share		
As reported	\$ 4.05	\$2.68
Pro forma	\$ 3.98	\$2.60
Net income		
As reported	\$2,226	\$ 608
Pro forma	\$2,215	\$ 595
Net income per diluted share		
As reported	\$14.48	\$3.68
Pro forma	\$14.41	\$3.60

8 Debt and Credit Facilities

Debt at year-end 2000 and 1999 consisted of the following:

	December 30, 2000	January 1, 2000
<i>(In millions)</i>		
Textron Manufacturing:		
Short-term debt:		
Borrowings under or supported by long-term credit facilities*	\$ 528	\$ 626
Current portion of long-term debt	87	62
Total short-term debt	615	688
Long-term senior debt:		
Medium-term notes due 2001-2011 (average rate – 9.66%)	43	63
6.75% due 2002	500	500
6.375% due 2004	300	300
5.63% due 2005	273	–
6.63% due 2020	221	–
Other long-term debt (average rate – 8.39%)	219	278
	1,556	1,141
Current portion of long-term debt	(87)	(62)
Total long-term debt	1,469	1,079
Total Textron Manufacturing debt	\$2,084	\$1,767

*The weighted average interest rates on these borrowings, before the effect of interest rate exchange agreements, were 5.6%, 5.8% and 5.8% at year-end 2000, 1999, and 1998, respectively. Comparable rates during the years 2000, 1999, and 1998 were 5.7%, 4.9% and 5.4%, 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 22 banks available on a fully revolving basis until April 1, 2003, (b) \$71 million in multi-currency credit agreements with two banks available through December 29, 2002 and (c) \$209 million in other credit facilities available with various banks. At year-end 2000, \$767 million of the credit facilities was not used or reserved as support for commercial paper or bank borrowings.

	December 30, 2000	January 1, 2000
<i>(In millions)</i>		
Textron Finance:		
Senior:		
Borrowings under or supported by credit facilities*	\$ 966	\$1,339
6.89% average rate debt; due 2001 to 2004	1,432	1,507
6.96% average rate variable notes; due 2001 to 2004	2,269	1,705
Total Textron Finance debt	\$4,667	\$4,551

*The weighted average interest rates on these borrowings, before the effect of interest rate exchange agreements, were 6.7%, 6.4% and 6.3% at year-end 2000, 1999 and 1998, respectively. Comparable rates during the years 2000, 1999 and 1998 were 6.4%, 5.4% and 5.8%, respectively.

Textron Finance has lines of credit with various banks aggregating \$1.4 billion at year-end 2000, of which \$444 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 \$351 million of Textron Finance's net assets of \$910 million at year-end 2000. 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 2000. The payments schedule excludes amounts that are payable under credit facilities and revolving credit agreements.

<i>(In millions)</i>	2001	2002	2003	2004	2005
Textron Manufacturing	\$ 87	\$ 510	\$ 5	\$304	\$276
Textron Finance	1,098	1,580	385	638	–
	\$1,185	\$2,090	\$390	\$942	\$276

Textron Manufacturing has agreed to cause Textron Finance to maintain certain minimum levels of financial performance. No payments from Textron Manufacturing were necessary in 2000, 1999, or 1998 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 in 1999 of \$43 million, which has been reflected as an extraordinary item.

9 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 or finance receivables to fixed-rate debt or finance receivables and vice versa. Textron Finance will also enter basis swaps to lock-in desired spreads between certain interest-earning assets and certain interest-bearing liabilities. Additionally, Textron will enter forward starting fixed-pay interest rate exchange agreements to lock-in current interest rates for probable future issuances of long-term borrowings. *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.*

Agreements that require the payment of fixed-rate interest are designated against specific long-term variable-rate borrowings.

Textron Manufacturing interest rate exchange agreements are summarized as follows:

	December 30, 2000			January 1, 2000		
Textron Manufacturing						
(Dollars in millions)	Notional Amount	Weighted Average Interest Rate	Weighted Average Remaining Term	Notional Amount	Weighted Average Interest Rate	Weighted Average Remaining Term
Variable-pay interest rate exchange agreements	\$415	6.91%	3.9	\$852	6.39%	2.5
Fixed-pay interest rate exchange agreements	\$ —	— %	—	\$941	4.69%	0.3

Textron Manufacturing's variable pay interest rate exchange agreements were designated against specific long-term fixed-rate debt. These agreements effectively adjusted the average rate of interest on fixed-rate notes in 2000 to 6.9% from 7.0% and expire as follows: \$26 million (11.3%) in 2001, \$35 million (10.4%) in 2002, and \$354 million (6.6%) through 2020. Textron Manufacturing's fixed pay interest rate swap agreements, which expired in March 2000, were entered in June 1999 to insulate Textron against potential interest rate increases on variable-rate debt around year-end 1999.

Textron Finance interest rate exchange agreements are summarized as follows:

	December 30, 2000			January 1, 2000		
Textron Finance						
(Dollars in millions)	Notional Amount	Weighted Average Interest Rate	Weighted Average Remaining Term	Notional Amount	Weighted Average Interest Rate	Weighted Average Remaining Term
Fixed-pay interest rate exchange agreements – debt	\$150	6.52%	2.0	\$300	5.76%	0.8
Variable-receive interest rate exchange agreements – receivables	\$100	8.14%	12.6	\$ —	—%	—
Basis swaps*	\$715	6.77%	0.8	\$125	5.84%	0.4
Forward starting fixed-pay interest rate exchange agreements	\$228	7.31%	7.6	\$ —	—%	—

*Amounts at December 30, 2000 and January 1, 2000 require United States Prime Rate-based payments as stated above and LIBOR-based receipts of 6.77% and 6.07%, respectively.

In addition, Textron Finance utilizes interest rate agreements to protect against the interest rate risk associated with their related interest in securitized assets. At year end 2000 and 1999, Textron Finance had \$509 million and \$91 million, respectively of such interest rate agreements outstanding.

Textron Finance's fixed-pay interest rate exchange agreements designated as hedges of variable-rate debt effectively adjusted the related average interest rate in 2000 to 6.91% from 6.93% and mature in 2002. Textron Finance's variable-receive interest rate exchange agreements designated as hedges of fixed-rate finance receivables were effective in December 2000 and did not materially impact interest income.

Textron had minimal exposure to loss from nonperformance by the counterparties to its interest rate exchange agreements at the end of 2000, 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.

	Buy Contracts		Sell Contracts	
	Contract Amount	Unrealized Gain/(Loss)	Contract Amount	Unrealized Gain/(Loss)
<i>(In millions)</i>				
December 30, 2000				
British Pound	\$208	\$(1)	\$105	\$ -
Canadian Dollar	281	-	15	-
Euro	116	-	51	-
Other	26	-	38	1
Total	\$631	\$(1)	\$209	\$ 1
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

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS 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 SFAS 137, which deferred the effective date of SFAS 133 to all fiscal quarters of years beginning after June 15, 2000. In June 2000, the FASB issued SFAS 138 which amended accounting and reporting standards and addressed issues causing implementation difficulties with SFAS 133 for certain derivative instruments and hedging activities. These statements became effective for the Company on December 31, 2000. The Company will record the effect of the transition to these new accounting requirements in the first

quarter of 2001 as a cumulative effect of change in accounting principle. The effect of this change in accounting will not be material to the Company's results of operations and financial position.

10

Textron Finance – Obligated Mandatorily Redeemable Preferred Securities of Finance Subsidiary Holding Solely Junior Subordinated Debentures

Litchfield Financial Corporation (Litchfield, a subsidiary of Textron Financial Corporation) was acquired by Textron Financial Corporation during 1999. Prior to the acquisition, a trust sponsored and wholly-owned by 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.

11

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.

12

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.

Performance Share Units and Stock Options

Textron's 1999 Long-Term Incentive Plan (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.

Textron's performance share program, measured under the intrinsic value method, generated income of approximately \$36 million in 2000, and expense of approximately \$25 million and \$77 million in 1999 and 1998, respectively. To mitigate the impact of stock price fluctuations on compensation expense, Textron has entered cash settlement forward contracts on its common stock. These contracts generated expense of approximately \$69 million for 2000 and income of approximately \$5 million and \$40 million in 1999 and 1998, respectively.

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 \$25 million or \$.17 per diluted share in 2000 and \$9 million or \$.06 per diluted share in both 1999 and 1998.

The assumptions used to estimate the fair value of an option granted in 2000, 1999, and 1998, respectively, are approximately as follows: dividend yield of approximately 3%, 2% and 2%; expected volatility of 27%, 22% and 18%; risk-free interest rates of 5%, 6% and 4%, 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 2000, 1999 and 1998 was approximately \$10, \$15 and \$12, respectively.

At year-end 2000, 1,434,000 stock options were available for future grant under the 1999 Plan. Stock option transactions during the last three years are summarized as follows:

	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<i>(Shares in thousands)</i>						
Options outstanding at beginning of year	8,822	\$55.26	8,342	\$47.23	9,001	\$36.74
Options granted	4,618	\$46.31	2,176	\$73.75	1,909	\$74.08
Options exercised	(440)	\$30.67	(1,451)	\$34.86	(2,465)	\$29.52
Options canceled	(369)	\$76.41	(245)	\$67.06	(103)	\$51.48
Options outstanding at end of year	12,631	\$52.32	8,822	\$55.26	8,342	\$47.23
Options exercisable at end of year	7,012	\$53.25	5,815	\$45.60	5,818	\$36.80

Stock options outstanding at the end of 2000 are summarized as follows:

	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price
<i>(Shares in thousands)</i>					
December 30, 2000:					
\$17 – \$37	2,238	3.7	\$28.37	2,238	\$28.37
\$38 – \$59	5,712	9.1	\$45.87	1,195	\$45.71
\$60 – \$94	4,681	8.2	\$71.42	3,579	\$71.01

Reserved Shares of Common Stock

At year-end 2000, common stock reserved for the subsequent conversion of preferred stock and shares reserved for the exercise of stock options were 2,927,000 and 12,631,000, respectively.

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	December 30, 2000		January 1, 2000		January 2, 1999	
(Dollars in millions, shares in thousands)	Income	Average Shares	Income	Average Shares	Income	Average Shares
Income from continuing operations	\$277		\$623		\$443	
Less: Preferred stock dividends	–		(1)		(1)	
Basic						
Available to common shareholders	277	143,923	622	150,389	442	161,254
Dilutive effect of convertible preferred stock and stock options	–	2,227	1	3,365	1	4,120
Diluted						
Available to common shareholders and assumed conversions	\$277	146,150	\$623	153,754	\$443	165,374

Comprehensive Income

The components of Textron's other comprehensive income (loss) for 2000, 1999 and 1998 were as follows:

(In millions)	2000	1999	1998
Currency translation adjustment			
Beginning balance	\$ (96)	\$(104)	\$ (71)
Change, net of income taxes	(74)	(71)	(33)
AFS disposal	–	79	–
Ending balance	\$(170)	\$ (96)	\$(104)
Unrealized gains (losses) on securities			
Beginning balance	\$ –	\$ 13	\$ 13
Net unrealized gains (losses) arising during the period*	(59)	–	8
Reclassification adjustment for realized (gains) losses in net income*	59	–	(8)
AFS disposal (net of income tax expense of \$8)	–	(13)	–
Ending balance	\$ –	\$ –	\$ 13
Pension liability adjustment			
Beginning balance	\$ (2)	\$ (5)	\$ (4)
Change, net of income taxes	–	3	(1)
Ending balance	\$ (2)	\$ (2)	\$ (5)
Accumulated other comprehensive loss			
Beginning balance	\$ (98)	\$ (96)	\$ (62)
Other comprehensive loss	(74)	(2)	(34)
Ending balance	\$(172)	\$ (98)	\$ (96)

*Net of income tax expense (benefit) of \$(31) million and \$4 million for 2000 and 1998, respectively.

13 Leases

Rental expense approximated \$101 million, \$94 million and \$83 million in 2000, 1999 and 1998, respectively. Future minimum rental commitments for noncancellable operating leases in effect at year-end 2000 approximated \$83 million for 2001; \$65 million for 2002; \$46 million for 2003; \$33 million for 2004; \$22 million for 2005; and a total of \$186 million thereafter.

14 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 2000, 1999 and 1998 were as follows:

(In millions)	2000	1999	1998
Company funded	\$307	\$257	\$219
Customer funded	414	413	394
Total research and development	\$721	\$670	\$613

15 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 \$51 million in 2000 and \$40 million in both 1999 and 1998. 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:

(In millions)	Pension Benefits		Postretirement Benefits Other than Pensions	
	December 30, 2000	January 1, 2000	December 30, 2000	January 1, 2000
Change in benefit obligation				
Benefit obligation at beginning of year	\$3,665	\$ 3,836	\$ 603	\$ 665
Service cost	101	109	6	7
Interest cost	265	252	45	41
Amendments	110	9	(5)	—
Effects of acquisitions	5	10	—	5
Effects of dispositions	(1)	(6)	—	—
Plan participants' contributions	4	4	5	4
Actuarial (gains)/losses	80	(299)	27	(54)
Benefits paid	(249)	(227)	(68)	(65)
Foreign exchange rate changes	(39)	(23)	—	—
Curtailments	—	—	(1)	—
Benefit obligation at end of year	\$3,941	\$ 3,665	\$ 612	\$ 603
Change in plan assets				
Fair value of plan assets at beginning of year	\$5,342	\$ 4,824	\$ —	\$ —
Actual return on plan assets	77	740	—	—
Employer contributions	41	21	—	—
Plan participants' contributions	4	4	—	—
Effects of acquisitions	4	12	—	—
Effects of dispositions	(1)	(5)	—	—
Benefits paid	(249)	(227)	—	—
Foreign exchange rate changes	(48)	(27)	—	—
Fair value of plan assets at end of year	\$5,170	\$ 5,342	\$ —	\$ —
Funded status of the plan	\$1,229	\$ 1,677	\$ (612)	\$ (603)
Unrecognized actuarial gain	(871)	(1,331)	(88)	(122)
Unrecognized prior service cost	154	88	(15)	(16)
Unrecognized transition net asset	(43)	(61)	—	—
Net amount recognized in the consolidated balance sheet	\$ 469	\$ 373	\$ (715)	\$ (741)
Amounts recognized in the consolidated balance sheet consists of:				
Prepaid benefit cost	\$ 621	\$ 508	\$ —	\$ —
Accrued benefit liability	(156)	(144)	(715)	(741)
Intangible asset	2	7	—	—
Accumulated other comprehensive loss	2	2	—	—
Net amount recognized in the consolidated balance sheet	\$ 469	\$ 373	\$ (715)	\$ (741)

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 \$199 million, \$161 million and \$10 million, respectively, as of year-end 2000, and \$191 million, \$159 million and \$16 million, respectively, as of year-end 1999.

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

	Pension Benefits			Postretirement Benefits Other than Pensions		
	December 30, 2000	January 1, 2000	January 2, 1999	December 30, 2000	January 1, 2000	January 2, 1999
<i>(In millions)</i>						
Components of net periodic benefit cost						
Service cost	\$ 101	\$ 109	\$ 83	\$ 6	\$ 7	\$ 6
Interest cost	265	252	235	45	41	45
Expected return on plan assets	(423)	(378)	(323)	—	—	—
Amortization of unrecognized transition asset	(17)	(17)	(17)	—	—	—
Recognized actuarial (gain)/loss	(24)	2	1	(8)	(10)	(9)
Recognized prior service cost	14	16	14	(4)	(4)	(4)
Curtailments	—	—	—	(1)	—	—
Net periodic benefit cost	\$ (84)	\$ (16)	\$ (7)	\$38	\$ 34	\$38

Recognized actuarial (gain)/loss on net pension benefits is being amortized over a twelve year period.

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

	December 30, 2000	January 1, 2000	January 2, 1999	January 3, 1998
Weighted average assumptions at year-end				
Discount rate	7.50%	7.50%	6.75%	7.25%
Expected return on plan assets	9.25	9.25	9.25	9.00
Rate of compensation increase	4.80	4.80	4.80	5.00

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

The 2000 health care cost trend rate, which is the weighted average annual assumed rate of increase in the per capita cost of covered benefits, was 6% for retirees age 65 and over and 6% for retirees under age 65. Both rates are assumed to decrease to 5.5% by 2003 and then remain at that level. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

<i>(In millions)</i>	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 5	\$ (5)
Effect on postretirement benefit obligation	56	(48)

16 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 trusts:

<i>(In millions)</i>	2000	1999	1998
United States	\$366	\$ 831	\$582
Foreign	245	199	181
Total	\$611	\$1,030	\$763

Income tax expense is summarized as follows:

<i>(In millions)</i>	2000	1999	1998
Federal:			
Current	\$246	\$222	\$225
Deferred	(37)	54	(25)
State	35	36	33
Foreign	64	69	61
Income tax expense	\$308	\$381	\$294

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

	2000	1999	1998
Federal statutory income tax rate	35.0%	35.0%	35.0%
Increase (decrease) in taxes resulting from:			
State income taxes	3.8	2.3	2.7
Goodwill	19.0	2.2	4.3
Foreign tax rate differential	(2.2)	0.6	—
Foreign sales corporation benefit	(1.9)	(0.9)	(0.8)
Other, net	(3.3)	(2.2)	(2.7)
Effective income tax rate	50.4%	37.0%	38.5%

Textron's net deferred tax asset consisted of gross deferred tax assets and gross deferred tax liabilities of \$1,704 million and \$1,531 million, respectively, at the end of 2000 and \$1,623 million and \$1,467 million, respectively, at the end of 1999. The tax effects of temporary differences that give rise to significant portions of Textron's net deferred tax assets and liabilities were as follows:

(In millions)	December 30, 2000	January 1, 2000
Deferred tax assets:		
Self insured liabilities, (including environmental)	\$ 146	\$ 184
Deferred compensation	140	144
Obligation for postretirement benefits	118	171
Investment securities	45	—
Allowance for credit losses	44	38
Amortization of goodwill	37	—
Other, principally timing of other expense deductions	278	187
Total deferred tax assets	\$ 808	\$ 724
Deferred tax liabilities:		
Textron Finance transactions, principally leasing	\$(366)	\$(353)
Fixed assets, principally depreciation	(190)	(164)
Inventory	(53)	(51)
Currency translation adjustment	(26)	—
Total deferred tax liabilities	(635)	(568)
Net deferred tax assets	\$ 173	\$ 156

Deferred income taxes have not been provided for the undistributed earnings of foreign subsidiaries, which approximated \$649 million at the end of 2000. Management intends to reinvest those earnings for an indefinite period, except for distributions having an immaterial tax effect. If foreign subsidiaries' earnings were distributed, 2000 taxes, net of foreign tax credits, would be increased by approximately \$88 million.

17 Special Charges, Net

The Company records restructuring liabilities at the time management approves and commits to a restructuring plan that identifies all significant actions to be taken and the expected completion date of the plan. The restructuring liability includes those restructuring costs that (1) can be reasonably estimated, (2) are not associated with and do not benefit activities that will be continued, and (3) are not associated with or are not incurred to generate revenues after the commitment date. Restructuring costs are incurred as a direct result of the plan and (1) are incremental to other costs incurred by Textron in the conduct of its activities prior to the commitment date, or (2) represent contractual obligations that existed prior to the commitment date and will either continue after the exit plan is completed with no economic benefit to the enterprise or reflect a penalty to cancel a contractual obligation. Additionally, restructuring liabilities incurred in conjunction with a business acquisition are recorded as part of the allocation of the initial purchase price of the acquisition (1) as of the acquisition date, management begins to assess and formulate a restructuring plan for the acquired business and (2) the restructuring plan is approved and committed to within one year of the acquisition date.

2000 Special Charges

To improve returns at base businesses and to complete the integration of recently acquired businesses, during the fourth quarter of 2000, the Company approved and committed to a restructuring program based upon targeted cost reductions in the Automotive, Fastening Systems and Industrial Products segments. The 2000 program includes the consolidation of facilities, outsourcing of non-core production activity, the rationalization of certain product lines, and the divestiture of non-core businesses. Restructuring costs recorded in earnings during the fourth quarter of 2000 included \$16 million of accrued severance-related benefits, outplacement services and certain other exit

costs. Severance and other costs accrued during the fourth quarter of 2000 for the Automotive and Industrial Products segments were \$1 million and \$15 million, respectively. No costs were accrued for Fastening Systems during the fourth quarter. Facility consolidations will occur primarily in the United States and Europe. The Company anticipates incurring additional restructuring charges as it completes and commits to additional activities within Automotive, Fastening Systems and Industrial Products segments. The Company expects to fund the cash requirements of its restructuring activities with cash flow from operations and additional borrowings under its existing credit facilities.

As of December 30, 2000, the Industrial Products segment had terminated 204 employees and Automotive did not yet have any terminations under the 2000 restructuring program.

In conjunction with the restructuring plan and review of long-lived assets including goodwill, the Company recorded an asset impairment charge of \$1 million for fixed assets and \$349 million for goodwill in the fourth quarter of 2000 principally related to Turbine Engine Components Textron (TECT), part of the Industrial Products segment and Flexalloy, part of the Fastening Systems segment. Yearly amortization of this goodwill was approximately \$12 million.

Indicators of potential impairment of long-lived assets including goodwill were identified in connection with multi-year financial planning in the fourth quarter of 2000, as well as the initiation of the 2000 restructuring program. Based on the indicators, the Company performed an overall impairment review for the applicable operating units. Key indicators with respect to TECT, a manufacturer of air and land-based gas turbine engines components and airframe structures, was deteriorating margins and its inability to generate new contracts, which has resulted in a significantly decreased revenue base. Key indicators for Flexalloy, a vendor-managed inventory company, serving primarily the heavy truck industry within Fastening Systems, were its performance against plan and the negative effect on its vendor-managed business model by other supply chain competitors. The business is dependent upon large customers, and the service level for larger customers can not be easily replicated over a large number of smaller customers without significant additional investment. Also, the synergies within Fastening Systems, which were initially viewed to be significant due to Textron's existing market share, have been considerably less than anticipated. Accordingly, future cash flow projections are not expected to achieve the level of growth originally anticipated at the time of Flexalloy's acquisition.

The undiscounted cash flow projections performed for the applicable operating units were less than the carrying amounts of long-lived assets including goodwill indicating that there was an impairment. The discounted pre-tax cash flow calculation for purposes of determining the fair value of the long-lived assets was performed utilizing the multi-year financial plan (adjusted for planned restructuring activities) to project future cash flows and a risk-based rate of 11%. The calculation resulted in a fourth quarter 2000 write down of goodwill for TECT of \$178 million, Flexalloy of \$96 million and \$75 million related to four other operating units. The calculation also showed that fixed assets and approximately \$57 million of remaining goodwill were substantially recoverable at these units. By segment, Automotive recognized goodwill impairment charges of \$27 million and fixed asset impairment charges of \$1 million and Fastening Systems and Industrial Products recognized goodwill impairment charges of \$128 million and \$194 million, respectively, in 2000. The cash flow projections used in performing the review for these operating units were based upon management's best estimate of future results. Actual results could differ materially from those estimates.

Accruable restructuring costs and asset impairment charges recorded in earnings have been included in special charges, net on the consolidated statement of income.

An analysis of Textron's 2000 restructuring related special charges and reserve accounts is summarized below.

<i>(In millions)</i>	Asset Impairments	Severance	Facilities & Other	Total
Balance at January 1, 2000	\$ —	\$ —	\$—	\$ —
Additions	350	15	1	366
Utilized	(350)	(1)	—	(351)
Balance at December 30, 2000	\$ —	\$14	\$1	\$ 15

The specific restructuring measures and associated estimated costs are based on the Company's best judgment under prevailing circumstances. The Company believes that the restructuring reserve balance of \$15 million is adequate to carry out the restructuring activities formally identified and committed to as of December 30, 2000 and anticipates that all actions related to these liabilities will be completed by December 29, 2001.

As discussed in Note 6, the Company recorded an impairment charge of \$117 million in the fourth quarter of 2000 relating to the Company's investment securities. This charge is included in special charges, net on the consolidated statement of income.

1998 - 1999 Special Charges, Net

To enhance the competitiveness and profitability of its core businesses, Textron recorded a pretax charge of \$87 million in the second quarter of 1998. 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 former Industrial segment. The pretax charges associated with the Automotive and former 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.

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 former Industrial segment, certain cost reduction programs in the Fluid and Power Group were suspended as a result of management's evaluation of the opportunities presented by the David Brown acquisition. Some smaller programs were delayed as the Company re-examines strategic alternatives. Others were completed at costs less than originally anticipated.

Concurrently, in 1999 the Company initiated a series of new cost reduction efforts in the former Industrial segment designed to significantly reduce headcount from levels at the beginning of the year. Significant actions included 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 a charge related to asset impairment of \$5 million. In addition, 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.

During fiscal 2000 the Company utilized the remaining \$22 million reserve for severance and other costs for these programs. As of December 30, 2000, the 1998 and 1999 programs have been completed and approximately 3,400 employees have been terminated.

An analysis of Textron's 1998 and 1999 restructuring related special charges and reserve accounts is summarized below.

<i>(In millions)</i>	Asset Impairments	Severance & Other	Total
Initial charge	\$ 28	\$ 49	\$ 77
Utilized	(28)	(9)	(37)
Balance at January 2, 1999	—	40	40
Additions	14	28	42
Utilized	(14)	(22)	(36)
No longer Required	—	(24)	(24)
Balance at January 1, 2000	—	22	22
Additions	—	—	—
Utilized	—	(22)	(22)
Balance at December 30, 2000	\$ —	\$ —	\$ —

Included in special charges, net for 1999 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.

18 Fair Value of Financial Instruments

The estimated fair value amounts shown in the table on the next page 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.

	December 30, 2000		January 1, 2000	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
(In millions)				
Assets:				
Textron Finance:				
Finance receivables	\$4,767	\$4,840	\$4,624	\$4,642
Interest rate exchange agreements	—	(6)	—	—
Other	141	141	46	46
Liabilities:				
Textron Manufacturing:				
Debt	2,061	2,105	1,745	1,740
Interest rate exchange agreements	—	(8)	—	7
Marketable security price forward contracts	26	26	(5)	(5)
Textron Finance:				
Debt	4,667	4,688	4,551	4,535
Interest rate exchange agreements	—	17	—	(2)
Foreign exchange contracts:				
Textron Manufacturing	(1)	(1)	—	(6)
Currency swaps:				
Textron Manufacturing	—	—	(21)	(25)
Textron Finance	—	1	—	—

(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 discounted cash flow analysis 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.

(iii) The estimated fair values of marketable security price forward contracts were determined by quoted market prices of the related securities and represents the amount Textron or its counterparty are required to pay under these agreements.

19 Contingencies and Environmental Remediation

Contingencies

Textron is subject to legal proceedings arising out of the conduct of the Company's business. These proceedings include claims arising from private transactions, government contracts, product liability and environmental, safety and health matters. Some of these legal proceedings seek damages, fines or penalties in substantial amounts or remediation of environmental contamination. Under federal government procurement regulations, certain claims brought by the U.S. Government could result in Textron's suspension or debarment from U.S. Government contracting for a period of time. On the basis of information presently available, Textron believes that these suits and proceedings will not have a material effect on the Company's financial position or results of operations.

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 upon currently available facts, existing technology and presently enacted laws and regulations and 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. Accrued liabilities relate to disposal costs, U.S. Environmental Protection Agency oversight costs, legal fees and operating and maintenance costs for both currently and formerly owned or operated facilities. 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 financial position or results of operations. Based upon information currently available Textron estimates potential environmental liabilities to be in the range of \$70 million to \$200 million. As of December 30, 2000, environmental reserves of approximately \$133 million, of which \$15 million are classified as current liabilities, have been established to address these specific estimated potential liabilities. Textron estimates that its accrued environmental remediation liabilities will likely be paid over the next five to ten years.

20 Segment Reporting

Textron has five reportable segments: Aircraft, Automotive, Fastening Systems, Industrial Products and Finance. See Note 1, for principal markets and pages 61 through 63 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 profit from operations. Segment profit for Textron Manufacturing excludes interest expense, certain corporate expenses, special charges, and gains or losses from the disposition of significant business units. The Finance segment includes interest income, interest expense and distributions on preferred securities of Finance subsidiary trust as part of segment profit. 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>	2000	1999	1998
Aircraft:			
Fixed-Wing Aircraft	\$ 2,814	\$ 2,472	\$1,949
Rotor Aircraft	1,580	1,547	1,431
Automotive:			
Trim	1,842	1,796	1,481
Fuel Systems and Functional Components	1,082	1,072	875
Fastening Systems	2,137	2,082	1,758
Industrial Products:			
Industrial Components and Other	1,432	997	931
Golf, Turf & Specialty Products	823	773	719
Fluid & Power	689	652	363
Finance	691	463	367
	\$13,090	\$11,854	\$9,874

The following tables and page 20 summarize selected financial information by segment:

	Assets			Property, Plant and Equipment Expenditures		
<i>(In millions)</i>	2000	1999	1998	2000	1999	1998
Aircraft	\$ 2,551	\$ 2,348	\$ 2,199	\$154	\$164	\$140
Automotive	1,738	1,800	1,627	127	132	110
Fastening Systems	2,029	2,199	1,760	113	103	113
Industrial Products	2,728	3,003	2,176	115	114	96
Finance	6,131	5,989	3,785	14	11	13
Corporate (including investment in discontinued operations)	3,339	1,743	2,717	4	8	3
Eliminations	(2,146)	(689)	(543)	—	—	—
	\$16,370	\$16,393	\$13,721	\$527	\$532	\$475

	Amortization			Depreciation		
<i>(In millions)</i>	2000	1999	1998	2000	1999	1998
Aircraft	\$ 10	\$10	\$10	\$105	\$ 97	\$ 82
Automotive	14	19	15	87	83	71
Fastening Systems	22	19	13	85	80	70
Industrial Products	41	31	23	84	73	55
Finance	15	7	3	17	12	10
Corporate	10	5	5	4	4	4
	\$112	\$91	\$69	\$382	\$349	\$292

Geographic Data

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

	Revenues ¹			Property, Plant and Equipment ²		
(In millions)	2000	1999	1998	2000	1999	1998
United States	\$ 8,569	\$ 7,540	\$6,404	\$1,791	\$1,718	\$1,466
Canada	798	710	593	127	118	115
Latin America and Mexico	790	738	662	121	68	84
Asia and Australia	603	441	317	13	14	3
Germany	584	694	577	165	187	205
United Kingdom	385	481	283	145	161	171
France	352	344	332	79	82	82
Other	1,009	906	706	164	165	79
	\$13,090	\$11,854	\$9,874	\$2,605	\$2,513	\$2,205

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 \$1.2 billion, \$1.3 billion and \$1.1 billion in 2000, 1999 and 1998, respectively and sales of \$1.5 billion, \$1.6 billion and \$1.3 billion in 2000, 1999, and 1998, respectively to DaimlerChrysler.

21 Other Information – Textron Manufacturing Current Liabilities

Included in accrued liabilities at the end of 2000 and 1999 were the following:

(In millions)	December 30, 2000	January 1, 2000
Customer deposits	\$ 279	\$ 253
Salary, wages and employer taxes	260	232
Reserve for warranties	236	193
Sales rebate	83	76
Other	513	513
Total accrued liabilities	\$1,371	\$1,267

Quarterly Data

(Unaudited)

(Dollars in millions except per share amounts)

	2000				1999			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Aircraft	\$1,251	\$1,171	\$1,013	\$ 959	\$1,267	\$ 955	\$ 937	\$ 860
Automotive	671	654	761	838	747	652	746	723
Fastening Systems	487	504	562	584	535	497	550	500
Industrial Products	718	695	771	760	678	539	602	603
Finance	185	184	170	152	141	122	104	96
Total revenues	\$3,312	\$3,208	\$3,277	\$3,293	\$3,368	\$2,765	\$2,939	\$2,782
Income (loss)								
Aircraft	\$ 139	\$ 127	\$ 107	\$ 78	\$ 129	\$ 91	\$ 75	\$ 67
Automotive	54	40	69	81	63	37	59	61
Fastening Systems	37	47	51	47	37	43	54	56
Industrial Products	83	70	101	89	78	74	82	67
Finance	56	49	44	41	34	38	30	26
Total segment profit	369	333	372	336	341	283	300	277
Special charges, net	(483)	—	—	—	—	3	(2)	—
Total segment operating income (loss)	(114)	333	372	336	341	286	298	277
Corporate expenses and other, net	(43)	(34)	(41)	(46)	(33)	(37)	(35)	(38)
Interest income	6	—	—	—	1	4	6	16
Interest expense	(42)	(42)	(41)	(33)	(29)	(11)	(3)	(13)
Income taxes	(18)	(93)	(104)	(93)	(103)	(90)	(97)	(91)
Distribution on preferred securities of manufacturing subsidiary trust, net of income taxes	(7)	(6)	(7)	(6)	(7)	(6)	(7)	(6)
Income (loss) from continuing operations	(218)	158	179	158	170	146	162	145
Gain on disposal of discontinued operations, net of income taxes	—	—	—	—	31	—	—	1,615
Income (loss) before extraordinary loss and cumulative effect of change in accounting principle	(218)	158	179	158	201	146	162	1,760
Extraordinary loss from debt retirement, net of income taxes	—	—	—	—	—	—	—	(43)
Cumulative effect of change in accounting principle, net of income taxes	—	—	—	(59)	—	—	—	—
Net income (loss)	\$ (218)	\$ 158	\$ 179	\$ 99	\$ 201	\$ 146	\$ 162	\$1,717
Earnings per common share								
Basic:								
Income (loss) from continuing operations	\$ (1.53)	\$ 1.10	\$ 1.25	\$ 1.08	\$ 1.14	\$.97	\$ 1.08	\$.95
Discontinued operations, net of income taxes	—	—	—	—	.21	—	—	10.59
Extraordinary loss from debt retirement, net of income taxes	—	—	—	—	—	—	—	(.28)
Cumulative effect of change in accounting principle, net of income taxes	—	—	—	(.41)	—	—	—	—
Net income (loss)	\$ (1.53)	\$ 1.10	\$ 1.25	\$.67	\$ 1.35	\$.97	\$ 1.08	\$11.26
Average shares outstanding (in thousands)	141,969	143,185	143,981	146,281	148,309	150,069	150,512	152,517
Diluted:								
Income (loss) from continuing operations	\$ (1.53)	\$ 1.08	\$ 1.23	\$ 1.06	\$ 1.12	\$.95	\$ 1.05	\$.93
Discontinued operations, net of income taxes	—	—	—	—	.21	—	—	10.34
Extraordinary loss from debt retirement, net of income taxes	—	—	—	—	—	—	—	(.27)
Cumulative effect of change in accounting principle, net of income taxes	—	—	—	(.40)	—	—	—	—
Net income (loss)	\$ (1.53)	\$ 1.08	\$ 1.23	\$.66	\$ 1.33	\$.95	\$ 1.05	\$11.00
Average shares outstanding (in thousands)*	141,969	145,325	146,304	148,818	151,267	153,406	154,096	156,112
Segment profit margins								
Aircraft	11.1%	10.8%	10.6%	8.1%	10.2%	9.5%	8.0%	7.8%
Automotive	8.0	6.1	9.1	9.7	8.4	5.7	7.9	8.4
Fastening Systems	7.6	9.3	9.1	8.0	6.9	8.7	9.8	11.2
Industrial Products	11.6	10.1	13.1	11.7	11.5	13.7	13.6	11.1
Finance	30.3	26.6	25.9	27.0	24.1	31.1	28.8	27.1
Segment profit margin	11.1	10.4	11.4	10.2	10.1	10.2	10.2	10.0
Common stock information								
Price range: High	\$55.38	\$60.38	\$65.56	\$74.94	\$77.75	\$ 90.50	\$97.00	\$81.44
Low	\$41.44	\$44.88	\$53.94	\$51.50	\$68.44	\$ 74.50	\$78.31	\$70.00
Dividends per share	\$.325	\$.325	\$.325	\$.325	\$.325	\$.325	\$.325	\$.325

*Assumes full conversion of outstanding preferred stock and exercise of options. The average share base for the fourth quarter 2000 excludes potentially dilutive common shares (convertible preferred stock and stock options). These shares are excluded due to their antidilutive effect resulting from the loss from continuing operations.

Selected Financial Information

(Dollars in millions except where otherwise noted and per share amounts)

	2000	1999	1998	1997	1996	1995	1994	1993	1992
Revenues									
Aircraft	\$ 4,394	\$ 4,019	\$ 3,380	\$ 3,217	\$ 2,774	\$ 2,532	\$ 2,309	\$ 2,124	\$ 1,609
Automotive	2,924	2,868	2,356	2,072	1,577	1,475	1,466	1,125	732
Fastening Systems	2,137	2,082	1,758	1,498	1,355	797	635	440	420
Industrial Products	2,944	2,422	2,013	1,738	1,654	1,777	2,392	2,719	2,944
Finance	691	463	367	350	327	311	277	259	258
Total revenues	\$13,090	\$11,854	\$ 9,874	\$ 8,875	\$ 7,687	\$ 6,892	\$ 7,079	\$ 6,667	\$ 5,963
Income									
Aircraft	\$ 451	\$ 362	\$ 338	\$ 313	\$ 261	\$ 237	\$ 194	\$ 172	\$ 128
Automotive	244	220	171	141	135	123	124	81	59
Fastening Systems	182	190	186	167	148	101	86	45	40
Industrial Products	343	301	232	188	163	161	170	200	254
Finance	190	128	113	108	96	88	83	74	62
Total segment profit	1,410	1,201	1,040	917	803	710	657	572	543
Special charges, net	(483)	1	(87)	—	—	—	—	—	—
Gain on sale of division	—	—	97	—	—	—	—	—	—
Total segment operating income	927	1,202	1,050	917	803	710	657	572	543
Corporate expenses and other, net	(164)	(143)	(141)	(152)	(125)	(128)	(101)	(109)	(89)
Interest expense, net	(152)	(29)	(146)	(117)	(138)	(169)	(181)	(208)	(230)
Income taxes	(308)	(381)	(294)	(250)	(211)	(165)	(160)	(87)	(87)
Distributions on preferred securities of manufacturing subsidiary trust, net of income taxes	(26)	(26)	(26)	(26)	(23)	—	—	—	—
Income from continuing operations*	\$ 277	\$ 623	\$ 443	\$ 372	\$ 306	\$ 248	\$ 215	\$ 168	\$ 137
Per share of common stock									
Income from continuing operations-basic*	\$ 1.92	\$ 4.14	\$ 2.74	\$ 2.25	\$ 1.82	\$ 1.45	\$ 1.21	\$.95	\$.78
Income from continuing operations-diluted*	\$ 1.90	\$ 4.05	\$ 2.68	\$ 2.19	\$ 1.78	\$ 1.43	\$ 1.19	\$.94	\$.77
Dividends declared	\$ 1.30	\$ 1.30	\$ 1.14	\$ 1.00	\$.88	\$.78	\$.70	\$.62	\$.56
Book value at year-end	\$ 28.24	\$ 29.67	\$ 19.27	\$ 19.78	\$ 19.10	\$ 19.96	\$ 16.72	\$ 15.59	\$ 14.05
Common stock price: High	\$ 74.94	\$ 97.00	\$ 80.31	\$ 70.75	\$ 48.88	\$ 38.69	\$ 30.31	\$ 29.44	\$ 22.38
Low	\$ 41.44	\$ 68.44	\$ 52.06	\$ 45.00	\$ 34.56	\$ 24.31	\$ 23.25	\$ 20.19	\$ 16.88
Year-end	\$ 46.50	\$ 76.69	\$ 75.94	\$ 62.63	\$ 46.69	\$ 33.75	\$ 25.19	\$ 29.13	\$ 22.38
Common shares outstanding (in thousands):									
Basic average	143,923	150,389	161,254	164,830	167,453	169,848	176,474	176,071	173,334
Diluted average**	146,150	153,754	165,374	169,503	171,652	173,252	180,208	179,713	177,087
Year-end	140,933	147,002	154,742	167,315	169,745	173,340	174,616	180,509	178,366
Financial position									
Total assets	\$16,370	\$16,393	\$13,721	\$11,330	\$11,514	\$11,207	\$10,374	\$10,462	\$10,009
Debt:									
Textron Manufacturing	\$ 2,084	\$ 1,767	\$ 2,615	\$ 1,221	\$ 1,507	\$ 1,774	\$ 1,582	\$ 2,025	\$ 2,283
Textron Finance	\$ 4,667	\$ 4,551	\$ 2,829	\$ 2,365	\$ 2,441	\$ 2,277	\$ 2,162	\$ 2,037	\$ 1,873
Preferred securities of subsidiary trusts:									
Textron Manufacturing	\$ 484	\$ 483	\$ 483	\$ 483	\$ 483	\$ —	\$ —	\$ —	\$ —
Textron Finance	\$ 28	\$ 29	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Shareholders' equity	\$ 3,994	\$ 4,377	\$ 2,997	\$ 3,228	\$ 3,183	\$ 3,412	\$ 2,882	\$ 2,780	\$ 2,488
Textron Manufacturing debt to total capital	32%	27%	43%	25%	29%	34%	35%	42%	48%
Investment data									
Capital expenditures	\$ 527	\$ 532	\$ 475	\$ 374	\$ 312	\$ 258	\$ 274	\$ 227	\$ 199
Depreciation	\$ 382	\$ 349	\$ 292	\$ 254	\$ 213	\$ 188	\$ 201	\$ 196	\$ 188
Research and development	\$ 721	\$ 670	\$ 613	\$ 602	\$ 576	\$ 656	\$ 611	\$ 514	\$ 430
Other data									
Number of employees at year-end	71,000	68,000	64,000	56,000	49,000	46,000	43,000	46,000	44,000
Number of common shareholders at year-end	21,000	22,000	23,000	24,000	25,000	26,000	27,000	28,000	30,000

* Before cumulative effect of change in accounting principles in 2000 and 1992.

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

Textron Business Directory

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.

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

Jack W. Sights
Chairman, President and CEO

Automotive interior and exterior trim, fuel systems and functional components.

CWC Textron

Jed A. Larsen
President

Gray iron and ductile iron castings, primarily camshafts for automotive OEMs and aftermarket.

Kautex Textron

Lothar Rosenkranz
President and CEO

Fuel tank systems, automotive windshield and headlamp washing systems and other automotive functional components. Includes: *Kautex Textron* and *McCord Winn Textron*.

Textron Automotive Trim

William F. Maclean
President

Instrument panels, cockpit systems, interior trim, door trim panels, center consoles, painted fascias and exterior trim and exterior lighting.

Fastening Systems

Textron Fastening Systems

Joachim V. Hirsch
Chairman, President and CEO

Engineered fastening systems, components, assemblies and value-added services for the automotive, telecommunications, aerospace, electronics, construction and transportation markets.

Automotive Solutions

Camilla Denison
President – Americas
Peter Billmann
President – Europe

Engineered fastening systems, specialty stamping components and assemblies for the automotive market. Includes: *Avdel*, *Cherry*, *Ring Screw*, *Elco*, *Camcar*, *Mapri*, *Textron Industries S.A.*, *Sükosim*, *BSK*, *Boesner*, *PUT* and *Oelschläger*.

Commercial Solutions

William R. Barker
President

Engineered fastening systems, components, assemblies and vendor managed inventory for commercial markets. Includes: *Avdel*, *Camcar*, *Cherry*, *Elco*, *Flexalloy*, *Textron Aerospace Fasteners*, *Textron Logistics Company* and *Tri-Star*.

Advanced Solutions

Leonard Griffin
President

Full-service plastics solutions provider for the telecommunications, automotive, computer and business machines, medical and consumer industries. Includes: *InteSys*, *Advantage* and *Rego Mold & Tool*.

Industrial Products

Textron Industrial Products	Sam Licavoli Chairman, President and CEO	Fluid and power systems; golf, turf-care and specialty products; electrical tools and technologies; light construction equipment and industrial components.
Textron Fluid and Power Systems	James A. Koerner President	Motion control, power transmission and fluid handling products for the industrial, commercial, pharmaceutical, aerospace, transportation and defense industries.
Textron Motion Control	Michael J. Brennan President	Motion control components and systems, proprietary machine tools for the industrial and automotive markets. Includes: <i>David Brown Hydraulics, Energy Manufacturing, Micromatic Textron</i> and <i>Williams Machine and Tool</i> .
Textron Power Transmission	Anton C. Elsborg President	Mechanical power transmission components and systems for the industrial, mining, mobile equipment and transportation markets. Includes: <i>AB Benzlers, Cone Drive Textron, David Brown Textron</i> and <i>Textron Industrial S.p.A.</i>
Textron Fluid Handling Products	Gregory C. Schreiber President	Pumps and systems used in the plastics, chemical, oil and gas, and pharmaceutical industries. Includes: <i>David Brown Guinard Pumps, David Brown Union Pumps</i> and <i>Maag Pump Systems</i> .
Textron Systems	Richard J. Millman President	Autonomous real-time control systems, components, materials for weapons, surveillance, aircraft, turret- and missile-controls, agriculture, automotive, industrial and telecommunications applications; specialty marine and land vehicles. Includes: <i>Textron Systems, HR Textron</i> and <i>Textron Marine & Land Systems</i> .
Textron Marine & Land Systems	Laszlo G. Bujdoso President	
Textron Golf, Turf & Specialty Products	Gregory E. Hyland Chairman and CEO	Electric- and gasoline-powered golf cars, professional mowing and turf maintenance equipment, multi-purpose utility vehicles and cleaning equipment for the worldwide golf, municipal and commercial markets. Includes: <i>E-Z-GO, Jacobsen, Ransomes, Bob-Cat, Brouwer, Bunton, Cushman, Iseki, Ryan</i> and <i>Steiner</i> .
Greenlee Textron	Barclay S. Olson President	Products for wire and cable installation, maintenance and testing in residential, commercial, industrial and telecommunication markets. Includes: <i>Greenlee, RIFOCs, Progressive Electronics, Fairmont, Klauke, Tempo, Chesilvale</i> and <i>IMAP</i> .

OmniQuip Textron	Stephen R. Light President and CEO	Light construction equipment including telescopic material handlers, aerial work platforms, skid steer loaders and compact construction equipment. Includes: <i>LULL, SCAT TRAK, SKY TRAK and SNORKEL</i> .
Textron Industrial Components	James A. Koerner President	Components for the commercial aerospace and defense industries.
<i>Textron Lycoming</i>	James A. Koerner President	Piston aircraft engines and replacement parts for the general aviation market.
<i>Turbine Engine Components Textron</i>	R. Jeffrey Copeland 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 and broadcast media. Other financial services include floorplanning, factoring, vendor programs, portfolio servicing, asset management, insurance brokerage and syndications.

Advantage, Avdel, Bell Helicopter, Bell 206B Jet Ranger, Bell 206L-4 Long Ranger, Bell 47, Bell 407, Bell 427, Bell 430, Bell 412 EP, Bell AB139, Bell OH-58D Kiowa Warrior, Bell AH-1W Super Cobra, Bell TH-67 Trainer, UH-1Y, AH-1Z, Bell Boeing V-22 Tiltrotor, Bell Agusta 609 Tiltrotor, AB Benzlers, Bob-Cat, Boesner, Brouwer, Bunton, Camcar, Cessna Aircraft, Cessna Citation CJ1, Cessna Citation CJ2, Cessna Citation Bravo, Cessna Citation Encore, Cessna Citation Excel, Cessna Citation Sovereign, Cessna Citation X, Cessna Caravan 208, Cessna Caravan 208B, Cessna Skyhawk 172, Cessna Skyhawk 172SP, Cessna 182 Skylane, Cessna T182 Skylane, Cessna Stationair 206, Cessna Stationair T206, Cherry, Chesilvale, Citation Service Centers, CitationShares, Cone Drive, Cushman, CWC Textron, David Brown Guinard Pumps, David Brown Hydraulics, David Brown Textron, David Brown Union Pumps, Elco, Energy Manufacturing, E-Z-GO, E-Z-GO Workhorse, Fairmont, Flexalloy, Greenlee, HR Textron, IMAP, Intellimold, InteSys, Iseki, Jacobsen, Kautex Textron, Klauke, LULL, Textron Lycoming, Maag Pump Systems, Mapri, McCord Winn, Micromatic Textron, Oelschläger, OmniQuip, PUT, Progressive Electronics, Ransomes, Rego Mold & Tool, RIFOCS, Ring Screw, Ryan, SCAT TRAK, SKY TRAK, SNORKEL, Steiner, Sükosim, Tempo, Textron Inc., Textron Aerospace Fasteners, Textron Automotive Trim, Textron Fastening Systems, Textron Fastening Systems Advanced Solutions, Textron Fastening Systems Automotive Solutions, Textron Fastening Systems Commercial Solutions, Textron Financial, Textron Financial Corporation, Textron Fluid and Power Systems, Textron Fluid Handling Products, Textron Golf, Turf & Specialty Products, Textron Industrial Components, Textron Industrial Products, 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 Quality Management, Textron Systems, Tri-Star, Turbine Engine Components Textron, Williams Machine and Tool, 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.

Shareholder Information

Corporate Headquarters

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Providence, Rhode Island 02903
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www.textron.com

Annual Meeting

Textron's annual meeting of shareholders will be held on Wednesday, April 25, 2001, at 10:30 a.m. at the Rhode Island Convention Center, Providence, Rhode Island.

Transfer Agent, Registrar and Dividend Paying Agent

For shareholder services such as change of address, lost certificates or dividend checks, change in registered ownership, preferred stock conversion services or the Dividend Reinvestment Plan, write or call:

First Chicago Trust Company, a division of Equiserve
P. O. Box 2500
Jersey City, New Jersey 07303-2500
(800) 519-3111
www.equiserve.com

Dividend Reinvestment Plan

A Dividend Reinvestment Plan, offered through First Chicago Trust Company, a division of Equiserve, provides shareholders of Textron common stock a convenient way to purchase additional shares without paying brokerage, commission or other service fees. More information and an authorization form may be obtained by writing or calling First Chicago. Or, you may visit First Chicago's worldwide web site on the Internet at www.equiserve.com.

Stock Exchange Information (Symbol: TXT)

Textron common stock is listed on the New York, Chicago and Pacific Stock Exchanges. Textron's preferred stocks (\$2.08 and \$1.40) are traded only on the New York Stock Exchange.

Investor Relations/Public Relations

Textron Inc.
Communications and Investor Relations Department
40 Westminster Street
Providence, Rhode Island 02903
Investors and security analysts should call: (401) 457-2288
Members of the news media should call: (401) 457-2394

For more information regarding Textron and its businesses, visit our worldwide web site on the Internet at www.textron.com.

Company Publications and General Information

To receive a copy of Textron's Forms 10-K and 10-Q, proxy statement, Annual Report or the most recent company news and earnings press releases, call (888) TXT-LINE or send your written request to Textron's Communications and Investor Relations department at the address listed above.

Textron is an Equal Opportunity Employer.

TEXTRON
2000 ANNUAL REPORT



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