SFUND RECORDS CTR
2166-04750

SFUND RECORDS CTR
88134171
ITX 2166-04750

EXHIBIT A

TRAINING

RESPONSE TO QUESTION #15

question 15

WORKING SAFELY WITH HAZARDOUS SUBSTANCES

EMPLOYEE SIGN IN SHEET.

SIGNATURE	PRINT NAME	DATE
Lafayette Garcia	LAFAYETTE GARCIA	9/7/90
Billy Durham	BILLY DURHAM	9/7/90

0-24-90 PART I
GROUP I

WORKING SAFELY WITH HAZARDOUS SUBSTANCES

EMPLOYEE SIGN IN SHEET.

SIGNATURE	PRINT NAME	DATE
~~Lonsinger~~		
[illegible]	LONSINGER JOHN	8/24/90
Herminio Zamora	Herminio Zamora	8/24/90
[illegible]	TOM GLOVER	8/24/90
Jerry Dellita	Jerry Dellita	8/24/90
Rigoberto Guerrero	RIGOBERTO GUERRERO	8/24/90
Charles W Zimmerman	CHARLES W ZIMMERMAN	8/24/90
	NEIL HENRICKSEN	9-7-90
	RUDY RODRIGES	9-7-90
	FRANCISCO GONZALES	9-7-90
	M. RIVERA	9-7-90
	L. GARCIA	9-7-90
	B. DURHAM	9-7-90
Chuck Youngjohn	C. YOUNGJOHN	9-7-90

Sheet 1

WORKING SAFELY WITH HAZARDOUS SUBSTANCES

EMPLOYEE SIGN IN SHEET.

SIGNATURE	PRINT NAME	DATE
[illegible]	JOHN LOUSINGER	8/27/90
[illegible]	H. ZAMORA	8/27/90
[illegible]	TOM GLAVER	8/27/90
[illegible]	RIGO GUERRERO	8/27/90
[illegible]	JERRY DUTTA	8/27/90

TRAINING

FACILITIES ~~WORK~~ SCHEDULE

~~SATURDAY~~ 12-18-90

SUPERVISOR B.L. Jones

HAZARDOUS WASTE - UNIT #1
HAZARDOUS WASTE - UNIT #7

	CLOCK#	1st SHIFT	YES	NO	WORKLOAD
MMT	6528	D. Fleming	DF		
	7130	J. Lonsinger/Ld			
GEN	0048	C. Zimmerman CZ	X		
	5763	R. Guerrero			
	6946	G. DeVita			
	7865	N. Henricksen/Ld	X		
	8382	T. Glover	X		
"B"	6034	J. Enriquez			
	9490	T. Johnson			
JAN	8304	B. Durham	BDD		
	9029	M. Rivera	M.A.R.		
	9233	F. Salazar	F.S.		
NCT	1138	J. Dugan/Ld			
	3128	R. Holmes	RH X		

2ND SHIFT

MMT	5419	L. Garcia/Ld	L.G.	
NCT	7054	N. Hydreos		
JAN	9390	F. Gonzales	F	G
	7083	C. YoungJohn	cy X	

Revision: 11-90

10-18-90

SPILLS HAPPEN

EMPLOYEE SIGN IN SHEET:

SIGNATURE	PRINT NAME
	JOE V. ENRIQUEZ
	Jerry DeLita
	JOHN LONSINGER
	RIGOBERTO GUERRERO
	Rudy Rodriguez
	Thomas Romero
	CHARLES W ZIMMERMAN
	DUANE FLEMING
	MIGUEL RIVERA
	TOM GLOVER
	Jerry Dugan
	[illegible]
	CHUCK YOUNGSOWN

#1 Employee Introduction to RCRA 24

	Dept	Ext.
1 Jeff Wheeler	283	
2 NEIL HENRICKSEN	285	332
3 ROGER SIMMONS	281	
4 Jerry DeVita	285	355
5 B L JONES	285	332

9:30 – 11:30 Classroom + At Blower site

(See outline) JRW 2-15-91

ENVIRONMENTAL CONTAINMENT PRODUCTS 904/448-8870

ENPAC

Send copy to Jeff Wheeler 2/19/91

Tom S. 2/15/91

2166-04750

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 10–Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal quarter ended March 30, 1991
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1–5480

TEXTRON INC.

(Exact name of registrant as specified in its charter)

Delaware	05–0315468
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

40 Westminster Street, Providence, RI 02903
401–421–2800
(Address and telephone number of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Common stock outstanding at April 27, 1991 – 85,411,000 shares

350189

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

TEXTRON INC.

Consolidated Statement of Income (unaudited)

(Dollars in millions except per share amounts)

	Three Months Ended	
	March 30, 1991	March 31, 1990
Revenues		
Sales	$ 1,271.8	$ 1,296.5
Interest, discount and service charges	295.9	269.5
Insurance premiums	254.2	236.3
Investment income (including net capital gains)	86.8	81.6
Total revenues	1,908.7	1,883.9
Costs and expenses		
Cost of sales	1,015.8	1,029.3
Selling and administrative	335.7	327.9
Interest expense	193.7	188.2
Provision for losses on collection of finance receivables, less recoveries	29.3	24.1
Insurance benefits and increase in policy liabilities	188.4	174.1
Amortization of insurance policy acquisition costs	33.5	34.7
Total costs and expenses	1,796.4	1,778.3
Income before income taxes	112.3	105.6
Income taxes	45.9	39.4
Net income	$ 66.4	$ 66.2
Net income per common share	$ .76	$ .73
Average shares outstanding*	86,948,000	90,624,000
Dividends per share:		
$2.08 Preferred stock, Series A	$.52	$.52
$1.40 Preferred stock, Series B	$.35	$.35
Common stock	$.25	$.25

**Average shares outstanding assume full conversion of preferred stock and exercise of options.*

See notes to consolidated financial statements.

Item 1. FINANCIAL STATEMENTS (Continued)

TEXTRON INC.

Consolidated Balance Sheet (unaudited)

(In millions)

	March 30, 1991	December 29, 1990
Assets		
Cash	$ 42.5	$ 66.4
Investments	3,463.3	3,348.1
Receivables – net:		
Finance	5,896.7	5,889.5
Commercial and U.S. Government	861.5	793.9
	6,758.2	6,683.4
Inventories	1,365.3	1,294.2
Property, plant and equipment – net	1,000.6	1,000.7
Unamortized insurance policy acquisition costs	583.7	566.1
Goodwill, less accumulated amortization of $214.9 and $205.3	1,035.6	1,045.2
Other assets	911.9	887.4
Total assets	$ 15,161.1	$ 14,891.5
Liabilities and shareholders' equity		
Liabilities		
Accounts payable	$ 478.7	$ 521.9
Income taxes (principally deferred)	289.0	328.7
Accrued liabilities	1,234.8	1,237.8
Insurance reserves and claims	2,993.9	2,896.4
Debt:		
Textron Parent Company Borrowing Group	2,147.3	1,925.4
Finance and insurance subsidiaries	5,297.8	5,318.9
	7,445.1	7,244.3
Total liabilities	12,441.5	12,229.1
Shareholders' equity		
Capital stock:		
Preferred stock	20.2	20.6
Common stock*	11.3	11.3
Capital surplus	645.0	644.6
Retained earnings	2,228.6	2,183.8
Unearned compensation related to employee stock ownership plan	(69.3)	(73.1)
Other	16.6	19.9
	2,852.4	2,807.1
Less cost of treasury shares	132.8	144.7
Total shareholders' equity	2,719.6	2,662.4
Total liabilities and shareholders' equity	$ 15,161.1	$ 14,891.5
*Common shares outstanding	85,353,000	84,777,000

See notes to consolidated financial statements.

Item 1. FINANCIAL STATEMENTS (Continued)

TEXTRON INC.

Consolidated Statement of Cash Flows (unaudited)

(In millions)

	Three Months Ended	
	March 30, 1991	March 31, 1990
Cash flows from operating activities:		
Net income	$ 66.4	$ 66.2
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	43.5	44.0
Amortization	10.2	10.1
Provision for losses on receivables	41.0	30.3
Deferred income taxes	(1.2)	5.8
Increase in insurance policy liabilities	71.2	64.1
Amortization of insurance policy acquisition costs	33.5	34.7
Gains on sales of investments	(3.0)	(2.2)
Changes in assets and liabilities:		
Increase in commercial and U.S. Government receivables	(73.7)	(126.9)
Increase in inventories	(71.1)	(51.6)
Additions to insurance policy acquisition costs	(51.1)	(44.8)
Increase in other assets	(27.1)	(27.8)
Increase (decrease) in accounts payable	(41.3)	11.9
Decrease in income taxes payable	(36.8)	(36.3)
Increase (decrease) in accrued liabilities	(0.2)	8.2
Decrease in unearned insurance premiums and reserves for insurance losses and adjustment expenses	(2.1)	(1.0)
Other – net	7.4	(10.0)
Net cash used by operating activities	(34.4)	(25.3)
Cash flows from investing activities:		
Purchases of investments	(287.7)	(237.5)
Proceeds from sales of investments	179.3	137.5
Finance receivables originated or purchased	(872.2)	(794.2)
Finance receivables repaid or sold	746.1	726.7
Collections on notes receivable	0.5	0.4
Capital expenditures	(37.3)	(49.2)
Proceeds from sales of property, plant and equipment	2.7	2.6
Net cash used by investing activities	(268.6)	(213.7)
Cash flows from financing activities:		
Increase (decrease) in short-term debt	(117.1)	81.6
Proceeds from issuance of long-term debt	827.3	453.1
Principal payments on long-term debt	(428.4)	(289.9)
Receipts from interest sensitive insurance products	38.5	25.5
Return of account balances on interest sensitive insurance products	(19.2)	(24.9)
Dividends paid	(21.6)	(22.6)
Net cash provided by financing activities	279.5	222.8
Effect of exchange rate changes on cash	(0.4)	(0.3)
Net decrease in cash	(23.9)	(16.5)
Cash at beginning of period	66.4	29.3
Cash at end of period	$ 42.5	$ 12.8

See notes to consolidated financial statements.

Item 1. FINANCIAL STATEMENTS (Continued)

TEXTRON INC.
Notes to Consolidated Financial Statements (unaudited)

Note 1: Summary of significant accounting policies

The financial statements should be read in conjunction with the financial statements included in Textron's Form 10-K for the year ended December 29, 1990. The financial statements reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of Textron's consolidated financial position at March 30, 1991 and December 29, 1990, and the consolidated results of operations and cash flows for each of the three month periods ended March 30, 1991 and March 31, 1990. The results of operations for the three months ended March 30, 1991 are not necessarily indicative of results for the full year.

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (FAS 106), which is required to be implemented by Textron by the beginning of 1993. When implemented, FAS 106 will require Textron to recognize the cost of providing postretirement benefits other than pensions using the accrual method of accounting. Currently, Textron expenses such costs as paid. In the year of adoption of FAS 106, the transition obligation may be recognized immediately or amortized over 20 years.

Textron is currently studying its postretirement benefit plans and the impact of FAS 106 on its consolidated financial statements. Although the study is not yet complete and is dependent on the benefit plans in place in the year of adoption, the impact of FAS 106 on Textron's consolidated financial statements is expected to be significant.

In 1987, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (FAS 96), which is required to be implemented by Textron no later than the beginning of 1992. Adoption of FAS 96 may be made by either a restatement of prior years' financial statements or a cumulative effect charge to income in the year of adoption.

As originally issued, FAS 96 would require Textron to modify its income tax accounting so that deferred taxes are stated at prevailing rates. In addition, FAS 96 would establish more restrictive criteria for the recognition of deferred tax assets and would significantly modify the accounting for income taxes in purchase business combinations. However, the FASB is considering requests to amend FAS 96 so as to (a) permit the recognition of deferred tax assets in certain circumstances, (b) reduce the complexities of FAS 96 and (c) delay the implementation date of FAS 96.

Item 1. FINANCIAL STATEMENTS (Continued)

Textron is continuing to study the impact of FAS 96 (including consideration of possible amendments thereto) on its consolidated financial statements. Although the study is not yet complete, adoption of this statement as originally issued could possibly reduce shareholders' equity by an amount up to $150 million. The effect of certain amendments being considered by the FASB would likely be to reduce this impact, possibly significantly.

Note 2: Textron borrowing groups

Textron consists of two borrowing groups -- the Textron Parent Company Borrowing Group (consisting of all entities of Textron other than its finance and insurance subsidiaries) and the finance and insurance subsidiaries. See Note 9 for financial information about each borrowing group.

Note 3: Acquisition of Avdel plc

In early 1989, Textron acquired Avdel plc, a fastening systems manufacturing business based in England, the total cost of which approximated $250 million. Avdel had net assets with a historical book value of approximately $40 million at December 31, 1988. In March 1989, the U.S. Federal Trade Commission (FTC) obtained a preliminary injunction from the U.S. District Court for the District of Columbia enjoining Textron from assuming or exercising any form of direction or control over the assets or operations of Avdel until a determination has been made as to whether the acquisition of Avdel by Textron would, as the FTC asserts, restrict competition in violation of Section 5 of the FTC Act and Section 7 of the Clayton Act. As a result of the preliminary injunction and in accordance with generally accepted accounting principles, Textron is precluded from consolidating in its financial statements the results of operations of Avdel and is therefore carrying its investment in Avdel at cost. A hearing before an FTC Administrative Law Judge, at which Textron is defending the acquisition of Avdel, began in Washington, D.C. in October 1990 and is expected to end in mid-May 1991. A ruling by the Administrative Law Judge is not expected before fall 1991. The preliminary injunction of the U.S. District Court will remain in effect until there is a final resolution to the litigation.

While Textron's results of operations for each of the three month periods ended March 30, 1991 and March 31, 1990 do not include the results of Avdel, they do include (a) interest expense of $4.7 million and $5.3 million, respectively, on the borrowings related to the purchase of Avdel and (b) cash dividends received from Avdel of $.2 million and $6.1 million, respectively.

For the full year of 1990 (the latest period for which public information is available relative to Avdel's operating results), Avdel's sales and earning before income taxes were approximately $163 million and $22 million, respectively. Avdel's sales were $149 million in 1989 and its earnings before income taxes were $23 million. Such results do not reflect any purchase adjustments which would be required as a result of Textron's acquisition of Avdel, principally amortization of goodwill.

Item 1. FINANCIAL STATEMENTS (Continued)

Note 4: Finance receivables - net

	March 30, 1991	December 29, 1990
	(In millions)	
Finance receivables	$6,295.0	$6,292.7
Less allowance for credit losses	177.0	176.0
Less finance-related insurance reserves and claims	221.3	227.2
	$5,896.7	$5,889.5

Note 5: Inventories

	March 30, 1991	December 29, 1990
	(In millions)	
Finished goods	$ 243.7	$ 240.0
Work in process	1,283.7	1,232.9
Raw materials	186.9	184.3
	1,714.3	1,657.2
Less progress payments	349.0	363.0
	$1,365.3	$1,294.2

Note 6: Insurance reserves and claims

	March 30, 1991	December 29, 1990
	(In millions)	
Future policy benefits and claim liabilities	$1,735.2	$1,673.9
Premium deposits and purchase payment funds	1,081.4	1,045.8
Unearned insurance premiums	120.1	118.6
Losses and adjustment expenses	57.2	58.1
	$2,993.9	$2,896.4

Item 1. FINANCIAL STATEMENTS (Continued)

Note 7: Supplemental cash flow information

	Three Months Ended	
	March 30, 1991	March 31, 1990
	(In millions)	
Cash payments for interest:		
Textron Parent Company Borrowing Group	$ 49.2	$ 62.6
Finance and insurance subsidiaries	101.7	105.6
	$ 150.9	$ 168.2
Cash payments for income taxes	$ 74.5	$ 73.4

Note 8: Contingencies

There are pending or threatened against Textron and its subsidiaries lawsuits and other proceedings, including the proceedings described in Note 3 above, some of which allege violations of federal government procurement regulations, involve environmental matters, or are or purport to be class actions. Among these suits and proceedings are some which seek compensatory, treble or punitive damages in substantial amounts; fines, penalties or restitution; the cleanup of allegedly hazardous wastes; or, under federal government procurement regulations, could result in suspension or debarment of Textron or its subsidiaries from U.S. Government contracting for a period of time. These suits and proceedings are being defended or contested on behalf of Textron and its subsidiaries. On the basis of information presently available, Textron believes that any such liability or the impact of the application of relevant government regulations would not have a material effect on Textron's financial condition.

See Part II, Item 1., LEGAL PROCEEDINGS.

Note 9: Financial information by borrowing group

Textron consists of two borrowing groups - the Textron Parent Company Borrowing Group and the finance and insurance subsidiaries.

The Textron Parent Company Borrowing Group is comprised of all entities of Textron other than its finance and insurance subsidiaries. The financial statements of this group as set forth below reflect Textron's investments in its finance and insurance subsidiaries on the equity basis. Its sources of cash flow include dividends paid by the finance and insurance subsidiaries, as well as cash generated by other operating units.

The finance and insurance subsidiaries finance their respective operations by borrowing from their own group of external creditors.

Item 1. FINANCIAL STATEMENTS (Continued)

Note 9: Financial information by borrowing group (continued)

TEXTRON PARENT COMPANY BORROWING GROUP
(unaudited) (In millions)

Statement of Income	Three Months Ended March 30, 1991	Three Months Ended March 31, 1990
Revenues	$ 1,272.2	$ 1,297.0
Costs and expenses		
Cost of sales	1,015.8	1,029.3
Selling and administrative	163.0	168.3
Interest expense	62.0	65.2
Total costs and expenses	1,240.8	1,262.8
	31.4	34.2
Equity in pre-tax income of finance and insurance subsidiaries	80.9	71.4
Income before income taxes	112.3	105.6
Income taxes	45.9	39.4
Net income	$ 66.4	$ 66.2

Balance Sheet	March 30, 1991	December 29, 1990
Assets		
Cash	$ 11.7	$ 32.5
Receivables – net	868.7	786.3
Inventories	1,365.3	1,294.2
Investments in finance and insurance subsidiaries	1,762.6	1,729.7
Property, plant and equipment – net	875.7	877.0
Goodwill, less accumulated amortization of $96.6 and $91.7	685.2	690.1
Other assets	621.7	608.6
Total assets	$ 6,190.9	$ 6,018.4
Liabilities and shareholders' equity		
Accounts payable, income taxes and accrued liabilities	$ 1,324.0	$ 1,430.6
Debt	2,147.3	1,925.4
Shareholders' equity	2,719.6	2,662.4
Total liabilities and shareholders' equity	$ 6,190.9	$ 6,018.4

Item 1. FINANCIAL STATEMENTS (Continued)

Note 9: Financial information by borrowing group (continued)

TEXTRON PARENT COMPANY BORROWING GROUP (continued)
(unaudited) (In millions)

	Three Months Ended	
Statement of Cash Flows	March 30, 1991	March 31, 1990
Cash flows from operating activities:		
Net income	$ 66.4	$ 66.2
Adjustments to reconcile net income to net cash used by operating activities:		
Undistributed earnings of finance and insurance subsidiaries	(35.0)	(28.6)
Depreciation	39.0	39.7
Amortization	5.6	5.5
Changes in assets and liabilities:		
Increase in receivables	(88.4)	(129.6)
Increase in inventories	(71.1)	(51.6)
Increase in other assets	(24.0)	(34.0)
Decrease in accounts payable, income taxes payable and accrued liabilities	(106.5)	(95.7)
Other – net	16.4	18.0
Net cash used by operating activities	(197.6)	(210.1)
Cash flows from investing activities:		
Purchases of investments	(0.9)	(0.3)
Proceeds from sales of investments	2.7	3.3
Collections on notes receivable	0.5	0.4
Capital expenditures	(32.1)	(44.2)
Proceeds from sales of property, plant and equipment	2.7	2.6
Net cash used by investing activities	(27.1)	(38.2)
Cash flows from financing activities:		
Increase (decrease) in short-term debt	(0.1)	0.7
Proceeds from issuance of long-term debt	387.5	409.7
Principal payments on long-term debt	(161.7)	(139.7)
Dividends paid	(21.6)	(22.6)
Net cash provided by financing activities	204.1	248.1
Effect of exchange rate changes on cash	(0.2)	–
Net decrease in cash	(20.8)	(0.2)
Cash at beginning of period	32.5	3.7
Cash at end of period	$ 11.7	$ 3.5

Item 1. FINANCIAL STATEMENTS (Continued)

Note 9: Financial information by borrowing group (continued)

FINANCE AND INSURANCE SUBSIDIARIES
(unaudited) (In millions)

	Three Months Ended	
Statement of Income	March 31, 1991	March 31, 1990
Revenues		
Interest, discount and service charges	$ 295.9	$ 269.5
Credit life, credit disability and casualty insurance premiums	74.4	68.7
Non-cancellable disability income, life and group insurance premiums	179.8	167.6
Investment income (including net capital gains)	86.4	81.1
Total revenues	636.5	586.9
Costs and expenses		
Selling and administrative	172.7	159.6
Interest expense	131.7	123.0
Provision for losses on collection of finance receivables, less recoveries	29.3	24.1
Credit life, credit disability and casualty insurance losses and adjustment expenses, less recoveries	30.2	27.5
Death and other insurance benefits	87.0	82.5
Increase in insurance policy liabilities	71.2	64.1
Amortization of insurance policy acquisition costs	33.5	34.7
Total costs and expenses	555.6	515.5
Income before income taxes	80.9	71.4
Income taxes	30.4	25.9
Net income	$ 50.5	$ 45.5

Balance Sheet	March 31, 1991	December 31, 1990
Assets		
Cash	$ 30.8	$ 33.9
Investments	3,456.7	3,338.8
Finance receivables – net	5,965.1	5,958.4
Property, plant and equipment – net	102.5	103.4
Unamortized insurance policy acquisition costs	583.7	566.1
Goodwill, less accumulated amortization of $118.3 and $113.6	350.4	355.1
Other assets	296.9	288.1
Total assets	$ 10,786.1	$ 10,643.8
Liabilities and equity		
Accounts payable, income taxes and accrued liabilities	$ 731.8	$ 698.8
Insurance reserves and claims	2,993.9	2,896.4
Debt	5,297.8	5,318.9
Equity	1,762.6	1,729.7
Total liabilities and equity	$ 10,786.1	$ 10,643.8

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

TEXTRON INC.

Revenues and Income by Business Segment

(In millions)

	Three Months Ended	
	March 30, 1991	March 31, 1990
REVENUES		
AEROSPACE TECHNOLOGY:		
Helicopters	$ 311.1	$ 214.6
Propulsion	327.0	358.1
Systems	226.4	253.2
	864.5	825.9
COMMERCIAL PRODUCTS	407.3	470.6
FINANCIAL SERVICES:		
Finance and related insurance	338.2	309.2
Other insurance	298.3	277.7
	636.5	586.9
Total revenues*	$ 1,908.3	$ 1,883.4
INCOME		
AEROSPACE TECHNOLOGY:		
Helicopters	$ 37.8	$ 16.5
Propulsion	34.4	40.7
Systems	17.4	13.8
	89.6	71.0
COMMERCIAL PRODUCTS	20.5 **	46.8 **
FINANCIAL SERVICES:		
Finance and related insurance	52.9	45.9
Other insurance	28.0	25.5
	80.9	71.4
Segment operating income	191.0	189.2
Corporate expenses and other – net	(17.1)	(18.9)
Interest expense – net	(61.6)	(64.7)
Income before income taxes	$ 112.3	$ 105.6

* *Revenues by business segment exclude investment income of the Textron Parent Company Borrowing Group.*

***Includes cash dividends received from Avdel plc of $.2 million for the quarter ended March 30, 1991 and $6.1 million for the quarter ended March 31, 1990.*

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Financial Condition

Textron Parent Company Borrowing Group: During the three months ended March 30, 1991, the Textron Parent Company Borrowing Group's operating activities used cash of $197.6 million, due primarily to (a) an increased level of receivables resulting from increased sales on certain programs and delays in receipts of V-22 progress payments, (b) a higher level of inventories due principally to increased commercial helicopter production and delays in certain shipments and (c) significant payments on trade payables and federal income taxes payable. The Group's debt increased by $221.9 million principally as a result of cash used for operations, capital expenditures and payments of dividends. Its ratio of debt to total capital was 44% at March 30, 1991, compared to 42% at December 29, 1990.

During the three months ended March 31, 1990, the Textron Parent Company Borrowing Group's operating activities used cash of $210.1 million, due primarily to (a) an increased level of receivables resulting principally from the timing of shipments and collections on certain programs, (b) a higher level of inventories due principally to increased commercial helicopter production and (c) a reduction in payables due in large part to federal income tax payments involving timing differences related to prior years. The Group's debt increased by $268.6 million principally as a result of cash used for operations, capital expenditures and payments of dividends.

During the first quarter of 1991, Textron issued approximately $100 million of medium-term notes due through 2011. Also during the first quarter, Textron privately placed $75 million of floating rate notes, due in 1996. In conjunction with the private placements, Textron entered into three interest rate exchange agreements which had the effect of fixing the rate of interest at 9.02% on the $75 million of borrowings at March 30, 1991. The proceeds from these issuances were used to repay other variable rate borrowings.

Textron had $204 million available at March 30, 1991 for unsecured debt securities under its shelf registration statement with the Securities and Exchange Commission.

Management believes that Textron will continue to have adequate access to credit markets and that its credit facilities and cash flow from operations, including dividends received from Textron's finance and insurance operations, will continue to be more than sufficient to meet its operating needs and to finance growth.

Finance and insurance subsidiaries: The finance and insurance subsidiaries paid dividends of $15.5 million and $16.9 million to the Textron Parent Company Borrowing Group during the three month periods ended March 30, 1991 and March 31, 1990, respectively.

In March 1991, AFS filed a shelf registration statement with the Securities and Exchange Commission increasing its shelf to cover an aggregate of $1.2 billion of unsecured debt securities. During the three months ended March 31, 1991, AFS issued $356 million of unsecured debt securities, including $252 million under its shelf registration statement. AFS had $952 million available at March 31, 1991 for unsecured debt securities under its shelf registration statement.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

During the three months ended March 31, 1991, the finance subsidiaries had $111.8 million of interest rate exchange agreements go into effect. The agreements, which expire through 1996, had the effect of fixing the rate of interest at approximately 10.90% on $111.8 million of variable rate borrowings at March 31, 1991.

Results of Operations - Three months ended March 30, 1991 vs. Three months ended March 31, 1990

Textron reported first quarter net income of $66.4 million ($.76 per share), compared with $66.2 million ($.73 per share) in 1990. Revenues were $1.9 billion in both years. Earnings per share for the first quarter of 1991 reflect a decreased average number of shares outstanding.

Aerospace Technology: Bell Helicopter's revenues increased significantly in its non-U.S. Government business due to higher sales of helicopters to international customers. Revenues increased in its U.S. Government business due principally to higher sales of military helicopters, partially offset by a decrease in the level of effort required on the Bell-Boeing V-22 TiltRotor aircraft full scale development (FSD) contract. Income increased as a result of the higher revenues.

In 1986, the Bell-Boeing team was awarded the V-22 FSD contract at a target price of $1.729 billion and a ceiling price of $1.826 billion. Funding presently obligated to the contract by the U.S. Government is $1.747 billion. In early 1989, uncertainty arose as to the continuation of funding for the V-22 FSD contract when the Administration proposed to cancel the program and eliminate all funding from the defense budget for fiscal year 1990. Congress, however, ultimately approved continued FSD funding for fiscal year 1990. The Administration's proposed fiscal year 1991 defense budget again excluded a request for continued funding of the program; however, Congress subsequently approved both continued FSD funding and funding to initiate the production effort. The fiscal year 1991 Dire Emergency Supplemental Bill was recently signed by the President, requiring the Department of Defense to obligate within 60 days of the Bill becoming law, the $200 million originally appropriated for V-22 production in the fiscal year 1989 budget.

The Administration's proposed fiscal year 1992 defense budget does not include a request for continued funding of the V-22 program; however, Bell-Boeing will continue its efforts to keep the FSD effort funded and to secure a production contract. While in the long term Bell would lose the benefit of production of V-22 aircraft if the production program were canceled, Textron believes that termination of the V-22 program would not have a material adverse effect on its income or cash flows in the shorter term.

Textron believes it has made adequate provision for anticipated losses on the V-22 development program. Although Textron believes that the cost estimates for the V-22 program are reasonable, such estimates remain subject to the uncertainties inherent in all large scale fixed-price development contracts.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Bell will continue to pursue other development and production opportunities for TiltRotor technology, as well as other opportunities that may arise in the rotary aircraft markets. The likelihood of success in these efforts cannot be determined at the present time.

The **Propulsion segment's** revenues and income decreased, principally at Airfoil Textron, due to a reduction in revenues from both (a) its U.S. Government business, attributable to reduced defense spending, and (b) its non-U.S. Government business, attributable to rescheduled orders from Pratt & Whitney. Revenues and income at Textron Lycoming approximated their 1990 levels as the benefit of (a) increased deliveries and improved margins on a new long-term turbine engine contract for the M1A1 Abrams tank and (b) increased deliveries of piston engines to the general aviation market was offset by (c) lower sales of commercial spare engines, (d) lower deliveries of other military engines and a decrease in military spares sales, and (e) higher losses in the LT101 turbine engine business, attributable to a change in product mix (to a greater proportion of engines than spare parts) and increased manufacturing costs.

Income in the **Systems segment** increased, due principally to (a) the curtailment in company-sponsored development expense resulting from the termination of a subcontract for a servoactuator on the A-12 aircraft program at HR Textron, (b) increased revenues at Textron Marine Systems on its LCAC landing craft program and (c) better performance on certain other contracts in the segment, partially offset by the effect of lower revenues at Textron Aerostructures and Textron Defense Systems. The decreased revenues at Textron Aerostructures were due principally to reduced deliveries of wings on the British Aerospace 146 and Gulfstream IV programs in 1991 and the completion in 1990 of milestones related to prototype units and tooling for the Airbus A330/A340 aircraft programs, while the decreased revenues at Textron Defense Systems were due principally to reduced deliveries on missile components contracts.

Commercial Products: Revenues and income declined, reflecting the severe contraction in the automotive and construction industries. Revenues and income also declined in the outdoor products businesses due to lower sales of turf maintenance equipment products and Homelite's consumer and construction equipment products, principally as a result of the economic slowdown. Operating results in 1991 reflected cash dividends of $.2 million received from Avdel plc compared to $6.1 million in 1990.

The slowdown in the automotive industry will continue to adversely affect the results of Textron's Commercial Products sector in the second quarter of 1991. The full year 1991 sector results are expected to be lower than in 1990 since the benefit of an economic recovery is not projected to begin until the second half of 1991.

Financial Services: Income in AFS' consumer finance and related insurance business increased principally due to higher revenues attributable to a higher level of finance receivables outstanding, a decrease in the cost of borrowed funds and a decrease in the operating expense ratio, partially offset by higher net credit losses on finance receivables and higher insurance

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

losses. In Textron Financial Corporation's commercial finance business, income increased due principally to higher revenues related to an increased level of receivables. TFC's provision for financing losses approximated last year's level.

The Paul Revere Insurance Group's revenues increased as a result of a higher level of individual disability income insurance premiums and higher investment income, reflecting increased insurance in force. Its income increased due to (a) higher revenues, (b) improved persistency of individual disability income products, (c) improved group medical and dental loss ratios, and (d) a lower operating expense ratio. Income in AFS' nonfinance-related insurance business decreased due to lower investment income as yields on investments declined.

Corporate expenses for the three months ended March 30, 1991 reflect higher foreign exchange gains. Lower interest expense of the Textron Parent Company Borrowing Group reflects a decreased level of borrowings and a decreased average cost of borrowing. The quarter's results reflect a higher income tax rate as compared to the prior year.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

In early 1989, Textron acquired Avdel plc, a fastening systems manufacturing business based in England, the total cost of which approximated $250 million. Avdel had net assets with a historical book value of approximately $40 million at December 31, 1988. In March 1989, the U.S. Federal Trade Commission (FTC) obtained a preliminary injunction from the U.S. District Court for the District of Columbia enjoining Textron from assuming or exercising any form of direction or control over the assets or operations of Avdel until a determination has been made as to whether the acquisition of Avdel by Textron would, as the FTC asserts, restrict competition in violation of Section 5 of the FTC Act and Section 7 of the Clayton Act. As a result of the preliminary injunction and in accordance with generally accepted accounting principles, Textron is precluded from consolidating in its financial statements the results of operations of Avdel and is therefore carrying its investment in Avdel at cost. A hearing before an FTC Administrative Law Judge, at which Textron is defending its acquisition of Avdel, began in Washington, D.C. in October 1990 and is expected to end in mid-May 1991. A ruling by the Administrative Law Judge is not expected before fall 1991. The preliminary injunction of the U.S. District Court will remain in effect until there is a final resolution to the litigation. See Part I, Item 1., FINANCIAL STATEMENTS, Note 3.

On April 2, 1990, the United States Environmental Protection Agency (EPA) filed an administrative enforcement action against the Textron Lycoming Division alleging that the division violated export provisions of the Resource Conservation and Recovery Act in the shipping of certain hazardous wastes out of the country from its Stratford, Connecticut plant. On March 28, 1991, Textron Lycoming agreed to a consent agreement and order with the EPA whereby the division will pay a civil penalty of $147,500 to resolve the matter.

On April 10, 1990, the EPA commenced a civil suit in the United States District Court, District of Connecticut against the Textron Lycoming Division and other companies alleging improper demolition and renovation of structures containing asbestos at the division's Stratford, Connecticut plant. Textron Lycoming and the other companies cited for the violations have agreed to a consent decree with the EPA to resolve the matter with a total penalty of $120,000; Textron Lycoming's share of the penalty is $60,000. Pursuant to the decree, the division is required to implement training and other programs to ensure compliance.

In addition, there are pending or threatened against Textron and its subsidiaries lawsuits and other proceedings, including some which allege violations of federal government procurement regulations, involve environmental matters, or are or purport to be class actions. Among these suits and proceedings are some which seek compensatory, treble or punitive damages in substantial amounts; fines, penalties or restitution; the cleanup of allegedly hazardous wastes; or, under federal government procurement regulations, could result in suspension or debarment of

PART II. OTHER INFORMATION (CONTINUED)

Textron or its subsidiaries from U.S. Government contracting for a period of time. The suits and proceedings are being defended or contested on behalf of Textron and its subsidiaries.

On the basis of information presently available, Textron believes that any liability for the suits and proceedings mentioned above, or the impact of the application of relevant government regulations, would not have a material effect on Textron's financial condition.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

12(a) Computation of ratio of income to fixed charges of the Textron Parent Company Borrowing Group.

12(b) Computation of ratio of income to fixed charges of Textron Inc. including all majority-owned subsidiaries.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the first quarter ended March 30, 1991.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TEXTRON INC.

Date: May 10, 1991

s/W. P. Janovitz
W. P. Janovitz
Vice President and Controller
(chief accounting officer)

LIST OF EXHIBITS

The following exhibits are filed as part of this report on Form 10-Q:

	Name of Exhibit	Sequential Page Number
12(a)	Computation of ratio of income to fixed charges of the Textron Parent Company Borrowing Group	21
12(b)	Computation of ratio of income to fixed charges of Textron Inc. including all majority-owned subsidiaries	22

EXHIBIT 12(a)

TEXTRON PARENT COMPANY BORROWING GROUP

COMPUTATION OF RATIO OF INCOME TO FIXED CHARGES

(unaudited)

(In millions except ratio)

	Three Months Ended March 30, 1991
Fixed charges:	
Interest expense	$ 62.0
Estimated interest portion of rents	5.1
Total fixed charges	$ 67.1
Income:	
Income before income taxes	$ 112.3
Fixed charges	67.1
Eliminate equity in undistributed pre–tax income of finance and insurance subsidiaries	(65.4)
Adjusted income	$ 114.0
Ratio of income to fixed charges	1.70

EXHIBIT 12(b)

TEXTRON INC. INCLUDING ALL MAJORITY-OWNED SUBSIDIARIES

COMPUTATION OF RATIO OF INCOME TO FIXED CHARGES

(unaudited)

(In millions except ratio)

	Three Months Ended March 30, 1991
Fixed charges:	
Interest expense	$ 193.7
Estimated interest portion of rents	9.8
Total fixed charges	$ 203.5
Income:	
Income before income taxes	$ 112.3
Fixed charges	203.5
Adjusted income	$ 315.8
Ratio of income to fixed charges	1.55

2166-04750 EPA RFI #21

HR TEXTRON INC.

(a Delaware Corporation)

BY-LAWS

As Restated June 27, 1983

350191

HR TEXTRON INC.
(a Delaware corporation)

BY-LAWS

ARTICLE I

Offices

SECTION 1.01. Registered Office. The registered office of the Corporation in the State of Delaware shall be at No. 100 West Tenth Street, City of Wilmington, County of New Castle. The name of the resident agent in charge thereof shall be The Corporation Trust Company.

SECTION 1.02. Other Offices. The Corporation may also have an office or offices in the City of Providence, State of Rhode Island, and at such other place or places either within or without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation require.

ARTICLE II

Meetings of Stockholders

SECTION 2.01. Place of Meetings. All meetings of the stockholders of the Corporation shall be held at such place either within or without the State of Delaware as shall be fixed by the Board of Directors and specified in the respective notices or waivers of notice of said meetings.

SECTION 2.02. Annual Meetings. (a) The annual meeting of the stockholders for the election of directors and for the transaction of such other business as properly

may come before the meeting shall be held at the principal office of the Corporation in the State of Delaware, or such place as shall be fixed by the Board of Directors, at three o'clock in the afternoon, local time, on the first Tuesday in May in each year, if not a legal holiday at the place where such meeting is to be held, and, if a legal holiday, then on the next succeeding business day not a legal holiday at the same hour. (b) In respect of the annual meeting for any particular year, the Board of Directors may, by resolution, fix a different day, time or place (either within or without the State of Delaware) for the annual meeting. (c) If the election of directors shall not be held on the day designated herein or the day fixed by the Board, as the case may be, for any annual meeting, or on the day of any adjourned session thereof, the Board of Directors shall cause the election to be held at a special meeting as soon thereafter as conveniently may be. At such special meeting the stockholders may elect the directors and transact other business with the same force and effect as at an annual meeting duly called and held.

SECTION 2.03. Special Meetings. A special meeting of the stockholders for any purpose or purposes may be called at any time by the Chairman of the Board or the President or by order of the Board of Directors and must be called by the Secretary upon the request in writing of a stockholder or stockholders holding of record at least thirty-five percent (35%) of the outstanding shares of stock of the Corporation entitled to vote at such meeting.

SECTION 2.04. Notice of Meetings. (a) Except as otherwise required by statute, notice of each annual or special meeting of the stockholders shall be given to each stockholder of record entitled to vote at such meeting not less than ten days nor more than sixty days before the day on which the meeting is to be held by delivering written notice thereof to him personally or by mailing such notice, postage prepaid, addressed to him at his post-office address last shown in the records of the Corporation or by transmitting notice thereof to him at

such address by telegraph, cable or any other available method, provided that notice of a meeting called at the request of a shareholder pursuant to Section 2.03 shall be given not less than twenty days before the day on which the meeting is to be held. Every such notice shall state the time and place of the meeting and, in case of a special meeting, shall state briefly the purposes thereof. (b) Except as otherwise required by statute, notice of any meeting of stockholders shall not be required to be given to any stockholders who shall attend such meeting in person or by proxy or who shall, in person or by attorney thereunto authorized, waive such notice in writing or by telegraph, cable or any other available method either before or after such meeting. Notice of any adjourned meeting of the stockholders shall not be required to be given except when expressly required by law.

SECTION 2.05. Quorum. (a) At each meeting of the stockholders, except where otherwise provided by statute, the Certificate of Incorporation or these By-Laws, the holders of record of a majority of the issued and outstanding shares of stock of the Corporation entitled to vote at such meeting, present in person or represented by proxy, shall constitute a quorum for the transaction of business. (b) In the absence of a quorum a majority in interest of the stockholders of the Corporation entitled to vote, present in person or represented by proxy or, in the absence of all such stockholders, any officer entitled to preside at, or act as secretary of, such meeting, shall have the power to adjourn the meeting from time to time, until stockholders holding the requisite amount of stock shall be present or represented. At any such adjourned meeting at which a quorum shall be present any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 2.06. Organization. At each meeting of the stockholders the Chairman of the Board or, in his absence, the President or, in the absence of each of them, any Vice President or, in the absence of all such officers, a chairman chosen by a majority vote of the stockholders

entitled to vote thereat, present in person or by proxy, shall act as chairman, and the Secretary or an Assistant Secretary of the Corporation or, in the absence of the Secretary and all Assistant Secretaries, a person whom the chairman of such meeting shall appoint shall act as secretary of the meeting and keep the minutes thereof.

SECTION 2.07. Voting. (a) Except as otherwise provided by law or by the Certificate of Incorporation or these By-Laws, at every meeting of the stockholders each stockholder shall be entitled to one vote, in person or by proxy, for each share of capital stock of the Corporation registered in his name on the books of the Corporation:

(i) on the date fixed pursuant to Section 8.03 of these By-Laws as the record date for the determination of stockholders entitled to vote at such meeting; or

(ii) if no such record date shall have been fixed, then the record date shall be at the close of business on the day next preceding the day on which notice of such meeting is given.

(b) Persons holding stock in a fiduciary capacity shall be entitled to vote the shares so held. In the case of stock held jointly by two or more executors, administrators, guardians, conservators, trustees or other fiduciaries, such fiduciaries may designate in writing one or more of their number to represent such stock and vote the shares so held, unless there is provision to the contrary in the instrument, if any, defining their powers and duties. (c) Persons whose stock is pledged shall be entitled to vote thereon until such stock is transferred on the books of the Corporation to the pledgee, and thereafter only the pledgee shall be entitled to vote. (d) Any stockholder entitled to vote may do so in person or by his proxy appointed by an instrument in writing subscribed by such stockholder or by his attorney thereunto authorized, or by a telegram, cable or any other available method delivered to the secretary of the meeting; provided, however, that

no proxy shall be voted after three years from its date, unless said proxy provides for a longer period. (e) At all meetings of the stockholders, all matters (except where other provision is made by law or by the Certificate of Incorporation or these By-Laws) shall be decided by the vote of a majority in interest of the stockholders entitled to vote thereon, present in person or by proxy at such meeting, a quorum being present.

SECTION 2.08. Inspectors. The chairman of the meeting may at any time appoint two or more inspectors to serve at any meeting of the stockholders. Such inspectors shall decide upon the qualifications of voters, accept and count the votes for and against the questions presented, report the results of such votes, and subscribe and deliver to the secretary of the meeting a certificate stating the number of shares of stock issued and outstanding and entitled to vote thereon and the number of shares voted for and against the questions presented. The inspectors need not be stockholders of the Corporation, and any director or officer of the Corporation may be an inspector on any question other than a vote for or against his election to any position with the Corporation or on any other question in which he may be directly interested. Before acting as herein provided, each inspector shall subscribe an oath faithfully to execute the duties of an inspector with strict impartiality and according to the best of his ability.

SECTION 2.09. List of Stockholders. (a) It shall be the duty of the Secretary or other officer of the Corporation who shall have charge of its stock ledger to prepare and make, or cause to be prepared and made, at least ten days before every meeting of the stockholders, a complete list of the stockholders entitled to vote thereat, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of the stockholder. Such list shall be open during ordinary business hours to the examination of any stockholder for any purpose germaine to the meeting for a period of at least ten days prior to the election, either at

a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting or, if not so specified, at a place where the meeting is to be held. (b) Such list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. (c) Upon the willful neglect or refusal of the directors to produce such list at any meeting for the election of directors, they shall be ineligible for election to any office at such meeting. (d) The stock ledger shall be conclusive evidence as to who are the stockholders entitled to examine the stock ledger and the list of stockholders required by this Section 2.09 on the books of the Corporation or to vote in person or by proxy at any meeting of stockholders.

ARTICLE III

Board of Directors

SECTION 3.01. General Powers. The business, property and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

SECTION 3.02. Number, Qualifications and Term of Office. (a) The number of directors of the Corporation which shall constitute the whole Board of Directors shall be such number, not less than three, as from time to time shall be fixed by the stockholders at any annual meeting or at any special meeting called for the purpose; provided, however, that between such meetings of stockholders the number so fixed may at any time be increased by the affirmative vote of a majority of the Board of Directors. (b) No person shall be elected a director who has attained the age of 72. (c) Each director shall hold office until the annual meeting of the stockholders next following his election and until his successor shall have been elected and shall qualify, or until his death, or until he shall resign, or until he shall have been removed in the manner hereinafter provided.

SECTION 3.03. Election of Directors. At each meeting of the stockholders for the election of directors at which a quorum is present, the persons, not exceeding the authorized number of directors, receiving the greatest number of votes of the stockholders entitled to vote thereon, present in person or by proxy, shall be the directors. In the case of any increases in the number of directors, the additional director or directors may be elected either at the meeting of the Board of Directors or of the stockholders at which each increase is voted, or at any subsequent annual, regular or special meeting of the Board of Directors or stockholders.

SECTION 3.04. Quorum and Manner of Acting. (a) Except as otherwise provided by statute or by the Certificate of Incorporation, a majority of the directors at the time in office shall constitute a quorum for the transaction of business at any meeting and the affirmative action of a majority of the directors present at any meeting at which a quorum is present shall be required for the taking of any action by the Board of Directors. (b) In the event the Secretary is informed that one or more directors will be out of the continental limits of the United States at the date of any regular or special meeting of the Board, or if one or more of the directors shall be disqualified to vote at such meeting, then the required quorum shall be reduced by one for each such director so absent or disqualified; provided, however, that in no event shall the quorum as adjusted be less than one third of the total number of directors. (c) In the absence of a quorum at any meeting of the Board such meeting need not be held, or a majority of the directors present thereat or, if no director be present, the Secretary may adjourn such meeting from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given.

SECTION 3.05. Offices, Place of Meeting and Records. The Board of Directors may hold meetings, have an office or offices and keep the books and records of the Corporation at such place or places within or without the

State of Delaware as the Board may from time to time determine. The place of meeting shall be specified or fixed in the respective notices or waivers of notice thereof, except where otherwise provided by statute, by the Certificate of Incorporation or these By-Laws.

SECTION 3.06. Annual Meeting. The Board of Directors shall meet for the purpose of organization, the election of officers and the transaction of other business, as soon as practicable following each annual election of directors. Such meeting shall be called and held at the place and time specified in the notice or waiver of notice thereof as in the case of a special meeting of the Board of Directors.

SECTION 3.07. Regular Meetings. Regular meetings of the Board of Directors shall be held at such places and at such times as the Board shall from time to time by resolution determine. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting which would otherwise be held on that day shall be held at said place at the same hour on the next succeeding business day. Notice of regular meetings need not be given.

SECTION 3.08. Special Meetings; Notice. Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board or the President or by any two of the directors. Notice of each such meeting shall be mailed to each director, addressed to him at his residence or usual place of business, at least three days before the day on which the meeting is to be held, or shall be sent to him at his residence or at such place of business by telegraph, cable or other available means, or shall be delivered personally or by telephone, not later than two days before the day on which the meeting is to be held. Each such notice shall state the time and place of the meeting but need not state the purposes thereof except as otherwise herein expressly provided. Notice of any such meeting need not be given to any director, however, if waived by him in writing or by telegraph,

cable or otherwise, whether before or after such meeting shall be held, or if he shall be present at such meeting.

SECTION 3.09. Organization. At each meeting of the Board of Directors, the Chairman of the Board or, in his absence, the President or, in the absence of each of them, a director chosen by a majority of the directors present shall act as chairman. The Secretary or, in his absence an Assistant Secretary or, in the absence of the Secretary and all Assistant Secretaries, a person whom the chairman of such meeting shall appoint shall act as secretary of such meeting and keep the minutes thereof.

SECTION 3.10. Order of Business. At all meetings of the Board of Directors business shall be transacted in the order determined by the Board.

SECTION 3.11. Removal of Directors. Except as otherwise provided in the Certificate of Incorporation or in these By-Laws, any director may be removed, either with or without cause, at any time, by the affirmative vote of the holders of record of a majority of the issued and outstanding stock entitled to vote for the election of directors of the Corporation given at a special meeting of the stockholders called and held for the purpose; and the vacancy in the Board caused by any such removal may be filled by such stockholders at such meeting in the manner hereinafter provided or, if the stockholders at such meeting shall fail to fill such vacancy, as in these By-Laws provided.

SECTION 3.12. Resignation. Any director of the Corporation may resign at any time by giving written notice of his resignation to the Board of Directors, to the Chairman of the Board, the President, any Vice President or the Secretary of the Corporation. Such resignation shall take effect at the date of receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 3.13. Vacancies. Any vacancy in the Board of Directors caused by death, resignation, removal, disqualification, an increase in the number of directors, or any other cause, may be filled by majority action of the remaining directors then in office, though less than a quorum, or by the stockholders of the Corporation at the next annual meeting or any special meeting called for the purpose, and each director so elected shall hold office until the next annual election of directors and until his successor shall be duly elected and qualified, or until his death or until he shall resign or shall have been removed in the manner herein provided.

SECTION 3.14. Compensation. Each director, in consideration of his serving as such, shall be entitled to receive from the Corporation such amount per annum or such fees for attendance at directors' meetings, or both, as the Board of Directors shall from time to time determine, together with reimbursement for the reasonable expenses incurred by him in connection with the performance of his duties; provided that nothing herein contained shall be construed to preclude any director from serving the Corporation or its subsidiaries in any other capacity and receiving proper compensation therefor.

ARTICLE IV

Committees

SECTION 4.01. Board Committees. The Board of Directors may from time to time, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of two or more directors of the Corporation. Any such committee, to the extent provided in the resolution or in these By-Laws, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the corporation.

A majority of all the members of any such committee may determine its action and fix the time and place of its meetings, unless the Board of Directors shall otherwise provide. The Board of Directors shall have the power to change the members of any committee at any time, to fill vacancies and to discharge any such committee, either with or without cause, at any time.

SECTION 4.02. Alternates. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more directors as alternate members of any committee who may replace any absent or disqualified member at any meeting of the committee; provided, however, that in the absence of any such designation of alternates the member or members of any committee present at any meeting and not disqualified from acting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any absent or disqualified member.

SECTION 4.03. Additional Committees. The Board of Directors may from time to time create such additional committees of directors, officers, employees or other persons designated by it (or any combination of such persons) for the purpose of advising with the Board and the officers and employees of the Corporation in all such matters as the Board shall deem advisable and with such functions and duties as the Board shall by resolutions prescribe.

A majority of all the members of any such committee may determine its action and fix the time and place of its meetings, unless the Board of Directors shall otherwise provide. The Board of Directors shall have power to change the members of any committee at any time, to fill vacancies and to discharge any such committee, with or without cause, at any time.

ARTICLE V

Action by Consent or Telephone

SECTION 5.01. Consent by Directors. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if prior to such action a written consent thereto is signed by all members of the Board or of such committee, as the case may be, and such written consent is filed with the minutes of the proceedings of the Board or such committee.

SECTION 5.02. Consent by Stockholders. Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting upon the written consent of the holders of shares of stock entitled to vote who hold the number of shares which in the aggregate are at least equal to the percentage of the total vote required by statute or the Certificate of Incorporation or these By-Laws for the proposed corporate action.

SECTION 5.03. Telephone Meetings. Members of the Board of Directors or any committee designated by the Board of Directors may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other.

ARTICLE VI

Officers

SECTION 6.01. Number. The principal officers of the Corporation shall be a Chairman of the Board, a President, one or more Vice Presidents (the number thereof and variations in title to be determined by the Board of Directors), a Treasurer and a Secretary. In addition, there may be such other or subordinate officers,

agents and employees as may be appointed in accordance with the provisions of Section 6.03. Any two or more offices, except those of President and Secretary, may be held by the same person.

SECTION 6.02. Election, Qualifications and Term of Office. Each officer of the Corporation, except such officers as may be appointed in accordance with the provisions of Section 6.03, shall be elected annually by the Board of Directors and shall hold office until his successor shall have been duly elected and qualified, or until his death, or until he shall have resigned or shall have been removed in the manner herein provided. The Chairman of the Board and the President may serve and remain as directors.

SECTION 6.03. Other Officers. The Corporation may have such other officers, agents, and employees as the Board of Directors may deem necessary, including a Controller, one or more Assistant Controllers, one or more Assistant Treasurers and one or more Assistant Secretaries, each of whom shall hold office for such period, have such authority, and perform such duties as the Board of Directors, the Chairman of the Board or the President may from time to time determine. The Board of Directors may delegate to any principal officer the power to appoint or remove any such subordinate officers, agents or employees.

SECTION 6.04. Removal. Any officer may be removed, either with or without cause, by the vote of a majority of the whole Board of Directors or, except in case of any officer elected by the Board of Directors, by any committee or officer upon whom the power of removal may be conferred by the Board of Directors.

SECTION 6.05. Resignation. Any officer may resign at any time by giving written notice to the Board of Directors, the Chairman of the Board or the President. Any such resignation shall take effect at the date of receipt of such notice or at any later time specified

therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 6.06. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled for the unexpired portion of the term in the manner prescribed in these By-Laws for regular election or appointment to such office.

SECTION 6.07. Chairman of the Board. The Chairman of the Board, if there be one, shall be the chief executive officer of the Corporation (unless the Board of Directors shall designate the President as chief executive officer) and shall have direct charge of the business and affairs of the Corporation, subject to the control of the Board of Directors. He shall, when present, preside at all meetings of the Board of Directors and at all meetings of the stockholders and shall have such additional powers and shall perform such further duties as may, from time to time, be assigned to him by the Board of Directors.

SECTION 6.08. President. The President shall be the chief operating officer of the Corporation and shall have general direction of the operations of the Corporation, subject to the control of the Chairman of the Board (unless the Board of Directors has designated the President as chief executive officer of the Corporation) and the Board of Directors. The President shall be the chief executive officer of the Corporation if there be no Chairman of the Board or if the Board of Directors shall designate the President as such chief executive officer. If there be no Chairman of the Board or, in the absence of the Chairman of the Board, the President shall preside at all meetings of the Board of Directors and at all meetings of the stockholders and shall have such additional powers and shall perform such futher duties as may from time to time be assigned to him by the Board of Directors.

SECTION 6.09. Vice Presidents. Each Vice President shall have such powers and perform such duties as the Board of Directors may from time to time prescribe or as shall be assigned to him by the Chairman of the Board.

SECTION 6.10. Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all funds and securities of the Corporation, and shall deposit all such funds to the credit of the Corporation in such banks, trust companies or other depositaries as shall be selected in accordance with the provisions of these By-Laws; he shall disburse the funds of the Corporation as may be ordered by the Board of Directors, making proper vouchers for such disbursements, and shall render to the Board of Directors or the stockholders, whenever the Board may require him so to do, a statement of all his transactions as Treasurer or the financial condition of the Corporation; and, in general, he shall perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board of Directors, any committee of the Board designated by it so to act or the Chairman of the Board.

SECTION 6.11. Secretary. The Secretary shall record or cause to be recorded in books provided for the purpose the minutes of the meetings of the stockholders, the Board of Directors, and all committees of which a secretary shall not have been appointed; shall see that all notices are duly given in accordance with the provisions of these By-Laws and as required by law; shall be custodian of all corporate records (other than financial) and of the seal of the Corporation and see that the seal is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these By-Laws; shall keep, or cause to be kept, the list of stockholders as required by Section 2.09, which shall include the post-office addresses of the stockholders and the number of shares held by them, respectively, and shall make or cause to be made, all proper changes therein; shall see that the books, reports, statements, certificates and all other documents and records required by law are properly kept and filed; and, in general, shall perform all duties incident to the office of Secretary and such other duties as may from time to time be assigned to him by the Board of Directors or the Chairman of the Board.

SECTION 6.12. Controller. The Controller shall be in charge of the books and records of account of the Corporation and of its statistical records. He shall keep or cause to be kept at such office or offices as the Board of Directors may from time to time designate complete and accurate accounts of all assets, liabilities, receipts, disbursements and other transactions of the Corporation; shall cause regular audits of such books and records to be made; shall be responsible for the preparation and filing of all reports and actions related to or based upon the books and records of the Corporation; shall render financial statements at the annual meeting of stockholders, if called upon so to do, or at the request of any director or the Board of Directors; shall render to the Board of Directors such statistical reports and analyses as the Board from time to time may require; and, in general, shall perform all the duties incident to the office of Controller and such other duties as from time to time may be assigned to him by the Board of Directors or the Chairman of the Board.

SECTION 6.13. Salaries. The salaries of the principal officers of the Corporation shall be fixed from time to time by the Board of Directors, and none of such officers shall be prevented from receiving a salary by reason of the fact that he is also a director of the Corporation.

ARTICLE VII

Contracts, Checks, Drafts, Bank Accounts, Etc.

SECTION 7.01. Execution of Contracts. Unless the Board of Directors shall otherwise determine, the Chairman of the Board, the President, any Vice President or the Treasurer and the Secretary or any Assistant Secretary may enter into any contract or execute any contract or other instrument, the execution of which is not otherwise specifically provided for, in the name and on behalf of the Corporation. The Board of Directors, or any committee designated thereby with power so to act, except as otherwise provided in these By-Laws, may authorize any other or additional officer or officers or

agent or agents of the Corporation to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation, and such authority may be general or confined to specific instances. Unless authorized so to do by these By-Laws or by the Board of Directors or by any such committee, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable pecuniarily for any purpose or to any amount.

SECTION 7.02. Loans. No loan shall be contracted on behalf of the Corporation, and no evidence of indebtedness shall be issued, endorsed or accepted in its name, unless authorized by the Board of Directors or any committee designated by the Board so to act. Such authority may be general or confined to specific instances. When so authorized, the officer or officers thereunto authorized may effect loans and advances at any time for the Corporation from any bank, trust company or other institution, or from any firm, corporation or individual, and for such loans and advances may make, execute and deliver promissory notes or other evidences of indebtedness of the Corporation, and, when authorized as aforesaid, as security for the payment of any and all loans, advances, indebtedness and liabilities of the Corporation, may mortgage, pledge, hypothecate or transfer any real or personal property at any time owned or held by the Corporation, and to that end execute instruments of mortgage or pledge or otherwise transfer such property.

SECTION 7.03. Checks, Drafts, etc. All checks, drafts, bills of exchange or other orders for the payment of money, obligations, notes, or other evidences of indebtedness, bills of lading, warehouse receipts and insurance certificates of the Corporation, shall be signed or endorsed by such officer or officers, agent or agents, attorney or attorneys, employee or employees, of the Corporation as shall from time to time be determined by resolution of the Board of Directors or any committee designated by the Board so to act.

SECTION 7.04. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositaries as the Board of Directors or any committee designated by the Board so to act may from time to time designate, or as may be designated by any officer or officers or agent or agents of the Corporation to whom such power may be delegated by the Board of Directors or any committee designated by the Board so to act and for the purpose of such deposit and for the purposes of collection for the account of the Corporation, all checks, drafts, and other orders for the payment of money which are payable to the order of the Corporation may be endorsed, assigned and delivered by any officer, agent or employee of the Corporation or in such other manner as may from time to time be designated or determined by resolution of the Board of Directors or any committee designated by the Board so to act.

SECTION 7.05. Proxies in Respect of Securities of Other Corporations. Unless otherwise provided by resolution adopted by the Board of Directors or any committee so designated to act by the Board, the Chairman of the Board or the President or any Vice President may from time to time appoint an attorney or attorneys or agent or agents of the Corporation, in the name and on behalf of the Corporation, to cast the votes which the Corporation may be entitled to cast as the holder of stock or other securities in any other corporation, association or trust any of whose stock or other securities may be held by the Corporation, at meetings of the holders of the stock or other securities of such other corporation, association or trust, or to consent in writing, in the name of the Corporation as such holder, to any action by such other corporation, association or trust, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed in the name and on behalf of the Corporation and under its corporate seal, or otherwise, all such written proxies or other instruments as he may deem necessary or proper in the premises.

ARTICLE VIII

Books and Records

SECTION 8.01. Place. The books and records of the Corporation may be kept at such places within or without the State of Delaware, as the Board of Directors may from time to time determine. The stock record books and the blank stock certificate books shall be kept by the Secretary or by any other officer or agent designated by the Board of Directors.

SECTION 8.02. Addresses of Stockholders. Each stockholder shall furnish to the Secretary of the Corporation or to the transfer agent of the Corporation an address at which notices of meetings and all other corporate notices may be served upon or mailed to him, and if any stockholder shall fail to designate such address, corporate notices may be served upon him by mail, postage prepaid, to him at his post-office address last known to the Secretary of the Corporation or to the transfer agent of the Corporation or by transmitting a notice thereof to him at such address by telegraph, cable or other available method.

SECTION 8.03. Record Dates. The Board of Directors may fix in advance a date, not exceeding sixty days preceding the date of any meeting of stockholders, or the date for the payment of any dividend, or the date for the allotment of any rights, or the date when any change or conversion or exchange of capital stock of the Corporation shall go into effect, or a date in connection with obtaining such consent, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting or any adjournment thereof, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any change, conversion or exchange of capital stock of the Corporation, or to give such consent, and in each such case such stockholders and only such stockholders as shall be stockolders of record on

the date so fixed shall be entitled to notice of, or to vote at, such meeting and any adjournment thereof, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights or to give such consent, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid.

SECTION 8.04. Audit of Books and Accounts. The books and accounts of the Corporation shall be audited at least once in each fiscal year by certified public accountants of good standing, elected by the Board of Directors.

ARTICLE IX

Shares and Their Transfer

SECTION 9.01. Certificates of Stock. Every owner of stock of the Corporation shall be entitled to have a certificate certifying the number of shares owned by him in the Corporation and designating the class of stock to which such shares belong, which shall otherwise be in such form as the Board of Directors shall prescribe. Each such certificate shall be signed by the Chairman of the Board or the President or a Vice President and the Treasurer or any Assistant Treasurer or the Secretary or any Assistant Secretary of the Corporation; provided, however, that where such certificate is signed or countersigned by a transfer agent or registrar the signatures of such officers of the Corporation and the seal of the Corporation may be in facsimile form. In case any officer or officers who shall have signed, or whose facsimile signature or signatures shall have been used on, any such certificate or certificates shall cease to be such officer or officers of the Corporation, whether because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be issued and delivered by the Corporation as though the person or persons who signed such certificate or whose facsimile signature or

signatures shall have been used thereon had not ceased to be such officer or officers of the Corporation.

SECTION 9.02. Record. A record shall be kept of the name of the person, firm or corporation owning the stock represented by each certificate for stock of the Corporation issued, the number of shares represented by each such certificate, and the date thereof, and, in the case of cancellation, the date of cancellation. The person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation.

SECTION 9.03. Transfer of Stock. Transfers of shares of the stock of the Corporation shall be made only on the books of the Corporation by the registered holder thereof, or by his attorney thereunto authorized, and on the surrender of the certificate or certificates for such shares properly endorsed.

SECTION 9.04. Transfer Agent and Registrar; Regulations. The Corporation shall, if and whenever the Board of Directors shall so determine, maintain one or more transfer offices or agencies, each in charge of a transfer agent designated by the Board of Directors, where the shares of the capital stock of the Corporation shall be directly transferable, and also if and whenever the Board of Directors shall so determine, maintain one or more registry offices, each in charge of a registrar designated by the Board of Directors, where such shares of stock shall be registered. The Board of Directors may make such rules and regulations as it may deem expedient, not inconsistent with these By-Laws, concerning the issue, transfer and registration of certificates for shares of the capital stock of the Corporation.

SECTION 9.05. Lost, Destroyed or Mutilated Certificates. In case of the alleged loss or destruction or the mutilation of a certificate representing capital stock of the Corporation, a new certificate may be issued in place thereof, in the manner and upon such terms as the Board of Directors may prescribe.

ARTICLE X

Seal

The Board of Directors shall provide a corporate seal, which shall be in the form of a circle and shall bear the name of the Corporation and the words and figures "Incorporated 1981, Delaware."

ARTICLE XI

Fiscal Year

The fiscal year of the Corporation shall begin at the opening of business on the Sunday nearest to the first day of January and end at the close of business on the Saturday nearest to the thirty-first day of December in each year, whether such Sunday or Saturday, as the case may be, falls in December or in January.

ARTICLE XII

Indemnification

(a) The Corporation shall indemnify, in the manner and to the full extent permitted by law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he

reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(b) The Corporation shall indemnify, in the manner and to the full extent permitted by law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and except that no such indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the Corporation unless and only to the extent that the Court of Chancery of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such Court of Chancery or such other court shall deem proper.

(c) To the extent that a director, officer, employee or agent of the Corporation shall be successful on the merits or otherwise in defense of any action, suit or proceeding referred to in paragraphs (a) and (b), or in defense of any claim, issue or matter therein, he shall be indemnified, in the manner and to the full extent permitted by law, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

(d) Any indemnification under paragraphs (a) and (b) (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in paragraphs (a) and (b). Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

(e) Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the manner provided in paragraph (d) upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the Corporation as authorized in this Article XII.

(f) The indemnification provided by this Article XII shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a

director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators.

(g) The Board of Directors may authorize, by a vote of a majority of the full Board, the Corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article XII.

(h) For purposes of this Article XII, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article XII with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(i) For purposes of this Article XII, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefits plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which

imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article XII.

ARTICLE XIII

Waiver of Notice

Whenever any notice whatever is required to be given by statute, these By-Laws or the Certificate of Incorporation, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE XIV

Amendments

These By-Laws may be altered, amended or repealed, in whole or in part, and new By-Laws may be adopted, in whole or in part, by the affirmative vote of the holders of record of a majority of the outstanding stock of the Corporation present in person or represented by proxy and entitled to vote in respect thereof, given at an annual meeting or at any special meeting at which a quorum shall be present, or by the affirmative vote of a majority of the whole Board of Directors given at any meeting. Any By-Law made, altered, amended or repealed by the Board of Directors shall be subject to alteration, amendment or repeal by vote of stockholders as provided above.

THE CORPORATION TRUST COMPANY

Associated with C T Corporation System

CORPORATION TRUST CENTER
1209 ORANGE STREET
WILMINGTON, DEL. 19801
(302) 658-7581

MAILING ADDRESS:
P.O. BOX 631
WILMINGTON, DEL. 19899
FAX: (302) 655-5049

May 14, 1991

RE: HR TEXTRON INC.

Ann T. Willaman, Assistant Secretary
Textron Inc.
40 Westminster Street
Providence, Rhode Island 02903

Dear Ms. Willaman:

Acting on instructions received, we have obtained and now enclose the following document(s) for the company(ies) indicated above:

1 Certified Copy(ies) of Certificate of Incorporation and all Amendments

____ Good Standing Certificate(s) in Long Form, ☐ Tax Status Included

1 Good Standing Certificate(s) in Short Form, ☐ Tax Status Included

____ Certificate(s) in Re:

____ Recorder's Certificate(s)

We appreciate this opportunity to have been of service to you.

Very truly yours,

THE CORPORATION TRUST COMPANY

Pauline G. Gentry

Pauline G. Gentry
Service Division

PGG:tk
Enc.

FEDERAL EXPRESS

RECEIVED
MAY 1 0 1991
A.T.W.

350192

State of Delaware

Office of Secretary of State

I, MICHAEL HARKINS, SECRETARY OF STATE OF THE STATE OF DELAWARE DO HEREBY CERTIFY HR TEXTRON INC. IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW. AS OF THE DATE SHOWN BELOW.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE BEEN PAID TO DATE.

* * * * * * * * * *

DEPARTMENT OF STATE
OFFICE OF THE SECRETARY OF STATE
DELAWARE

7211340 00

Michael Harkins, Secretary of State

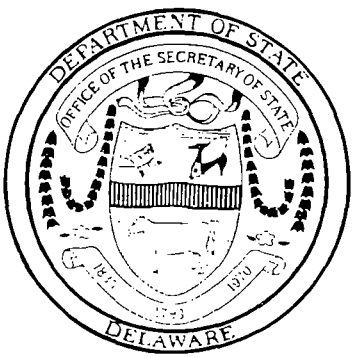
AUTHENTICATION: *3047:46

DATE: 05/14/1991

State of Delaware

Office of Secretary of State

I, MICHAEL HARKINS, SECRETARY OF STATE OF THE STATE OF DELAWARE DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF TWK CORPORATION FILED IN THIS OFFICE ON THE NINTH DAY OF OCTOBER, A.D. 1981, AT 10 O'CLOCK A.M.



Michael Harkins, Secretary of State

AUTHENTICATION: 3047539

DATE: 05/14/1991

721134031

10/9/81

CERTIFICATE OF INCORPORATION

OF

TWK CORPORATION

* * * * *

1. The name of the corporation is

TWK CORPORATION

2. The address of its registered office in the State of Delaware is No. 100 West Tenth Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

3. The nature of the business or purposes to be conducted or promoted is:

To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

Without limiting in any manner the scope and generality of the foregoing, the corporation shall have the following businesses and purposes:

To manufacture, purchase or otherwise acquire, invest in, own, mortgage, pledge, sell, assign and transfer or otherwise dispose of, trade, deal in and deal with goods, wares and merchandise and personal property of every class and description.

To acquire, and pay for in cash, stock or bonds of this corporation or otherwise, the good will, rights, assets and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.

To acquire by purchase, subscription or otherwise, and to receive, hold, own, guarantee, sell, assign, exchange, transfer, mortgage, pledge or otherwise dispose of or deal in and with any of the shares of the capital stock, or any voting trust certificates in respect of the shares of capital stock, scrip, warrants, rights, bonds, debentures, notes, trust receipts, and other securities obligations, choses in action and evidences of indebtedness or interest issued or created by any corporations, joint stock companies, syndicates, associations, firms, trusts or persons, public or private, or by the government of the United States of America, or by any foreign government, or by any state, territory, province, municipality or other political subdivision or by any governmental agency, and as owner thereof to possess and exercise all the rights, powers and privileges of ownership, including the right to execute

consents and vote thereon, and to do any and all acts and things necessary or advisable for the preservation, protection, improvement and enhancement in value thereof.

To borrow or raise money for any of the purposes of the corporation and, from time to time without limit as to amount, to draw, make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants bonds, debentures and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof and of the interest thereon by mortgage upon or pledge, conveyance or assignment in trust of the whole or any part of the property of the corporation, whether at the time owned or thereafter acquired, and to sell, pledge or otherwise dispose of such bonds or other obligations of the corporation for its corporate purposes.

To purchase, receive, take by grant, gift, devise, bequest or otherwise, lease, or otherwise acquire, own, hold, improve, employ, use and otherwise deal in and with real or personal property, or any interest therein, wherever situated, and to sell, convey, lease, exchange, transfer or otherwise dispose of, or mortgage or pledge, all or any of the corporation's property and assets, or any interest therein, wherever situated.

In general, to possess and exercise all the powers and privileges granted by the General Corporation

Law of Delaware or by any other law of Delaware or by this certificate of incorporation together with any powers incidental thereto, so far as such powers and privileges are necessary or convenient to the conduct, promotion or attainment of the business or purposes of the corporation.

The business and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in nowise limited or restricted by reference to, or inference from, the terms of any other clause in this certificate of incorporation, but the business and purposes specified in each of the foregoing clauses of this article shall be regarded as independent business and purposes.

4. The total number of shares of stock which the corporation shall have authority to issue is one thousand (1,000) and the par value of each of such shares is One Dollar ($1.00) amounting in the aggregate to One Thousand Dollars ($1,000).

5. The name and mailing address of each incorporator is as follows:

NAME	MAILING ADDRESS
K. L. Husfelt	100 West Tenth Street Wilmington, Delaware 19801
B. A. Schuman	100 West Tenth Street Wilmington, Delaware 19801
E. L. Kinsler	100 West Tenth Street Wilmington, Delaware 19801

6. The corporation is to have perpetual existence.

7. In furtherance and not in limitation of the powers conferred by statute, the board of directors is expressly authorized:

To make, alter or repeal the by-laws of the corporation.

To authorize and cause to be executed mortgages and liens upon the real and personal property of the corporation.

To set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

By a majority of the whole board, to designate one or more committees, each committee to consist of one or more of the directors of the corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The by-laws may provide that in the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the

resolution of the board of directors, or in the by-laws of the corporation, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the certificate of incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or amending the by-laws of the corporation; and, unless the resolution or by-laws, expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock.

When and as authorized by the stockholders in accordance with statute, to sell, lease or exchange all or substantially all of the property and assets of the corporation, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may consist in whole or in part of money or property including shares of stock in, and/or other securities of, any other corporation or corporations, as its board of directors shall deem expedient and for the best interest of the corporation.

8. Meetings of stockholders may be held within or without the State of Delaware, as the by-laws may provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the board of directors or in the by-laws of the corporation. Elections of directors need not be by written ballot unless the by-laws of the corporation shall so provide.

9. The corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

WE, THE UNDERSIGNED, being each of the incorporators hereinbefore named, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, do make this certificate, hereby declaring and certifying that this is our act and deed and the facts herein stated are true, and accordingly have hereunto set our hands this 9th day of October, 1981.

K. L. Husfelt

K. L. Husfelt

B. A. Schuman

B. A. Schuman

E. L. Kinsler

E. L. Kinsler

State of Delaware

Office of Secretary of State

I, MICHAEL HARKINS, SECRETARY OF STATE OF THE STATE OF DELAWARE DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT BEFORE PAYMENT FOR STOCK OF TWK CORPORATION FILED IN THIS OFFICE ON THE FOURTEENTH DAY OF OCTOBER, A.D. 1981, AT 10 O'CLOCK A.M.

DEPARTMENT OF STATE
OFFICE OF THE SECRETARY OF STATE
DELAWARE

721134031

Michael Harkins, Secretary of State

AUTHENTICATION: 3047540

DATE: 05/14/1991

350193

10/14/81

CERTIFICATE OF AMENDMENT

OF

CERTIFICATE OF INCORPORATION

BEFORE PAYMENT OF CAPITAL

OF

TWK CORPORATION

* * * * *

We, the undersigned, being all of the incorporators of TWK CORPORATION, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware

DO HEREBY CERTIFY:

FIRST: That Article 1. of the Certificate of Incorporation be and it hereby is amended to read as follows:

1. The name of the corporation is

TEXTRON INVESTMENT HOLDINGS INC.

SECOND: That the corporation has not received any payment for any of its stock.

THIRD: That the amendment was duly adopted in accordance with the provisions of section 241 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, we have signed this certificate this 14th day of October, 1981.

K. L. Husfelt
K. L. Husfelt

B. A. Schuman
B. A. Schuman

E. L. Kinsler
E. L. Kinsler

State of Delaware

Office of Secretary of State

I, MICHAEL HARKINS, SECRETARY OF STATE OF THE STATE OF DELAWARE DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF TEXTRON INVESTMENT HOLDINGS INC. FILED IN THIS OFFICE ON THE TWENTY-FIRST DAY OF DECEMBER, A.D. 1981, AT 10 O'CLOCK A.M.

DEPARTMENT OF STATE
OFFICE OF THE SECRETARY OF STATE
DELAWARE

Michael Harkins, Secretary of State

AUTHENTICATION: 3047541

DATE: 05/14/1991

721134031

350194

12/21/21

CERTIFICATE OF AMENDMENT

OF

CERTIFICATE OF INCORPORATION

TEXTRON INVESTMENT HOLDINGS INC., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware,

DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of said Corporation, by the unanimous written consent of its members, filed with the minutes of the Board, adopted a resolution proposing and declaring advisable the following amendment to the Certificate of Incorporation, as amended, of said Corporation:

RESOLVED: That the Certificate of Incorporation of TEXTRON INVESTMENT HOLDINGS INC., as amended, be further amended by changing the First (1st) Article thereof so that, as amended, said Article shall be and read as follows:

1. The name of the corporation is

HR TEXTRON INC.

SECOND: That in lieu of a meeting and vote of the sole shareholder, the sole shareholder has given its written consent to said amendment in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware.

THIRD: That the aforesaid amendment was duly adopted in accordance with the applicable provisions of Sections 228 and 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said TEXTRON INVESTMENT HOLDINGS INC. has caused this Certificate to be signed by its Vice President and attested by its Assistant Secretary this 18th day of December, 1981.

TEXTRON INVESTMENT HOLDINGS INC.

By: J. Gerard Kruse
Vice President

ATTEST:

Bhikhaji Manecksji
Assistant Secretary

State of Delaware

Office of Secretary of State

I, MICHAEL HARKINS, SECRETARY OF STATE OF THE STATE OF DELAWARE DO HEREBY CERTIFY THAT THE ABOVE AND FOREGOING IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF CHANGE OF LOCATION OF REGISTERED OFFICE OF THE COMPANIES REPRESENTED BY "THE CORPORATION TRUST COMPANY", AS IT APPLIES TO "HR TEXTRON INC." AS RECEIVED AND FILED IN THIS OFFICE THE TWENTY-SEVENTH DAY OF JULY, A.D. 1984, AT 4:30 O'CLOCK P.M.

DEPARTMENT OF STATE
OFFICE OF THE SECRETARY OF STATE
DELAWARE

721134032

Michael Harkins, Secretary of State

AUTHENTICATION: 3047545

DATE: 05/14/1991

350195

FILED
4:30
JUL 27 1984 P.M.

CERTIFICATE OF CHANGE OF ADDRESS OF

REGISTERED OFFICE AND OF REGISTERED AGENT

PURSUANT TO SECTION 134 OF TITLE 8 OF THE DELAWARE CODE

To: DEPARTMENT OF STATE
Division of Corporations
Townsend Building
Federal Street
Dover, Delaware 19903

Pursuant to the provisions of Section 134 of Title 8 of the Delaware Code, the undersigned Agent for service of process, in order to change the address of the registered office of the corporations for which it is registered agent, hereby certifies that:

1. The name of the agent is: The Corporation Trust Company

2. The address of the old registered office was:

   100 West Tenth Street
   Wilmington, Delaware 19801

3. The address to which the registered office is to be changed is:

   Corporation Trust Center
   1209 Orange Street
   Wilmington, Delaware 19801

   The new address will be effective on July 30, 1984.

4. The names of the corporations represented by said agent are set forth on the list annexed to this certificate and made a part hereof by reference.

IN WITNESS WHEREOF, said agent has caused this certificate to be signed on its behalf by its Vice-President and Assistant Secretary this 25th day of July, 1984.

THE CORPORATION TRUST COMPANY
(Name of Registered Agent)

By Virginia Colwell
(Vice-President)

ATTEST:

(Assistant Secretary)

STATE OF DELAWARE - DIVISION OF CORPORATIONS

CHANGE OF ADDRESS FILING FOR

CORPORATION TRUST AS OF JULY 27,1984

DOMESTIC

0924122 HR TEXTRON INC. 10/09/1981 D DE

HR TEXTRON INC.
Action by Consent of the Board of Directors
in Lieu of a Meeting, _____, 1991

The undersigned, being all of the Directors of HR Textron Inc., a Delaware corporation, and acting without a meeting of the Board of Directors pursuant to the Restated By-Laws of the Corporation, do hereby consent to the taking of the following actions:

RESOLVED: The following officers and employees of the Corporation are hereby authorized and empowered, severally or jointly, subject to the terms and conditions hereinafter provided, to sign, seal with the Corporate seal, and execute and deliver in the name and on behalf of the Corporation, contracts, agreements, bids, bonds, applications, reports, certificates, affidavits or other documents or papers to, by or with the Government of the United States, any state or municipal government, any foreign government, or any department, office, division, agency or instrumentality of any of the foregoing, any such authorization to include subcontracts or subordinate contracts of any kind with other contracts dealing with any of the foregoing, relative to or in connection with any work, property, purchase, contract, service or production of any kind which may be directly or indirectly awarded, granted, carried on or performed by the Corporation; and that this Resolution, which is in lieu of all prior authorizations, shall remain in full force and effect until the earlier of (1) December 31, 1992, or (2) notice to the contrary to any contracting agency relying upon its terms:

Contracts including termination claims and releases:

Richard J. Millman Joseph S. Edwards	))	No limitations
Craig V. Johansen John W. Hedges	))	Any contract involving not more than $5,000,000
Philip T. Lane	)	Any contract involving not more than $2,500,000
Michael E. Colyer Gail S. Blodgett	))	Any contract involving not more than $500,000
Contract Managers Contract Supervisor	))	Any contract involving not more than $100,000
Purchasing Managers Contract Administrators	))	Any contract involving not more than $50,000
Purchasing Buyers	)	Any contract involving not more than $20,000

250196

Invoices and Vouchers

Joseph S. Edwards
Patrick J. Holmes

Related Instruments

Formal legal documents such as a deed, bond, royalty agreements, certificates, affidavits, leases or other documents that shall be executed and delivered in the name and on behalf of the Corporation.

Richard J. Millman
Joseph S. Edwards
John W. Hedges

Authority to sign certificates required by Federal or State Regulations as a condition of contracting may be delegated at the discretion of the President of the Corporation.

RESOLVED: The following officers and employees of the Corporation are further designated, pursuant to the foregoing Resolution, as persons authorized to seal with the Corporate seal of the Corporation any of the foregoing governmental and other contracts and related instruments when duly executed pursuant hereto; and that this Resolution, which is in lieu of all prior authorizations, shall remain in full force and effect until the earlier of (1) December 31, 1992, or (2) notice to the contrary to any contracting agency relying upon its terms:

John W. Hedges
JoAnne M. Ito

IN WITNESS WHEREOF, we have hereunto set our hands and caused the certification seal to be offered as of this ___ day of _____, 1991.

_____
Beverly F. Dolan

SEAL

_____
George H. Hartmann

_____
Thomas D. Soutter

HR TEXTRON INC.
Action by Consent of the Board of Directors
in Lieu of a Meeting, _____, 1991

The undersigned, being all of the Directors of HR Textron Inc., a Delaware corporation, and acting without a meeting of the Board of Directors pursuant to the Restated By-Laws of the Corporation, do hereby consent to the taking of the following action:

RESOLVED: The following persons be and the same are hereby elected to the office of the Corporation set forth after his/her name, each to hold such office until the next Annual Meeting or until his earlier death, resignation or removal:

Richard J. Millman	President
Joseph S. Edwards	Vice President Finance
Craig V. Johansen	Senior Vice President Systems and Products
John W. Hedges	Vice President Contracts and Production Programs, and Secretary
JoAnne M. Ito	Assistant Secretary
Bhikhaji M. Maneckji	Assistant Secretary
Ann T. Willaman	Assistant Secretary
Lawrence M. Lansinger	Assistant Treasurer
Edward M. Andrews	Assistant Treasurer

IN WITNESS WHEREOF, we have hereunto set our hands and caused the Corporate seal to be affixed as of this _____ day of _____, 1991.

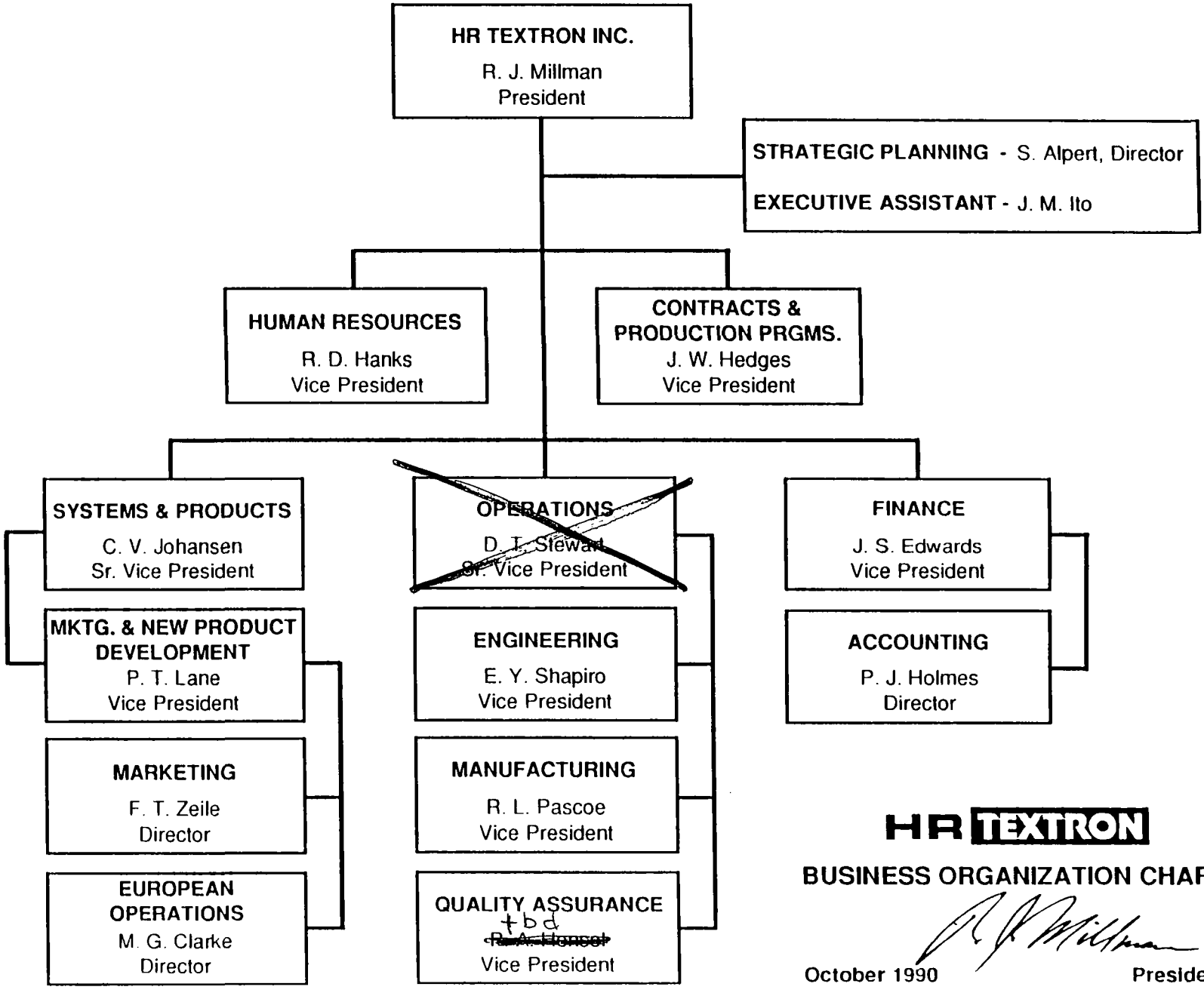
_____
Beverly F. Dolan

SEAL

_____
George H. Hartmann

_____
Thomas D. Soutter

{data\wz\Resolve}
(Rev. 040291)



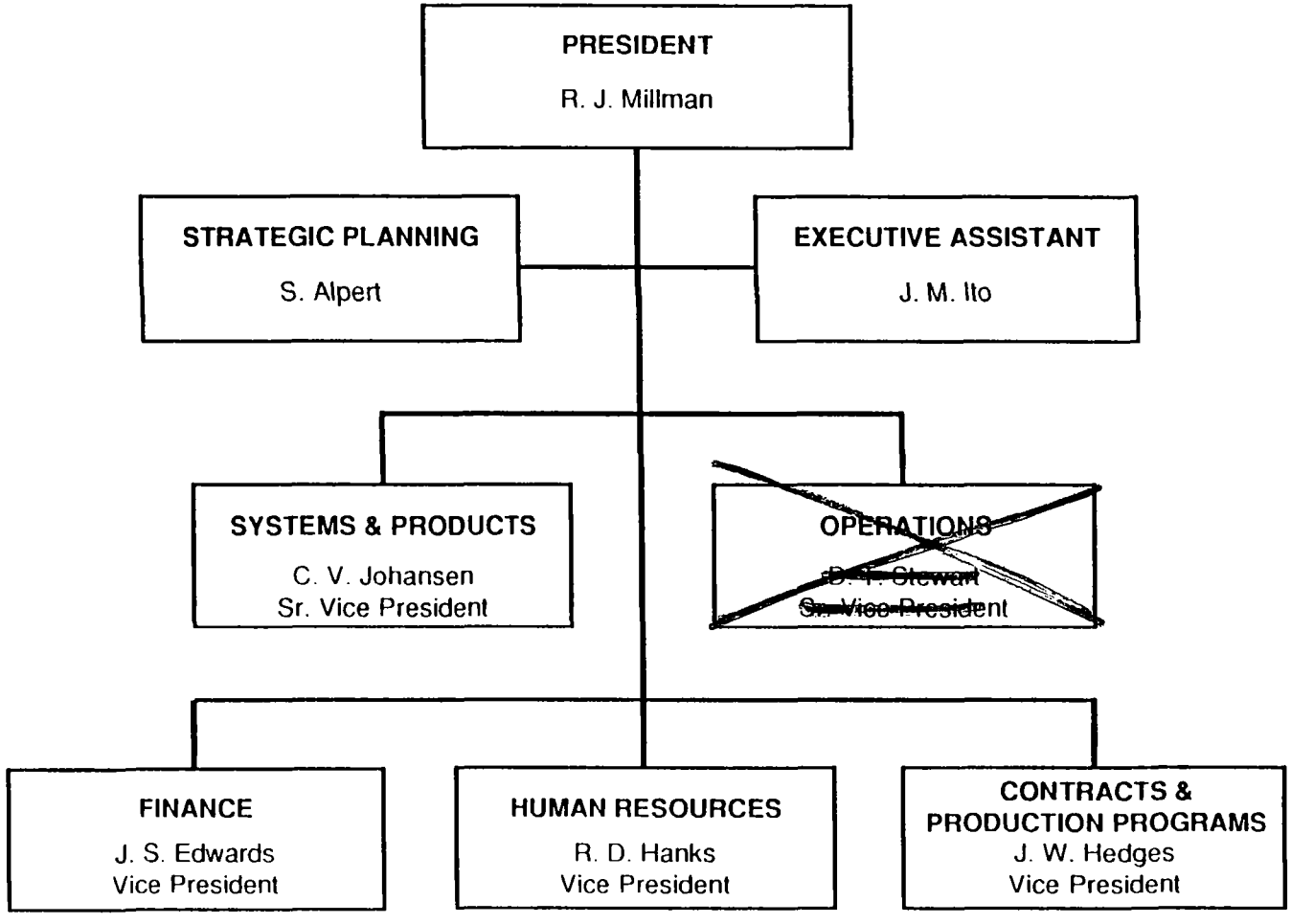
HR TEXTRON

BUSINESS ORGANIZATION CHART

October 1990

President

25.0197

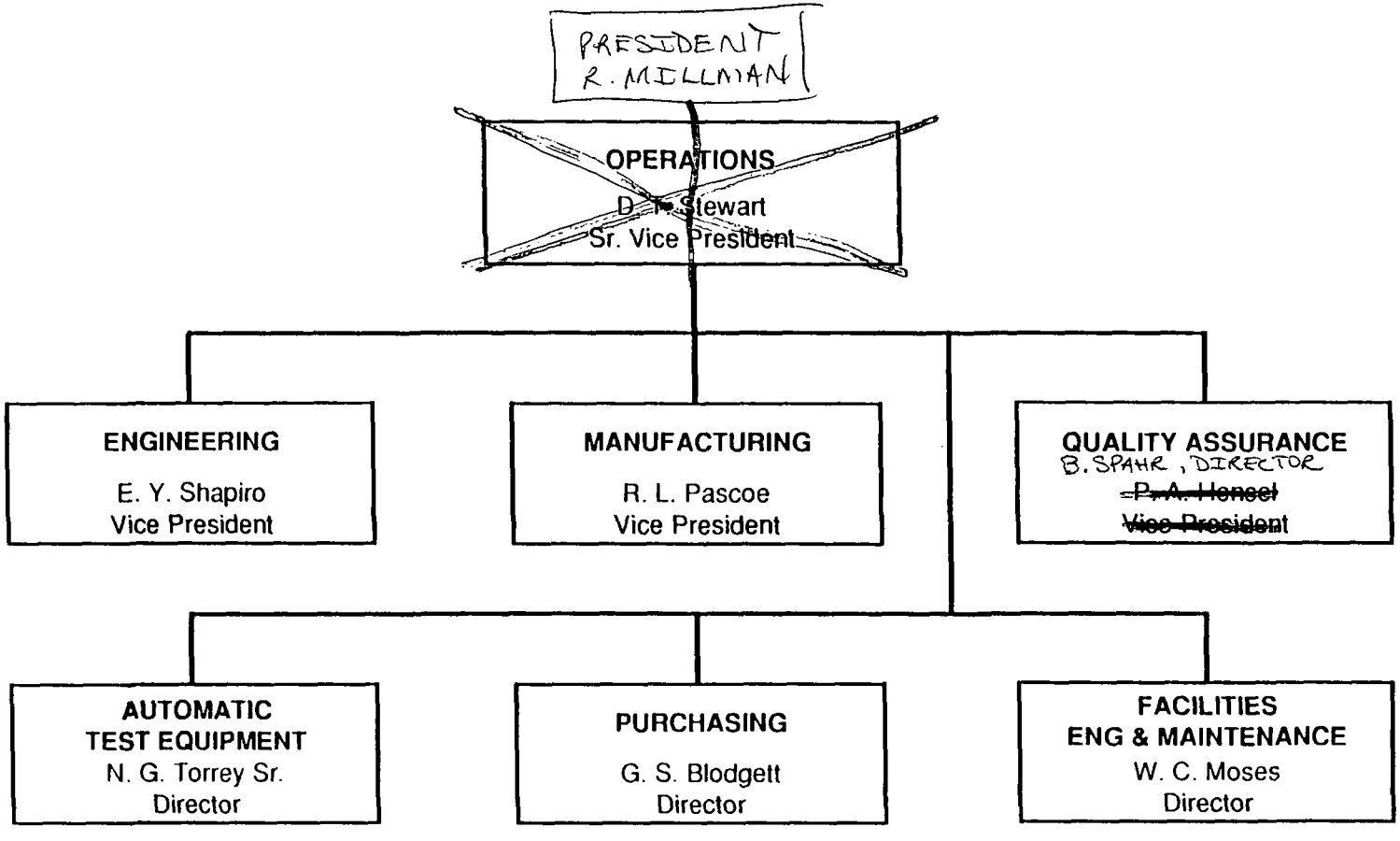


HR TEXTRON

EXECUTIVE ORGANIZATION CHART

October 1990

President



HR TEXTRON

OPERATIONS ORGANIZATION CHART

D. T. Stewart

October 1990

Sr. Vice President

1991

First Quarter Report to Shareholders and Post Annual Meeting Report

C J GABRIEL
DEPARTMENT 045
MAIL STATION 240-1

To Our Shareholders:

Textron's first quarter operations resulted in net income of $66.4 million ($.76 per share), compared with $66.2 million ($.73 per share) in 1990. We are pleased with these results given the difficult economy in which we operated during the first quarter.

Our Aerospace Technology businesses were the strongest contributor to our results with operating income advancing 26% to $89.6 million. Bell Helicopter had an excellent quarter and income also improved in our Systems segment. Textron's Financial Services businesses also had a strong first quarter with income increasing 13% to $80.9 million.

The recession and weakened consumer confidence hurt the results of our Commercial Products sector as income declined 56% to $20.5 million. Based on current projections indicating an economic rebound beginning in the second half of 1991, we expect this sector of our business gradually to improve its performance over the balance of 1991.

As previously reported, Textron continues to defend its acquisition of Avdel plc at a hearing before a Federal Trade Commission Administrative Law Judge. Until this matter is resolved, Textron is precluded from consolidating Avdel's earnings with Textron's results of operations. First quarter income of the Commercial Products sector included dividends of $200,000 from Avdel, down from $6.1 million in 1990.

Textron's balanced diversification is a benefit in times like these, and we are optimistic that 1991 will be another good year for the corporation.

B. F. Dolan

B. F. Dolan
chairman and
chief executive officer

On the Cover:

Three Bell Model 412 utility helicopters are shown at Petroleum Helicopter Inc.'s (PHI) facility in Louisiana. PHI is one of the largest buyers of Bell commercial helicopters.

Bell Makes Major Commercial Helicopter Sale

Bell Helicopter Textron has received one of the largest orders for commercial helicopters in its history.

In February, Petroleum Helicopters Inc. (PHI) of New Orleans ordered 154 Bell helicopters, including 66 Model 206B-III JetRangers and 88 Model 206L-III LongRangers, for delivery between 1992 and 1995.

Bell's relationship with PHI spans more than 40 years. PHI owns the world's largest fleet of commercial helicopters with over 300 in service. It provides helicopter transportation services to companies engaged in offshore oil and gas exploration, development and production, and medical support services.

All of the helicopters on order will be based in PHI's area of principal operations in coastal Louisiana and Texas and in the Gulf of Mexico.

In addition to the JetRanger and LongRanger, Bell also produces for the commercial market the twin-turbine powered six to ten place Model 230, the 12 to 15 place Model 212 and the 412HP, a four-bladed variant of the Model 212.

Frank Fortin, left, a reporter for Providence Business News, interviews Mr. Hardymon, center, and Mr. Dolan, right, following the shareholders meeting.

The annual meeting of Textron shareholders was held Wednesday morning, April 24, 1991 at the Omni Biltmore Hotel in Providence, Rhode Island. B.F. Dolan, chairman and chief executive officer, presided. The following are excerpts from reports delivered at the meeting by Mr. Dolan and James F. Hardymon, president and chief operating officer.

Mr. Dolan:

Textron had another good year in 1990. It was an especially strong performance when one considers the generally weak economic conditions that existed through much of the year in various segments of the economy. Our net income and revenues grew to record highs. Revenues rose to $7.9 billion from $7.4 billion in 1989, and 1990 net income rose to $283 million, or $3.18 per share, from 1989's $259 million, or $2.91 per share.

These increases were largely due to gains in our Financial Services businesses and improved performance in our Aerospace Technology operations. All in all, 1990 was a good year to be a broadly diversified company.

As we pointed out in the annual report and to financial analysts throughout the year, Textron is committed to improving its financial performance. We plan to achieve this by improving returns from our existing businesses by raising productivity levels, by emphasizing cash flow and by redeploying underutilized assets. Large acquisitions are unlikely for the time being, but we are very interested in acquiring complementary product lines where the price and the fit are right.

We are also making good progress in our efforts to expand our commercial aerospace business as spending for defense declines. Overall in 1990, Textron generated 24% of its revenues, but a substantially lower proportion of operating profit, from contracts with the Department of Defense. Revenues from our commercial and international aerospace businesses amounted to 22% of total revenues and contributed a much larger percentage of operating profits than defense.

However, the shift to more commercial aerospace business does not mean that Textron is giving up on defense. We have a remarkable breadth of advanced technology products for the military and nearly all of it is in tactical systems.

I am proud to say that Textron-built equipment played a significant role in shortening the Gulf war. We were a factor on land, in the air and at sea. Textron was well represented in the mobility and accurate firepower of the Army's M1 tank and in the fast assault capabilities of the Navy's LCAC air cushion landing craft, whose diversionary tactics off Kuwait City tied down several Iraqi divisions for the duration of the war.

Textron's Bell helicopters accounted for more than half of all the helicopters flown by the Marines and Army in Operation Desert Storm, and Textron Aerostructures built the wings for the C-5 and other transport aircraft that were the workhorses of the operation. Our automatic aircraft landing systems were operating on the carriers out in the Gulf and most, if not all, of the aircraft flown carried one or more of our products – from composite materials to rivets, engines, engine parts and control systems. So we are justifiably proud of Textron's contributions to the U.S. defense efforts.

Now, let me give you a brief update on the status of two items of interest, starting with the LH competition.

On April 5 of this year, the Army selected the Sikorsky/Boeing team over the Bell Helicopter/McDonnell Douglas team to develop the Army's new light helicopter. Naturally, we had hoped to win and made every effort to do so. However, the loss of the contract will not have a negative impact on Textron's earnings for the foreseeable future since LH production probably won't start until after the turn of the century. I might add that Bell is probably the most diversified of all the helicopter companies and should have the best year it ever had in 1991.

The V-22 TiltRotor aircraft program remains alive but locked in a budgetary tug-of-war between the Congress and the Pentagon. Now in its fifth year of development, the V-22 successfully completed at-sea trials in December. Congress contin-

ues to support production of the V-22 but the Pentagon's 1992 budget request contains no funding and seeks to forego production.

Looking ahead, and assuming there are no major geopolitical or economic surprises, we see another year of earnings improvement in 1991.

Mr. Hardymon:

I will begin by covering the three business sectors, starting with the Aerospace Technology sector which accounted for 46% of total revenues and 42% of operating income in 1990. It's interesting to note that commercial aerospace activity contributed half of the revenues and substantially more than half of the profits in this sector.

The commercial aerospace business will continue to be a major profit provider in the current year. Revenues derived from U.S. Government contracts actually increased over the prior year due principally to higher deliveries of helicopters and air cushion landing craft.

The Commercial Products sector contributed 23% of revenues and 21% of income in 1990.

The automotive divisions experienced increased profit pressure, including price concession requests from the Big Three automotive companies. During the fourth quarter, reductions in production levels were put in place by manufacturers and these reductions have continued into the first quarter of this year.

Despite these weaknesses, the automotive companies are well positioned as first-tier suppliers. Our divisions responded to the soft markets with programs and policies that enabled them to maintain margins and profits for the year.

The golf-related divisions had an excellent year. E-Z-Go and Jacobsen products are essential to operating a golf course and the worldwide growth in golf is a trend that we are aggressively pursuing.

Financial Services, Textron's third business sector, continues to provide growth and balance to the corporation, contributing 31% of revenues and 37% of operating income in 1990. These companies have good niche positions in their markets and they make the most of them. Income has grown at a 13% rate in recent years.

Avco Financial Services' 1990 revenues and earnings reached record levels and we are very pleased with the strong performance of this company.

Textron Financial Corporation, our commercial finance operation, enjoyed its twelfth consecutive year of asset and net income growth. Paul Revere Insurance is a specialist in disability insurance and the market leader in individual, non-cancellable disability insurance in the United States and Canada.

Despite the tough economic environment in 1990, Textron's results demonstrate the strength of our balanced diversification. We had six divisions in a weak automotive market, declining, non-residential construction activity, the constant threat of a shrinking defense budget and the actual cancellation and delay of some programs.

Yet, we had an upside year! For that to happen, something had to be going right in financial services, commercial aerospace and in the golf business. I think this says something about the strength and quality of our many businesses.

As we work our way through 1991, there is no doubt that we are in a recessionary period. Some of our operations are doing well while a few are struggling with soft markets.

Looking at our operating businesses, commercial aerospace activity will continue to grow. Our Commercial Products operations will be the most impacted by the recession. Earnings will be under pressure through mid-year but we are well positioned for the economic upturn when it begins. The Financial Services divisions will reflect continued growth this year, although at a slower pace than last year.

We are convinced that with productive, efficient operations that serve our customers' needs, we will achieve our objectives.

Voting Highlights

A total of 67,300,176 shares, or approximately 78.4% of the shares outstanding and entitled to vote were represented at the meeting, either in person or by proxy.

Four directors in Class I were elected to three year terms. They are Joseph R. Carter, R. Stuart Dickson, William M. Ellinghaus and J. Paul Sticht. Each nominee received a minimum of 64,111,589 shares, or 95.3%, of the shares represented at the meeting.

Shareholders also ratified the appointment of Ernst & Young as Textron's independent auditors for 1991 with 66,174,441 shares, or 98.3%, of the shares represented at the meeting.

The two shareholder proposals were defeated. The first proposal requested that the company prepare a report on its plans for economic conversion in divisions and plants that are dependent upon weapons contracts. A total of 53,996,300 shares, or 80.2%, were voted against; 5,202,217 shares, or 7.7%, were voted in favor, and 8,101,659 shares, or 12.1%, abstained.

The second proposal asked that the board of directors refrain, without shareholder approval, from making future compensation awards to officers and directors which are contingent on a change of control of the company. The vote was 34,531,889 shares, or 51.3%, against and 24,019,837 shares, or 35.7% in favor, while 8,748,450 shares, or 13.0%, abstained.

Textron Announces Management Changes

Textron recently announced several changes and additions to its senior management ranks. John S. Kleban and Terry D. Stinson were appointed group vice presidents and Edward C. Arditte was elected vice president investor relations. Fred N. Hubbard was named president of the Textron Aerostructures Division.

Kleban

Mr. Kleban, 52, had been serving as president of Textron Aerostructures since 1985. The division is a major manufacturer of aircraft wings and components primarily for commercial customers in the U.S. and overseas. As a group vice president, Mr. Kleban will have responsibility for several of Textron's Commercial Products divisions. He replaces Charles F. Chapin, who is retiring at mid-year.

Stinson

Mr. Stinson, 49, formerly was president of the Hamilton Standard Division of United Technologies Corporation, a designer and manufacturer of high technology control systems and components for the global aerospace industry. Mr. Stinson also was president of United Technologies' International Support Systems subsidiary and president of the corporation's Elliott Company subsidiary. He became president of Hamilton Standard in 1986. In his new position, he will have responsibility for several of Textron's Aerospace Technology divisions.

Arditte

Mr. Arditte, 35, had been director of investor relations since July 1990. He joined Textron in 1986 as assistant treasurer. He previously was vice president and New England region manager of Security Pacific National Bank.

Hubbard

Mr. Hubbard, 48, joins Textron Aerostructures from Bell Helicopter Textron where he was a senior vice president. He joined Bell in 1966 as a cost analyst and was vice president of planning and controls before becoming executive vice president and later president of Bell Helicopter Canada in Montreal. He returned to Bell's headquarters in Fort Worth, Texas in 1990.

Consolidated Statement of Income

(Unaudited) *(Dollars in millions except per share amounts)*	*Three Months Ended*	
	March 30, 1991	*March 31, 1990*
Revenues		
Sales	**$ 1,271.8**	$ 1,296.5
Interest, discount and service charges	**295.9**	269.5
Insurance premiums	**254.2**	236.3
Investment income (including net capital gains)	**86.8**	81.6
Total revenues	**1,908.7**	1,883.9
Costs and expenses		
Cost of sales	**1,015.8**	1,029.3
Selling and administrative	**335.7**	327.9
Interest expense	**193.7**	188.2
Provision for losses on collection of finance receivables, less recoveries	**29.3**	24.1
Insurance benefits and increase in policy liabilities	**188.4**	174.1
Amortization of insurance policy acquisition costs	**33.5**	34.7
Total costs and expenses	**1,796.4**	1,778.3
Income before income taxes	**112.3**	105.6
Income taxes	**45.9**	39.4
Net income	**$ 66.4**	$ 66.2
Net income per common share*	**$ .76**	$ .73
Average shares outstanding*	**86,948,000**	90,624,000
Dividends per share:		
$2.08 Preferred stock, Series A	**$ .52**	$ .52
$1.40 Preferred stock, Series B	**$ .35**	$ .35
Common stock	**$ .25**	$ .25

* *Average shares outstanding assume full conversion of preferred stock and exercise of options.*

Revenues and Income by Business Segment

(Unaudited) (In millions)	*Three Months Ended*	
	March 30, 1991	*March 31, 1990*
Revenues		
Aerospace Technology:		
Helicopters	**$ 311.1**	$ 214.6
Propulsion	**327.0**	358.1
Systems	**226.4**	253.2
	864.5	825.9
Commercial Products	**407.3**	470.6
Financial Services:		
Finance and related insurance	**338.2**	309.2
Other insurance	**298.3**	277.7
	636.5	586.9
Total revenues*	**$ 1,908.3**	$ 1,883.4
Income		
Aerospace Technology:		
Helicopters	**$ 37.8**	$ 16.5
Propulsion	**34.4**	40.7
Systems	**17.4**	13.8
	89.6	71.0
Commercial Products	**20.5****	46.8**
Financial Services:		
Finance and related insurance	**52.9**	45.9
Other insurance	**28.0**	25.5
	80.9	71.4
Segment operating income	**191.0**	189.2
Corporate expenses and other – net	**(17.1)**	(18.9)
Interest expense – net	**(61.6)**	(64.7)
Income before income taxes	**$ 112.3**	$ 105.6

* *Revenues by business segment exclude investment income of the Textron Parent Company Borrowing Group.*

** *Includes cash dividends received from Avdel plc of $.2 million for the quarter ended March 30, 1991 and $6.1 million for the quarter ended March 31, 1990.*

Consolidated Balance Sheet

(Unaudited) (Dollars in millions)

	March 30, 1991	*December 29, 1990*	*March 31, 1990*
Assets			
Cash	**$ 42.5**	$ 66.4	$ 12.8
Investments	**3,463.3**	3,348.1	3,239.0
Receivables – net:			
Finance	**5,896.7**	5,889.5	5,277.8
Commercial and U.S. Government	**861.5**	793.9	828.0
	6,758.2	6,683.4	6,105.8
Inventories	**1,365.3**	1,294.2	1,372.4
Property, plant and equipment – net	**1,000.6**	1,000.7	1,013.9
Unamortized insurance policy acquisition costs	**583.7**	566.1	519.9
Goodwill	**1,035.6**	1,045.2	1,073.8
Other assets	**911.9**	887.4	807.1
Total assets	**$ 15,161.1**	$ 14,891.5	$ 14,144.7
Liabilities and shareholders' equity			
Liabilities			
Accounts payable	**$ 478.7**	$ 521.9	$ 498.7
Income taxes	**289.0**	328.7	321.1
Accrued liabilities	**1,234.8**	1,237.8	1,215.0
Insurance reserves and claims	**2,993.9**	2,896.4	2,668.7
Debt:			
Textron Parent Company Borrowing Group	**2,147.3**	1,925.4	2,224.6
Finance and insurance subsidiaries	**5,297.8**	5,318.9	4,624.4
	7,445.1	7,244.3	6,849.0
Total liabilities	**12,441.5**	12,229.1	11,552.5
Shareholders' equity			
Capital stock:			
Preferred stock	**20.2**	20.6	21.3
Common stock*	**11.3**	11.3	11.3
Capital surplus	**645.0**	644.6	644.0
Retained earnings	**2,228.6**	2,183.8	2,032.8
Unearned compensation related to employee stock ownership plan	**(69.3)**	(73.1)	(89.1)
Other	**16.6**	19.9	18.6
	2,852.4	2,807.1	2,638.9
Less cost of treasury shares	**132.8**	144.7	46.7
Total shareholders' equity	**2,719.6**	2,662.4	2,592.2
Total liabilities and shareholders' equity	**$ 15,161.1**	$ 14,891.5	$ 14,144.7
* Common shares outstanding	**85,353,000**	84,777,000	89,107,000

Consolidated Statement of Cash Flows

(Unaudited) (In millions)	*Three Months Ended*	
	March 30, 1991	*March 31, 1990*
Cash flows from operating activities:		
Net income	**$ 66.4**	$ 66.2
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	**43.5**	44.0
Amortization	**10.2**	10.1
Provision for losses on receivables	**41.0**	30.3
Deferred income taxes	**(1.2)**	5.8
Increase in insurance policy liabilities	**71.2**	64.1
Amortization of insurance policy acquisition costs	**33.5**	34.7
Gains on sales of investments	**(3.0)**	(2.2)
Changes in assets and liabilities:		
Increase in commercial and U.S. Government receivables	**(73.7)**	(126.9)
Increase in inventories	**(71.1)**	(51.6)
Additions to insurance policy acquisition costs	**(51.1)**	(44.8)
Increase in other assets	**(27.1)**	(27.8)
Increase (decrease) in accounts payable	**(41.3)**	11.9
Decrease in income taxes payable	**(36.8)**	(36.3)
Increase (decrease) in accrued liabilities	**(0.2)**	8.2
Decrease in unearned insurance premiums and reserves for insurance losses and adjustment expenses	**(2.1)**	(1.0)
Other - net	**7.4**	(10.0)
Net cash used by operating activities	**(34.4)**	(25.3)
Cash flows from investing activities:		
Purchases of investments	**(287.7)**	(237.5)
Proceeds from sales of investments	**179.3**	137.5
Finance receivables originated or purchased	**(872.2)**	(794.2)
Finance receivables repaid or sold	**746.1**	726.7
Collections on notes receivable	**0.5**	0.4
Capital expenditures	**(37.3)**	(49.2)
Proceeds from sales of property, plant and equipment	**2.7**	2.6
Net cash used by investing activities	**(268.6)**	(213.7)
Cash flows from financing activities:		
Increase (decrease) in short-term debt	**(117.1)**	81.6
Proceeds from issuance of long-term debt	**827.3**	453.1
Principal payments on long-term debt	**(428.4)**	(289.9)
Receipts from interest sensitive insurance products	**38.5**	25.5
Return of account balances on interest sensitive insurance products	**(19.2)**	(24.9)
Dividends paid	**(21.6)**	(22.6)
Net cash provided by financing activities	**279.5**	222.8
Effect of exchange rate changes on cash	**(0.4)**	(0.3)
Net decrease in cash	**(23.9)**	(16.5)
Cash at beginning of period	**66.4**	29.3
Cash at end of period	**$ 42.5**	$ 12.8

Textron consists of two borrowing groups — the Textron Parent Company Borrowing Group (consisting of all entities of Textron other than its finance and insurance subsidiaries) and the finance and insurance subsidiaries. The financial statements of the Textron Parent Company Borrowing Group as set forth below reflect Textron's investment in its finance and insurance subsidiaries on the equity basis.

Textron Parent Company Borrowing Group

(Unaudited) (In millions)	*Three Months Ended*	
Statement of Income	***March 30, 1991***	*March 31, 1990*
Revenues	**$ 1,272.2**	$ 1,297.0
Costs and expenses		
Cost of sales	**1,015.8**	1,029.3
Selling and administrative	**163.0**	168.3
Interest expense	**62.0**	65.2
Total costs and expenses	**1,240.8**	1,262.8
	31.4	34.2
Equity in pre-tax income of finance and insurance subsidiaries	**80.9**	71.4
Income before income taxes	**112.3**	105.6
Income taxes	**45.9**	39.4
Net income	**$ 66.4**	$ 66.2

Balance Sheet	***March 30, 1991***	*December 29, 1990*	*March 31, 1990*
Assets			
Cash	**$ 11.7**	$ 32.5	$ 3.5
Receivables – net	**868.7**	786.3	848.9
Inventories	**1,365.3**	1,294.2	1,372.4
Investments in finance and insurance subsidiaries	**1,762.6**	1,729.7	1,754.6
Property, plant and equipment – net	**875.7**	877.0	890.1
Goodwill	**685.2**	690.1	704.7
Other assets	**621.7**	608.6	598.9
Total assets	**$ 6,190.9**	$ 6,018.4	$ 6,173.1
Liabilities and shareholders' equity			
Accounts payable, income taxes and accrued liabilities	**$ 1,324.0**	$ 1,430.6	$ 1,356.3
Debt	**2,147.3**	1,925.4	2,224.6
Shareholders' equity	**2,719.6**	2,662.4	2,592.2
Total liabilities and shareholders' equity	**$ 6,190.9**	$ 6,018.4	$ 6,173.1

(Unaudited) (In millions)	*Three Months Ended*	
Statement of Cash Flows	***March 30, 1991***	*March 31, 1990*
Cash flows from operating activities:		
Net income	**$ 66.4**	$ 66.2
Adjustments to reconcile net income to net cash used by operating activities:		
Undistributed earnings of finance and insurance subsidiaries	**(35.0)**	(28.6)
Depreciation	**39.0**	39.7
Amortization	**5.6**	5.5
Changes in assets and liabilities:		
Increase in receivables	**(88.4)**	(129.6)
Increase in inventories	**(71.1)**	(51.6)
Increase in other assets	**(24.0)**	(34.0)
Decrease in accounts payable, income taxes payable and accrued liabilities	**(106.5)**	(95.7)
Other – net	**16.4**	18.0
Net cash used by operating activities	**(197.6)**	(210.1)
Cash flows from investing activities:		
Purchases of investments	**(0.9)**	(0.3)
Proceeds from sales of investments	**2.7**	3.3
Collections on notes receivable	**0.5**	0.4
Capital expenditures	**(32.1)**	(44.2)
Proceeds from sales of property, plant and equipment	**2.7**	2.6
Net cash used by investing activities	**(27.1)**	(38.2)
Cash flows from financing activities:		
Increase (decrease) in short-term debt	**(0.1)**	0.7
Proceeds from issuance of long-term debt	**387.5**	409.7
Principal payments on long-term debt	**(161.7)**	(139.7)
Dividends paid	**(21.6)**	(22.6)
Net cash provided by financing activities	**204.1**	248.1
Effect of exchange rate changes on cash	**(0.2)**	–
Net decrease in cash	**(20.8)**	(0.2)
Cash at beginning of period	**32.5**	3.7
Cash at end of period	**$ 11.7**	$ 3.5

Textron Inc.
40 Westminster Street
Providence, Rhode Island 02903

The Textron Quarterly Report is Published by The Corporate Communications Department of Textron Inc., Providence, Rhode Island 02903

TEXTRON

Annual Report 1986

2166-04750

Textron is a multi-industry company with operations in three business sectors—Aerospace Technology, Commercial Products, and Financial and Other Services. The Company is headquartered in Providence, Rhode Island and at the end of 1986 had approximately 72,000 employees throughout the world.

On the cover:

The breakthrough of the sun is symbolic of Textron's recent reemergence as a conglomerate. Diversification, asset redeployment and strong operations management are being emphasized as Textron focuses on improving profits and shareholders' returns.

Textron Inc.
40 Westminster Street
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Highlights

(Dollars in millions except per share data)		1986		1985	Percent Change
Revenues from continuing operations:					
Textron and consolidated subsidiaries	$	**5,023.3**	$	4,038.5	+24%
Unconsolidated finance and insurance subsidiaries		**1,927.6**		1,682.7	+15%
Total revenues	$	**6,950.9**	$	5,721.2	+21%
Income:					
Continuing operations	$	**241.6**	$	180.1	+34%
Discontinued operations		**4.3**		43.5	
Other*		**(6.7)**		28.2	
Net income	$	**239.2**	$	251.8	
Income per common share:					
Continuing operations	$	**5.85**	$	4.83	+21%
Discontinued operations		**.10**		1.16	
Other*		**(.16)**		.76	
Net income	$	**5.79**	$	6.75	
Average common shares outstanding		**41,282,000**		37,318,000	
Book value per common share	$	**44.76**	$	39.88	
Return on shareholders' equity		**14%**		15%	
Debt to total capitalization		**55%**		49%	
Dividends		**1.80**	$	1.80	
Employees	$	**72,000**		56,000	

**Consists of extraordinary loss in 1986 and extraordinary gain and cumulative effect of a change in accounting principle in 1985.*

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To Our Shareholders:

I am pleased to report that 1986 was another year of significant accomplishment for Textron.

In last year's Annual Report we stated that our basic mission is to build value for our shareholders by achieving attractive returns on equity. By aggressively managing Textron's resources we have made real progress toward achieving this goal.

Major Achievements in 1986

We achieved record sales and income from continuing operations in 1986. Total revenues rose 21% to $7.0 billion while income of $241.6 million ($5.85 per share) was up 34%. Net income was $239.2 million ($5.79 per share), compared with last year's net income of $251.8 million ($6.75 per share) which included a total of $71.7 million ($1.92 per share) from discontinued operations, an accounting change and an extraordinary gain.

The second significant event of 1986 was completing the integration of Avco, the largest acquisition in the Company's history, into Textron. In the process, we redeployed about half of Textron's net assets into new, attractive businesses, including the profitable area of financial services. By mid-year 1986, we had repaid about 70% of the debt incurred in the Avco acquisition and by year end the return on shareholders' equity had improved by 50% from its 1984 level.

In September we acquired Ex-Cell-O Corporation, a diversified company with annual sales of over $1 billion. Ex-Cell-O operates in areas familiar to Textron, such as aerospace and automotive components. Its assimilation is proceeding smoothly and rapidly due to the similarities in operating philosophies and corporate cultures.

Strength Through Diversification

With Ex-Cell-O now a part of Textron, we expect to demonstrate once again that the acquisition of a diversified company, followed by appropriate restructurings of operations and the disposition of nonstrategic assets, can result in strengthened shareholder value.

A parallel but related objective of asset repositioning is to maintain the balance of our diversification among Textron's aerospace, defense, commercial and finance businesses. This reduces the risks of dependency upon any one area of the economy in the event of an economic downturn or cyclical swings in our markets. This balance proved valuable in 1986, when the strength of our major defense programs and automotive businesses offset downturns in Avco Financial Services' consumer finance and insurance businesses.

Ex-Cell-O contributes additional balance by enlarging our Aerospace Technology and Commercial Products sectors. Its strength, particularly in aerospace and defense and automotive products, complements Textron's capabilities in these areas. We expect that Ex-Cell-O's restructuring efforts, begun prior to the acquisition, will contribute to Textron's profitability in 1987, as they did in the last three and one-half months of 1986.

Board Changes

Several changes were made in the Board of Directors during 1986.

My appointment as Chairman became effective upon the retirement of Robert P. Straetz in August 1986. Bob served Textron and its Homelite Division for 40 years, starting as a salesman for Homelite in 1946. During his tenure as Chairman, he made many contributions to the growth and stability of Textron. We are pleased that he will continue to serve as a Director.

B.F. Dolan

Three former Ex-Cell-O Directors were elected to serve on Textron's Board. They are E. Paul Casey, the former Chief Executive Officer of Ex-Cell-O, who has become Vice Chairman of Textron, Wendell W. Anderson, Jr., Chairman of Bundy Corporation and Martin D. Walker, Chairman of M.A. Hanna Company.

Two Directors resigned from Textron's Board during the year. Robert P. Bauman, Vice Chairman, left to become Chairman of the Beecham Group in England and Daniel B. Burke, President of Capital Cities/ABC, stepped down because of the press of other business.

1987 Plans

As we begin 1987, we have many tasks on our agenda. We plan to return to a more conservative balance sheet ratio of debt-to-capital. This will be accomplished by the sale of certain assets, as well as increasing cash flow from continuing operations. We will be competing for large, new government contracts which could help to strengthen Textron's financial picture for the remainder of this century. We continue to examine opportunities for further expansion of our business through product line acquisitions. We also continue to examine large-acquisition opportunities while pruning operations which no longer meet our strategic requirements.

In short, we approach 1987 with optimism and enthusiasm. The success achieved through the Avco and Ex-Cell-O acquisitions, and subsequent asset redeployment programs, strengthen our determination to realize Textron's full potential.

Dedicated Employees

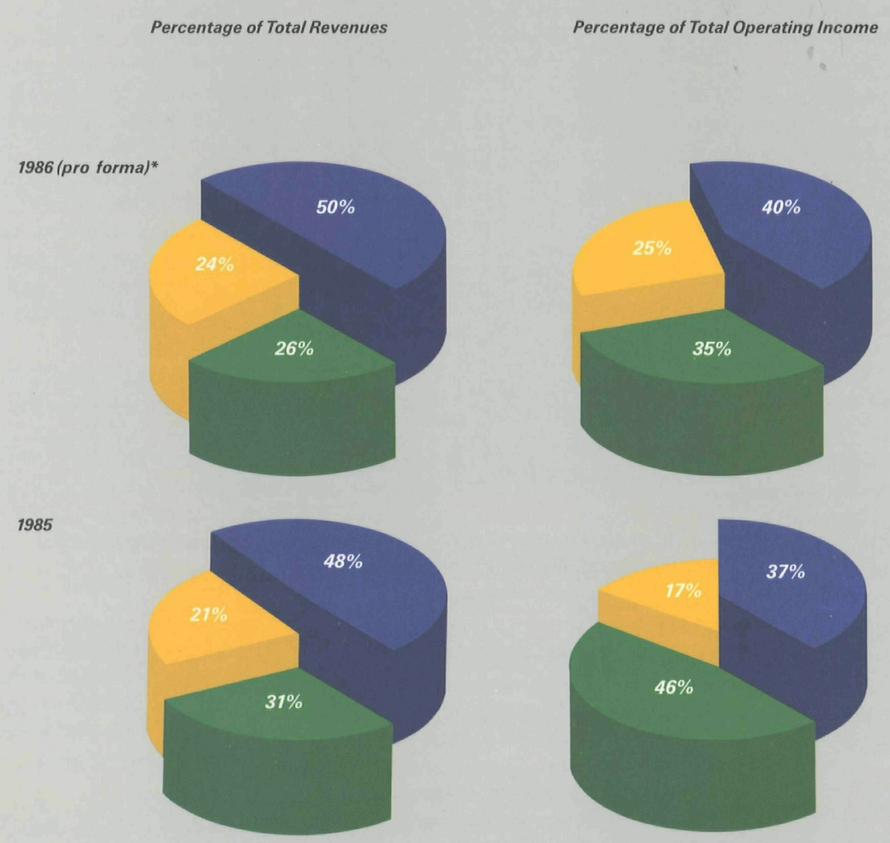
On behalf of the Directors I want to extend special thanks and congratulations to the thousands of dedicated employees whose efforts to control costs and increase sales and profitability made this record year possible.

B. F. Dolan

B.F. Dolan
Chairman, President and
Chief Executive Officer

February 12, 1987

1986: Balanced Diversification



- *Aerospace Technology*
- *Commercial Products*
- *Financial and Other Services*

**Includes Ex-Cell-O as if the purchase had occurred at the beginning of 1986.*

What Wall Street Said About Textron In 1986

"Significantly, during our meetings with senior officials, they communicated not only a sense of confidence in the firm's operating outlook but also the impression that the post-Avco-acquisition management team has gelled." – *Ram Capoor, Morgan Stanley, May 1986 ($58 per share).*

"Ex-Cell-O's aerospace business, primarily jet engine parts, broadens the scope of Textron's Avco Lycoming Division, which produces engines and engine components. Ex-Cell-O's automotive segment greatly expands the fledgling auto OEM business of Textron's smaller automotive plastics supplier, Randall. Ex-Cell-O's industrial segment offers less of a fit and may be sold, along with other Textron divisions, to reduce debt. We are pleased with the Ex-Cell-O acquisition. Beyond 1987, we believe Ex-Cell-O's growth potential will add to Textron's earnings." – *Laurence C. Baker, E.F. Hutton, August 1986 ($56 per share).*

"The acquisition of Ex-Cell-O may, in fact, bring increased recognition of Textron's undervaluation." – *Thad H. Faison, Interstate Securities, August 1986 ($58 1/4 per share).*

"For a classic example of how to restructure a conglomerate, look no further than the recent acquisition and divestiture activity of Rhode Island-based Textron Inc. Textron has made two billion-dollar acquisitions in the past two years and has spun off some 13 units, with more in the pipeline. In the process, Textron has become better focused and has experienced the best financial results in its history." – *Merger Management Report, October 1986 ($60 per share).*

"For almost two years now, the major thrust of Textron has been making deals. That period has witnessed two major purchases – Avco and Ex-Cell-O as well as smaller divestitures in a number sufficient to pay for the original Avco purchase. The strategy can be summarized pithily as 'Buy wholesale sell retail.' Thus far, management has executed its game plan with remarkable success." – *John Adams, Adams, Harkness & Hill, November 1986 ($60 1/2 per share).*

"Textron shares are likely to outpace the market in the year-ahead period. In addition, though the shares have been strong of late, and we don't look for the P/E to expand beyond 11 in the 1989-91 period, they still possess above average appreciation potential to decade's end, due in part to management's ability to succeed in enhancing Textron's earnings power through acquisitions and divestitures." – *Jay Hains/Morton L. Siegel, Value Line Investment Survey, November 1986 ($68 per share).*

"Revenue growth should continue through 1987, led by gains in the aerospace technology segment and the inclusion of Ex-Cell-O Corporation for the full year. High debt costs associated with the Ex-Cell-O acquisition will limit earning progress in 1987, but future earnings could benefit from a reduction of long-term debt, divestiture of lower-margin businesses, and lower income tax rates." – *Standard and Poor's Corp., December 1986 ($66 per share).*

1986 Operations Review

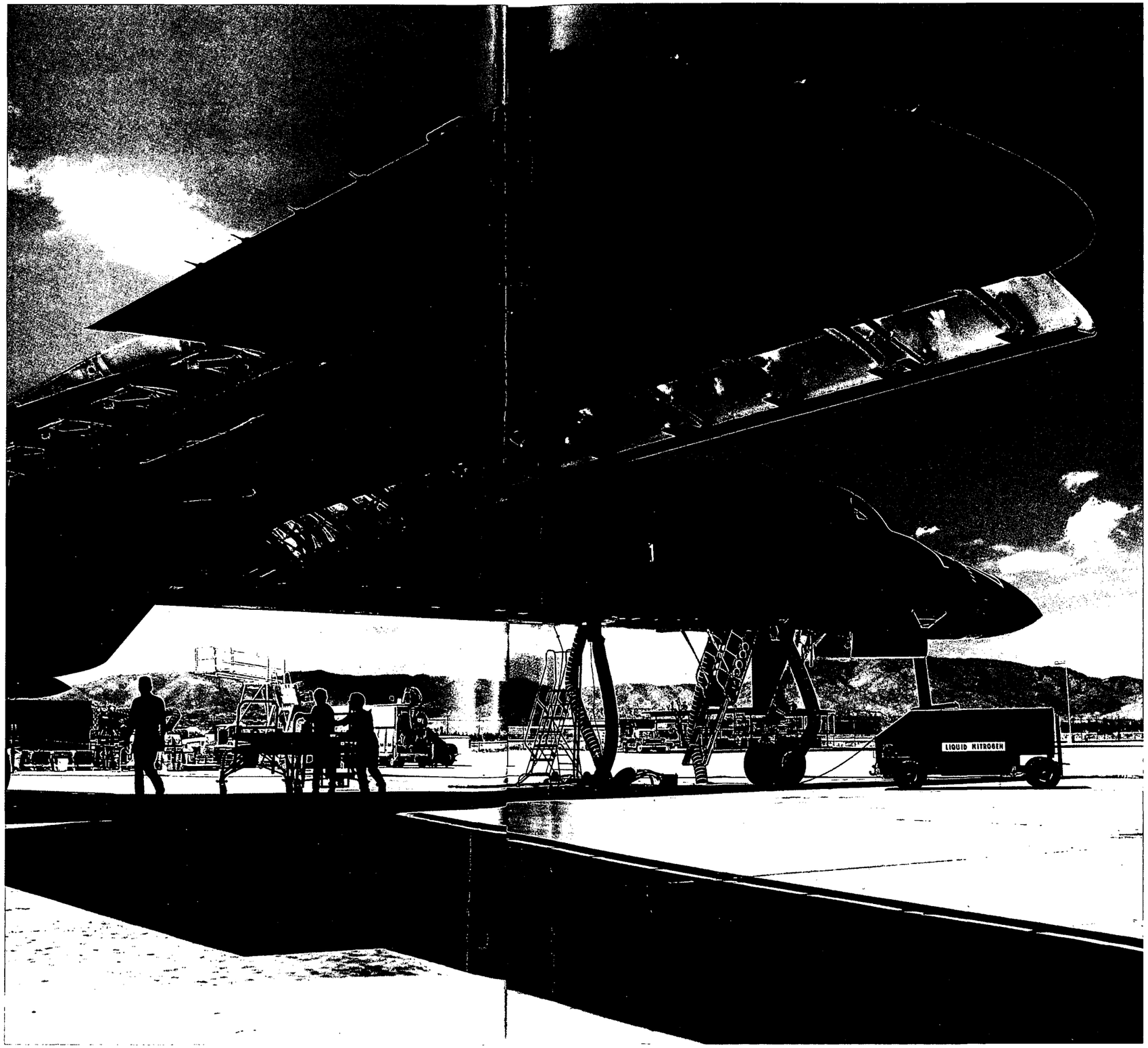
Aerospace Technology

Summarized financial data *(in millions)* for this sector's continuing operations are as follows:

	1986	1985
Sales:		
Helicopters	**$1,098**	$ 855
Propulsion	**1,044**	827
Systems	**1,444**	1,058
	$3,586	$2,740
Operating profits:		
Helicopters	**$ 71**	$ 60
Propulsion	**96**	78
Systems	**100**	65
	$ 267	$ 203

Textron substantially strengthened its position within aerospace and defense in 1986, and set new highs for sales and profits. This sector accounted for 51% of Textron's total revenues and 41% of its total operating profits in 1986. Contributing to this growth were several major military programs, in particular the B-1B bomber and the Peacekeeper (MX) missile, which reached full production during the year. Textron produces wings for the B-1B and the reentry vehicle and system for the Peacekeeper. In addition, Textron's acquisition of Ex-Cell-O added their sizable aerospace business.

Textron was among the leading defense contractors in 1986. Sales to the U.S. Government accounted for $2.7 billion, or 38% of Textron's total revenues. The



Textron's Avco Aerostructures Division produces wings for the B-1B long-range combat aircraft. The wing is unique in its ability to be swept back to enable the aircraft to achieve top speed. The pivot lug hole, where the wing joins with the fuselage, is bored to within two thousandths of an inch.

Company has consistently demonstrated its commitment to U.S. national security by applying its technological and financial resources to a variety of strategic and tactical weapons programs. Textron's strategy within this sector is to maintain diversification among government procurement programs. Balance is sought by serving each of the armed services and by maintaining a mix of current production programs and long-term developmental programs.

The Aerospace Technology review, which follows, describes some of the principal programs, both commercial and government, in which Textron is involved.

Helicopters

The Helicopters segment consists of the worldwide activities of Bell Helicopter Textron, one of the leading producers of commercial and military helicopters in the free world.

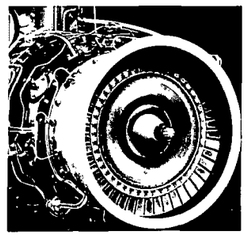
Bell Helicopter's sales in 1986 exceeded $1 billion for the first time in its history, due to higher volume in U.S. Government development programs. Operating profit rose sharply to $71 million. Sales to the U.S. Government accounted for more than half of Bell's total sales, while sales in Bell's international marketplace amounted to nearly one-third of its total sales. Its international business includes co-production programs with Indonesia, Turkey and Japan.

Bell received a number of major contracts in 1986. The U.S. Navy awarded the Bell-Boeing team a $1.7 billion fixed price contract for the full-scale development of the V-22 Osprey tilt rotor aircraft. The work content and revenues will be shared between the two companies. The first flight of the V-22 is scheduled for 1988, with production beginning late in 1991. The development program could lead to the production of more than 900 aircraft and is one of the most important in which Bell has been involved. In addition, tilt rotor aircraft are expected to play a significant role in international civilian air transportation beginning in the mid 1990s.

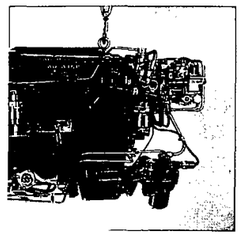
Bell also was awarded contracts for additional aircraft and long lead items for the Army Helicopter Improvement Program. The AHIP program originally called for modification of several hundred existing OH-58A Scout helicopters to an advanced configuration. Budget restrictions in the U.S. Army procurement plans, however, may limit the Scout program to approximately 130 aircraft now under contract through 1987. Bell also has contracts for AH-1W twin engine SuperCobras for the Marine

Bell LongRanger commercial helicopter

Avco Lycoming gas turbine engine



Avco Lycoming engine for commercial aircraft



Bell Helicopter Textron personnel inspect a model of the Bell-Boeing V-22 Osprey tilt rotor aircraft, which is currently in full-scale development. The V-22 will combine the speed, range and altitude of a fixed wing turboprop aircraft with the hovering and vertical takeoff and landing capabilities of a helicopter.

Textron's Avco Lycoming Stratford and Avco Aerostructures divisions produce the ALF 502 turbofan engines and wings, respectively, for British Aerospace's BAe-146 commercial jetliner. The four engine aircraft is well suited to service smaller airports and metropolitan areas, such as in California, where noise abatement and air pollution requirements are particularly stringent. Approximately 60 aircraft are now in service with 12 airlines worldwide, and another 40 aircraft are on order or option.

Aircraft Engine Components jet engine frame

Airfoil jet engine fan blades

Corps. First deliveries of the SuperCobra, an advanced version of the Marines' anti-armor helicopter gunship, were made in 1986.

During the year Bell completed the transfer of production of its JetRanger and LongRanger commercial helicopters to its facility in Mirabel, Quebec. The move makes space in Bell's Texas facility available for V-22 work, while better utilizing the new plant in Canada.

Bell Helicopter and McDonnell Douglas will cooperate as a team in the competition for the contracts for the Army's new LHX light helicopter program. Members of the winning teams for both the V-22 and LHX will compete with each other for production contracts.

Propulsion

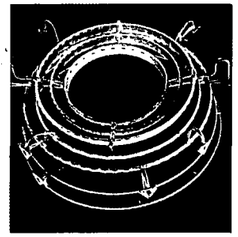
This segment includes Textron's Avco Lycoming engine businesses in Stratford, Connecticut and Williamsport, Pennsylvania. Also included are three Ex-Cell-O divisions: Aircraft Engine Components, Airfoil Textron and Fuel Systems Textron. The addition of the Ex-Cell-O components business complements Avco Lycoming's strength in engines.

Avco Lycoming Stratford's sales rose due to the increased output of engines for aircraft and M1 tanks and spare parts. The resulting increase in profits was partially offset by higher spending on the development of the T800 engine for the LHX helicopter program.

About half of the Stratford Division's 1986 sales were from production of the AGT 1500 turbine engine for the U.S. Army's M1 tank. The remainder of Stratford's sales were spare parts, jet engines for British Aerospace's BAe-146 commuter aircraft, engines for military and commercial helicopters, and for air cushion landing craft produced by Textron Marine Systems. New customer support centers have been opened, including an office in Beijing, China, to foster relations and provide support for engines installed on China's BAe-146 aircraft.

In 1986, as part of their teaming arrangement for the U.S. Army's LHX engine production competition, Avco Lycoming Stratford and Pratt & Whitney successfully tested their first T800, a 1200 horsepower turboshaft engine, to power the LHX helicopter. In 1985 the team received a $240 million, five-year development contract from the Army for the T800. The LHX helicopter development program is expected to mature in the late 1980s, with production of 10,000 engines by the winning team members scheduled to begin in the mid 1990s.

Fuel Systems afterburner spray ring



Stratford is currently negotiating with the Army for a four-year, $1.5 billion contract for M1 tank engines. Previously, contracts with the Army were awarded to the division yearly.

The Avco Lycoming Williamsport unit's results reflected the depressed general aviation market and sharply higher product liability insurance expense. As a result of the poor prospects for a major recovery in the market, an agreement with John Deere Technologies, Inc. to develop a rotary engine for general aviation was terminated. Sales of engine parts continue to grow and will be the focus of Williamsport's efforts in 1987. A reciprocating engine overhaul facility was started to serve the demands of this growing market.

Airfoil Textron is the largest independent manufacturer of aircraft gas turbine compressor blades and vanes in the U.S. Highlighting the year for Airfoil was the acquisition of TRW's Compressor Components Division which increased market share and broadened Airfoil's customer and technological base. In 1986 the Airfoil Division received new contracts for compressor blades and fan blades for two large U.S. military engine programs.

Aircraft Engine Components consists of three operations: Atlantic Aerospace, the largest independent producer of discs and hubs; Babco, a producer of cases and frames; and Norwood Precision Products, a manufacturer of gears for the aircraft industry. During the year Babco expanded significantly with the opening of a new plant.

Fuel Systems Textron has manufactured fuel system components since the introduction of the aircraft gas turbine engine. Today its components are used by nearly all of the major engine manufacturers, including Textron's Avco Lycoming operations.

Systems

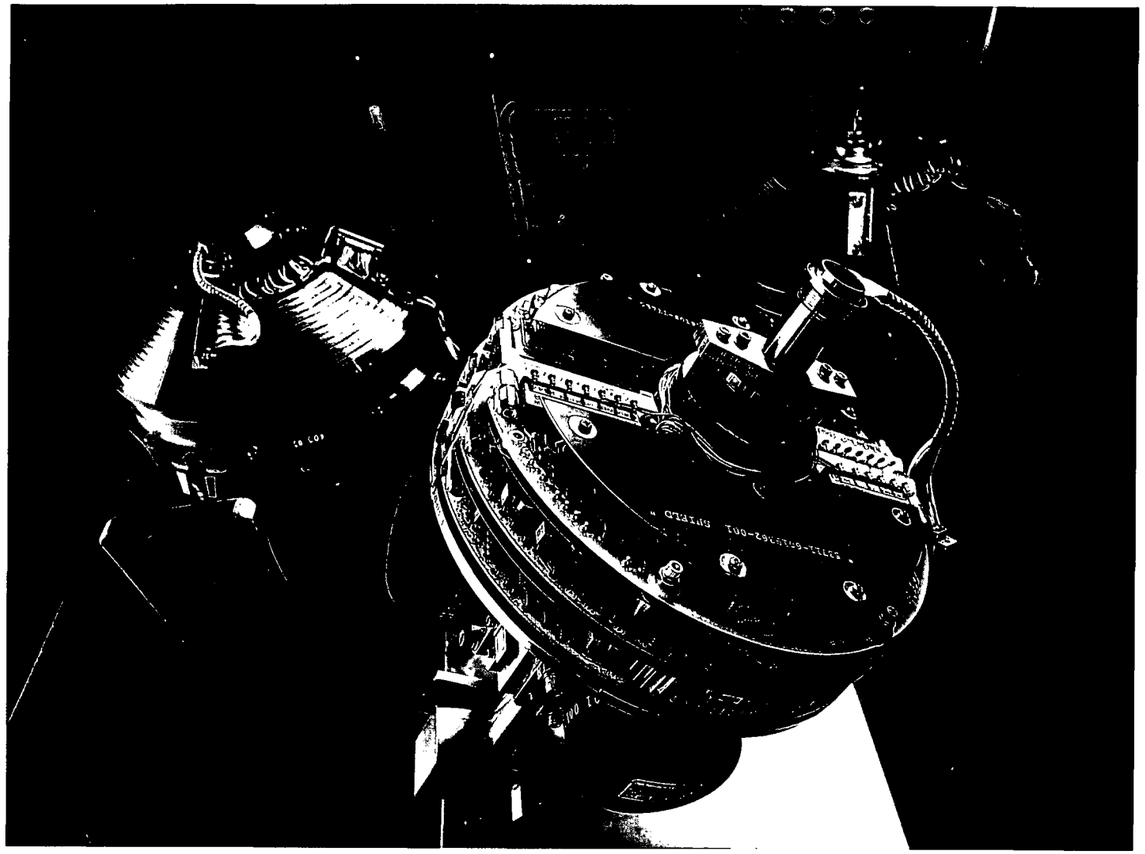
This segment is comprised of divisions which provide a broad range of high technology products including systems, subsystems, components and services to the U.S. Government and commercial customers. Divisions in this segment are involved in many of the major weapons programs, such as the Peacekeeper (MX) missile, B-1B and C-5 aircraft, M1 tank and air cushion landing craft. This

Avco Aerostructures wing assemblies

The U.S. Army's M1 tank utilizes products from two Textron divisions: Avco Lycoming Stratford produces the powerful AGT 1500 gas turbine engine for the M1, which accelerates the 60-ton tank from 0 to 20 miles per hour in six seconds; Cadillac Gage makes the weapon/turret stabilization system, which totally isolates the gun platform from the disorienting effects of the tank's movement over rough terrain.

Bell Aerospace satellite communications antenna

Cadillac Gage light tank



Bell Aerospace Textron is a leader in the development and production of precision inertial measurement systems, including the gravity gradiometers shown here. Such systems measure the magnitude and direction of gravitational forces near the earth's surface from moving ships. These precise measurements allow major improvement in navigational accuracy.

segment also has a research role in the Strategic Defense Initiative (SDI), and is developing an array of anti-armor and airfield cratering "Smart" weapons.

Avco Aerostructures' higher sales and income in 1986 reflected accelerated wing deliveries for the B-1B and C-5B aircraft programs which reached peak production levels during the year. Aerostructures is currently competing for a subcontract to build major wing components for the McDonnell Douglas C-17 Airlifter. The U.S. Air Force plans to build more than 200 C-17 cargo planes with preliminary work commencing in 1988.

Commercially, the division supplies wings to British Aerospace for its BAe-146 aircraft which has good prospects for increased sales to commercial airlines in the U.S. and overseas. The division's Gulfstream IV commercial wing program will extend into the next decade.

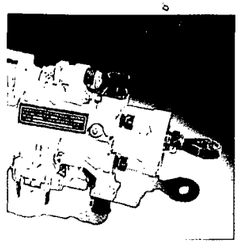
Bell Aerospace's marine and air cushion technology business was made into the Textron Marine Systems Division in 1986. The separation should support controlled growth within each of the divisions by increasing managements' focus on their respective markets.

Bell Aerospace's remaining products are inertial measurement gravity sensing systems, automatic carrier aircraft landing systems and extra high frequency communication antennas. It also produces prepackaged liquid rocket propulsion products and is involved in advanced development programs for the defense market.

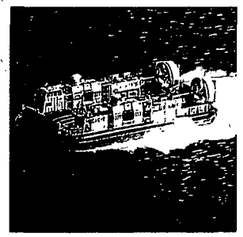
Textron Marine Systems' major program is the Landing Craft Air Cushion (LCAC), which is built for Marine Corps amphibious operations. The division currently has a contract to produce 14 LCACs with options to build two more. The previously contracted Minesweeper/Hunter program has been restructured by the Navy in favor of a more conventional design, and all contract work has been completed by the division.

Cadillac Gage Textron, an Ex-Cell-O unit, has two principal product lines: control systems, which benefited in 1986 from increased shipments to an overseas tank manufacturer, and combat vehicles, an area which slumped due to a decline in foreign demand. Control system programs in 1986 included turret drive and stabilization systems for the M1 tank and

HR Textron servoactuator



Textron Marine Systems LCAC air cushion craft



the Commando combat vehicles. During the year the division made the first large sale of its Scout vehicle and received a contract from the U.S. Marine Corps for turrets. Cadillac Gage also conducted tests on its new Stingray light tank and is participating in the development of a robotic combat vehicle.

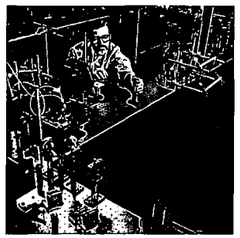
HR Textron experienced higher sales of fuel and pneumatic products, aerospace filters and automated test equipment. HR obtained important contracts in 1986 for servovalves and flight control actuators.

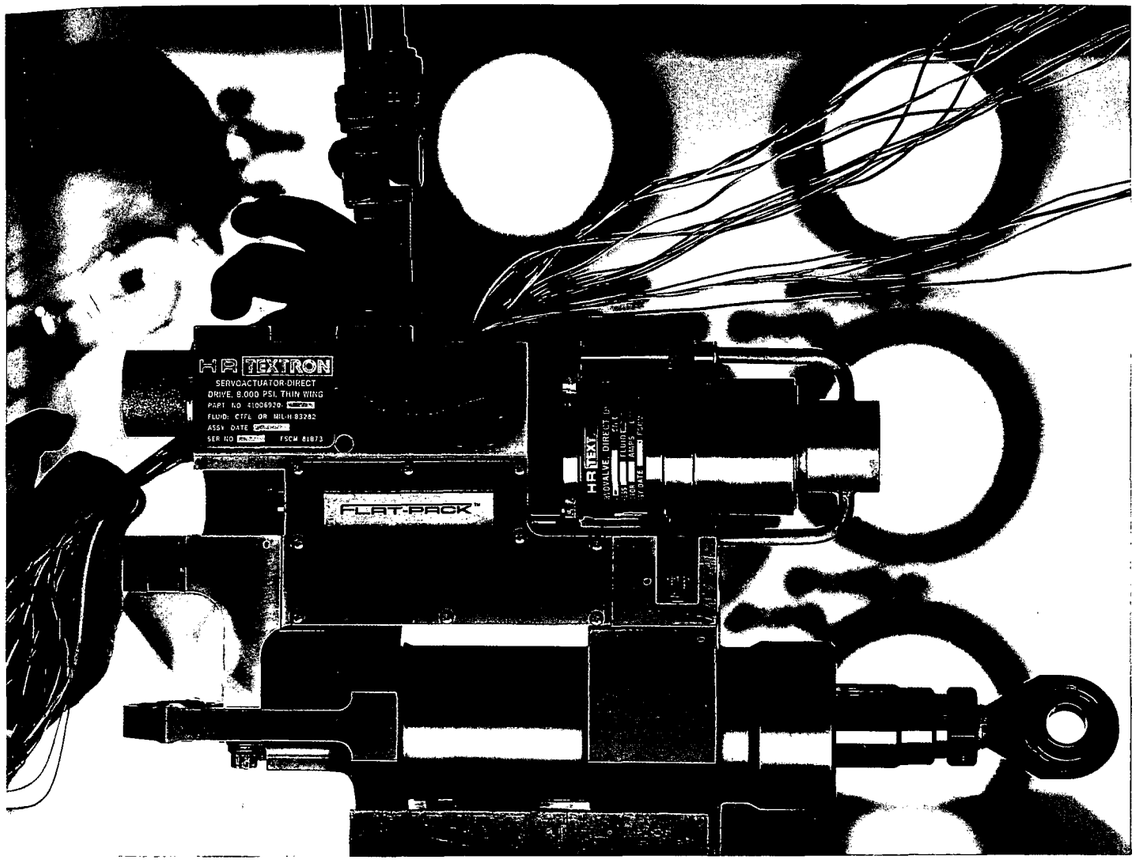
Avco Research Laboratory's programs are largely for the Department of Defense. At the same time, its mission is to pursue development contracts that have potential for other Textron divisions. It is conducting research on ground-based and airborne strategic lasers. The division's sensor technology supports the tactical and strategic business of the Avco Systems Division by focusing on target detection and identification. It also operates the U.S. Air Force space tracking facility in Maui, Hawaii.

Avco Specialty Materials' higher sales in 1986 reflected increased boron business relating to the B-1B program, increases in metal matrix composite programs and the addition of a carbon products line. The division completed a silicon carbide pilot plant, enlarged its boron facility and improved its Chartek fire protection material.

Avco Systems' record sales and operating profit in 1986 reflected the acceleration to full production of the Peacekeeper (MX) missile reentry system and Mark 21 reentry vehicles, which together accounted for approximately 75% of the division's business. To date, Systems has received over $1 billion from the U.S. Air Force to develop, test and produce Peacekeeper systems. Other Department of Defense work included full-scale development of the Sensor Fuzed Weapon, a "Smart" anti-armor munition, and production of fuze sets for the Pershing II missile.

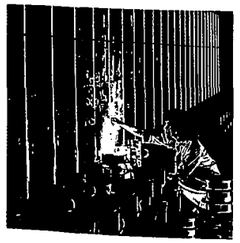
Avco Research Laboratory electro-optical study





HR Textron's "Flatpack" flight control actuator was designed flat to fit within the thin wings of new generation aircraft. "Flatpack" is capable of operating at twice the pressure per square inch of current military aircraft hydraulic systems.

Avco Specialty Materials fiber for composite materials



Avco Systems ICBM reentry system and vehicle

Commercial Products

Summarized financial data *(in millions)* for this sector's continuing operations are as follows:

	1986	1985
Sales	**$1,365**	$1,232
Operating profits	**$ 134**	$ 92

Commercial Products accounted for 20% of Textron's total revenues and 20% of its total operating profits in 1986. This sector supplies components to the automotive OEM market; fasteners, tools and components to a variety of industrial markets; outdoor power equipment to consumer, commercial and industrial markets, and specialty consumer products.

Textron's outdoor power equipment business is comprised of E-Z-Go, the leading manufacturer of golf cars for the fleet market; Homelite, a major producer of chain saws, and Jacobsen Turf, a leader in maintenance equipment for large turf areas.

E-Z-Go's sales and profit reached new highs in 1986. E-Z-Go's major programs are directed at maintaining its leadership position in the golf car fleet market, while increasing market share in the individual, turf, industrial, utility and commercial markets.

Homelite's improvement in 1986 was due to new management's success in

E-Z-Go golf cars are shown at Castle Pines Golf Club, Castle Rock, Colorado, site of the "International" golf tournament. Textron is a major sponsor of the event and E-Z-Go and Jacobsen Turf equipment is used extensively at the club. E-Z-Go is the leader in the fleet golf car market and is increasing its share in the turf, industrial and commercial utility markets. Jacobsen is a leading manufacturer of golf course mowing equipment and has a growing share of the commercial turf care market.

reducing inventories and improving manufacturing efficiencies. The division continued to move aggressively to expand market share in the gasoline grass trimmer, construction and lawn care product lines. In 1986 Homelite introduced 28 new products, with numerous common components and engineering features, in gasoline and electric trimmers, generators, lawn mowers, lawn and garden tractors, snow throwers and chain saws.

Jacobsen Turf's sales and operating profit rose. Jacobsen's riding golf greens mowers and Turfcat riding rotary mowers accounted for a major portion of total sales. In 1986 the division introduced the first diesel powered greens mower in the industry. In addition, the Turf Groomer was added to the product accessories available on Greens King mowers.

Textron's automotive business was strengthened significantly by the addition of Ex-Cell-O's Davidson and McCord Winn operations. Textron's sales to the automotive companies in 1986, if Ex-Cell-O had been included for the full year, would have amounted to approximately $600 million or about $48 on the average for each North American-built car and light truck. Textron's automotive products include engine castings, camshafts, fasteners, and a variety of plastic and metal interior and exterior components.

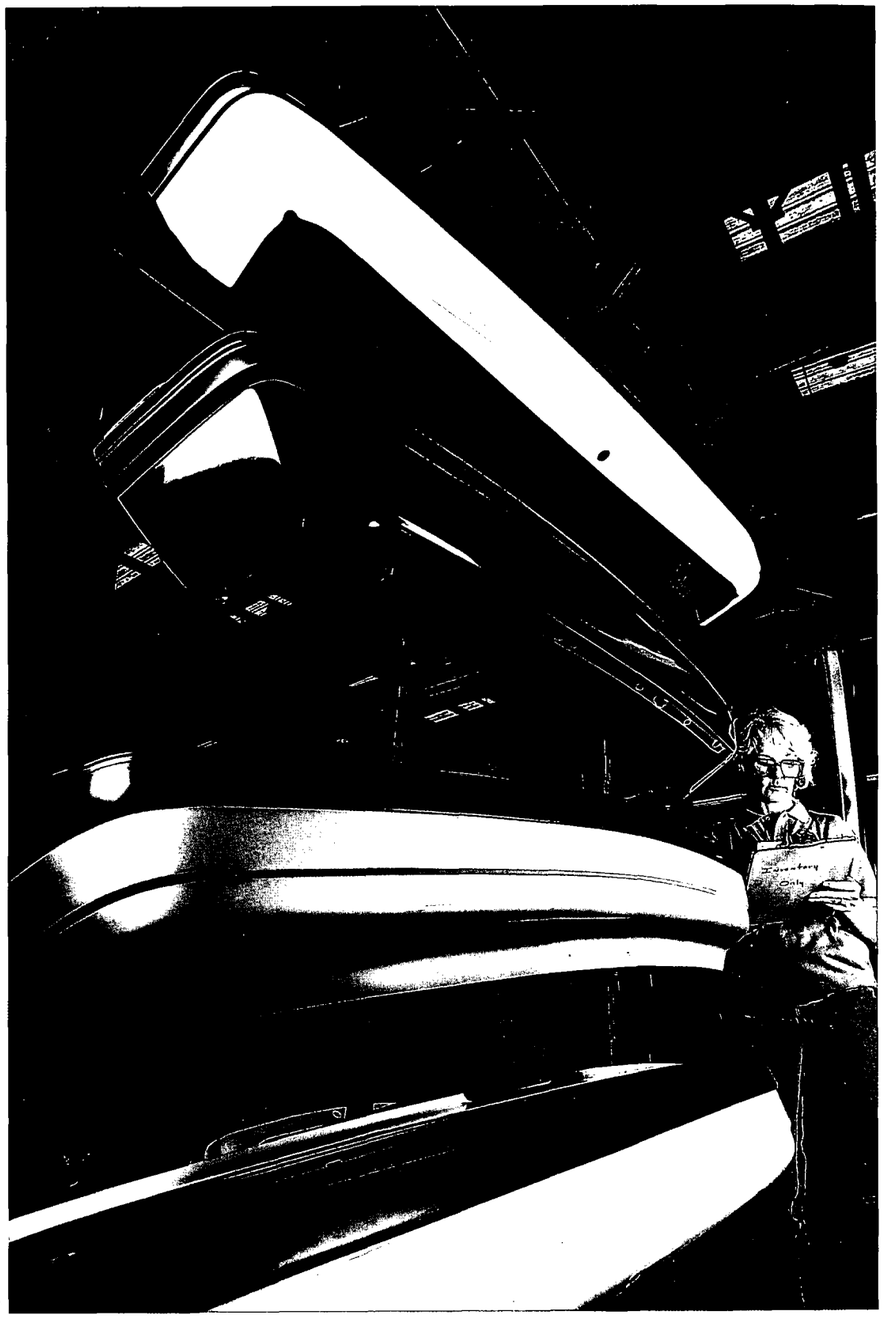
CWC Castings had higher profit on slightly lower sales volume. The gain was attributed to increased operating efficiencies and improvements in product mix. Camshaft sales, which account for about half of CWC's business, were strong through the first half of 1986 but weakened due to slowing demand in the automotive industry. The division's block and head business was hurt by foreign competition. To increase efficiency CWC has completed the consolidation of its block and head operations into one manufacturing facility in Columbus, Indiana.

E-Z-Go utility vehicle

Homelite-Jacobsen lawn mower

Jacobsen turf care equipment

An employee at Textron's Davidson Exterior Trim Division inspects painted plastic fascia prior to shipment. Textron, with the acquisition of Ex-Cell-O, has become a major supplier of metal and plastic trim and other components to U.S. automotive companies.



Automobile wheel covers, in many shapes and sizes, are a major product line of Textron's Randall Division. Such wheel ornamentation – some 12 million units a year – include simple and complex wheel covers, wire wheel covers, trim rings and hub caps.

Davidson Instrument Panel Textron is the largest of the three Davidson divisions. Its growth in 1986 resulted from new programs for General Motors, Chrysler and Ford. Like its sister divisions, Davidson Instrument Panel is making progress in establishing stronger relationships with its automotive customers. An example of this is its advanced engineering involvement in instrument panels for GM vehicles, including a van with an all-plastic body slated for introduction in 1990.

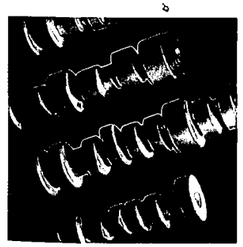
Davidson Exterior Trim Textron received several contracts in 1986, the most important of which was for the Chrysler "H" car front and rear fascia for 1990. The award marks the first time Chrysler has awarded a fascia program to one supplier. This "design and build" contract is consistent with Textron's strategy of building prime-supplier relationships with automotive manufacturers.

Davidson Interior Trim Textron's results have been depressed for the past two years by the start-up of its Athens, Tennessee plant and reduced demand for certain models of GM cars. New, high-volume business from Ford, however, provides for Interior Trim's continued presence in the luxury car market through 1995. The division provides interior components to original equipment manufacturers and to Davidson Instrument Panel.

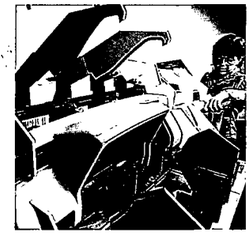
McCord Winn Textron experienced growth in sales of fuel pump armatures, and air pumps and switches introduced in 1985. New horn pad business was received from Oldsmobile for 1987 delivery. New product development work includes a window lift assembly and a high pressure air pump for automotive seats.

Randall had another strong year in 1986, particularly in its wheel trim products line which was acquired from Rockwell International in 1985. The division's other major businesses, tubular steel products, metal stampings and plastics, were at or near the prior year's high levels. Randall's decorative and functional parts are sold to automotive and appliance markets.

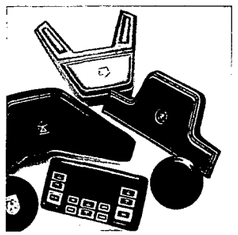
CWC Castings automotive camshafts

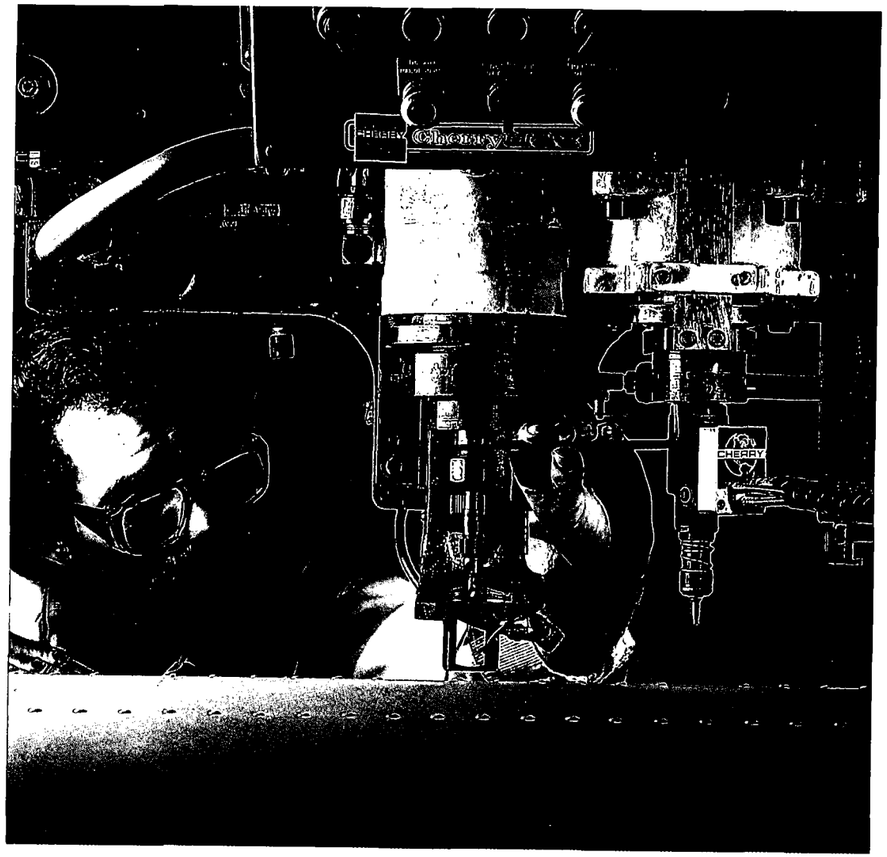


Davidson automotive products



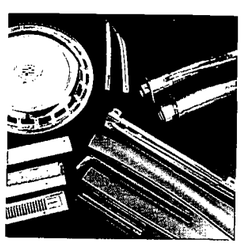
McCord Winn automotive products



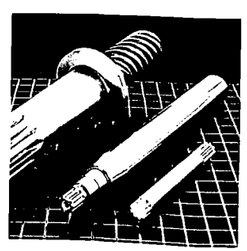


Machine design expertise at Textron's Cherry Division includes the ability to modify existing automatic riveting equipment to accept CherryMAX blind rivet tooling packages. Such adaptation results in higher production rates and lower costs for Cherry's aerospace and commercial customers, enhancing Cherry's reputation as a technological leader in aerospace fasteners.

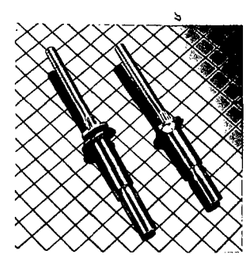
Randall plastic and metal trim



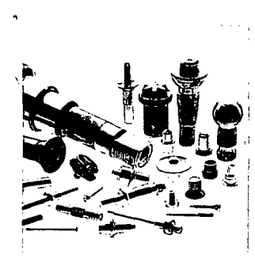
Camcar proprietary fasteners and system



Cherry aerospace and commercial fasteners



Townsend custom cold-formed parts



Textron has a major position in the engineered fasteners industry. Three divisions – Camcar, Cherry and Townsend – produce a broad range of fasteners and fastening systems for aerospace, commercial, industrial and automotive applications.

Camcar reported higher sales and operating profit in 1986, with Syntek Component Products, its newest unit, contributing to the improved results. Syntek is expected to expand Camcar's capabilities and open new market opportunities. It supplies a variety of completed assemblies, including those used in a composite headlamp. It also is developing prototype assemblies which combine cold-formed Camcar parts with plastic, metal-stamped and rubber components.

Cherry had record results due to the introduction of new products and increased sales to the aerospace industry. Along with blind fasteners, its principal product, Cherry designs and manufactures locknut and installation tools. Cherry continues to develop proprietary products for both aerospace and commercial applications and is a leader in the development of automatic and robotic blind fastening systems.

Townsend's improved results reflected the first full year of operations following the relocation of plant facilities. New product development in fastening systems, sales of automated installation machinery and long-term agreements to supply producers of auto/truck suspension systems were major contributors to results.

The other industrial products and services are machine tools, proprietary industrial components, tools for use by electrical contractors and contract manufacturing of electronic components.

Contractor Tool and Equipment
Textron has two operations: Greenlee Tool Company produces and markets a broad range of tools and equipment for electrical contractors; Forest City Tool manufactures tools and equipment for the woodworking markets. For both, 1986 was a good year.

Ex-Cell-O European Machine Tool had a modest profit in 1986. A strong backlog and better pricing promise a much improved outlook for 1987. The division has operations in West Germany and England which produce state-of-the-art metal cutting machine tools and flexible manufacturing systems. The Ex-Cell-O North American Machine Tool Division experienced improvements in each of its major businesses in 1986.

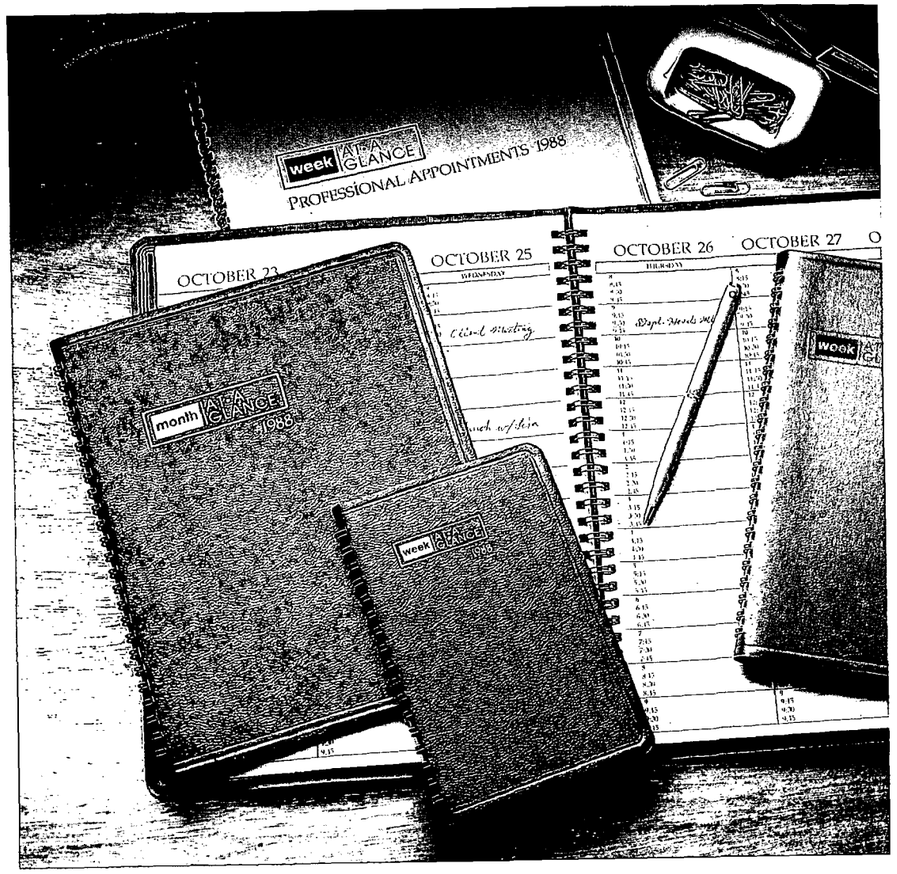
Avco Electronics' business of commercial contract manufacturing was adversely affected by the slump in electronics and computers. Contracts with new customers in 1986, however, provide a good basis for future growth.

The three specialty consumer products divisions – Gorham, Sheaffer Eaton and Speidel – have a reputation for quality in their respective markets, as well as long-established brand recognition in products ranging from tableware and watchbands to pens and stationery.

Textron has decided to dispose of its Gorham Division. Gorham's results for 1986 have been reflected in the consolidated statement of income as a discontinued operation.

Sheaffer Eaton's sales and profit increased in 1986. Growth from the overseas markets and the domestic success of Sheaffer's fashion pens and writing instrument showcase programs, were the principal reasons for these gains. Its At-A-Glance and Duo-Tang products continued to lead U.S. commercial markets.

Speidel's sales declined slightly because of lower watch sales and reduced OEM volume, while operating profit remained at the 1985 level. Speidel's newest product line, the Euroflex watch bracelet, provides high fashion European appearance in a comfortable expansion band, which serves as an appropriate replacement product for most upscale designer watches.



Fashion colors for Sheaffer writing instruments and At-A-Glance record books exemplify the distinctive appearance and quality workmanship of the dozens of different types of products manufactured by Textron's Sheaffer Eaton Division. Sheaffer Eaton also produces Eaton stationery and Duo-Tang report covers. Quality, design and the innovative use of color in both its writing instruments and record books, have given the division worldwide brand recognition.

Contractor Tool and Equipment sheet metal punches

Ex-Cell-O machine tool system

Avco Electronics computer subassemblies

Sheaffer Eaton writing instruments

Speidel Euroflex watch bracelets

Summarized financial data *(in millions)* are as follows:

	1986	1985
Revenues:		
Finance	**$ 905**	$ 843
Insurance	**1,023**	840
Management Services	**72**	66
	$2,000	$1,749
Operating Profits:		
Finance	**$ 128**	$ 142
Insurance	**96**	71
Management Services	**32**	40
	$ 256	$ 253

This sector is comprised of Avco Financial Services and Textron Financial Corporation in the Finance segment, Avco Insurance Services/Balboa Life and Casualty and the Paul Revere Insurance Group in the Insurance segment and Avco Management Services in the Management Services segment. The Financial and Other Services sector represented 29% and 39%, respectively, of Textron's total 1986 revenues and operating profits.

Finance

Avco Financial Services' (AFS) consumer finance operation recorded higher revenues in 1986, while profit declined due to a rise in net credit losses as a percentage of average net receivables. The higher charge-offs were the result of both a change in receivable mix to a greater emphasis on unsecured loans and the relatively high

Avco Financial Services continues to offer its consumer loan customers a high level of personal service. With nearly $3.3 billion of outstanding receivables, it is one of the largest loan companies in both the United States and Canada.

Providing outstanding claim service is a goal shared by the medical, claims processing, marketing and other staff functions at Paul Revere Insurance Group. Paul Revere is the North American leader in long-term, noncancellable disability income insurance, marketed primarily to business owners and professionals. During 1986 Paul Revere invested millions of dollars to upgrade its central computer facility and technology, including extensive office automation.

level of debt-to-disposable income that has been assumed by consumers over the past several years.

As part of its decision to focus on its core businesses of making consumer loans and purchasing retail installment contracts, AFS sold its Diversified Sales portfolio and its Japanese subsidiary in 1986.

Textron Financial Corporation (TFC) reached a new milestone in 1986 with receivables exceeding $1 billion for the first time. During the year a significant shift in business strategy was begun, which will emphasize lending rather than tax-based leasing. This change, which was prompted by changes in the federal income tax laws, did not alter the strong growth in volume of new business in 1986. Ex-Cell-O Credit Corporation, a small, captive finance company, was consolidated into TFC near year-end. TFC's captive business, related to financing the sale of Textron products, continues to decline as a percent of total activity.

Insurance

Avco Insurance Services/Balboa Life and Casualty's profit declined due in large part to U.S. casualty underwriting losses, resulting from a previously underpriced auto insurance line sold through managing general agents. This marketing channel is being greatly reduced. Within the insurance segment, the AFS loan customer has been identified as the primary target for various insurance products, such as credit life and disability, involuntary unemployment, family term life, accidental death, and automobile and homeowners insurance lines.

The Paul Revere Insurance Group experienced record growth in revenues and profit in 1986. These gains were due to the division's strength in the individual disability income line of business in the U.S. and in Canada. An increase in capital gains contributed significantly to income. A strong service orientation and new product development have made Paul Revere's disability income insurance the industry standard. Revenues from the division's other principal product lines, including group insurance and annuities, also improved. Emphasis on customer service is evidenced by the maintenance of a quality product portfolio, an outstanding claims process and a flexible underwriting approach. Technological investments in 1986 were directed to further improvement in customer service.

Management Services

Avco Management Services' results exceeded expectations as a result of favorable contract adjustments. Following a restructuring of the division on January 1, 1986, the domestic operations of Avco Management Services were merged with Bell Technical Operations for administrative purposes and this unit is being sold. The Saudi Arabian business, which includes providing maintenance for four civilian airports, will continue to operate under the name of Avco Overseas Services Corporation as it phases out.

Avco Financial Services consumer financing

Textron Financial Corporation commercial financing

Avco Insurance Services credit life

Paul Revere disability income insurance

Avco Management Services airport operation and maintenance

Textron In The Community

Textron employees are encouraged to be actively involved members of the communities in which they live and work. Whether it is delivering meals to elderly shut-ins, helping needy families, serving as Junior Achievement consultants, or being involved in employment and training programs for minorities or the handicapped, Textron volunteers devote thousands of hours of their time annually to helping others.

For example, Avco Electronics is deeply involved in the FAST (Future Assets Student Talent) Program which helps handicapped teenagers prepare themselves for college or entry into the work force. HR Textron is in its ninth year as an "Adopt-A-School" sponsor, and Avco Aerostructures sponsors both "Adopt-A-School" and "Adopt-A-House," the latter being an employee effort to renovate housing in the local community. Avco Specialty Materials works with referral services to assist women and Southeast Asians entering the work force. Camcar sponsors a fastener technology education program for minorities, women and the handicapped. Paul Revere has formulated a child care pilot program in conjunction with a professional child care resource. Textron employees participate in Savings Bond and blood donor drives and serve as officers and directors of the YMCA, Girl Scouts and Boy Scouts, the Chamber of Commerce, area hospitals and institutions of higher education. Employees also participate individually in the local political process.

Division and Corporate office employees are generous in their financial support of charities, giving millions of dollars annually to local fund raising drives, such as the United Way. They frequently take leadership roles in such drives. Bell Helicopter Textron, through its Humanities Fund, donated more than $1 million to Dallas/Ft. Worth area charitable organizations in 1986. They also formed a Community Involvement Team to aid non-profit organizations with their community projects.

Financial Support Program

Through the Textron Charitable Trust, the Company provides substantial financial support to numerous cultural, educational and human service organizations. The major portion of the funds are given in the communities where Textron plants are located. Additionally, the Trust matches employees' and directors' gifts on a $2 for $1 basis for cultural and educational institutions and a $1 for $1 basis for hospitals. Also, through the Trust, approximately 120 children of Textron employees received financial assistance with their education in 1986 through Merit and Sponsored Scholarship programs.

In 1986 Textron made a $1 million contribution from the Ex-Cell-O Corporation Foundation to the unrestricted endowment of the Community Foundation for Southeastern Michigan. The Community Foundation serves a seven-county area, making grants to innovative projects in education, health, cultural, social and human service efforts.

Employee Support Programs

Textron continues to offer training and educational opportunities for its employees. These opportunities range from on-site seminars, which enhance job performance to tuition reimbursement for degree studies at local colleges.

Textron provides its employees with many opportunities to take part in "wellness" programs which are designed to help prevent illness by encouraging changes in habits and lifestyles. These include stress and weight reduction, smoking cessation, blood pressure screening and nutrition awareness programs.

As part of Textron's Employee Assistance Program workers are helped through independent referral to deal with alcohol and drug abuse, marriage and family problems, emotional problems and financial difficulties. Such assistance is voluntary and confidential.

Employees at Avco Aerostructures, including Division President John Kleban(r), volunteer their time and labor to the City of Nashville's "Adopt-A-House" property rehabilitation program. This unique, four-year-old program has helped over 110 needy homeowners through interior and exterior improvement projects, including painting and light repairs.

Textron Division and Product Directory

Aerospace Technology

Helicopters

Bell Helicopter Textron Inc.
P.O. Box 482
Ft. Worth, TX 76101
(817) 280-2011
Leonard M. Horner,
President

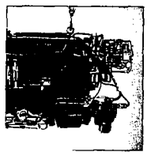
Bell Helicopter Textron produces helicopters and spare parts for the U.S. Government, foreign governments and civilian markets and is teamed with Boeing in the development of the U.S. Navy's V-22 Osprey tilt rotor aircraft. Bell has helicopter coproduction programs in Japan, Indonesia and Turkey and large after-market sales of technical training and logistics support.

Propulsion

Avco Lycoming Stratford
550 South Main Street
Stratford, CT 06497
(203) 385-2000
John R. Myers,
President

Avco Lycoming Stratford manufactures gas turbine engines for the U.S. Army's M1 tank, military and commercial helicopters, commercial aircraft and marine vehicles. New engine sales are made to airframe and vehicle manufacturers or to the U.S. Government. Spare parts and services are provided through the division's customer operations organization and a worldwide network of service centers.

Avco Lycoming
Williamsport
652 Oliver Street
Williamsport, PA 17701
(717) 323-6181
Philip R. Boob,
Vice President and
General Manager



Avco Lycoming Williamsport produces reciprocating and small gas turbine engines for general aviation fixed-wing aircraft and helicopters. Spare parts sales and engine overhaul are a growing part of its business. New engine models are sold directly to airframe manufacturers. Replacement engines and parts are sold to aircraft owners through a worldwide distribution network.

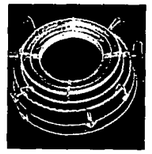
Aircraft Engine
Components
P.O. Box 11906
Newington, CT 06111
(203) 666-4601
A. Arthur Weigel,
President

Aircraft Engine Components manufactures to customer design, gas turbine engine components such as discs, hubs, cases, frames and precision gears for engine producers and the spares market. The division's products are marketed through direct accounts managers and sales managers.

Airfoil Textron
P.O. Box 1085
Lima, OH 45802
(419) 228-3302
Edward J. Breznyak,
President

Airfoil Textron produces titanium and superalloy compressor components, both forgings and finished parts, for the domestic and international gas turbine industry. Typical products are fan blades, compressor blades and vanes, impellers and integrally bladed rotors. These products are sold primarily to engine manufacturers for use as original equipment and directly to the U.S. Government as spare parts.

Fuel Systems Textron
700 N. Centennial
Zeeland, MI 49464
(616) 772-9171
William G. Paterson,
President



Fuel Systems Textron's major products are fuel nozzles, manifolds and augmentors, which are shipped directly to U.S. military and commercial customers.

Systems

Avco Aerostructures
P.O. Box 210
Nashville, TN 37202
(615) 361-2000
John S. Kleban,
President

Avco Aerostructures is a major subcontractor to the aerospace industry. It produces wings for the B-1B and C-5A/B military aircraft and for the commercial Gulfstream III/IV and the British Aerospace BAe-146. In addition, it manufactures tail sections for the C-130 Airlifter.

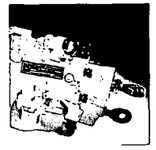
Bell Aerospace Textron
P.O. Box One
Buffalo, NY 14240
(716) 297-1000
Robert A. Norling,
President

Bell Aerospace Textron designs and produces technology based hardware and software products for the defense and space industries of the U.S. and its allies. These products include inertial and microwave sensor systems and liquid rocket propulsion systems, which are sold directly to government agencies or military prime contractors.

Cadillac Gage Textron
P.O. Box 1027
Warren, MI 48090
(313) 777-7100
William C. Frank,
President

Cadillac Gage Textron produces lightweight armored combat vehicles, turrets and weapon/turret control and stabilization systems. These products are sold primarily to the U.S. Government, its prime contractors and to foreign governments friendly to the U.S. by the division's sales force and independent representatives.

HR Textron Inc.
25200 West Rye
Canyon Road
Valencia, CA 91355
(805) 259-4030
Peter Gandell,
President



HR Textron is a leader in high technology aerospace controls, components and sub-systems, which it sells to prime contractors and the U.S. Government. Its products and services include servovalves, flight control actuators, fuel hydraulic and pneumatic system valves and actuation controls, filters and automatic test equipment.

Textron Marine Systems
6800 Plaza Drive
New Orleans, LA 70127
(504) 245-6600
John J. Kelly,
President

Textron Marine Systems produces air cushion vehicles and surface effect ships, principally for the U.S. Department of Defense. Its military contracts are mainly for the Landing Craft Air Cushion (LCAC), which it builds for Marine Corps amphibious assault. The division was formerly part of Bell Aerospace Textron.

Avco Research Laboratory
2385 Revere Beach Parkway
Everett, MA 02149
(617) 389-3000
Ralph W. Detra,
President

Avco Research Laboratory performs applied research in high temperature gas dynamics and electro-optics for the U.S. Government, other Textron units and commercial organizations. Among the technologies under investigation are high powered lasers, a broad range of sensors and magnetohydrodynamic electric power generation. It also operates the U.S. Air Force space tracking center in Maui, Hawaii.

Avco Specialty Materials
Two Industrial Avenue
Lowell, MA 01851
(617) 452-8961
Paul R. Hoffman,
President

Avco Specialty Materials is a leader in the development and manufacture of advanced composite materials and components, particularly for high temperature use. Materials utilized include boron, graphite, silicon carbide reinforced metals and carbon composites. In addition, the division produces a line of fireproofing and thermal protection materials.

Avco Systems
201 Lowell Street
Wilmington, MA 01887
(617) 657-5111
Harold K. McCard,
President

Avco Systems develops and produces advanced technology weapon systems for the U.S. Department of Defense. These products include the reentry system and the Mark 21 reentry vehicles for the Peacekeeper missile. In tactical systems, the division is developing a family of "Smart" antiarmor and airfield cratering munitions. It also supplies the arming and fuzing system for the Pershing II missile.

Commercial Products

Commercial Products

E-Z-Go
P.O. Box 388
Augusta, GA 30913
(404) 798-4311
Ronald V. Patterson,
President

E-Z-Go is a leading producer of three- and four-wheel gasoline and electric fleet golf cars, and related parts and accessories. It also produces utility vehicles for the turf, industrial and commercial markets and deluxe model golf cars for individual use. Its products are distributed worldwide through independent distributors and the division's branch facilities.

Homelite
P.O. Box 7047
Charlotte, NC 28217
(704) 588-3200
Robert D. Batting,
President

Homelite produces chain saws, string trimmers, pumps and generators. It also manufactures lawn mowers, both walk-behind and riding mowers, and snow removal equipment marketed under the Homelite-Jacobsen name. These products are sold through retailers by Homelite's direct sales force in the U.S. and by wholly owned branches and independent distributors throughout the world.

Jacobsen Turf
1721 Packard Avenue
Racine, WI 53403
(414) 637-6711
John R. Dwyer, Jr.,
President

Jacobsen Turf manufactures and markets an extensive line of machinery for the maintenance of large turf grass areas. These products include mowers, blowers, seeders, aerators, sweepers, trimmers and edgers. Its products are sold through approximately 100 contracted distributors and sales centers.

CWC Castings
Henry Street
Muskegon, MI 49441
(616) 733-1331
John L. Kelly,
President

CWC produces castings for automotive, truck and off-highway equipment manufacturers. Its major products—automotive camshafts, diesel engine blocks, cylinder heads, transmission cases and other gray iron components—are sold to engine and parts manufacturers by the division's sales force.

Davidson Exterior Trim
Textron
Route 6, Box 10
Americus, GA 31709
(912) 924-6111
D. Michael Weston,
President

Davidson Exterior Trim Textron manufactures and supplies exterior trim parts, principally fascia and body moldings, to the North American automobile manufacturers for cars and light trucks. The three Davidson divisions share a Detroit-based sales force and design office as well as central marketing based in Dover, New Hampshire. These are complemented by a marketing group based at each division.

Davidson Instrument Panel
Textron
875 Greenland Road
Building C
Portsmouth, NH 03801
(603) 433-4142
Frank J. Preston,
President

Davidson Instrument Panel Textron develops, manufactures and markets high technology plastic instrument panels as original equipment to North American car and light truck producers. Its products are distributed to automotive assembly plants throughout North America.

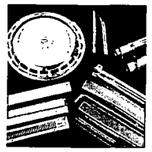
Davidson Interior Trim
Textron
Industrial Park
Dover, NH 03820
(603) 742-0720
Richard J. Ferrari,
President

Davidson Interior Trim Textron designs, engineers, manufactures and markets plastic components for automobiles and light trucks. Its principal product lines include arm rests, console assemblies, instrument panel components and door panels, which are sold to automotive manufacturers or their subcontractors.

McCord Winn Textron
620 Washington Street
Winchester, MA 01890
(617) 729-4400
Albert R. Vanderbilt,
President

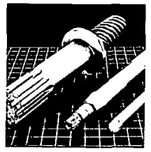
McCord Winn Textron manufactures electro-mechanical components for North American automobile and light truck producers. The division's products—fuel pump armatures, windshield washer systems, horn pads and air pumps—are sold directly to automotive manufacturers or their subcontractors.

Randall
P.O. Box 46334
Cincinnati, OH 45246
(513) 896-9400
Richard J. Price,
President



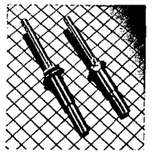
Randall produces metal and plastic functional parts for automotive and appliance manufacturers as original equipment. It also supplies such products to commercial accounts and other Textron divisions.

Camcar
600-18th Avenue
Rockford, IL 61108
(815) 226-3600
Robert C. Sellin,
Chairman
Robert H. Rothkopf,
President



Camcar is a leading producer of proprietary cold formed metal parts, threaded fasteners and custom designed component assemblies for automotive, appliance, railroad, truck/trailer, business machines, telecommunication equipment and other markets. Its sales force serves major original equipment manufacturers and industrial distributors.

Cherry
1224 East Warner Avenue
P.O. Box 2157
Santa Ana, CA 92707
(714) 545-5511
Donald A. Eckerson,
President



Cherry is a world leader in the development and manufacture of blind fasteners and systems for aerospace, automotive and commercial markets. It also produces locknut products and other fasteners. Cherry markets through its own sales force and a worldwide distributor network.

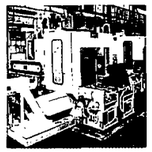
Townsend
5250-77 Center Drive
Suite 300
Charlotte, NC 28210
(704) 525-8003
Nicholas J. Wodogaza,
President

Townsend designs and manufactures special fasteners, proprietary fastening systems and cold formed parts. Its products are marketed directly to automobile and industrial customers through sales engineering specialists supplemented by distributors and sales agents.

Contractor Tool
and Equipment Textron
4455 Boeing Drive
Rockford, IL 61109
(815) 399-2078
Richard B. Bicknell,
President

Contractor Tool and Equipment Textron has two operations: Greenlee Tool Company produces conduit benders, cable pullers and punch and die metal hole making systems for electricians; Forest City Tool Company manufactures woodworking tools, including wood augers, router bits and indexible tooling for the furniture markets. Both units' sales organizations work through independent distributors.

Ex-Cell-O European
Machine Tool
Postfach 1160
7332 Eislingen/Fils
West Germany
07161-8051
Jürgen Jenrich,
President



The Ex-Cell-O European Machine Tool Division develops and manufactures metalcutting machine tools, including special machines, CNC machining centers, flexible cells and systems, and CNC turbine blades and vane grinders. Its products are marketed mainly to the European and North American metalworking industry through a direct sales organization and agents.

Ex-Cell-O North American
Machine Tool
P.O. Box 700
Walled Lake, MI 48088
(313) 624-7800
James F. Horgan,
President

The Ex-Cell-O North American Machine Tool Division is a group of individual companies engaged in the design and manufacture of proprietary production machines, tools, components and systems for the automotive, appliance, aerospace, bearing, off-highway and plastic components industry. Most of its products are sold through a direct sales force in the U.S. and Canada.

Avco Electronics
4807 Bradford Drive
Huntsville, AL 35805
(205) 837-6500
Stephen D. Moxley, Jr.,
President

Avco Electronics is a contract manufacturer of products for other electronics companies, principally subassemblies and systems, for telecommunication and computer-type markets. Surface mount technology and computer-aided design complement conventional manufacturing services.

Sheaffer Eaton
75 South Church Street
Pittsfield, MA 01201
(413) 499-2210
Murray R. Eisner,
Chairman
Joseph E. Biafore,
President

Sheaffer Eaton's principal lines are Sheaffer fountain pens, rolling ball and ballpoint pens, mechanical pencils and desk sets; Eaton social stationery and typing papers; At-A-Glance appointment and records books, and Duo-Tang report covers and portfolios. The division's products are distributed worldwide through wholesale, retail and business incentive channels.

Speidel
70 Ship Street
Providence, RI 02903
(401) 421-8600
Alfred M. Massotti,
President

Speidel manufactures and distributes watch attachments, fashion bracelets, analog quartz watches, fashion jewelry and British Sterling men's toiletries. Sales to jewelry, department, discount, variety and drug stores are primarily through Speidel's direct sales force as well as independent wholesalers.

Financial and Other Services

Finance

Avco Financial Services
P.O. Box 19701
Irvine, CA 92713
(714) 553-1200
Charles R. Rinehart, President

Avco Financial Services is engaged in consumer finance, primarily involving unsecured loans and loans secured by personal property in relatively small amounts for short periods of time. The division operates approximately 1,200 finance offices in the U.S., U.K., Canada and Australia.

Textron Financial Corporation
P.O. Box 878
Providence, RI 02901
(401) 272-8000
Stephen J. Davis, President

Textron Financial Corporation (TFC) is a commercial finance company specializing in asset-based financing including secured loans, equipment leasing and inventory financing services. While TFC functions as a captive finance company for Textron, approximately 60% of its assets are related to financing non-Textron products and a majority of its income is derived from such independent sources.

Insurance

Avco Insurance Services/ Balboa Life and Casualty
P.O. Box 19702
Irvine, CA 92713
(714) 553-0700
Carlton W. Honebein, President

Avco Insurance Services/Balboa Life and Casualty's business consists primarily of collateral protection, credit life, disability and property/casualty insurance. The division markets its products to consumer loan customers of Avco Financial Services, general agents, and financial institutions in the U.S., Canada, Australia and the U.K.

Paul Revere Insurance Group
18 Chestnut Street
Worcester, MA 01608
(617) 799-4441
Aubrey K. Reid, Jr., President

Paul Revere's main product is individual noncancellable disability income insurance which is sold to professionals and business owners. Paul Revere also markets group life, medical, dental, disability insurance, individual life insurance and annuities. Its products are distributed through career agents and brokers.

Management Services

Avco Management Services (Avco Overseas Services Corporation)
Park 10, 17200 Park Row
Houston, TX 77084
(713) 492-3200
Dieter F. Wolter, President

Avco Management Services (Avco Overseas Services Corporation) operates and maintains facilities in Saudi Arabia, including four civilian airports. Other programs include support services for large construction companies, maintenance of navigational aids and electronic maintenance of communication systems. Its operations in the U.S. are being sold.

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Financial Review

Liquidity and Capital Resources

The acquisition of Ex-Cell-O Corporation in September 1986 was initially financed through bank borrowings of approximately $1 billion under promissory notes maturing through December 4, 1986 with a weighted average interest rate of 6.11%. Such notes have subsequently been refinanced through the sale of commercial paper and bank borrowings. It is Textron's intention to repay a substantial portion of its indebtedness largely through internally generated cash and the application of proceeds expected to be realized by early 1988 from the sale of assets. Textron has not, as yet, identified particular business units, other than Gorham (see Note 3 to the accompanying Textron consolidated financial statements). Business units which will be disposed of are expected to be identified during the next year. Since such business units are likely to be earning at a greater rate of return than the interest on the debt that will be retired with the proceeds of sale, such dispositions are likely to have the effect of reducing reported income from continuing operations.

Textron's debt restructuring during 1986 included the issuance of $100 million of 10¾% Senior Notes due 1998, $150 million of 9¼% Senior Debentures due 2016 and $150 million of 9½% Subordinated Debentures due 2016. The net proceeds from these sales were applied to reduce outstanding debt. Additionally, Textron redeemed its 12¾% Subordinated Debentures due 2010. The redemption price was 111.92% of the principal amount of $100 million. Textron has committed revolving credit facilities aggregating $1.8 billion, plus confirmed bank lines of $213 million. Credit facilities not used or reserved as support for outstanding commercial paper or bank borrowings were $592 million at January 3, 1987. Textron's credit facilities and cash flow from operations should be more than sufficient to meet working capital needs and provide Textron with the resources necessary to continue its growth.

In 1986 Textron sold its Bostitch, Bridgeport Machines, Dalmo Victor and Valentine Sands Divisions, completing its previously announced asset disposition program following the acquisition of Avco Corporation in early 1985. Aggregate cash proceeds from the sales of these divisions amounted to approximately $455 million which were applied to reduce outstanding debt.

Financing for Textron is conducted through several independent borrowing entities comprised of the parent company and its unconsolidated finance subsidiaries, Avco Financial Services, Inc. (AFS) and Textron Financial Corporation (TFC). This framework allows the finance subsidiaries, with specialized needs related to carrying portfolios of receivables, to finance their respective operations, each through its own external group of creditors. As independent borrowers, their debt is supported by their own assets, without guarantee from the parent corporation. Accordingly, the capital resources and liquidity of Textron's operations are best understood by separately considering its independent borrowing entities.

Sources of cash to the parent company for working capital requirements, capital expenditures and corporate expenses, as well as requirements for interest and debt repayment, taxes and dividends, are derived from earnings generated by subsidiaries and divisions included in the consolidated financial statements and from dividends received from the unconsolidated finance subsidiaries, supplemented with borrowings. See Note 6 to the accompanying Textron consolidated financial statements for further information with respect to Textron's debt and credit facilities.

Textron's unconsolidated finance subsidiaries, AFS and TFC, utilize a broad base of financial support for their liquidity and customer financing activities. Cash is provided from both operations and several different sources of borrowings. These sources include unsecured borrowings under bank lines of credit, the issuance of commercial paper, and sales of medium- and long-term debt. See Note 5 to the accompanying combined financial statements of Textron's finance and insurance subsidiaries for information concerning debt and credit lines of AFS and TFC.

The Tax Reform Act of 1986 (the Act) was enacted on October 22, 1986. Among other things, the Act provides for reductions in 1987 and 1988 in the marginal federal income tax rate for corporations, repeal of the investment tax credit retroactive to the beginning of 1986 and reduction of investment tax credit carryforwards in 1987 and 1988. The effects of the Act on Textron's future results of operations and cash flow are not expected to be material.

Results of Operations

1986 vs. 1985

Textron achieved record revenues and income from continuing operations in 1986. Total revenues from continuing operations rose 21% to $7.0 billion from $5.7 billion in 1985. Income from continuing operations was $241.6 million ($5.85 per share), an increase of 34% from the $180.1 million ($4.83 per share) reported in 1985. This increase is attributable to strong results from most segments and the inclusion of the results of Ex-Cell-O Corporation from September 17, 1986, the date as of which Textron had purchased over 93% of Ex-Cell-O's outstanding common stock. Corporate expenses for 1986 included pre-tax gains of $20 million on the sale of securities as compared to $10 million in 1985. Lower interest expense reflects the success of Textron's debt reduction program following the acquisition of Avco and lower interest rates, partially offset by increased interest expense due to the acquisition of Ex-Cell-O. Textron's effective income tax rate in 1986 was substantially higher than the 1985 rate principally due to the repeal of the investment tax credit retroactive to the beginning of 1986. For additional information on income taxes see Note 9 to the accompanying Textron consolidated financial statements and Note 6 to the accompanying combined financial statements of Textron's finance and insurance subsidiaries. Earnings per share for 1986 reflected an increased average number of shares outstanding from the prior year.

Net income for 1986 of $239.2 million ($5.79 per share) included an extraordinary loss arising from the early redemption of Textron's 12¾% debentures, which was largely offset by a net gain related to the asset disposition program. Last year's net income of $251.8 million ($6.75 per share) included a total of $71.7 million ($1.92 per share) from income from discontinued operations, an extraordinary gain and an accounting change.

1985 vs. 1984

Total revenues from continuing operations were $5.7 billion (including $1.7 billion attributable to Textron's unconsolidated finance and insurance subsidiaries) compared to $2.2 billion in 1984. Income from continuing operations was $180.1 million ($4.83 per share) up 132% from the $77.5 million ($2.12 per share) reported in 1984. The 1985 results of operations include the results of Avco from January 10, 1985, the date as of which Textron had purchased over 95% of Avco's outstanding common stock.

Net income for 1985 totaled $251.8 million ($6.75 per share) up from the $113.5 million ($3.11 per share) in 1984. Such income for 1985 included a total of $28.2 million ($.76 per share) from an extraordinary gain and an accounting change.

Helicopters

Revenues for 1986 exceeded $1 billion for the first time in Bell Helicopter's history. The record sales were due principally to increases in U.S. Government development programs, partially offset by decreased international sales.

Sales to the U.S. Government increased substantially, primarily as a result of continued delivery of AH1P production aircraft, increased sales recorded on the V-22 full scale development program and initial deliveries under the AH-1W program. Commercial model helicopter sales were up

due mainly to Model 214ST deliveries. Foreign military and international utility/armed helicopter sales were down in 1986 due to the completion of deliveries of the Israeli AH-1S and Turkey UH-1H helicopters in 1985. Improvement in income reflected increased sales volume and lower operating expenses as compared to 1985. However, Bell Helicopter's profit margin declined in 1986 from 1985 due to the increased sales on lower profit, start-up and development U.S. military programs.

Income for 1985 was nearly double that of 1984. The improvement was primarily volume-related in the areas of spare parts, U.S. Government programs, international sales and sales of used aircraft.

Propulsion

The improvements in 1986 in both revenues and profits were attributable to the inclusion in this segment of three Ex-Cell-O divisions and continued strong performance by the Stratford Division, partially offset by the decline in operating results at the Williamsport Division.

Increased deliveries of engines and spare parts for aircraft and M1 tanks contributed to Stratford Division's record revenues. Stratford's profit improvement from increased sales was partially offset by increased research and development costs on the T800 engine for the LHX helicopter program. The Williamsport Division's operating results reflected the continued depressed state of the general aviation industry in the U.S., as well as high product liability insurance expense.

Systems

Strong revenue and profit increases in 1986 reflected improved operating results from most divisions. This segment benefited from Avco Aerostructures' increased wing deliveries under the B-1B and C-5B aircraft programs (both of which are scheduled to be completed during 1988) and Avco Systems' acceleration to full production of the Peacekeeper (MX) missile reentry system and Mark 21 vehicles, as well as the inclusion of the operating results of Ex-Cell-O's Cadillac Gage Division. Bell Aerospace's marine and air cushion technology business was made into a separate division in 1986 and named Textron Marine Systems. Improved results reported by this division were largely attributable to the LCAC air cushion vehicle program.

The improved revenues and profits in 1985 over 1984 were due to the inclusion in this segment of five Avco divisions in 1985 and strong operations of Bell Aerospace and HR Textron, including improved profits on Bell's higher volume under the LCAC air cushion vehicle program and increased sales of filter products by HR Textron's Purolator Technologies unit.

Commercial Products

Improved revenues and profits in 1986 reflect substantial growth of Textron's automotive business, solid performance by the industrial products and engineered fasteners businesses and improved operating results for Textron's outdoor products businesses.

The outdoor products businesses reported improved results due to the effects of higher sales volumes at E-Z-Go and Jacobsen Turf coupled with improved results at Homelite due to new management's success in reducing inventories (which resulted in the liquidation of lower cost LIFO inventories) and improving manufacturing efficiencies.

The increased revenues and operating profit of Textron's automotive business are mainly due to the inclusion in this segment of four Ex-Cell-O automotive units in 1986. Randall reported strong results, particularly in its wheel trim products line, while CWC had higher income attributable to improved operating efficiencies and product mix.

The industrial products and engineered fasteners businesses benefited from the inclusion of three Ex-Cell-O units in 1986 and record results at Cherry due to the introduction of new products and an increase in sales to the aerospace industry.

Avco Electronics' sales and profits were adversely affected by the slump in the electronics industry.

Operating profit in 1985 declined from its 1984 level on slightly increased revenues, due primarily to depressed results at CWC, Homelite and Sheaffer Eaton.

Finance

AFS' consumer finance operation reported higher revenues in 1986, while income declined as a gain on the sale of operations in Japan was more than offset by a rise in net credit losses. Contributing to the higher charge-offs were both a change in receivable mix to greater emphasis on unsecured loans and the relatively high level of consumer installment debt in relation to disposable income over the past few years.

TFC's increased income in 1986 was a result of the beneficial effect of lower tax rates (as provided in the Tax Reform Act of 1986) on TFC's leveraged lease portfolio. TFC's income in 1985 increased from 1984 reflecting a continuation of its steady growth.

Insurance

Avco Insurance Services/Balboa Life and Casualty's revenues improved resulting primarily from an increase in sales of automobile insurance products generated by managing general agents in the U.S. property and casualty operation, combined with an increase in investment income. However, income decreased in 1986 due to U.S. casualty underwriting losses principally in the automobile business written through managing general agents, which business resulted in a pre-tax loss (net of related investment income) of approximately $25 million. In the past, managing general agents were a significant marketing channel; however, their role in the future will be greatly reduced.

The Paul Revere Insurance Group reported improved revenues and income in 1986. Revenues increased largely due to the strength of disability income insurance products. Factors responsible for higher income include earnings growth in all lines of business, increased investment income as a larger investment base offset the effects of reduced interest rates in 1986, as well as capital gains of $25.3 million as compared to $11.9 million in 1985.

Management Services

Avco Management Services' results included favorable contract adjustments. The business in Saudi Arabia continues to be phased out.

Report of Management

The consolidated financial statements of Textron Inc. have been prepared by management and have been audited by Textron's certified public accountants, Arthur Young & Company, whose report appears on this page. Management is responsible for the consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles and include amounts based on management's judgments.

Management is also responsible for maintaining internal accounting control systems designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded and that transactions are executed and recorded in accordance with established policies and procedures. Textron's systems are under continuing review and are supported by, among other things, business conduct and other written guidelines, an internal audit program and the selection and training of qualified personnel.

The Board of Directors is responsible for the Company's financial and accounting policies, practices and reports. Its Audit Committee, composed of four outside directors, meets regularly with the certified public accountants, representatives of management and the internal auditors to discuss and make inquiries into their activities. Both the certified public accountants and the internal auditors have free access to the Audit Committee, with and without management representatives in attendance.

B. F. Dolan

B.F. Dolan
Chairman, President and
Chief Executive Officer

Dennis G. Little

Dennis G. Little
Executive Vice President and
Chief Financial Officer
February 12, 1987

Report of Certified Public Accountants

ARTHUR YOUNG
277 Park Avenue
New York, New York 10172

The Board of Directors and Shareholders
Textron Inc.

We have examined the accompanying consolidated balance sheet of Textron Inc. and the combined balance sheet of Textron's unconsolidated finance and insurance subsidiaries at January 3, 1987 and December 28, 1985, and the related consolidated and combined statements of income and changes in financial position and consolidated statement of changes in shareholders' equity for each of the three years in the period ended January 3, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Textron Inc. and the combined financial position of Textron's unconsolidated finance and insurance subsidiaries at January 3, 1987 and December 28, 1985, and the consolidated and combined results of operations and changes in financial position for each of the three years in the period ended January 3, 1987, in conformity with generally accepted accounting principles applied on a consistent basis during the period except for the change in 1985, with which we concur, in the method of accounting for investment tax credits as described in Note 1 to the consolidated financial statements.

Arthur Young & Company

February 12, 1987

Textron Inc.
Consolidated Statement of Income

For each of the three years in the period ended January 3, 1987 (In millions except per share amounts)	**1986**	1985	1984
Sales	**$5,023.3**	$4,038.5	$2,148.0
Costs and expenses:			
Cost of sales	**4,011.9**	3,175.2	1,712.5
Selling and administrative	**610.2**	571.8	302.1
	401.2	291.5	133.4
Equity in pre-tax income of unconsolidated finance and insurance subsidiaries	**223.5**	213.4	21.2
Interest income	**12.2**	12.1	11.0
Interest expense	**(192.1)**	(216.2)	(32.9)
Income from continuing operations before income taxes	**444.8**	300.8	132.7
Income taxes	**203.2**	120.7	55.2
Income from continuing operations before extraordinary item and cumulative effect of a change in accounting principle	**241.6**	180.1	77.5
Discontinued operations:			
Income (loss) from discontinued operations, net of income taxes	**(3.7)**	43.5	36.0
Gain on sales of discontinued operations, net of income taxes	**8.0**	–	–
Extraordinary item, net of income taxes	**(6.7)**	16.4	–
Cumulative effect of a change in accounting principle	**–**	11.8	–
Net income	**$ 239.2**	$ 251.8	$ 113.5
Income per common share:			
Income from continuing operations before extraordinary item and cumulative effect of a change in accounting principle	**$ 5.85**	$ 4.83	$ 2.12
Discontinued operations	**.10**	1.16	.99
Extraordinary item	**(.16)**	.44	–
Cumulative effect of a change in accounting principle	**–**	.32	–
Net income	**$ 5.79**	$ 6.75	$ 3.11

See notes to consolidated financial statements.

Textron Inc.
Consolidated Balance Sheet

(Dollars in millions)	**January 3, 1987**	December 28, 1985
Assets		
Current assets:		
Cash and short-term investments	**$ 51.7**	$ 47.6
Accounts receivable (less allowances of $18.4 and $16.3)	**844.0**	616.5
Inventories	**1,377.5**	1,077.5
Less reserves to reflect certain inventories at LIFO cost	**56.8**	51.9
	1,320.7	1,025.6
Net assets of discontinued operations	**–**	397.8
Other current assets	**64.8**	28.4
Total current assets	**2,281.2**	2,115.9
Investments in unconsolidated finance and insurance subsidiaries	**1,394.2**	1,299.4
Property, plant and equipment, at cost:		
Land and buildings	**408.6**	303.3
Machinery and equipment	**1,044.0**	786.6
	1,452.6	1,089.9
Less accumulated depreciation	**595.0**	501.0
	857.6	588.9
Goodwill (less accumulated amortization of $13.1 and $5.1)	**761.9**	174.8
Other assets	**262.2**	158.4
Total assets	**$5,557.1**	$4,337.4
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	**$ 22.3**	$ 20.7
Current maturities of long-term debt	**9.1**	18.1
Accounts payable	**392.1**	345.3
Income taxes (principally deferred)	**123.8**	61.7
Other current liabilities	**737.9**	613.0
Total current liabilities	**1,285.2**	1,058.8
Long-term debt	**2,181.5**	1,503.1
Other liabilities and deferred credits	**243.2**	142.2
Shareholders' equity:		
Capital stock:		
Preferred Stock (15,000,000 shares authorized):		
$2.08 Cumulative Convertible Preferred Stock, Series A (liquidation value $55.7)	**26.3**	31.0
$1.40 Convertible Preferred Dividend Stock, Series B (preferred only as to dividends)	**9.3**	10.0
Common Stock, 25¢ par value (75,000,000 shares authorized; 40,823,000 and 40,554,000 shares issued)	**10.2**	10.1
Capital surplus	**372.5**	355.5
Retained earnings	**1,502.8**	1,337.6
Currency translation adjustment	**(36.6)**	(61.8)
Marketable equity securities valuation adjustment	**2.6**	2.7
	1,887.1	1,685.1
Less cost of treasury shares	**39.9**	51.8
Total shareholders' equity	**1,847.2**	1,633.3
Total liabilities and shareholders' equity	**$5,557.1**	$4,337.4

See notes to consolidated financial statements.

Textron Inc.
Consolidated Statement of Changes in Financial Position

For each of the three years in the period ended January 3, 1987 (In millions)	**1986**	1985	1984
Source of funds:			
Income from continuing operations	**$ 241.6**	$ 180.1	$ 77.5
Undistributed earnings of unconsolidated finance and insurance subsidiaries	**(97.0)**	(78.4)	(12.1)
Depreciation and amortization	**118.7**	98.9	38.9
Total from continuing operations	**263.3**	200.6	104.3
Income (loss) from discontinued operations	**(3.7)**	43.5	36.0
Depreciation and amortization	**5.4**	25.5	26.3
Total from discontinued operations	**1.7**	69.0	62.3
Total from operations	**265.0**	269.6	166.6
Extraordinary item	**(6.7)**	16.4	–
Proceeds from sales of discontinued operations	**454.6**	210.0	–
Disposition of property, plant and equipment	**38.0**	16.6	7.5
Decrease in investments	**23.2**	67.2	6.7
Other – net	**69.7**	(7.2)	23.5
	843.8	572.6	204.3
Use of funds:			
Capital contribution to unconsolidated finance subsidiary	**–**	15.4	–
Capital expenditures	**181.3**	172.2	119.0
Dividends	**74.0**	67.0	65.6
Purchase of common stock for treasury	**–**	–	29.8
Changes in working capital:*			
Increase (decrease) in current assets:			
Accounts receivable	**45.3**	42.9	110.3
Inventories	**35.2**	23.3	49.8
Other current assets	**(6.3)**	(27.8)	6.7
Decrease (increase) in current liabilities:			
Accounts payable	**76.1**	(2.8)	(47.6)
Income taxes	**(61.9)**	36.5	50.0
Other current liabilities	**49.7**	(130.5)	(55.1)
	393.4	196.2	328.5
Increase (decrease) in funds before financing and acquisition	**450.4**	376.4	(124.2)
Financing:			
Long-term borrowings	**1,403.8**	1,887.9	5.2
Other changes in debt – net	**(850.2)**	(1,087.6)	(3.9)
Sales of common stock	**–**	209.4	–
Cash provided by financing activities	**553.6**	1,009.7	1.3
Acquisition of Ex-Cell-O and Avco:			
Investments in unconsolidated finance and insurance subsidiaries	**–**	(1,163.9)	–
Property, plant and equipment, goodwill and other assets	**(880.2)**	(630.5)	–
Long-term debt and other liabilities assumed	**47.4**	422.3	–
Working capital excluding cash	**(167.1)**	(9.3)	–
Cash used in acquisition	**(999.9)**	(1,381.4)	–
Increase (decrease) in cash and short-term investments during the period	**4.1**	4.7	(122.9)
Cash and short-term investments at beginning of period	**47.6**	42.9	165.8
Cash and short-term investments at end of period	**$ 51.7**	$ 47.6	$ 42.9

**Excludes changes in working capital related to acquisition of Ex-Cell-O in 1986 and Avco in 1985 and sales of discontinued operations.*

See notes to consolidated financial statements.

Textron Inc.
Consolidated Statement of Changes in Shareholders' Equity

For each of the three years in the period ended January 3, 1987 (Dollars in millions; shares in thousands)	Capital stock: Preferred $2.08	Capital stock: Preferred $1.40	Capital stock: Common	Capital surplus	Retained earnings	Currency translation adjustment	Marketable equity securities valuation adjustment	Cost of treasury shares	Shares outstanding (1): Preferred $2.08	Shares outstanding (1): Preferred $1.40	Shares outstanding (1): Common
Balance December 31, 1983	$42.1	$12.8	$ 9.0	$141.6	$1,105.2	$(20.0)	$ –	$46.1	1,711	600	34,484
Conversion of preferred stock	(6.1)	(.6)	–	6.7	–	–	–	–	(258)	(59)	336
Purchases of common stock	–	–	–	–	–	–	–	29.8	–	–	(1,091)
Exercise of options and warrants	–	–	–	–	(.3)	–	–	(1.5)	–	–	62
Currency translation adjustment	–	–	–	–	–	(10.0)	–	–	–	–	–
Net income	–	–	–	–	113.5	–	–	–	–	–	–
Dividends:											
Preferred stock	–	–	–	–	(4.1)	–	–	–	–	–	–
Common stock ($1.80 per share)	–	–	–	–	(61.5)	–	–	–	–	–	–
Balance December 29, 1984	36.0	12.2	9.0	148.3	1,152.8	(30.0)	–	74.4	1,453	541	33,791
Conversion of preferred stock	(5.0)	(2.2)	.1	7.1	–	–	–	–	(212)	(182)	397
Sales of common stock:											
Public offering	–	–	1.0	183.7	–	–	–	–	–	–	4,000
Other	–	–	–	12.1	–	–	–	(12.6)	–	–	477
Exercise of options	–	–	–	3.2	–	–	–	(8.9)	–	–	366
Contribution of treasury shares to employee stock savings plan	–	–	–	1.1	–	–	–	(1.1)	–	–	42
Currency translation adjustment	–	–	–	–	–	(31.8)	–	–	–	–	–
Marketable equity securities valuation adjustment	–	–	–	–	–	–	2.7	–	–	–	–
Net income	–	–	–	–	251.8	–	–	–	–	–	–
Dividends:											
Preferred stock	–	–	–	–	(3.3)	–	–	–	–	–	–
Common stock ($1.80 per share)	–	–	–	–	(63.7)	–	–	–	–	–	–
Balance December 28, 1985	31.0	10.0	10.1	355.5	1,337.6	(61.8)	2.7	51.8	1,241	359	39,073
Conversion of preferred stock	(4.7)	(.7)	.1	5.3	–	–	–	–	(197)	(58)	269
Exercise of options	–	–	–	1.3	–	–	–	(2.9)	–	–	150
Contribution of treasury shares to employee stock savings plan	–	–	–	10.4	–	–	–	(9.0)	–	–	344
Currency translation adjustment (2)	–	–	–	–	–	25.2	–	–	–	–	–
Marketable equity securities valuation adjustment	–	–	–	–	–	–	(.1)	–	–	–	–
Net income	–	–	–	–	239.2	–	–	–	–	–	–
Dividends:											
Preferred stock	–	–	–	–	(2.8)	–	–	–	–	–	–
Common stock ($1.80 per share)	–	–	–	–	(71.2)	–	–	–	–	–	–
Balance January 3, 1987	$26.3	$ 9.3	$10.2	$372.5	$1,502.8	$(36.6)	$2.6	$39.9	1,044	301	39,836

(1) Shares issued at the end of 1983, 1984, 1985 and 1986 were as follows (in thousands): $2.08 Preferred–1,780, 1,522, 1,310 and 1,113 shares, respectively; $1.40 Preferred–1,087, 1,028, 846 and 788 shares, respectively; Common–35,821, 36,157, 40,554 and 40,823 shares, respectively. Shares held in the treasury at the end of 1983, 1984, 1985 and 1986 were as follows (in thousands): $2.08 Preferred–69 shares at all such dates; $1.40 Preferred–487 shares at all such dates; Common–1,337, 2,366, 1,481, and 987 shares, respectively.

(2) Includes reduction in currency translation adjustment of $31.1 million related to sales of discontinued operations.

See notes to consolidated financial statements.

Textron Inc.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of consolidation
The consolidated financial statements include the accounts of Textron and all of its subsidiaries except for its finance and insurance subsidiaries which are accounted for on the equity method. All significant intercompany transactions are eliminated. For information about Textron's unconsolidated finance and insurance subsidiaries, see pages 63 to 72. For information on acquisitions and discontinued operations, see Notes 2 and 3, respectively.

Translation of foreign currencies and foreign exchange transactions
Adjustments resulting from the translation of the financial statements of most of Textron's foreign operations are excluded from the determination of its income and accumulated in a separate component of shareholders' equity until sale or substantial liquidation of an investment in a foreign entity. Foreign exchange gains and losses included in income from continuing operations in 1986, 1985 and 1984 were a $2 million gain in 1986 and losses of $4 million and $3 million in 1985 and 1984, respectively.

Income taxes
Income tax expense is calculated based on income before income taxes per the consolidated financial statements. Such expense differs from taxes currently payable because of timing differences in that certain income and expense items are reported in Textron's consolidated statement of income in years different from those in which they are reported in Textron's income tax returns.

Deferred income taxes have not been provided for the undistributed earnings of foreign subsidiaries. Management's intention is to reinvest such undistributed earnings outside the United States for an indefinite period, except for distributions upon which incremental U.S. income taxes would not be material.

See Note 6 to the combined financial statements of Textron's finance and insurance subsidiaries for information about their income taxes.

Effective at the beginning of 1985, Textron changed its method of accounting for investment tax credits from the deferral method to the flow-through method with respect to its manufacturing operations. (In accordance with industry practice, Textron's unconsolidated finance companies continue to use the deferral method with respect to their leasing operations.) This change was made to conform to the method used by the manufacturing operations of Textron's Avco subsidiary as well as to achieve comparability with the accounting practices of most other manufacturing companies.

Property, plant and equipment
The cost of property, plant and equipment is being depreciated based on the estimated useful lives of the assets. Depreciation applicable to continuing operations using accelerated methods amounted to $56.4 million in 1986, $47.3 million in 1985 and $21.4 million in 1984; the balance was calculated using the straight-line method.

Goodwill
Goodwill related to Textron's manufacturing operations is being amortized on the straight-line method principally over 40 years. Goodwill applicable to and included in Textron's investments in unconsolidated finance and insurance subsidiaries in the consolidated balance sheet ($429.4 million and $447.8 million at the end of 1986 and 1985, respectively) is being amortized on the straight-line method over 25 years.

Inventories
Inventories are carried at the lower of cost or market. Inventories aggregating $764 million at January 3, 1987 and $541 million at December 28, 1985 were valued by the last-in, first-out (LIFO) method. The remaining inventories, other than those related to long-term contracts and programs, are valued generally by the first-in, first-out method.

Reductions in certain inventory quantities resulted in the liquidation of LIFO layers, the effect of which increased income from continuing operations by approximately $4 million in 1986, $3 million in 1985 and $1 million in 1984.

Inventories relating to long-term contracts and programs, net of progress payments, were $482 million at January 3, 1987 and $491 million at December 28, 1985, including unamortized initial tooling and other non-recurring costs, direct production costs and manufacturing overhead. As to government contracts, inventory costs also generally include general and administrative expenses ($62 million at January 3, 1987; $68 million at December 28, 1985). Costs attributed to units delivered are based upon the estimated average cost per unit at contract or program completion. In accordance with industry practice, amounts relating to long-term contracts and programs are classified as current assets although certain of these amounts are not expected to be realized within one year.

Long-term contracts and programs
Sales under fixed price contracts and programs are generally recorded as deliveries are made. Sales under cost reimbursement-type contracts are recorded as costs are incurred and fees are earned. Profits expected to be realized on long-term contracts and programs are based on estimates of total sales value and cost at completion, which estimates are reviewed and revised periodically throughout the lives of the contracts and programs. Adjustments to profits resulting from such revisions are recorded in the accounting period in which the revisions are made. Estimated losses on contracts and programs are recorded when identified.

Research and development
Company-sponsored research and development expenditures are charged to expense as incurred. Total expenditures on research and development activities applicable to continuing operations amounted to $598 million, $520 million and $322 million in 1986, 1985 and 1984, respectively, of which $107 million, $85 million and $47 million were Company-sponsored.

Pension and other postretirement benefits
Textron and its consolidated subsidiaries have a number of pension plans covering substantially all of their employees. Annual contributions are made to the plans which are generally equal to the amounts accrued for pension expense. Textron's major pension plans provide, among other things and subject to certain conditions, that in the event of plan termination or withdrawal of assets without a termination within three years following a change in control (as defined in the plans), assets in excess of termination liabilities shall be applied to increase the benefits of participants who are active employees immediately before the change in control. Additionally, in the event of any plan merger, consolidation or transfer within such three-year period, the accrued benefit of each such affected participant and beneficiary shall be vested, increased as provided in the previous sentence, and satisfied by the purchase of a guaranteed annuity contract.

Pension expense applicable to continuing operations for 1986, 1985 and 1984 was approximately $28 million, $41 million and $30 million, respectively, including amortization of prior service cost over periods generally ranging from 10 to 30 years. The decrease in pension expense in 1986 is due principally to changes in certain retirement plan provisions and actuarial assumptions, partially offset by increased pension costs related to Ex-Cell-O. The increase in pension expense in 1985 is due principally to the acquisition of Avco.

Accumulated plan benefits and plan net assets for Textron's pension plans, based on data contained in the most recent actuarial reports available, are as follows:

(In millions)	**January 1, 1986***	January 1, 1985
Actuarial present value of accumulated plan benefits:		
Vested	**$1,245.0**	$1,047.7
Nonvested	**69.4**	85.1
	$1,314.4	$1,132.8
Net assets available for benefits	**$1,907.9**	$1,347.9

**Includes Ex-Cell-O.*

The weighted average of the assumed rates of return used in determining the actuarial present value of accumulated plan benefits was 8.5% and 8.2% for 1986 and 1985, respectively.

The Financial Accounting Standards Board Statement No. 87 (FAS 87) relating to pensions is required to be implemented by Textron in 1987. Textron presently expects that such adoption will have a favorable effect on income from continuing operations in 1987.

In addition to providing pension benefits, Textron provides certain health care and life insurance benefits for certain retired employees. Eligibility for these benefits is restricted to the particular benefit plans at the particular locations offering retiree benefits. These retiree benefits and similar benefits for active employees are administered by insurance companies or other carriers who determine premiums for insured plans and expected costs to be paid during the year under self-insured plans. Textron recognizes the cost of providing these benefits by expensing the premiums and costs as incurred. Such costs applicable to continuing operations were approximately $147 million, $117 million and $65 million for 1986, 1985 and 1984, respectively. The cost of providing these benefits for the 12,500 retirees, 8,000 retirees and 4,400 retirees in 1986, 1985 and 1984, respectively, receiving such benefits, is not separately identifiable from the cost of providing such benefits for the 62,000, 45,000 and 26,000 active employees in 1986, 1985 and 1984, respectively.

Income per common share

Income per common share is based on average common shares outstanding during each year assuming full conversion of preferred stock and exercise of stock options. Average common shares outstanding were 41,282,000 in 1986, 37,318,000 in 1985 and 36,469,000 in 1984.

2. Acquisitions

Under an Agreement and Plan of Merger entered into in August 1986, Textron acquired for cash over 93% of the outstanding common stock of Ex-Cell-O Corporation as of September 17, 1986 and the balance by statutory merger on September 30, 1986. Textron has accounted for the acquisition of Ex-Cell-O as a purchase and, accordingly, Ex-Cell-O's results of operations are included in Textron's financial statements from September 17, 1986. Textron has allocated its purchase price of approximately $1 billion to the underlying assets and liabilities of Ex-Cell-O based on preliminary estimates of their respective fair values. Such allocation will be finalized in 1987. The excess ($595.3 million) of Textron's purchase price over the estimated fair values of Ex-Cell-O's net assets is being amortized over 40 years.

Presented below are condensed unaudited statements of income which combine on a pro forma basis the statements of income of Textron for the 1986 fiscal year (ended January 3, 1987, which included Ex-Cell-O's results from September 17, 1986) and Ex-Cell-O for the period January 1, 1986 to September 16, 1986 and for the two companies for their respective 1985 fiscal years. The pro forma statements of income have been prepared as if the purchase had occurred at the beginning of 1986 and 1985, respectively. The pro forma results are not necessarily indicative of what would have occurred had the acquisition been consummated as of the beginning of the respective periods or of future operations of the combined company.

Condensed pro forma statement of income (unaudited)

(In millions except per share amounts)	**1986**	1985
Sales	**$5,842.5**	$5,158.6
Cost of sales and selling and administrative expenses	**5,393.9**	4,777.9
	448.6	380.7
Equity in pre-tax income of unconsolidated finance and insurance subsidiaries	**223.7**	213.9
Interest expense – net*	**245.4**	304.7
Income from continuing operations before income taxes	**426.9**	289.9
Income taxes	**198.1**	112.2
Income from continuing operations	**$ 228.8**	$ 177.7
Net income	**$ 226.4**	$ 249.4
Income per common share:		
Income from continuing operations	**$ 5.54**	$ 4.76
Net income	**$ 5.48**	$ 6.68

**Includes interest on borrowings to finance the acquisition of Ex-Cell-O using the approximate weighted average interest rates that would have been payable for the period December 29, 1985 to September 16, 1986 and for 1985 under Textron's credit agreements – 8.24% and 9.42%, respectively. (The credit agreements provide for floating rates of interest related to market rates.)*

Under an Agreement and Plan of Merger entered into in December 1984, Textron acquired for cash over 95% of the outstanding common stock of Avco Corporation effective on January 9, 1985 and the balance by statutory merger on February 28, 1985 for approximately $1.4 billion. Textron has accounted for the acquisition of Avco as a purchase and, accordingly, Avco's results of operations are included in Textron's financial statements from January 10, 1985. Textron has allocated its purchase price to the underlying assets and liabilities of Avco based on their respective fair values.

Presented below is the condensed unaudited statement of income which combines on a pro forma basis the statements of income of Textron and Avco for their respective 1984 fiscal years. The pro forma statement of income has been prepared as if the purchase had occurred at the beginning of 1984. The pro forma results are not necessarily indicative of what would have occurred had the acquisition been consummated at that time.

Condensed pro forma statement of income (unaudited)

(In millions except per share amount)	
Sales	$3,658.5
Cost of sales and selling and administrative expenses	3,414.3
	244.2
Equity in pre-tax income of unconsolidated finance and insurance subsidiaries	188.4
Interest expense – net*	256.9
Income from continuing operations before income taxes	175.7
Income taxes	61.3
Income from continuing operations	$ 114.4
Net income	$ 150.4
Income per common share:	
Income from continuing operations	$ 3.13
Net income	$ 4.12

**Includes interest on borrowings to finance the acquisition of Avco using the approximate weighted average interest rate that would have been payable for 1984 under Textron's credit agreements – 12.25%. (The credit agreements provide for floating rates of interest related to market rates.)*

3. Discontinued Operations

In 1985, Textron sold its American Research and Development, Fafnir Bearing, Jones & Lamson, Shuron, Spencer Kellogg and Sprague Meter Divisions and the John Sands Printing unit of Valentine Sands and in 1986 sold its Bostitch, Bridgeport Machines, Dalmo Victor and Valentine Sands Divisions. The net gain on the sales of these Divisions, which had been deferred until the completion (in July 1986) of Textron's asset disposition program, was $8 million, net of applicable income taxes, and the aggregate cash proceeds from the sales amounted to approximately $455 million in 1986 and $210 million in 1985.

The assets and liabilities of discontinued operations not yet sold as of December 28, 1985 were netted and classified separately in the consolidated balance sheet at that date.

In early 1987, Textron decided to dispose of its Gorham Division and, therefore, Gorham's operations for 1986 have been reflected in the consolidated statement of income as a discontinued operation.

Operating results of the discontinued operations are reported separately in Textron's consolidated statement of income. Such operations had aggregate sales of $203 million, $952 million and $1.1 billion in 1986, 1985 and 1984, respectively. After-tax gains from sales of investments included in income from discontinued operations were $18.6 million in 1985 and $5.6 million in 1984.

4. Inventories

(In millions)	**January 3, 1987**	December 28, 1985
Finished goods	**$ 226.4**	$ 158.4
Work in process	**1,417.7**	1,324.8
Raw materials and supplies	**178.6**	147.0
	1,822.7	1,630.2
Progress payments	**(502.0)**	(604.6)
	$1,320.7	$1,025.6

5. Other Current Liabilities

(In millions)	**January 3, 1987**	December 28, 1985
Salaries and wages	**$142.7**	$100.1
Pensions	**21.4**	27.9
Customers' deposits	**43.5**	32.8
Interest	**31.2**	40.6
Supplemental unemployment benefits	**65.1**	71.0
Taxes, other than income taxes	**28.1**	25.6
Other	**405.9**	315.0
	$737.9	$613.0

6. Debt and Credit Facilities

Long-term debt is summarized as follows:

(In millions)	**January 3, 1987**	December 28, 1985
Senior:		
Borrowings under or supported by credit facilities*	**$1,339.4**	$ 926.0
12% Notes due 1990	**64.6**	64.5
11½% Notes due 1987	–	16.5
11% Notes due 1995	**99.7**	99.7
10¾% Senior Notes due 1998	**99.5**	–
10¼% Notes due 1987	–	28.9
9¼% Debentures due 2016	**150.0**	–
7¾% Eurodollar Sinking Fund Debentures due 1987	**6.0**	10.8
7½% Sinking Fund Debentures due 1997	**19.2**	19.2
Other notes (average approximately 8%)	**48.5**	38.2
Total senior	**1,826.9**	1,203.8
Subordinated:		
12¾% Subordinated Debentures due 2010	–	99.8
11¾% Subordinated Notes due 1995	**149.3**	149.2
9½% Subordinated Debentures due 2016	**147.6**	–
7½% Subordinated Debentures due 1993	**50.0**	49.1
5½% Subordinated Debentures due 1993 (redeemable at $926 per $1000 principal)	**16.8**	19.3
Total subordinated	**363.7**	317.4
	2,190.6	1,521.2
Less current maturities	**9.1**	18.1
	$2,181.5	$1,503.1

**The weighted average interest rates on these borrowings at January 3, 1987 and December 28, 1985 were 6.15% and 8.57%, respectively, and the weighted average interest rates for the years 1986 and 1985 were 6.94% and 9.04%, respectively.*

Required payments during the next five years on long-term debt outstanding at January 3, 1987 (excluding amounts that might become payable under the Company's revolving credit agreements) are as follows: $9.1 million in 1987; $2.8 million in 1988; $3.6 million in 1989; $71.2 million in 1990 and $2.3 million in 1991.

Textron maintains credit facilities with various domestic and foreign banks for borrowing funds on a short- and long-term basis.

The Company has lines of credit, principally on an informal basis, totaling $213 million with certain banks, which are available to the Company and are also partially available ($102 million) to Textron Financial Corporation (TFC), an unconsolidated subsidiary, for support of TFC's commercial paper borrowings. In some cases, banks require that Textron maintain certain balances which are generated by the time lag in presentation of company checks for payment.

Additionally, Textron has revolving credit agreements with 42 banks for a credit facility of approximately $1.6 billion available until November 1988, unless extended pursuant to the terms of the agreements (after which any outstanding loans will be payable in equal installments over four years, commencing one year thereafter) and $200 million available, which includes a foreign currency borrowing option, under a Facility Agreement which provides funds on a revolving basis with no loan maturing after April 1991. These credit facilities are also available for support of commercial paper. Based on these agreements, $784 million of commercial paper and $555 million of bank borrowings have been classified as long-term debt at January 3, 1987 ($476 million and $450 million, respectively, at December 28, 1985).

Credit facilities not used or reserved as support for outstanding commercial paper or bank borrowings were $592 million at January 3, 1987.

Borrowings under these facilities generally are available at the banks' prime rate or at a surcharge over the banks' certificate of deposit rates or the London Interbank Offered Rate. Additional interest ranging from ⅛ of 1% to ⅜ of 1% is payable if the ratio of consolidated total borrowed funds to consolidated tangible capital funds exceeds 1.25:1. Textron pays commitment and facility fees in connection with these agreements of no greater than ¼ of 1% per annum on the unused portion of the credit facilities.

Under the terms of these agreements, Textron is required to maintain its consolidated total borrowed funds at a level not exceeding two times its consolidated tangible capital funds and may not permit the ratio of its consolidated earnings before interest and taxes to its consolidated interest expense to be less than 1.25:1. These provisions effectively limit to approximately $400 million the amount of retained earnings at January 3, 1987 available for payment of cash dividends and acquisition of treasury stock.

Textron has entered into interest rate exchange agreements, over periods ranging from one to seven years, which had the effect of fixing the rate of interest on approximately $240 million of variable interest rate borrowings at January 3, 1987 at approximately 11.09%. Net amounts due under interest rate exchange agreements increased interest expense by approximately $12.1 million and $8.1 million in 1986 and 1985, respectively. These agreements expire as follows: $50 million in 1987; $25 million in 1988 and $165 million thereafter.

In July 1986, Textron called for redemption (in August 1986) its 12¾% Subordinated Debentures due 2010. The redemption price was 111.92% of the principal amount of $100 million, resulting in an extraordinary loss of $6.7 million, net of income taxes.

In July 1985, Textron called for redemption (in August 1985) its 7¾% Subordinated Debentures, which were exchangeable for shares of common stock of Allied Corporation owned by Textron. Holders of $83.2 million of these debentures exchanged their debentures for Allied shares, resulting in an extraordinary gain of $16.4 million, net of income taxes.

The amount of the net assets of Textron's unconsolidated finance and insurance subsidiaries available for cash dividends and other payments to Textron is restricted by the terms of agreements with their lenders. As of January 3, 1987, approximately $345 million of their net assets of $1.4 billion were available to be transferred to Textron pursuant to these restrictions. See Note 5 to the combined financial statements of Textron's finance and insurance subsidiaries for further information about their debt.

7. Shareholders' Equity

Common stock offering

On September 30, 1985, Textron sold 4,000,000 shares of its common stock in a public offering. The net proceeds from the sale approximated $185 million and were applied to reduce outstanding debt. Had the shares been sold at the beginning of 1985 and the proceeds used to reduce outstanding debt, Textron's net income per share for 1985 would have been $6.39.

Preferred stock

Each share of the $2.08 Preferred Stock ($23.63 approximate stated value) is convertible into 1.1 shares of common stock and is redeemable by Textron at $50 per share. In the event of involuntary liquidation, the stock is entitled to $50 per share and accrued dividends, and in the event of voluntary liquidation to $50 per share.

Each share of $1.40 Preferred Dividend Stock ($11.82 approximate stated value) is convertible into .9 shares of common stock and is redeemable by Textron at $45 per share. In the event of liquidation, holders of each share of such stock would receive accrued dividends and thereafter share ratably on a converted basis with holders of common stock, subject to the prior rights of the $2.08 Preferred Stock.

Preferred stock purchase rights

In March 1986, Textron declared a dividend of one Preferred Stock Purchase Right (Right) for each outstanding share of common stock. Each Right will entitle the holder to buy one newly-issued unit of Series C Junior Participating Preferred Stock at an exercise price of $175, subject to certain antidilution adjustments. The Rights will be exercisable only if a person or group becomes the beneficial owner of 20% or more of Textron's common stock or commences a tender or exchange offer which would result in the offeror beneficially owning 30% or more of Textron's common stock. The Rights expire on March 20, 1996 and may be generally redeemed by Textron at a price of $.05 per Right at any time prior to ten business days (as such period may be extended) after a public announcement of the existence of a 20% holder.

Unless the Rights shall have been redeemed, if any person accumulates 50% or more of Textron's common stock, or Textron is the surviving corporation in a merger and its common stock is unchanged, or a 20% holder engages in certain self-dealing transactions, each holder of a Right will be entitled to purchase Textron common stock (or in certain circumstances, a combination of securities and/or assets) having a value of twice the exercise price. Similarly, if Textron is involved in a merger or other business combination with another person in which its common stock is changed or converted, or if a sale of 50% or more of Textron's assets or earnings power is made to another person, each holder of a Right will be entitled to purchase common stock of such other person having a value of twice the exercise price.

Stock options and performance units

Textron's 1982 Long-Term Incentive Plan authorized the granting of awards through December 31, 1986 to key employees in either or both of the following forms: (i) performance units and (ii) options to purchase Textron common stock.

Performance unit awards entitle recipients to incentive compensation payments based upon the degree of attainment of multi-year performance targets established at the time such awards are granted. Such payments may be in cash, shares of common stock, or a combination thereof, as determined by a committee of the Board of Directors.

The Plan provided for both incentive stock options and non-qualified stock options and required that such options be exercisable, for no more than ten years, at a purchase price per share not less than the fair market value of Textron common stock at the date of grant.

In 1986, the Board of Directors granted options on 56,725 shares of common stock under this plan. Options on 25,468 shares at an average purchase price of $38.35 per share were cancelled in 1986, none of which were accompanied by stock appreciation rights (SARs). SARs allow the holder to receive upon exercising a stock option an amount of cash equal to the appreciation in market value of the shares covered by such exercise.

Options on 180,152 shares were exercised in 1986 at an average purchase price of $33.57 per share (85,937 of which were accompanied by SARs) and 2,444 shares were surrendered upon exercise of SARs. Options on 365,764 shares were exercised in 1985 at an average purchase price of $34.64 per share and 57,513 shares were surrendered upon exercise of SARs. Options on 35,530 shares were exercised in 1984 at an average purchase price of $24.40 per share. At January 3, 1987, options were outstanding on 600,068 shares (16,366 of which were accompanied by SARs) at an average purchase price of $44.10, of which 378,021 shares, at an average purchase price of $39.76, were exercisable at that date.

Reserved shares

Shares of common stock were reserved at January 3, 1987, as follows:

$2.08 Cumulative Convertible Preferred Stock, Series A*	1,224,639
$1.40 Convertible Preferred Dividend Stock, Series B*	709,310
Options granted to employees	600,068
	2,534,017

**Includes shares issuable upon conversion of shares of preferred stock held in treasury.*

8. Leases

Rental expense of continuing operations was approximately $54 million, $49 million and $24 million in 1986, 1985 and 1984, respectively. Minimum rental commitments under noncancellable operating leases in effect at January 3, 1987 approximated $106 million, of which $34 million is payable in 1987.

9. Income Taxes

Textron files a consolidated federal income tax return which includes all U.S. subsidiaries except the life insurance subsidiaries which file their own separate returns. In addition, separate returns are filed for the various foreign subsidiaries.

Details of income from continuing operations before income taxes, income taxes and the deferred income tax effects of timing differences are summarized as follows:

(In millions)	**1986**	1985	1984
Income from continuing operations before income taxes:			
United States	**$317.7**	$191.9	$126.8
Foreign	**127.1**	108.9	5.9
Total	**$444.8**	$300.8	$132.7
Income taxes:			
Continuing operations	**$203.2**	$120.7	$ 55.2
Discontinued operations:			
Income (loss) from operations	**(3.9)**	26.2	29.2
Gain on sales	**58.4**	–	–
Extraordinary item	**(6.4)**	6.4	–
Total	**$251.3**	$153.3	$ 84.4
Current:			
Federal	**$ 69.1**	$ 36.9	$ 34.8
State	**29.5**	16.8	3.5
Foreign	**48.6**	33.3	9.0
	147.2	87.0	47.3
Deferred:			
Federal	**105.8**	63.5	31.5
State	**(2.1)**	.7	3.2
Foreign	**.4**	2.1	2.4
	104.1	66.3	37.1
Total	**$251.3**	$153.3	$ 84.4
Deferred income tax effects of timing differences:			
Additional depreciation for tax purposes	**$ 7.3**	$ 8.9	$ 9.3
Inventory valuation and long-term contract amounts	**40.5**	2.9	(.6)
Finance subsidiary transactions – principally leasing	**56.1**	66.5	36.7
Disposition of discontinued operations	**(18.9)**	(13.0)	–
Insurance policy acquisition costs	**19.4**	15.9	–
Liabilities for future policy benefits	**(12.1)**	(8.4)	–
Other – net	**11.8**	(6.5)	(8.3)
Total	**$104.1**	$ 66.3	$ 37.1

Following is a reconciliation of the federal statutory income tax rate to the effective income tax rate applicable to continuing operations:

	1986	1985	1984
Federal statutory income tax rate	**46.0%**	46.0%	46.0%
Increase (reduction) in taxes resulting from:			
State income taxes, net of federal tax benefit	**2.6**	3.0	1.5
Investment tax credits	**(1.4)**	(4.8)	(4.8)
Capital gains	**(1.6)**	(2.1)	–
Tax exempt interest and dividends received deduction	**(1.7)**	(2.3)	(1.4)
Special deductions allowed life insurance companies	**(1.7)**	(1.6)	–
Amortization of goodwill	**2.7**	3.5	.1
Other – net	**.8**	(1.6)	.2
Effective income tax rate	**45.7%**	40.1%	41.6%

The Tax Reform Act of 1986 (the Act) was enacted on October 22, 1986. Among other things, the Act provides for reductions in 1987 and 1988 in the marginal federal income tax rate for corporations and repeal of the investment tax credit retroactive to the beginning of 1986. Textron's net income for the fourth quarter of 1986 was reduced by an immaterial amount related to the first nine months of 1986 as a result of the Act's repeal of the investment tax credit offset by the beneficial effect of lower tax rates on TFC's leveraged lease portfolio.

The effective income tax rates for income (loss) from discontinued operations were 51.3%, 37.6% and 44.8% in 1986, 1985 and 1984, respectively. The effective tax rate in 1985 differs from the statutory rate primarily as a result of capital gains. The income tax on the 1986 gain on sales of discontinued operations differs from the 1986 statutory tax primarily due to nondeductible foreign exchange losses and additional taxes on repatriated earnings of foreign subsidiaries, partially offset by the effect of capital gains.

Investment tax credits included in net income (excluding $11.8 million resulting from an accounting change in 1985) were $13 million (principally amortization of investment tax credits), $15 million and $9 million in 1986, 1985 and 1984, respectively. Due to the acquisition of Avco, Textron had approximately $50 million of tax credit carryforwards available at December 28, 1985, which upon realization will be offset against goodwill. After applying the statutory reduction required by the Tax Reform Act of 1986, Textron has approximately $41 million of tax credit carryforwards at January 3, 1987.

See Note 6 to the combined financial statements of Textron's finance and insurance subsidiaries for further information about their income taxes.

10. Contingencies

There are pending or threatened against Textron and its subsidiaries lawsuits and proceedings, including some which allege violations of federal government procurement regulations; involve environmental matters; or purport to be class actions. Among these suits and proceedings are some which seek compensatory, treble or punitive damages in substantial amounts; indictments, fines, penalties or restitution; the clean up of waste disposal; or, under federal government procurement regulations, could result in suspension or debarment of the company or subsidiaries from U.S. Government contracting for a period of time. These suits and proceedings are being defended or contested on behalf of Textron and its subsidiaries. On the basis of information presently available, Textron believes that any such liability or the impact of the application of pertinent federal government procurement regulations would not have a material effect on Textron's financial statements.

11. Financial Information by Business Segment and Geographic Area

Financial information by business segment and geographic area includes amounts related to continuing operations of both consolidated and unconsolidated subsidiaries. The operations of Ex-Cell-O and Avco are included from September 17, 1986 and January 10, 1985, respectively.

In connection with the acquisition of Ex-Cell-O, Textron's business segments have been revised as follows:

Segment	Divisions
Aerospace Technology:	
Helicopters	Bell Helicopter Textron
Propulsion	Avco Lycoming Stratford; Avco Lycoming Williamsport; Aircraft Engine Components; Airfoil Textron; Fuel Systems Textron
Systems	Avco Aerostructures; Bell Aerospace Textron; Cadillac Gage Textron; HR Textron; Textron Marine Systems; Avco Research Laboratory; Avco Specialty Materials; Avco Systems
Commercial Products	E-Z-Go; Homelite; Jacobsen Turf; CWC Castings; Davidson Exterior Trim Textron; Davidson Instrument Panel Textron; Davidson Interior Trim Textron; McCord Winn Textron; Randall; Camcar; Cherry; Townsend; Contractor Tool and Equipment Textron; Ex-Cell-O European Machine Tool; Ex-Cell-O North American Machine Tool; Avco Electronics; Sheaffer Eaton; Speidel
Financial and Other Services:	
Finance	Avco Financial Services; Textron Financial Corporation
Insurance	Avco Insurance Services/Balboa Life and Casualty; Paul Revere Insurance Group
Management Services	Avco Management Services (Avco Overseas Services Corporation)

For a description of the business comprising each segment, see pages 34 to 38 of this report.

Financial Information by Business Segment and Geographic Area

Business Segments (*In millions*)	*Revenues* 1986	1985	1984	*Income* 1986	1985	1984
Aerospace Technology:						
Helicopters	**$1,098**	$ 855	$ 672	**$ 71**	$ 60	$ 30
Propulsion	**1,044**	827	–	**96**	78	–
Systems	**1,444**	1,058	339	**100**	65	29
	3,586	2,740	1,011	**267**	203	59
Commercial Products	**1,365**	1,232	1,137	**134**	92	103
Financial and Other Services:						
Finance	**905**	843	61	**128**	142	21
Insurance	**1,023**	840	–	**96**	71	–
Management Services	**72**	66	–	**32**	40	–
	2,000	1,749	61	**256**	253	21
	$6,951	$5,721	$2,209	**657**	548	183
Corporate expenses and other–net				**(32)**	(43)	(28)
Interest expense–net				**(180)**	(204)	(22)
Income from continuing operations before income taxes				**$445**	$301	$133

	Depreciation 1986	1985	1984	*Capital expenditures* 1986	1985	1984	*Identifiable assets* 1986	1985	1984
Aerospace Technology:									
Helicopters	**$ 16**	$ 15	$14	**$ 33**	$ 33	$ 42	**$ 649**	$ 646	$ 635
Propulsion	**21**	18	–	**28**	17	–	**1,242**	602	–
Systems	**38**	30	5	**61**	56	7	**884**	578	208
	75	63	19	**122**	106	49	**2,775**	1,826	843
Commercial Products	**30**	25	24	**48**	33	28	**1,030**	541	1,075
Financial and Other Services:									
Finance	**6**	5	–	**17**	9	–	**4,452**	4,530	627
Insurance	**7**	5	–	**12**	8	–	**3,098**	2,780	–
Management Services	**–**	–	–	**–**	–	–	**50**	55	–
	13	10	–	**29**	17	–	**7,600**	7,365	627
Discontinued operations	**5**	23	24	**6**	29	37	**–**	398	–
Corporate	**5**	3	2	**5**	4	5	**315**	223	114
Eliminations	**–**	–	–	**–**	–	–	**(8)**	(5)	(1)
	$128	$124	$69	**$210**	$189	$119	**$11,712**	$10,348	$2,658

Notes to Business Segments
(i) Income for the Finance segment is net of interest expense.
(ii) Income of the insurance subsidiaries includes net capital gains of $31 million in 1986 and $12 million in 1985.
(iii) Management Services' income represents primarily profits of a foreign venture in the Middle East. Such profits are recognized to the extent they are available for remittance.
(iv) Corporate expenses for 1986 and 1985 include gains on the sale of securities of $20 million and $10 million, respectively.

Geographic Areas (*In millions*)	*Revenues* 1986	1985	1984	*Income* 1986	1985	1984
Revenues and income by origin–continuing operations:						
United States	**$6,400**	$5,176	$2,062	**$535**	$ 441	$172
Canada	**238**	219	66	**28**	25	6
Western Europe	**129**	89	39	**14**	2	2
Australia	**114**	120	31	**46**	35	4
Middle East	**37**	47	–	**33**	41	–
Other locations	**33**	70	11	**1**	4	(1)
	$6,951	$5,721	$2,209	**657**	548	183
Corporate expenses and other–net				**(32)**	(43)	(28)
Interest expense–net				**(180)**	(204)	(22)
Income from continuing operations before income taxes				**$445**	$ 301	$133

Destination of U.S. exports–continuing operations:	*Export sales* 1986	1985	1984
Western Europe	**$281**	$ 232	$ 65
Far East	**188**	173	95
Middle East	**106**	145	87
Canada	**79**	67	50
South America	**45**	48	26
Other locations	**87**	52	45
	$786	$ 717	$368

Identifiable assets by location:	*Identifiable assets* 1986	1985	1984
United States	**$ 9,835**	$ 8,187	$2,297
Canada	**854**	758	60
Australia	**362**	417	121
Western Europe	**310**	224	106
Middle East	**41**	44	–
Other locations	**15**	121	34
Discontinued operations	**–**	398	–
Corporate	**315**	223	114
Eliminations	**(20)**	(24)	(74)
	$11,712	$10,348	$2,658

Revenues include sales to the U.S. Government of $2.7 billion, $1.9 billion and $613 million in 1986, 1985 and 1984, respectively.
Revenues between segments were approximately 1% of total revenues in each of the years 1984 to 1986. Revenues between geographic areas, predominantly revenues of U.S. divisions, were approximately 1% of total revenues in each of the years 1984 to 1986.
Corporate assets are principally cash and short-term investments and notes receivable.

Quarterly Financial and Stock Information 1986 and 1985

(Unaudited)

(In millions except per share amounts)	*1st Quarter* 1986	1985	*2nd Quarter* 1986	1985	*3rd Quarter* 1986	1985	*4th Quarter* 1986	1985
Income Statement								
Sales	**$1,015.2**	$921.2	**$1,127.6**	$994.8	**$1,339.3**	$936.0	**$1,541.2**	$1,186.5
Costs and expenses:								
Cost of sales	**814.5**	738.8	**896.5**	802.0	**1,067.5**	742.2	**1,233.4**	892.2
Selling and administrative	**129.5**	124.4	**144.3**	131.3	**161.0**	122.7	**175.4**	193.4
	71.2	58.0	**86.8**	61.5	**110.8**	71.1	**132.4**	100.9
Equity in pre-tax income of unconsolidated finance and insurance subsidiaries	**57.0**	58.2	**58.9**	56.8	**50.7**	53.6	**56.9**	44.8
Interest expense – net	**42.6**	47.6	**38.5**	54.9	**42.7**	55.5	**56.1**	46.1
Income from continuing operations before income taxes	**85.6**	68.6	**107.2**	63.4	**118.8**	69.2	**133.2**	99.6
Income taxes	**36.1**	26.1	**46.2**	24.5	**53.6**	28.5	**67.3**	41.6
Income from continuing operations before extraordinary item and cumulative effect of a change in accounting principle	**49.5**	42.5	**61.0**	38.9	**65.2**	40.7	**65.9**	58.0
Discontinued operations:								
Income (loss) from discontinued operations, net of income taxes	**.9**	6.1	**.3**	9.7	**–**	13.7	**(4.9)**	14.0
Gain on sales of discontinued operations, net of income taxes	**–**	–	**–**	–	**8.0**	–	**–**	–
Extraordinary item, net of income taxes	**–**	–	**–**	–	**(6.7)**	16.4	**–**	–
Cumulative effect of a change in accounting principle	**–**	11.8	**–**	–	**–**	–	**–**	–
Net income	**$ 50.4**	$ 60.4	**$ 61.3**	$ 48.6	**$ 66.5**	$ 70.8	**$ 61.0**	$ 72.0
Income per common share:								
Income from continuing operations before extraordinary item and cumulative effect of a change in accounting principle	**$ 1.21**	$ 1.18	**$ 1.48**	$ 1.07	**$ 1.58**	$ 1.12	**$ 1.59**	$ 1.46
Discontinued operations	**.02**	.17	**–**	.27	**.19**	.37	**(.12)**	.35
Extraordinary item	**–**	–	**–**	–	**(.16)**	.45	**–**	–
Cumulative effect of a change in accounting principle	**–**	.33	**–**	–	**–**	–	**–**	–
Net income	**$ 1.23**	$ 1.68	**$ 1.48**	$ 1.34	**$ 1.61**	$ 1.94	**$ 1.47**	$ 1.81
Common Stock Information								
Price Range:								
High	**$ 64¾**	$ 45¾	**$ 65¼**	$ 55	**$ 59¾**	$ 59¾	**$ 70**	$ 51¾
Low	**$ 48¾**	$ 32⅜	**$ 55¾**	$ 43¼	**$ 50¼**	$ 45	**$ 55**	$ 44⅛
Dividend per share	**$ .45**	$ .45	**$ .45**	$ .45	**$ .45**	$ .45	**$ .45**	$ .45

The 1986 data include the operations of Ex-Cell-O from September 17, 1986.

Textron Inc.
Finance and Insurance Subsidiaries
Combined Statement of Income

For each of the three years in the period ended January 3, 1987 *(In millions)*	1986	1985	1984
Revenues:			
Interest, discount and service charges	**$ 877.2**	$ 835.7	$60.8
Credit life, disability and casualty insurance premiums	**298.1**	216.7	–
Life, accident and health insurance premiums, annuities and other	**477.3**	410.9	–
Investment income (including net capital gains)	**275.0**	219.4	–
Total revenues	**1,927.6**	1,682.7	60.8
Expenses:			
Interest and debt expense	**392.3**	358.8	34.2
Provision for losses on collection of receivables, less recoveries	**96.4**	74.9	.8
Credit life, disability and casualty insurance losses and adjustment expenses, less recoveries	**197.3**	134.1	–
Death and other insurance benefits	**287.1**	212.2	–
Increase in insurance policy and deposit liabilities	**163.5**	182.4	–
Amortization of insurance policy acquisition costs (including cost of insurance in force)	**111.2**	72.1	–
Other operating expenses	**456.3**	434.8	4.6
Total expenses	**1,704.1**	1,469.3	39.6
Income before income taxes	**223.5**	213.4	21.2
Income taxes	**86.7**	85.5	9.1
Net income	**$ 136.8**	$ 127.9	$12.1

See notes to combined financial statements.

Textron Inc.
Finance and Insurance Subsidiaries
Combined Balance Sheet

(In millions)	**January 3, 1987**	December 28, 1985
Assets		
Cash	**$ 67.6**	$ 49.8
Investments	**2,307.5**	2,066.6
Receivables	**4,957.2**	5,069.8
Unearned charges	**(632.4)**	(696.4)
Net receivables	**4,324.8**	4,373.4
Allowance for losses	**(136.2)**	(137.4)
	4,188.6	4,236.0
Prepaid expenses and other receivables	**79.6**	93.9
Unamortized insurance policy acquisition costs (including cost of insurance in force)	**326.0**	279.9
Goodwill (less accumulated amortization of $37.3 and $18.1)	**429.4**	447.8
Other assets	**150.8**	135.6
Total assets	**$7,549.5**	$7,309.6
Liabilities and equity		
Short-term debt–unsecured:		
Banks	**$ 52.0**	$ 93.9
Commercial paper	**547.7**	800.8
Total short-term debt	**599.7**	894.7
Accounts payable and accrued liabilities	**297.1**	228.9
Income taxes (principally deferred)	**129.9**	142.4
Insurance reserves and claims:		
Future policy benefits and claim liabilities	**950.0**	828.7
Premium deposits and purchase payment funds	**785.3**	729.7
Unearned insurance premiums	**222.5**	222.2
Losses and adjustment expenses	**128.4**	98.6
Long-term debt–unsecured:		
Senior notes and debentures	**2,577.6**	2,474.4
Senior subordinated notes and debentures	**369.0**	295.1
Junior subordinated and capital notes	**95.8**	95.5
Total long-term debt	**3,042.4**	2,865.0
Equity	**1,394.2**	1,299.4
Total liabilities and equity	**$7,549.5**	$7,309.6

See notes to combined financial statements.

Textron Inc.
Finance and Insurance Subsidiaries
Combined Statement of Changes in Financial Position

For each of the three years in the period ended January 3, 1987 *(In millions)*	**1986**	1985	1984
Source of funds:			
From operations:			
Net income	**$ 136.8**	$ 127.9	$ 12.1
Increase in insurance policy liabilities	**163.5**	182.4	–
Amortization of insurance policy acquisition costs (including cost of insurance in force)	**111.2**	72.1	–
Provisions for losses on collection of receivables	**115.5**	92.8	.8
Increase (decrease) in accounts payable, accrued liabilities and other	**121.5**	(19.1)	42.5
Increase in unearned insurance premiums and reserves for insurance losses and adjustment expenses	**30.1**	63.3	–
Depreciation and amortization	**30.3**	28.5	.3
Total from operations	**708.9**	547.9	55.7
Additions to long-term debt	**573.0**	1,330.6	125.0
Proceeds from sales of investments	**770.8**	893.9	–
Capital contribution from Textron	**–**	15.4	–
Total	**$2,052.7**	$2,787.8	$180.7
Use of funds:			
Purchases of investments	**$ 992.6**	$1,313.1	$ –
Reductions in long-term debt	**408.0**	759.5	150.3
Increase in receivables (net of unearned charges)	**109.6**	629.8	95.8
Additions to insurance policy acquisition costs	**157.3**	95.6	–
Cash dividends paid	**39.8**	49.4	–
Decrease (increase) in short-term debt	**295.0**	93.3	(65.8)
Increase (decrease) in cash (excludes cash at date of acquisition)	**17.8**	(20.6)	–
Other, net	**32.6**	(132.3)	.4
Total	**$2,052.7**	$2,787.8	$180.7

See notes to combined financial statements.

Textron Inc.
Finance and Insurance Subsidiaries
Combined Statement of Changes in Equity

For each of the three years in the period ended January 3, 1987 (In millions)	
Balance December 31, 1983	$ 51.7
Net income	12.1
Balance December 29, 1984	63.8
Equity of AFS at date of acquisition	1,163.9
Capital contribution from Textron to TFC	15.4
Currency translation adjustment	(24.8)
Marketable equity securities valuation adjustment	2.7
Net income	127.9
Dividends	(49.4)
Other	(.1)
Balance December 28, 1985	1,299.4
Currency translation adjustment	(2.1)
Marketable equity securities valuation adjustment	(.1)
Net income	136.8
Dividends	(39.8)
Balance January 3, 1987	$1,394.2

See notes to combined financial statements.

Textron Inc.
Finance and Insurance Subsidiaries
Notes to Combined Financial Statements

1. Summary of Significant Accounting Policies

Principles of combination

The accompanying combined financial statements include the accounts of Textron's subsidiaries engaged in finance and insurance operations: Textron Financial Corporation (TFC) and Avco Financial Services, Inc. (AFS), consisting of Avco Financial Services Group, Avco Insurance Services/Balboa Life and Casualty and the Paul Revere Insurance Group.

The results of operations of AFS are included in the combined financial statements from January 10, 1985 and Textron's allocation of its purchase price to the assets and liabilities of AFS is reflected in these combined financial statements.

Finance subsidiaries

Interest and discount charges are generally recognized in revenues on the effective yield method. Unearned charges represent the portion of the finance charge or discount included in the original face amount of the related receivables which is determined to be unearned on the balance sheet date. The unearned charges are transferred to revenues on the accrual basis generally beginning in the month following acquisition. Generally, no portion of unearned charges is recognized in earnings to offset acquisition costs except on leasing contracts. When charges are not included in the original face amount of the loan, the charges are generally recognized in revenues as collected.

Receivables are written off when they are deemed uncollectible, but in any event consumer, real estate, retail installment and credit card accounts for which no payment has been received for eight consecutive months are written off. Provisions for losses on accounts receivable are charged to earnings in such amounts as management believes to be adequate.

TFC derives a substantial portion of its business from financing the sale and lease of products manufactured and sold by Textron. In 1986, 1985 and 1984, TFC paid Textron $228.8 million, $255.0 million and $300.7 million, respectively, for the purchase of receivables. Under an operating agreement with Textron, TFC generally has recourse to Textron with respect to finance receivables and leases of products manufactured and sold by Textron. At January 3, 1987, net finance receivables of $405.3 million ($379.4 million at December 28, 1985) were due from Textron or subject to recourse to Textron.

The net investment in finance leases included in receivables consists of the sum of all minimum lease payments and estimated residual values, less unearned income.

The investment in leveraged leases consists of the sum of all lease payments (less the portion applicable to principal and interest on nonrecourse debt) plus estimated residual values, less unearned income. Unearned income and investment tax credits are included in income over the terms of such leases to produce a constant rate of return on the net investment after a portion of unearned income is recognized in earnings to offset direct acquisition costs.

Insurance subsidiaries

Credit Life, Disability and Casualty Insurance

Approximately 52% and 63% of the credit life and disability insurance premiums earned and 7% and 10% of the casualty insurance premiums earned in 1986 and 1985, respectively, were directly related to the consumer loan activities of Avco's finance subsidiaries. Unearned insurance premiums are taken into earnings over the life of the policies (i) on the sum-of-the-digits method for decreasing term credit life insurance coverage and on the pro rata method for level term credit life coverage, (ii) in relation to anticipated claims for disability insurance and (iii) on the pro rata method for casualty insurance. The cost of acquiring new business (principally commissions and premium taxes) is charged to expense in the same manner as the related premiums are taken into earnings.

Health and Life Insurance

Group health and life insurance premiums are recognized in income when due; individual health insurance and annuity premiums are recognized in income when received.

Certain costs directly related to acquiring new health, life and annuity business (principally commissions and selling, selection and policy issue expenses) are deferred and amortized over the policies' premium paying periods in the proportion that annual premium revenue bears to total anticipated premium revenue. Amortization schedules have been based on interest and withdrawal assumptions consistent with those used to compute liabilities for future policy benefits.

Liabilities for future policy benefits have been computed by the net level premium method based upon estimated future investment yield and Paul Revere's experience on mortality, morbidity, with-

drawals and other assumptions. At January 3, 1987 and December 28, 1985, the liability for future policy benefits and claim liabilities aggregated $950.0 million and $828.7 million, respectively, and included 60% and 57% for individual health, 27% and 29% for individual life, 12% and 13% for group products and 1% and 1% for individual annuities, respectively. This excludes the liability for premium deposits and purchase payment funds applicable to annuities aggregating $785.3 million and $729.7 million at January 3, 1987 and December 28, 1985, respectively.

Translation of foreign currencies and foreign exchange transactions

Adjustments resulting from the translation of the financial statements of foreign operations are excluded from the determination of income and accumulated in a separate component of equity until sale or substantial liquidation of an investment in a foreign entity and amounted to accumulated charges to equity of $26.9 million and $24.8 million at January 3, 1987 and December 28, 1985, respectively. Foreign exchange gains and losses included in income in 1986, 1985 and 1984 were a $4.4 million gain in 1986, a $1.0 million loss in 1985 and a $.1 million gain in 1984.

Goodwill

Goodwill is being amortized on the straight-line method over 25 years.

2. Acquisition

Presented below is a condensed unaudited pro forma statement of income of Textron's finance and insurance subsidiaries for 1984 as if Textron's acquisition of Avco had occurred at the beginning of that year.

(In millions)	
Revenues	$1,494.8
Expenses	1,306.4
Income before income taxes	188.4
Income taxes	70.4
Net income	$ 118.0

3. Receivables

The maximum term over which consumer loans and retail installment contracts are written is 120 months, but approximately 90% of these loans are written with terms of 48 months or less. Real estate loans are written with a maximum term of 180 months. Credit card receivables are written under open ended revolving charge contracts. The maximum term over which leases, other than leveraged leases, are written is 216 months; leases are generally written for three to seven years and offer a choice of payment plans to suit the customer's cash flow and tax position.

Estimated contractual maturities of receivables outstanding at January 3, 1987 and receivables (less unearned charges) outstanding at January 3, 1987 and December 28, 1985 were as follows:

	Contractual maturities			***Less unearned charges***	***Receivables outstanding***	
(In millions)	1987	1988	1989-2001		**1986**	1985
Consumer	$ 872.1	$ 553.9	$ 292.3	$222.2	**$1,496.1**	$1,502.2
Real estate	191.3	124.6	710.2	59.6	**966.5**	942.2
Installment–principally retail	424.3	153.4	224.8	111.2	**691.3**	737.2
Credit card	82.7	64.4	226.1	1.9	**371.3**	406.6
Commercial	45.0	–	–	–	**45.0**	39.0
Finance leases	165.0	145.1	330.2	125.7	**514.6**	480.4
Leveraged leases	3.6	3.7	210.8	103.6	**114.5**	146.2
Other	100.6	20.7	12.4	8.2	**125.5**	119.6
	$1,884.6	$1,065.8	$2,006.8	$632.4	**$4,324.8**	$4,373.4

Experience has shown that a substantial majority of consumer and real estate loans and installment contracts will be refinanced many months prior to contractual maturity dates. During 1986 and 1985, cash collections (excluding unearned charges included in net earnings) of receivables were $2.1 billion and $2.2 billion, respectively, and the ratio of cash collections to average net receivables was approximately 50% and 54%, respectively.

4. Investments

(In millions)	**January 3, 1987**	December 28, 1985
Commercial paper, at cost (approximates market)	**$ 149.3**	$ 102.6
Bonds, at amortized cost (estimated market: $1,892.4 and $1,701.3)	**1,754.3**	1,590.5
Marketable equity securities, at market (cost: $24.3 and $30.0)	**27.2**	33.1
First mortgages on real estate, at cost	**313.1**	276.8
Policy loans and other investments, at cost	**63.6**	63.6
	$2,307.5	$2,066.6

Approximately 80% of investment income in 1986 and 84% of investment income in 1985 was attributable to interest on commercial paper and bonds and 13% and 14% of such income was derived from first mortgages on real estate in 1986 and 1985, respectively.

Investments in long-term bonds are generally held until maturity and are carried at amortized cost. Net unrealized appreciation of bond market values during 1986 and 1985 was $28.2 million and $114.5 million, respectively.

A valuation adjustment representing the excess of aggregate market value over aggregate cost of marketable equity securities has been credited directly to equity. Such excess at January 3, 1987 of $2.6 million represented gross unrealized gains (net of applicable taxes).

Net realized gains and losses after income taxes resulting from sales of marketable equity securities were a $1.5 million gain and $1.4 million loss in 1986 and 1985, respectively. The cost of securities sold was based primarily on the specific identification method.

5. Debt

AFS and TFC are independent borrowers and, accordingly, their debt is supported only by their own respective assets.

At January 3, 1987, AFS and TFC had lines of credit with various banks amounting to $1.3 billion, of which $605 million related to long-term loans. Based on some of these credit agreements, $325 million of commercial paper has been classified as senior long-term debt at January 3, 1987 ($425 million at December 28, 1985). Lines of credit not used or reserved as support of outstanding commercial paper amounted to $699 million, of which $90 million related to long-term loans. In support of these lines, AFS and TFC generally pay fees and/or maintain compensating balances.

In addition, Textron maintains short-term lines of credit with a number of banks. Some of these lines are available to TFC, principally on an informal confirmed basis, to the extent of $102 million at January 3, 1987, of which $58 million was used or reserved as support for outstanding commercial paper.

Under an operating agreement, Textron has made available to TFC a line of credit of up to $60 million for junior subordinated borrowings at prime rate (7.5% at January 3, 1987). The operating agreement further provides that Textron shall loan TFC interest free an amount not to exceed the deferred income tax liability of Textron attributable to the manufacturing profit deferred on products manufactured by Textron and financed by TFC. TFC had junior subordinated borrowings of $20.4 million outstanding at January 3, 1987 ($20.3 million at December 28, 1985) under this arrangement. Under another operating agreement, Textron has agreed to cause TFC's pre-tax income available for fixed charges to be not less than 125% of fixed charges.

AFS and TFC have entered into interest rate exchange agreements, over periods ranging from one to seven years, which had the effect of fixing the rate of interest on approximately $395 million of variable interest rate borrowings at January 3, 1987 at approximately 10.6%. Net amounts due under interest rate exchange agreements increased interest expense by approximately $15.3 million during 1986, increased interest expense by approximately $6.5 million during 1985 and decreased interest expense by approximately $.2 million during 1984. These agreements expire as follows: $150 million in 1987, $78 million in 1988 and $167 million thereafter.

Long-term debt is summarized as follows:

(In millions)	**January 3, 1987**	December 28, 1985
Senior notes and debentures; interest at 6.125%-17.751%; 1987 to 1999 maturity dates	**$2,577.6**	$2,474.4
Senior subordinated notes and debentures; interest at 8.25%-12.75%; 1987 to 1996 maturity dates	**369.0**	295.1
Junior subordinated and capital notes; interest at 9.75%-13.62%; 1987 to 1992 maturity dates	**95.8**	95.5
	$3,042.4	$2,865.0

Required payments during the next five years on long-term debt outstanding at January 3, 1987 (excluding $325 million of commercial paper supported by revolving credit agreements) are as follows: $233.9 million in 1987; $216.1 million in 1988; $280.7 million in 1989; $440.9 million in 1990 and $482.2 million in 1991.

The long-term notes, debentures and loan agreements of AFS and TFC contain various restrictions on the declaration or payment of cash dividends and other payments to Textron. The long-term notes, debentures and loan agreements also contain various provisions restricting additional debt, the creation of liens or guarantees and the making of investments.

6. Income Taxes

The provisions for income taxes of the U.S. finance subsidiaries and casualty insurance subsidiaries are calculated based on these subsidiaries being included in the consolidated U.S. federal income tax return filed by Textron. The provisions for income taxes also include amounts for the U.S. life insurance subsidiaries and foreign subsidiaries which file their own separate income tax returns.

Under the statutes in effect before the Deficit Reduction Act of 1984 (1984 Act), a portion of "gain from operations" of U.S. life insurance companies was not subject to current income taxation but was accumulated for tax purposes in a memorandum tax account. The 1984 Act prohibited any additions to the policyholders' surplus memorandum account for taxable years beginning after December 31, 1983. At January 3, 1987 policyholders' surplus was $104.9 million. Under present circumstances it is not anticipated that any of these untaxed earnings will become taxable.

The Tax Reform Act of 1986 (the Act) was enacted on October 22, 1986. Among other things, the Act provides for reductions in 1987 and 1988 in the marginal federal income tax rate for corporations. Net income for the fourth quarter of 1986 was increased by $5.0 million related to the first nine months of 1986 principally as a result of the beneficial effect of lower tax rates on TFC's leveraged lease portfolio.

Details of income before income taxes, income taxes and the deferred income tax effects of timing differences are summarized as follows:

(In millions)	**1986**	1985	1984
Income before income taxes:			
United States	**$140.1**	$143.2	$ 21.2
Foreign	**83.4**	70.2	–
Total	**$223.5**	$213.4	$ 21.2
Income taxes:			
Current:			
Federal	**$ (37.0)**	$ (36.6)	$(22.0)
State	**6.1**	4.7	.2
Foreign	**39.7**	29.3	–
	8.8	(2.6)	(21.8)
Deferred:			
Federal	**76.4**	84.7	30.7
State	**.2**	2.4	.2
Foreign	**1.3**	1.0	–
	77.9	88.1	30.9
Total	**$ 86.7**	$ 85.5	$ 9.1
Deferred income tax effects of timing differences:			
Leveraged leases	**$ 39.3**	$ 40.8	$ 28.0
Finance leases	**25.4**	29.3	4.8
Insurance policy acquisition costs	**19.4**	15.9	–
Liabilities for future policy benefits	**(12.1)**	(8.4)	–
Other	**5.9**	10.5	(1.9)
Total	**$ 77.9**	$ 88.1	$ 30.9

Deferred income taxes have not been provided for the undistributed earnings of foreign subsidiaries which aggregated approximately $255 million at January 3, 1987. Management's intention is to reinvest such undistributed earnings outside the United States for an indefinite period, except for distributions upon which incremental U.S. income taxes would not be material.

Investment tax credits are accounted for under the deferral method for the leasing operations and under the flow-through method for all other operations. Investment tax credits included in net income were $9.9 million (principally amortization of investment tax credits), $12.0 million and $1.6 million in 1986, 1985 and 1984, respectively.

Following is a reconciliation of the federal statutory income tax rate to the effective income tax rate:

	1986	1985	1984
Federal statutory income tax rate	**46.0%**	46.0%	46.0%
Increase (reduction) in taxes resulting from:			
State income taxes, net of federal tax benefit	**1.5**	1.6	1.0
Investment tax credits	**(1.8)**	(3.4)	(3.4)
Tax exempt interest and dividends received deduction	**(3.3)**	(2.8)	(1.3)
Foreign income taxed at lower effective rates	**(2.3)**	(1.6)	–
Special deductions allowed life insurance companies	**(3.3)**	(2.3)	–
Net capital gains	**(1.8)**	(1.3)	–
Amortization of goodwill	**3.7**	3.9	–
Other–net	**.1**	–	.8
Effective income tax rate	**38.8%**	40.1%	43.1%

7. Profit Sharing, Retirement, Pension Plans and Post-retirement Benefits

The various subsidiaries have retirement plans (principally non-contributory) which cover substantially all employees. Retirement plan expense for 1986 and 1985 was $9.1 million and $10.5 million, respectively. The amount in 1984 was insignificant. Retirement costs are funded as accrued.

In addition to providing such benefits, the various subsidiaries provide certain health care and life insurance benefits for certain retired employees. Eligibility for these benefits is restricted to the particular benefit plans at the particular locations offering retiree benefits. These retiree benefits and similar benefits for active employees are administered through an insurance company whose premiums are based on the benefits paid during the year. The cost of providing these benefits is recognized by expensing the premiums and costs as incurred. Such costs were $10.0 million and $10.7 million for 1986 and 1985, respectively. The cost of providing these benefits for the 690 retirees (680 in 1985) receiving such benefits is not separately identifiable from the cost of providing such benefits for the approximately 9,000 (8,600 in 1985) active employees.

8. Financial Information by Business Segment

(In millions)	1986	1985	1984
Revenues:			
Finance:			
Consumer	$ 777	$ 736	$ –
Commercial	128	107	61
	905	843	61
Insurance:			
Credit life, disability and casualty	335	250	–
Health and life	688	590	–
	1,023	840	–
	$1,928	$1,683	$ 61
Income:			
Finance:			
Consumer	$ 99	$ 119	$ –
Commercial	29	23	21
	128	142	21
Insurance:			
Credit life, disability and casualty	16	21	–
Health and life	80	50	–
	96	71	–
	$ 224	$ 213	$ 21
Identifiable assets:			
Finance:			
Consumer	$3,398	$3,592	$ –
Commercial	1,054	938	512
	4,452	4,530	512
Insurance:			
Credit life, disability and casualty	697	617	–
Health and life	2,401	2,163	–
	3,098	2,780	–
	$7,550	$7,310	$512

Notes to Business Segments
(i) Income attributable to U.S. operations was 69% of income for 1986, 67% for 1985 and 100% for 1984.
(ii) Identifiable assets in the U.S. amounted to 82% of total identifiable assets at the end of 1986, 81% at the end of 1985 and 100% at the end of 1984.
(iii) Income of the insurance subsidiaries includes net capital gains of $31 million in 1986 and $12 million in 1985.

9. Leases

Rental expense, related primarily to office space, was approximately $36.8 million, $37.5 million and $.2 million in 1986, 1985 and 1984, respectively. Minimum rental commitments under non-cancellable operating leases in effect at January 3, 1987 approximated $181 million, of which $29 million is payable in 1987.

Five-Year Summary*

(Dollars in millions except per share amounts)	1986	1985	1984	1983	1982
Operating Results					
Sales	$ 5,023.3	$ 4,038.5	$ 2,148.0	$ 2,046.6	$ 1,982.7
Costs and expenses:					
Cost of sales	4,011.9	3,175.2	1,712.5	1,637.8	1,587.1
Selling and administrative	610.2	571.8	302.1	293.1	283.2
	401.2	291.5	133.4	115.7	112.4
Equity in pre-tax income of unconsolidated finance and insurance subsidiaries	223.5	213.4	21.2	17.3	16.9
Interest income	12.2	12.1	11.0	12.4	8.6
Interest expense	(192.1)	(216.2)	(32.9)	(33.4)	(41.7)
Gains on exchange of common stock for debentures	–	–	–	–	10.3
Income from continuing operations before income taxes	444.8	300.8	132.7	112.0	106.5
Income taxes	203.2	120.7	55.2	43.0	37.9
Income from continuing operations before extraordinary item and cumulative effect of a change in accounting principle	241.6	180.1	77.5	69.0	68.6
Discontinued operations:					
Income (loss) from discontinued operations, net of income taxes	(3.7)	43.5	36.0	19.7	15.8
Gain on sales of discontinued operations, net of income taxes	8.0	–	–	–	–
Extraordinary item, net of income taxes	(6.7)	16.4	–	–	–
Cumulative effect of a change in accounting principle	–	11.8	–	–	–
Net income	$ 239.2	$ 251.8	$ 113.5	$ 88.7	$ 84.4
Per common share:					
Income from continuing operations	$ 5.85	$ 4.83	$ 2.12	$ 1.87	$ 1.87
Discontinued operations	.10	1.16	.99	.53	.43
Extraordinary item	(.16)	.44	–	–	–
Cumulative effect of a change in accounting principle	–	.32	–	–	–
Net income	$ 5.79	$ 6.75	$ 3.11	$ 2.40	$ 2.30
Dividends	$ 1.80	$ 1.80	$ 1.80	$ 1.80	$ 1.80
Average common shares outstanding	41,282,000	37,318,000	36,469,000	36,989,000	36,754,000
Financial Position at Year-End					
Working capital	$ 996.0	$ 1,057.1	$ 869.7	$ 911.0	$ 861.7
Property, plant and equipment – net	$ 857.6	$ 588.9	$ 452.4	$ 412.9	$ 436.1
Total assets	$ 5,557.1	$ 4,337.4	$ 2,210.0	$ 2,104.6	$ 2,038.2
Long-term debt	$ 2,181.5	$ 1,503.1	$ 200.4	$ 231.6	$ 245.9
Shareholders' equity	$ 1,847.2	$ 1,633.3	$ 1,253.9	$ 1,244.6	$ 1,227.3
Book value per common share	$ 44.76	$ 39.88	$ 34.46	$ 33.09	$ 32.57
Other Data					
Capital expenditures	$ 203.7	$ 160.4	$ 81.6	$ 31.1	$ 49.2
Depreciation	$ 122.8	$ 101.3	$ 45.1	$ 41.5	$ 39.5
Number of employees	72,000	56,000	43,000	41,000	41,000
Number of common shareholders**	36,000	40,000	43,000	46,000	50,000
Number of preferred shareholders**	5,000	5,000	6,000	7,000	8,000

**The results of operations of Ex-Cell-O and Avco are included from September 17, 1986 and January 10, 1985, respectively.*
***Includes holders of record and individual participants in security position listings at year-end.*

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Willard R. Gallagher***
Vice President
International

Experience with Textron and its subsidiaries/divisions:
*Less than 5 years
**5-9 years
***10-19 years
****20 years and over

Shareholders' Meeting
The 1987 Textron shareholders' meeting is scheduled for 10:30 a.m. on Wednesday, April 29, 1987, at the Biltmore Plaza Hotel, Providence, Rhode Island.

Other Reports Available
Further information about Textron, including its 1986 Form 10-K as filed with the Securities and Exchange Commission, may be obtained by writing to the Corporate Communications Department, Textron Inc., 40 Westminster Street, Providence, Rhode Island 02903.

Stock Exchanges
Textron's stock is traded on the New York, Pacific and Midwest stock exchanges. Ticker symbol: TXT.

Dividend Reinvestment Plan
A shareholders' dividend reinvestment plan is available. For more information, please write directly to Textron's transfer agent.

Transfer Agent and Registrar
The transfer agent and registrar for Textron common and preferred shares is Morgan Shareholder Services Trust Company, 30 West Broadway, New York, New York 10015. Telephone: (212) 587-6515.

TEXTRON

Textron Inc.
40 Westminster Street
Providence, RI 02903
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2166-04750

Textron 87

Highlights

(Dollars in millions except per share data)	1987	1986*	Percent Change
Revenues from continuing operations:			
Textron and consolidated subsidiaries	**$ 5,388.4**	$ 4,688.1	
Unconsolidated finance and insurance subsidiaries	**1,859.7**	1,927.6	
Total revenues	**$ 7,248.1**	$ 6,615.7	+10%
Income:			
Continuing operations	**$ 261.1**	$ 229.6	+14%
Discontinued operations	**27.8**	16.3	
Extraordinary loss	**(32.6)**	(6.7)	
Net income	**$ 256.3**	$ 239.2	
Income per common share:			
Continuing operations	**$ 2.97**	$ 2.78	+7%
Discontinued operations	**.32**	.20	
Extraordinary loss	**(.37)**	(.08)	
Net income	**$ 2.92**	$ 2.90	
Average common shares outstanding	**87,733,000**	82,564,000	+6%
Book value per common share	**$ 25.39**	$ 22.38	+13%
Dividends declared per common share	**$ .975**	$ .90	
Return on shareholders' equity**	**13%**	13%	
Debt to total capitalization	**39%**	55%	
Employees	**61,000**	72,000	

**Restated for discontinued operations and the effect of the two-for-one common stock split in May 1987.*
***Based on income from continuing operations.*

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To Our Shareholders

Textron had strong financial results in 1987. Sales, income and earnings per share from continuing operations all rose to new highs. These gains were achieved during a year of consolidation for Textron, a year in which our primary goals were to maintain our earnings momentum, substantially reduce debt and integrate operations within the Company following our acquisition of Ex-Cell-O in the fall of 1986.

Revenues from continuing operations grew to $7.2 billion, a gain of 10%. Income from continuing operations of $261.1 million was up 14% from 1986 and was $2.97 per share on the increased number of shares outstanding. Net income was $256.3 million ($2.92 per share), 7% over last year's amount.

Other highlights for 1987 were:

- Total debt was reduced by $723 million, with the result that debt as a percentage of total capital declined to 39%.
- Certain businesses which no longer met Textron's strategic objectives were sold.
- The common stock was split 2-for-1 and the annual common cash dividend rate was raised 11% to $1 per share.

These key achievements are reported in more detail in the "1987 In Review" section beginning on page 3 of this report.

Our discussion of 1987 would be incomplete without reference to October's sudden and precipitous drop in the stock market and the volatility in the financial markets after the drop. While these events were unsettling to investors and companies alike, it is important to note that Textron's fundamental strengths have not diminished. Your management remains committed to its objective of improving earnings and return on shareholders' investment, while optimizing the Company's long-term prospects for continued profitable growth.

Defense Businesses Healthy and Balanced

Our defense businesses remain healthy and balanced, and through careful management are expected to remain good businesses for Textron. The Company believes it is sufficiently diversified within its Aerospace Technology

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sector to minimize the effects of cuts in the defense budget. In fact, last year's agreement between the U.S. and the U.S.S.R. to eliminate a portion of their nuclear arsenals is likely to increase our nation's need for advanced, non-nuclear weaponry, an area in which we are a strong competitor.

Structured For Success

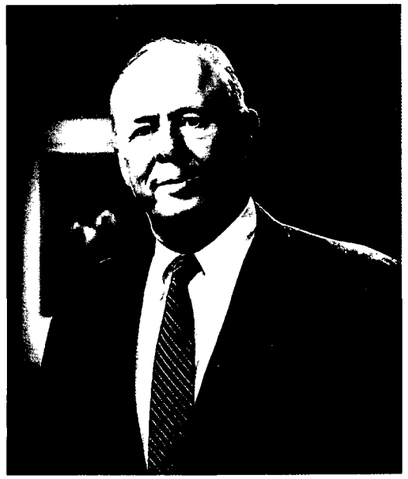
Textron's flexibility, balanced diversity and employee skills are key to fulfilling our basic mission for shareholders. Our flexibility permits us to shift assets in a timely fashion to take advantage of opportunities as they are identified. Textron's diversification gives it strategic stability compared with companies that focus on one product, industry or sector of the economy. Our decentralized management organization fosters the entrepreneurial spirit at all levels of the Company to increase sales and profitability.

Well Positioned For The Future

As we enter 1988, our sense of optimism for the future is bolstered by a strong balance sheet, expanded debt capacity, healthy cash flow, reduced interest expense and a lower corporate tax rate. We are exploring opportunities to expand further through growth within our operating divisions and we will continue to seek acquisition opportunities.

B.F. Dolan
Chairman, President and
Chief Executive Officer

February 11, 1988



1987 In Review

Restructuring

Since the Avco and Ex-Cell-O acquisitions in 1985 and 1986, respectively, Textron has substantially restructured its operations. More than 20 divisions and other operating units have been sold, nine of them during 1987. The divestitures were in machine tool businesses and other areas where anticipated future returns on our investments did not meet Textron's strategic goals. This major redeployment of assets has resulted in a stronger, better balanced portfolio of businesses.

Debt Reduction

At year end 1987, Textron had completed its second major debt reduction program in three years. The latest reduction was achieved through a combination of asset sales, a 6.9 million share common stock sale and funds from operations. The percentage of debt to total capital, which had risen to about 57% following the Ex-Cell-O acquisition in late 1986, was 39% at the end of 1987.

Stock Split, Dividend Increased

Shareholders at their Annual Meeting in April 1987 approved a two-for-one split of Textron's common stock and an increase in the number of its authorized common shares to 250 million. Textron also increased its annual common dividend to $1 per share on a post-split basis. The split was effected on May 11 and the new $.25 per share quarterly dividend became effective with the July 1 payment.

Stock Repurchase Program

In the fourth quarter of 1987, Textron announced its intention to purchase from time to time in the open market up to an aggregate of five million of its common shares. As of February 11, 1988, 2.2 million shares had been purchased under this program.

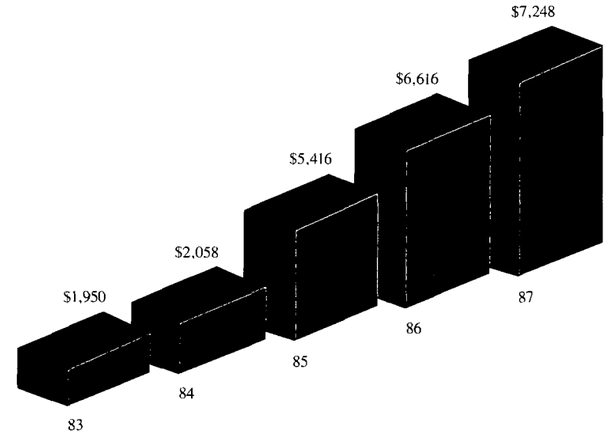
Aerospace Focus Sharpened

The full extent of Textron's aerospace operations has been further accentuated. The names of several former Avco aerospace divisions have been changed to reflect their Textron identification and promotional efforts present Textron aerospace as a consolidated endeavor. These steps will help in sales and marketing efforts and will reinforce Textron's commitment to aerospace and defense and its position among the top aerospace contractors in the United States.

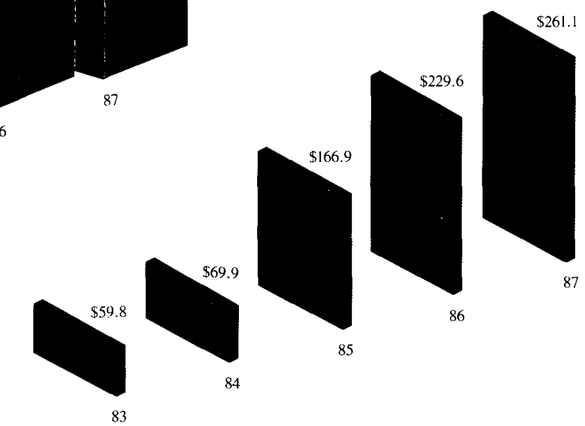
Automotive Strengthened

With the addition of Ex-Cell-O Corporation, Textron became a much larger force in the domestic automotive marketplace. With its expanded product line of automotive interior and exterior trim, instrument panels, fasteners and assembly systems and its research and development resources, Textron is committed to being a long-term participant in this important market segment of our nation's economy. Textron's automotive sales in 1987 were approximately $600 million, equivalent to about $51 for each car and light truck built in North America.

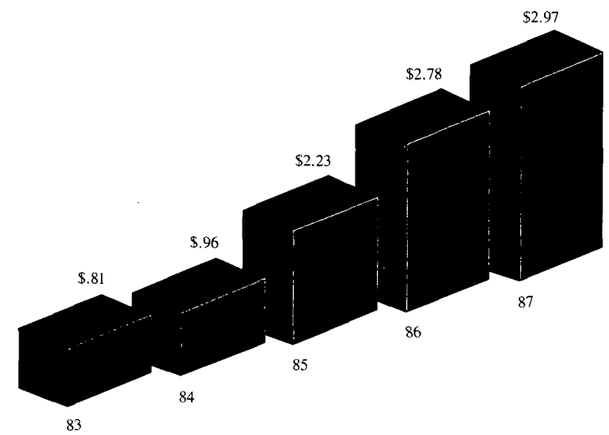
The Administrative and Management Committee is Textron's senior management group. Committee members include, left to right, Thomas D. Soutter, Executive Vice President and General Counsel; Donald K. Farrar, William A. Anders and Seymour S. Feuer, Senior Executive Vice Presidents Operations; B.F. Dolan, Chairman, President and Chief Executive Officer; William J. Ledbetter, Senior Executive Vice President Administration and Planning and Dennis G. Little, Executive Vice President and Chief Financial Officer.



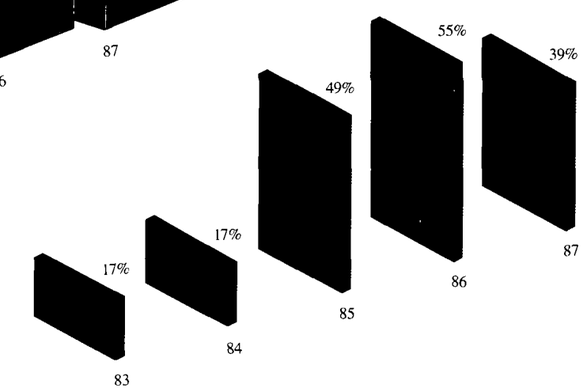
Revenues from Continuing Operations
(In millions)



Income from Continuing Operations
(In millions)



Earnings per Share from Continuing Operations



Debt as a % of Total Capital

Aerospace Technology

Our strong and diversified presence in the aerospace marketplace, combined with major new development programs, sets the tone for a promising future in this important business.

Textron is in the aerospace business because of the potential for good returns and growth in both commercial and national defense markets. Through selective positioning in these markets, the Company focuses its resources and technology where it has technical or other competitive advantages so as to maximize its opportunities, especially in the face of flat or declining spending for defense. Our strong and diversified presence in the aerospace marketplace, combined with major new development programs, sets the tone for a promising future in this important business.

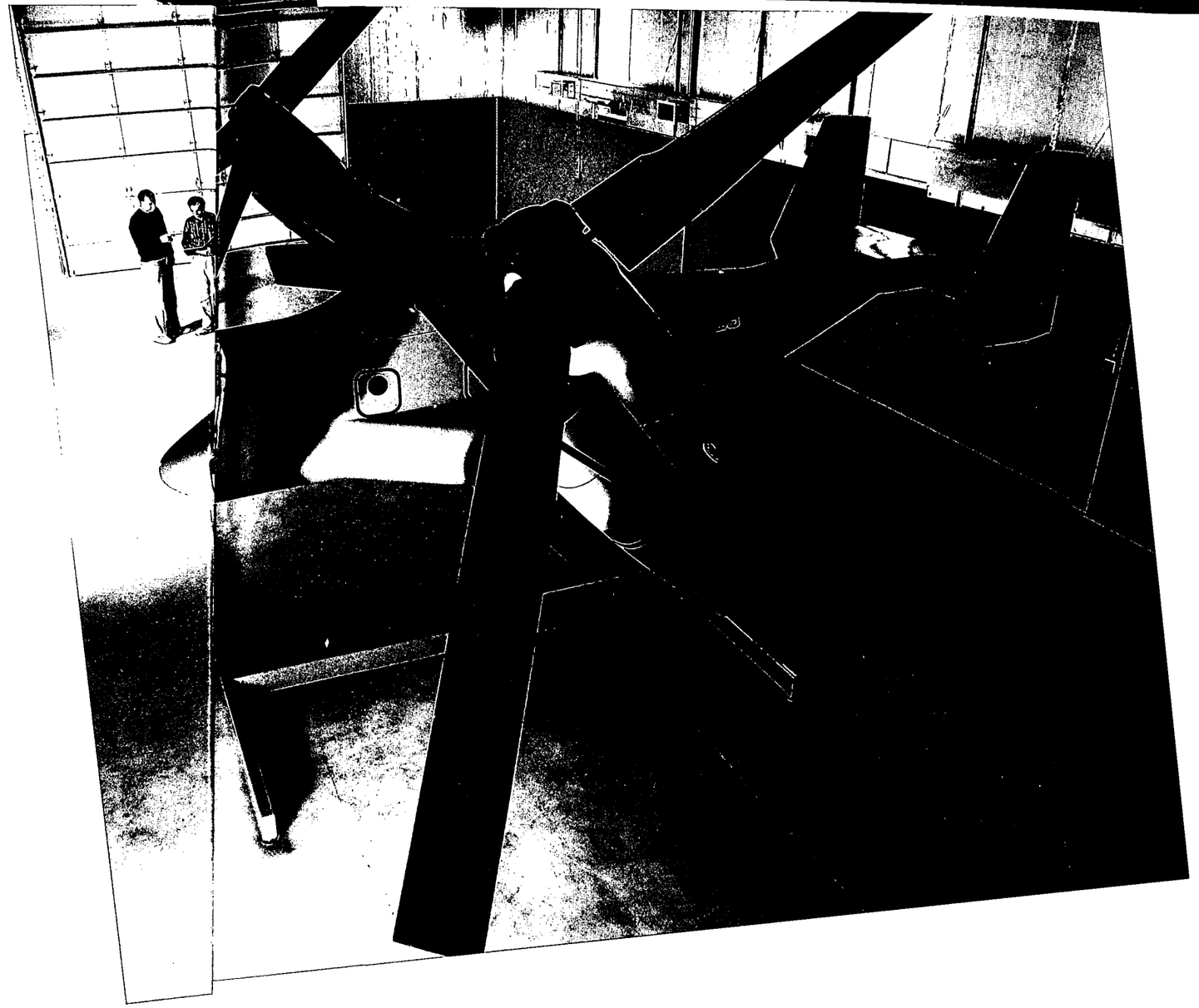
Textron ranked among the top U.S. defense contractors in 1987 with sales under U.S. Government contracts amounting to $2.6 billion. Textron is a leader in the development and production of advanced products for the U.S. Government and its allies around the world. The size and scope of the Company's Aerospace Technology sector make it possible to select opportunities offering attractive returns for shareholders.

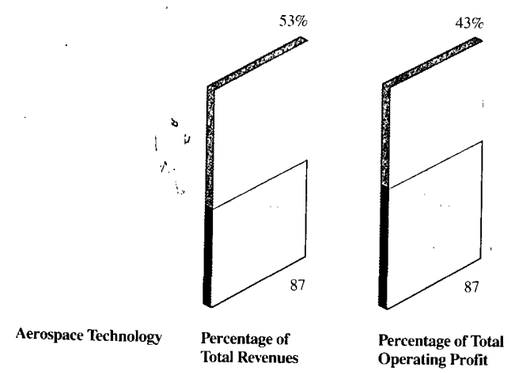
At the same time, in line with the Company's diversification strategy, dependence on any single market or business is limited. Textron's Aerospace Technology sector also serves the commercial and general aviation markets.

Balance A Key Factor

Balance in the aerospace/defense business is achieved by competing at many different product levels. In some cases, Textron divisions take the lead as the prime contractor; in others, Textron is a supplier of systems, subsystems, components or parts.

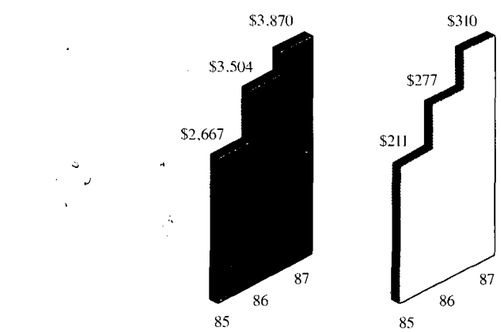
The Aerospace Technology sector products include helicopters, air cushion landing craft and armored vehicles, as well as turbine engines, aircraft wings, missile reentry systems and reentry vehicles, microwave and inertial navigation equipment and hydraulic controls. Textron also manufactures parts ranging from engine fan blades and frames to aircraft rivets and other specialty fasteners and their installation tools. Products are provided for all military services under a variety of programs from design and development through production. In large development efforts, such as the





This photo of a one-third scale model of the Bell-Boeing V-22 Osprey Tilt-Rotor aircraft dramatizes the composite prop-rotor assemblies which, when in their upright position, enable the V-22 to take off, hover and land like a helicopter. Tilted forward in flight, the prop-rotors give the V-22 the efficient flight characteristics of a turboprop aircraft, such as high cruising speed and extended range. The first V-22 is scheduled for flight testing during the second half of 1988.

Two Textron divisions are integrally linked with the British Aerospace 146 commercial aircraft. Textron Lycoming manufactures the ALF-502 turbofan engines for the plane, while Textron Aerostructures produces the wings. The four-engined BAe146, such as those being flown by the United Express Service division of United Airlines, is one of the quietest passenger planes in operation and has relatively short take off and landing capabilities. These characteristics make the BAe146 ideally suited for inter-city, commuter flights.



Aerospace Technology
(In millions)

Revenues

Operating Profit

Navy's V-22 Osprey TiltRotor aircraft program, the Company spreads the risk by teaming with other major aerospace firms.

Producing For All Services

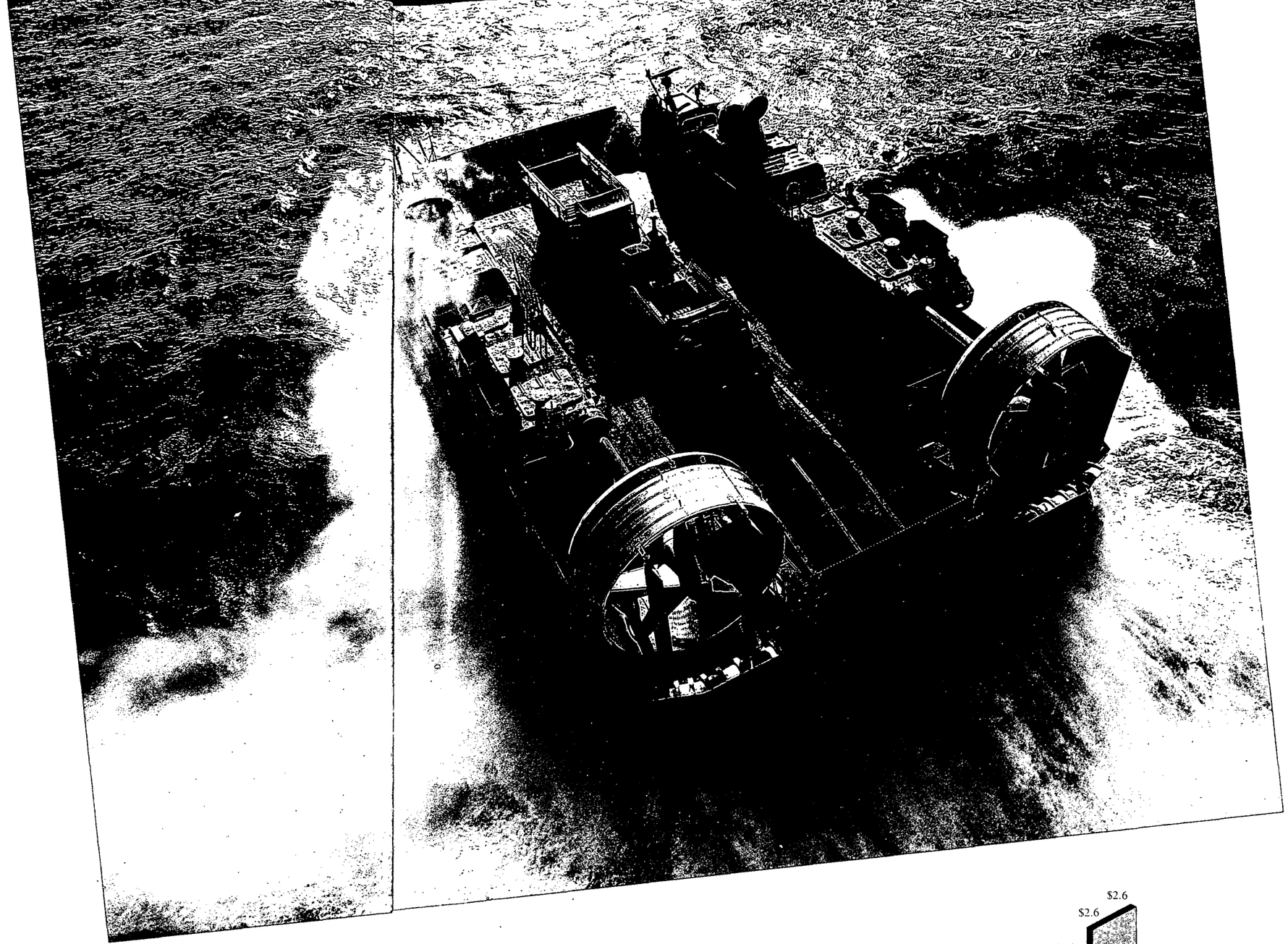
There are several major ongoing programs in defense, covering air, land and sea applications. Textron Lycoming has a $1.4 billion, multi-year contract to produce turbine engines for the Army's M1 main battle tank. This contract provides Textron Lycoming with long-term stability and a solid business base in its most important product line.

In other defense programs, Bell Helicopter is delivering SuperCobra anti-armor gunship helicopters to the U.S. Marine Corps and advanced Scout helicopters to the U.S. Army under the Army Helicopter Improvement Program (AHIP). Textron Marine Systems has delivered 12 of the 24 Landing Craft, Air Cushion (LCAC) ordered to date as part of an on-going program for the U.S. Navy. The LCAC is a high speed, amphibious, assault craft which rides on a cushion of air and is powered by four Textron Lycoming gas turbine engines. Textron Defense Systems is producing the reentry system and reentry vehicle for the U.S. Air Force's Peacekeeper (MX) missile. Textron Aerostructures, which has both military and commercial business, recently completed ahead of schedule the manufacture of the 100th wing set for the Air Force's B-1B bomber program. It will complete its wing program for the C-5B cargo air-

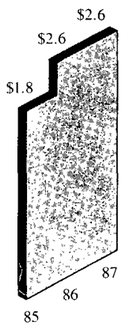
craft in 1988. Bell Aerospace is producing the third generation automatic carrier landing systems for the Navy aircraft carrier fleet. Cadillac Gage, which produces the gun turret drive and stabilization system for the U.S. Army's M1 tank, also has orders from Thailand for more than 100 of its Commando Stingray light tanks.

Development Programs Point To Future Rewards

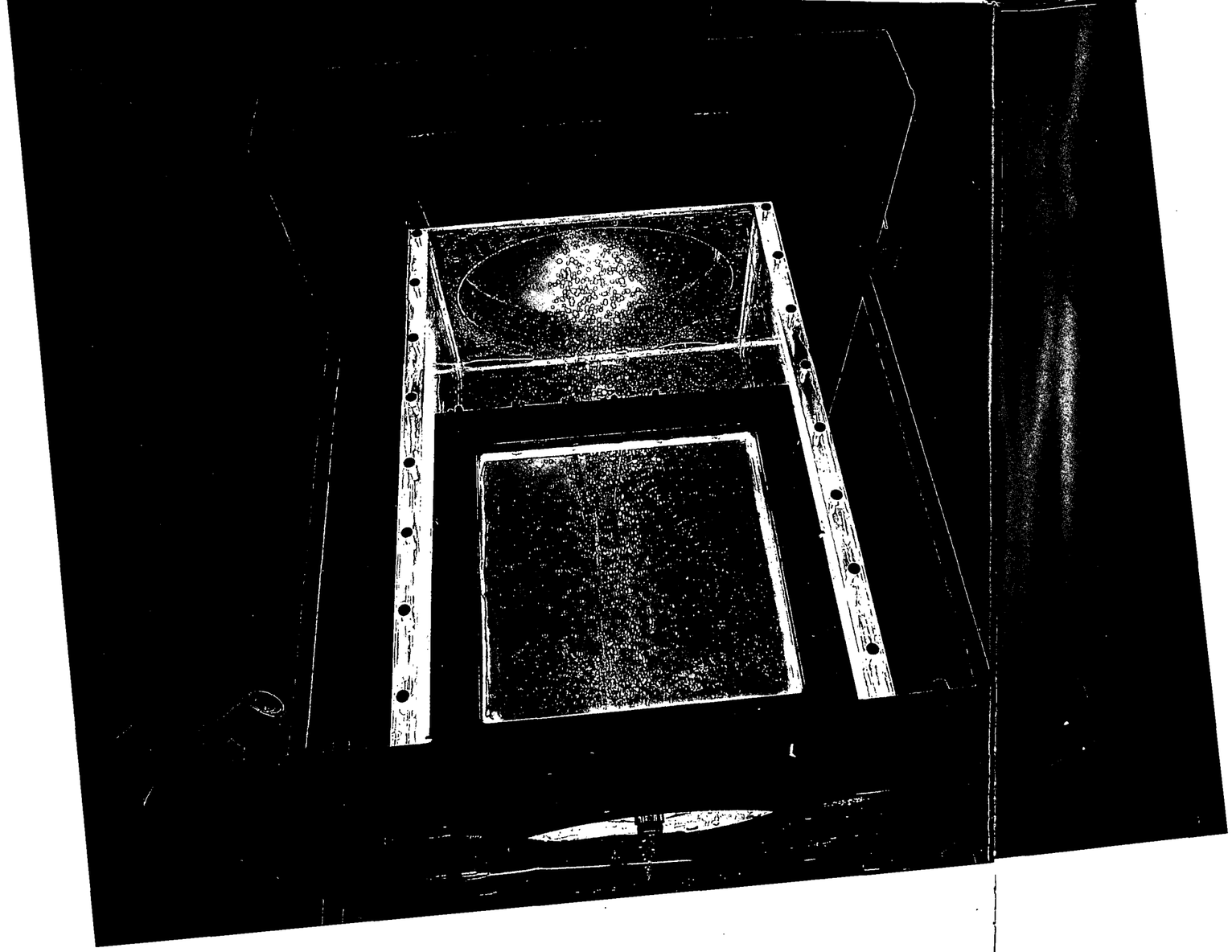
The Company has important development programs underway. In the largest of these, Bell Helicopter Textron is teamed with Boeing Helicopter Company in the $1.7 billion, full-scale development of the V-22 Osprey TiltRotor aircraft for the U.S. Navy. The V-22 combines the efficiency and speed of a turboprop aircraft with the vertical take off and landing capability of conventional helicopters. The first preproduction V-22 aircraft is scheduled for flight testing in mid-1988. Bell and Boeing will compete with each other and share in the initial production contract awards, which are expected to be awarded in 1990. Bell Helicopter and Boeing are also exploring the commercial and foreign military potential for tilt rotor aircraft, and are funding development of an all-composite, remotely piloted tilt rotor vehicle for aerial surveillance and communications missions.

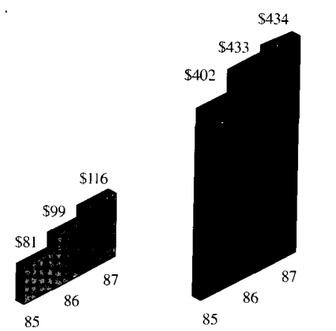


Textron Marine Systems produces the LCAC (Landing Craft, Air Cushion) for the U.S. Navy. The amphibious LCAC, with its four Textron Lycoming gas turbine engines to give it both lift and speed, is designed to carry troops, weapons and equipment through rough seas, from support ships to drop-off points beyond the shoreline.



Total Sales to the U.S. Government
(In billions)





Research and Development
(In millions)

Company Sponsored

Customer Sponsored

At Textron's Aerospace Development Center in Michigan, air forced through jet engine fuel nozzles located within a moving water column provides a visual indication of the flow characteristics expected in a jet engine. This research, which also employs photographic techniques, is directed toward the elimination of "coking," or carbon build-up, which can reduce engine performance. Fuel Systems Textron manufactures fuel nozzles for the world's major jet engine builders.

Textron Lycoming is teamed with United Technologies' Pratt & Whitney Division in a program to develop a new generation of turbine engines. Textron Lycoming has further expanded its activities by teaming with General Electric on the GE38 and LV100/TME engine development programs for commercial and military markets. Textron Defense Systems is in the full-scale development phase for a family of "smart" tactical weapons systems based on the division's innovative Skeet "smart" warhead technology. Such weapons, deployable from aircraft, artillery or mines, have demonstrated their effectiveness when tested against tanks. HR Textron is developing systems and components for the C-17 Transport, the Advanced Technology Fighter and other new programs.

New Commercial Business

In commercial aerospace, Textron Lycoming and Textron Aerostructures should benefit from an option agreement of the TNT Transport Group in Australia to buy more than 70 British Aerospace 146 cargo aircraft over the next five years. Textron Lycoming builds the exceptionally quiet, fuel efficient ALF-502 engines for the four engine jetliner and Textron Aerostructures builds its wings. Textron Aerostructures also builds wings for the Gulfstream IV executive jet aircraft.

For Bell Helicopter, 1987 marked the first delivery of a commercial helicopter assembled at its Mirabel, Quebec facility in Canada. Bell expects to complete the transfer of most of its commercial helicopter production to the Canadian plant by the end of 1989.

Added Strength From Ex-Cell-O

With Ex-Cell-O, important new depth was added to Textron's Aerospace Technology business. Ex-Cell-O's turbine engine components businesses – Aircraft Engine Components, Airfoil and Fuel Systems – have substantially broadened Textron's Propulsion segment as a major supplier of original equipment components and spare parts for both military and commercial applications.

Export Activities

Textron's U.S. exports amounted to $891 million, or 12% of its revenues. Textron is a significant exporter, particularly through Bell Helicopter. Bell has helicopter coproduction programs with Indonesia, Japan, Norway and Turkey, as well as a major order from South Korea. Cadillac Gage also has a major presence in overseas markets. Its export products include turret control systems, as well as light tanks and other armored combat vehicles, sold directly or through the U.S. Government's Foreign Military Sales program.

Commercial Products

Textron's Commercial Products divisions excel in selected areas of large, highly competitive markets. They maintain their leadership by constantly seeking to be low cost, high quality producers.

Textron's Commercial Products divisions contribute significantly to the Company's profitability and balance. Consistent with corporate objectives, these divisions tend to be leaders in their respective markets, with strong brand recognition and healthy market share. To assure continued leadership in their respective, competitive market areas, these divisions are quality-driven, service-oriented and dedicated to continued product improvement and cost reduction. Major capital expenditure programs are continuing to improve quality and productivity. Through aggressively managed research and development programs and extensive engineering and design resources, the Commercial Products divisions are in the forefront of new product development and introduction.

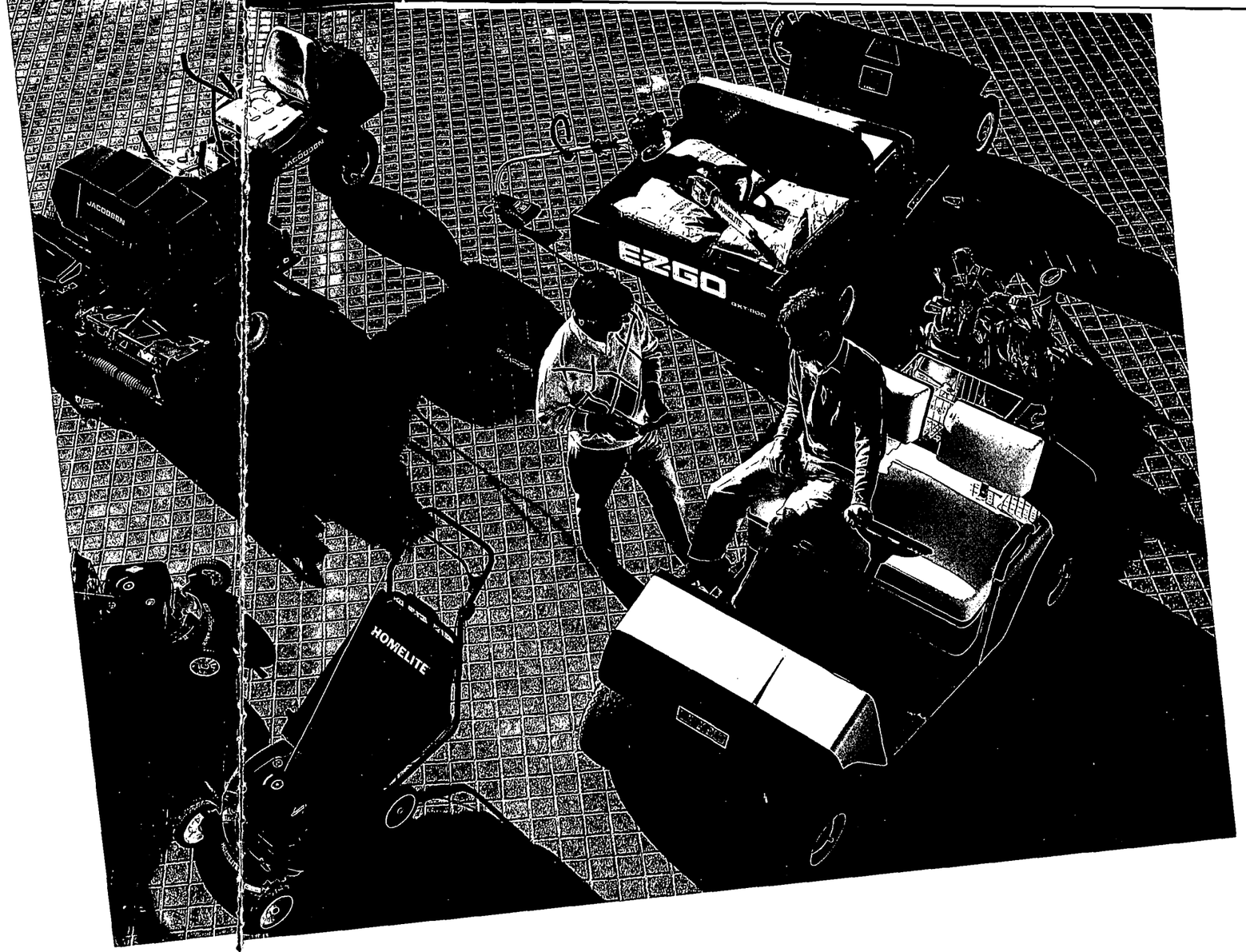
The principal businesses in the Commercial Products sector are automotive products, outdoor power equipment and engineered fasteners. Together, these divisions manufacture and market automotive parts and trim, golf cars, mowing equipment, chain saws, trimmers, blowers and virtually all types of engineered fasteners – blind, threaded and non-threaded – for aerospace, commercial and industrial applications.

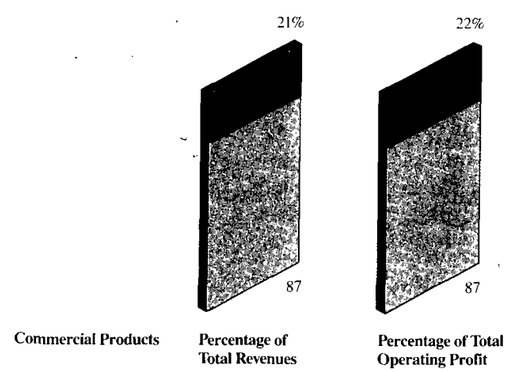
Sector Restructured

The Commercial Products sector has undergone a major restructuring since Avco and Ex-Cell-O were acquired. Most of the units sold or targeted for sale have come from this sector, resulting in a smaller but more profitable group of commercial businesses.

Golf Cars, Outdoor Power and Turf Care Equipment

In golf cars, outdoor power equipment and turf maintenance products, Textron's strong brand leadership is supported by innovative improvements in product design and styling, and careful control of quality and costs. E-Z-Go's strategy is to maintain leadership in the fleet golf car market, while increasing market share in the individual owner market and in the industrial and commercial utility markets. Increasingly,

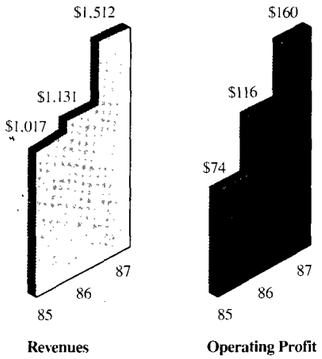




This array of products from Textron's three outdoor products divisions, E-Z-Go, Homelite and Jacobsen are well-known by turf-care professionals, consumers, golf course personnel and others for their quality and rugged dependability.

Highlighted in this artist's rendering are the various interior and exterior parts manufactured by Textron's automotive divisions.

These functional and decorative parts, produced in both metal and plastic, include trim fascia and other exterior components; soft-interior parts, such as instrument panel and door panel assemblies, armrests and consoles; electro-mechanical products, including fuel pump motor armatures and windshield washers; tubular steel products; wheel covers; camshafts and a variety of engineered fasteners.



Commercial Products
(In millions)

Revenues

Operating Profit

E-Z-Go vehicles are being used to move small loads in industrial facilities, and to transport people and luggage within resort complexes and at airports.

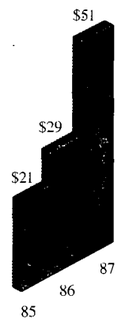
Homelite has enhanced its product lines which include electric- and gasoline-powered chain saws, string trimmers, brush cutters, edgers, blowers, pumps, generators and heaters, plus riding mowers and tractors, walk-behind mowers and snowblowers.

Jacobsen, a leading manufacturer of high quality turf maintenance machinery, provides equipment for grooming golf course greens and fairways and has a growing business supplying commercial equipment for lawn care at parks, schools, cemeteries and various institutions.

Growing Automotive Business

The addition of four Ex-Cell-O units in the fall of 1986 more than doubled Textron's automotive-related sales. Textron's fastener divisions also sell a variety of engineered fasteners; subassemblies and cold-formed metal parts to the transportation industry. There is a growing interdependence between supplier and manufacturer in the increasingly competitive automotive field. As a result, Textron divisions are developing long-term relationships with automobile manufacturers in order to capitalize on the opportunities being created by the increased use of outsourcing of components and subassemblies and the reduction in the number of suppliers.

The Camcar, Cherry and Townsend divisions of Textron produce millions of specialty fasteners, as well as related fastening systems for aerospace, industrial, commercial and transportation applications. Here, solid rivets are being applied to truck cab bodies manufactured by Freightliner, a wholly-owned subsidiary of Daimler-Benz A.G. Textron is one of the world's largest producers of specialty fasteners.



Average Per Car Sales – Automotive Divisions

Major Fastener Producer

Textron's fastener business is large and diverse, serving the automotive, aerospace, home appliance, railroad, business equipment, truck trailer, power tool and electronics markets and a wide range of other industries. The three fastener divisions – Camcar, Cherry and Townsend – generated more than $307 million in sales in 1987, thereby comprising one of the largest engineered fastener businesses in the world. The three divisions have common major strengths: engineering expertise; marketing savvy and a strategic focus on solving customer problems. All three divisions have sizable capital expenditure programs in place to improve productivity and quality and to expand capacity.

Camcar is a leading designer and manufacturer of cold-formed metal parts, threaded fasteners and subassemblies. Cherry, a world leader in aerospace fasteners and installation systems, also serves transportation and other commercial markets. Townsend produces non-threaded fasteners and cold-formed parts, as well as installation machinery and engineered assembly systems. The sales and manufacturing focus of the three divisions is to provide quality fasteners at the lowest in-place cost to their customers. These fastener divisions are, increasingly, selling higher value-added assemblies. They are also exploiting new technologies, such as composite materials and robotic installation equipment.

In summary, Textron's Commercial Products divisions excel in selected areas of large, highly competitive markets. They maintain their leadership by constantly seeking to be low cost, high quality producers and they respond to changing customer needs by developing and introducing a steady stream of innovative products.

Financial Services

The business characteristics of this sector of the Company's operations are largely unrelated to those of the manufacturing sectors and, through this diversity, add stability and balance to Textron as a whole.

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The sector's four major units are Avco Financial Services (AFS), which provides consumer loans to individual customers; Textron Financial Corporation (TFC), a commercial lending organization; Avco Insurance Services/Balboa Life and Casualty (AIS), which sells credit-related coverages and a variety of casualty insurance products; and The Paul Revere Insurance Group, the market leader in individual disability insurance.

Consumer Finance

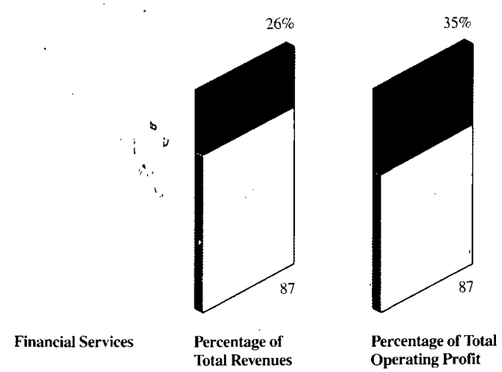
Avco Financial Services, with approximately 1,200 finance offices in the U.S., Australia, Canada and the United Kingdom, is a major competitor in the consumer loan business. It makes both unsecured loans and loans secured by personal property in relatively modest amounts. Loans are generally for such purposes as bill consolidation, education and home improvement.

Excellent customer service and the ability to handle a large number of small loans efficiently are key reasons for AFS' success. Careful management keeps loan losses and operating expenses under control, while delivering the level of personal service that retains customer loyalty.

Commercial Finance

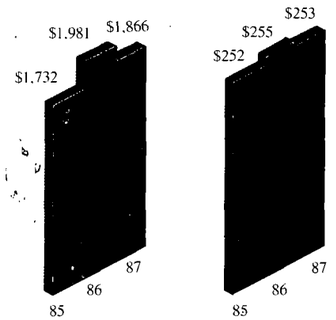
Textron Financial Corporation was originally founded as a captive finance arm to finance Textron products. It has evolved into a national, diversified commercial finance company whose business is providing loans and leases secured by capital equipment or commercial real estate, principally to moderate-sized U.S. corporations. At year-end 1987, Textron-related receivables made up less than 35% of TFC's $1.2 billion of outstanding loans and leases.

TFC's business strategy is to focus on specific areas of commercial financing where, through specialized expertise and service, a strong competitive position can be developed and maintained. Areas of current focus include the financing of helicopters and commercial aircraft, leisure service companies and



Individual, non-cancellable and group disability income insurance for professionals, such as architects and business owners, are the Paul Revere Insurance Group's principal products. Paul Revere is the market leader for the individual disability insurance line with a total premium growth rate of nearly 19% in 1987. Group premiums during 1987 grew by 20%.

Taking a family vacation is just one of many reasons people come to Avco Financial Services for a loan. AFS is one of the world's most innovative and successful finance companies with 1,200 offices in the United States, Australia, Canada and the United Kingdom.



Financial Services
(In millions)

Revenues **Operating Profit**

their equipment, the food service industry, the trucking industry, and commercial real estate.

Insurance

Textron's insurance segment is diversified across several specialty niches. The Paul Revere Insurance Group of companies markets a full range of life insurance products through its 153 offices in the U.S. and Canada. Its specialty is individual non-cancellable disability income insurance, which it sells through its own agents, as well as those of other insurance companies, and from which over 50% of its premium income is derived. Paul Revere is the number one company in this line of business. Its customers primarily are professionals and small business owners. Since fewer than 40% of self-employed business people have disability income coverage, further market penetration can provide growth which may not be present in more traditional life insurance products.

The primary strategy of Avco Insurance Services/Balboa Life and Casualty (AIS) is to sell its insurance products to the customers of Avco Financial Services through the latter's branch office network. AFS' two million borrowers are prospects for a wide variety of insurance products such as credit life and disability insurance, homeowners insurance, automobile insurance and personal property insurance. AIS also offers its credit-related insurance products through a large number of independent financial institutions. The distribution channels available to AIS afford it a competitive advantage that is difficult for standard, full line insurers to match.

Community

Textron's participation in civic and charitable activities is as longstanding and diverse as the Company itself. The Textron Charitable Trust provides significant financial assistance to non-profit organizations on a nationwide basis, and through the Textron divisions, it actively supports many worthwhile efforts in communities near the Company's facilities. Additionally, Textron employees recognize the importance of participating in activities that improve the quality of life within their communities. Such efforts include local blood drives, service on boards and committees for local educational institutions and hospitals, and participation in outreach programs for minority groups and handicapped persons. Division and corporate office employees support local fund-raising drives, such as United Way, and collect food and clothing for needy families.

The Textron Charitable Trust has been helping to fund cultural, educational, social and human service organizations for nearly 35 years. A majority of the funding benefits organizations in Textron's "hometown" communities throughout the country. In addition, the Trust matches gifts from employees to cultural and educational institutions and hospitals. Also, through the Trust, more than 100 children of Textron employees received financial assistance with their college education in 1987 through National Merit and Sponsored Scholarship programs.

Textron offers numerous training and educational opportunities for its employees. Such opportunities range from seminars to enhance job performance to tuition reimbursement for degree studies.

Employees are provided with opportunities to take part in "wellness" programs to help prevent illness by encouraging healthful habits and lifestyles. These include stress and weight control, smoking cessation, blood pressure monitoring and nutrition awareness programs.

As part of Textron's Employee Assistance Program, workers are helped through independent referral to deal with alcohol and drug abuse, marriage and family problems, and emotional and financial difficulties. Such assistance is entirely voluntary and confidential.

Executive Development And Succession Planning

In addition to participation in structured programs at various colleges and universities, Textron sponsors executive development programs for selected senior and middle level managers. These two-week sessions are conducted by members of the Harvard Business School faculty and serve to broaden the participants' analytical and management skills. Textron's corporate office also works closely with divisional management on succession planning, performance appraisal and development. These efforts are designed to enable Textron to fill key executive vacancies by identifying and promoting qualified employees.

Textron is proud of its participation in Special Olympics. This non-profit organization, through an international network of volunteer workers, provides hope and encouragement to the more than one million mentally handicapped children and adults who compete annually in Special Olympics sports training programs and athletic events.

Aerospace Technology

Helicopters

Bell Helicopter Textron Inc.
P.O. Box 482
Ft. Worth, TX 76101
(817) 280-2011
Leonard M. Horner, President

Bell Helicopter Textron manufactures helicopters and spare parts for the U.S. Government, foreign governments, and civilian markets, and has large after-market sales of technical, training and logistics support services. The division markets its products and services worldwide through a network of direct company field operations and independent representatives. Helicopters are produced in the U.S. and Canada, and through co-production programs in Indonesia, Japan, Norway and Turkey. Bell is teamed with Boeing Helicopter Company in the development of the U.S. Navy's V-22 Osprey TiltRotor aircraft.

Propulsion

Textron Lycoming
550 South Main Street
Stratford, CT 06497
(203) 385-2000
John R. Myers, President

Textron Lycoming manufactures gas turbine and reciprocating engine propulsion systems, including related products and services. Its turbine engines power the U.S. Army's M1 main battle tank; the Landing Craft, Air Cushion (LCAC) built by Textron Marine Systems; helicopters; fixed-wing commercial aircraft, such as British Aerospace's BAe146 jetliner, and general aviation aircraft. Textron Lycoming is currently teamed with Pratt & Whitney in the U.S. Army's competition to develop the T800 turbine engine. It also has teamed with GE to develop engines for aircraft and vehicular applications. Textron Lycoming's customers include the U.S. and foreign military, airframe and vehicle manufacturers and commercial users. Parts are sold through a worldwide distribution network.

Aircraft Engine Components
P.O. Box 11906
Newington, CT 06111
(203) 666-4601
A. Arthur Weigel, President

The Aircraft Engine Components Division manufactures gas turbine engine components to customer design. It is the largest independent producer of discs and hubs for turbine engine manufacturers and the spare parts markets. It also sells cases, frames and precision gears to these markets through direct account managers and sales managers.

Airfoil Textron
P.O. Box 4427
Lima, OH 45802
(419) 226-2900
Edward J. Breznyak, President

Airfoil Textron produces jet engine airfoil products which include forgings and finished components such as fan blades, compressor blades and vanes, impellers, and integrally bladed rotors used on turbine engines for commercial, military and business aircraft. Airfoil's principal markets – international turbine engine prime contractors and the U.S. Government – are served from nine plants located throughout the United States.

Fuel Systems Textron
700 N. Centennial
Zeeland, MI 49464
(616) 772-9171
William G. Paterson, President

Fuel Systems Textron produces jet engine fuel metering components, consisting of main engine fuel injector devices, fuel metering and distribution valves and augmentor fuel injector systems. These products are sold to most major jet engine producers and the U.S. Government as original equipment or spares. Overhaul of these components is performed for almost all commercial airlines and the U.S. Government.

Systems

Bell Aerospace Textron
P.O. Box One
Buffalo, NY 14240
(716) 297-1000
Robert A. Norling, President

Bell Aerospace Textron designs and manufactures electronic products, systems and software for the defense and space industries. Its products include aircraft landing systems, inertial systems and components, and subsystems for satellite communications which are sold to government agencies and prime contractors. Key programs include systems for navigation and guidance of the Trident II submarine; a radar tracking and control system that automatically lands carrier-based aircraft in severe sea and weather conditions; and EHF antennas and precision pointing subsystems for the MILSTAR satellite communications network.

Cadillac Gage Textron
P.O. Box 1027
Warren, MI 48090
(313) 777-7100
William C. Frank, President

Cadillac Gage Textron produces lightweight armored combat vehicles, turrets and weapon/turret control and stabilization systems, including the gun turret drive and stabilization system for the M1 Abrams main battle tank. These products are sold to the U.S. Government, its prime contractors, and to governments friendly to the U.S. by the division's sales force and independent manufacturers' representatives.

HR Textron Inc.
25200 West Rye Canyon Road
Valencia, CA 91355
(805) 259-4030
Richard J. Millman, President

HR Textron is a leading aerospace controls manufacturer. Selling mainly to prime airframe and engine contractors and to the U.S. Government, the division offers a wide range of services and products, including complete control systems and control system products, such as flight control actuation systems, servovalves, fuel and pneumatic system components, automatic test equipment and product support. These control systems are used on virtually all types of military and commercial aircraft, as well as on tanks, missiles and spacecraft. HR Textron's PTI Technologies subsidiary is a leader in high technology filtration for the aerospace/defense, fluid processing and fluid power industries. Its products and services include high performance filter modules and accessories.

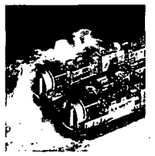
Textron Aerostructures
P.O. Box 210
Nashville, TN 37202
(615) 361-2000
John S. Kleban, President

Textron Aerostructures is a subcontractor to the aerospace industry. It produces wings for Lockheed's C-5 airlifter and tail sections for Lockheed's C-130 airlifter. In 1987, it completed a major wing production program for 100 B-1B bombers. Textron Aerostructures' commercial contracts include wings for the Gulfstream IV executive jet and British Aerospace's BAe146 commercial jetliner.

Textron Defense Systems
201 Lowell Street
Wilmington, MA 01887
(617) 657-5111
Harold K. McCard, President

Textron Defense Systems develops and produces advanced technology weapon systems for the U.S. Department of Defense. As a leading supplier of strategic systems for the U.S. Air Force, the division makes the reentry system and the Mark 21 reentry vehicle and fuze for the Peacekeeper (MX) missile. In tactical systems, Textron Defense Systems is developing a family of "smart" anti-armor munitions, based on its Skeet warhead technology, which is in full scale development.

Textron Marine Systems
6800 Plaza Drive
New Orleans, LA 70127
(504) 245-6600
John J. Kelly, President



Textron Marine Systems' major program, the Landing Craft, Air Cushion (LCAC), has progressed from development to full production. Textron Marine Systems is also pursuing development and production of other marine products, such as different types of air cushion vehicles, surface effect ships and conventional marine vessels, for both military and commercial application.

Textron Specialty Materials
Two Industrial Avenue
Lowell, MA 01851
(617) 452-8961
Paul R. Hoffman, President

Textron Specialty Materials is a leader in the development and manufacture of advanced composite materials and components, particularly for high temperature use. Materials utilized include boron, graphite, silicon carbide reinforced metals and carbon composites. In addition, the division produces a line of fireproofing and thermal protection materials.

Commercial Products

E-Z-Go
P.O. Box 388
Augusta, GA 30913
(404) 798-4311
Ronald V. Patterson, President

E-Z-Go is a leading producer of utility vehicles for sports and industry. The division manufactures three- and four-wheel gas and electric golf cars, and related parts and accessories, and is the leader in the fleet golf car market. It also produces utility vehicles for the turf, industrial and commercial markets and deluxe model golf cars for individual use. E-Z-Go products are distributed worldwide through independent distributors and company branch facilities.

Homelite
P.O. Box 7047
Charlotte, NC 28241
(704) 588-3200
Robert D. Batting, President

Homelite produces a broad range of outdoor power equipment, including electric- and gasoline-powered chain saws and string trimmers, hedge trimmers, blowers, generators, pumps and heaters under the Homelite brand. It also produces walk-behind and riding lawn mowers and snow removal equipment marketed under the Homelite/Jacobsen names. These products are sold through retailers serving the consumer, commercial and construction markets by Homelite's direct sales force in the U.S. and Canada, and by wholly owned branches, independent distributors and sales representatives in the other parts of the world.

Jacobsen
1721 Packard Avenue
Racine, WI 53403
(414) 637-6711
John R. Dwyer, Jr., President

Jacobsen is one of the leading producers of machines for the maintenance of large turf grass areas, such as golf courses, parks and cemeteries. Its products include greens and fairway mowing equipment, large commercial rotary mowers, aerators, seeders and sweepers. Jacobsen equipment is sold through approximately 200 contract distributors and sales centers worldwide.

CWC Castings
Henry Street
Muskegon, MI 49441
(616) 733-1331
John L. Kelly, President

CWC produces castings for automotive, truck and off-highway equipment manufacturers. Its major products are automotive camshafts, diesel engine blocks, cylinder heads, transmission cases, and other components produced from grey iron, ductile iron and steel. Its products are sold to engine and parts manufacturers by the division's sales force.

Davidson Exterior Trim Textron
Route 6, Box 10
Americus, GA 31709
(912) 924-6111
D. Michael Weston, President

Davidson Exterior Trim Textron is the largest independent manufacturer and supplier of exterior trim parts, principally fascia and body moldings, to the North American manufacturers of cars and light trucks. The division shares a Detroit-based sales force and design office as well as a central marketing organization with the other Davidson divisions. These activities are complemented by a marketing group at the division location.

Davidson Instrument Panel Textron
875 Greenland Road, Building C
Portsmouth, NH 03801
(603) 433-4142
Frank J. Preston, President

Davidson Instrument Panel Textron is the leading independent producer of automotive instrument panels in the U.S., meeting more than 30 percent of the North American automobile and light truck requirement. Products are manufactured and delivered to assembly plants in the U.S. and Canada using the most advanced "just in time" supply approach.

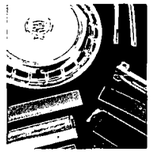
Davidson Interior Trim Textron
Industrial Park
Dover, NH 03820
(603) 742-0720
Richard J. Ferrari, President

Davidson Interior Trim Textron designs, engineers, manufactures and markets polymer-based trim components for automobiles and light trucks. Its principal product lines – armrests, console assemblies, instrument panel components and door panel assemblies – are shipped to automotive assembly plants in North America from manufacturing locations in Dover, New Hampshire and Athens, Tennessee. The division maintains a tooling unit that provides leather masters, nickel electroforms and aluminum tools.

McCord Winn Textron
620 Washington Street
Winchester, MA 01890
(617) 729-4400
Albert R. Vanderbilt, President

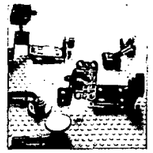
McCord Winn Textron manufactures electro-mechanical components for North American-based automobile and light truck producers. The division's principal products are fuel pump armatures, windshield washer systems, horn pads, air pumps and switches. McCord Winn's products are sold directly to automotive manufacturers and their subcontractors.

Randall
P.O. Box 46334
Cincinnati, OH 45246
(513) 896-9400
Richard J. Price, President



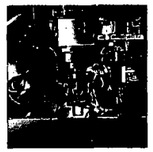
Randall supplies a wide range of functional and decorative parts in metal and plastics to original equipment manufacturers in both the automotive and appliance markets. Randall also manufactures products for Textron divisions and other commercial accounts. Its principal product areas are in roll sections, stampings and tubular steel; bright metal and painted moldings; decorative plastic painted components and chrome plated components; and in wheel ornamentation trim, covers, hub cabs and trim rings.

Camcar
600 – 18th Avenue
Rockford, IL 61108
(815) 226-3600
Robert H. Rothkopf, President



Camcar is a leading producer of custom-engineered components and fasteners for such diverse industries as automotive, business equipment, electronics, railroad, appliance and truck/trailer. It is one of the fastener industry's leading suppliers of synergistic assemblies to the automotive industry. These assemblies combine precision Camcar products, utilizing such proprietary features as the TORX Drive System, with metal stamped, plastic and rubber components.

Cherry
P.O. Box 2157
Santa Ana, CA 92707
(714) 545-5511
Donald A. Eckerson, President



Cherry manufactures fasteners for the aerospace, transportation and commercial markets. It is a world leader in the development and production of blind fasteners and fastener installation systems. Cherry markets its products both through a worldwide distributor network and its own sales force.

Townsend
5250 – 77 Center Drive, Suite 300
Charlotte, NC 28217
(704) 525-8003
Nicholas J. Wodogaza, President

Townsend designs and manufactures a full line of mostly non-threaded specialty fasteners, proprietary fastening systems and precision cold-formed parts serving automotive, construction, electronics and office automation markets, as well as all major consumer goods markets. These products are marketed directly through sales engineering specialists supplemented by distributors and sales agents.

Contractor Tool and Equipment Textron
4455 Boeing Drive
Rockford, IL 61109
(815) 399-2078
Herbert L. Henkel, President

Contractor Tool and Equipment Textron has two operations: Greenlee Tool produces and markets a broad range of powered equipment and hand tools, such as conduit benders, cable pullers and punch and die metal hole-making systems, to professional electricians; Forest City Tool manufactures woodworking tools and equipment, including wood augers, router bits, and indexible tooling for the furniture and woodworking markets. Both organizations sell through several thousand independent distributors throughout the world.

North American Machine Tool
P.O. Box 700
Walled Lake, MI 48088
(313) 624-7800
James F. Horgan, President

The North American Machine Tool Division is a group of companies involved in the design and manufacture of proprietary production machine tools, components and systems for the automotive, appliance, areospace, bearing, off-highway and plastic components industries. Most of its products are sold through its direct sales force in the U.S. and Canada.

Speidel
70 Ship Street
Providence, RI 02903
(401) 421-8600
Alfred M. Massotti, President

Speidel manufactures and distributes watch attachments, fashion bracelets, analog quartz watches, British Sterling men's toiletries and Sarah Coventry women's fragrances. Sales to jewelry, department, discount, variety and drug stores are made primarily through Speidel's direct sales force, supplemented by independent wholesalers.

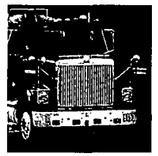
Financial Services

Finance

Avco Financial Services
P.O. Box 19701
Irvine, CA 92713
(714) 553-1200
Charles R. Rinehart, President

Avco Financial Services' (AFS) consumer finance operations primarily involve unsecured loans and loans secured by personal property in relatively small amounts payable over short periods of time. AFS also makes loans in larger amounts for longer periods which are secured by real property, and purchases installment sales contracts from various dealers, principally covering personal property. AFS operates approximately 1,200 finance offices in the U.S., Australia, Canada and the United Kingdom.

Textron Financial Corporation
P.O. Box 6687
Providence, RI 02940
(401) 272-8000
Stephen J. Davis, President



Textron Financial Corporation (TFC) is a commercial finance company offering equipment leasing, secured loans and inventory financing services. In addition, TFC invests in third party leveraged lease transactions and engages in real estate financings. While providing financing for Textron products, the division has, over the past several years, expanded its activities to include primarily non-Textron related financings.

Insurance

Avco Insurance Services/Balboa Life and Casualty
P.O. Box 19702
Irvine, CA 92713
(714) 553-0700
Carlton W. Honebein, President

Avco Insurance Services' (AIS) business consists primarily of credit related life and disability, and property/casualty, personal lines property/casualty and surety insurance offered through various subsidiaries in the U.S., Australia and Canada. A substantial part of AIS' business is directly related to consumer finance business placed through AFS loan offices.

Paul Revere Insurance Group
18 Chestnut Street
Worcester, MA 01608
(617) 799-4441
Aubrey K. Reid, Jr., President

Paul Revere is the industry leader in individual non-cancellable disability income insurance. Its products are marketed primarily to professionals and business owners. Paul Revere also markets group life, medical, dental and disability insurance, life insurance, annuities and a range of financial products. Its products are distributed through the U.S. and Canada by its career and brokerage distribution channels.

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Financial Review

Liquidity and Capital Resources

During 1987, Textron sold a number of operations under a plan to reduce its debt following the acquisition of Ex-Cell-O Corporation in September 1986. In addition, Textron sold 6.9 million shares of its common stock in a public offering. Proceeds from these transactions (an aggregate of $489 million), as well as internally generated cash, allowed Textron to reduce its ratio of debt to total capital from approximately 55% at January 3, 1987 to approximately 39% at January 2, 1988.

In October 1987, Textron entered into a credit agreement with 40 banks for a credit facility of $3.6 billion, which brings Textron's total committed credit facilities to $3.9 billion. Credit facilities not used or reserved as support for outstanding commercial paper or bank borrowings were $3.4 billion at January 2, 1988. Textron also restructured its debt in 1987 to lengthen the weighted average maturity of debt and to increase the percentage of fixed interest rate debt to total debt.

In the fourth quarter of 1987, Textron announced its intention to purchase from time to time in the open market up to an aggregate of five million of its common shares. As of February 11, 1988, 2.2 million shares have been purchased under this program.

Textron's credit facilities and cash flow from operations should be more than sufficient to meet its working capital and capital expenditure needs and to provide Textron with the resources necessary to continue its growth.

Financing for Textron is conducted by the parent company and each of its unconsolidated finance and insurance subsidiaries. This framework allows these subsidiaries, with specialized needs related to carrying portfolios of investments and receivables, to finance their respective operations, each through its own external group of creditors without guarantee from the parent company. Accordingly, the capital resources and liquidity of Textron's operations are best understood by separately considering its independent borrowing entities.

Sources of cash to the parent company are derived from its cash flow from consolidated operations and dividends received from the unconsolidated finance and insurance subsidiaries, supplemented with borrowings.

Textron's unconsolidated finance subsidiaries utilize a broad base of financial sources for their liquidity and customer financing activities. Cash is provided from both operations and several different sources of borrowings, including unsecured borrowings under bank lines of credit, the issuance of commercial paper and sales of medium- and long-term debt.

For further information with respect to Textron's debt and credit facilities and its 1987 debt restructuring activities, see Note 6 to Textron's consolidated financial statements. For further information about the debt and credit facilities of the unconsolidated finance and insurance subsidiaries, see Note 4 to the combined financial statements of Textron's finance and insurance subsidiaries.

Results of Operations
1987 vs. 1986

Textron achieved record revenues and income from continuing operations in 1987. Total revenues from continuing operations rose 10% to $7.2 billion from $6.6 billion in 1986. Income from continuing operations was $261.1 million ($2.97 per share), an increase of 14% over 1986's results of $229.6 million ($2.78 per share). Results for 1987 include a profit from the sale of Avco Financial Services' (AFS) credit card receivables and capital gains, the aggregate of which was $48.1 million after-tax ($.55 per share), while 1986 results included gains from the sale of certain receivables and capital gains, the aggregate of which was $42.2 million after-tax ($.51 per share). Results for 1987 also benefited by approximately $12.0 million ($.14 per share) from the adoption of the new pension accounting rules of the Financial Accounting Standards Board.

The benefit of improved operating profits, as discussed below, was partially offset by higher interest expense and corporate expenses. The increase in corporate expenses in 1987 is principally a result of the gain from the sale in 1986 of corporate-held investments. Higher interest expense for 1987 reflected Textron's increased level of debt following the acquisition of Ex-Cell-O, partially offset by the effect of lower interest rates. Textron's effective income tax rate in 1987 was lower than the 1986 rate, principally due to a reduction in 1987 in the federal statutory income tax rate for corporations. Earnings per share for 1987 reflected an increased average number of shares outstanding over the prior year.

Net income for 1987 of $256.3 million ($2.92 per share) included an extraordinary loss of $32.6 million ($.37 per share) resulting primarily from the redemption of high interest rate debt by AFS, which was substantially offset by an after-tax gain of $27.8 million ($.32 per share) from discontinued operations. Last year's net income of $239.2 million ($2.90 per share) included an after-tax gain of $16.3 million ($.20 per share) from discontinued operations, which was partially offset by an extraordinary loss of $6.7 million ($.08 per share) arising from the early redemption of certain debentures.

1986 vs. 1985

Total revenues from continuing operations rose 22% to $6.6 billion from $5.4 billion in 1985. Income from continuing operations was $229.6 million ($2.78 per share), an increase of 38% over 1985's results of $166.9 million ($2.23 per share). This increase was attributable to improved results from most divisions and the inclusion of the results of Ex-Cell-O from September 17, 1986. Results for 1986 included after-tax gains aggregating $42.2 million ($.51 per share) from the sale of certain receivables and investments, while 1985 results included after-tax gains of $17.9 million ($.24 per share) from the sale of investments. Lower interest expense reflected the benefit of Textron's debt reduction program following the acquisition of Avco and lower interest rates, partially offset by interest expense on the debt incurred to finance the acquisition of Ex-Cell-O. Textron's effective income tax rate in 1986 was higher than the 1985 rate, principally due to the repeal of the investment tax credit. Earnings per share for 1986 reflected an increased average number of shares outstanding over the prior year.

Net income for 1986 of $239.2 million ($2.90 per share) included a gain related to discontinued operations of $16.3 million ($.20 per share) which was partially offset by an extraordinary loss of $6.7 million ($.08 per share). Net income for 1985 of

$251.8 million ($3.37 per share) included a total of $84.9 million ($1.14 per share) of income from discontinued operations, an extraordinary gain and an accounting change.

Segment results for 1987 compared to 1986 and 1986 compared to 1985 are discussed below.

Aerospace Technology

Aerospace Technology revenues of $3.9 billion in 1987 were $366 million over their 1986 level, while profits increased $33 million to $310 million. The improved results were due primarily to the inclusion of the Ex-Cell-O Propulsion and Systems divisions for all of 1987, the benefit of which was partially offset by generally lower volume of military business in the Systems segment and higher development costs.

Helicopter revenues increased in 1987 as a result of the higher level of effort under the fixed price U.S. Government contract for the full scale development of the V-22 Osprey TiltRotor aircraft. Profits are not being recognized on this contract until such time as profitability is assured. Results of the Propulsion segment reflect the addition of Ex-Cell-O divisions offset in part by increased development costs on Textron Lycoming's T800 engine program. Revenues in the Systems segment were lower, despite inclusion of an Ex-Cell-O division for the entire year, due mainly to the completion of the B-1B wing program in the fourth quarter and generally lower levels of military business at other divisions.

Revenues and profits in 1986 increased to $3.5 billion and $277 million, respectively, an increase from 1985 of $837 million and $66 million, respectively. The inclusion of the four Aerospace Technology Ex-Cell-O divisions from the date of acquisition benefited the Propulsion and Systems segments in 1986. The latter also benefited from increased wing deliveries under the B-1B and C-5B aircraft programs, acceleration in 1986 to full production of the Peacekeeper (MX) missile reentry system and Mark 21 vehicles, and a strong contribution from the LCAC air cushion vehicle program. The profit improvement in the Propulsion segment from increased deliveries of engines and spare parts for aircraft and M1 tanks was largely offset by increased development costs on the T800 engine program. Bell Helicopter's improved revenues were due principally to U.S. Government development programs, partially offset by decreased international sales. Bell Helicopter's improved income reflected lower operating expenses as compared to 1985.

Commercial Products

Revenues and profits in 1987 were $1.5 billion and $160 million, respectively, up 34% and 38%, respectively, from last year. The improved performance resulted from the inclusion of the six Commercial Products Ex-Cell-O divisions for an entire year in 1987.

Revenues of $1.1 billion in 1986 were $114 million over their 1985 level, while profits increased $42 million to $116 million due principally to the inclusion of the Ex-Cell-O divisions from the date of acquisition and the successful introduction of new products also contributed to improved 1986 profits. Improved operating results for Textron's outdoor products businesses reflected management's success in reducing inventories (which resulted in the liquidation of lower cost LIFO inventories) and increased manufacturing efficiencies.

Financial Services

Revenues and income in 1987 declined slightly from 1986 levels, to $1.9 billion and $253 million, respectively.

AFS' consumer finance revenues declined as a result of lower average receivables outstanding due to the sale of AFS' credit card business and lower yields. Income improved in 1987 as a result of the $52.3 million pre-tax gain on the sale of the credit card receivables, which gain more than offset the effect of lower yields on outstanding receivables and increased operating expenses. Results for 1986 included a pre-tax gain of $8.3 million on the sale of certain receivables.

Avco Insurance Services (AIS) reported significantly improved income on lower revenues mainly due to the termination of unprofitable business written through U.S. casualty managing general agents and an increase in investment income. The Paul Revere Insurance Group reported higher revenues mainly due to growth in individual disability income insurance and group insurance products. However, income decreased in 1987 primarily as a result of lower capital gains of $16.2 million as compared to $25.3 million in 1986.

The sharp decline in Management Services' revenues and profits reflected the continuing phase out in 1987 of contracts in Saudi Arabia.

The Financial Services sector's revenues rose 14% to $2.0 billion in 1986, while income increased slightly to $255 million.

AFS' consumer finance operation reported higher revenues in 1986 versus 1985, while income declined as the pre-tax gain of $8.3 million on the sale of certain receivables was more than offset by a rise in net credit losses. Contributing to the higher charge-offs in 1986 were both a change in receivable mix to a greater emphasis on unsecured loans and the relatively high level of consumer installment debt in relation to disposable income over the previous few years. TFC's increased income in 1986 versus 1985 was a result of the beneficial effect of lower tax rates on TFC's leveraged lease portfolio.

AIS' revenues improved in 1986 versus 1985, resulting primarily from an increase in sales of automobile insurance products generated by managing general agents in the U.S. property and casualty operation, combined with an increase in investment income. However, income decreased in 1986 due to U.S. casualty underwriting losses principally in the automobile business written through managing general agents, which business resulted in a pre-tax loss (net of related investment income) of approximately $25 million. Paul Revere reported improved revenues and income in 1986 compared to 1985. Revenues increased largely due to the strength of disability income insurance products. Factors responsible for higher income included earnings growth in all lines of business, increased investment income and capital gains of $25.3 million as compared to $11.9 million in 1985.

Management Services' results included favorable contract adjustments in 1986.

Report of Management

The consolidated financial statements of Textron Inc. have been prepared by management and have been audited by Textron's certified public accountants, Arthur Young & Company, whose report appears on this page. Management is responsible for the consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles and include amounts based on management's judgments.

Management is also responsible for maintaining internal accounting control systems designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded and that transactions are executed and recorded in accordance with established policies and procedures. Textron's systems are under continuing review and are supported by, among other things, business conduct and other written guidelines, an internal audit program and the selection and training of qualified personnel.

The Board of Directors is responsible for the Company's financial and accounting policies, practices and reports. Its Audit Committee, composed of five outside directors, meets regularly with the certified public accountants, representatives of management and the internal auditors to discuss and make inquiries into their activities. Both the certified public accountants and the internal auditors have free access to the Audit Committee, with and without management representatives in attendance.

B. F. Dolan

B.F. Dolan
Chairman, President and Chief Executive Officer

Dennis G. Little

Dennis G. Little
Executive Vice President and Chief Financial Officer

February 11, 1988

Report of Certified Public Accountants

Arthur Young
277 Park Avenue
New York, New York 10172

The Board of Directors and Shareholders
Textron Inc.

We have examined the accompanying consolidated balance sheet of Textron Inc. and the combined balance sheet of Textron's unconsolidated finance and insurance subsidiaries at January 2, 1988 and January 3, 1987, and the related consolidated and combined statements of income and changes in financial position and consolidated statement of changes in shareholders' equity for each of the three years in the period ended January 2, 1988. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Textron Inc. and the combined financial position of Textron's unconsolidated finance and insurance subsidiaries at January 2, 1988 and January 3, 1987, and the consolidated and combined results of operations and changes in financial position for each of the three years in the period ended January 2, 1988, in conformity with generally accepted accounting principles applied on a consistent basis during the period subsequent to the change, with which we concur, made as of the beginning of 1985 in the method of accounting for investment tax credits as described in Note 1 to the consolidated financial statements.

Arthur Young & Company

February 11, 1988

Textron Inc.
Consolidated Statement of Income

For each of the three years in the period ended January 2, 1988 (In millions except per share amounts)	**1987**	1986	1985
Sales	**$5,388.4**	$4,688.1	$3,732.9
Costs and expenses:			
Cost of sales	**4,387.7**	3,768.3	2,953.7
Selling and administrative	**604.3**	539.6	509.7
	396.4	380.2	269.5
Equity in pre-tax income of unconsolidated finance and insurance subsidiaries	**253.3**	223.5	213.4
Interest income	**9.0**	11.4	12.1
Interest expense	**(206.1)**	(191.5)	(215.8)
Income from continuing operations before income taxes	**452.6**	423.6	279.2
Income taxes	**191.5**	194.0	112.3
Income from continuing operations before extraordinary item and cumulative effect of a change in accounting principle	**261.1**	229.6	166.9
Discontinued operations:			
Income from discontinued operations, net of income taxes	**3.5**	8.3	56.7
Gain on sales of discontinued operations, net of income taxes	**24.3**	8.0	–
Extraordinary item, net of income taxes	**(32.6)**	(6.7)	16.4
Cumulative effect of a change in accounting principle	**–**	–	11.8
Net income	**$ 256.3**	$ 239.2	$ 251.8
Income per common share:			
Income from continuing operations before extraordinary item and cumulative effect of a change in accounting principle	**$ 2.97**	$ 2.78	$ 2.23
Discontinued operations	**.32**	.20	.76
Extraordinary item	**(.37)**	(.08)	.22
Cumulative effect of a change in accounting principle	**–**	–	.16
Net income	**$ 2.92**	$ 2.90	$ 3.37

See notes to consolidated financial statements.

Textron Inc.
Consolidated Balance Sheet

(Dollars in millions)	**January 2, 1988**	January 3, 1987
Assets		
Current assets:		
Cash and short-term investments	**$ 10.5**	$ 51.7
Accounts receivable (less allowances of $17.2 and $18.4)	**773.2**	844.0
Inventories	**1,210.4**	1,320.7
Net assets of discontinued operations	**123.9**	–
Other current assets	**56.4**	64.8
Total current assets	**2,174.4**	2,281.2
Investments in unconsolidated finance and insurance subsidiaries	**1,490.8**	1,394.2
Property, plant and equipment, at cost:		
Land and buildings	**362.3**	408.6
Machinery and equipment	**1,061.6**	1,044.0
	1,423.9	1,452.6
Less accumulated depreciation	**632.9**	595.0
	791.0	857.6
Goodwill (less accumulated amortization of $33.4 and $13.1)	**739.3**	761.9
Other assets	**148.1**	262.2
Total assets	**$5,343.6**	$5,557.1
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	**$ 1.1**	$ 22.3
Current maturities of long-term debt	**2.8**	9.1
Accounts payable	**405.0**	392.1
Income taxes	**47.3**	123.8
Other current liabilities	**831.5**	737.9
Total current liabilities	**1,287.7**	1,285.2
Long-term debt	**1,485.8**	2,181.5
Other liabilities and deferred credits	**262.9**	243.2
Shareholders' equity:		
Capital stock:		
Preferred Stock (15,000,000 shares authorized):		
$2.08 Cumulative Convertible Preferred Stock, Series A (liquidation value $37.3)	**17.6**	26.3
$1.40 Convertible Preferred Dividend Stock, Series B (preferred only as to dividends)	**8.7**	9.3
Common Stock, 12.5¢ par value (250,000,000 shares authorized; 90,051,000 and 81,646,000 shares issued)	**11.2**	10.2
Capital surplus	**624.0**	372.5
Retained earnings	**1,672.1**	1,502.8
Currency translation adjustment	**4.8**	(36.6)
Marketable equity securities valuation adjustment	**.3**	2.6
	2,338.7	1,887.1
Less cost of treasury shares	**31.5**	39.9
Total shareholders' equity	**2,307.2**	1,847.2
Total liabilities and shareholders' equity	**$5,343.6**	$5,557.1

See notes to consolidated financial statements.

Textron Inc.
Consolidated Statement of Changes in Financial Position*

For each of the three years in the period ended January 2, 1988 (In millions)	**1987**	1986	1985
Source of funds:			
Income from continuing operations	**$ 261.1**	$ 229.6	$ 166.9
Undistributed earnings of unconsolidated finance and insurance subsidiaries before extraordinary loss	**(94.1)**	(97.0)	(78.4)
Depreciation and amortization	**160.4**	111.3	92.8
Total from continuing operations	**327.4**	243.9	181.3
Income from discontinued operations	**3.5**	8.3	56.7
Depreciation and amortization	**9.9**	12.8	31.6
Total from discontinued operations	**13.4**	21.1	88.3
Total from operations before extraordinary item	**340.8**	265.0	269.6
Extraordinary item, excluding portion attributable to unconsolidated finance subsidiary in 1987	**(8.0)**	(6.7)	16.4
Proceeds from sales of discontinued operations	**293.0**	454.6	210.0
Contributions of common stock to employee benefit plans	**64.4**	19.4	2.2
Disposition of property, plant and equipment	**39.5**	38.0	16.6
Decrease in investments	**65.4**	23.2	67.2
Other – net	**81.3**	50.3	(9.4)
	876.4	843.8	572.6
Use of funds:			
Capital expenditures	**218.3**	181.3	172.2
Dividends	**87.0**	74.0	67.0
Capital contribution to unconsolidated finance and insurance subsidiaries	**3.9**	–	15.4
Changes in working capital:**			
Increase (decrease) in current assets:			
Accounts receivable	**64.7**	45.3	42.9
Inventories	**8.3**	35.2	23.3
Other current assets	**5.1**	(6.3)	(27.8)
Decrease (increase) in current liabilities:			
Accounts payable	**(53.6)**	76.1	(2.8)
Income taxes	**31.3**	(61.9)	36.5
Other current liabilities	**12.9**	49.7	(130.5)
	377.9	393.4	196.2
Increase in funds before financing and acquisition	**498.5**	450.4	376.4
Financing:			
Long-term borrowings	**564.0**	1,403.8	1,887.9
Other changes in debt – net	**(1,287.2)**	(850.2)	(1,087.6)
Sales of common stock	**195.6**	–	209.4
Purchases of common stock	**(12.1)**	–	–
Cash provided (used) by financing activities	**(539.7)**	553.6	1,009.7
Acquisition of Ex-Cell-O and Avco:			
Investments in unconsolidated finance and insurance subsidiaries	**–**	–	(1,163.9)
Property, plant and equipment, goodwill and other assets	**–**	(880.2)	(630.5)
Long-term debt and other liabilities assumed	**–**	47.4	422.3
Working capital excluding cash	**–**	(167.1)	(9.3)
Cash used in acquisition	**–**	(999.9)	(1,381.4)
Increase (decrease) in cash and short-term investments during the period	**(41.2)**	4.1	4.7
Cash and short-term investments at beginning of period	**51.7**	47.6	42.9
Cash and short-term investments at end of period	**$ 10.5**	$ 51.7	$ 47.6

**In November 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," which will require revisions to the format of this financial statement for the year ended December 31, 1988.*

***Excludes (a) changes in working capital related to discontinued operations and (b) working capital of Ex-Cell-O and Avco at the dates of their acquisition in 1986 and 1985, respectively.*

See notes to consolidated financial statements.

Textron Inc.
Consolidated Statement of Changes in Shareholders' Equity

For each of the three years in the period ended January 2, 1988 (Dollars in millions: shares in thousands)	Capital stock: Preferred $2.08	Capital stock: Preferred $1.40	Capital stock: Common	Capital surplus	Retained earnings	Currency translation adjustment	Marketable equity securities valuation adjustment	Cost of treasury shares	Shares outstanding (1): Preferred $2.08	Shares outstanding (1): Preferred $1.40	Shares outstanding (1): Common
Balance December 29, 1984	$36.0	$12.2	$ 9.0	$148.3	$1,152.8	$(30.0)	$ –	$ 74.4	1,453	541	67,582
Conversion of preferred stock	(5.0)	(2.2)	.1	7.1	–	–	–	–	(212)	(182)	794
Sales of common stock:											
Public offering	–	–	1.0	183.7	–	–	–	–	–	–	8,000
Other	–	–	–	12.1	–	–	–	(12.6)	–	–	954
Exercise of options	–	–	–	3.2	–	–	–	(8.9)	–	–	732
Contributions of common stock to employee stock savings plan	–	–	–	1.1	–	–	–	(1.1)	–	–	84
Currency translation adjustment	–	–	–	–	–	(31.8)	–	–	–	–	–
Marketable equity securities valuation adjustment	–	–	–	–	–	–	2.7	–	–	–	–
Net income	–	–	–	–	251.8	–	–	–	–	–	–
Dividends:											
Preferred stock	–	–	–	–	(3.3)	–	–	–	–	–	–
Common stock ($.90 per share)	–	–	–	–	(63.7)	–	–	–	–	–	–
Balance December 28, 1985	31.0	10.0	10.1	355.5	1,337.6	(61.8)	2.7	51.8	1,241	359	78,146
Conversion of preferred stock	(4.7)	(.7)	.1	5.3	–	–	–	–	(197)	(58)	538
Exercise of options	–	–	–	1.3	–	–	–	(2.9)	–	–	300
Contributions of common stock to employee stock savings plan	–	–	–	10.4	–	–	–	(9.0)	–	–	688
Currency translation adjustment (2)	–	–	–	–	–	25.2	–	–	–	–	–
Marketable equity securities valuation adjustment	–	–	–	–	–	–	(.1)	–	–	–	–
Net income	–	–	–	–	239.2	–	–	–	–	–	–
Dividends:											
Preferred stock	–	–	–	–	(2.8)	–	–	–	–	–	–
Common stock ($.90 per share)	–	–	–	–	(71.2)	–	–	–	–	–	–
Balance January 3, 1987	26.3	9.3	10.2	372.5	1,502.8	(36.6)	2.6	39.9	1,044	301	79,672
Conversion of preferred stock	(8.7)	(.6)	.1	9.2	–	–	–	–	(367)	(54)	904
Sale of common stock in a public offering	–	–	.8	194.8	–	–	–	–	–	–	6,900
Purchases of common stock	–	–	–	–	–	–	–	12.1	–	–	(557)
Exercise of options	–	–	–	1.5	–	–	–	(2.2)	–	–	218
Contributions of common stock to employee benefit plans	–	–	.1	46.0	–	–	–	(18.3)	–	–	1,965
Currency translation adjustment (2)	–	–	–	–	–	41.4	–	–	–	–	–
Marketable equity securities valuation adjustment	–	–	–	–	–	–	(2.3)	–	–	–	–
Net income	–	–	–	–	256.3	–	–	–	–	–	–
Dividends:											
Preferred stock	–	–	–	–	(2.0)	–	–	–	–	–	–
Common stock ($.975 per share)	–	–	–	–	(85.0)	–	–	–	–	–	–
Balance January 2, 1988	$17.6	$ 8.7	$11.2	$624.0	$1,672.1	$ 4.8	$ .3	$ 31.5	677	247	89,102

(1) Shares issued at end of 1984, 1985, 1986 and 1987 were as follows (in thousands): $2.08 Preferred–1,522; 1,310; 1,113 and 746 shares, respectively; $1.40 Preferred–1,028; 846; 788 and 734 shares, respectively; Common–72,314; 81,108; 81,646 and 90,051 shares, respectively. Shares held in the treasury at the end of 1984, 1985, 1986 and 1987 were as follows (in thousands): $2.08 Preferred–69 shares at all such dates; $1.40 Preferred–487 shares at all such dates; Common–4,732; 2,962; 1,974 and 949 shares, respectively.

(2) Includes reduction in currency translation adjustment related to sales of discontinued operations: $31.1 million in 1986; $4.7 million in 1987.

See notes to consolidated financial statements.

Textron Inc.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of consolidation
The consolidated financial statements include the accounts of Textron and all of its subsidiaries except for its finance and insurance subsidiaries which are accounted for on the equity method. All significant intercompany transactions are eliminated. For information about Textron's unconsolidated finance and insurance subsidiaries, see pages 55 to 64. For information about acquisitions and discontinued operations, see Notes 2 and 3, respectively.

In October 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 94, "Consolidation of All Majority-owned Subsidiaries," which will require Textron to consolidate its finance and insurance subsidiaries in its consolidated financial statements at and for the year ended December 31, 1988. Prior periods' financial statements will be restated to conform to this presentation.

Translation of foreign currencies and foreign exchange transactions
Adjustments resulting from the translation of the financial statements of most of Textron's foreign operations are excluded from the determination of its income and accumulated in a separate component of shareholders' equity until the entity is sold or substantially liquidated. Foreign exchange gains and losses included in income from continuing operations in 1987, 1986 and 1985 were not material.

Income taxes
Income tax expense is calculated based on income before income taxes per the consolidated financial statements. Such expense differs from taxes currently payable because of timing differences in that certain income and expense items are reported in Textron's consolidated statement of income in years different from those in which they are reported in Textron's income tax returns.

Deferred income taxes have not been provided for the undistributed earnings of foreign subsidiaries. Management's intention is to reinvest such undistributed earnings outside the United States for an indefinite period, except for distributions upon which incremental U.S. income taxes would not be material.

See Note 7 to the combined financial statements of Textron's finance and insurance subsidiaries for information about their income taxes.

Effective at the beginning of 1985, Textron changed its method of accounting for investment tax credits from the deferral method to the flow-through method with respect to its manufacturing operations. (In accordance with industry practice, Textron's unconsolidated finance companies continue to use the deferral method with respect to their leasing operations.) This change was made to conform to the method used by the manufacturing operations of Textron's Avco subsidiary as well as to achieve comparability with the accounting practices of most other manufacturing companies.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (FAS 96), which is required to be implemented by Textron no later than 1989. When implemented, FAS 96 will require Textron to modify its income tax accounting so that deferred taxes are stated at prevailing tax rates. In addition, FAS 96 will establish more restrictive criteria with regard to the recognition of deferred tax assets and will significantly modify the tax accounting in purchase business combinations. Textron is currently studying the impact of FAS 96 on its consolidated financial statements. Although the study is not yet complete, adoption of this statement could possibly reduce shareholders' equity by an amount that approximates $150 million (related principally to the tax accounting for purchase business combinations, including a reduction of related deferred tax assets, which upon realization would reduce income tax expense).

Property, plant and equipment
The cost of property, plant and equipment is being depreciated based on the estimated useful lives of the assets. Depreciation applicable to continuing operations amounted to $139 million in 1987, $102 million in 1986 and $84 million in 1985, including depreciation using accelerated methods of $59 million, $52 million and $44 million, respectively.

Goodwill
Goodwill related to Textron's manufacturing operations is being amortized on the straight-line method principally over 40 years. Goodwill applicable to and included in Textron's investments in unconsolidated finance and insurance subsidiaries in the consolidated balance sheet ($410.9 million and $429.4 million at the end of 1987 and 1986, respectively) is being amortized on the straight-line method over 25 years.

Inventories
Inventories are carried at the lower of cost or market. Inventories aggregating $669 million at January 2, 1988 and $764 million at January 3, 1987 were valued by the last-in, first-out (LIFO) method. (If such LIFO inventories had been valued at current costs, they would have been approximately $63 million and $57 million higher at those respective dates.) The remaining inventories, other than those related to long-term contracts and programs, are valued generally by the first-in, first-out method.

Inventories relating to long-term contracts and programs, net of progress payments, were $535 million at January 2, 1988 and $482 million at January 3, 1987, including unamortized initial tooling and other non-recurring costs, direct production costs and manufacturing overhead. As to government contracts, inventory costs also generally include general and administrative expenses ($55 million at January 2, 1988; $62 million at January 3, 1987). In accordance with industry practice, amounts relating to long-term contracts and programs are classified as current assets although certain of these amounts are not expected to be realized within one year.

Long-term contracts and programs
Sales under fixed price contracts and programs are generally recorded as deliveries are made. Sales under cost reimbursement-type contracts are recorded as costs are incurred and fees are earned. Profits expected to be realized on long-term contracts and programs are based on estimates of total sales value and cost at completion, which estimates are reviewed and revised periodically throughout the lives of the contracts and programs. Adjustments to profits resulting from such revisions are recorded in the accounting period in which the revisions are made. Estimated losses on contracts and programs are recorded when identified.

Research and development
Company sponsored research and development expenditures are charged to expense as incurred. Total expenditures on research and development activities applicable to continuing operations amounted to $550 million, $532 million and $483 million in 1987, 1986 and 1985, respectively, of which $116 million, $99 million and $81 million were Company sponsored.

Pension and other postemployment benefits
Effective at the beginning of 1987, Textron adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," with respect to its U.S. pension plans. For information about pension and other postemployment benefits, see Note 9.

Income per common share
Income per common share is based on average common shares outstanding during each year assuming full conversion of preferred stock and exercise of stock options. Average common shares outstanding were 87,733,000 in 1987, 82,564,000 in 1986 and 74,636,000 in 1985. All share and per share data have been restated to reflect the effect of the two-for-one common stock split in May 1987. See Note 7 for information about Textron's common stock.

2. Acquisitions

Under an Agreement and Plan of Merger entered into in August 1986, Textron acquired for cash over 93% of the outstanding common stock of Ex-Cell-O Corporation as of September 17, 1986 and the balance by statutory merger on September 30, 1986. Textron has accounted for the acquisition of Ex-Cell-O as a purchase and, accordingly, Ex-Cell-O's results of operations are included in Textron's financial statements from September 17, 1986. Textron has allocated its purchase price of approximately $1 billion to the underlying assets and liabilities of Ex-Cell-O based on their respective fair values. The excess ($634.9 million) of Textron's purchase price over the fair values of Ex-Cell-O's net assets is being amortized over 40 years.

Presented below are condensed unaudited statements of income which combine on a pro forma basis the statements of income of Textron for the 1986 fiscal year (ended January 3, 1987, which included Ex-Cell-O's results from September 17, 1986) and Ex-Cell-O for the period January 1, 1986 to September 16, 1986 and for the two companies for their respective 1985 fiscal years. The pro forma statements of income have been prepared as if Textron's acquisition of Ex-Cell-O had occurred at the beginning of 1986 and 1985, respectively. The pro forma results are not necessarily indicative of what would have occurred had the acquisition been consummated as of the beginning of the respective periods.

Condensed pro forma statement of income (unaudited)

(In millions except per share amounts)	1986	1985
Sales	$5,351.5	$4,639.7
Cost of sales and selling and administrative expenses	4,931.5	4,283.9
	420.0	355.8
Equity in pre-tax income of unconsolidated finance and insurance subsidiaries	223.7	213.9
Interest expense – net*	245.8	304.6
Income from continuing operations before income taxes	397.9	265.1
Income taxes	185.2	104.9
Income from continuing operations	$ 212.7	$ 160.2
Net income	$ 225.7	$ 248.4
Income per common share:		
Income from continuing operations	$ 2.58	$ 2.15
Net income	$ 2.73	$ 3.33

**Includes interest on borrowings to finance the acquisition of Ex-Cell-O using the approximate weighted average interest rates that would have been payable for the period December 29, 1985 to September 16, 1986 and for 1985 under Textron's credit agreements – 8.24% and 9.42%, respectively.*

Under an Agreement and Plan of Merger entered into in December 1984, Textron acquired for cash over 95% of the outstanding common stock of Avco Corporation effective on January 9, 1985 and the balance by statutory merger on February 28, 1985 for approximately $1.4 billion. Textron has accounted for the acquisition of Avco as a purchase and, accordingly, Avco's results of operations are included in Textron's financial statements from January 10, 1985. Textron has allocated its purchase price to the underlying assets and liabilities of Avco based on their respective fair values.

3. Discontinued Operations

Textron sold a number of operations in 1987. Aggregate cash proceeds from the sales of these units amounted to approximately $293 million. Textron has also offered or plans to offer for sale certain other businesses.

The assets and liabilities of discontinued operations not yet sold have been netted and classified separately in the consolidated balance sheet at January 2, 1988.

In 1985 and in 1986, Textron sold a number of units, principally in the Commercial Products segment. The net gain on the sales of these units was recorded in income upon the completion of the asset disposition program in 1986. The aggregate cash proceeds from these sales amounted to approximately $455 million in 1986 and $210 million in 1985.

Operating results of the units sold and to be sold are reported as discontinued operations in Textron's consolidated statement of income. Prior years' statements of income have been restated for discontinued operations. Such operations had aggregate sales of $273 million, $538 million and $1.3 billion in 1987, 1986 and 1985, respectively.

4. Inventories

(In millions)	**January 2, 1988**	January 3, 1987
Finished goods	**$ 218.5**	$ 226.4
Work in process	**1,249.1**	1,417.7
Raw materials and supplies	**160.8**	178.6
	1,628.4	1,822.7
Progress payments	**(418.0)**	(502.0)
	$1,210.4	$1,320.7

5. Other Current Liabilities

(In millions)	**January 2, 1988**	January 3, 1987
Salaries and wages	**$135.2**	$142.7
Customers' deposits	**140.6**	43.5
Interest	**33.4**	31.2
Insurance	**64.8**	66.3
Taxes, other than income taxes	**19.8**	28.1
Other	**437.7**	426.1
	$831.5	$737.9

6. Debt and Credit Facilities

Long-term debt is summarized as follows:

(In millions)	**January 2, 1988**	January 3, 1987
Senior:		
Borrowings under or supported by credit facilities*	**$ 364.0**	$1,339.4
12% Notes due 1990	**–**	64.6
11% Notes due 1995	**99.8**	99.7
10¾% Senior Notes due 1998	**77.5**	99.5
9¼% Debentures due 2016	**150.0**	150.0
7½% Sinking Fund Debentures due 1997	**19.2**	19.2
Medium-Term Notes, Series A and B, due 1989-1997 (average approximately 10%)	**282.4**	–
Other notes (average approximately 7%)	**51.3**	54.5
Total senior	**1,044.2**	1,826.9
Subordinated:		
11¾% Subordinated Notes due 1995	**149.4**	149.3
9½% Subordinated Debentures due 2016	**148.7**	147.6
9¼% Subordinated Debentures due 2017	**146.3**	–
7½% Subordinated Debentures due 1993	**–**	50.0
5½% Subordinated Debentures due 1993	**–**	16.8
Total subordinated	**444.4**	363.7
	1,488.6	2,190.6
Less current maturities	**2.8**	9.1
	$1,485.8	$2,181.5

**The weighted average interest rates on these borrowings at January 2, 1988, January 3, 1987 and December 28, 1985 were 7.62%, 6.15% and 8.57%, respectively, and the weighted average interest rates for the years 1987, 1986 and 1985 were 6.65%, 6.94% and 9.04%, respectively.*

Required payments and sinking fund requirements during the next five years on long-term debt outstanding at January 2, 1988 (excluding amounts that might become payable under the Company's credit agreements) are as follows: $2.8 million in 1988; $24.3 million in 1989; $57.1 million in 1990; $40.2 million in 1991; and $99.3 million in 1992.

Textron maintains credit facilities with various domestic and foreign banks for borrowing funds on a short- and long-term basis.

Textron has lines of credit with certain banks, principally on an informal basis, totaling $122 million which are available to the Company and are also partially available ($66 million) to Textron Financial Corporation (TFC), an unconsolidated subsidiary. In some cases, banks require that Textron maintain certain balances which are generated by the time lag in presentation of company checks for payment.

Additionally, in October 1987 Textron entered into a credit agreement with 40 banks for a credit facility of $3.6 billion, of which (a) $1.9 billion is available on a revolving basis until December 31, 1990 unless extended pursuant to the terms of the agreement (after which date any outstanding loans will be payable in eight equal semi-annual installments commencing six months thereafter) and (b) $1.7 billion is available until December 31, 1989 unless extended pursuant to the terms of the agreement. Any loan under the $1.7 billion portion of the facility will be payable in eight equal semi-annual installments commencing six months following the making of such loan. Concurrently with signing this agreement, Textron canceled its then-existing domestic revolving credit facilities of $1.6 billion.

Textron also has $200 million available under a facility agreement (which includes a foreign currency borrowing option) which provides funds on a revolving basis with no loan maturing after April 1991.

Borrowings under Textron's credit facilities are available, at Textron's option, at the prime rate or at a surcharge over a certificate of deposit rate or the Eurodollar Rate. Borrowings may also be made at fixed rates of interest competitively offered by individual banks. If Textron's public debt ratings were to fall below certain levels, additional interest would be payable based on the ratio of its consolidated total debt to consolidated net worth. Fees range from ⅛ to ⅜ of 1% per annum depending upon Textron's public debt ratings.

The agreements contain provisions relating to maximum allowable consolidated total debt levels and consolidated total debt to consolidated net worth ratios. In addition, Textron is required to maintain a minimum fixed charge coverage ratio and minimum levels of shareholders' equity.

All of Textron's credit facilities are available for support of its commercial paper and short-term bank borrowings. Based on these agreements, all of Textron's commercial paper and bank borrowings

(an aggregate of $364 million at January 2, 1988 and $1.3 billion at January 3, 1987) have been classified as long-term debt.

Credit facilities not used or reserved as support for outstanding commercial paper or bank borrowings were $3.4 billion at January 2, 1988.

Net amounts due under interest rate exchange agreements increased interest expense by $7.3 million, $12.1 million and $8.1 million in 1987, 1986 and 1985, respectively. In 1987, Textron terminated five such agreements, which had had the effect of fixing the rate of interest on an aggregate of $157.9 million of variable interest rate borrowings. The premiums paid to terminate the five agreements are being amortized over the original terms of the agreements.

In 1987, Avco Financial Services, Inc., an unconsolidated subsidiary of Textron, purchased $412 million of its outstanding notes at a premium. (See Note 4 to the combined financial statements of Textron's finance and insurance subsidiaries for further information about AFS' debt and credit facilities.) In addition, Avco Corporation and Textron purchased an aggregate of $161 million of their outstanding notes. These transactions resulted in an extraordinary loss, net of income taxes, of $32.6 million.

In 1986 and 1985, Textron called for redemption certain subordinated debentures, resulting in an extraordinary loss, net of income taxes, of $6.7 million in 1986 and an extraordinary gain, net of income taxes, of $16.4 million in 1985.

The amount of the net assets of Textron's unconsolidated finance and insurance subsidiaries available for cash dividends and other payments to Textron is restricted by the terms of agreements with their lenders and by insurance statutory requirements. As of January 2, 1988, approximately $293 million of their net assets of $1.5 billion were available to be transferred to Textron pursuant to these restrictions. See Note 4 to the combined financial statements of Textron's finance and insurance subsidiaries for further information about their debt and credit facilities.

7. Shareholders' Equity

Common stock

In April 1987, Textron's shareholders approved an amendment to Textron's charter increasing its authorized number of common shares to 250 million from the previously authorized 150 million. Also with shareholder approval, the common shares were split two-for-one in May 1987. All share and per share data have been restated to reflect the split.

Preferred stock

Each share of the $2.08 Preferred Stock ($23.63 approximate stated value) is convertible into 2.2 shares of common stock and is redeemable by Textron at $50 per share. In the event of involuntary liquidation, preferred shareholders would be entitled to $50 per share and accrued dividends, and in the event of voluntary liquidation to $50 per share.

Each share of $1.40 Preferred Dividend Stock ($11.82 approximate stated value) is convertible into 1.8 shares of common stock and is redeemable by Textron at $45 per share. In the event of liquidation, holders of each share of such stock would receive accrued dividends and thereafter share ratably on a converted basis with holders of common stock, subject to the prior rights of the $2.08 Preferred Stock.

Preferred stock purchase rights

In March 1986, Textron declared a dividend of one Preferred Stock Purchase Right (Right) for each outstanding share of common stock. In December 1987, Textron amended the terms of the Rights. As a result of the stock split in May 1987, one-half Right is attached to each outstanding share of common stock. Each whole Right will entitle the holder to buy one unit of Series C Junior Participating Preferred Stock at an exercise price of $175, subject to adjustment. The Rights will be exercisable only if a person or group becomes the beneficial owner of 20% or more of Textron's common stock or commences a tender or exchange offer which would result in the offeror beneficially owning 30% or more of Textron's common stock or if the Board of Directors declares any person to be an "Adverse Person" upon a determination that such person has become the beneficial owner of at least 15% of the shares of common stock then outstanding and a determination by a majority of the Board of Directors who are not officers of Textron that (i) such person intends to cause Textron to repurchase that person's Textron common stock or to pressure Textron into taking action intended to provide such person with short-term financial gain under circumstances where the best long-term interests of Textron and its shareholders would not be served or (ii) such person's beneficial ownership of Textron common stock is causing or reasonably likely to cause a material adverse impact on the business or prospects of Textron. The Rights expire on March 20, 1996 and may generally be redeemed by Textron at a price of $.05 per whole Right at any time prior to ten business days (as such period may be extended) after a public announcement of the existence of a 20% holder. The Rights may not be redeemed if the independent directors have previously determined a person to be an Adverse Person.

Unless the Rights shall have been redeemed, in the event that the Board of Directors determines that a person is an Adverse Person, or if any person accumulates 30% or more of Textron's common stock, or Textron is the surviving corporation in a merger and its common stock is unchanged (except pursuant to an offer determined by the independent directors to be fair and in the best interests of Textron and its shareholders), or a 20% holder engages in certain self-dealing transactions, each holder of a whole Right will be entitled to purchase Textron common stock (or in certain circumstances, a combination of securities and/or assets) having a value of twice the exercise price. Similarly, if Textron is involved in a merger or other business combination with another person in which its common stock is changed or converted, or if a sale of 50% or more of Textron's assets or earnings power is made to another person, each holder of a whole Right will be entitled to purchase common stock of such other person having a value of twice the exercise price.

Stock options and performance units

In April 1987, Textron's shareholders approved the adoption of the 1987 Long-Term Incentive Plan which authorizes the granting of awards through December 31, 1991 to key employees in either or both of the following forms: (i) performance units and (ii) options to purchase Textron common stock.

Performance unit awards entitle recipients to payments upon the attainment of performance targets established at the time such awards are granted. Such payments may be in cash, shares of common stock, or a combination thereof, as determined by a committee of the Board of Directors.

The Plan provides for both incentive stock options and non-qualified stock options and requires that such options be exercisable, for no more than eleven years, at a purchase price per share not less than the fair market value of Textron common stock at the date of grant. The total number of shares of common stock for which options may be granted is 3,000,000.

In 1987, the Board of Directors granted options on 1,132,300 shares of common stock under this plan. Options on 17,487 shares (all of which had been granted under a plan which expired in 1986) at an average purchase price of $29.72 per share were canceled in 1987, none of which were accompanied by stock appreciation rights (SARs). SARs allow the holder to receive an amount of cash equal to the appreciation in market value of the shares upon exercising a stock option.

Options on 274,676 shares were exercised in 1987 at an average purchase price of $19.69 per share, 32,732 of which were accompanied by SARs, and options on 20,668 shares were surrendered upon the exercise of SARs.

Options on 360,304 shares were exercised in 1986 at an average purchase price of $16.78 per share, 171,874 of which were accompanied by SARs, and options on 4,888 shares were surrendered upon exercise of SARs. Options on 731,528 shares were exercised in 1985 at an average purchase price of $17.32 per share and options on 115,026 shares were surrendered upon exercise of SARs. At January 2, 1988, options were outstanding on 2,040,273 shares (none of which were accompanied by SARs) at an average purchase price of $23.26, of which options on 963,048 shares, at an average purchase price of $23.22, were exercisable at that date.

Reserved shares

Shares of common stock were reserved at January 2, 1988, as follows:

$2.08 Cumulative Convertible Preferred Stock, Series A*	1,641,424
$1.40 Convertible Preferred Dividend Stock, Series B*	1,322,053
Options granted to employees	2,040,273
	5,003,750

**Includes shares issuable upon conversion of shares of preferred stock held in treasury.*

8. Leases

Rental expense of continuing operations was approximately $63 million, $51 million and $46 million in 1987, 1986 and 1985, respectively. Minimum rental commitments under noncancellable operating leases in effect at January 2, 1988 approximated $105 million, of which $36 million is payable in 1988.

9. Pension and Other Postemployment Benefits

Textron and its consolidated subsidiaries have a number of defined benefit pension plans covering substantially all of their employees. Benefits under salaried plans are based on salary and years of service, while benefits under hourly plans generally are based on negotiated amounts and years of service. Textron's funding policy is consistent with the funding requirements of federal law and regulations. Plan assets consist principally of corporate and government bonds and common stocks.

Textron's major pension plans provide, among other things and subject to certain conditions, that in the event of plan termination or withdrawal of assets without a termination within three years following a change in control (as defined in the plans), assets in excess of termination liabilities shall be applied to increase the benefits of participants who are active employees immediately before the change in control. Additionally, in the event of any plan merger, consolidation or transfer within such three-year period, the accrued benefit of each such affected participant and beneficiary shall be vested, increased as provided in the previous sentence, and satisfied by the purchase of a guaranteed annuity contract.

Effective at the beginning of 1987, Textron adopted Statement of Financial Accounting Standards No. 87, "Employer's Accounting for Pensions" (FAS 87), with respect to its U.S. pension plans. A significant portion of the effect of adopting FAS 87 is allocated to fixed-price type government and commercial contracts and is included in the cost of work-in-process inventories. The timing of the recognition of changes in pension cost allocated to these contracts is subject to the timing of deliveries on contracts and changes in estimates of contract profit rates. The respective amounts of pension cost funded and deductible for tax purposes, allocable to government contracts, and allowable in contract price determinations, are not affected by FAS 87.

Pension costs applicable to continuing operations for U.S. plans in 1987 were $10.4 million. Had FAS 87 not been adopted for U.S. plans in 1987, pension costs applicable to continuing operations would have been $38 million. (The increase in such costs, under the provisions of accounting principles used prior to 1987, over 1986 pension costs is due principally to the inclusion of the costs of Ex-Cell-O's pension plans for a full year in 1987.) After giving effect to the portion of pension costs allocated to contracts and work-in-process inventories, it is estimated that income from continuing operations increased by approximately $12.0 million ($.14 per share) as a result of the adoption of FAS 87. Pension costs applicable to continuing operations for non-U.S. plans in 1987 were not material. As permitted by FAS 87, Textron has deferred until 1989 the application of FAS 87 to its non-U.S. pension plans.

Pension costs applicable to continuing operations for 1986 and 1985 have not been restated for the effects of FAS 87 and were $26 million and $38 million, respectively. The decrease in pension costs in 1986 was due principally to changes in certain retirement plan provisions and actuarial assumptions, partially offset by increased pension costs related to the acquisition of Ex-Cell-O.

Pension costs applicable to continuing operations in 1987 for U.S. plans include the following components:

(In millions)		
Service cost – benefits earned during the year		$ 62.6
Interest cost on projected benefit obligation		117.3
Return on assets:		
Actual	$(149.6)	
Deferred loss	(5.1)	
		(154.7)
Amortization of the unrecognized net asset at January 4, 1987		(14.8)
Net pension cost		$ 10.4

The funded status of Textron's U.S. plans at January 2, 1988 was as follows:

(In millions)	Assets exceed accumulated benefits	Accumulated benefits exceed assets
Actuarial present value of:		
Vested benefit obligation	$1,105.0	$ 239.9
Nonvested benefit obligation	67.4	16.3
Accumulated benefit obligation	1,172.4	256.2
Additional amounts related to projected pay increases	197.7	6.7
Projected benefit obligation	1,370.1	262.9
Plan assets at fair value	1,852.2	193.4
Plan assets in excess of/(less than) projected benefit obligation	482.1	(69.5)
Unrecognized net gain	(147.0)	(14.3)
Unrecognized prior service cost	18.9	–
Amount of remaining unrecognized (net asset)/ net obligation existing at January 4, 1987	(319.2)	49.3
Net pension asset (liability) recognized on the consolidated balance sheet at January 2, 1988	$ 34.8	$ (34.5)

The projected benefit obligation was determined using assumed discount rates of 9% and 8% at January 2, 1988 and January 4, 1987, respectively. For purposes of determining 1987 pension costs, the weighted average of the assumed long-term rate of compensation increase was 6% and the assumed long-term rate of return on plan assets was 9%.

The actuarial present value of consolidated accumulated plan benefits at January 1, 1986, determined in accordance with the provisions of previous accounting principles, was $1.3 billion (of which $69 million was nonvested), compared with net assets available for benefits of $1.9 billion. The weighted average of the assumed rates of return used at that date in determining the actuarial present value of accumulated plan benefits was 8.5%.

Textron and its consolidated subsidiaries also have several defined contribution savings plans covering both salaried and hourly employees. Eligible employees who participate in these plans receive, within certain limits, matching Textron contributions. Costs applicable to continuing operations relating to these plans amounted to approximately $30 million, $22 million and $19 million for 1987, 1986 and 1985, respectively.

In addition, Textron provides certain health care and life insurance benefits for certain retired employees. Eligibility for these benefits is restricted to the particular benefit plans at the particular locations offering retiree benefits. These benefits and similar benefits for active employees are administered by insurance companies or other carriers who determine premiums for insured plans and expected costs to be paid during the year under self-insured plans. Textron recognizes the cost of providing these benefits by expensing the premiums and costs as incurred. Such costs applicable to continuing operations were approximately $172 million, $139 million and $110 million for 1987, 1986 and 1985, respectively. The cost of providing these benefits for the 14,300, 12,500 and 8,000 retirees in 1987, 1986 and 1985, respectively, receiving such benefits, is not separately identifiable from the cost of providing such benefits for the 52,000, 56,000 and 41,000 active employees in 1987, 1986 and 1985, respectively.

10. Income Taxes

Textron files a consolidated federal income tax return which includes all U.S. subsidiaries except the life insurance subsidiaries which file separate returns. In addition, separate returns are filed for foreign subsidiaries.

Details of income from continuing operations before income taxes, income taxes and the deferred income tax effects of timing differences are summarized as follows:

(In millions)	**1987**	1986	1985
Income from continuing operations before income taxes:			
United States	**$355.8**	$303.5	$174.5
Foreign	**96.8**	120.1	104.7
Total	**$452.6**	$423.6	$279.2
Income taxes:			
Continuing operations	**$191.5**	$194.0	$112.3
Discontinued operations:			
Income from operations	**1.7**	5.3	34.6
Gain on sales	**27.2**	58.4	–
Extraordinary item	**(23.5)**	(6.4)	6.4
Total	**$196.9**	$251.3	$153.3
Current:			
Federal	**$ 76.5**	$ 69.1	$ 36.9
State	**27.6**	29.5	16.8
Foreign	**31.2**	48.6	33.3
	135.3	147.2	87.0
Deferred:			
Federal	**58.8**	105.8	63.5
State	**(1.5)**	(2.1)	.7
Foreign	**4.3**	.4	2.1
	61.6	104.1	66.3
Total	**$196.9**	$251.3	$153.3
Deferred income tax effects of timing differences:			
Additional depreciation for tax purposes	**$ 1.8**	$ 7.3	$ 8.9
Inventory valuation and long-term contract amounts	**3.4**	40.5	2.9
Finance subsidiary transactions – principally leasing	**43.6**	56.1	66.5
Disposition of discontinued operations	**(14.3)**	(18.9)	(13.0)
Insurance policy acquisition costs	**20.3**	19.4	15.9
Liabilities for future policy benefits	**(3.3)**	(12.1)	(8.4)
Other – net	**10.1**	11.8	(6.5)
Total	**$ 61.6**	$104.1	$ 66.3

Following is a reconciliation of the federal statutory income tax rate to the effective income tax rate applicable to continuing operations:

	1987	1986	1985
Federal statutory income tax rate	**40.0%**	46.0%	46.0%
Increase (reduction) in taxes resulting from:			
State income taxes, net of federal tax benefit	**3.3**	2.7	3.0
Investment tax credits	**(.8)**	(1.4)	(5.1)
Capital gains	**(1.1)**	(1.7)	(2.3)
Tax exempt interest and dividends received deduction	**(1.4)**	(1.7)	(2.5)
Special deductions allowed life insurance companies	**–**	(1.7)	(1.8)
Amortization of goodwill	**3.4**	2.8	3.8
Other – net	**(1.1)**	.8	(.9)
Effective income tax rate	**42.3%**	45.8%	40.2%

The income taxes on the gains on sales of discontinued operations in 1987 and 1986 differ from the statutory tax rates in effect in 1987 and 1986 primarily due to nondeductible foreign exchange losses and additional taxes on repatriated earnings of foreign subsidiaries, partially offset by the effect of capital gains.

Investment tax credits included in net income (excluding $11.8 million resulting from an accounting change in 1985) were $8 million and $13 million in 1987 and 1986, respectively (principally amortization of investment tax credits), and $15 million in 1985. Due to the acquisition of Avco, Textron had tax credit carryforwards available, of which approximately $40 million have been utilized and offset against goodwill. After utilizing such credits and applying the statutory reduction required by the Tax Reform Act of 1986, Textron has approximately $10 million of tax credit carryforwards at January 2, 1988.

The Tax Reform Act of 1986 (the Act) was enacted in October 1986. Among other things, the Act provided for reductions in 1987 and 1988 in the marginal federal income tax rate for corporations and repeal of the investment tax credit retroactive to the beginning of 1986. Textron's net income for the fourth quarter of 1986 was reduced by an immaterial amount related to the first nine months of 1986 as a result of the Act's repeal of the investment tax credit, offset by the beneficial effect of lower tax rates on TFC's leveraged lease portfolio.

See Note 7 to the combined financial statements of Textron's finance and insurance subsidiaries for information about their income taxes.

11. Contingencies

There are pending or threatened against Textron and its subsidiaries lawsuits and other proceedings, including some which allege violations of federal government procurement regulations, involve environmental matters, or are or purport to be class actions. Among these suits and proceedings are some which seek compensatory, treble or punitive damages in substantial amounts; indictments, fines, penalties or restitution; the cleanup of allegedly hazardous wastes; or, under federal government procurement regulations, could result in suspension or debarment of Textron or its subsidiaries from U.S. Government contracting for a period of time. These suits and proceedings are being defended or contested on behalf of Textron and its subsidiaries. On the basis of information presently available, Textron believes that any such liability or the impact of the application of relevant government regulations would not have a material effect on Textron's financial condition.

12. Financial Information by Business Segment and Geographic Area

Financial information by business segment and geographic area includes amounts related to continuing operations of both consolidated and unconsolidated subsidiaries. The operations of Ex-Cell-O are included from September 17, 1986. Prior years' amounts have been reclassified to conform to current year's presentation and restated for discontinued operations.

Financial Information by Business Segment and Geographic Area

For a description of the business comprising each segment, see pages 26 to 30 of this report.

Business Segments	Revenues			Income		
(In millions)	**1987**	1986	1985	**1987**	1986	1985
Aerospace Technology:						
Helicopters	**$1,177**	$1,098	$ 855	**$ 69**	$ 72	$ 60
Propulsion	**1,399**	1,044	827	**141**	102	83
Systems	**1,294**	1,362	985	**100**	103	68
	3,870	3,504	2,667	**310**	277	211
Commercial Products	**1,512**	1,131	1,017	**160**	116	74
Financial Services:						
Finance	**851**	905	843	**134**	128	142
Insurance	**1,009**	1,023	840	**119**	96	71
Management Services	**6**	53	49	**–**	31	39
	1,866	1,981	1,732	**253**	255	252
	$7,248	$6,616	$5,416	**723**	648	537
Corporate expenses and other – net				**(73)**	(44)	(54)
Interest expense – net				**(197)**	(180)	(204)
Income from continuing operations before income taxes				**$453**	$424	$279

	Depreciation			Capital expenditures			Identifiable assets		
	1987	1986	1985	**1987**	1986	1985	**1987**	1986	1985
Aerospace Technology:									
Helicopters	**$ 21**	$ 16	$ 15	**$ 44**	$ 33	$ 33	**$ 661**	$ 649	$ 646
Propulsion	**35**	21	18	**48**	28	17	**1,252**	1,242	602
Systems	**40**	35	28	**48**	52	51	**822**	884	578
	96	72	61	**140**	113	101	**2,735**	2,775	1,826
Commercial Products	**38**	25	20	**59**	38	22	**768**	1,030	541
Financial Services:									
Finance	**7**	6	5	**8**	17	9	**4,479**	4,452	4,530
Insurance	**7**	7	5	**9**	12	8	**3,369**	3,098	2,780
Management Services	**–**	–	–	**–**	–	–	**16**	50	55
	14	13	10	**17**	29	17	**7,864**	7,600	7,365
Discontinued operations	**10**	13	30	**13**	25	45	**124**	–	398
Corporate	**5**	5	3	**6**	5	4	**229**	315	223
Eliminations	**–**	–	–	**–**	–	–	**(19)**	(8)	(5)
	$163	$128	$124	**$235**	$210	$189	**$11,701**	$11,712	$10,348

Notes:
(i) Income of the Finance segment is net of interest expense. Such income for 1987 includes a $52.3 million pre-tax gain on the sale of AFS' credit card receivables.
(ii) Income of the Insurance segment includes net capital gains of $22 million in 1987, $31 million in 1986 and $15 million in 1985.
(iii) Management Services' income represents primarily profits of a foreign venture in the Middle East. Such profits are recognized to the extent they are available for remittance.
(iv) Corporate expenses for 1986 and 1985 include gains on the sale of securities of $20 million and $10 million, respectively.

Geographic Areas	Revenues			Income		
(In millions)	**1987**	1986	1985	**1987**	1986	1985
Revenues and income by origin – continuing operations:						
United States	**$6,658**	$6,123	$4,903	**$629**	$534	$434
Canada	**348**	226	208	**48**	26	23
Asia/Pacific	**127**	140	181	**33**	46	38
Western Europe	**115**	90	77	**13**	9	1
Middle East	**–**	37	47	**–**	33	41
	$7,248	$6,616	$5,416	**723**	648	537
Corporate expenses and other – net				**(73)**	(44)	(54)
Interest expense – net				**(197)**	(180)	(204)
Income from continuing operations before income taxes				**$453**	$424	$279

Destination of U.S. exports – continuing operations:	Export sales		
	1987	1986	1985
Western Europe	**$345**	$273	$225
Asia/Pacific	**205**	196	153
Middle East	**120**	101	141
Canada	**104**	74	63
South America	**56**	44	47
Other locations	**61**	67	23
	$891	$755	$652

Identifiable assets by location:	Identifiable assets		
	1987	1986	1985
United States	**$ 9,607**	$ 9,835	$ 8,187
Canada	**1,061**	854	758
Asia/Pacific	**398**	377	538
Western Europe	**320**	310	224
Middle East	**–**	41	44
Discontinued operations	**124**	–	398
Corporate	**229**	315	223
Eliminations	**(38)**	(20)	(24)
	$11,701	$11,712	$10,348

Notes:
(i) Revenues include sales to the U.S. Government of $2.6 billion, $2.6 billion and $1.8 billion in 1987, 1986 and 1985, respectively.
(ii) Revenues between segments were approximately 1% of total revenues in each of the years 1985 to 1987. Revenues between geographic areas, predominantly revenues of U.S. divisions, were approximately 1% of total revenues in each of the years 1985 to 1987.

Quarterly Financial and Stock Information 1987 and 1986

(Unaudited)

(In millions except per share amounts)	1st Quarter 1987	1st Quarter 1986	2nd Quarter 1987	2nd Quarter 1986	3rd Quarter 1987	3rd Quarter 1986	4th Quarter 1987	4th Quarter 1986
Income Statement								
Sales	**$1,367.9**	$953.4	**$1,352.5**	$1,047.3	**$1,285.5**	$1,252.3	**$1,382.5**	$1,435.1
Costs and expenses:								
Cost of sales	**1,106.0**	768.9	**1,107.1**	840.2	**1,038.2**	1,003.0	**1,136.4**	1,156.2
Selling and administrative	**156.8**	114.3	**145.8**	126.8	**147.9**	143.9	**153.8**	154.6
	105.1	70.2	**99.6**	80.3	**99.4**	105.4	**92.3**	124.3
Equity in pre-tax income of unconsolidated finance and insurance subsidiaries	**53.0**	57.0	**102.5**	58.9	**49.3**	50.7	**48.5**	56.9
Interest expense – net	**51.5**	42.5	**51.9**	38.4	**48.5**	42.6	**45.2**	56.6
Income from continuing operations before income taxes	**106.6**	84.7	**150.2**	100.8	**100.2**	113.5	**95.6**	124.6
Income taxes	**45.1**	35.5	**63.5**	43.1	**42.6**	51.2	**40.3**	64.2
Income from continuing operations before extraordinary loss	**61.5**	49.2	**86.7**	57.7	**57.6**	62.3	**55.3**	60.4
Discontinued operations:								
Income (loss) from discontinued operations, net of income taxes	**(1.3)**	1.2	**4.3**	3.6	**(.9)**	2.9	**1.4**	.6
Gain on sales of discontinued operations, net of income taxes	**–**	–	**–**	–	**24.3**	8.0	**–**	–
Extraordinary loss, net of income taxes	**–**	–	**–**	–	**(25.9)**	(6.7)	**(6.7)**	–
Net income	**$ 60.2**	$ 50.4	**$ 91.0**	$ 61.3	**$ 55.1**	$ 66.5	**$ 50.0**	$ 61.0
Income per common share:								
Income from continuing operations before extraordinary loss	**$ .74**	$ .60	**$ 1.01**	$ .70	**$ .63**	$ .75	**$ .60**	$ .73
Discontinued operations	**(.02)**	.01	**.05**	.04	**.25**	.13	**.02**	.01
Extraordinary loss	**–**	–	**–**	–	**(.28)**	(.08)	**(.07)**	–
Net income	**$ .72**	$ .61	**$ 1.06**	$ .74	**$ .60**	$ .80	**$ .55**	$ .74
Common Stock Information								
Price Range:								
High	**$ 35 15/16**	$ 32 3/8	**$ 35 1/4**	$ 32 5/8	**$ 39 3/4**	$ 29 7/8	**$ 34 1/8**	$ 35
Low	**$ 31**	$ 24 3/8	**$ 28 1/2**	$ 27 7/8	**$ 30 1/8**	$ 25 1/8	**$ 17 1/4**	$ 27 1/2
Dividend per share	**$ .225**	$ .225	**$ .25**	$ .225	**$ .25**	$ .225	**$ .25**	$ .225

Notes:
(i) The 1986 data include the operations of Ex-Cell-O from September 17, 1986.
(ii) Amounts for 1986 and the first quarter of 1987 have been restated for discontinued operations.
(iii) The 1986 per share data have been restated to reflect the effect of the two-for-one common stock split in May 1987.
(iv) In the second quarter of 1987, AFS sold its credit card receivables, resulting in an after-tax profit of $34.4 million ($.40 per Textron share).

Textron Inc.
Finance and Insurance Subsidiaries
Combined Statement of Income

For each of the three years in the period ended January 2, 1988 (In millions)	1987	1986	1985
Revenues:			
Interest, discount and service charges	**$ 829.3**	$ 877.2	$ 835.7
Credit life, credit disability and casualty insurance premiums	**220.2**	298.1	216.7
Non-cancellable disability income, life and group insurance premiums and annuities	**527.9**	477.3	410.9
Investment income (including net capital gains)	**282.3**	275.0	219.4
Total revenues	**1,859.7**	1,927.6	1,682.7
Expenses:			
Interest and debt expense	**374.1**	392.3	358.8
Provision for losses on collection of receivables, less recoveries	**87.7**	96.4	74.9
Credit life, credit disability and casualty insurance losses and adjustment expenses, less recoveries	**120.9**	197.3	134.1
Death and other insurance benefits	**297.5**	287.1	212.2
Increase in insurance policy and deposit liabilities	**202.7**	163.5	182.4
Amortization of insurance policy acquisition costs (including cost of insurance in force)	**89.9**	111.2	72.1
Other operating expenses	**433.6**	456.3	434.8
Total expenses	**1,606.4**	1,704.1	1,469.3
Income before income taxes	**253.3**	223.5	213.4
Income taxes	**101.7**	86.7	85.5
Income before extraordinary loss	**151.6**	136.8	127.9
Extraordinary loss, net of income taxes	**(24.6)**	–	–
Net income	**$ 127.0**	$ 136.8	$ 127.9

See notes to combined financial statements.

Textron Inc.
Finance and Insurance Subsidiaries
Combined Balance Sheet

(In millions)	**January 2, 1988**	January 3, 1987
Assets		
Cash	**$ 36.9**	$ 67.6
Investments	**2,563.1**	2,307.5
Receivables	**5,052.5**	4,957.2
Unearned charges	**(671.3)**	(632.4)
Net receivables	**4,381.2**	4,324.8
Allowance for losses	**(146.4)**	(136.2)
	4,234.8	4,188.6
Prepaid expenses and other receivables	**61.8**	79.6
Unamortized insurance policy acquisition costs (including cost of insurance in force)	**378.7**	326.0
Goodwill (less accumulated amortization of $57.9 and $37.3)	**410.9**	429.4
Other assets	**161.7**	150.8
Total assets	**$7,847.9**	$7,549.5
Liabilities and equity		
Short-term debt – unsecured:		
Banks	**$ 112.4**	$ 52.0
Commercial paper	**687.7**	547.7
Total short-term debt	**800.1**	599.7
Accounts payable and accrued liabilities	**303.2**	297.1
Income taxes (principally deferred)	**206.7**	129.9
Insurance reserves and claims:		
Future policy benefits and claim liabilities	**1,085.0**	950.0
Premium deposits and purchase payment funds	**854.3**	785.3
Unearned insurance premiums	**225.0**	222.5
Losses and adjustment expenses	**111.6**	128.4
Long-term debt – unsecured:		
Senior notes and debentures	**2,441.4**	2,577.6
Senior subordinated notes and debentures	**227.4**	369.0
Junior subordinated and capital notes	**102.4**	95.8
Total long-term debt	**2,771.2**	3,042.4
Equity	**1,490.8**	1,394.2
Total liabilities and equity	**$7,847.9**	$7,549.5

See notes to combined financial statements.

Textron Inc.
Finance and Insurance Subsidiaries
Combined Statement of Changes in Financial Position

For each of the three years in the period ended January 2, 1988 (In millions)	**1987**	1986	1985
Source of funds:			
From operations:			
Income from operations	**$ 151.6**	$ 136.8	$ 127.9
Increase in insurance policy liabilities	**202.7**	163.5	182.4
Amortization of insurance policy acquisition costs (including cost of insurance in force)	**89.9**	111.2	72.1
Provision for losses on collection of receivables	**108.6**	115.5	92.8
Increase (decrease) in accounts payable, accrued liabilities and other	**158.4**	121.5	(19.1)
Increase (decrease) in unearned insurance premiums and reserves for insurance losses and adjustment expenses	**(14.3)**	30.1	63.3
Depreciation and amortization	**32.6**	30.3	28.5
Total from operations before extraordinary loss	**729.5**	708.9	547.9
Extraordinary loss	**(24.6)**	--	–
Additions to long-term debt	**404.5**	573.0	1,330.6
Proceeds from sales of investments	**764.1**	770.8	893.9
Capital contribution	**3.9**	–	15.4
Increase (decrease) in short-term debt	**200.4**	(295.0)	(93.3)
Decrease (increase) in cash (excludes cash at date of acquisition)	**30.7**	(17.8)	20.6
Total	**$2,108.5**	$1,739.9	$2,715.1
Use of funds:			
Purchases of investments	**$1,009.8**	$ 992.6	$1,313.1
Reductions in long-term debt	**687.2**	408.0	759.5
Increase in receivables (net of unearned charges)	**159.2**	109.6	629.8
Additions to insurance policy acquisition costs	**142.6**	157.3	95.6
Cash dividends paid	**57.5**	39.8	49.4
Other, net	**52.2**	32.6	(132.3)
Total	**$2,108.5**	$1,739.9	$2,715.1

See notes to combined financial statements.

Textron Inc.
Finance and Insurance Subsidiaries
Combined Statement of Changes in Equity

For each of the three years in the period ended January 2, 1988 (In millions)	
Balance December 29, 1984	$ 63.8
Equity of AFS and Paul Revere at date of acquisition	1,163.9
Capital contribution	15.4
Currency translation adjustment	(24.8)
Marketable equity securities valuation adjustment	2.7
Net income	127.9
Dividends	(49.4)
Other	(.1)
Balance December 28, 1985	1,299.4
Currency translation adjustment	(2.1)
Marketable equity securities valuation adjustment	(.1)
Net income	136.8
Dividends	(39.8)
Balance January 3, 1987	1,394.2
Capital contribution	3.9
Currency translation adjustment	25.5
Marketable equity securities valuation adjustment	(2.3)
Net income	127.0
Dividends	(57.5)
Balance January 2, 1988	$1,490.8

See notes to combined financial statements.

Textron Inc.
Finance and Insurance Subsidiaries
Notes to Combined Financial Statements

1. Summary of Significant Accounting Policies

Principles of combination

The accompanying combined financial statements include the accounts of Textron's subsidiaries engaged in finance and insurance operations: Textron Financial Corporation (TFC), Avco Financial Services, Inc. (AFS), consisting of Avco Financial Services Group and Avco Insurance Services/Balboa Life and Casualty, and The Paul Revere Insurance Group.

The results of operations of AFS and Paul Revere are included in the combined financial statements from January 10, 1985 and Textron's allocation of its purchase price to the assets and liabilities of AFS and Paul Revere is reflected in these combined financial statements.

Finance subsidiaries

Interest and discount charges are generally recognized in revenues on the effective yield method. Unearned charges represent the portion of the finance charge or discount included in the original face amount of the related receivables which is determined to be unearned on the balance sheet date. The unearned charges are transferred to revenues on the accrual basis generally beginning in the month following acquisition. Generally, no portion of unearned charges is recognized in earnings to offset acquisition costs except on leasing contracts. When charges are not included in the original face amount of the loan, the charges are generally recognized in revenues as collected.

Receivables are written off when they are deemed uncollectible, but in any event consumer, real estate and retail installment accounts for which no payment has been received for eight consecutive months are written off. Provisions for losses on accounts receivable are charged to income in such amounts as management believes to be adequate.

TFC derives a substantial portion of its business from financing the sale and lease of products manufactured and sold by Textron. In 1987, 1986 and 1985, TFC paid Textron $188.5 million, $228.8 million and $255.0 million, respectively, for the purchase of receivables. Under an operating agreement with Textron, TFC generally has recourse to Textron with respect to finance receivables and leases of products manufactured and sold by Textron. At January 2, 1988, net finance receivables of $389.8 million ($405.3 million at January 3, 1987) were due from Textron or subject to recourse to Textron.

The net investment in finance leases consists of the sum of all minimum lease payments and estimated residual values, less unearned income. The investment in leveraged leases consists of the sum of all lease payments (less the portion applicable to principal and interest on non-recourse debt) plus estimated residual values, less unearned income. Unearned income and investment tax credits are included in income over the terms of the related leases to produce a constant rate of return on the net investment after a portion of unearned income is recognized in earnings to offset direct acquisition costs.

In December 1986, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases," which will change the accounting for certain direct loan origination costs and fees. Additionally, the American Institute of Certified Public Accountants has approved for issuance a revised Audit and Accounting Guide for Audits of Finance Companies, which, among other things, changes the acceptable methods for accounting recognition of interest income. These pronouncements will be adopted by AFS and TFC in 1988 on a prospective basis and will have the effect of delaying the recognition of certain direct loan origination costs and fees and accelerating the recognition of interest income on certain loans. The expected impact of these changes, which will depend on the volume and type of business written, will be to increase reported net income in 1988 by an amount that is expected to approximate $10 million; the effect on results of operations after 1988 is not expected to be significant.

Insurance subsidiaries

Credit Life, Credit Disability and Casualty Insurance

Approximately 69% and 52% of the credit life and credit disability insurance premiums earned and 14% and 7% of the casualty insurance premiums earned in 1987 and 1986, respectively, were directly related to AFS' consumer loan activities. Unearned insurance premiums are taken into income over the life of the policies (i) on the sum-of-the-digits method for decreasing term credit life insurance coverage and on the pro rata method for level term credit life coverage, (ii) in relation to anticipated claims for credit disability insurance and (iii) on the pro rata method for casualty insurance. The cost of acquiring new business (principally commissions and premium taxes) is charged to expense in the same manner as the related premiums are taken into income.

Non-cancellable Disability Income, Life and Group Insurance and Annuities
Non-cancellable disability income insurance premiums and annuities are recognized in income when received; life and group insurance premiums are recognized in income when due.

Certain costs directly related to acquiring new non-cancellable disability income, life and annuity business (principally commissions and selling, selection and policy issue expenses) are deferred and amortized over the policies' premium paying periods in the proportion that annual premium revenue bears to total anticipated premium revenue. Amortization schedules have been based on interest and withdrawal assumptions consistent with those used to compute liabilities for future policy benefits.

Liabilities for future policy benefits have been computed by the net level premium method based upon estimated future investment yield and Paul Revere's experience on mortality, morbidity, withdrawals and other assumptions. At January 2, 1988 and January 3, 1987, the liability for future policy benefits and claim liabilities aggregated $1.1 billion and $950.0 million, respectively, and included 63% and 60% for individual non-cancellable disability income, 23% and 27% for individual life, 12% and 12% for group products and 2% and 1% for individual annuities, respectively. This excludes the liability for premium deposits and purchase payment funds applicable to annuities aggregating $854.3 million and $785.3 million at January 2, 1988 and January 3, 1987, respectively.

Translation of foreign currencies and foreign exchange transactions
Adjustments resulting from the translation of the financial statements of foreign operations are excluded from the determination of income and accumulated in a separate component of equity until the entity is sold or substantially liquidated. Such adjustments resulted in accumulated charges to equity of $1.4 million and $26.9 million at January 2, 1988 and January 3, 1987, respectively. Foreign exchange gains and losses included in income in 1987, 1986 and 1985 were not material.

Goodwill
Goodwill is being amortized on the straight-line method over 25 years.

2. Receivables

The maximum term over which consumer loans and retail installment contracts are written is 10 years, but approximately 90% of these loans are written with terms of four years or less. Real estate loans are written with a maximum term of 15 years. Finance leases have initial terms written generally up to 12 years.

In 1987, AFS sold its credit card receivables ($325 million), resulting in an after-tax profit of $34.4 million.

Estimated contractual maturities of receivables outstanding at January 2, 1988 and receivables (less unearned charges) outstanding at January 2, 1988 and January 3, 1987 were as follows:

	Contractual maturities			Less unearned charges	Receivables outstanding	
(In millions)	1988	1989	1990-2002		**1987**	1986
Consumer	$ 877.9	$ 608.9	$ 447.2	$257.0	**$1,677.0**	$1,496.1
Real estate	155.8	97.4	878.2	56.2	**1,075.2**	966.5
Installment	372.3	180.0	362.3	117.8	**796.8**	691.3
Commercial	48.2	–	–	–	**48.2**	45.0
Finance leases	178.3	157.0	351.6	137.5	**549.4**	514.6
Leveraged leases	3.0	1.7	212.7	96.3	**121.1**	114.5
Other	85.9	19.4	14.7	6.5	**113.5**	496.8
	$1,721.4	$1,064.4	$2,266.7	$671.3	**$4,381.2**	$4,324.8

Experience has shown that a substantial majority of consumer and real estate loans and installment contracts will be refinanced many months prior to contractual maturity dates. During 1987 and 1986, cash collections (excluding unearned charges included in net income) of receivables were $2.3 billion and $2.1 billion, respectively, and the ratio of cash collections to average net receivables was approximately 54% and 50%, respectively.

3. Investments

(In millions)	**January 2, 1988**	January 3, 1987
Commercial paper, at cost (approximates market)	**$ 118.4**	$ 149.3
Bonds, at amortized cost (estimated market: $2,048.3 and $1,892.4)	**2,046.4**	1,754.3
Marketable equity securities, at market (cost: $34.3 and $24.3)	**35.4**	27.2
First mortgages on real estate, at cost	**289.7**	313.1
Policy loans and other investments, at cost	**73.2**	63.6
	$2,563.1	$2,307.5

Approximately 80% of investment income in 1987 and 1986 and 84% in 1985 was attributable to interest on commercial paper and bonds and 13% of investment income in 1987 and 1986 and 14% in 1985 was attributable to income derived from first mortgages on real estate.

Investments in long-term bonds are generally held until maturity and are carried at amortized cost. Net unrealized depreciation of bond market values during 1987 was $125.5 million and net unrealized appreciation of bond market values during 1986 and 1985 was $28.2 million and $114.5 million, respectively.

A valuation adjustment representing the excess of aggregate market value over aggregate cost of marketable equity securities has been credited directly to equity. Such excess at January 2, 1988 and January 3, 1987 of $.3 million and $2.6 million, respectively, represented gross unrealized gains (net of applicable income taxes).

Net realized gains and losses after income taxes resulting from sales of marketable equity securities were not material in 1987, 1986 and 1985. The cost of securities sold was based primarily on the specific identification method.

4. Debt and Credit Facilities

Long-term debt is summarized as follows:

(In millions)	**January 2, 1988**	January 3, 1987
Senior notes and debentures; interest at 6.94%-15.35%; 1988 to 1999 maturity dates	**$2,441.4**	$2,577.6
Senior subordinated notes and debentures; interest at 8.75%-12.75%; 1988 to 1996 maturity dates	**227.4**	369.0
Junior subordinated and capital notes; interest at 13.62%; 1990 maturity date	**102.4**	95.8
	$2,771.2	$3,042.4

Required payments during the next five years on long-term debt outstanding at January 2, 1988 (excluding $325 million of commercial paper borrowings supported by a revolving credit agreement) are as follows: $263.9 million in 1988; $371.7 million in 1989; $205.9 million in 1990; $534.3 million in 1991; and $291.1 million in 1992.

AFS and TFC are independent borrowers and, accordingly, their debt is supported only by their own respective assets.

At January 2, 1988, AFS and TFC had lines of credit with various banks aggregating $1.4 billion, of which $612 million related to long-term loans. Based on a revolving credit agreement, $325 million of commercial paper borrowings have been classified as senior long-term debt at January 2, 1988 and January 3, 1987. Lines of credit not used or reserved as support for commercial paper borrowings amounted to $785 million, of which $91 million related to long-term loans. In support of these lines, AFS and TFC generally pay fees and/or maintain compensating balances.

In addition, Textron has short-term lines of credit from a number of banks. Some of these lines are available to TFC, principally on an informal confirmed basis, to the extent of $66 million at January 2, 1988, all of which was used or reserved as support for outstanding commercial paper.

Under operating agreements between Textron and TFC, Textron has made available to TFC a line of credit of up to $60 million for junior subordinated

borrowings at prime rate and Textron has agreed to lend to TFC interest free an amount not to exceed the deferred income tax liability of Textron attributable to the manufacturing profit deferred on products manufactured by Textron and financed by TFC. Textron has also agreed to cause TFC's pre-tax income available for fixed charges to be not less than 125% of fixed charges.

Under interest rate exchange agreements, which expire through 1993, AFS and TFC make periodic fixed payments in exchange for periodic variable payments. These contracts had the effect of fixing the rate of interest on $170 million of variable interest rate borrowings at January 2, 1988 at approximately 10.7%. Net amounts due under interest rate exchange agreements increased interest expense by $12.1 million, $15.3 million and $6.5 million in 1987, 1986 and 1985, respectively. These agreements expire as follows: $28 million in 1988, $53 million in 1989, and $89 million thereafter.

AFS used the proceeds from the sale of its credit card receivables (see Note 2) to purchase $412 million of its outstanding notes as part of its effort to reduce its average cost of borrowings. These purchases resulted in an extraordinary loss, net of income taxes, of $24.6 million.

The long-term notes, debentures and loan agreements of AFS and TFC contain various restrictions on the declaration or payment of cash dividends and other payments to Textron. They also contain various provisions restricting additional debt, the creation of liens or guarantees and the making of investments.

5. Leases

Rental expense, related primarily to office space, was approximately $40.6 million, $36.8 million and $37.5 million in 1987, 1986 and 1985, respectively. Minimum rental commitments under non-cancellable operating leases in effect at January 2, 1988 approximated $185 million, of which $34 million is payable in 1988.

6. Profit Sharing, Retirement, Pension Plans and Other Postemployment Benefits

The finance and insurance subsidiaries have retirement plans (principally non-contributory defined contribution) which cover substantially all employees. Retirement plan expense for 1987, 1986 and 1985 was $8.8 million, $9.1 million and $10.5 million, respectively. Retirement costs are generally funded as accrued.

In addition, certain of the subsidiaries provide certain health care and life insurance benefits for certain retired employees. Eligibility for these benefits is restricted to the particular benefit plans at the particular locations offering retiree benefits. These benefits and similar benefits for active employees are administered through an insurance company whose premiums are based on the benefits paid during the year. The cost of providing these benefits is recognized by expensing the premiums and costs as incurred. Such costs were $13.0 million, $10.0 million and $10.7 million for 1987, 1986 and 1985, respectively. The cost of providing these benefits for the 800, 690 and 680 retirees in 1987, 1986 and 1985, respectively, receiving such benefits is not separately identifiable from the cost of providing such benefits for the 9,600, 9,000 and 8,600 active employees in 1987, 1986 and 1985, respectively.

7. Income Taxes

The provisions for income taxes of the U.S. finance subsidiaries and casualty insurance subsidiaries are calculated based on these subsidiaries being included in the consolidated U.S. federal income tax return filed by Textron. The provisions for income taxes also include amounts for the U.S. life insurance subsidiaries and foreign subsidiaries which file separate income tax returns.

At January 2, 1988, the subsidiaries' combined equity for financial reporting purposes included $104.9 million of its U.S. life insurance subsidiaries' policyholders' surplus on which no income taxes have been provided. Under present circumstances it is not anticipated that any of these untaxed earnings will become taxable.

Details of income before income taxes, income taxes and the deferred income tax effects of timing differences are summarized as follows:

(In millions)	**1987**	1986	1985
Income before income taxes:			
United States	**$153.5**	$140.1	$143.2
Foreign	**99.8**	83.4	70.2
Total	**$253.3**	$223.5	$213.4
Income taxes:			
Operations	**$101.7**	$ 86.7	$ 85.5
Extraordinary loss	**(17.3)**	–	–
Total	**$ 84.4**	$ 86.7	$ 85.5
Current:			
Federal	**$ 5.5**	$(37.0)	$(36.6)
State	**5.2**	6.1	4.7
Foreign	**26.4**	39.7	29.3
	37.1	8.8	(2.6)
Deferred:			
Federal	**41.8**	76.4	84.7
State	**1.2**	.2	2.4
Foreign	**4.3**	1.3	1.0
	47.3	77.9	88.1
Total	**$ 84.4**	$ 86.7	$ 85.5
Deferred income tax effects of timing differences:			
Leveraged leases	**$ 25.4**	$ 39.3	$ 40.8
Finance leases	**15.7**	25.4	29.3
Insurance policy acquisition costs	**20.3**	19.4	15.9
Liabilities for future policy benefits	**(3.3)**	(12.1)	(8.4)
Other	**(10.8)**	5.9	10.5
Total	**$ 47.3**	$ 77.9	$ 88.1

Deferred income taxes have not been provided for the undistributed earnings of foreign subsidiaries which aggregated approximately $216 million at January 2, 1988. Management's intention is to reinvest such undistributed earnings outside the United States for an indefinite period, except for distributions upon which incremental U.S. income taxes would not be material.

Investment tax credits are accounted for under the deferral method for the leasing operations and under the flow-through method for all other operations. Investment tax credits included in net income were $7.3 million, $9.9 million and $12.0 million in 1987, 1986 and 1985, respectively.

The Tax Reform Act of 1986 (the Act) was enacted in October 1986. Among other things, the Act provided for reductions in 1987 and 1988 in the marginal federal income tax rate for corporations. Net income for the fourth quarter of 1986 was increased by $5.0 million related to the first nine months of 1986 principally as a result of the beneficial effect of lower tax rates on TFC's leveraged lease portfolio.

Following is a reconciliation of the federal statutory income tax rate to the effective income tax rate:

	1987	1986	1985
Federal statutory income tax rate	**40.0%**	46.0%	46.0%
Increase (reduction) in taxes resulting from:			
State income taxes, net of federal tax benefit	**1.8**	1.5	1.6
Investment tax credits	**(1.1)**	(1.8)	(3.4)
Tax exempt interest and dividends received deduction	**(2.4)**	(3.3)	(2.8)
Foreign income taxed at higher (lower) effective rates	**2.1**	(2.3)	(1.6)
Special deductions allowed life insurance companies	**–**	(3.3)	(2.3)
Net capital gains	**(2.0)**	(1.8)	(1.3)
Amortization of goodwill	**2.8**	3.7	3.9
Other – net	**(1.0)**	.1	–
Effective income tax rate	**40.2%**	38.8%	40.1%

8. Financial Information by Business Segment

(In millions)	**1987**	1986	1985
Revenues:			
Finance:			
Consumer	**$ 726**	$ 777	$ 736
Commercial	**125**	128	107
	851	905	843
Insurance:			
Credit life, credit disability and casualty	**263**	335	250
Non-cancellable disability income, life and group insurance and annuities	**746**	688	590
	1,009	1,023	840
	$1,860	$1,928	$1,683
Income:			
Finance:			
Consumer	**$ 110**	$ 99	$ 119
Commercial	**24**	29	23
	134	128	142
Insurance:			
Credit life, credit disability and casualty	**47**	16	21
Non-cancellable disability income, life and group insurance and annuities	**72**	80	50
	119	96	71
	$ 253	$ 224	$ 213
Identifiable assets:			
Finance:			
Consumer	**$3,313**	$3,398	$3,592
Commercial	**1,166**	1,054	938
	4,479	4,452	4,530
Insurance:			
Credit life, credit disability and casualty	**688**	697	617
Non-cancellable disability income, life and group insurance and annuities	**2,681**	2,401	2,163
	3,369	3,098	2,780
	$7,848	$7,550	$7,310

Notes:
(i) Income attributable to U.S. operations was 63% of income for 1987, 69% for 1986 and 67% for 1985.
(ii) Identifiable assets in the U.S. amounted to 79% of total identifiable assets at the end of 1987, 82% at the end of 1986 and 81% at the end of 1985.
(iii) Income of the Finance segment includes a $52.3 million pre-tax gain on the sale of AFS' credit card receivables in 1987.
(iv) Income of the Insurance segment includes net capital gains of $22 million in 1987, $31 million in 1986 and $15 million in 1985.

Five-Year Summary*

(Dollars in millions except per share amounts)	**1987**	1986	1985	1984	1983
Operating Results					
Sales	**$ 5,388.4**	$ 4,688.1	$ 3,732.9	$ 1,997.0	$ 1,899.3
Costs and expenses:					
Cost of sales	**4,387.7**	3,768.3	2,953.7	1,619.2	1,549.2
Selling and administrative	**604.3**	539.6	509.7	257.9	250.4
	396.4	380.2	269.5	119.9	99.7
Equity in pre-tax income of unconsolidated finance and insurance subsidiaries	**253.3**	223.5	213.4	21.2	17.3
Interest income	**9.0**	11.4	12.1	11.0	12.4
Interest expense	**(206.1)**	(191.5)	(215.8)	(32.9)	(33.4)
Income from continuing operations before income taxes	**452.6**	423.6	279.2	119.2	96.0
Income taxes	**191.5**	194.0	112.3	49.3	36.2
Income from continuing operations before extraordinary item and cumulative effect of a change in accounting principle	**261.1**	229.6	166.9	69.9	59.8
Discontinued operations:					
Income from discontinued operations, net of income taxes	**3.5**	8.3	56.7	43.6	28.9
Gain on sales of discontinued operations, net of income taxes	**24.3**	8.0	–	–	–
Extraordinary item, net of income taxes	**(32.6)**	(6.7)	16.4	–	–
Cumulative effect of a change in accounting principle	**–**	–	11.8	–	–
Net income	**$ 256.3**	$ 239.2	$ 251.8	$ 113.5	$ 88.7
Per common share:					
Income from continuing operations	**$ 2.97**	$ 2.78	$ 2.23	$ .96	$ .81
Discontinued operations	**.32**	.20	.76	.60	.39
Extraordinary item	**(.37)**	(.08)	.22	–	–
Cumulative effect of a change in accounting principle	**–**	–	.16	–	–
Net income	**$ 2.92**	$ 2.90	$ 3.37	$ 1.56	$ 1.20
Dividends declared	**$ .975**	$ .90	$ .90	$ .90	$ .90
Average common shares outstanding	**87,733,000**	82,564,000	74,636,000	72,938,000	73,978,000
Financial Position at Year-End					
Working capital	**$ 886.7**	$ 996.0	$ 1,057.1	$ 869.7	$ 911.0
Property, plant and equipment – net	**$ 791.0**	$ 857.6	$ 588.9	$ 452.4	$ 412.9
Total assets	**$ 5,343.6**	$ 5,557.1	$ 4,337.4	$ 2,210.0	$ 2,104.6
Long-term debt	**$ 1,485.8**	$ 2,181.5	$ 1,503.1	$ 200.4	$ 231.6
Shareholders' equity	**$ 2,307.2**	$ 1,847.2	$ 1,633.3	$ 1,253.9	$ 1,244.6
Book value per common share	**$ 25.39**	$ 22.38	$ 19.94	$ 17.23	$ 16.55
Other Data					
Capital expenditures	**$ 222.2**	$ 185.4	$ 144.4	$ 76.0	$ 26.4
Depreciation	**$ 152.7**	$ 115.3	$ 94.4	$ 42.4	$ 38.8
Number of employees	**61,000**	72,000	56,000	43,000	41,000
Number of common shareholders**	**37,000**	36,000	40,000	43,000	46,000
Number of preferred shareholders**	**4,000**	5,000	5,000	6,000	7,000

**The results of operations of Ex-Cell-O and Avco are included from September 17, 1986 and January 10, 1985, respectively. Prior years' amounts have been restated for discontinued operations. Prior years' share and per share data have been restated to reflect the effect of the two-for-one common stock split in May 1987.*
***Includes holders of record and individual participants in security position listings at year-end.*

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Washington, DC

James R. Martin *(1,4)*
Retired Chairman
Massachusetts Mutual Life
Insurance Company
Springfield, MA

Barbara Scott Preiskel *(2,3)*
Formerly Senior Vice President
Motion Picture Association
New York, NY

John J. Schmidt *(4,5)*
Consultant
(business and property
development; business
combinations)
Chicago, IL

Sam F. Segnar *(1,4)*
Chairman
Vista Chemical Company
Houston, TX

Jean Head Sisco *(4,5)*
Partner
Sisco Associates
(management consultants)
Washington, DC

J. Paul Sticht *(2,3)*
Retired Chairman
RJR Nabisco, Inc.
(international consumer
products company)
Winston-Salem, NC

Robert P. Straetz *(5)*
Retired Chairman
Textron Inc.
Providence, RI

Howard R. Swearer *(3,5)*
President
Brown University
Providence, RI

Martin D. Walker *(2)*
Chairman and
Chief Executive Officer
M.A. Hanna Company
(formulated polymers and
natural resource concern)
Cleveland, OH

*Numbers indicate
committee memberships
(1) Executive Committee:
Chairman, B.F. Dolan
(2) Audit Committee:
Chairman, Dante C. Fabiani
(3) Nominating Committee:
Chairman, J. Paul Sticht
(4) Organization and
Compensation Committee:
Chairman, James R. Martin
(5) Pension Committee:
Chairman, John J. Schmidt

Principal Corporate Officers

B.F. Dolan***
Chairman, President and
Chief Executive Officer

William J. Ledbetter**
Senior Executive Vice
President
Administration and Planning

Dennis G. Little*
Executive Vice President and
Chief Financial Officer

Thomas D. Soutter**
Executive Vice President and
General Counsel

Richard A. McWhirter***
Senior Vice President
Financial Controls

William F. Wayland
Senior Vice President
Human Resources

Raymond W. Caine, Jr.*
Vice President
Corporate Communications

Robert B. Clendenen**
Vice President
Internal Audit

Brian T. Downing
Vice President and Treasurer

Arnold M. Friedman**
Vice President and Deputy
General Counsel

Edward O. Handy, Jr.***
Vice President and Secretary

Mary L. Howell*
Vice President
Government Affairs

Gregory E. Hudson
Vice President
Taxes

William P. Janovitz*
Vice President and Controller

Cecil W. Labhart***
Vice President
Information Systems Services

Lorna E. Long**
Vice President
Human Resource
Development and
Administration

John L. Morse***
Vice President
Risk Management and
Insurance

Richard A. Watson**
Vice President/President
TIMCO

Principal Corporate Officers/Operations

William A. Anders
Senior Executive Vice
President Operations

Donald K. Farrar***
Senior Executive Vice
President Operations

Seymour S. Feuer***
Senior Executive Vice
President Operations

Quentin G. Achuff***
Group Vice President

Gary E. Atwell**
Group Vice President

Charles F. Chapin***
Group Vice President

E. Earl Fleck***
Group Vice President

George H. Hartmann*
Group Vice President

John J. Mahoney***
Group Vice President

Derek Plummer***
Group Vice President

Maurice G. Wilkins, Jr.**
Group Vice President

Willard R. Gallagher**
Vice President
International

Experience with Textron and its
subsidiaries/divisions:
*5-9 Years
**10-19 years
***20 years and over

Shareholders' Meeting
The 1988 Textron shareholders' meeting is scheduled for 10:30 a.m. on Wednesday, April 27, 1988, at the Omni Biltmore Hotel, Providence, Rhode Island.

Other Reports Available
Further information about Textron, including its 1987 Form 10-K as filed with the Securities and Exchange Commission, may be obtained by writing to the Corporate Communications Department, Textron Inc., 40 Westminster Street, Providence, Rhode Island 02903.

Stock Exchanges
Textron's stock is traded on the New York, Pacific and Midwest stock exchanges. Ticker symbol: TXT.

Dividend Reinvestment Plan
A shareholders' dividend reinvestment plan is available. For more information, please write directly to Textron's transfer agent.

Transfer Agent and Registrar
The transfer agent and registrar for Textron common and preferred shares is Morgan Shareholder Services Trust Company, 30 West Broadway, New York, New York 10015. Telephone: (212) 587-6515.

Textron is a multi-industry company with operations in three business sectors – Aerospace Technology, Commercial Products and Financial Services.

TEXTRON

1987 Annual Report

Textron Inc.
40 Westminster Street
Providence, RI 02903
(401) 421-2800

TEXTRON

Annual Report 1988

2166-04750

Textron is a diversified, multi-industry company providing a broad range of high quality manufactured products and financial services to customers in the government, commercial and consumer markets. Textron's operations are in three business sectors: Aerospace Technology, Commercial Products and Financial Services. The company participates in major defense production programs covering air, land and sea operations. Additionally, it is engaged in important development programs which provide significant opportunities for both military and civilian applications.

Through its continuing overall emphasis on technology development and new product introduction, Textron maintains market leadership in selected niches of the aerospace, automotive, outdoor products and engineered fasteners industries, and in consumer and commercial finance and insurance. The products and services of Textron's operating divisions range from Bell helicopters, Lycoming engines and Davidson automotive parts to Avco consumer loans and Paul Revere insurance.

(cover) Textron Marine Systems' Landing Craft, Air Cushion (LCAC) provides a revolutionary means of projecting naval power ashore by riding on a cushion of air trapped beneath its wraparound rubber skirt. This high speed, amphibious assault landing craft is being produced for the U.S. Navy and Marines. The LCAC's propulsion and lift systems are powered by four Textron Lycoming gas turbine engines. In 1988, Marine Systems received a $216 million award for 12 additional craft.

Highlights

(Dollars in millions except per share data)	**1988**	1987
Revenues	**$ 7,285.5**	$ 7,164.2
Income:		
Continuing operations	**$ 272.1**	$ 261.1
Discontinued operations	**–**	27.8
Extraordinary losses	**(37.7)**	(32.6)
Net income	**$ 234.4**	$ 256.3
Income per common share:		
Continuing operations	**$ 3.10**	$ 2.97
Discontinued operations	**–**	.32
Extraordinary losses	**(.43)**	(.37)
Net income	**$ 2.67**	$ 2.92
Average common shares outstanding	**87,910,000**	87,733,000
Book value per common share	**$ 27.60**	$ 25.39
Dividends declared per common share	**$ 1.00**	$ .975
Return on shareholders' equity*	**12%**	13%
Employees	**60,000**	61,000

**Based on income from continuing operations.*

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4 Operations Overview
6 Aerospace Technology
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20 Financial Services
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68 Directors and Officers

To Our Shareholders

Textron had another excellent year in 1988. Income from continuing operations reached a record level of $272.1 million ($3.10 per share), on revenues of $7.3 billion, up from the $261.1 million ($2.97 per share) in the prior year, when results included a one-time gain of $34.4 million ($.39 per share) from the sale of Avco Financial Services' credit card receivables.

Growth Through Technology

You will observe in this report that "state of the art" technology is evident throughout Textron's operations. Each operating unit — whether it manufactures helicopters, turbine engines, fasteners or automotive components, or whether it provides consumer loans or disability insurance — seeks to develop and maintain a competitive edge by using the latest technology in its particular industry.

This report also highlights Textron's participation in key aerospace and defense programs, including major development programs having the potential to increase earnings substantially in the long term. The Commercial Products divisions are achieving breakthroughs in the development of new products, materials and processes for the automotive, specialty fastener and outdoor power equipment markets. The Financial Services divisions are investing in computer technology and training to improve further the quality of service and responsiveness to their customers.

Development Programs Build for the Future

Since last year's report to you, Textron has achieved several major milestones. The most significant was the "roll out" and preparation for flight of the Bell-Boeing V-22 Osprey TiltRotor aircraft. The aircraft is the first of six prototypes being built jointly by the team under the Navy's $1.8 billion full-scale development program. In other major new programs, the Bell-McDonnell Douglas team received a $158 million contract for preliminary work for the LHX helicopter competition which is expected to lead to the winning team receiving a full-scale development contract in 1990; the Aerostructures division negotiated long-term agreements to produce wing components for the European Airbus A-330/A-340 jetliners; and HR Textron undertook developmental work to provide flight control actuators for the Navy's A-12 Advanced Tactical Aircraft.

Looking Ahead

As we look to the 90s and beyond, we see opportunities for growth in virtually all of our business lines. We have the qualified, motivated people to develop and market high quality products and services. Our existing strengths are complemented by training and development programs that encourage employees to reach their potential as Textron's future leaders. We intend to build on past success for further improvement in earnings to benefit our shareholders through:

- New product introductions and product line extensions.
- Strategic allocation of resources to sustain our balanced diversification.
- Investment to be a technological leader in our respective markets.
- Maintenance of strong financial condition and the flexibility that it provides.
- Continued search for appropriate acquisitions.

Textron has recorded five successive years of growth in earnings from continuing operations. With a sustained team effort of all our 60,000 employees and the continuing support of our shareholders, customers and suppliers, the basis for our optimistic view of Textron's future is well founded.

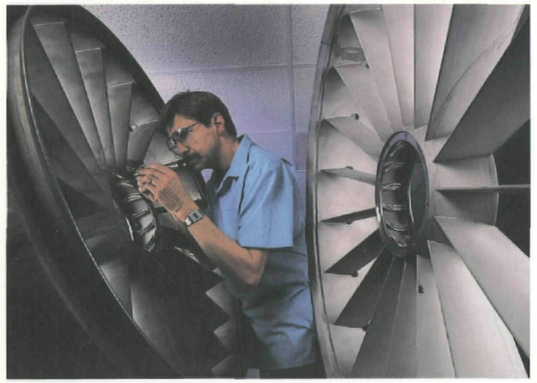
B. F. Dolan
Chairman, President and Chief Executive Officer

February 9, 1989

Royal Little — In Memoriam

Textron's founder, Royal Little, passed away on January 12, 1989, at the age of 92. Roy was a tireless builder who forged Textron into a major American corporation benefiting thousands of shareholders and employees throughout the world. But Roy was a good deal more than a business genius: he was a pilot, white-water canoeing champion, tester of parachutes, preserver of African wildlife, passionate golfer and bridge player, philanthropist, conservationist and more; with boundless concern and energy dedicated to making the world a better place to live and to enhancing opportunities for sharing its wealth. We are fortunate to have known Royal Little: a great spirit, business leader and friend.

Aerospace Technology

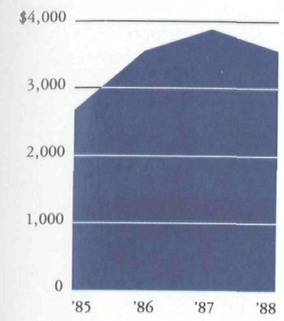


Textron ranks among the U.S. Government's largest defense contractors. The company's Aerospace Technology divisions develop and manufacture advanced technology products and systems providing sophisticated solutions for their military and commercial customers both in the United States and overseas. This sector's products include helicopters, gas turbine engines, combat vehicles, air cushion landing craft, missile reentry systems, aircraft wing structures, and aerospace materials, controls and electronics. A number of new technologies are being used in the development of the Navy's V-22 TiltRotor aircraft, the Army's LHX helicopter, and a family of "smart" munitions for the Army and Air Force.

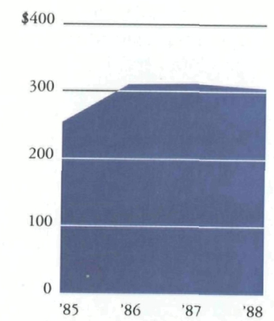
Textron 1988
Total Revenues:
$7,279.4 million

Textron 1988
Total Operating Profit:
$706.8 million

Revenues
(In Millions)

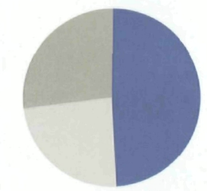


Operating Profit
(In Millions)



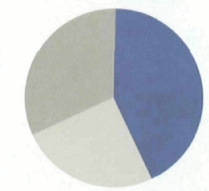
Percentage of Total Revenues

1988: 49%



Percentage of Total Operating Profit

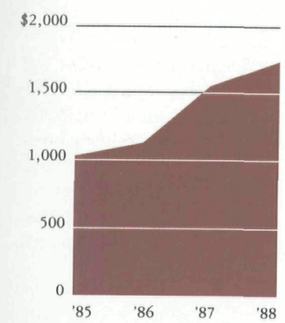
1988: 43%



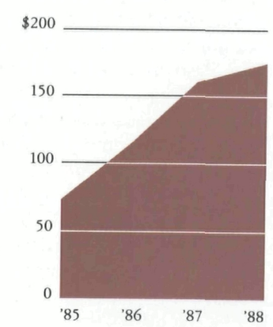
Commercial Products

Textron's competitive focus in this sector is on three principal market segments — automotive parts, outdoor products and specialty fasteners. The company's automotive parts sales have more than doubled since 1986 to over $700 million in 1988. This growth is due to the Ex-Cell-O acquisition and to Textron's success in developing close relationships with the major domestic automobile manufacturers. The Commercial Products divisions produce a broad range of automotive functional components and decorative metal and plastic trim parts which are sold primarily as original equipment. Other divisions are leading manufacturers of lawn and garden equipment, golf cars, turf maintenance equipment, watch attachments, fasteners and fastening systems.

Revenues
(In Millions)

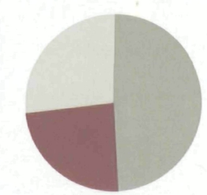


Operating Profit
(In Millions)



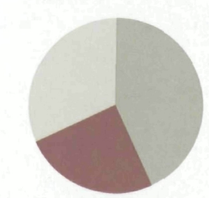
Percentage of Total Revenues

1988: 24%

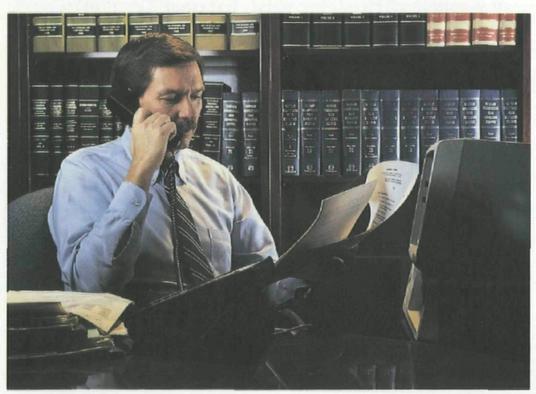


Percentage of Total Operating Profit

1988: 25%

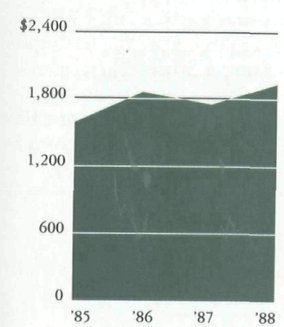


Financial Services

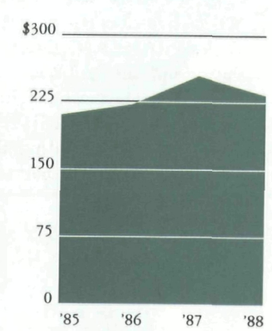


Textron targets its participation in financial services to specific markets where it has developed a competitive edge. The major subsidiaries in this sector are Avco Financial Services, Avco Insurance Services, Textron Financial Corporation and The Paul Revere Insurance Group. These units have important positions in their respective markets — consumer finance, credit insurance, commercial finance, life insurance, and disability income insurance for professionals and small business owners.

Revenues
(In Millions)

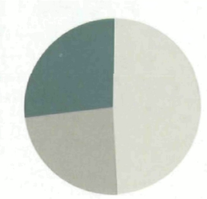


Operating Profit
(In Millions)



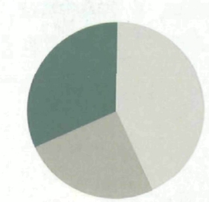
Percentage of Total Revenues

1988: 27%



Percentage of Total Operating Profit

1988: 32%



Aerospace Technology

Textron is a free world leader in the development and application of advanced aerospace technologies. The company participates in key military and commercial aircraft programs and produces systems, components and materials for tactical and strategic weapons. While continuing to maintain a strong presence in its primary markets in the United States, Textron is also responding to today's budget-driven defense environment by being a high-quality/low cost producer and by broadening its international markets.

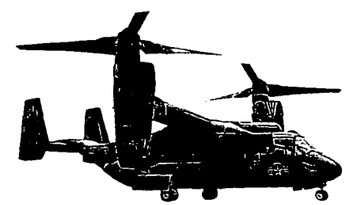
V-22 TiltRotor Has Great Potential

Textron's "large program" participation is often on a teamed or joint venture basis. For example, Bell Helicopter Textron is teamed with Boeing Helicopter in the full-scale development for the U.S. Navy and Marines of the V-22 Osprey TiltRotor aircraft. The V-22 program is the most significant program underway at Bell Helicopter. Production contracts are expected to be awarded next year with first deliveries of the V-22 starting in 1992.

The market for derivative tilt rotor aircraft, both large and small, has yet to be fully explored but is expected to have long-range potential. The Federal Aviation Administration is currently implementing a plan to approve provisional certification of the V-22 as a civilian tilt rotor. In addition, the Bell-Boeing team has agreements with Mitsui and C. Itoh to assess the military tilt rotor marketplace in Japan. Similar agreements have been signed with Dornier of West Germany and British Aerospace.

Bell Sets Sights On LHX Program

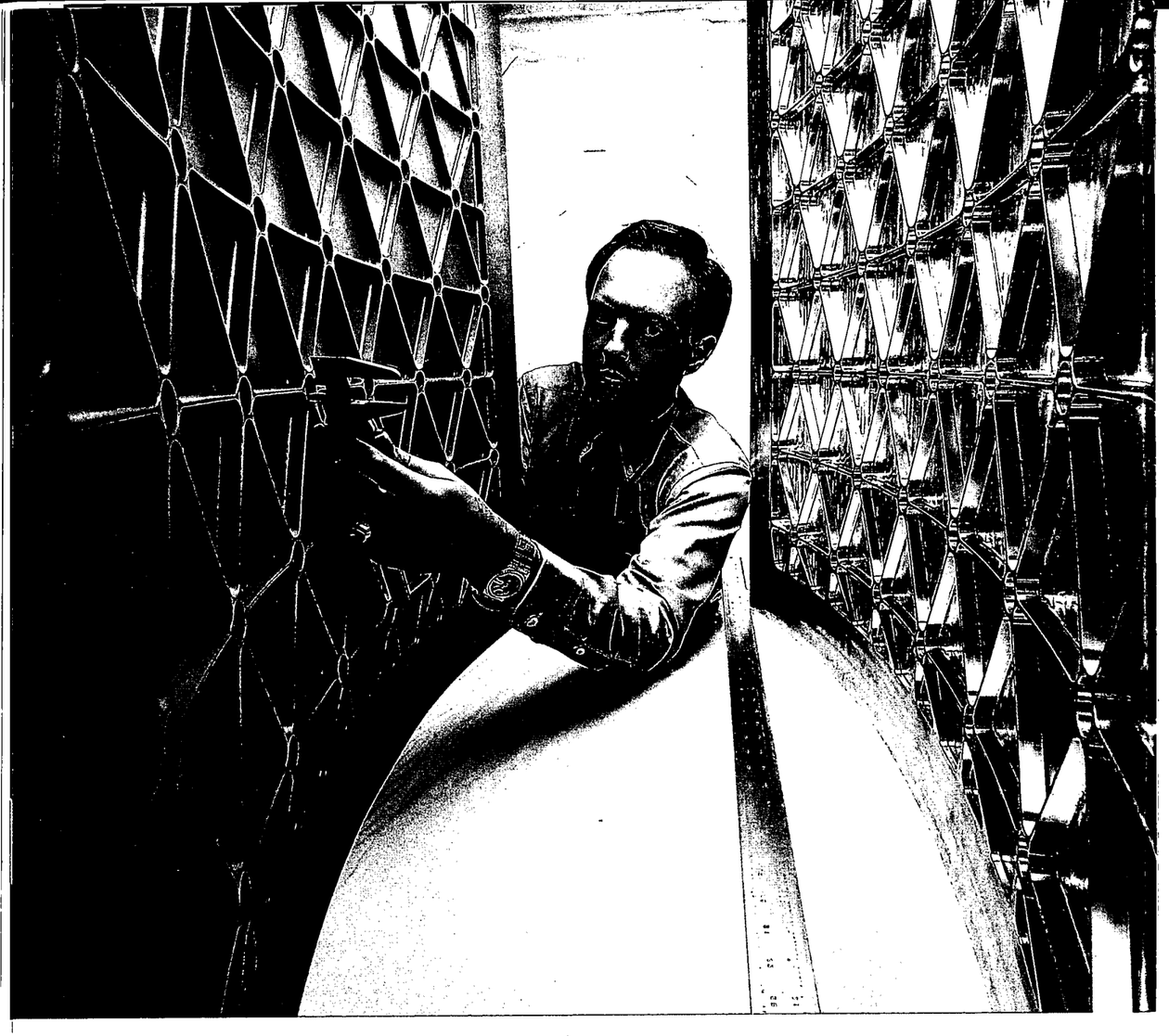
In another important defense program for the mid-to-late 1990s, Bell Helicopter has joined with McDonnell Douglas in the U.S. Army's LHX (Light Helicopter Experimental) preliminary design competition. Demonstration/validation con-

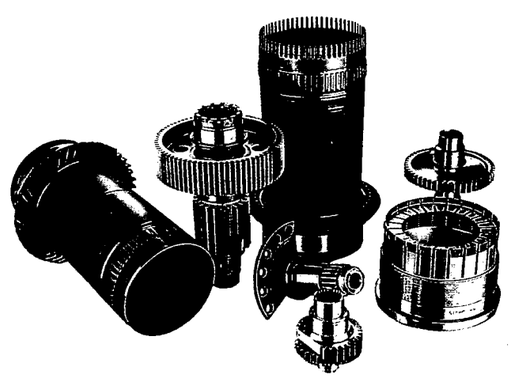


(facing page) Rotating engine compartments, or nacelles, located at the ends of the composite carbon fiber wings of the V-22 Osprey TiltRotor aircraft provide both vertical and horizontal flight capability. Bell Helicopter Textron, teamed with Boeing Helicopter, is building six production prototype V-22s as part of the full-scale development.

(above) The V-22 combines the take-off and landing advantages of a helicopter with the speed and range of a fixed wing aircraft.

(right) The interaction of sophisticated visual technology with cockpit display and control systems in Bell Helicopter Textron's OH-58D gives the U.S. Army a highly flexible scout/attack helicopter. The OH-58D's mast-mounted sight provides day/night television and thermal imaging displays as well as a laser rangefinder.





(facing page) Isogrid panels built by Textron Aerostructures for missile and space launch vehicles incorporate triangular pockets to maximize strength and rigidity. Expertise in the application of advanced technology-forming concepts and other technologies is enabling the division to pursue new growth opportunities.

(above) Textron Aerostructures is currently designing nose cones and aft skirts for the U.S. Air Force's Titan IV solid rocket booster.

(below left) Norwood Precision Products Textron, which is part of the Aircraft Engine Components Division, produces a wide variety of parts and components for the aerospace industry.

(right) Because of its air cushion technology, the LCAC can ride over rough seas, beaches and rugged shoreline without stopping. The craft is produced by Textron Marine Systems.

of West Germany to provide wing components for the Airbus A-330/A-340 commercial airliners. The aggregate long-term sales value of the agreements exceeds $1 billion.

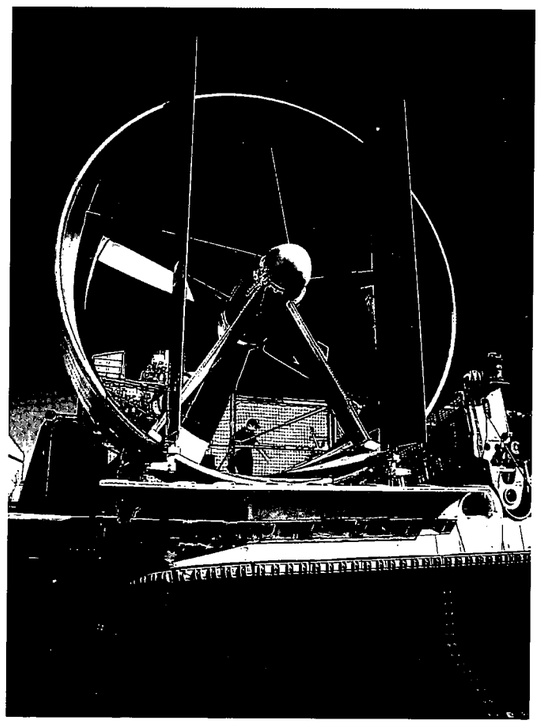
Textron Defense Systems continues to produce the reentry system and reentry vehicle for the Peacekeeper (MX) missile which, to date, have accounted for about $1.1 billion in sales. The division intends to become a major producer of tactical weapon systems over the next several years. It is developing a family of "smart" anti-armor munitions for the Army and Air Force based on the division's state of the art Skeet warhead technology.

Air Cushion Technology Provides Opportunities

Textron Marine Systems produces the LCAC, which is the cornerstone to the modernization of the amphibious forces for the U.S. Navy and Marines. In December, the division received a $216 million contract for 12 additional LCACs. Under prior contracts, the division has delivered 14 LCACs and is manufacturing another 10 craft. Ultimately, it is expected that more than 90 craft will be deployed.

Textron Marine Systems' family of utility air cushion vehicles consists of amphibious vehicles capable of transporting people and cargo over harsh or remote terrain previously inaccessible by conventional means. In 1988, the division also received a design and construction contract for the Coast Guard's new motor lifeboat prototype.

Bell Aerospace Textron is developing antennas and precision pointing systems for the Army, Navy and Air Force in support of MILSTAR, the U.S. military



communication satellite program. MILSTAR is designed to ensure survivable and reliable communications capabilities for U.S. strategic forces worldwide. The division is also building the Air Force's Mobile Microwave Landing System, which will enable aircraft operating in forward combat areas to land with increased precision and safety.

Overseas Markets For Tanks, Armored Vehicles

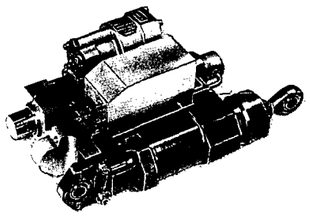
Cadillac Gage's expertise is in turret controls and stabilization systems principally for the M1 tank. In addition, it is developing a new hydropneumatic suspension system for tanks which will improve the ride and reduce both weight and life cycle costs. Cadillac Gage also builds Stingray light tanks and light armored wheeled vehicles, primarily for the international defense market.

In 1988, HR Textron, teamed with Parker Hannifin, won a long-term subcontract to build flight control actuators for the Navy's Advanced Tactical Aircraft, the A-12. The A-12 will replace the A-6 Intruder as an all-weather, carrier-based attack aircraft.

Promising Future For Composites

Textron Specialty Materials is fabricating silicon-carbide, fiber-reinforced titanium alloy components for demonstration and evaluation by the three National Aerospace Plane airframe competitors.

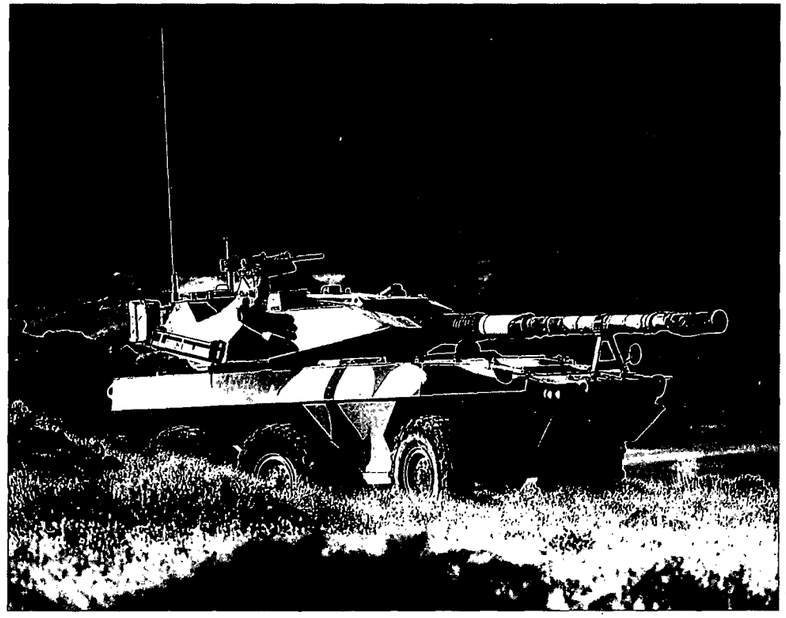
Textron's three gas turbine engine components producers — Aircraft Engine Components, Airfoil and Fuel Systems — are major sources for a wide range of components. These include critical rotating parts, such as hubs and discs, titanium superalloy compressor components, and fuel injection and distribution devices which are sold to all of the major turbine engine producers.



(facing page) Silicon carbide reinforced aluminum sheets are stacked into final configuration prior to consolidation at Textron Specialty Materials. These metal matrix composite panels are designed for use in the development of a tail section typical of an advanced fighter aircraft for the U.S. Air Force.

(above) HR Textron's fly-by-light actuator incorporates technologies designed for a new generation of high-performance aircraft.

(right) Cadillac Gage Textron produces light tanks and armored vehicles, principally for overseas markets. Its Commando line includes the Commando V-600 with a 105mm turret, the largest weapon ever mounted on a wheeled vehicle.



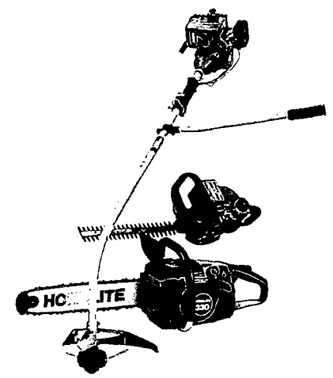
Commercial Products

Textron's Commercial Products divisions are leading producers of automotive components, specialty fasteners and outdoor power equipment. They retain their competitive edge by maintaining active research and development programs, producing quality products at competitive prices, and by anticipating customer needs.

Automotive Parts Business Growing

The company's substantial financial resources, along with its diverse technological capabilities and problem-solving abilities, provide the Commercial Products divisions with the necessary strengths to keep pace with the automotive industry's new product needs.

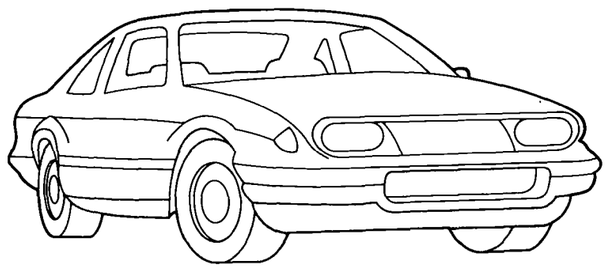
The automotive industry is an important growth area for Textron. The company is determined to increase its involvement by further strengthening its commitment to quality, service and cost reduction. Throughout the U.S. automotive industry there is growing emphasis on the outsourcing of components and subassemblies and on establishing long-term relationships between the domestic automakers and their prime suppliers. In 1988, Textron's Camcar, Cherry and Townsend fastener divisions were selected jointly by General Motors' Saturn Corporation as a supplier of various fasteners. Joining Textron's fastener operations in 1989 is Avdel, based in England, with manufacturing and marketing operations in Continental Europe and the United States. Avdel also has major markets in Japan, Australia and Canada. Textron has been temporarily restrained by a U.S. court from exercising control over Avdel until the U.S. Federal Trade Commission completes an investigation of the competitive effect of the acquisition.



(facing page) E-Z-Go passenger and luggage carriers help to ensure smooth connections for travelers at busy airports across the country. E-Z-Go's high standards for quality and service have made it one of the world's largest producers of golf cars and utility vehicles.

(above) Homelite's outdoor power equipment line includes popular consumer model chain saws, string trimmers and hedge trimmers.

(right) Jacobsen Textron's new LF100 fairway mower provides golf course operators with fast, tournament quality mowing. The latest in Jacobsen's line of professional turf care equipment, the LF100, with its five reels, can cut a 100 inch swath.



Other divisions contribute to Textron's acknowledged capabilities in automotive products. CWC Castings manufactures camshafts and diesel engine blocks. McCord Winn is a major producer of fuel pump armatures, windshield washers, air pumps and switches. Davidson Interior Trim is a leading automotive supplier in its polymer-based trim components product line. Davidson Exterior Trim is one of the largest manufacturers of reaction injection molded exterior trim. Davidson Instrument Panel is a leading manufacturer of instrument panels in North America. The automotive divisions are also pursuing growth opportunities with the U.S plants of foreign producers.

R & D Leads To Innovative New Products

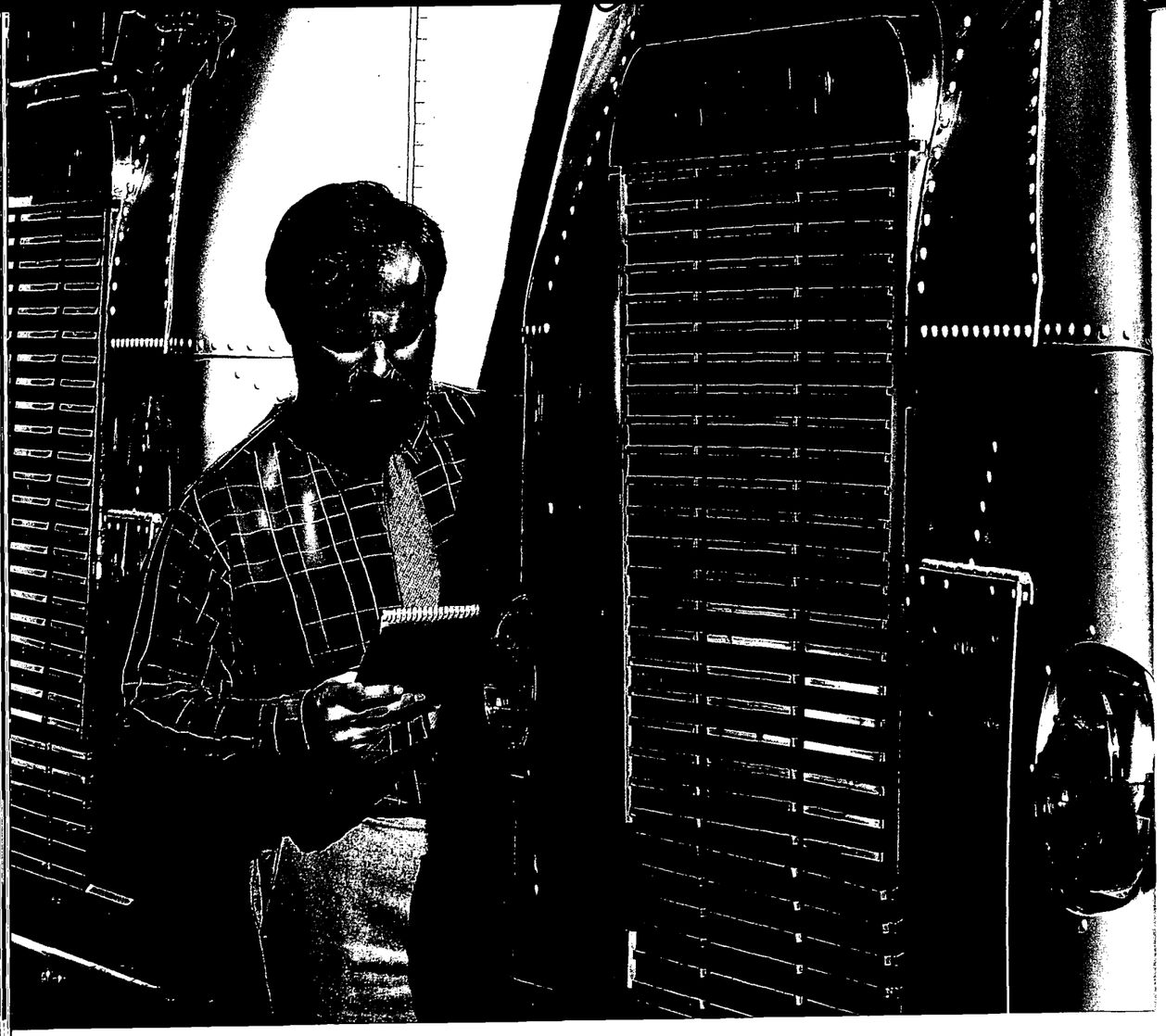
Research and development is the lifeblood of this sector and Textron divisions work together to develop and produce new products. The three Davidson divisions share design and technology facilities where the current emphasis is on cast-vinyl skin technology and modular assemblies development. The Randall Division, a major supplier of metal and plastic trim parts for the automotive and appliance industries, works closely with the Homelite Division to manufacture chain saw housings and similar components for Homelite products.

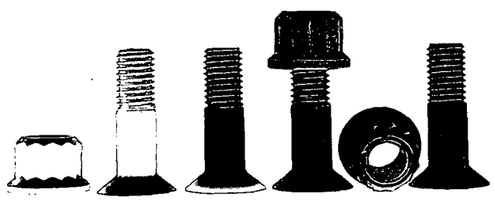
Textron's continued success in its key commercial products businesses hinges on the company's ability to introduce new products based on proprietary materials and processes. Townsend established a new product effort in 1988, which gives customers a broader base of services by combining the division's special fasteners and cold-formed parts with other components made of plastic and metal.

(facing page) Innovative manufacturing techniques take many forms at Textron. Davidson Exterior Trim Textron's new sprayable latex masking system enabled the division to increase production volume and improve the quality of its two-color automobile bumpers.

(below left) In 1988, Textron's automotive sales increased over 20% to $724 million, equivalent to about $58 in components for every car and light truck built in North America.

(right) Continuing research and development, such as this tensile test at Davidson Technology Center to analyze the stretching of vinyl materials used in automotive components, keeps Textron on the leading edge of product design and application.





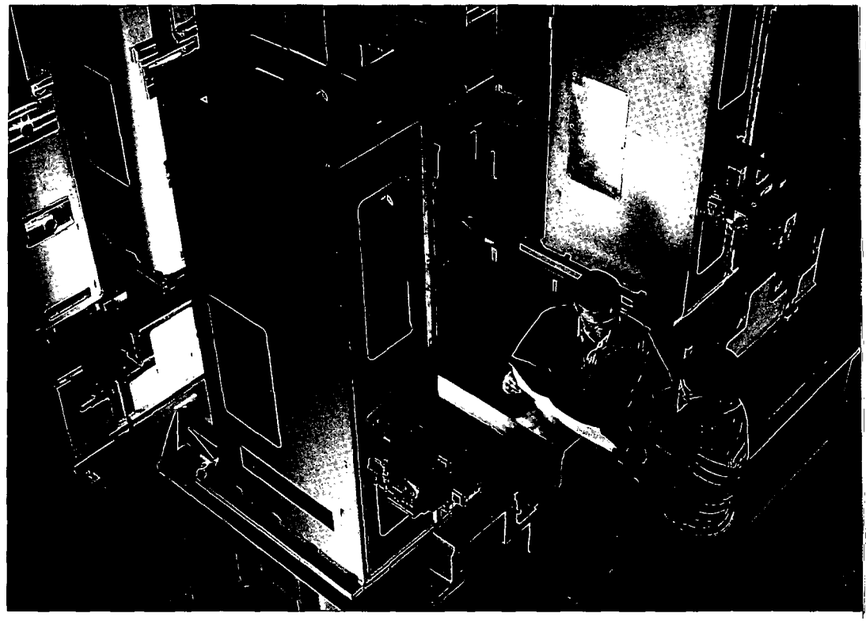
Three Textron divisions are actively involved in air bag development for automotive safety: Davidson Instrument Panel is working with the automotive companies and their subcontractors to develop instrument panels which will house passenger-side air bags; Camcar is supplying threaded fasteners and assemblies and the Cherry Division supplies rivets used on airbag modules. Cherry is also collaborating with Textron's Aerospace Technology divisions to develop unique fasteners that will be compatible with new types of composite materials for advanced aircraft.

The three outdoor products divisions — E-Z-Go, Homelite and Jacobsen — invest continually in new product development. Improvements in manufacturing and a broader offering of quality products have supported a recovery at Homelite.

Customer Communication and Support

Not all gains are the result of advances in technology. For example, the Contractor Tool and Equipment Division, while maintaining an active product development program, relies heavily on feedback from its distributors and end users to determine what new products are needed. Customer technical support has become increasingly important. Camcar's computer aided design systems, for example, can provide a direct link with its customers to design sophisticated components.

Competitive factors drive these divisions to maintain their technical leadership. Many divisions, including Jacobsen and North American Machine Tool, have expanded their use of computer integrated manufacturing to reduce response time between engineering design changes and actual production, while improving the quality of their products.



(facing page) Textron's Camcar, Cherry and Townsend divisions produce specialty fasteners for virtually every facet of American industry. All three divisions supply fasteners used on truck cab bodies made by Freightliner, a wholly-owned subsidiary of Daimler-Benz.

(below left) Cherry Textron manufactures these advanced composite pins for aerospace applications.

(above) Avdel makes more than 20 distinct engineered fastening and assembly systems, including this Avex tool and fasteners for the automotive industry.

(right) Highly complex tooling products from Micromatic, an operation of North American Machine Tool, include this 36 station cylinder block transfer machine for a major automotive manufacturer.

Financial Services

Outstanding customer service is the hallmark of Textron's Financial Services business and the cornerstone for its growth. The skilled people of Textron's Financial Services units build on this fundamental strength by applying state-of-the-art computer technology to the workplace.

Avco Financial Services (AFS) and The Paul Revere Insurance Group rely on advanced computer systems and automated office systems to maximize field office service and to support the very best finance and insurance products available to consumers.

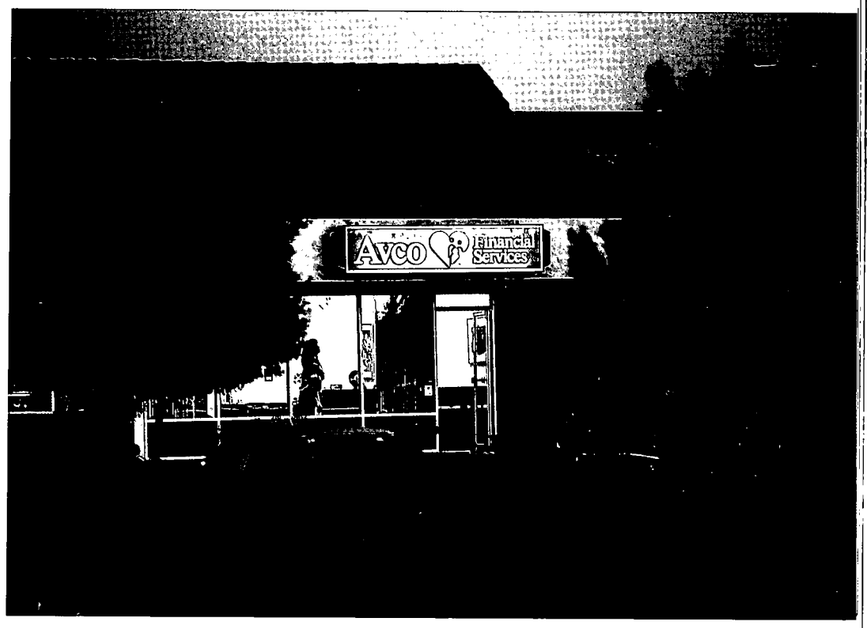
Computers Enhance Customer Service

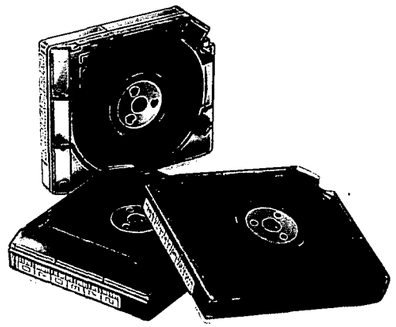
Avco Financial Services' finance unit is installing a new personal computer system in its branch offices in the United States and Canada. Having computer intelligence in the branches offers the potential for further improvements in training, marketing and customer service. AFS is also utilizing computer technology to supply its retail merchant customers with a new level of service. In the past two years it has installed personal computers in approximately 600 retail stores in the United States as part of its Avco Credit Express (ACE) system. ACE, a first for the credit industry, provides on-the-spot approval for retail sales contracts. The system is also used to sell credit life insurance and related products of AFS' insurance unit, Avco Insurance Services (AIS).

Through its nearly 1,200 branch offices, AFS offers direct installment loans and real estate secured loans to consumers, the purchase of sales finance contracts from retail merchants, and the sale of credit life, credit disability and property insurance to its borrowers. Since many of AFS' customers could qualify for bank loans, its competitive advantage is the superior customer service it offers.

(facing page) On-the-spot customer credit approval is available at retail appliance and furniture stores through the Avco Credit Express (ACE) machine. The ACE system is electronically linked to a local Avco Financial Services office where credit applications can be approved automatically 24 hours a day, seven days a week.

(right) With approximately 1,200 branch offices in the United States, Australia, Canada and the United Kingdom, the Avco Financial Services name is a familiar sight in many cities and towns. AFS' commitment to personal service has generated strong customer loyalty.





Innovative Insurance Products

The primary customers of AIS are AFS loan customers and financial institutions such as banks, credit unions and consumer finance companies. In the United States, Avco Insurance Services' business is conducted by its Balboa Life and Casualty Insurance Companies. AIS' current emphasis is on financial institutions and credit related insurance products where it has specialized expertise. By concentrating on business fundamentals while improving its service capabilities, AIS has become one of the top writers of collateral protection insurance. Its product lines for financial institutions include key tracking programs for Ford Motor Credit Corporation and charge account protection for Discover card and American Express card members.

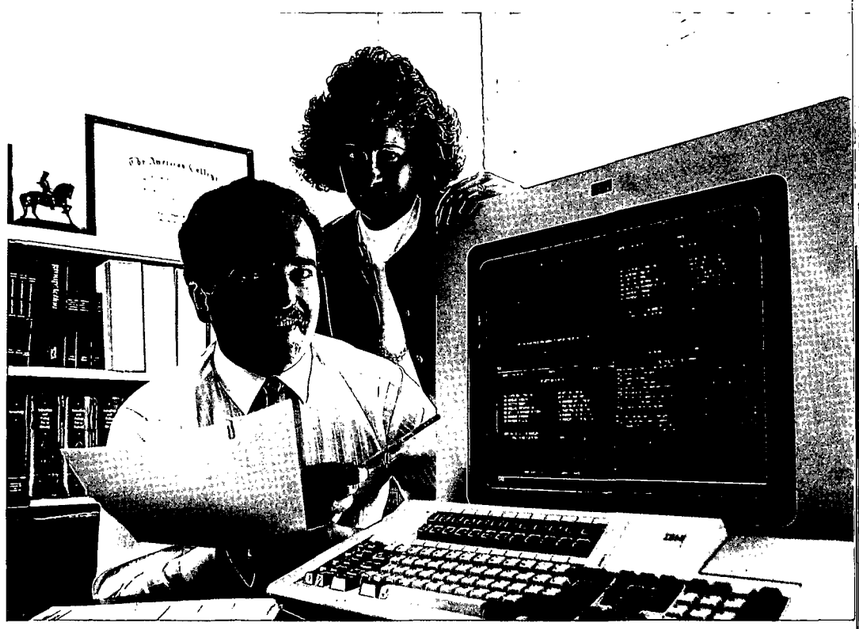
Paul Revere's principal product is individual disability income insurance for professionals and small business owners. It also markets group insurance products such as long-term disability, life, medical, dental and other coverages to employer/employee groups and offers life insurance and annuities to individuals. In 1988, Paul Revere was a finalist in the first annual Malcolm Baldrige National Quality Award competition.

Paul Revere Insurance continually seeks to improve support services to its field offices and customers. Field office automation was a high priority in 1988. A pilot program for an enhanced automated office was begun to test sophisticated application functions such as electronic mail, access to information through a

(facing page) The processing of about 250,000 transactions per day requires highly trained personnel and up-to-date computer systems. Textron's financial services computer center in Irvine, California is the primary support facility for AFS' consumer finance and insurance operations and for TFC. More than 1,500 terminal display stations are attached to the system.

(below left) Magnetic tape cartridges used in an automated data storage system at the Irvine computer facility have substantially improved loading speeds.

(right) Advanced artificial intelligence provides a significant competitive advantage at Paul Revere Insurance. The PACE system uses a four-section screen to provide claim examiners with up-to-the-minute information on claimants.



telecommunications network and new business trackings. During the year, two systems applications were brought on line. The first provides Paul Revere with the capability of using its underwriting experience in the disability income insurance business to select new insurance risks. The second system provides the framework to simulate the review and recommendations of claims by an experienced senior claims professional. The combination of these critical systems provides Paul Revere with a significant competitive advantage. Paul Revere also has moved toward automation of the system development functions. Called Computer Assisted Systems Engineering (CASE), this technology uses the power of the computer to speed the development of computerized systems and their subsequent maintenance.

Commercial Finance Opportunities

Textron Financial Corporation (TFC), the company's commercial finance subsidiary, continues to diversify and expand in its market niches while providing innovative products to its customers. TFC's growth is largely the result of financing non-Textron products, which now accounts for 65% of its total business. Commercial financial services include equipment leasing, secured loans, real estate mortgages and inventory financing. In 1988, TFC enhanced its cost competitiveness by automating and centralizing certain collection functions.

(facing page) Textron Investment Management Company has the investment responsibility for more than $4.5 billion of Textron employee benefits and insurance assets. Its staff of 16 professionals has produced long-term pension investment returns ranking in the top quartile of large U.S. pension funds.

(right) Textron Financial Corporation's (TFC) Real Estate Financing Division provides mortgage financing for commercial properties. TFC's strategy of diversification and expansion has resulted in ten successive years of improved net profits and asset growth.

Employee/ Community Commitment

Textron recognizes the importance of its employees and works diligently to select, develop and retain the highest quality workforce available. Our compensation, benefits and overall employee programs rank among the best in industry.

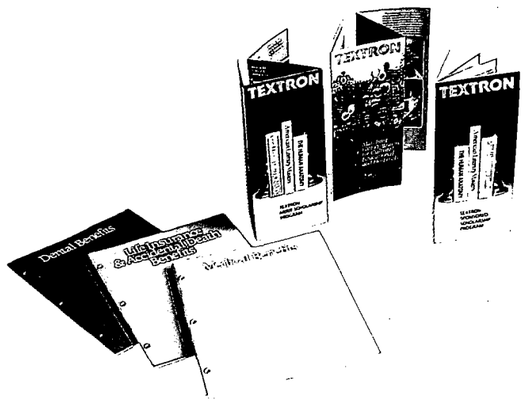
We are proud of our people and we are pleased to offer talented employees the opportunity to advance to more responsible positions. Key executives and high potential employees are identified and become part of a corporate-wide program that provides developmental opportunities within Textron. Attention is given to the advancement of women and minorities as we continue to emphasize promotion from within.

Opportunities For Education And Training

Numerous educational and vocational opportunities exist for Textron employees. They range from on the job training to seminars to enhance job performance to tuition reimbursement for degree studies. Textron, working with the Harvard Business School, also sponsors development programs for management employees and works closely with divisions on executive succession and development.

Individual divisions, including Bell Helicopter and Textron Defense Systems, offer "live" courses televised from local universities. Bell Aerospace Textron provides on-premise accredited master's level technical and engineering courses. Textron assistance takes many forms. For example, HR Textron was instrumental in starting a local daycare/preschool program which supports the child care needs of its employees. For its efforts, the division received an Employer Of The Year Award from the National Association of Business and Professional Women.

Textron takes pride in being a responsible corporate citizen. The Textron Charitable Trust provides financial assistance to non-profit organizations on a nationwide basis. In addition, the Trust matches gifts from employees to cultural and educational institutions and hospitals.



(facing page) Textron sponsored programs conducted by Harvard Business School faculty are held each summer to broaden the analytical and management skills of selected personnel.

(below left) Textron provides a wide range of employee benefits. In addition, the Textron Charitable Trust offers college tuition assistance and matches employee contributions to cultural and educational institutions and hospitals.

(right) Employee assistance activities within Textron divisions include McCord Winn's in-house mathematics and English language classes for Vietnamese and other employees at its Winchester, Massachusetts plant.

Aerospace Technology

Helicopters

Bell Helicopter Textron
P.O. Box 482
Fort Worth, TX 76101
(817) 280-2011
Leonard M. Horner
President

Bell Helicopter Textron manufactures helicopters and spare parts for the U.S. Government, foreign governments, and civilian markets and has large aftermarket sales of technical, training and logistics support services. Aircraft are produced in the United States and Canada, and through programs with Indonesia, Norway, Turkey, Korea and others. Bell Helicopter, teamed with Boeing Helicopter, is developing the U.S. Navy's V-22 Osprey TiltRotor aircraft. The division markets its products and services worldwide through a network of direct sales managers and independent representatives.

Propulsion

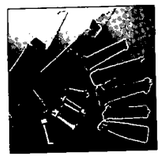
Textron Lycoming
550 Main Street
Stratford, CT 06497
(203) 385-2000
John R. Myers
President

Textron Lycoming manufactures gas turbine and reciprocating engine propulsion systems and related products for the United States and foreign military, airframe and vehicle manufacturers and commercial end users. Its key programs include the AGT1500 engine for the U.S. Army's M1 main battle tank and the ALF502 turbofan for the British Aerospace BAe146 jetliner.

Aircraft Engine Components
P.O. Box 11906
Newington, CT 06111
(203) 666-4601
A. Arthur Weigel
President

The Aircraft Engine Components Division manufactures to customer design gas turbine engine components such as discs, hubs, cases, frames, and precision gears for engine producers and the spares market. Products are marketed through the division's own sales force.

Airfoil Textron
P.O. Box 4427
Lima, OH 45802
(419) 226-2900
Edward J. Breznyak
President



Airfoil's principal products are forgings and finished components including fan blades, compressor blades and vanes, impellers and integrally bladed rotors which are used in turbine engines for commercial, military and business aircraft. Its products are sold directly to customers primarily in the United States, Canada and Great Britain.

Fuel Systems Textron
700 N. Centennial
Zeeland, MI 49464
(616) 772-9171
William G. Paterson
President

Fuel Systems Textron produces gas turbine engine fuel metering components consisting of main engine fuel injector devices, fuel metering and distribution valves and augmentor fuel injector systems. These products are sold as original equipment or spares to the free world's major jet engine producers and the U.S. Government. Overhaul of these components is performed for the U.S. Government and commercial airlines.

Systems

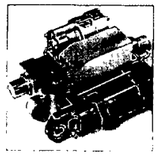
Bell Aerospace Textron
P.O. Box One
Buffalo, NY 14240
(716) 297-1000
John W. Siedlecki
President

Bell Aerospace Textron designs and manufactures electronic products, systems and software for the defense and space industries of the United States and its allies. Its customers include government agencies as well as prime contractors. The division's products are aircraft landing systems, inertial systems and components and subsystems for satellite communications. The major technologies used in its products are precision inertial instruments, extremely high frequency antennas, precision pointing pedestals and approach radar.

Cadillac Gage Textron
P.O. Box 1027
Warren, MI 48090
(313) 777-7100
William C. Frank
President

Cadillac Gage Textron produces lightweight armored combat vehicles, turrets, aerospace controls, advanced suspension systems, and weapon/turret control and stabilization systems. These products are sold primarily to the U.S. Government and its prime contractors, and to foreign governments by the division's sales force and independent manufacturers' representatives.

HR Textron
25200 West Rye
Canyon Road
Valencia, CA 91355
(805) 259-4030
Richard J. Millman
President



HR Textron provides sophisticated control systems to prime contractors and the U.S. Government for use in high-performance aircraft, space launch vehicles, helicopters, missiles and turbine engines. Additionally, the division produces servovalves, fuel and pneumatic system components and automatic test equipment. Its PTI division is an industry leader in aerospace and industrial filtration technology. HR Textron products are marketed by its own sales force, field offices and distributors throughout the free world and are supported worldwide through service centers.

Textron Aerostructures
P.O. Box 210
Nashville, TN 37202
(615) 361-2000
John S. Kleban
President

Textron Aerostructures is a subcontractor to the commercial and military aerospace industry. It produces wings for Gulfstream Corporation's G-IV business jet and British Aerospace's BAe146 commuter jet. In 1988, it became the first major U.S. participant in the European Airbus program, and will supply wing components for the A-330/A-340 aircraft. In addition, it is manufacturing components for the C-17 airlifter and is producing nose cones and aft skirts for the U.S. Air Force's Titan IV solid rocket booster.

Textron Defense Systems
201 Lowell Street
Wilmington, MA 01887
(508) 657-5111
Harold K. McCard
President

Textron Defense Systems develops and produces advanced technology weapon systems for the U.S. Department of Defense. As a leading supplier of strategic systems for the Air Force, the division produces the reentry vehicle and fuze for the Peacekeeper missile. It also supplies logistic services on both the Peacekeeper and Minuteman weapon systems, including hardware for spares and replenishment purposes. In tactical weapon systems, the division is developing a family of "smart" anti-armor munitions based on its advanced sensor technology.

Textron Marine Systems
6800 Plaza Drive
New Orleans, LA 70127
(504) 245-6600
John J. Kelly
President

Textron Marine Systems produces the Navy's Landing Craft, Air Cushion (LCAC), a high speed, air cushioned amphibious assault landing craft. It is also developing the U.S. Coast Guard's new class of motor lifeboat, and is pursuing development and production of other high-performance marine products for both military and commercial application.

Textron Specialty Materials
Two Industrial Avenue
Lowell, MA 01851
(508) 452-8961
Paul R. Hoffman
President

Textron Specialty Materials is a pioneer in the development and manufacture of advanced composites and fire protection materials. The advanced composite business lines include boron, silicon carbide/metal matrix and carbon products which are sold to aerospace firms, the U.S. Government and sporting goods manufacturers. These reinforced materials provide superior performance where high strength, rigidity and light weight are required.

Commercial Products

Outdoor Products

E-Z-Go
P.O. Box 388
Augusta, GA 30913
(404) 798-4311
John R. Dwyer, Jr.
President

E-Z-Go is a leading producer of utility vehicles for sports and industry. The division manufactures fleet golf cars and related parts and accessories. It also produces utility vehicles for the turf, industrial and commercial markets and deluxe model golf cars for individual owners. Its products are distributed worldwide through a network of independent distributors and company-owned branch offices.

Homelite
14401 Carowinds
Boulevard
Charlotte, NC 28217
(704) 588-3200
Alan Y. Levanson
President

Homelite produces electric and gasoline string trimmers, hedge trimmers, brushcutters and chain saws, as well as gasoline-powered blowers, generators, pumps, heaters and compactors. The division manufactures lawn mowers, riding mowers, lawn tractors and snow-throwers sold under the Homelite/Jacobsen names. These products are sold to retailers in the United States and Canada by Homelite's direct sales force. Overseas sales are by wholly owned branches, independent distributors and sales representatives.

Jacobsen
1721 Packard Avenue
Racine, WI 53403
(414) 637-6711
Robert W. Reid, Jr.
President

Jacobsen is a leading producer of quality turf and grass maintenance equipment used by golf courses, government agencies, schools, landscape contractors and others. Its products include greens, fairway and rough-area mowers, large and small rotary mowers, seeders, sweepers, vacuums, blowers and aerators. Jacobsen equipment is sold through some 300 independent distributors, dealers and company branches worldwide.

Automotive

CWC Castings
Henry Street
Muskegon, MI 49441
(616) 733-1331
John L. Kelly
President

CWC produces castings for automotive, truck and off-highway equipment manufacturers. Its major products are automotive camshafts, diesel engine blocks, cylinder heads and small automotive vacuum cast steel components. The division's sales force sells directly to engine and parts manufacturers.

Davidson Exterior Trim Textron
Route 6, Box 10
Americus, GA 31709
(912) 924-6111
D. Michael Weston
President

Davidson Exterior Trim is the largest independent manufacturer of exterior trim parts, principally soft bumpers and body moldings, for the North American automotive manufacturers. The three Davidson divisions share a sales and design office and a central marketing and technology center. These activities are complemented by a marketing group at the division location.

Davidson Instrument Panel Textron
875 Greenland Road,
Building C
Portsmouth, NH 03801
(603) 433-4142
Frank J. Preston
President

Davidson Instrument Panel is the leading independent manufacturer of automotive instrument panels in North America, producing nearly one third of the domestic automobile and light truck requirement. Advanced technology plastic and polyurethane products are delivered to assembly plants throughout the United States and Canada using the "Just In Time" delivery approach.

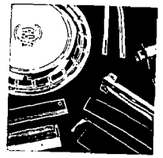
Davidson Interior Trim Textron
Industrial Park
Dover, NH 03820
(603) 742-0720
Richard J. Ferrari
President

Davidson Interior Trim produces polymer-based trim components for automobiles and light trucks. Its principal products — armrests, console assemblies, instrument panel components and door panel assemblies — are sold as original equipment to automotive manufacturers in North America.

McCord Winn Textron
620 Washington Street
Winchester, MA 01890
(617) 729-4400
Albert R. Vanderbilt
President

McCord Winn Textron manufactures electro-mechanical components for North American-based automobile and light truck producers. The division's principal products are fuel pump armatures, windshield washer systems, horn pads, air pumps and switches. McCord Winn's products are sold directly to automotive manufacturers and their subcontractors.

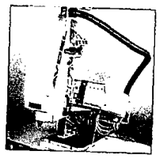
Randall
P.O. Box 46334
Cincinnati, OH 45246
(513) 896-9400
Richard J. Price
President



Randall's products include a wide range of functional and decorative parts in metal and plastics for both the automotive and appliance industry, as well as for other Textron divisions and commercial accounts. Its principal products are in roll sections, stampings and tubular steel; bright metal and painted moldings; decorative plastic painted components and chrome plated components; and in wheel ornamentation trim covers, hub caps and trim rings.

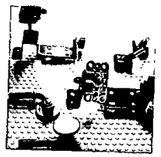
Specialty Fasteners

Avdel plc
Welwyn Garden City
Herts AL7 1QB
England
44-707-372 624
John C. Marley
President



Avdel is a major supplier of specialized engineered fastening and assembly systems, with operations in the world's major industrialized countries. Avdel's direct sales organization has developed global markets through the substitution of traditional fastening and joining methods with a range of innovative hand held and automatic assembly systems for the automotive, home appliance, construction, electronic, transportation and aerospace industries.

Camcar
600-18th Avenue
Rockford, IL 61104
(815) 961-5000
Robert H. Rothkopf
President

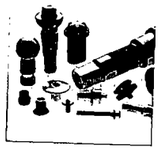


Camcar produces custom-engineered components and fasteners for such diverse industries as automotive, business equipment, electronics, railroad, appliance and truck/trailer. It is a leading supplier of automotive assemblies which combine precision Camcar products with metal stampings, plastic and rubber components.

Cherry
P.O. Box 2157
Santa Ana, CA 92707
(714) 545-5511
Donald A. Eckerson
President

Cherry manufactures fasteners for aerospace, transportation and other commercial markets and is a world leader in the development and production of blind fasteners and fastener installation systems. Cherry markets its products through a worldwide distribution network and its own sales force.

Townsend
5250-77 Center Drive
Suite 300
Charlotte, NC 28217
(704) 525-8003
Nicholas J. Wodogaza
President



Townsend designs and manufactures a full line of specialty fasteners, proprietary fastening systems, installation machines, precision cold-formed parts and subassemblies for the automotive, construction, electronics and office automation markets, as well as for all major consumer goods markets. These products are marketed directly through sales engineering specialists supplemented by distributors and sales agents.

Other

Contractor Tool and Equipment Textron
4455 Boeing Drive
Rockford, IL 61109
(815) 399-2078
Herbert L. Henkel
President

Contractor Tool and Equipment Textron has two operations. Greenlee Textron produces and markets a broad range of powered equipment, electrical test instruments, hand tools and related consumables, such as conduit benders, cable pullers and punch and die metal hole-making systems to professionals for use in both construction and industrial applications. Forest City Tool Company produces woodworking tools and equipment including wood augers, router bits and indexible tooling for the furniture and woodworking markets. Both units have sales organizations which work through independent distributors.

North American Machine Tool
P.O. Box 700
Walled Lake, MI 48088
(313) 624-7800
James F. Horgan
President

The North American Machine Tool Division is composed of a group of companies involved in the design and manufacture of proprietary production machine tools, components and systems for the automotive, appliance, aerospace, bearing, off-highway and plastic components industries. Most of its products are sold through a direct sales force in the United States and Canada.

Speidel
70 Ship Street
Providence, RI 02903
(401) 421-8600
Alfred M. Massotti
President

Speidel's principal products are watch attachments, fashion bracelets, quartz watches, neckchains and British Sterling men's toiletries. Its products are sold in jewelry, department, drug and discount stores primarily by Speidel's direct sales force as well as by independent wholesalers.

Financial Services

Finance

Avco Financial Services
P.O. Box 19701
Irvine, CA 92713
(714) 553-1200
Charles R. Rinehart
President

Avco Financial Services' (AFS) consumer finance operations involve unsecured loans and loans secured by personal property. AFS also makes larger loans for longer periods which are secured by real property and purchases retail installment contracts from various dealers. AFS operates approximately 1,200 finance offices in the United States, Australia, Canada and the United Kingdom.

Textron Financial Corporation
P.O. Box 6687
Providence, RI 02940
(401) 272-8000
Stephen J. Davis
President

Textron Financial Corporation (TFC) is a commercial finance company offering equipment leasing, commercial real estate financing, secured lending and inventory financing. TFC provides financing to a broad spectrum of American industries through its nationwide network of 35 offices, as well as to several Textron units.

Insurance

Avco Insurance Services/Balboa Life and Casualty
P.O. Box 19702
Irvine, CA 92713
(714) 553-0700
Carlton W. Honebein
President

Avco Insurance Services (AIS) and its subsidiaries, including Balboa Life and Casualty Insurance Companies, provide collateral protection, credit life and disability, involuntary unemployment, credit property insurance and property/casualty insurance in the United States, Australia, Canada and the United Kingdom. A substantial portion of AIS' business is derived from the consumer loan customers of Avco Financial Services.

Paul Revere Insurance Group
18 Chestnut Street
Worcester, MA 01608
(508) 799-4441
Aubrey K. Reid, Jr.
President

Paul Revere Insurance Group specializes in individual non-cancellable disability income insurance for professionals and owners of small, independent businesses. Paul Revere also markets group life, medical, dental and disability insurance to employer/employee groups and individual life and financial products. Distribution in the United States and Canada is through career and brokerage channels and through industry sales agreements.

Financial Section

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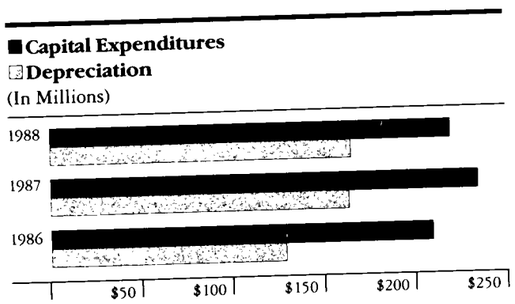
Introduction

Prior to 1988, Textron's consolidated financial statements have included the accounts of its finance and insurance subsidiaries on the equity basis. That is, its investment in these subsidiaries was shown in its consolidated balance sheet and the pre-tax income of these subsidiaries was shown separately in its consolidated statement of income.

Pursuant to the requirements of a new accounting standard, Textron has consolidated the accounts of its finance and insurance subsidiaries in its consolidated financial statements for 1988 and has restated prior years' financial statements, as presented on the following pages, to give retroactive effect to this change.

To enhance the reader's understanding of Textron's operations, Textron has also presented separate financial information for its two borrowing groups — the Textron Parent Company Borrowing Group (all Textron entities other than its finance and insurance subsidiaries) and the finance and insurance subsidiaries. This information is included in Note 18, on pages 62 to 65.



Liquidity and Capital Resources

Financing for Textron is conducted through two separate borrowing groups: the Textron Parent Company Borrowing Group (consisting of all entities of Textron other than its finance and insurance subsidiaries) and the finance and insurance subsidiaries. This framework allows the finance and insurance subsidiaries, with specialized needs related to their portfolios of receivables and investments, to finance their respective operations, each through its own external group of creditors without guarantee from the Textron Parent Company Borrowing Group. Accordingly, the liquidity and capital resources of Textron's operations are best understood by separately considering its independent borrowing groups.

Textron Parent Company Borrowing Group

Sources of cash to the Textron Parent Company Borrowing Group include cash generated by the operations within this group and dividends received from the finance and insurance subsidiaries, supplemented with borrowings. Information about the cash flows of this group for each of the three years in the period ended December 31, 1988 is set forth in the Group's statement of cash flows included in Note 18 (page 63) to the consolidated financial statements.

In 1988, the Textron Parent Company Borrowing Group's operating activities provided positive cash flows of $117.7 million, which reflected reductions of accrued and other liabilities, related principally to the liquidation of contractual obligations, as well as increased levels of receivables and inventories. The Group's debt increased by $298.9 million principally as a result of cash required for capital asset additions, purchases of treasury shares and payments of dividends exceeding operating cash flows, and its ratio of debt to total capital was 43% at December 31, 1988, compared to 39% at January 2, 1988.

In 1987, positive cash flows from operating activities, investing activities (including proceeds of $293.0 million from sales of discontinued operations), and from the sale of common stock ($195.6 million), enabled the Group to reduce its borrowings by $723.2 million. In 1986, the Group increased its borrowings by $671.0 million, as the funding of its $1 billion acquisition of Ex-Cell-O more than offset the positive cash flows from operating activities and from certain investing activities (including proceeds of $454.6 million from sales of discontinued operations).

Capital expenditures during the three years in the period ended December 31, 1988 were primarily for the replacement of machinery and equipment, both for increased capacity at existing facilities and for expansion to accommodate new product lines. A substantial portion of such expenditures related to the Aerospace Technology sector. Capital expenditures during 1989 are not expected to differ substantially from the level of such expenditures in 1988.

In May 1988, Textron completed a program to purchase five million of its common shares at an aggregate cost of $117.6 million ($105.5 million of which was expended in 1988).

During 1988, Textron purchased an aggregate of approximately $130 million of its high interest rate debt. In March 1988, Textron filed a shelf registration statement with the Securities and Exchange Commission increasing its shelf to cover up to an aggregate of $337.6 million of unsecured debt securities. At December 31, 1988, Textron had interest rate exchange agreements, entered into primarily in 1988, to eliminate its exposure to the effects of possible increases in interest rates on a portion of its variable rate borrowings. These agreements, which expire through 1994, had the effect of fixing the rate of interest at approximately 9.4% on $156.7 million of variable rate borrowings at December 31, 1988.

In early 1989, Textron acquired control of Avdel plc, a fastener manufacturing business based in England, the total cost of which will approximate $250 million. On February 22, 1989 the U.S. Federal Trade Commission (FTC) obtained a temporary restraining order prohibiting Textron from exercising control over Avdel for the purpose of maintaining the status quo while the FTC considers whether the acquisition of Avdel restricts competition in violation of U.S. antitrust laws. Textron intends to defend its acquisition.

Textron has committed credit facilities aggregating $3.8 billion, plus confirmed bank lines of $203 million. Credit facilities not used or reserved as support for commercial paper or bank borrowings were $3.2 billion at December 31, 1988.

Management believes that the Textron Parent Company Borrowing Group will continue to have adequate access to credit markets and that its credit facilities and cash flow from operations — including dividends received from Textron's finance and insurance operations — will continue to be more than sufficient to meet its operating needs and to finance continued growth.

Finance and insurance subsidiaries

This group includes Avco Financial Services, Inc. (AFS), consisting of Avco Financial Services Group and Avco Insurance Services (AIS), Textron Financial Corporation (TFC), and The Paul Revere Insurance Group. The insurance operations have historically generated positive cash flow sufficient to preclude the need for borrowings. Information about the cash flows of this group for each of the three years in the period ended December 31, 1988 is set forth in the Group's statement of cash flows included in Note 18 (page 65) to the consolidated financial statements.

AFS and TFC each utilize a broad base of financial sources for their respective liquidity and capital requirements. Cash is provided both from operations and several different sources of borrowings, including unsecured borrowings under bank lines of credit, the issuance of commercial paper and sales of medium- and long-term debt. During 1988, the net proceeds from medium- and long-term financing sources totaled $628 million; debt increased by $507.9 million in 1988, due principally to growth in finance receivables.

AFS and TFC have interest rate exchange agreements, which expire through 1994, which had the effect of fixing the rate of interest at approximately 11.5% on $294.9 million of variable interest rate borrowings (principally foreign) at December 31, 1988. AFS expects to replace fixed rate long-term debt maturing in 1989 and thereafter with variable rate short-term debt and has entered into interest rate exchange agreements which will have the effect of fixing the rate of interest on $327.5 million of such variable rate debt at approximately 9.66%. In early 1989, AFS filed a shelf registration statement with the Securities and Exchange Commission increasing its shelf to cover up to an aggregate of $600 million of unsecured debt securities.

For liquidity purposes, AFS and TFC have a policy of maintaining sufficient unused bank lines of credit to support their outstanding commercial paper. Lines of credit not used or reserved as support for commercial paper and bank borrowings amounted to $846 million at December 31, 1988. The ratio of short-term debt to total debt at December 31, 1988 was 23%. Maintenance of a conservative ratio provides greater stability to the finance subsidiaries' earnings, as well as to their capital positions.

For further information about the debt and credit facilities of the Textron Parent Company Borrowing Group and the finance and insurance subsidiaries, see Note 9 to the consolidated financial statements.

Results of Operations
1988 vs. 1987

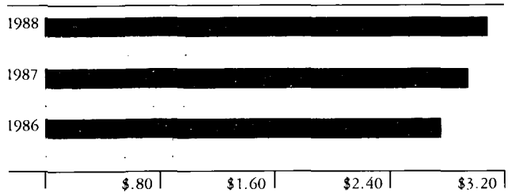
Textron's income from continuing operations was $272.1 million ($3.10 per share) in 1988, an increase of $11.0 million over 1987 results of $261.1 million ($2.97 per share). Results for 1988 include after-tax capital gains of $7.2 million ($.08 per share), while 1987 results included after-tax gains aggregating $48.1 million ($.55 per share) from the sale of AFS' credit card receivables and from capital gains. Revenues increased to $7.3 billion in 1988 from $7.2 billion in 1987.

Operating profits of Textron's six business segments aggregated $706.8 million in 1988, compared to $723.2 million in 1987, which included the gain — $52.3 million pre-tax — on the sale of AFS' credit card receivables. See the table below under the caption "Revenues and Income by Business Segment" and the discussion of the results of each segment which follows that table.

Corporate expenses approximated their 1987 level. Interest expense of the Textron Parent Company Borrowing Group increased slightly over the 1987 level as the benefit of a lower level of average borrowings in 1988 was offset by the effect of higher interest rates. Textron's effective income tax rate in 1988 was lower than the 1987 rate, principally due to a reduction in the 1988 federal statutory income tax rate for corporations.

Net income for 1988 of $234.4 million ($2.67 per share) included extraordinary losses, after income taxes, aggregating $37.7 million ($.43 per share) from (a) an arbitration ruling adverse to one of AFS' insurance operations relating to a former line of business which was discontinued prior to 1986 ($28.0 million, or $.32 per share) and (b) the early redemption of $130 million of high interest rate debt ($9.7 million, or $.11 per share). Net income for 1987 of $256.3 million ($2.92 per share) included an extraordinary loss of $32.6 million ($.37 per share) resulting primarily from the redemption of high interest rate debt by AFS, which was substantially offset by an after-tax gain of $27.8 million ($.32 per share) from discontinued operations.

■ Earnings Per Share – Continuing Operations
Dividends Declared Per Share



1987 vs. 1986

Total revenues from continuing operations rose 10% to $7.2 billion from $6.5 billion in 1986. Income from continuing operations was $261.1 million ($2.97 per share), an increase of 14% over 1986's results of $229.6 million ($2.78 per share). Results for 1987 included a gain from the sale of AFS' credit card receivables and capital gains, the aggregate of which was $48.1 million after-tax ($.55 per share), while 1986 results included gains from the sale of certain receivables and capital gains, the aggregate of which was $42.2 million after-tax ($.51 per share). Results for 1987 also benefited by approximately $12.0 million ($.14 per share) from the adoption of the new pension accounting rules of the Financial Accounting Standards Board.

The benefit of improved operating profits, as discussed below, was partially offset by higher Textron Parent Company Borrowing Group interest expense and corporate expenses. The increase in corporate expenses was principally a result of the gain from the sale in 1986 of certain corporate-held investments. Higher interest expense reflected the Textron Parent Company Borrowing Group's increased level of debt following the acquisition of Ex-Cell-O, partially offset by the effect of lower interest rates. Textron's effective income tax rate in 1987 was lower than the 1986 rate, principally due to a reduction in the 1987 federal statutory income tax rate for corporations. Earnings per share for 1987 reflected an increased average number of shares outstanding over the prior year.

Net income for 1987 of $256.3 million ($2.92 per share) included an extraordinary loss of $32.6 million ($.37 per share), which was substantially offset by an after-tax gain of $27.8 million ($.32 per share) from discontinued operations. Net income for 1986 of $239.2 million ($2.90 per share) included an after-tax gain of $16.3 million ($.20 per share) from discontinued operations, which was partially offset by an extraordinary loss of $6.7 million ($.08 per share) from the early redemption of debt.

The Financial Accounting Standards Board has issued several new accounting standards that have or will affect Textron's financial statements for years after 1987. See "New Accounting Requirements" on page 48 of Textron's consolidated financial statements for further information.

Segment results for 1988, 1987 and 1986 are summarized and discussed below.

Revenues and Income by Business Segment

For a description of the businesses comprising each segment, see pages 28 to 32 of this report.
For additional financial information by business segment, see Note 17.

Business Segments	**Revenues**			**Income**		
(In millions)	**1988**	1987	1986	**1988**	1987	1986
Aerospace Technology:						
Helicopters	**$1,271.9**	$1,176.9	$1,098.0	**$ 81.5**	$ 68.9	$ 71.6
Propulsion	**1,308.4**	1,398.5	1,044.7	**148.2**	141.4	102.0
Systems	**1,028.0**	1,300.6	1,414.1	**71.0**	100.1	134.8
	3,608.3	3,876.0	3,556.8	**300.7**	310.4	308.4
Commercial Products	**1,734.4**	1,512.4	1,131.3	**177.6**	159.5	115.8
Financial Services:						
Finance and related insurance	**1,036.9**	952.1	990.7	**154.8**	169.4	157.6
Other insurance	**899.8**	814.7	836.8	**73.7**	83.9	65.9
	1,936.7	1,766.8	1,827.5	**228.5**	253.3	223.5
	$7,279.4	$7,155.2	$6,515.6	**706.8**	723.2	647.7
Corporate expenses and other – net				**(71.1)**	(73.5)	(44.0)
Interest expense – net				**(202.4)**	(197.1)	(180.1)
Income from continuing operations before income taxes				**$433.3**	$452.6	$423.6

Notes:
(i) Prior years' amounts have been reclassified and restated to conform to the current year's presentation and to comply with new accounting requirements, which include classifying finance-related insurance revenues and income with the finance business.
(ii) Revenues by business segment exclude income earned on investments held by the Textron Parent Company Borrowing Group.
(iii) Income of the Finance and related insurance segment is net of interest expense. Such income for 1987 includes a $52.3 million pre-tax gain on the sale of AFS' credit card receivables.
(iv) Income of the Financial Services segments includes net pre-tax capital gains of $11 million in 1988, $22 million in 1987 and $31 million in 1986, principally in the Other insurance segment.
(v) Corporate expenses for 1986 are net of $20 million of pre-tax gains on the sale of securities.
(vi) Revenues between segments were approximately 1% of total revenues in each year.

Aerospace Technology

The Aerospace Technology sector reported revenues of $3.6 billion in 1988, which were $267.7 million lower than the 1987 level, and a $9.7 million decline in income to $300.7 million in 1988. The lower revenues and income were primarily due to the completion of the B-1B wing program, partially offset by a stronger performance at Bell Helicopter.

Bell Helicopter's revenues increased $95.0 million and its income increased by $12.6 million, due largely to the strong sales in its commercial helicopter business, offset in part by increased costs under military fixed-price production and development programs, principally the Bell-Boeing $1.8 billion V-22 Osprey TiltRotor aircraft development program. Although Textron believes that the overall cost estimates for the V-22 program are reasonable, such estimates remain subject to the uncertainties inherent in all large scale fixed-price development contracts.

The Propulsion segment's income increased slightly, despite a $90.1 million decline in revenues. A reduced level of development costs on Textron Lycoming's T800 engine program (which was completed in 1988 when the Lycoming-Pratt & Whitney team was not selected to continue the development effort) and an increased level of commercial and customer support operations were only partially offset by the effects of lower volume and margins on U.S. military engine business at Lycoming, which experienced a seven week work stoppage in mid-1988. In addition, sales volumes and margins on U.S. military business at other divisions were lower as well. Lower revenues and profits in the Systems segment resulted principally from the completion of the B-1B wing program in late 1987 and lower sales and higher costs on certain other U.S. military programs, partially offset by improved results on commercial programs at certain divisions.

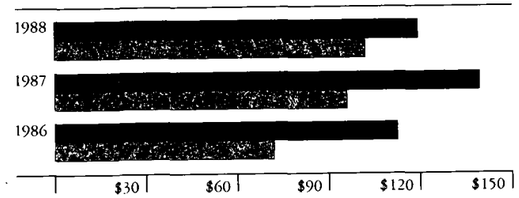
Defense expenditures are expected to grow more slowly or decline as a result of continuing pressures to reduce federal outlays. Defense industry profits also continue to be negatively impacted by procurement trends experienced in recent years, including the effects of increased competition, cost sharing and fixed-price development arrangements requiring significant contractor investments, increased contractor financing of tooling and special equipment, and higher levels of nonrecoverable costs. Lower progress payment rates and slower payment of billings submitted for reimbursement have resulted in greater investments by contractors in working capital, with an attendant increase in related financing costs.

Textron has a diversified presence in both commercial and government aerospace markets, and is focusing its resources where it has technological or other competitive advantages, including participation in major new development programs, multi-year contracting and teaming arrangements. Accordingly, results of Textron's Aerospace Technology sector are not anticipated to decline in 1989 due to flat or declining U.S. Government spending for defense, as possibly lower levels of military business are anticipated to be offset by improved results of Textron's commercial aerospace business.

Aerospace Technology revenues of $3.9 billion in 1987 were $319.2 million over their 1986 level, while profits increased slightly to $310.4 million. The slightly improved results were due primarily to the inclusion of the Ex-Cell-O Propulsion and Systems divisions for all of 1987, the benefit of which was offset by generally lower volume of military business in the Systems segment, higher product development costs and the substantial phase down of Textron's management services business in Saudi Arabia, which produced income of $31.7 million in 1986.

Helicopter revenues increased in 1987 versus 1986 as a result of a higher level of effort under the fixed-price U.S. Government contract for the full-scale development of the V-22 Osprey TiltRotor aircraft. Results of the Propulsion segment reflected the addition of Ex-Cell-O divisions, offset in part by increased development costs on Textron Lycoming's T800 engine program. Revenues and income in the Systems segment were lower in 1987 as compared to 1986, despite inclusion of an Ex-Cell-O division for the entire year, due mainly to the completion of the B-1B wing program in the fourth quarter of 1987, generally lower levels of military business at other divisions and favorable contract adjustments in 1986 in Textron's management services business in Saudi Arabia.

■ Capital Expenditures
▨ Depreciation
(In Millions)

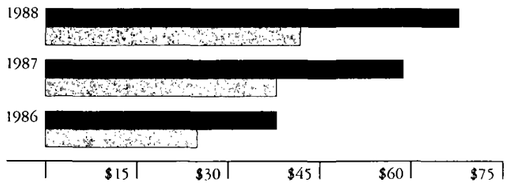


Commercial Products

Revenues of $1.7 billion in 1988 were $222.0 million over their 1987 level. Profits increased $18.1 million to $177.6 million due to sales increases in virtually all businesses, the benefits of which were partially offset by new product start-up costs and the effects of higher material costs.

Revenues and profits in 1987 were $1.5 billion and $159.5 million, respectively, up 34% and 38%, respectively, from 1986. The improved performance resulted from the inclusion of the six Commercial Products Ex-Cell-O divisions for an entire year in 1987.

■ Capital Expenditures
▨ Depreciation
(In Millions)



Financial Services

As a result of the adoption in 1988 of the revised Audit and Accounting Guide for Audits of Finance Companies, revenues and profits of AIS' finance-related insurance business are now included with the finance business for business segment reporting purposes.

Revenues of the Financial Services sector rose to $1.9 billion in 1988 while income declined $24.8 million to $228.5 million. The decline in income was due to the pre-tax gain of $52.3 million in 1987 on the sale of AFS' credit card receivables and lower capital gains in the insurance operations. Operations excluding these items improved principally due to growth in finance receivables, lower net credit losses, and increased revenues and more favorable loss experience of the finance-related insurance business.

The Finance and related insurance segment's revenues increased while income decreased $14.6 million in 1988 as a result of the inclusion in 1987 results of the gain on the sale of credit card receivables, partially offset by an increase in the level of consumer finance receivables outstanding, lower net credit losses on consumer loans, a decrease in the cost of borrowed funds, and the effects of required changes in accounting principles for recognizing interest income and certain loan origination costs (pursuant to the adoption of FAS 91 and the revised audit guide for finance companies), which changes had the effect of increasing pre-tax income by $8.3 million in 1988. In addition, AIS substantially increased its finance-related insurance business in 1988, which business had more favorable claims experience as compared to 1987.

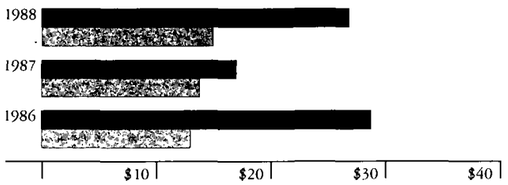
The Other insurance segment's revenues increased while income decreased $10.2 million in 1988. The Paul Revere Insurance Group reported higher revenues mainly due to growth in individual disability and group insurance products. Income declined, however, due to a decrease in capital gains from $16.2 million in 1987 to $7.2 million in 1988 and higher claims related to individual disability products, partially offset by lower claims related to group insurance products. AIS' nonfinance-related insurance business reported lower revenues and income in 1988 versus 1987, principally due to lower investment income, partially offset by the favorable impact of the prior year termination of unprofitable casualty business written through U.S. managing general agents.

Revenues of the Financial Services sector in 1987 declined slightly from 1986 levels, while income increased $29.8 million to $253.3 million. The increase in income was due principally to the gain in 1987 on the sale of AFS' credit card receivables and the termination of unprofitable casualty business written through U.S. managing general agents, partially offset by lower yields on outstanding receivables and lower capital gains in the insurance operations. Revenues declined principally as a result of lower average receivables outstanding due to the sale of AFS' credit card business, lower yields on these receivables and the termination of the unprofitable casualty business written through U.S. managing general agents.

The Finance and related insurance segment's revenues declined in 1987 compared to 1986 principally as a result of lower average receivables outstanding due to the sale of AFS' credit card business and lower yields, offset in part by higher insurance revenues. Income improved in 1987 as a result of the $52.3 million pre-tax gain on the sale of the credit card receivables and higher insurance income, which more than offset the effect of lower yields on outstanding receivables and increased operating expenses in the finance business. In addition, results for 1986 included a pre-tax gain of $8.3 million on the sale of certain receivables.

The Other insurance segment reported increased income in 1987 versus 1986 while revenues declined, as AIS' nonfinance-related insurance business reported significantly improved income on lower revenues mainly due to the termination of unprofitable casualty business written through U.S. managing general agents. The Paul Revere Insurance Group reported higher revenues in 1987 versus 1986 mainly due to growth in individual disability and group insurance products; however, income decreased in 1987 primarily as a result of lower capital gains of $16.2 million as compared to $25.3 million in 1986.

■ Capital Expenditures
▨ Depreciation
(In Millions)



Report of Management

The consolidated financial statements of Textron Inc. have been prepared by management and have been audited by Textron's independent public accountants, Arthur Young & Company, whose report appears below. Management is responsible for the consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles and include amounts based on management's judgments.

Management is also responsible for maintaining internal accounting control systems designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded and that transactions are executed and recorded in accordance with established policies and procedures. Textron's systems are under continuing review and are supported by, among other things, business conduct and other written guidelines, an internal audit program and the selection and training of qualified personnel.

The Board of Directors is responsible for the Company's financial and accounting policies, practices and reports. Its Audit Committee, comprised of four outside directors, meets regularly with the independent public accountants, representatives of management and the internal auditors to discuss and make inquiries into their activities. Both the independent public accountants and the internal auditors have free access to the Audit Committee, with and without management representatives in attendance.

B. F. Dolan
Chairman, President and Chief Executive Officer

Dennis G. Little
Executive Vice President and Chief Financial Officer

February 9, 1989

Report of Independent Public Accountants

To the Board of Directors and Shareholders
Textron Inc.

We have audited the accompanying consolidated balance sheet of Textron Inc. at December 31, 1988 and January 2, 1988, 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 31, 1988. 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 generally accepted auditing standards. 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 31, 1988 and January 2, 1988 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1988 in conformity with generally accepted accounting principles.

As described in the "Summary of Significant Accounting Policies and New Accounting Requirements" included in the financial statements, the Company changed its consolidation policy for its finance and insurance subsidiaries (as required by Statement of Financial Accounting Standards No. 94) for the year ended December 31, 1988; each prior year has been restated to give retroactive effect to this change.

Arthur Young & Company

New York, New York
February 9, 1989

Textron Inc.
Consolidated Statement of Income

For each of the three years in the period ended December 31, 1988 (In millions except per share amounts)	**1988**	1987	1986
Revenues:			
Sales	**$5,342.7**	$5,388.4	$4,688.1
Interest, discount and service charges	**891.7**	829.3	877.2
Insurance premiums	**750.8**	655.2	675.3
Investment income (including net capital gains)	**300.3**	291.3	286.4
Total revenues	**7,285.5**	7,164.2	6,527.0
Costs and expenses:			
Cost of sales	**4,278.7**	4,387.7	3,768.3
Selling and administrative	**1,190.4**	1,037.9	995.9
Interest expense	**601.9**	580.2	583.8
Provision for losses on collection of finance receivables, less recoveries	**85.0**	87.7	96.4
Insurance benefits and increase in policy liabilities	**589.3**	528.2	547.8
Amortization of insurance policy acquisition costs	**106.9**	89.9	111.2
Total costs and expenses	**6,852.2**	6,711.6	6,103.4
Income from continuing operations before income taxes	**433.3**	452.6	423.6
Income taxes	**161.2**	191.5	194.0
Income from continuing operations before extraordinary losses	**272.1**	261.1	229.6
Discontinued operations, net of income taxes:			
Income from discontinued operations	**–**	3.5	8.3
Gains on sales of discontinued operations	**–**	24.3	8.0
Extraordinary losses, net of income taxes:			
Arbitration concerning former line of business	**(28.0)**	–	–
Early redemption of debt	**(9.7)**	(32.6)	(6.7)
Net income	**$ 234.4**	$ 256.3	$ 239.2
Income per common share:			
Income from continuing operations before extraordinary losses	**$ 3.10**	$ 2.97	$ 2.78
Discontinued operations	**–**	.32	.20
Extraordinary losses	**(.43)**	(.37)	(.08)
Net income	**$ 2.67**	$ 2.92	$ 2.90

See summary of significant accounting policies and notes to consolidated financial statements.

Textron Inc.
Consolidated Balance Sheet

(Dollars in millions)	**December 31, 1988**	January 2, 1988
Assets		
Cash	**$ 16.0**	$ 42.5
Investments	**2,879.4**	2,568.0
Receivables – net:		
Finance	**4,631.5**	4,010.8
Commercial and U.S. Government	**796.7**	760.8
	5,428.2	4,771.6
Inventories	**1,231.7**	1,210.4
Property, plant and equipment – net	**960.3**	888.4
Unamortized insurance policy acquisition costs	**443.1**	378.7
Goodwill (less accumulated amortization of $129.1 and $91.3)	**1,116.4**	1,150.2
Other assets	**479.0**	447.7
Total assets	**$12,554.1**	$11,457.5
Liabilities and shareholders' equity		
Liabilities		
Accounts payable	**$ 516.6**	$ 456.7
Income taxes (principally deferred)	**313.8**	291.4
Accrued liabilities	**1,126.6**	1,236.7
Insurance reserves and claims	**2,344.4**	2,104.5
Debt:		
Textron Parent Company Borrowing Group	**1,788.6**	1,489.7
Finance and insurance subsidiaries	**4,079.2**	3,571.3
	5,867.8	5,061.0
Total liabilities	**10,169.2**	9,150.3
Shareholders' equity		
Capital stock:		
Preferred stock (15,000,000 shares authorized):		
$2.08 Cumulative Convertible Preferred Stock, Series A (liquidation value $32.5)	**15.3**	17.6
$1.40 Convertible Preferred Dividend Stock, Series B (preferred only as to dividends)	**8.4**	8.7
Common stock, 12.5¢ par value (250,000,000 shares authorized; 90,312,000 and 90,051,000 shares issued)	**11.3**	11.2
Capital surplus	**626.3**	624.0
Retained earnings	**1,819.4**	1,672.1
Other	**40.3**	5.1
	2,521.0	2,338.7
Less cost of treasury shares	**136.1**	31.5
Total shareholders' equity	**2,384.9**	2,307.2
Total liabilities and shareholders' equity	**$12,554.1**	$11,457.5

See summary of significant accounting policies and notes to consolidated financial statements.

Textron Inc.
Consolidated Statement of Cash Flows

For each of the three years in the period ended December 31, 1988 (In millions)	**1988**	1987	1986
Cash flows from operating activities:			
Net income	**$ 234.4**	$ 256.3	$ 239.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**204.7**	202.9	154.4
Provision for losses on receivables	**110.5**	113.4	121.3
Deferred income taxes	**28.7**	61.6	104.1
Increase in insurance policy liabilities	**206.8**	183.1	161.9
Amortization of insurance policy acquisition costs	**106.9**	89.9	111.2
Contributions of common stock to employee benefit plans	**–**	64.4	19.4
Gains on sales of investments	**(11.0)**	(18.1)	(49.2)
Gain on sale of credit card receivables	**–**	(52.3)	–
Gains on sales of discontinued operations	**–**	(51.5)	(66.4)
Losses on early redemption of debt	**15.6**	56.1	13.1
Changes in assets and liabilities excluding those related to acquisitions and divestitures of businesses:			
Increase in commercial and U.S. Government receivables	**(59.9)**	(60.6)	(85.7)
Increase in inventories	**(21.3)**	(8.3)	(33.2)
Additions to insurance policy acquisition costs	**(171.3)**	(142.6)	(157.3)
Decrease (increase) in other assets	**(53.7)**	31.1	(43.5)
Increase (decrease) in accounts payable	**82.6**	36.7	(42.6)
Increase (decrease) in income taxes payable	**(21.8)**	12.0	16.3
Increase (decrease) in accrued liabilities	**(71.5)**	59.6	145.7
Increase (decrease) in unearned insurance premiums and reserves for insurance losses and adjustment expenses	**12.9**	(16.7)	30.7
Other – net	**9.9**	(13.1)	9.8
Net cash provided by operating activities	**602.5**	803.9	649.2
Cash flows from investing activities:			
Purchases of investments	**(840.1)**	(1,003.4)	(1,002.0)
Proceeds from sales of investments	**539.6**	814.0	806.3
Finance receivables originated or purchased	**(3,232.9)**	(2,684.4)	(2,436.6)
Finance receivables repaid or sold	**2,490.2**	2,694.1	2,352.3
Collections on notes receivable	**11.0**	46.5	40.3
Capital expenditures	**(217.8)**	(229.6)	(208.7)
Proceeds from sales of property, plant and equipment	**12.4**	44.2	32.0
Proceeds from sales of discontinued operations	**34.8**	293.0	454.6
Cash used in acquisition of Ex-Cell-O	**–**	–	(999.9)
Net cash used by investing activities	**(1,202.8)**	(25.6)	(961.7)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	**112.2**	167.7	(294.7)
Proceeds from issuance of long-term debt	**1,324.1**	973.7	1,976.8
Principal payments on long-term debt	**(687.4)**	(2,101.7)	(1,282.3)
Receipts from interest sensitive insurance products	**95.6**	92.9	100.1
Return of account balances on interest sensitive insurance products	**(79.2)**	(73.3)	(98.5)
Sale of common stock	**–**	195.6	–
Purchases of common stock	**(105.5)**	(12.1)	–
Dividends paid	**(87.1)**	(87.0)	(74.0)
Net cash provided (used) by financing activities	**572.7**	(844.2)	327.4
Effect of exchange rate changes on cash	**1.1**	1.0	(1.5)
Net increase (decrease) in cash	**(26.5)**	(64.9)	13.4
Cash at beginning of year	**42.5**	107.4	94.0
Cash at end of year	**$ 16.0**	$ 42.5	$ 107.4

See summary of significant accounting policies and notes to consolidated financial statements.

Textron Inc.
Consolidated Statement of Changes in Shareholders' Equity

For each of the three years in the period ended December 31, 1988 (Dollars in millions; shares in thousands)	Capital stock: Preferred $2.08	Capital stock: Preferred $1.40	Capital stock: Common	Capital surplus	Retained earnings	Currency translation adjustment	Marketable equity securities valuation adjustment	Cost of treasury shares	Shares outstanding*: Preferred $2.08	Shares outstanding*: Preferred $1.40	Shares outstanding*: Common
Balance December 28, 1985	$31.0	$10.0	$10.1	$355.5	$1,337.6	$ (61.8)	$ 2.7	$ 51.8	1,241	359	78,146
Conversion of preferred stock	(4.7)	(.7)	.1	5.3	–	–	–	–	(197)	(58)	538
Exercise of options	–	–	–	1.3	–	–	–	(2.9)	–	–	300
Contributions of common stock to employee benefit plan	–	–	–	10.4	–	–	–	(9.0)	–	–	688
Currency translation adjustment**	–	–	–	–	–	25.2	–	–	–	–	–
Marketable equity securities valuation adjustment	–	–	–	–	–	–	(.1)	–	–	–	–
Net income	–	–	–	–	239.2	–	–	–	–	–	–
Dividends:											
Preferred stock	–	–	–	–	(2.8)	–	–	–	–	–	–
Common stock ($.90 per share)	–	–	–	–	(71.2)	–	–	–	–	–	–
Balance January 3, 1987	26.3	9.3	10.2	372.5	1,502.8	(36.6)	2.6	39.9	1,044	301	79,672
Conversion of preferred stock	(8.7)	(.6)	.1	9.2	–	–	–	–	(367)	(54)	904
Sale of common stock in a public offering	–	–	.8	194.8	–	–	–	–	–	–	6,900
Purchases of common stock	–	–	–	–	–	–	–	12.1	–	–	(557)
Exercise of options	–	–	–	1.5	–	–	–	(2.2)	–	–	218
Contributions of common stock to employee benefit plans	–	–	.1	46.0	–	–	–	(18.3)	–	–	1,965
Currency translation adjustment**	–	–	–	–	–	41.4	–	–	–	–	–
Marketable equity securities valuation adjustment	–	–	–	–	–	–	(2.3)	–	–	–	–
Net income	–	–	–	–	256.3	–	–	–	–	–	–
Dividends:											
Preferred stock	–	–	–	–	(2.0)	–	–	–	–	–	–
Common stock ($.975 per share)	–	–	–	–	(85.0)	–	–	–	–	–	–
Balance January 2, 1988	17.6	8.7	11.2	624.0	1,672.1	4.8	.3	31.5	677	247	89,102
Conversion of preferred stock	(2.3)	(.3)	.1	2.5	–	–	–	–	(96)	(27)	260
Purchases of common stock	–	–	–	–	–	–	–	105.5	–	–	(4,443)
Exercise of options	–	–	–	(.2)	–	–	–	(.9)	–	–	37
Currency translation adjustment	–	–	–	–	–	34.8	–	–	–	–	–
Marketable equity securities valuation adjustment	–	–	–	–	–	–	.4	–	–	–	–
Net income	–	–	–	–	234.4	–	–	–	–	–	–
Dividends:											
Preferred stock	–	–	–	–	(1.6)	–	–	–	–	–	–
Common stock ($1.00 per share)	–	–	–	–	(85.5)	–	–	–	–	–	–
Balance December 31, 1988	$15.3	$ 8.4	$11.3	$626.3	$1,819.4	$ 39.6	$ .7	$136.1	581	220	84,956***

**Shares issued at end of 1985, 1986, 1987 and 1988 were as follows (in thousands): $2.08 Preferred – 1,310; 1,113; 746 and 650 shares, respectively; $1.40 Preferred – 846; 788; 734 and 707 shares, respectively; Common – 81,108; 81,646; 90,051 and 90,312 shares, respectively. Treasury shares at the end of 1985, 1986, 1987 and 1988 were as follows (in thousands): $2.08 Preferred – 69 shares at all such dates; $1.40 Preferred – 487 shares at all such dates; Common – 2,962; 1,974; 949 and 5,356 shares, respectively.*

***Includes reduction in currency translation adjustment related to sales of discontinued operations: $31.1 million in 1986; $4.7 million in 1987.*

****Common shares outstanding assuming full conversion of outstanding preferred stock and exercise of stock options were 86,816 at December 31, 1988.*

See summary of significant accounting policies and notes to consolidated financial statements.

Textron Inc.
Summary of Significant Accounting Policies and New Accounting Requirements

Significant Accounting Policies

Principles of consolidation
The consolidated financial statements include the accounts of Textron and all of its majority-owned subsidiaries (see New Accounting Requirements section on page 48). All significant intercompany transactions are eliminated. See Note 18 for financial information for Textron's two borrowing groups — the Textron Parent Company Borrowing Group (comprised of all entities of Textron other than its finance and insurance subsidiaries) and Textron's finance and insurance subsidiaries.

Finance subsidiaries
Interest income from finance receivables is recognized in revenues using the interest method for commercial loans, and for consumer loans written in 1988. Accrual of interest income on finance receivables is generally suspended for accounts which are more than three payments contractually delinquent. Subsequent interest income on these accounts is generally recognized as and to the extent collected. For all loans written in 1988, direct loan origination costs and fees are deferred and subsequently recognized as an adjustment to yield over the contractual lives of the respective loans. Unamortized amounts are recognized in income at the time that loans are sold or paid in full (see New Accounting Requirements section on page 48).

For consumer loans written prior to 1988, unearned charges (that is, the portion of the finance charge or discount included in the original face amount of the related receivable that is determined to be unearned at the balance sheet date) are recognized in revenues on the accrual basis beginning in the month following acquisition using (a) the Rule of 78s for loans with contractual terms of 84 months or less and (b) the actuarial method for loans with contractual terms over 84 months. When charges are not included in the original face amount of the loan, such charges are recognized in revenues as collected. Prior to 1988, direct loan origination costs related to consumer loans were expensed as incurred; for commercial loans (including leases), a portion of unearned income (including loan origination fees) was recognized in income to offset direct loan origination costs.

Finance receivables are written off when they are deemed uncollectible, but in any event consumer, residential real estate and retail installment accounts for which no payment has been received for eight consecutive months are written off. Provisions for losses on finance receivables are charged to income in such amounts as management believes to be adequate.

The net investment in finance leases consists of the sum of all minimum lease payments and estimated residual values, less unearned income. The investment in leveraged leases consists of the sum of all lease payments (less the portion applicable to principal and interest on non-recourse debt) plus estimated residual values, less unearned income. Unearned income and investment tax credits are included in income over the terms of the related leases to produce a constant rate of return on the net investment.

Insurance subsidiaries
Credit Life, Credit Disability and Casualty Insurance
Unearned insurance premiums are taken into income over the life of the policies (a) on the actuarial method for decreasing term credit life insurance coverage and on the pro rata method for level term credit life coverage, (b) in relation to anticipated claims for credit disability insurance and (c) on the pro rata method for casualty insurance. The costs of acquiring new business (principally commissions and premium taxes) are deferred and subsequently amortized in the same manner as the related premiums are taken into income.

Non-cancellable Disability Income, Life and Group Insurance and Investment Products
Non-cancellable disability income insurance premiums are recognized in income when received; non-interest sensitive life and group insurance premiums are recognized in income when due.

Certain costs related directly to acquiring new non-cancellable disability income and non-interest sensitive life business (principally commissions and selling, selection and policy issue expenses) are deferred and subsequently amortized over the policies' premium paying periods in the proportion that annual premium revenues bear to total anticipated premium revenues. Amortization schedules are based on interest and withdrawal assumptions consistent with those used to compute liabilities for future policy benefits.

Liabilities for future policy benefits are computed by the net level premium method based upon estimated future investment yield and Textron's experience on mortality, morbidity, withdrawals and other assumptions which were appropriate at the time the policies were issued.

Revenues for investment products (primarily investment annuities) and interest sensitive life products consist of policy charges for the cost of insurance, policy administration and surrenders that are assessed against policy account balances. Earnings on policyholders' funds are included in investment income. Benefit reserves represent policy account balances. Expenses consist of benefit claims in excess of policy account balances and interest credited to policy account balances. The costs of acquiring new business (principally commissions and selling, selection and policy issue expenses) are deferred and subsequently amortized over the life of the policies in the proportion that the present value of expected gross profits each year bears to the total present value of expected gross profits.

Investments
Investments in marketable equity securities are carried at their aggregate market value. Investments in bonds and notes are carried at their amortized cost. Unrealized gains and losses, net of applicable income taxes, resulting from fluctuations in the aggregate market value of marketable equity securities are reflected as an adjustment to shareholders' equity. Net realized gains or losses resulting from sales of investments or from declines in market values of investments that are other than temporary are included in income. See Note 3 for further information about investments.

Inventories
Inventories are carried at the lower of cost or market. See Note 6 for further information about inventories.

Long-term contracts and programs
Sales under fixed-price contracts and programs are generally recorded as deliveries are made. Sales under cost reimbursement-type contracts are recorded as costs are incurred and fees are earned. Profits expected to be realized on long-term contracts and programs are based on estimates of total sales value and cost at completion, which estimates are reviewed and revised periodically throughout the lives of the contracts and programs. Adjustments to profits resulting from such revisions are recorded in the accounting period in which the revisions are made. Estimated losses on contracts and programs are recorded when identified. See Notes 5 and 6 for further information about receivables and inventories related to long-term contracts and programs.

Property, plant and equipment
The cost of property, plant and equipment is being depreciated based on the estimated useful lives of the assets. See Note 7 for further information about property, plant and equipment.

Goodwill
Goodwill related to Textron's manufacturing operations is being amortized on the straight-line method principally over 40 years. Goodwill related to Textron's finance and insurance subsidiaries is being amortized on the straight-line method over 25 years.

Income per common share
Income per common share is based on average common shares outstanding during each year assuming full conversion of outstanding preferred stock and exercise of stock options. Such average shares were 87,910,000 in 1988; 87,733,000 in 1987; and 82,564,000 in 1986.

Translation of foreign currencies and foreign exchange transactions
Adjustments resulting from the translation of the financial statements of most of Textron's foreign operations are excluded from the determination of its income and accumulated in a separate component of shareholders' equity until the entity is sold or substantially liquidated. Foreign exchange gains and losses included in income from continuing operations in 1988, 1987 and 1986 were not material.

Research and development
Company funded research and development expenditures are charged to expense as incurred. See Note 12 for further information about research and development.

Pension and other postemployment benefits
See Note 13 for information about Textron's accounting policies for pension and other postemployment benefits.

Income taxes
Income tax expense is calculated based on income before income taxes per the consolidated financial statements. Such expense differs from taxes currently payable because of timing differences in that certain income and expense items are reported in Textron's consolidated statement of income in years different from those in which they are reported in Textron's income tax returns. Investment tax credits are accounted for under the deferral method for leasing operations. See Note 14 for further information about income taxes.

New Accounting Requirements

FAS 91 — Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases

Audit and Accounting Guide — Audits of Finance Companies

In 1988, Textron's finance subsidiaries adopted on a prospective basis (a) Statement of Financial Accounting Standards No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases," which changed the accounting for certain direct loan origination costs and fees, and (b) the revised Audit and Accounting Guide for Audits of Finance Companies, which, among other things, requires the use of the interest method for recognizing interest income and the classification of finance-related insurance with the finance business for business segment reporting purposes. The effect of these changes in accounting principles on the results of Textron's operations for the year ended December 31, 1988 was to increase net income by approximately $4.5 million ($.05 per share).

FAS 94 — Consolidation of All Majority-owned Subsidiaries

In 1988, Textron adopted Statement of Financial Accounting Standards No. 94, "Consolidation of All Majority-owned Subsidiaries," which requires Textron to consolidate the accounts of its finance and insurance subsidiaries in its consolidated financial statements. Prior periods' financial statements have been restated to conform to this presentation.

FAS 95 — Statement of Cash Flows

In 1988, Textron adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," which requires Textron to present a statement of cash flows instead of a statement of changes in financial position. Prior periods' financial statements have been restated to conform to this presentation.

FAS 96 — Accounting for Income Taxes

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (FAS 96), which is required to be implemented by Textron by the beginning of 1990.

When implemented, FAS 96 will require Textron to modify its income tax accounting so that deferred taxes are stated at prevailing tax rates. In addition, FAS 96 will establish more restrictive criteria for the recognition of deferred tax assets and will significantly modify the tax accounting in purchase business combinations.

Textron is currently studying the impact of FAS 96 on its consolidated financial statements. Although the study is not yet complete, adoption of this statement could possibly reduce shareholders' equity by an amount up to $150 million, which is related principally to the tax accounting for purchase business combinations (including a reduction of related deferred tax assets, which upon realization would reduce income tax expense).

FAS 97 — Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments

In 1988, Textron adopted Statement of Financial Accounting Standards No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments" (FAS 97), which changed the accounting for Textron's interest sensitive life and investment products. As a result of adopting FAS 97, premiums and investment annuity payments related to such products are no longer reported as revenues, and benefit reserves and gross benefit claims incurred are no longer reported as expenses. Instead, revenues consist only of policy charges for the cost of insurance, policy administration and surrenders assessed during the period, and expenses include only interest credited to policy account balances and benefit claims incurred in excess of policy account balances. Prior periods' revenues and expenses have been restated to conform to this presentation.

1. Acquisitions

In early 1989, Textron acquired control of Avdel plc, a fastener manufacturing business based in England, the total cost of which will approximate $250 million. Avdel had net assets with historical book value of approximately $40 million at December 31, 1988 and sales of approximately $145 million for the year then ended. On February 22, 1989 the U.S. Federal Trade Commission (FTC) obtained a temporary restraining order prohibiting Textron from exercising control over Avdel for the purpose of maintaining the status quo while the FTC considers whether the acquisition of Avdel restricts competition in violation of U.S. antitrust laws. Textron intends to defend its acquisition.

Under an Agreement and Plan of Merger entered into in August 1986, Textron acquired for cash over 93% of the outstanding common stock of Ex-Cell-O Corporation as of September 17, 1986 and the balance by statutory merger on September 30, 1986. Textron has accounted for the acquisition of Ex-Cell-O as a purchase and, accordingly, Ex-Cell-O's results of operations are included in Textron's financial statements from September 17, 1986. Textron has allocated its purchase price (approximately $1 billion) to the underlying assets and liabilities of Ex-Cell-O based on their respective fair values — approximately $1.4 billion and $.4 billion, respectively. The excess ($634.9 million) of Textron's purchase price over the fair values of Ex-Cell-O's net tangible assets is being amortized over 40 years.

Presented below is a condensed unaudited statement of income which combines on a pro forma basis the statement of income of Textron for its 1986 fiscal year (ended January 3, 1987, which included Ex-Cell-O's results from September 17, 1986) and Ex-Cell-O for the period January 1, 1986 to September 16, 1986. The pro forma statement of income has been prepared as if Textron's acquisition of Ex-Cell-O had occurred at the beginning of 1986. The pro forma results are not necessarily indicative of what would have occurred had the acquisition been consummated at that time.

(In millions except per share amounts)	1986
Revenues	$7,193.5
Costs and expenses	6,795.6
Income from continuing operations before income taxes	397.9
Income taxes	185.2
Income from continuing operations	$ 212.7
Net income	$ 225.7
Income per common share:	
Income from continuing operations	$ 2.58
Net income	$ 2.73

2. Discontinued Operations

Discontinued operations (principally in the Commercial Products segment) had aggregate sales of $126 million, $360 million and $605 million in 1988, 1987 and 1986, respectively. Operating results of units sold are reported as discontinued operations in Textron's consolidated statement of income.

3. Investments

(In millions)	**December 31, 1988**	January 2, 1988
Commercial paper, at cost (approximates market)	**$ 185.8**	$ 119.6
Bonds, at amortized cost (estimated market: $2,272.6 and $2,048.3)	**2,276.7**	2,046.4
Marketable equity securities, at market (cost: $36.9 and $34.3)	**38.6**	35.4
First mortgages on real estate, at cost	**277.2**	289.7
Policy loans and other investments, at cost	**101.1**	76.9
	$2,879.4	$2,568.0

Approximately 83% of investment income in 1988 and 80% in 1987 and 1986 was attributable to interest on commercial paper and bonds and 11% of investment income in 1988 and 13% in 1987 and 1986 was attributable to income derived from first mortgages on real estate.

Investments in bonds are generally held until maturity. Net unrealized depreciation of bond market values during 1988 and 1987 was $6.0 million and $125.5 million, respectively, and net unrealized appreciation of bond market values during 1986 was $28.2 million.

Net realized gains and losses after income taxes resulting from sales of marketable equity securities were not material in 1988, 1987 and 1986. The cost of securities sold was determined primarily on the specific identification method.

4. Finance Receivables

The maximum term over which consumer loans and retail installment contracts are written is 10 years, but approximately 90% of these loans are written with terms of four years or less. Real estate loans are written with a maximum term of 15 years. Commercial installment loans have initial periods generally ranging from one to ten years. Finance leases have initial terms written generally up to 12 years.

In 1987, AFS sold its credit card receivables ($325 million), resulting in an after-tax profit of $34.4 million ($.39 per Textron share).

Contractual maturities of finance receivables outstanding at December 31, 1988 and total finance receivables outstanding at December 31, 1988 and January 2, 1988 were as follows:

	Contractual maturities			Less finance	Finance receivables outstanding	
(In millions)	1989	1990	After 1990	charges	**1988**	1987
Consumer	$1,094.1	$ 755.1	$ 603.5	$ 547.5	**$1,905.2**	$1,677.0
Real estate	379.0	297.5	1,864.8	1,171.2	**1,370.1**	1,075.2
Retail installment	313.3	130.1	136.8	119.5	**460.7**	389.3
Commercial installment	142.2	123.1	242.0	76.7	**430.6**	407.5
Finance leases	181.6	160.5	360.9	162.1	**540.9**	549.4
Leveraged leases	–	2.2	291.3	150.8	**142.7**	121.1
Other	197.4	90.0	52.1	193.2	**146.3**	109.1
	$2,307.6	$1,558.5	$3,551.4	$2,421.0	**4,996.5**	4,328.6
Less allowance for credit losses					**168.8**	146.4
Less finance-related insurance reserves and claims					**196.2**	171.4
					$4,631.5	$4,010.8

Accounts are often repaid or refinanced prior to contractual maturity. Accordingly, the foregoing tabulation should not be regarded as a forecast of future cash collections. During 1988 and 1987, cash collections of receivables (excluding finance charges) were $2.4 billion and $2.3 billion, respectively. The ratio of cash collections to average net receivables was approximately 55% and 54%, respectively.

5. Long-term Contract Receivables

Long-term contract receivables at December 31, 1988 and January 2, 1988 aggregated $272.8 million and $258.2 million, respectively, including $147.2 million and $113.6 million, respectively, of unbilled costs and accrued profits on long-term contracts for which the contractual criteria for billing had not yet been met. There are no significant amounts included in receivables which represent balances billed but unpaid under contract retainage provisions or significant amounts subject to uncertainty.

6. Inventories

(In millions)	**December 31, 1988**	January 2, 1988
Finished goods	**$ 214.5**	$ 218.5
Work in process	**1,217.5**	1,249.1
Raw materials	**174.0**	160.8
	1,606.0	1,628.4
Less progress payments	**374.3**	418.0
	$1,231.7	$1,210.4

Inventories aggregating $615 million at December 31, 1988 and $669 million at January 2, 1988 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 $88 million and $63 million higher at those respective dates.) The remaining inventories, other than those related to certain long-term contracts and programs, are valued generally by the first-in, first-out method.

Inventories relating to long-term contracts and programs, net of progress payments, were $544 million at December 31, 1988 and $535 million at January 2, 1988, including unamortized initial tooling and other non-recurring costs, direct production costs and manufacturing overhead. As to government contracts, inventory costs also generally include general and administrative expenses ($52 million at December 31, 1988; $55 million at January 2, 1988). Costs attributed to units delivered are based generally upon the estimated average cost per unit at contract or program completion.

7. Property, Plant and Equipment

(In millions)	**December 31, 1988**	January 2, 1988
At cost:		
Land and buildings	**$ 441.9**	$ 412.1
Machinery and equipment	**1,387.7**	1,192.4
	1,829.6	1,604.5
Less accumulated depreciation	**869.3**	716.1
	$ 960.3	$ 888.4

Depreciation applicable to continuing operations amounted to $165 million in 1988, $153 million in 1987 and $115 million in 1986, including depreciation using accelerated methods of $64 million, $59 million and $52 million, respectively.

8. Insurance Reserves and Claims

(In millions)	**December 31, 1988**	January 2, 1988
Future policy benefits and claim liabilities	**$1,259.7**	$1,085.0
Premium deposits and purchase payment funds	**922.9**	854.3
Unearned insurance premiums	**88.4**	85.6
Losses and adjustment expenses	**73.4**	79.6
	$2,344.4	$2,104.5

At December 31, 1988 and January 2, 1988, the liability for future policy benefits and claim liabilities included 65% and 63% for individual non-cancellable disability income, 20% and 23% for individual life, 12% and 12% for group products and 3% and 2% for individual investment products, respectively.

9. Debt and Credit Facilities

The Textron Parent Company Borrowing Group (comprised of all entities of Textron other than its finance and insurance subsidiaries) and Textron's finance and insurance subsidiaries are independent borrowers, and, accordingly, their debt is supported by their own respective assets.

At December 31, 1988 and January 2, 1988, consolidated debt consisted of the following:

(In millions)	**December 31, 1988**	January 2, 1988
Textron Parent Company Borrowing Group:		
Senior:		
Borrowings under or supported by credit facilities*	**$ 741.6**	$ 364.0
10.75% – 11% Notes; due 1995 to 1998	**116.0**	177.3
7.5% – 9.25% Debentures; due 1997 to 2016	**165.5**	169.2
Medium-Term Notes, Series A and B; due 1989 to 1997 (average rate – 9.6%)	**312.4**	282.4
Other notes (average rate – 8.9%)	**76.0**	52.4
Total senior	**1,411.5**	1,045.3
Subordinated:		
11.75% Subordinated Notes due 1995	**81.9**	149.4
9.25% – 9.5% Subordinated Debentures; due 2016 to 2017	**295.2**	295.0
Total subordinated	**377.1**	444.4
Total Textron Parent Company Borrowing Group	**1,788.6**	1,489.7
Finance and insurance subsidiaries:		
Senior:		
Bank loans and commercial paper**	**935.3**	800.1
6.94% – 7.75%; due 1989 to 1997	**69.1**	97.8
8.125% – 9.938%; due 1989 to 1999	**876.3**	751.4
10% – 11.875%; due 1989 to 1995	**819.4**	731.2
12% – 13.925%; due 1989 to 1994	**376.6**	397.3
14% – 15.794%; due 1989 to 1993	**185.3**	78.7
Variable rate notes due 1991 to 1995	**60.0**	60.0
Commercial paper supported by revolving credit agreements expiring in 1991 (average rate – 9.2%)	**425.0**	325.0
Total senior	**3,747.0**	3,241.5
Senior subordinated:		
8.875%; due 1991 to 1996	**103.9**	108.9
9.375% – 12.75%; due 1993 to 1994	**80.2**	87.2
Subordinated bonds due 1996 (effective yield 11.6%)	**31.3**	31.3
Total senior subordinated	**215.4**	227.4
Junior subordinated:		
Zero coupon notes due 1990 (effective yield 13.62%)	**116.8**	102.4
Total finance and insurance subsidiaries	**4,079.2**	3,571.3
Total debt	**$5,867.8**	$5,061.0

**The weighted average interest rates on these borrowings at December 31, 1988, January 2, 1988 and January 3, 1987 were 9.6%, 7.6% and 6.2%, respectively, and the weighted average interest rates for the years 1988, 1987 and 1986 were 7.9%, 6.7% and 6.9%, respectively.*

***The weighted average interest rates on these borrowings at December 31, 1988, January 2, 1988 and January 3, 1987 were 10.3%, 8.3% and 7.8%, respectively, and the weighted average interest rates for the years 1988, 1987 and 1986 were 8.5%, 7.7% and 7.9%, respectively.*

Required payments and sinking fund requirements during the next five years on debt outstanding at December 31, 1988 (excluding short-term bank loans and commercial paper and amounts that might become payable under credit facilities and revolving credit agreements) are as follows:

(In millions)	1989	1990	1991	1992	1993
Textron Parent Company Borrowing Group	$ 32.1	$ 59.3	$ 43.9	$102.8	$ 20.6
Finance and insurance subsidiaries	373.2	463.3	431.1	451.9	658.5
	$405.3	$522.6	$475.0	$554.7	$679.1

Cash payments for interest were as follows:

(In millions)	**1988**	1987	1986
Textron Parent Company Borrowing Group	**$193.8**	$186.3	$170.4
Finance and insurance subsidiaries	**378.5**	386.5	362.3
	$572.3	$572.8	$532.7

The Textron Parent Company Borrowing Group maintains credit facilities with various banks for borrowing funds on a short- and long-term basis.

It has lines of credit with certain banks, principally on an informal basis, totaling $203 million which are available to it and are also partially available ($98 million) to TFC. In some cases, banks require that the Textron Parent Company Borrowing Group maintain certain balances which are generated by the time lag in presentation of company checks for payment.

Additionally, the Textron Parent Company Borrowing Group has a credit agreement with 39 banks for a credit facility of $3.6 billion, of which (a) $1.9 billion is available on a revolving basis until December 31, 1991, unless extended pursuant to the terms of the agreement (after which date any outstanding loans will be payable in eight equal semi-annual installments commencing six months thereafter), and (b) $1.7 billion is available until December 31, 1990, unless extended pursuant to the terms of the agreement. Any loan under the $1.7 billion portion of the facility will be payable in eight equal semi-annual installments commencing six months following the making of such loan.

The Textron Parent Company Borrowing Group also has $200 million available under a facility agreement which provides funds on a revolving basis with no loan maturing after April 1991.

Borrowings under these credit facilities are available at the prime rate or at a surcharge over a certificate of deposit rate or the Eurodollar Rate. Borrowings may also be made at fixed rates of interest competitively offered by individual banks. If the Textron Parent Company Borrowing Group's public debt ratings were to fall below certain levels, additional interest would be payable based on the ratio of its debt to consolidated net worth. Fees range from 1/8 to 3/8 of 1% per annum depending upon the Textron Parent Company Borrowing Group's public debt ratings.

The Textron Parent Company Borrowing Group's credit agreements contain provisions relating to its maximum allowable debt levels and debt to consolidated net worth ratios. In addition, it is required to maintain a minimum fixed charge coverage ratio and minimum levels of shareholders' equity.

The Textron Parent Company Borrowing Group's credit facilities not used or reserved as support for outstanding commercial paper or bank borrowings were $3.2 billion at December 31, 1988.

Textron's finance subsidiaries — Avco Financial Services (AFS) and Textron Financial Corporation (TFC) — have lines of credit with various banks aggregating $1.6 billion, of which $745 million related to long-term loans. Lines of credit not used or reserved as support for commercial paper and bank borrowings amounted to $846 million, of which $141 million related to long-term loans. In support of these lines, AFS and TFC generally pay fees and/or maintain compensating balances.

Under operating agreements between Textron and TFC, Textron has made available to TFC a line of credit of up to $60 million for junior subordinated borrowings at the prime rate and Textron has agreed to lend to TFC, interest free, an amount not to exceed the deferred income tax liability of Textron attributable to the manufacturing profit deferred on products manufactured by Textron and financed by TFC. Textron has also agreed to cause TFC's pre-tax income available for fixed charges to be not less than 125% of fixed charges. No such payments were required for 1988, 1987 or 1986.

Under interest rate exchange agreements, which expire through 1994, Textron and its finance subsidiaries make periodic fixed payments in exchange for periodic variable payments. These contracts had the effect of fixing the rate of interest on $451.6 million of variable interest rate borrowings at December 31, 1988 at approximately 10.8%. The agreements expire as follows: $49.3 million in 1989, $103.4 million in 1990 and $298.9 million thereafter. In 1987, Textron terminated five such agreements, which had had the effect of fixing the rate of interest on an aggregate of $158 million of variable interest rate borrowings. The premiums paid to terminate the five agreements are being amortized over the original terms of the agreements. In addition, AFS expects to replace fixed rate long-term debt maturing in 1989 and thereafter with variable rate short-term debt and has entered into interest rate exchange agreements which will have the effect of fixing the rate of interest on $327.5 million of such variable rate debt at approximately 9.66%.

In 1988, Textron purchased an aggregate of approximately $130 million of its high interest rate debt, resulting in an extraordinary loss, net of income taxes, of $9.7 million.

In 1987, AFS purchased $412 million of its outstanding notes at a premium. In addition, Textron purchased an aggregate of $161 million of its outstanding notes. These transactions resulted in extraordinary losses, net of income taxes, aggregating $32.6 million.

In 1986, Textron called for redemption certain subordinated debentures, resulting in an extraordinary loss, net of income taxes, of $6.7 million.

The amount of the net assets of Textron's finance and insurance subsidiaries available for cash dividends and other payments to the Textron Parent Company Borrowing Group is restricted by the terms of agreements with their lenders and by insurance statutory requirements. As of December 31, 1988, approximately $301 million of their net assets of $1.6 billion were available to be transferred to the Textron Parent Company Borrowing Group pursuant to these restrictions. The long-term notes, debentures and loan agreements of AFS and TFC also contain various provisions restricting additional debt, the creation of liens or guarantees and the making of investments.

10. Shareholders' Equity

Common stock

In April 1987, Textron's shareholders approved an amendment to Textron's charter increasing its authorized number of common shares to 250 million from the previously authorized 150 million shares. Also with shareholder approval, the common shares were split two-for-one in May 1987.

Preferred stock

Each share of $2.08 Preferred Stock ($23.63 approximate stated value) is convertible into 2.2 shares of common stock and is redeemable by Textron at $50 per share. In the event of involuntary liquidation, preferred shareholders would be entitled to $50 per share and accrued dividends, and in the event of voluntary liquidation to $50 per share.

Each share of $1.40 Preferred Dividend Stock ($11.82 approximate stated value) is convertible into 1.8 shares of common stock and is redeemable by Textron at $45 per share. In the event of liquidation, holders of each share of such stock would receive accrued dividends and thereafter share ratably on a converted basis with holders of common stock, subject to the prior rights of the $2.08 Preferred Stock.

Preferred stock purchase rights

In March 1986, Textron declared a dividend of one Preferred Stock Purchase Right (Right) for each outstanding share of common stock. In December 1987, Textron amended the terms of the Rights. As a result of the stock split in May 1987, one-half Right is attached to each outstanding share of common stock. Each whole Right will entitle the holder to buy one unit of Series C Junior Participating Preferred Stock at an exercise price of $175, subject to adjustment. The Rights will be exercisable only if a person or group becomes the beneficial owner of 20% or more of Textron's common stock or commences a tender or exchange offer which would result in the offeror beneficially owning 30% or more of Textron's common stock or if the Board of Directors declares any person to be an "Adverse Person" (as defined). Upon the occurrence of certain defined events after the Rights become exercisable, each holder of a whole Right will be entitled to purchase Textron common stock having a value of twice the exercise price. Similarly, if Textron is involved in a merger or other business combination with another person in which its common stock is changed or converted, or if a sale of 50% or more of Textron's assets or earnings power is made to another person, each holder of a whole Right will be entitled to purchase common stock of such other person having a value of twice the exercise price. The Rights expire on March 20, 1996 and may generally be redeemed by Textron at a price of $.05 per whole Right at any time prior to ten business days (as such period may be extended) after a public announcement of the existence of a 20% holder. The Rights may not be redeemed if the independent directors have previously determined a person to be an Adverse Person.

Stock options and performance units

In 1987, Textron shareholders approved the adoption of its 1987 Long-Term Incentive Plan which authorizes the granting of awards to key employees through December 31, 1991 in either or both of the following forms: (a) performance units and (b) options to purchase Textron common stock.

Performance unit awards entitle recipients to payments based upon the attainment of performance targets. Such payments may be in cash, shares of common stock, or a combination thereof, as determined by a committee of the Board of Directors.

The Plan provides for both incentive stock options and non-qualified stock options and requires that such options be exercisable, for no more than eleven years, at a purchase price per share not less than the fair market value of Textron common stock at the date of grant. The total number of shares of common stock for which options may be granted is 3,000,000.

In 1988, the Board of Directors granted options on 812,500 shares of common stock under this plan. Options on 126,062 shares at an average purchase price of $25.58 per share were canceled in 1988. Options on 37,558 shares were exercised in 1988 at an average price of $17.08 per share.

Options on 274,676 shares were exercised in 1987 at an average purchase price of $19.69 per share, 32,732 of which were accompanied by stock appreciation rights (SARs), and options on 20,668 shares were surrendered upon the exercise of SARs. (SARs allow the holder to receive an amount of cash equal to the appreciation in market value of the shares upon exercising a stock option.) Options on 360,304 shares were exercised in 1986 at an average purchase price of $16.78 per share, 171,874 of which were accompanied by SARs, and options on 4,888 shares were surrendered upon exercise of SARs.

At December 31, 1988, options were outstanding on 2,689,153 shares (none of which were accompanied by SARs) at an average purchase price of $23.59, of which options on 1,435,539 shares, at an average purchase price of $23.73, were exercisable at that date.

Reserved shares

Shares of common stock were reserved at December 31, 1988, as follows:

$2.08 Cumulative Convertible Preferred Stock, Series A*	1,429,248
$1.40 Convertible Preferred Dividend Stock, Series B*	1,273,129
Options granted to employees	2,689,153
	5,391,530

**Includes shares issuable upon conversion of shares of preferred stock held as treasury shares.*

11. Leases

Rental expense applicable to continuing operations for leased real estate, office locations and machinery and equipment was approximately $113 million, $104 million and $88 million in 1988, 1987 and 1986, respectively. Minimum rental commitments under noncancellable operating leases in effect at December 31, 1988 approximated $329 million, of which $76 million is payable in 1989.

12. Research and Development

(In millions)	**1988**	1987	1986
Company funded	**$168**	$116	$ 99
Customer funded	**457**	434	433
Total research and development	**$625**	$550	$532

13. Pension and Other Postemployment Benefits

Textron and certain of its subsidiaries have a number of defined benefit pension plans covering substantially all of their employees. Benefits under salaried plans are based on salary and years of service, while benefits under hourly plans generally are based on negotiated amounts and years of service. Textron's funding policy is consistent with the funding requirements of federal law and regulations. Plan assets consist principally of corporate and government bonds and common stocks.

Textron's major pension plans provide, among other things and subject to certain conditions, that in the event of plan termination or withdrawal of assets without a termination within three years following a change in control (as defined in the plans), assets in excess of termination liabilities shall be applied to increase the benefits of participants who are active employees immediately before the change in control. Additionally, in the event of any plan merger, consolidation or transfer within such three-year period, the accrued benefit of each such affected participant and beneficiary must be vested, increased as provided in the previous sentence, and satisfied by the purchase of a guaranteed annuity contract.

Effective at the beginning of 1987, Textron adopted Statement of Financial Accounting Standards No. 87, "Employer's Accounting for Pensions" (FAS 87), with respect to its U.S. pension plans. The respective amounts of pension cost funded and deductible for tax purposes, allocable to government contracts and allowable in contract price determinations, are not affected by FAS 87.

Pension costs applicable to continuing operations for U.S. plans in 1988 and 1987 were $5.4 million and $10.1 million, respectively. Had FAS 87 not been adopted for U.S. plans in 1987, pension costs for that year applicable to continuing operations would have been $39 million. (The increase in such costs in 1987, under the provisions of accounting principles used prior to 1987, over 1986 pension costs of $28 million is due principally to the inclusion of the costs of Ex-Cell-O's pension plans for a full year in 1987.) After giving effect to the portion of pension costs allocated to contracts and work-in-process inventories, it is estimated that income from continuing operations increased by approximately $12.0 million ($.14 per share) in 1987 as a result of the adoption of FAS 87. Pension costs applicable to continuing operations for non-U.S. plans in 1988 and 1987 were not material.

Pension costs applicable to continuing operations in 1988 and 1987 for U.S. plans include the following components:

(In millions)	**1988**	1987
Service cost – benefits earned during the year	**$ 50.3**	$ 64.0
Interest cost on projected benefit obligation	**131.4**	120.6
Return on assets:		
Actual	**(210.3)**	(154.0)
Deferred gain (loss)	**48.4**	(5.1)
	(161.9)	(159.1)
Amortization of unrecognized transition net asset	**(15.8)**	(16.2)
Other amortization – net	**1.4**	.8
Net pension cost	**$ 5.4**	$ 10.1

The funded status of Textron's U.S. plans was as follows:

	December 31, 1988		January 2, 1988	
(In millions)	**Assets exceed accumulated benefits**	**Accumulated benefits exceed assets**	Assets exceed accumulated benefits	Accumulated benefits exceed assets
Actuarial present value of:				
Vested benefit obligation	**$1,235.2**	**$226.2**	$1,135.5	$239.9
Nonvested benefit obligation	**115.3**	**15.5**	68.7	16.3
Accumulated benefit obligation	**1,350.5**	**241.7**	1,204.2	256.2
Additional amounts related to projected pay increases	**206.8**	**7.6**	206.8	6.7
Projected benefit obligation	**1,557.3**	**249.3**	1,411.0	262.9
Plan assets at fair value	**2,059.4**	**170.1**	1,904.3	193.4
Plan assets in excess of/(less than) projected benefit obligation	**502.1**	**(79.2)**	493.3	(69.5)
Unrecognized net gain	**(170.1)**	**(12.5)**	(150.9)	(14.3)
Unrecognized prior service cost	**26.7**	**6.9**	18.9	–
Unrecognized transition (net asset)/ net obligation	**(294.9)**	**42.4**	(327.3)	49.3
Net pension asset (liability) recognized on the consolidated balance sheet	**$ 63.8**	**$(42.4)**	$ 34.0	$(34.5)

The projected benefit obligation was determined using assumed discount rates of 8.75%, 9% and 8% at December 31, 1988, January 2, 1988 and January 3, 1987, respectively. For purposes of determining 1988 and 1987 pension costs, the weighted average of the assumed long-term rate of compensation increase was 6.25% for 1988 and 6% for 1987, and the assumed long-term rate of return on plan assets was 9% for both years.

Textron and certain of its subsidiaries also have several defined contribution savings and other retirement plans covering both salaried and hourly employees. Eligible employees who participate in certain of these plans receive, within certain limits, matching Textron contributions. Costs applicable to continuing operations relating to these plans, which are generally funded as accrued, amounted to approximately $35 million, $39 million and $29 million for 1988, 1987 and 1986, respectively.

In addition, Textron provides certain health care and life insurance benefits for certain retired employees. Eligibility for these benefits is restricted to the particular benefit plans at the particular locations offering retiree benefits. These benefits and similar benefits for active employees are administered by insurance companies or other carriers who determine premiums for insured plans and expected costs to be paid during the year under self-insured plans. Textron recognizes the cost of providing these benefits by expensing the premiums and costs as incurred. Such costs applicable to continuing operations were approximately $195 million, $185 million and $149 million for 1988, 1987 and 1986, respectively. The cost of providing these benefits for the 15,800, 15,100 and 13,200 retirees in 1988, 1987 and 1986, respectively, receiving such benefits, is not separately identifiable from the costs of providing such benefits for the 60,000, 61,000 and 65,000 active employees in 1988, 1987 and 1986, respectively.

14. Income Taxes

Textron files a consolidated federal income tax return which includes all U.S. subsidiaries except the life insurance subsidiaries, which file separate returns. Separate returns are also filed for foreign subsidiaries.

Details of income from continuing operations before income taxes, income taxes and the deferred income tax effects of timing differences are summarized as follows:

(In millions)	**1988**	1987	1986
Income from continuing operations before income taxes:			
United States	**$329.9**	$355.8	$303.5
Foreign	**103.4**	96.8	120.1
Total	**$433.3**	$452.6	$423.6
Income taxes:			
Continuing operations	**$161.2**	$191.5	$194.0
Discontinued operations:			
Income from operations	**–**	1.7	5.3
Gains on sales	**–**	27.2	58.4
Extraordinary losses	**(20.3)**	(23.5)	(6.4)
Total	**$140.9**	$196.9	$251.3
Current:			
Federal	**$ 42.6**	$ 76.5	$ 69.1
State	**27.7**	27.6	29.5
Foreign	**41.9**	31.2	48.6
	112.2	135.3	147.2
Deferred:			
Federal	**31.3**	58.8	105.8
State	**(1.5)**	(1.5)	(2.1)
Foreign	**(1.1)**	4.3	.4
	28.7	61.6	104.1
Total	**$140.9**	$196.9	$251.3
Deferred income tax effects of timing differences:			
Additional depreciation for tax purposes	**$ 2.5**	$ 1.8	$ 7.3
Inventory valuation and long-term contract amounts	**(7.7)**	3.4	40.5
Finance subsidiary transactions – principally leasing	**28.6**	43.6	56.1
Disposition of discontinued operations	**9.0**	(14.3)	(18.9)
Allowance for bad debts	**(9.8)**	(11.9)	–
Insurance policy acquisition costs	**19.4**	20.3	19.4
Liabilities for future policy benefits	**(3.4)**	(3.3)	(12.1)
Other – net	**(9.9)**	22.0	11.8
Total	**$ 28.7**	$ 61.6	$104.1

Following is a reconciliation of the federal statutory income tax rate to the effective income tax rate applicable to continuing operations:

	1988	1987	1986
Federal statutory income tax rate	**34.0%**	40.0%	46.0%
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal tax benefit	**4.1**	3.3	2.7
Investment tax credits	**(.3)**	(.8)	(1.4)
Capital gains	**–**	(1.1)	(1.7)
Tax exempt interest and dividends received deduction	**(1.1)**	(1.4)	(1.7)
Foreign tax rate differential	**1.9**	.8	(1.3)
Foreign Sales Corporation benefit	**(1.9)**	(.7)	(.6)
Special deductions allowed life insurance companies	**–**	–	(1.7)
Amortization of goodwill	**2.9**	3.4	2.8
Other – net	**(2.4)**	(1.2)	2.7
Effective income tax rate	**37.2%**	42.3%	45.8%

The income taxes on the gains on sales of discontinued operations in 1987 and 1986 differ from those which would result from application of the statutory tax rates in effect in 1987 and 1986, primarily due to nondeductible foreign exchange losses and additional taxes on repatriated earnings of foreign subsidiaries, partially offset by the effect of capital gains.

Cash payments for income taxes were $116.7 million, $146.7 million and $94.5 million in 1988, 1987 and 1986, respectively.

Deferred income taxes have not been provided for the undistributed earnings of foreign subsidiaries which aggregated approximately $282 million at December 31, 1988. Management's intention is to reinvest such undistributed earnings outside the United States for an indefinite period, except for distributions upon which incremental U.S. income taxes would not be material.

At December 31, 1988, consolidated shareholders' equity included $105 million of U.S. life insurance subsidiaries' policyholders' surplus for financial reporting purposes on which no income taxes have been provided. Under present circumstances it is not anticipated that any of these earnings will become taxable.

15. Arbitration Concerning Former Line of Business

An insurance subsidiary of AFS participated in fronting programs with other insurance companies, which programs were discontinued prior to December 31, 1985. A dispute relating to one of these programs was heard by arbitrators in January 1988 and, based on the arbitrators' subsequent rulings, AFS has recorded an after-tax loss of $28.0 million ($.32 per Textron share) as an extraordinary item.

16. Contingencies

There are pending or threatened against Textron and its subsidiaries lawsuits and other proceedings, including some which allege violations of federal government procurement regulations, involve environmental matters, or are or purport to be class actions. Among these suits and proceedings are some which seek compensatory, treble or punitive damages in substantial amounts; indictments, fines, penalties or restitution; the cleanup of allegedly hazardous wastes; or, under federal government procurement regulations, could result in suspension or debarment of Textron or its subsidiaries from U.S. Government contracting for a period of time. These suits and proceedings are being defended or contested on behalf of Textron and its subsidiaries. On the basis of information presently available, Textron believes that any such liability or the impact of the application of relevant government regulations would not have a material effect on Textron's financial condition.

17. Selected Financial Information by Business Segment and Geographic Area

The selected financial information by business segment — as presented below and on page 37 of this report — and by geographic area relates to Textron's continuing operations. The operations of Ex-Cell-O are included from September 17, 1986. Prior years' amounts have been reclassified and restated to conform to the current year's presentation and to comply with new accounting requirements, which include classifying finance-related insurance with the finance business.

Selected Financial Information by Business Segment

For a description of the businesses comprising each segment, see pages 28 to 32 of this report.

Business Segments	Identifiable assets			Capital expenditures			Depreciation		
(In millions)	**1988**	1987	1986	**1988**	1987	1986	**1988**	1987	1986
Aerospace Technology:									
Helicopters	**$ 632**	$ 662	$ 658	**$ 38**	$ 44	$ 33	**$ 27**	$ 21	$ 16
Propulsion	**1,310**	1,270	1,260	**39**	48	28	**36**	35	21
Systems	**855**	838	934	**43**	48	52	**40**	40	35
	2,797	2,770	2,852	**120**	140	113	**103**	96	72
Commercial Products	**930**	773	1,043	**68**	59	38	**42**	38	25
Financial Services:									
Finance and related insurance	**5,148**	4,463	4,399	**16**	10	24	**10**	10	8
Other insurance	**3,466**	3,135	2,921	**11**	7	5	**5**	4	5
	8,614	7,598	7,320	**27**	17	29	**15**	14	13
Discontinued operations	**–**	124	–	**–**	13	25	**–**	10	13
Corporate	**256**	212	311	**5**	6	5	**5**	5	5
Eliminations	**(43)**	(19)	(8)	**–**	–	–	**–**	–	–
	$12,554	$11,458	$11,518	**$220**	$235	$210	**$165**	$163	$128

Selected Financial Information by Geographic Area

Geographic Areas	Revenues			Income		
(In millions)	**1988**	1987	1986	**1988**	1987	1986
Revenues and income by origin – continuing operations:						
United States	**$6,543**	$6,569	$6,027	**$612**	$629	$534
Canada	**434**	344	222	**44**	48	26
Asia/Pacific	**173**	127	140	**33**	33	46
Western Europe	**129**	115	90	**18**	13	9
Middle East	**–**	–	37	**–**	–	33
	$7,279	$7,155	$6,516	**707**	723	648
Corporate expenses and other – net				**(71)**	(73)	(44)
Interest expense – net				**(203)**	(197)	(180)
Income from continuing operations before income taxes				**$433**	$453	$424

Destination of U.S. exports – continuing operations:	Export sales		
	1988	1987	1986
Asia/Pacific	**$ 401**	$205	$196
Western Europe	**329**	345	273
Canada	**155**	104	74
Middle East	**145**	120	101
South America	**41**	56	44
Other locations	**56**	61	67
	$1,127	$891	$755

Identifiable assets by location:	Identifiable assets		
	1988	1987	1986
United States	**$10,303**	$ 9,468	$ 9,715
Canada	**1,286**	1,023	819
Asia/Pacific	**453**	367	357
Western Europe	**315**	302	295
Middle East	**–**	–	41
Discontinued operations	**–**	124	–
Corporate	**256**	212	311
Eliminations	**(59)**	(38)	(20)
	$12,554	$11,458	$11,518

Notes:

(i) Revenues by geographic area exclude income earned on investments held by the Textron Parent Company Borrowing Group.

(ii) Revenues include sales to the U.S. Government of $2.1 billion, $2.6 billion and $2.6 billion in 1988, 1987 and 1986, respectively.

(iii) Revenues between geographic areas, predominantly revenues of U.S. divisions, were approximately 2% of total revenues in 1988 and 1% of total revenues in 1987 and 1986.

18. Financial Information by Borrowing Group

Textron consists of two borrowing groups — the Textron Parent Company Borrowing Group and the finance and insurance subsidiaries.

This framework is designed to enhance the borrowing power of the total company by separating borrowing oriented units of a specialized business nature such as financial services.

The Textron Parent Company Borrowing Group is comprised of all entities of Textron other than its finance and insurance subsidiaries. The financial statements of this group as set forth below reflect Textron's investments in its finance and insurance subsidiaries on the equity basis. Its sources of cash flow include dividends paid by the finance and insurance subsidiaries, as well as cash generated by other operating units.

The finance and insurance subsidiaries finance their respective operations by borrowing from their own group of external creditors.

Financial Information for the Textron Parent Company Borrowing Group

Statement of Income

(In millions)	**1988**	1987	1986
Revenues:			
Sales	**$5,342.7**	$5,388.4	$4,688.1
Investment income	**6.1**	9.0	11.4
Total revenues	**5,348.8**	5,397.4	4,699.5
Costs and expenses:			
Cost of sales	**4,278.7**	4,387.7	3,768.3
Selling and administrative	**656.8**	604.3	539.6
Interest expense	**208.5**	206.1	191.5
Total costs and expenses	**5,144.0**	5,198.1	4,499.4
	204.8	199.3	200.1
Equity in pre-tax income of finance and insurance subsidiaries	**228.5**	253.3	223.5
Income from continuing operations before income taxes	**433.3**	452.6	423.6
Income taxes	**161.2**	191.5	194.0
Income from continuing operations before extraordinary losses	**272.1**	261.1	229.6
Discontinued operations, net of income taxes	**–**	27.8	16.3
Extraordinary losses, net of income taxes	**(37.7)**	(32.6)	(6.7)
Net income	**$ 234.4**	$ 256.3	$ 239.2

Balance Sheet

(In millions)	**1988**	1987
Assets		
Cash	**$ 10.3**	$ 5.6
Receivables – net	**815.3**	773.2
Inventories	**1,231.7**	1,210.4
Investments in finance and insurance subsidiaries	**1,615.9**	1,490.8
Property, plant and equipment – net	**850.3**	791.0
Goodwill (less accumulated amortization of $52.8 and $33.4)	**723.9**	739.3
Other assets	**309.8**	333.3
Total assets	**$5,557.2**	$5,343.6
Liabilities and shareholders' equity		
Accounts payable, income taxes and accrued liabilities	**$1,383.7**	$1,546.7
Debt	**1,788.6**	1,489.7
Shareholders' equity	**2,384.9**	2,307.2
Total liabilities and shareholders' equity	**$5,557.2**	$5,343.6

Financial Information for the Textron Parent Company Borrowing Group (continued)

Statement of Cash Flows

(In millions)	**1988**	1987	1986
Cash flows from operating activities:			
Net income	**$ 234.4**	$ 256.3	$ 239.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings of finance and insurance subsidiaries	**(82.0)**	(69.5)	(97.0)
Depreciation and amortization	**171.4**	170.3	124.1
Deferred income taxes	**(.6)**	14.3	26.2
Contributions of common stock to employee benefit plans	**–**	64.4	19.4
Gains on sales of discontinued operations	**–**	(51.5)	(66.4)
Losses on early redemption of debt	**15.6**	14.2	13.1
Changes in assets and liabilities excluding those related to acquisitions and divestitures of businesses:			
Increase in receivables	**(53.6)**	(93.7)	(58.6)
Increase in inventories	**(21.3)**	(8.3)	(35.2)
Decrease (increase) in other assets	**(16.5)**	44.8	(70.0)
Increase (decrease) in accounts payable, income taxes payable and accrued liabilities	**(135.3)**	64.4	70.7
Other – net	**5.6**	(4.5)	(.4)
Net cash provided by operating activities	**117.7**	401.2	165.1
Cash flows from investing activities:			
Purchases of investments	**(43.8)**	–	(8.5)
Proceeds from sales of investments	**1.6**	48.7	29.9
Collections on notes receivable	**11.0**	46.5	40.3
Capital expenditures	**(192.8)**	(215.7)	(181.3)
Proceeds from sales of property, plant and equipment	**12.4**	35.9	32.0
Proceeds from sales of discontinued operations	**34.8**	293.0	454.6
Cash used in acquisition of Ex-Cell-O	**–**	–	(999.9)
Net cash provided (used) by investing activities	**(176.8)**	208.4	(632.9)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	**(.7)**	(21.2)	1.6
Proceeds from issuance of long-term debt	**581.5**	562.5	1,403.8
Principal payments on long-term debt	**(324.6)**	(1,281.9)	(868.2)
Sale of common stock	**–**	195.6	–
Purchases of common stock	**(105.5)**	(12.1)	–
Dividends paid	**(87.1)**	(87.0)	(74.0)
Net cash provided (used) by financing activities	**63.6**	(644.1)	463.2
Effect of exchange rate changes on cash	**.2**	.3	.2
Net increase (decrease) in cash	**4.7**	(34.2)	(4.4)
Cash at beginning of year	**5.6**	39.8	44.2
Cash at end of year	**$ 10.3**	$ 5.6	$ 39.8

Financial Information for Textron's Finance and Insurance Subsidiaries

Statement of Income

(In millions)	1988	1987	1986
Revenues:			
Interest, discount and service charges	**$ 891.7**	$ 829.3	$ 877.2
Credit life, credit disability and casualty insurance premiums	**223.2**	220.2	298.1
Non-cancellable disability income, life and group insurance premiums	**527.6**	435.0	377.2
Investment income (including net capital gains)	**294.2**	282.3	275.0
Total revenues	**1,936.7**	1,766.8	1,827.5
Costs and expenses:			
Selling and administrative	**533.6**	433.6	456.3
Interest expense	**393.4**	374.1	392.3
Provision for losses on collection of finance receivables, less recoveries	**85.0**	87.7	96.4
Credit life, credit disability and casualty insurance losses and adjustment expenses, less recoveries	**97.5**	120.9	197.3
Death and other insurance benefits	**285.0**	224.2	188.6
Increase in insurance policy liabilities	**206.8**	183.1	161.9
Amortization of insurance policy acquisition costs	**106.9**	89.9	111.2
Total costs and expenses	**1,708.2**	1,513.5	1,604.0
Income before income taxes	**228.5**	253.3	223.5
Income taxes	**83.7**	101.7	86.7
Income before extraordinary losses	**144.8**	151.6	136.8
Extraordinary losses, net of income taxes	**(28.0)**	(24.6)	–
Net income	**$ 116.8**	$ 127.0	$ 136.8

Balance Sheet

(In millions)	1988	1987
Assets		
Cash	**$ 5.7**	$ 36.9
Investments	**2,875.5**	2,563.1
Finance receivables – net	**4,684.9**	4,063.4
Property, plant and equipment – net	**92.7**	78.3
Unamortized insurance policy acquisition costs	**443.1**	378.7
Goodwill (less accumulated amortization of $76.3 and $57.9)	**392.5**	410.9
Other assets	**173.1**	145.2
Total assets	**$8,667.5**	$7,676.5
Liabilities and equity		
Accounts payable, income taxes and accrued liabilities	**$ 628.0**	$ 509.9
Insurance reserves and claims	**2,344.4**	2,104.5
Debt	**4,079.2**	3,571.3
Equity	**1,615.9**	1,490.8
Total liabilities and equity	**$8,667.5**	$7,676.5

Notes:

(i) Prior years' amounts have been reclassified and restated to conform to the current year's presentation and to comply with new accounting requirements.

(ii) TFC derives a substantial portion of its business from financing the sale and lease of products manufactured and sold by Textron. In 1988, 1987 and 1986, TFC paid Textron $312.3 million, $188.5 million and $228.8 million, respectively, for the purchase of receivables. Under an operating agreement with Textron, TFC generally has recourse to Textron with respect to finance receivables and leases of products manufactured and sold by Textron. At December 31, 1988, finance receivables of $407.1 million ($389.8 million at January 2, 1988) were due from Textron or subject to recourse to Textron.

(iii) Approximately 77%, 69% and 52% of the credit life and credit disability insurance premiums earned and 24%, 14% and 7% of the casualty insurance premiums earned in 1988, 1987 and 1986, respectively, were related directly to AFS' consumer loan activities.

Financial Information for Textron's Finance and Insurance Subsidiaries (continued)

Statement of Cash Flows

(In millions)	1988	1987	1986
Cash flows from operating activities:			
Net income	**$ 116.8**	$ 127.0	$ 136.8
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**33.3**	32.6	30.3
Provision for losses on finance receivables	**106.9**	108.6	115.5
Deferred income taxes	**29.3**	47.3	77.9
Increase in insurance policy liabilities	**206.8**	183.1	161.9
Amortization of insurance policy acquisition costs	**106.9**	89.9	111.2
Gains on sales of investments	**(11.0)**	(16.0)	(31.7)
Gain on sale of credit card receivables	**–**	(52.3)	–
Losses on early redemption of debt	**–**	41.9	–
Changes in assets and liabilities:			
Additions to insurance policy acquisition costs	**(171.3)**	(142.6)	(157.3)
Decrease (increase) in other assets	**(5.7)**	6.0	25.1
Increase in accounts payable, income taxes payable and accrued liabilities	**84.2**	47.2	32.1
Increase (decrease) in unearned insurance premiums and reserves for insurance losses and adjustment expenses	**12.9**	(16.7)	30.7
Other – net	**9.7**	(1.6)	(.2)
Net cash provided by operating activities	**518.8**	454.4	532.3
Cash flows from investing activities:			
Purchases of investments	**(796.3)**	(1,003.4)	(993.5)
Proceeds from sales of investments	**538.0**	765.3	776.4
Finance receivables originated or purchased	**(3,232.9)**	(2,684.4)	(2,436.6)
Finance receivables repaid or sold	**2,491.0**	2,699.9	2,343.9
Capital expenditures	**(25.0)**	(13.9)	(27.4)
Proceeds from sales of property, plant and equipment	**–**	8.3	–
Net cash used by investing activities	**(1,025.2)**	(228.2)	(337.2)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	**112.9**	188.9	(296.3)
Proceeds from issuance of long-term debt	**742.6**	411.2	573.0
Principal payments on long-term debt	**(362.8)**	(819.8)	(414.1)
Receipts from interest sensitive insurance products	**95.6**	92.9	100.1
Return of account balances on interest sensitive insurance products	**(79.2)**	(73.3)	(98.5)
Dividends paid – intercompany	**(34.8)**	(57.5)	(39.8)
Net cash provided (used) by financing activities	**474.3**	(257.6)	(175.6)
Effect of exchange rate changes on cash	**.9**	.7	(1.7)
Net increase (decrease) in cash	**(31.2)**	(30.7)	17.8
Cash at beginning of year	**36.9**	67.6	49.8
Cash at end of year	**$ 5.7**	$ 36.9	$ 67.6

Quarterly Financial and Stock Information 1988 and 1987

(Unaudited)

(In millions except per share amounts)	1st Quarter 1988	1st Quarter 1987	2nd Quarter 1988	2nd Quarter 1987*	3rd Quarter 1988	3rd Quarter 1987	4th Quarter 1988	4th Quarter 1987
Income Statement Data:								
Revenues								
Aerospace Technology:								
Helicopters	**$ 314.0**	$ 265.1	**$ 316.2**	$ 291.6	**$ 307.7**	$ 288.3	**$ 334.0**	$ 331.9
Propulsion	**353.3**	349.7	**299.9**	365.9	**289.8**	342.4	**365.4**	340.5
Systems	**227.9**	346.0	**246.5**	327.7	**240.8**	295.3	**312.8**	331.6
	895.2	960.8	**862.6**	985.2	**838.3**	926.0	**1,012.2**	1,004.0
Commercial Products	**438.8**	407.1	**452.5**	367.3	**393.2**	359.5	**449.9**	378.5
Financial Services:								
Finance and related insurance	**248.7**	243.5	**255.2**	236.5	**261.5**	231.6	**271.5**	240.5
Other insurance	**210.7**	204.3	**214.5**	205.1	**224.0**	188.0	**250.6**	217.3
	459.4	447.8	**469.7**	441.6	**485.5**	419.6	**522.1**	457.8
Total revenues	**$1,793.4**	$1,815.7	**$1,784.8**	$1,794.1	**$1,717.0**	$1,705.1	**$1,984.2**	$1,840.3
Income								
Aerospace Technology:								
Helicopters	**$ 15.3**	$ 15.6	**$ 23.1**	$ 12.8	**$ 24.7**	$ 22.2	**$ 18.4**	$ 18.3
Propulsion	**36.7**	33.5	**29.4**	40.5	**31.2**	34.3	**50.9**	33.1
Systems	**15.3**	27.8	**21.2**	26.5	**22.9**	27.4	**11.6**	18.4
	67.3	76.9	**73.7**	79.8	**78.8**	83.9	**80.9**	69.8
Commercial Products	**45.7**	45.4	**47.0**	38.2	**33.0**	32.4	**51.9**	43.5
Financial Services:								
Finance and related insurance	**42.8**	30.1	**41.5**	79.0	**37.4**	29.6	**33.1**	30.7
Other insurance	**18.0**	22.9	**15.1**	23.5	**17.8**	19.7	**22.8**	17.8
	60.8	53.0	**56.6**	102.5	**55.2**	49.3	**55.9**	48.5
Segment operating income	**173.8**	175.3	**177.3**	220.5	**167.0**	165.6	**188.7**	161.8
Corporate expenses and other – net	**(16.9)**	(17.2)	**(17.4)**	(18.4)	**(14.7)**	(16.9)	**(22.1)**	(21.0)
Interest expense – net	**(46.6)**	(51.5)	**(48.8)**	(51.9)	**(50.9)**	(48.5)	**(56.1)**	(45.2)
Income from continuing operations before income taxes	**110.3**	106.6	**111.1**	150.2	**101.4**	100.2	**110.5**	95.6
Income taxes	**41.9**	45.1	**42.2**	63.5	**38.6**	42.6	**38.5**	40.3
Income from continuing operations before extraordinary losses	**68.4**	61.5	**68.9**	86.7	**62.8**	57.6	**72.0**	55.3
Discontinued operations, net of income taxes	**–**	(1.3)	**–**	4.3	**–**	23.4	**–**	1.4
Extraordinary losses, net of income taxes	**(29.7)**	–	**–**	–	**–**	(25.9)	**(8.0)**	(6.7)
Net income	**$ 38.7**	$ 60.2	**$ 68.9**	$ 91.0	**$ 62.8**	$ 55.1	**$ 64.0**	$ 50.0
Income per common share:								
Income from continuing operations before extraordinary losses	**$ .76**	$ .74	**$ .78**	$ 1.01	**$ .72**	$ .63	**$ .83**	$ .60
Discontinued operations	**–**	(.02)	**–**	.05	**–**	.25	**–**	.02
Extraordinary losses	**(.33)**	–	**–**	–	**–**	(.28)	**(.09)**	(.07)
Net income	**$ .43**	$ .72	**$ .78**	$ 1.06	**$ .72**	$ .60	**$ .74**	$ .55
Common Stock Information								
Price Range: High	**$ 29¼**	$ 35 15/16	**$ 26½**	$ 35¼	**$ 26¼**	$ 39¾	**$ 27⅝**	$ 34⅛
Low	**$ 21½**	$ 31	**$ 23**	$ 28½	**$ 22¼**	$ 30⅛	**$ 23**	$ 17¼
Dividend per share	**$ .25**	$ .225	**$ .25**	$ .25	**$ .25**	$ .25	**$ .25**	$ .25

**In the second quarter of 1987, AFS sold its credit card receivables, resulting in an after-tax profit of $34.4 million ($.40 per Textron share).*

Five-Year Summary*

(Dollars in millions except per share amounts)	1988	1987**	1986	1985	1984
Revenues:					
Sales	**$ 5,342.7**	$ 5,388.4	$ 4,688.1	$ 3,732.9	$ 1,997.0
Interest, discount and service charges	**891.7**	829.3	877.2	835.7	60.8
Insurance premiums	**750.8**	655.2	675.3	541.5	–
Investment income (including net capital gains)	**300.3**	291.3	286.4	231.5	11.0
Total revenues	**7,285.5**	7,164.2	6,527.0	5,341.6	2,068.8
Costs and expenses:					
Cost of sales	**4,278.7**	4,387.7	3,768.3	2,953.7	1,619.2
Selling and administrative	**1,190.4**	1,037.9	995.9	944.5	262.5
Interest expense	**601.9**	580.2	583.8	574.6	67.1
Provision for losses on collection of finance receivables, less recoveries	**85.0**	87.7	96.4	74.9	.8
Insurance benefits and increase in policy liabilities	**589.3**	528.2	547.8	442.6	–
Amortization of insurance policy acquisition costs	**106.9**	89.9	111.2	72.1	–
Total costs and expenses	**6,852.2**	6,711.6	6,103.4	5,062.4	1,949.6
Income from continuing operations before income taxes	**433.3**	452.6	423.6	279.2	119.2
Income taxes	**161.2**	191.5	194.0	112.3	49.3
Income from continuing operations before extraordinary items and cumulative effect of a change in accounting principle	**272.1**	261.1	229.6	166.9	69.9
Discontinued operations, net of income taxes	**–**	27.8	16.3	56.7	43.6
Extraordinary items, net of income taxes	**(37.7)**	(32.6)	(6.7)	16.4	–
Cumulative effect of a change in accounting principle	**–**	–	–	11.8	–
Net income	**$ 234.4**	$ 256.3	$ 239.2	$ 251.8	$ 113.5
Per common share:					
Income from continuing operations	**$ 3.10**	$ 2.97	$ 2.78	$ 2.23	$ .96
Discontinued operations	**–**	.32	.20	.76	.60
Extraordinary items	**(.43)**	(.37)	(.08)	.22	–
Cumulative effect of a change in accounting principle	**–**	–	–	.16	–
Net income	**$ 2.67**	$ 2.92	$ 2.90	$ 3.37	$ 1.56
Dividends declared	**$ 1.00**	$ .975	$ .90	$ .90	$ .90
Average common shares outstanding	**87,910,000**	87,733,000	82,564,000	74,636,000	72,938,000
Financial Position at Year-End					
Total assets	**$ 12,554.1**	$ 11,457.5	$ 11,517.8	$ 10,170.6	$ 2,621.3
Debt:					
Textron Parent Company Borrowing Group	**$ 1,788.6**	$ 1,489.7	$ 2,212.9	$ 1,541.9	$ 256.0
Finance and insurance subsidiaries	**$ 4,079.2**	$ 3,571.3	$ 3,642.1	$ 3,759.7	$ 363.5
Shareholders' equity	**$ 2,384.9**	$ 2,307.2	$ 1,847.2	$ 1,633.3	$ 1,253.9
Book value per common share	**$ 27.60**	$ 25.39	$ 22.38	$ 19.94	$ 17.23
Other Data					
Capital expenditures***	**$ 219.9**	$ 222.2	$ 185.4	$ 144.4	$ 76.0
Depreciation***	**$ 164.7**	$ 152.7	$ 115.3	$ 94.4	$ 42.4
Number of common shareholders	**36,000**	37,000	36,000	40,000	43,000

**The results of operations of Ex-Cell-O and Avco are included from September 17, 1986 and January 10, 1985, respectively.*
***In 1987, AFS sold its credit card receivables, resulting in an after-tax profit of $34.4 million ($.39 per Textron share).*
****These items relate to continuing operations only.*

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(3) Nominating Committee: Chairman, J. Paul Sticht
(4) Organization and Compensation Committee: Chairman, James R. Martin
(5) Pension Committee: Chairman, John J. Schmidt

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Group Vice President

Willard R. Gallagher***
Vice President
International

Experience with Textron and its subsidiaries/divisions:
*5-9 years
**10-19 years
***20 years and over

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Major Photography: Mason Morfit

Shareholder Information

Annual Meeting to be held April 26 in Providence
The annual meeting of Textron shareholders will be held at 10:30 a.m. on Wednesday, April 26, 1989, at the Omni Biltmore Hotel, 11 Dorrance Street, Providence, Rhode Island. A proxy card and proxy statement will be mailed to all shareholders approximately five weeks before the meeting. Proxy cards should be signed, dated and returned promptly to ensure that all shares are represented at the meeting and voted in accordance with the instructions of their holders. Shareholders are encouraged to attend the annual meeting.

About Your Securities and Records
The common and preferred stocks of Textron Inc. are listed on the New York, Midwest and Pacific Stock Exchanges and are quoted in the daily stock tables carried by most newspapers. The ticker symbol for Textron is TXT.

Morgan Shareholder Services Trust Company, 30 West Broadway, New York, NY 10007-2192, acts as transfer agent, registrar and dividend paying agent for Textron stock and maintains all shareholder records for the corporation. Morgan also acts as conversion agent for Textron's $2.08 preferred stock and its $1.40 preferred dividend stock.

Shareholders may obtain information relating to their share position, dividends, transfer requirements, lost certificates, conversion rights, dividend reinvestment accounts and other related matters by telephoning Morgan Shareholder Services Trust Company's "Telephone Response Center" at (212) 587-6515. Shareholders must provide their tax identification number, the name(s) in which their shares are registered and their record address when they request information. This service is available to all shareholders Monday through Friday 9:00 a.m. to 5:00 p.m. EST. Shareholders also may obtain this information by writing to Secretary, Textron Inc., P.O. Box 878, Providence, RI 02901.

Dividend Payments Mailed Quarterly
"Shareholder of record" refers to a shareholder who is entitled to receive a dividend on the "payment date" if he or she was listed as a Textron shareholder on the "record date" (generally the Friday on or before the 15th of the month next preceding the dividend payment date).

Quarterly dividends are mailed with the intent of reaching shareholders of common and preferred stock on the first business day of January, April, July and October. Postal delays may cause actual receipt dates to vary.

Free Automatic Dividend Reinvestment
Textron's Shareholder Investment Service offers common shareholders of record a convenient method to purchase additional shares of Textron common stock without paying brokerage, commission or other service fees.

Participants in the plan may choose to have all or part of their dividends automatically reinvested, make additional cash payments or do both in purchasing shares of Textron common stock. All brokerage expenses for these purchases are paid by Textron. Personal record keeping is simplified by an account statement that is mailed to participants.

Obtain more information and an authorization form by writing Secretary, Textron Inc., P.O. Box 878, Providence, RI 02901 or by calling (401) 421-2800.

Tax Reports on Dividend Income
Textron is required to report to the Internal Revenue Service the total amount of dividends paid to each shareholder during the preceding year. Form 1099, which contains the information supplied by the transfer agent to the IRS for each shareholder account, and Form 1087, which covers dividends reinvested under the Shareholder Investments Service and brokerage fees and commissions paid by Textron under the service, will be mailed to shareholders after the end of each calendar year.

Lost Checks and Certificates
Dividend checks are often delayed or lost when a shareholder moves and does not notify the transfer agent of his or her new address.

It is easy to make an address change. On every dividend check, there is a change of address form and a circle which may be punched out to indicate to the transfer agent a change of address has been made.

Lost certificates may be replaced only after issuance of an indemnity bond, for which a premium of about 2% of the market value of the stock is charged by an insurance company. Shareholders should generally deal directly with their brokers and the transfer agent who maintains shareholder records.

Additional Information Available to Shareholders
Questions about Textron should be directed to the Corporate Communications Department, Textron Inc., 40 Westminster Street, Providence, RI 02903 or by calling (401) 421-2800.

Form 10K, Proxy Statement Available
After April 1, 1989, shareholders may obtain copies of Textron's Form 10-K annual report to the Securities and Exchange Commission without charge. Requests for this report should be addressed to Textron's Corporate Communications Department.

TEXTRON

1988 Annual Report

Textron Inc.
40 Westminster Street
Providence, RI 02903
(401) 421-2800

TEXTRON

Annual Report 1989

2166-04750

Textron Inc.

Textron focuses on three core businesses: Aerospace Technology, Commercial Products and Financial Services. We have a substantial share in many of the markets we serve. Our 58,000 employees have helped Textron earn its reputation as a provider of quality products and services around the world.

Textron's products touch virtually all aspects of our lives. You will find them in factories and businesses, in your homes and automobiles and on aircraft, spacecraft and ships. Our service businesses include consumer and commercial finance, and insurance for a growing number of individuals and businesses.

On The Cover:
The versatility of Bell Helicopter Textron's Model 412SP (Special Performance) medium helicopter makes it well-suited for use in law enforcement, offshore oil exploration and emergency medical services. The 412SP shown on the cover is operated by Mercy Air, Inc. and is configured for medevac flights within a 150-mile radius of San Bernadino, California. Its crew consists of a pilot, nurse and medical technician.

Highlights

(Dollars in millions except per share data)	**1989**	1988
Revenues	**$ 7,440.1**	$ 7,285.5
Income:		
Income before extraordinary losses	**$ 268.7**	$ 272.1
Extraordinary losses	**(9.5)**	(37.7)
Net income	**$ 259.2**	$ 234.4
Income per common share:		
Income before extraordinary losses	**$ 3.02**	$ 3.10
Extraordinary losses	**(.11)**	(.43)
Net income	**$ 2.91**	$ 2.67
Average common shares outstanding	**88,999,000**	87,910,000
Book value per common share	**$ 28.24**	$ 27.60
Dividends declared per common share	**$ 1.00**	$ 1.00
Return on shareholders' equity*	**11%**	12%
Employees	**58,000**	60,000

**Based on income before extraordinary losses.*

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To Our Shareholders:

Textron displayed considerable strength in its core businesses in 1989. Revenues and net income rose, led by substantially higher operating income in the finance and insurance segments. The company's net income of $259.2 million ($2.91 per share) was up from $234.4 million ($2.67 per share) in the prior year, when extraordinary losses accounted for $.43 per share versus $.11 per share in 1989. Revenues were $7.4 billion, compared with $7.3 billion in 1988.

Earnings in 1989 were penalized by interest costs of approximately $22.3 million related to our acquisition with borrowed funds in January 1989 of Avdel plc, a fastening systems manufacturer based in the United Kingdom. We were unable to consolidate Avdel earnings pending resolution of the U.S. Federal Trade Commission's allegations of the anticompetitive effects of the acquisition. For 1989, Avdel's earnings before income taxes approximated $23 million. The company is defending this acquisition, but cannot presently predict the outcome of this dispute.

Additionally, our sound operating performance was impacted by substantially increased costs incurred on certain fixed-price contracts for the U.S. Department of Defense.

Financial Services Growth Continues

Our Financial Services businesses experienced healthy, controlled growth in 1989, reflecting the benefits of further improvements in quality and service throughout the consumer and commercial finance operations and in our disability income insurance business. We are especially encouraged by Avco Financial Services' continued record low loss ratios and by the ability of all of the Financial Services businesses to apply current computer technology to expand capacity and improve customer service.

New Commercial/International Opportunities

The operations overview in this report reflects our optimism over prospects for expanding Textron's commercial and international businesses. In 1989, U.S. exports continued strong, accounting for $1.2 billion of revenues. In addition, revenues from our non-U.S. operations totaled $881 million. We see global opportunities increasing for all of our sectors — Aerospace, Commercial and Financial. Many of our divisions have established or are contemplating joint ventures or other agreements with firms based in Western Europe and the Pacific Rim. In the United States, we see growth opportunities as new partnerships are forged between manufacturers and suppliers, particularly in the automotive industry. Major opportunities are emerging as funds are committed to rebuilding this country's infrastructure — its highways and bridges, outdated air traffic control systems, and aging transportation systems — which should have a positive impact on several of our businesses.

Textron's Continuing Role In Defense

Notwithstanding the encouraging developments of recent months in the Soviet Union and Eastern Europe; concerns about shrinking defense budgets which may affect programs such as the V-22 TiltRotor aircraft and unique turbine engines for the Army M1 tank; and a generally riskier government contracting environment, Textron anticipates that for the foreseeable future the United States will need to provide for its defense and that there is a role for Textron's diverse and sophisticated technologies in national defense efforts.

James F. Hardymon
President and Chief Operating Officer

B.F. Dolan
Chairman and Chief Executive Officer

In the defense industry, we compete at many levels, from prime systems contractor to subcontractor of major components, such as hydraulic actuators for aircraft control and turbine engines, to parts and specially engineered fasteners. Our participation in a wide variety of programs, along with teaming arrangements with other defense contractors, enables us to spread our risks among many programs in varying stages of development and production while competing selectively for new programs.

Prepared For The 1990s

As we begin the final decade of the twentieth century, we are pleased with Textron's strategic diversity of businesses. In the 1980s, we substantially repositioned the company into a larger, more focused entity, doubled sales and earnings, raised the dividend and split the common stock two-for-one. We established a major new business sector, Financial Services, and divested more than two dozen divisions which no longer fit our strategic goals. Today, your company is better balanced than ever before and is well positioned for growth in the global marketplace. We have the essential elements in place to provide attractive returns to our shareholders: quality products and extensive technology, strong financial resources and 58,000 dedicated and well-trained employees.

James F. Hardymon Named President

In late November, we were delighted to announce the election of James F. Hardymon as president, chief operating officer and a director of the company. Jim, who held these titles at Emerson Electric Company, St. Louis, Missouri, brings more than 28 years of experience in managing successful diversified businesses. He is a welcome addition to Textron's senior management and we expect him to make a significant contribution to our growth and profitability.

On behalf of Textron's management, I would like to thank all of our employees, shareholders, customers and suppliers for their individual and collective support during 1989. We will continue to extend our best efforts to sustain their loyalty and commitment in the coming year.

B. F. Dolan

B.F. Dolan
Chairman and Chief Executive Officer

February 8, 1990

Textron is a major supplier of aerospace systems and components for military and commercial aviation, including the wings and engines for this British Aerospace BAe146 regional commuter jet. The Aerospace Technology sector also produces helicopters, aircraft hydraulic components, engine parts, and fasteners, as well as light armored vehicles, air cushion landing craft, and engines for tanks, business jets, helicopters, landing craft and general aviation aircraft.

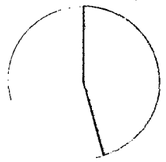
Aerospace Technology

Our Aerospace Technology divisions develop and manufacture advanced technology products for government and commercial customers worldwide. They produce systems, components and materials for both tactical and strategic weapons.

They are active in the development of the V-22 TiltRotor aircraft, the LHX light helicopter and sensor-fuzed "smart" weapons, as well as next-generation piston and turbine engines and a host of other products to be used in the 1990s and beyond. They produce helicopters, aircraft wings, controls and components, and have a large aftermarket business for both military and commercial spare parts.

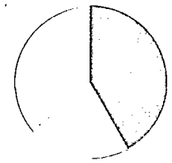
Percentage of Total Revenues

1989: 46%



Percentage of Total Operating Profit

1989: 42%



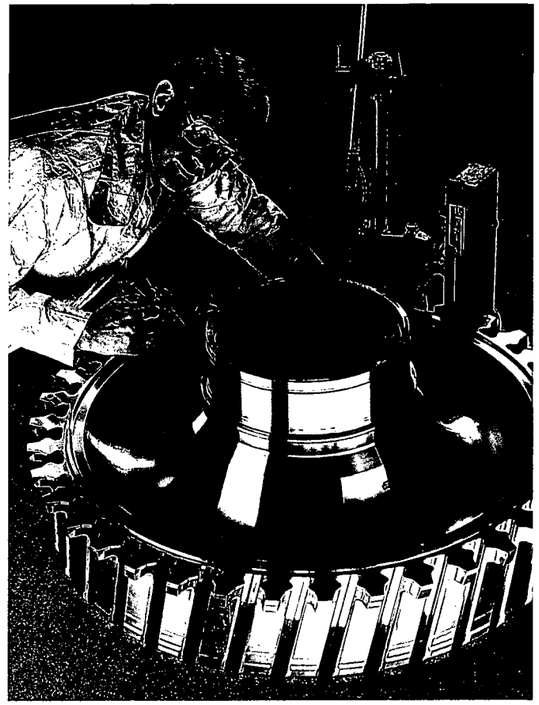
Major manufacturers, such as Pratt & Whitney, General Electric and Allison, utilize Airfoil components. Airfoil produces more than four million blades and vanes each year — ranging from one inch to more than three feet in length (facing page).

The Aerospace Technology sector accounted for $3.4 billion, or 46%, of Textron's total revenues and $307.6 million, or 42%, of its operating income. In 1988, sector revenues and operating income were $3.6 billion and $300.7 million, respectively. This sector's divisions serve the U.S. Government and a growing domestic and international commercial business.

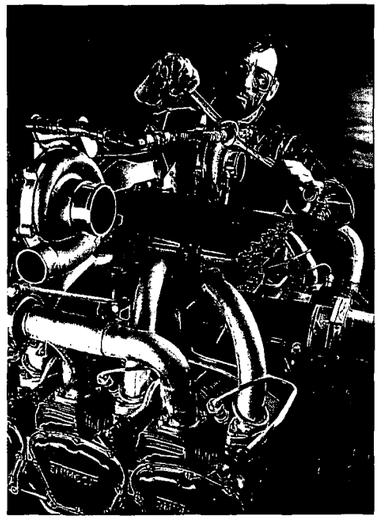
Textron's defense programs include the AH-1W Super Cobra, an advanced helicopter gunship for the Marine Corps; the Army Helicopter Improvement Program (AHIP), under which Bell Helicopter produces both armed and scout versions of the OH-58D helicopter, and gas turbine engines and turret controls for the Army's M1 Tank. We also have a new program initiative with General Electric Company to jointly develop and produce engines for future heavy armored vehicles. Other programs are the Landing Craft, Air Cushion for the Navy and Marine Corps, and controls and other systems for advanced aircraft and spacecraft. In 1989, we received our first production order for flight control actuators for the Navy's A-12 Advanced Tactical Aircraft and won contracts for a number of fuel control components for that aircraft. The A-12 will become the new all-weather, carrier-based attack aircraft, replacing the A-6 Intruder.

Within the sector, there are several large development programs that could become major production opportunities for Textron. They are the V-22 Osprey TiltRotor aircraft for

The Aircraft Engine Components Division manufactures customer-designed turbine engine components, such as these fan discs for Pratt & Whitney's 4000 engine for the Airbus 310 and Boeing 747.



Textron Lycoming has been manufacturing reciprocating engines for general aviation fixed wing and rotary aircraft for over 60 years. Nearly 100 different types of aircraft are powered by Lycoming engines including this six cylinder, turbocharged model.



the Marine Corps, Navy and Air Force, a family of "smart" anti-armor munitions for the Army and Air Force, and the Light Helicopter Experimental (LHX) program for the Army. Textron achieved several major milestones in these programs during the year.

The V-22 aircraft, being jointly developed by Bell Helicopter and Boeing Helicopters under a $1.8 billion fixed-price development contract, made its historic first flight in March 1989 and its first full conversion to the airplane mode in September. Two additional production prototype aircraft also flew in 1989 and three more V-22s were in various stages of completion by the Bell-Boeing team at year end.

Due to defense budget constraints, the Secretary of Defense has proposed cancellation of the program, but Congress has approved continued development funding for fiscal year 1990. The Administration's proposed 1991 defense budget does not include a request for continued funding of the development program, adding uncertainty to the outlook. The U.S. Armed Forces have indicated an interest in buying more than 650 V-22s if firm funding and scheduling parameters can be reestablished. In addition to seeking funds for the ongoing development, Bell will continue to pursue other opportunities for Tilt-Rotor technology which has enormous potential applications worldwide.

Bell Helicopter is teamed with McDonnell Douglas Helicopter Company in the competition for development of the LHX helicopter. The program is currently in its demonstration/validation phase with the full-scale development contract due to be awarded to one of the two competing teams at the end of 1990. The LHX program, if funded, could result in the production of nearly 2,100 helicopters, starting in the mid-to-late 1990s, to replace most of the helicopters currently in the Army's inventory.

In "smart" weapons development, Textron's sensor-fuzed, anti-armor munitions met stringent requirements in numerous field tests. These munitions, which are based on Textron's advanced sensor technology, have significant production potential in the 1990s.

Recognizing the diminishing prospects for major new U.S. defense initiatives, the company continued its

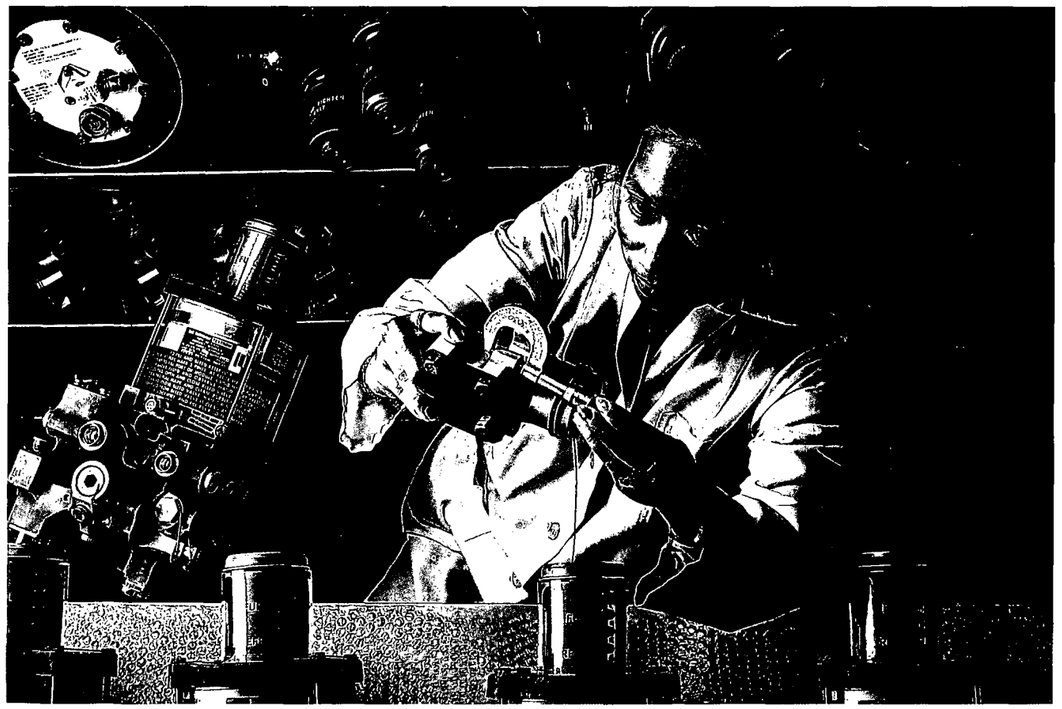
A technician performs final inspection of a hydraulic filter module/reservoir at HR Textron's PTI Technologies subsidiary. The module is used on the Model 214ST helicopter manufactured by Bell Helicopter Textron.

efforts to capture a larger share of the commercial and international aerospace markets. We have joint ventures in several countries for production of military and commercial helicopters, light tanks and armored vehicles, and will soon begin deliveries of wing components and flight control actuation systems for the European Airbus A330/A340 aircraft. The company also produces turbofan engines and wings for British Aerospace's BAe146 commuter airliner. It supplies engine parts to virtually all of the free world's turbine aircraft engine manufacturers and is a leader in the development and production of advanced lightweight composite materials for high temperature applications in new generations of aircraft and missiles.

Bell Helicopter has helicopter coproduction and license programs in place in Indonesia, Norway, Turkey, Japan and Italy. Through its worldwide marketing system, Bell sells helicopters and spare parts and provides aftermarket support services, such as technical training and logistics support.

In 1989, we received an order for 32 commercial helicopters for offshore oil drilling support in the Gulf of Mexico.

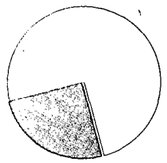
The aftermarket business for commercial aerospace overhaul, repair and spare parts is an important business for Textron, offering profitable opportunities for the 1990s. Textron Lycoming expanded its maintenance operations by adding a new facility in South Carolina specializing in turbine engine repair and overhaul.



Textron's $777 million automotive business includes a broad range of products, such as instrument panels, interior and exterior trim, fasteners, and functional parts and assemblies, for automobiles and light trucks built in North America.

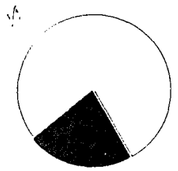
Percentage of Total Revenues

1989: 25%



Percentage of Total Operating Profit

1989: 22%



Commercial Products

In the Commercial Products sector we have a substantial position in selected areas of the automotive, specialty fasteners and outdoor products markets. In each of these markets, the company strives to be a leader in the development of new products.

Sales to domestic automotive producers approximated $777 million, or $62 for every car and light truck built in North America.

New opportunities for automotive components and fasteners are arising as the major car makers begin focusing on "world cars," with global automobile designs, for production in both North America and Europe. Our outdoor products divisions — E-Z-Go, Homelite and Jacobsen — are leaders in the golf course, building trades and residential lawn care markets.

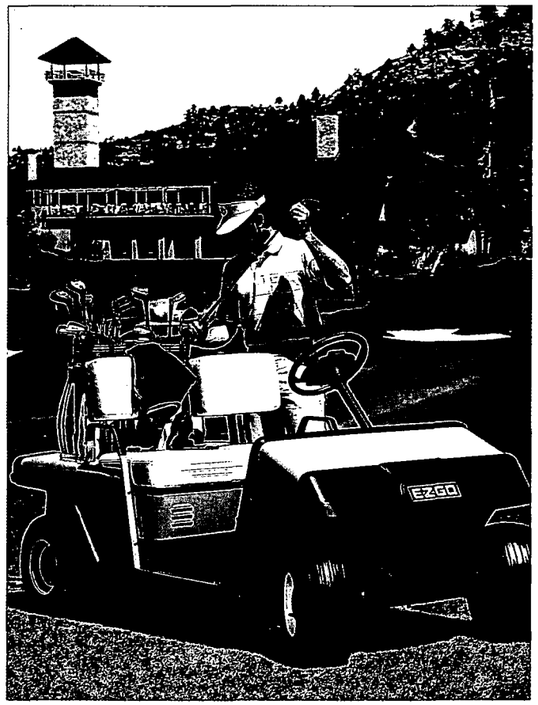
Repairing or rebuilding large portions of the U.S. infrastructure will be a high priority item during the 1990s. Camcar's Camrail timber screws, which are used on railroad beds and crossings, are just one example of how Textron's large fastener business could benefit from renewed interest in updating the country's aging transportation systems.

Textron's Commercial Products businesses are expected to experience significant growth during the 1990s. We also intend to increase market penetration in the U.S. while expanding our presence in the European Economic Community and the Pacific Rim. Revenues of our Commercial Products businesses accounted for $1.9 billion, or 25%, of Textron's total revenues, and $164.6 million, or 22%, of its operating income, compared with $1.7 billion and $177.6 million, respectively, in 1988.

Our Commercial Products divisions are committed to being among the leaders in providing quality products at competitive prices. The company continues to expand into world markets as opportunities arise. Our strength in the automotive-related parts and fasteners businesses can be attributed to the quality of our products and our extensive capabilities in research, design, engineering, production and distribution. Our automotive businesses produce functional and decorative automotive parts, ranging from soft bumpers and body moldings to instrument and door panels, armrests and wheel covers. We also produce camshafts and electromechanical components, including fuel pump armatures and windshield washer systems.

U.S. automakers contract for the design and manufacture of their subassemblies and related components to a relatively small number of suppliers, such as Textron, which have the financial resources and technical expertise to provide cost-effective solutions to

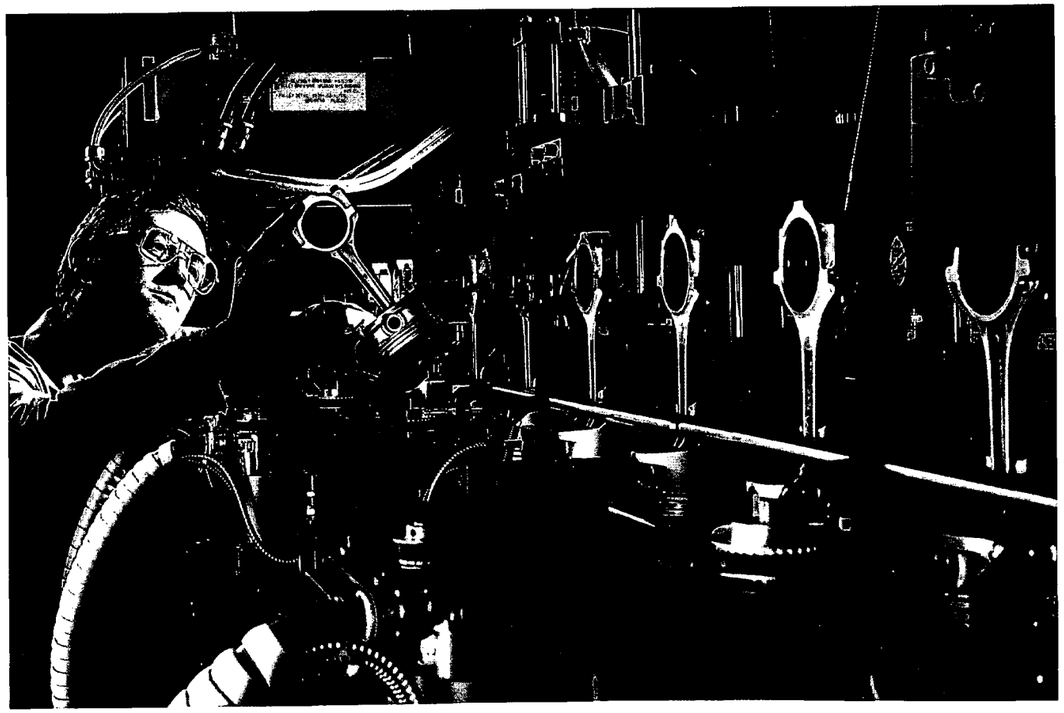
Castle Pines Golf Club in Colorado is among the many prominent golf courses and resorts which use E-Z-Go golf cars and utility vehicles. Castle Pines is the home of the "International," a PGA Tour tournament started in 1986.



complex problems. We are well-positioned throughout our automotive-related operations. Most divisions have Computer Aided Design (CAD) systems linked directly to their OEM customers to shorten the design phase. Textron is an active participant in the quality programs of the "Big Three," which are intended to improve quality as well as to reduce the cost of quality. The Davidson divisions maintain an automotive design center which offers full design capabilities for their automotive customers. In addition, these divisions have a centralized research and development center providing support in the use of new materials and processes and in product development. This close working relationship between the company and its customers enables Textron to respond quickly in a constantly changing, competitive environment.

In 1989, Davidson Instrument Panel Textron and Marley Foam Ltd., an English company, its long-time licensee, formed a joint venture in The Netherlands, Davidson Marley B.V., to manufacture and sell automotive instrument panels and related components in Europe. The joint venture has already received a letter of intent from Ford Motor Company for the supply of instrument panels for a new model line to be manufactured in Europe. Separately, Davidson Instrument Panel will supply the instrument panels for Ford's North American version of this new model.

Joint ventures can be expected to become more common as automotive producers establish common, global automobile designs for production in both North America and Europe. Such production requires compatibility in the design and process engineering of all components. Automotive manufacturers have indicated their intention to award worldwide supply contracts to suppliers, or groups of suppliers, for these various components. By doing so, the OEMs can ensure consistency of product quality as well as realize economies of scale attainable from high volume supply contracts.



The North American Machine Tool Division's Micro-Precision Operation is completing work on this automotive piston ring assembly machine for a U.S. automotive manufacturer. The machine will be used as part of an assembly cell to produce 1,200 piston and rod components an hour.

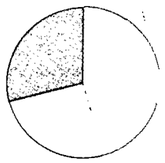
Our specialty fastener divisions maintain close ties with their customers. Our fastener business is broad based, producing custom engineered components, fasteners, and fastener systems for the automotive and aerospace industries and for numerous other applications, such as business equipment, electronics, aircraft, railroad, appliance and truck/trailer markets. Current opportunities, combined with expected heightened activity in the domestic and overseas markets, should contribute to strong growth in Textron's fastener business over the next decade. In the automotive area, our fastener divisions are actively involved in the development of airbag storage compartments. In addition, they have been selected as prime suppliers of fasteners to General Motors' Saturn Corporation. Textron's acquisition of Avdel in 1989 could provide Textron with an entry into the European fastener marketplace as well as in Japan and other overseas markets; however, Textron has not been permitted to exercise control over Avdel pending the outcome of the Federal Trade Commission's proceeding challenging the acquisition as anticompetitive.

We enjoy a strong competitive position in certain outdoor products markets, and in the market for power and hand tools used by professionals in both construction and industry. We are a leading manufacturer of golf cars, turf maintenance equipment, chain saws, string trimmers and related outdoor power equipment. The golf car market is expected to experience further growth in the U.S. and abroad because more golf courses are being built each year in response to a continuing rise in the number of people playing golf. Textron's E-Z-Go Division, the leader in the golf car market, is well-positioned to take advantage of growth opportunities in the golf market. E-Z-Go is also penetrating other commercial/industrial markets, such as utility vehicles for airports and factories, as well as for turf maintenance and individual use. Jacobsen products are being developed to meet the specific turf care needs of the U.S. and overseas markets. Recent advances include the introduction of a family of multi-wheel drive tractors to allow mowing in wet and hilly terrain without damaging turf. Homelite's broad product mix and competitive pricing have enabled it to enjoy another year of significant growth. The division continues to introduce new products featuring state-of-the-art design, such as its unique HT-17, the industry's first gasoline-powered hedge trimmer. A new Homelite generator line has been developed specifically for European markets.

Textron's Financial Services sector covers a broad range of activities within the consumer and commercial financial markets. Divisions in this sector include one of the largest consumer loan operations in the country; a leader in individual, non-cancellable disability income insurance; and extensive leasing and finance operations for real estate, manufacturing and service industries.

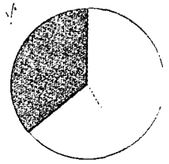
Percentage of Total Revenues

1989: 29%



Percentage of Total Operating Profit

1989: 36%



Financial Services

Textron's Financial Services businesses enjoy strong competitive positions in consumer and commercial finance, credit related insurance products and in non-cancellable individual disability income insurance. Avco Financial Services and Avco Insurance Services conduct business largely through some 1,200 branch offices in the United States, Australia, Canada and the United Kingdom. Avco Insurance also provides key lender protection programs and collateral insurance tracking services to major banks and financial institutions.

Textron Financial Corporation's commercial finance operations provide financing to a broad spectrum of American industry. Textron's Paul Revere Insurance Group is the industry leader in non-cancellable individual disability income insurance for professionals, business owners and corporate executives. It also sells life insurance and financial products, along with a full line of group insurance products.

Avco Financial Services, headquartered in Irvine, California, provides a work environment that stimulates the professional growth of its employees and instills the enthusiasm required to compete in a people-oriented business.

The Financial Services operations are major participants in selected areas of large, intensely competitive industries. We pay close attention to the fundamentals of loan and insurance underwriting, and to improving customer loyalty and quality in all aspects of our operations.

In 1989, the Financial Services sector contributed $2.2 billion, or 29%, of Textron's revenues, compared with $1.9 billion in 1988. Operating income was $260.2 million, or 36%, versus $228.5 million in the prior year. Improvements are attributed to growth, continued record low loss ratios and improved claims experience.

Avco Financial Services (AFS) provides direct loans to consumers and purchases retail installment contracts from merchants. Loans can be either unsecured or secured by personal property or real estate, depending upon the size of the loan and other factors.

Avco Insurance meets the needs of financial institutions and their customers with a wide range of products including credit life, credit disability, collateral protection and mortgage protection. In addition, the company is building a presence in the direct marketing of auto, homeowner and supplemental insurance products. Avco Financial Services' more than 1.8 million customers continue to be the major source of Avco Insurance's business.

Paul Revere Insurance Group's principal product is non-cancellable individual disability income insurance. Paul Revere also sells life insurance and financial products, such as individual and group annuities and single premium deferred annuities. Its growing group line includes long-term disability, medical, life and dental insurance. The individual disability income markets in which Paul Revere competes are moving toward group buying patterns. Consequently, the company has begun a major initiative to provide its sales force with a broad portfolio of individual and group products, which are structured to suit the needs of each customer.

Textron Financial Corporation (TFC) conducts its commercial finance business through six operating units — providing financial services in the commercial, aerospace, vendor finance, real estate, capital investment and floor planning areas. At year end 1989, TFC's portfolio of loan and lease receivables was in excess of $1.6 billion. Late in the year, TFC significantly increased the size of its real estate portfolio to $310 million by acquiring substantially all of Signal Capital Corporation's portfolio of commercial real estate mortgages.

All four financial services businesses rely heavily on technology to remain competitive. Key technological developments include computer enhanced market research, streamlined premium and claims processing methods, and upgraded computer hardware and software.

Improvements were made during 1989 in the Avco Credit Express (ACE) product, which is installed at

Avco Financial Services, Textron's consumer finance subsidiary, is constantly seeking new ways to improve customer service. In this case, it has created a play area for children so their parents can concentrate on the business of applying for a personal loan.

Business owners, as well as medical, legal and financial professionals, are the primary markets for the Paul Revere Insurance Group's non-cancellable individual disability income insurance products. Paul Revere is the leader for North America in this insurance specialty.

more than 700 dealerships nationwide. This electronic link to AFS offices enables credit to be approved automatically seven days a week. Similar capabilities are being planned for AFS' international operations. A national dealer center, which will handle after-hours inquiries from non-ACE dealers, is under development. An automated branch system recently introduced in AFS' Canadian operations will be adapted for use in the U.S., Australia and the United Kingdom. The system, combined with well-trained branch personnel, will significantly expand the lending capacity of each loan office.

Similarly, Paul Revere is taking advantage of major customer service enhancement opportunities by using current computer technology to automate routine underwriting and claims management tasks and eliminate processing steps wherever possible.

The Financial Services operations are continually evaluating opportunities to expand their businesses. In the case of TFC and Paul Revere, such growth can be supplemented by the development of blocks of business which fit their respective product niches. For AFS, which already has finance and insurance operations in the United Kingdom, growth is planned from increased product offerings in existing overseas markets and expansion into new markets, particularly in Europe.

Textron Financial Corporation, the company's commercial finance operation, provides equipment leasing, real estate financing, and secured asset and inventory financing through 40 offices across the United States. In 1989, TFC marked its eleventh consecutive year of increased revenues and earnings.

Air stripping, one of several commonly used methods to remove organic contaminants from ground water, is conducted in large diameter towers such as the units illustrated. Textron is constantly striving to identify innovative technologies to ensure compliance with environmental laws and regulations.

Employee/Community Commitment

Textron is fully committed to supporting programs that involve, motivate and educate its workforce. We also seek to be a good neighbor in our "hometown" plant communities by participating in civic, cultural and educational programs.

The company's high priority on development of its people benefits both Textron and its employees. Textron recognizes the varying needs of individual workers by tailoring career opportunities. Through well-trained and enthusiastic employees, the company remains flexible and responsive in the dynamic economic and political environment of today's world.

Textron employees are active volunteers in their local communities across the country. Gary Bohling, safety manager at Textron's CWC Castings Division, has been a firefighter for Whitehall, Michigan's 37-member volunteer fire department for 18 years, serving as chief for the last nine years.

Textron provides its employees with numerous educational and vocational opportunities as well as employee training programs. Such programs include skills and management training, participatory programs such as quality circles and formal educational opportunities which are promoted through career counseling and tuition reimbursement for degree studies.

Specific employee involvement programs have been implemented. For example, Avco Financial Services, Bell Helicopter, Paul Revere, Textron Financial Corporation and several other divisions have "Excellence" and "Quality" programs which train large numbers of employees in the principles of group dynamics and problem-solving. Employees then apply what they learn to resolve work-related problems. Some of these programs provide special financial incentives to quality teams that meet or exceed their objectives.

Textron sponsors career development programs for management employees at colleges and universities and through internal programs with the Harvard Business School and other educational institutions.

In addition to an array of educational opportunities, Textron offers its employees a broad range of "wellness" programs which encourage healthful habits and lifestyles. These include stress and weight control, smoking cessation, blood pressure monitoring, nutrition awareness and physical fitness. Textron is committed to a drug-free workplace through pre-employment testing and, under cer-

Textron provides its employees with opportunities to participate in a variety of "wellness" programs and other health-related activities. Company-sponsored programs include blood pressure checks, cholesterol screening, aerobics, weight reduction and nutrition classes and smoking cessation clinics.

tain circumstances, the testing of active employees. As part of Textron's Employee Assistance Program, employees may seek confidential help with alcohol and drug abuse problems, marriage and family problems, and emotional and financial difficulties.

Community Support

Textron staunchly supports community, civic and educational activities, both directly and through the generosity of its employees. The Textron Charitable Trust provides financial assistance to non-profit organizations on a nationwide basis. In addition, it offers college tuition assistance and matches employee contributions to cultural and educational institutions and hospitals. Divisions respond to the needs of the communities in which they operate by providing volunteers and financial assistance to cultural and health organizations, youth groups and educational institutions. Avco Financial Services, through its participation in an Orange County, California drug education program, helped to create an award-winning video which preceded the showing of movies in theaters there.

Divisions also participate in outreach programs for minorities and the disadvantaged, including special programs for battered women.

Environmental, Health and Safety Activities

As a responsible corporate citizen, Textron is encouraging its divisions to reduce the quantity of waste generated and the level of chemical emissions through a combination of product redesign, changes in manufacturing processes, materials substitution and recycling.

Davidson Instrument Panel's Farmington, New Hampshire operations developed a new pilot process in 1989 to recycle its waste materials into salable products to other industries. By late 1990, Davidson expects to be processing virtually all of the plant's waste materials, some 3.2 million pounds of vinyl and urethane foam scrap, at a net savings of approximately $400,000.

Textron continues to emphasize employee safety and health as evidenced by an accident rate which is substantially lower than the national average for comparable industries. New programs have been introduced to study and reduce the incidence of repetitive motion and cumulative trauma disorders which can affect manufacturing and office employees alike. This "ergonomics" or human factors engineering effort concentrates on workplace redesign, automation and training to minimize the likelihood of such injuries.

At Davidson Interior Trim in Dover, New Hampshire, a safety initiative was introduced in early 1989 which included newly designed hand tools, molds, workstations, anti-fatigue floor mats and audiovisuals emphasizing the plant's safety procedures. These efforts and ergonomic improvements resulted in a 42 percent reduction in OSHA recordable incidents, a savings of $440,000 in labor and materials due to mold redesign and a reduction in the annual employee turnover rate to less than one percent.

Financial Section

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Liquidity and Capital Resources

Financing for Textron is conducted through two separate borrowing groups: the Textron Parent Company Borrowing Group (consisting of all entities of Textron other than its finance and insurance subsidiaries) and the finance and insurance subsidiaries. This framework allows the finance and insurance subsidiaries, with specialized needs related to their portfolios of receivables and investments, to finance their respective operations, each through its own external group of creditors without guarantee from the Textron Parent Company Borrowing Group. Accordingly, the liquidity and capital resources of Textron's operations are best understood by separately considering its independent borrowing groups.

Textron Parent Company Borrowing Group

Sources of cash to the Textron Parent Company Borrowing Group include cash generated by the operations within this group and dividends received from the finance and insurance subsidiaries, supplemented with borrowings. Information about the cash flows of this group for each of the three years in the period ended December 30, 1989 is set forth in the Group's statement of cash flows included in Note 18 (page 59) to the consolidated financial statements.

In 1989, the Textron Parent Company Borrowing Group's operating activities provided cash flows of $261.2 million, which reflected a reduction in receivables due primarily to the timing of collections and shipments on certain programs and contract loss reserves provided against certain unbilled receivables, offset by an increased level of inventories related to both the start-up of Textron Aerostructures' wing program for the A330/A340 Airbus and the timing of certain shipments.

Progress payment rates, which remain below their historical highs, and slower payment of billings submitted to the U.S. Government have continued to result in greater working capital investment by defense contractors.

The Group's debt increased in 1989 by $167.4 million principally as a result of cash required for the acquisition of Avdel, capital asset additions and payments of dividends, which collectively exceeded operating cash flows. Its ratio of debt to total capital remained at 43% at December 30, 1989.

In early 1989, Textron acquired Avdel plc, a fastening systems manufacturing business based in England, the total cost of which approximated $250 million. In March 1989, the U.S. Federal Trade Commission (FTC) obtained a preliminary injunction from the U.S. District Court for the District of Columbia enjoining Textron from assuming or exercising any form of direction or control over the assets or operations of Avdel until a determination has been made whether the acquisition of Avdel by Textron would, as the FTC asserts, restrict competition in violation of Section 5 of the FTC Act and Section 7 of the Clayton Act. As a result of the preliminary injunction and in accordance with generally accepted accounting principles, Textron is precluded from consolidating in its financial statements the results of operations of Avdel and is therefore carrying its investment in Avdel at cost. Textron is defending its acquisition of Avdel. Avdel's cash flow is not available to Textron at the present time.

In 1988, cash flows from operating activities of $117.7 million reflected reductions of accrued and other liabilities, related principally to the liquidation of contractual obligations, as well as increased levels of receivables and inventories. The Group's debt increased by $298.9 million principally as a result of cash required for capital asset additions, purchases of treasury shares and payments of dividends exceeding operating cash flows.

In 1987, positive cash flows from operating activities, investing activities (including proceeds of $293.0 million from sales of discontinued operations), and from the sale of common stock ($195.6 million), enabled the Group to reduce its borrowings by $723.2 million.

Capital expenditures during each of the three years in the period ended December 30, 1989 ($210 million, $193 million and $218 million, respectively) were primarily for the replacement of machinery and equipment, both for increased capacity at existing facilities and for expansion to accommodate new product lines. A substantial portion of such expenditures related to the Aerospace Technology sector. Capital expenditures during 1990 are not expected to differ substantially from the level of such expenditures in 1989.

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, including capital expenditures, were not material in the years 1987 through 1989.

Textron currently projects that expenditures for remediation, including capital expenditures, will range between $15 million and $25 million for each of the years 1990 and 1991.

Both federal and state governments (and, to a lesser extent, third parties) continue to identify additional sites for remediation under environmental legislation. Based upon current experience, Textron anticipates that it will become involved in additional matters of this type. Textron cannot, however, reasonably estimate at this time the overall costs of remedial actions, including those already identified and additional similar actions beyond 1991, because of (a) uncertainties about the nature of environmental regulations being promulgated and the application of those regulations, (b) the unavailability of information about the number of additional sites at which Textron may be identified as a potentially responsible party, (c) the level of cleanup that may be required at specific sites and choices concerning the technologies to be applied in corrective actions, (d) the number of contributors to the costs of remediation at specific sites, and (e) the time periods over which remediation may occur.

Based upon the information currently available, Textron believes it has made adequate provision for costs associated with known remediation efforts, in accordance with generally accepted accounting principles. Despite the uncertainty concerning the overall costs of remedial actions after 1991, it is not anticipated that such costs will have a material adverse effect on the liquidity or financial condition of Textron.

As part of managing its interest rate exposure on certain of its borrowings, Textron enters into various interest rate agreements. At December 30, 1989, Textron was party to interest rate exchange agreements, entered into primarily in 1988 and 1989, which mitigate its exposure to increases in interest rates on certain of its variable rate debt. These agreements, which expire through 2004, had the effect of fixing the rate of interest at approximately 9.51% on $313.1 million of variable rate borrowings at December 30, 1989. Textron terminated seven interest rate exchange agreements in early 1990, covering $250 million of variable interest rate borrowings. Textron may replace such interest rate exchange agreements with new agreements which have a longer average life if market conditions improve. In conjunction with the early 1989 issuance of $100 million of 10.55% Senior Notes due 1990, Textron entered into an interest rate exchange agreement, which had the effect of converting Textron's rate of interest on the notes to a variable rate of 8.50% at December 30, 1989. In addition, Textron entered into interest rate cap agreements in 1989, expiring in 1990, which had the effect of capping Textron's effective interest cost at approximately 10.85% on approximately $240 million of borrowings at December 30, 1989. Textron's interest rate caps enable it to limit its exposure to increasing interest rates by providing for payments to Textron in the event that interest rates exceed specified levels.

In May 1989, the Textron Savings Plan became an employee stock ownership plan. In June, the Plan purchased from Textron 3,652,969 shares of Textron common stock (which Textron had held in its treasury) with the proceeds of a $100 million bank loan to the Plan, the repayment of which is guaranteed by Textron. The purchased shares are being held by the trustee of the Plan until allocated to the accounts of participants.

Textron applied the proceeds from its sale of these shares to reduce its debt. However, since Textron has guaranteed the repayment by the Plan of its $100 million bank loan, Textron was required to record $100 million as debt with the offsetting charge (representing, effectively, Textron's prepayment of future employee benefits) recorded as a reduction of shareholders' equity.

In 1989, Textron announced that it may purchase up to an aggregate of five million of its common shares from time to time in the open market or otherwise. No such purchases have been made to date.

Textron had $177.1 million available at December 30, 1989 for the issuance of unsecured debt securities under its shelf registration statement with the Securities and Exchange Commission. Credit facilities not used or reserved as support for commercial paper or bank borrowings were $2.9 billion at December 30, 1989.

Management believes that the Textron Parent Company Borrowing Group will continue to have adequate access to credit markets and that its credit facilities and cash flow from operations — including dividends received from Textron's finance and insurance operations — will continue to be more than sufficient to meet its operating needs and to finance anticipated growth.

Finance and insurance subsidiaries

This group includes Avco Financial Services, Inc. (AFS), consisting of Avco Financial Services Group and Avco Insurance Services (AIS), Textron Financial Corporation (TFC), and The Paul Revere Insurance Group. The insurance operations have historically generated positive cash flows sufficient to preclude the need for borrowings. Information about the cash flows of this group for each of the three years in the period ended December 31, 1989 is set forth in the Group's statement of cash flows included in Note 18 (page 61) to the consolidated financial statements.

AFS and TFC each utilize a broad base of financial sources for their respective liquidity and capital require-

ments. Cash is provided both from operations and several different sources of borrowings, including unsecured borrowings under bank lines of credit, the issuance of commercial paper and sales of medium- and long-term debt. During 1989, the net proceeds from medium- and long-term financing sources totaled $896.3 million; debt increased by $582.1 million in 1989, due principally to growth in finance receivables. Such growth reflected increases in consumer loans and real estate receivables, including TFC's purchase late in the year of a portfolio of commercial real estate mortgages.

In early 1989, AFS filed a shelf registration statement with the Securities and Exchange Commission increasing its shelf to cover up to an aggregate of $600 million of unsecured debt securities and had issued by year end $301 million of such securities.

AFS and TFC have interest rate exchange agreements, which expire through 1999, which had the effect of fixing the rate of interest at approximately 10.5% on $407.8 million of variable interest rate borrowings (principally foreign) at December 31, 1989. AFS expects to replace fixed rate long-term debt maturing in 1990 and thereafter with variable rate short-term debt, and in contemplation of doing so has entered into interest rate exchange agreements which will have the effect of fixing the rate of interest at approximately 9.65% on $314.8 million of such variable rate debt. In addition, AFS has certain agreements, entered into in 1989 and expiring through 1993, whereby it will receive payments if interest rates exceed specified levels and will make payments if interest rates decline below specified levels, with respect to approximately $147 million of borrowings at December 31, 1989. TFC entered into interest rate cap agreements in 1989, for a period of 18 months, which had the effect of capping TFC's effective interest cost at approximately 10.07% on approximately $45 million of borrowings at December 31, 1989.

For liquidity purposes, AFS and TFC have a policy of maintaining sufficient unused bank lines of credit to support their outstanding commercial paper. Lines of credit not used or reserved as support for commercial paper and bank borrowings amounted to $851 million at December 31, 1989.

The amount of the net assets of Textron's finance and insurance subsidiaries available for cash dividends and other payments to the Textron Parent Company Borrowing Group is restricted by the terms of lending agreements and insurance statutory requirements. The finance and insurance subsidiaries paid dividends of $54.0 million, $34.8 million and $57.5 million to the Textron Parent Company Borrowing Group in 1989, 1988 and 1987, respectively.

For further information about the debt and credit facilities of the Textron Parent Company Borrowing Group and the finance and insurance subsidiaries, see Note 9 to the consolidated financial statements.

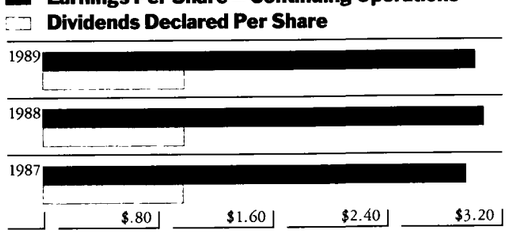
Results of Operations
1989 vs. 1988

Textron's income before extraordinary losses in 1989 was $268.7 million ($3.02 per share) compared with $272.1 million ($3.10 per share) in 1988. Revenues were $7.4 billion in 1989 compared with $7.3 billion in 1988.

Operating profits of Textron's six business segments aggregated $732.4 million in 1989, compared with $706.8 million in 1988. See the table below under the caption "Revenues and Income by Business Segment" and the discussion of the results of each segment which begins on page 32.

Corporate expenses in 1989 reflect the favorable effect of foreign exchange gains. Higher interest expense reflects $22.3 million attributable to the debt incurred to finance the acquisition of Avdel and the effect of higher interest rates. Textron's 1989 results reflect a lower effective income tax rate of 34.5% compared with 37.2% in 1988, due principally to research and development tax credits. (See Note 14 for further information about income taxes.) Earnings per share for 1989 reflect an increased average number of shares outstanding over the prior year.

Net income in 1989 was $259.2 million ($2.91 per share) after an extraordinary loss of $9.5 million ($.11 per share) arising from an interim arbitration ruling relating to Bell Helicopter's coproduction agreement with the former Government of Iran, which was terminated in 1978. Net income in 1988 was $234.4 million ($2.67 per share), after extraordinary losses aggregating $37.7 million ($.43 per share) resulting from (a) a ruling by arbitrators in 1988 relative to insurance fronting programs in which one of the insurance subsidiaries of AFS participated with other insurance companies, which programs were discontinued prior to December 31, 1985 ($28.0 million, or $.32 per share), and (b) the early redemption of approximately $130 million of high interest rate debt ($9.7 million, or $.11 per share).



Revenues and Income by Business Segment

For a description of the businesses comprising each segment and for additional financial information by business segment, see Note 17.

Business Segments (In millions)	Revenues 1989	Revenues 1988	Revenues 1987	Income 1989	Income 1988	Income 1987
Aerospace Technology:						
Helicopters	**$1,078.5**	$1,271.9	$1,176.9	**$ 94.5**	$ 81.5	$ 68.9
Propulsion	**1,331.2**	1,308.4	1,398.5	**132.5**	148.2	141.4
Systems	**971.0**	1,028.0	1,300.6	**80.6**	71.0	100.1
	3,380.7	3,608.3	3,876.0	**307.6**	300.7	310.4
Commercial Products	**1,891.8**	1,734.4	1,512.4	**164.6**	177.6	159.5
Financial Services:						
Finance and related insurance	**1,174.2**	1,036.9	952.1	**169.5**	154.8	169.4
Other insurance	**983.8**	899.8	814.7	**90.7**	73.7	83.9
	2,158.0	1,936.7	1,766.8	**260.2**	228.5	253.3
	$7,430.5	$7,279.4	$7,155.2	**732.4**	706.8	723.2
Corporate expenses and other – net				**(68.6)**	(71.1)	(73.5)
Interest expense – net				**(253.5)**	(202.4)	(197.1)
Income from continuing operations before income taxes				**$410.3**	$433.3	$452.6

Notes:
(i) Revenues by business segment exclude investment income of the Textron Parent Company Borrowing Group.
(ii) Income of the Finance and related insurance segment is net of interest expense. Such income for 1987 includes a $52.3 million pre-tax gain on the sale of AFS' credit card receivables.
(iii) Income of the Financial Services segments includes net pre-tax capital gains of $8 million in 1989, $11 million in 1988 and $22 million in 1987, principally in the Other insurance segment.
(iv) Revenues between segments were approximately 1% of total revenues in each year.

Backlog

(In millions)	December 30, 1989	December 31, 1988
Government:*		
Helicopters	**$ 888.0**	$ 984.6
Propulsion	**717.0**	1,147.2
Systems	**1,285.3**	1,305.9
Commercial Products	**.7**	.7
	2,891.0	3,438.4
Commercial:		
Helicopters	**524.2**	520.7
Propulsion	**840.2**	638.1
Systems	**704.7**	820.4
Commercial Products	**228.4**	280.5
	2,297.5	2,259.7
	$5,188.5	$5,698.1

**The decline in Textron's backlog at December 30, 1989 with respect to government business was primarily due to performance on (a) Lycoming's multi-year contract for the AGT 1500 gas turbine engine for the U.S. Army's M1 Abrams main battle tank (to be completed in early 1991), for which a follow-on contract is expected to be awarded in 1990, and (b) Bell Helicopter's V-22 Osprey TiltRotor aircraft full scale development contract.*

Results of Operations (continued)

1988 vs. 1987

Income from continuing operations was $272.1 million ($3.10 per share) in 1988, an increase of $11.0 million over 1987 results of $261.1 million ($2.97 per share). Results for 1988 included after-tax capital gains of $7.2 million ($.08 per share), while 1987 results included after-tax gains aggregating $48.1 million ($.55 per share) from the sale of AFS' credit card receivables and from capital gains. Revenues increased to $7.3 billion from $7.2 billion in 1987.

Operating profits aggregated $706.8 million in 1988, compared to $723.2 million in 1987, which included the gain — $52.3 million pre-tax — on the sale of AFS' credit card receivables, as discussed below.

Corporate expenses approximated their 1987 level. Interest expense of the Textron Parent Company Borrowing Group increased slightly over the 1987 level as the benefit of a lower level of average borrowings in 1988 was offset by the effect of higher interest rates. Textron's effective income tax rate in 1988 was lower than the 1987 rate, principally due to a reduction in the 1988 federal statutory income tax rate for corporations.

Net income for 1988 of $234.4 million ($2.67 per share) included extraordinary losses, after income taxes, aggregating $37.7 million ($.43 per share). Net income for 1987 of $256.3 million ($2.92 per share) included an extraordinary loss of $32.6 million ($.37 per share) resulting primarily from the redemption of high interest rate debt by AFS, which was substantially offset by an after-tax gain of $27.8 million ($.32 per share) from discontinued operations.

Aerospace Technology

1989 vs. 1988

The Aerospace Technology sector reported revenues of $3.4 billion in 1989, $228 million lower than the 1988 level, while income increased slightly to $307.6 million. The higher income was due to improved performances in the Helicopters and Systems segments, the benefit of which was partially offset by lower income in the Propulsion segment.

Bell Helicopter's revenues declined by $193.4 million in 1989, due principally to lower U.S. military sales, reflecting a decreased level of effort on the Bell-Boeing V-22 TiltRotor aircraft fixed-price development program, and lower commercial medium ship sales. Bell's income increased $13.0 million largely as a result of a more favorable mix of sales in its non-U.S. Government business, partially offset by an increase in the provision for cost increases on the V-22 program — approximately $50 million in 1989 compared with $25 million in 1988.

In 1986, the Bell-Boeing team was awarded the V-22 full scale development (FSD) contract at a target price of $1.729 billion, with a ceiling price of $1.826 billion. Funding presently obligated to the contract by the U.S. Government is $1.645 billion.

During 1989, several major milestones were achieved in the joint development of the V-22 aircraft, including first flight and successful conversion from helicopter mode to airplane mode. However, in April 1989 uncertainty arose as to continued funding for the V-22 when the Administration proposed to cancel the program and eliminate all funding from the defense budget for fiscal year 1990. Congress, however, approved continued FSD funding for fiscal year 1990, which began on October 1, 1989. Contracted work under the FSD contract continues, with the Government having obligated an additional $38 million to the contract in October 1989 and $117 million in January 1990.

In December 1989, the Navy terminated a related V-22 long lead pilot production contract and deobligated $200 million of fiscal year 1989 funds (leaving $78 million to cover Bell-Boeing termination costs). The Administration's proposed fiscal year 1991 defense budget does not include a request for continued funding of the development program, adding further uncertainty to the outlook for the V-22 program. While in the long term Bell would lose the benefit of production of V-22 aircraft if the program were canceled, Textron believes that termination of the V-22 contract would not have a material adverse effect on its income or cash flows in the shorter term.

Textron believes it has made adequate provision for anticipated losses on the V-22 development program, including losses that would result if the contract were terminated during 1990. Although Textron believes that the overall cost estimates for the V-22 program are reasonable, such estimates remain subject to the uncertainties inherent in all large scale fixed-price development contracts.

In addition to seeking continued funding of the ongoing FSD effort, Bell-Boeing will continue their efforts to secure production funds that would allow the restart of pilot production efforts. Bell will also continue to pursue other development and production opportunities for TiltRotor technology, as well as other opportunities that may arise in the rotary aircraft markets. The likelihood of success in these efforts cannot be determined at the present time.

The Propulsion segment's revenues increased $22.8 million in 1989 principally due to increased volume at Textron Lycoming, which experienced a seven week work stoppage in 1988, while income declined $15.7 million. Lycoming's income declined as the effects of (a) a cumulative adjustment recorded to reflect a reduction in the estimated profit margin on the multi-year gas turbine engine contract for the M1 Abrams tank, (b) increased product development and product improvement costs, and (c) a reduced level of overhaul sales and reduced margins on military spares were only partially offset by the benefit of increased engine deliveries. Income declined at certain other divisions due principally to lower military sales and lower margins on commercial programs as a result of a change in product mix from mature programs to new programs.

The Administration has proposed a significant decrease in production in 1992 of the M1 Abrams tank, which is powered by Lycoming's gas turbine engines, and the complete termination of production thereafter. Tank production in 1990 and 1991 should not be significantly impacted, as these years are funded at current production levels. Termination of tank production could result in an increase in the price of the tank, which would adversely impact its competitiveness in the international market. Lycoming is actively seeking to have production funds for the M1 tank restored. The likelihood of success in these efforts cannot be determined at the present time.

The Systems segment's revenues declined $57.0 million due principally to the completion of Textron Aerostructures' C-5B wing program in 1988, while income increased $9.6 million. Textron Aerostructures' income increased as the benefit of a cumulative adjustment recorded to reflect an increase in the estimated profit margin on a commercial program more than offset the effect of the significant decrease in revenues resulting from the completion of its C-5B wing program. Textron Marine Systems recorded a strong increase in income as a result of increased revenues on its LCAC landing craft program. Cadillac Gage Textron's revenues increased as a result of deliveries of Stingray tanks under a major contract with an overseas customer. However, its income declined as lower volume and reduced margins on control systems products and reduced sales of armored combat vehicles more than offset the benefit of the higher level of Stingray revenues. Bell Aerospace Textron's revenues decreased, due principally to a reduced volume of aircraft landing systems and the completion of a gravity sensor system development and production contract. Its income approximated last year's level, as the effects of lower revenues and additional provisions for cost increases on fixed-price development contracts were offset by favorable pricing adjustments. Textron Defense Systems' revenues and income approximated last year's levels, as results in both years reflected significant cost increases on certain fixed-price contracts. Provisions for cost increases on certain fixed-price contracts were significant to the Systems segment and were approximately at the same level in 1989 as they were in 1988. These contracts are scheduled to be completed in 1990.

Defense expenditures are expected to decline in the next several years as a result of continuing pressures to reduce federal outlays. Defense industry profits also continue to be negatively impacted by procurement trends experienced in recent years, including the effects of increased competition requiring significant contractor investment, increased contractor financing of tooling and special equipment, and higher levels of nonrecoverable costs.

Textron has a diversified presence in both the commercial and government aerospace markets, and is focusing its resources where it has technological or other competitive advantages. Accordingly, the results of Textron's Aerospace Technology sector are not expected to decline in 1990 as the benefits of (a) a strong U.S. and international commercial aerospace market, (b) Textron's diversification within its U.S. Government business, and (c) the scheduled completion in 1990 of certain fixed-price contracts on which significant cost increases have been incurred in prior years, should tend to offset the effects of the anticipated decline in overall U.S. Government spending for defense.

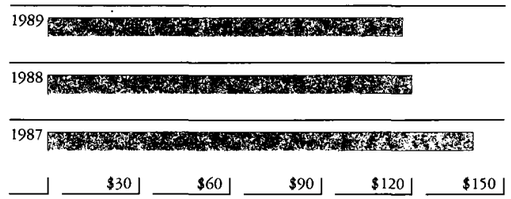
1988 vs. 1987

Aerospace Technology revenues of $3.6 billion in 1988 were $268 million lower than the 1987 level, while income declined $9.7 million to $300.7 million. The lower revenues and income were due primarily to the completion of the B-1B wing program in late 1987, partially offset by a stronger performance at Bell Helicopter.

Bell Helicopter's revenues increased by $95.0 million in 1988 and its income increased by $12.6 million, due largely to strong sales in its non-U.S. Government business, offset in part by a provision for cost increases on the V-22 fixed-price development contract.

The Propulsion segment's income increased slightly in 1988, despite a $90.1 million decline in revenues. A reduced level of development costs on Textron Lycoming's T800 engine program (which was completed in 1988 when the Lycoming-Pratt & Whitney team was not selected to continue the development effort) and an increased level of commercial and customer support operations were only partially offset by the effects of lower volume and margins on U.S. military engine business at Lycoming, which experienced a seven week work stoppage in mid-1988. In addition, sales volumes and margins on U.S. military business at other divisions were lower as well. Lower revenues and profits in the Systems segment resulted principally from the completion of the B-1B wing program in late 1987 and lower sales and higher costs on certain other U.S. military programs, partially offset by improved results on commercial programs at certain divisions.

Capital Expenditures
Depreciation
(In Millions)



Commercial Products
1989 vs. 1988

Revenues of $1.9 billion in 1989 were $157 million higher than the 1988 level, reflecting increases in virtually all businesses. However, income decreased $13.0 million to $164.6 million as a loss on the planned divestiture of a product line and lower margins in the automotive and fasteners businesses were only partially offset by improved results in the outdoor products, machine tool and contractor tool businesses.

Revenues in the automotive business increased over the 1988 level, principally as a result of broader penetration of Textron's markets due primarily to certain new programs, including instrument panels for General Motors' new all-purpose van and GM-10 models and interior door panels for Ford and Chrysler vehicles. This upward sales trend masked an underlying softness in the automotive supplier business which resulted in reduced volumes of automotive products at certain divisions.

Despite higher overall revenues, automotive margins decreased due principally to significantly lower volume at one division, which was particularly affected by reduced customer production requirements, and increased start-up costs associated with new programs and processes.

Income in the fasteners business declined as significant costs related to implementing improved manufacturing processes at one division more than offset the benefit of increased revenues.

Revenues in the outdoor products business increased, due principally to market penetration in the consumer line, increased shipments of golf cars to the growing golf course market and the successful introduction of a new lightweight fairway mower. Income, although higher, was depressed by significant warranty costs at one division.

Revenues and income increased in the machine tool business due principally to shipping orders booked in 1988 to the "Big Three" automotive companies, while revenues and income increased in the contractor tool business as a result of aggressive marketing programs, the benefit of which more than offset the effects of the soft market conditions in the construction industry.

The current slowdown in the automotive industry will adversely affect the results of Textron's Commercial Products sector in the first quarter of 1990. All divisions with automotive customers have implemented contingency plans to minimize the impact on income of reduced customer requirements for automotive components and machine tools. The full year 1990 results are difficult to forecast due to uncertainty as to the length and severity of the automotive industry slowdown, the potentially disruptive effect of anticipated fluctuations in production schedules throughout the year, and the potential for an extended work stoppage at one of the major automotive companies.

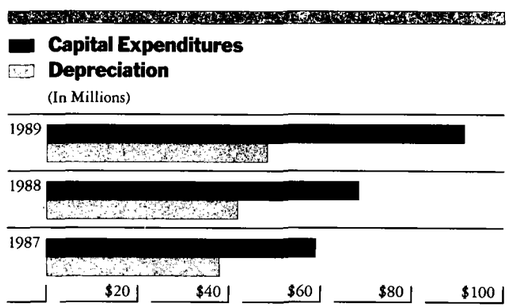
1988 vs. 1987

Revenues of $1.7 billion in 1988 were $222 million higher than the 1987 level, reflecting increases in virtually all businesses. Income increased $18.1 million to $177.6 million as the benefit of increased sales was partially offset by lower margins in the fasteners business.

Revenues in the automotive business increased over the 1987 level, principally as a result of broader market penetration of Textron's instrument panels, interior door panels and exterior fascia products. Margins in 1988 approximated 1987 levels as the benefit of increased sales and the improved profitability of a plant which completed conversion to automotive parts production in 1988 were partially offset by increased startup costs associated with new programs, and increased manufacturing costs at one division which significantly expanded production capability in 1988.

Revenues in the outdoor products business increased, due principally to increased market penetration and the introduction of new products, and increased shipments of golf cars. Margins decreased slightly as the benefit of increased sales was partially offset by the effects of new product startup costs, increased product design engineering costs and higher material costs.

Despite higher overall revenues in the fasteners business, income approximated 1987 levels largely due to both competitive pricing pressures on certain commercial aerospace products and higher material costs at one division.



Financial Services
1989 vs. 1988

Revenues of the Financial Services sector increased to a record $2.2 billion in 1989 and income increased $31.7 million to $260.2 million. The increase in income was due to improved performances in all businesses.

The Finance and related insurance segment's revenues increased $137.3 million and income increased $14.7 million. AFS' consumer finance and related insurance business reported higher revenues and income as a result of an increase in the level of finance receivables outstanding, increased insurance premiums, and higher investment income, partially offset by the effects of an increase in the cost of borrowed funds and lower yields on outstanding receivables, due principally to an increased concentration in real estate loans. The ratio of net credit losses to average net receivables, 1.76 percent in 1989 compared to 1.77 percent in 1988, remained at a record low level.

In Textron Financial Corporation's commercial finance business, revenues and income increased due to a higher level of receivables, principally attributable to growth in its real estate portfolio, an improved spread between receivable yields and interest rates on borrowed funds, and lower loss provisions.

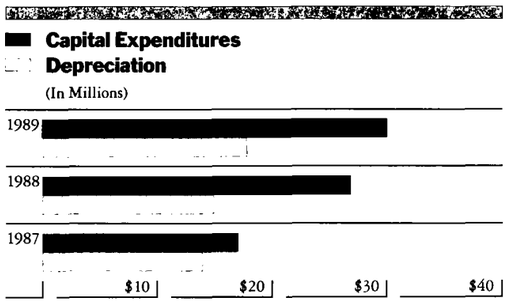
The Other insurance segment's revenues increased $84.0 million in 1989 and income increased $17.0 million. The Paul Revere Insurance Group reported higher revenues mainly due to growth in individual disability insurance, attributable to an increased level of renewal business, and increased business written and higher premium rates in group insurance products. Paul Revere's income increased due to higher revenues and lower claims in individual disability insurance, partially offset by higher claims related to individual life and group medical products. AFS' nonfinance-related insurance business reported higher income due to an increase in premiums earned and a decrease in insurance losses and operating expenses, partially offset by lower investment income, due to a decrease in invested assets and lower capital gains.

1988 vs. 1987

Revenues of the Financial Services sector rose to $1.9 billion in 1988 while income declined $24.8 million to $228.5 million. The decline in income was due to the pre-tax gain of $52.3 million in 1987 on the sale of AFS' credit card receivables and lower capital gains in the insurance operations. Excluding these items, operations improved due principally to growth in finance receivables, lower net credit losses, and increased revenues and improved loss experience in the finance-related insurance business.

The Finance and related insurance segment's revenues increased in 1988 while income decreased $14.6 million as a result of the inclusion in 1987 results of the gain on the sale of credit card receivables, partially offset by an increase in the level of consumer finance receivables outstanding, lower net credit losses on consumer loans, a decrease in the cost of borrowed funds, and the effects of required changes in accounting principles for recognizing interest income and certain loan origination costs. In addition, AFS substantially increased its finance-related insurance business in 1988, which business had improved claims experience compared to 1987.

The Other insurance segment's revenues increased in 1988 while income decreased $10.2 million. The Paul Revere Insurance Group reported higher revenues mainly due to growth in individual disability and group insurance products. Income declined, however, due to a decrease in capital gains from $16.2 million in 1987 to $7.2 million in 1988 and higher claims related to individual disability products, partially offset by lower claims related to group insurance products. AFS' nonfinance-related insurance business reported lower revenues and income in 1988 versus 1987, principally due to lower investment income, partially offset by the favorable impact of termination in the prior year of unprofitable casualty business written through U.S. managing general agents.



Report of Management

The consolidated financial statements of Textron Inc. have been prepared by management and have been audited by Textron's independent auditors, Ernst & Young, whose report appears below. Management is responsible for the consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles and include amounts based on management's judgments.

Management is also responsible for maintaining internal accounting control systems designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded and that transactions are executed and recorded in accordance with established policies and procedures. Textron's systems are under continuing review and are supported by, among other things, business conduct and other written guidelines, an internal audit program and the selection and training of qualified personnel.

The Board of Directors is responsible for the Company's financial and accounting policies, practices and reports. Its Audit Committee, comprised of four outside directors, meets regularly with the independent auditors, representatives of management and the internal auditors to discuss and make inquiries into their activities. Both the independent auditors and the internal auditors have free access to the Audit Committee, with and without management representatives in attendance.

B. F. Dolan
Chairman and Chief Executive Officer

Dennis G. Little
Executive Vice President and Chief Financial Officer

February 8, 1990

Report of Independent Auditors

To the Board of Directors and Shareholders
Textron Inc.

We have audited the accompanying consolidated balance sheet of Textron Inc. as of December 30, 1989 and December 31, 1988, 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, 1989. 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 generally accepted auditing standards. 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, 1989 and December 31, 1988 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 30, 1989 in conformity with generally accepted accounting principles.

Ernst + Young

New York, New York
February 8, 1990

Textron Inc.
Consolidated Statement of Income

For each of the three years in the period ended December 30, 1989 *(In millions except per share amounts)*	**1989**	1988	1987
Revenues:			
Sales	**$5,272.5**	$5,342.7	$5,388.4
Interest, discount and service charges	**1,007.8**	891.7	829.3
Insurance premiums	**836.3**	750.8	655.2
Investment income (including net capital gains)	**323.5**	300.3	291.3
Total revenues	**7,440.1**	7,285.5	7,164.2
Costs and expenses:			
Cost of sales	**4,155.6**	4,278.7	4,387.7
Selling and administrative	**1,299.7**	1,190.4	1,037.9
Interest expense	**733.1**	601.9	580.2
Provision for losses on collection of finance receivables, less recoveries	**89.6**	85.0	87.7
Insurance benefits and increase in policy liabilities	**636.0**	589.3	528.2
Amortization of insurance policy acquisition costs	**115.8**	106.9	89.9
Total costs and expenses	**7,029.8**	6,852.2	6,711.6
Income from continuing operations before income taxes	**410.3**	433.3	452.6
Income taxes	**141.6**	161.2	191.5
Income from continuing operations before extraordinary losses	**268.7**	272.1	261.1
Discontinued operations, net of income taxes	**–**	–	27.8
Extraordinary losses, net of income taxes:			
Arbitration concerning terminated coproduction agreement	**(9.5)**	–	–
Arbitration concerning former line of business	**–**	(28.0)	–
Early redemption of debt	**–**	(9.7)	(32.6)
Net income	**$ 259.2**	$ 234.4	$ 256.3
Income per common share:			
Income from continuing operations before extraordinary losses	**$ 3.02**	$ 3.10	$ 2.97
Discontinued operations	**–**	–	.32
Extraordinary losses	**(.11)**	(.43)	(.37)
Net income	**$ 2.91**	$ 2.67	$ 2.92

See summary of significant accounting policies and notes to consolidated financial statements.

Textron Inc.
Consolidated Balance Sheet

(Dollars in millions)	**December 30, 1989**	December 31, 1988
Assets		
Cash	**$ 29.3**	$ 16.0
Investments	**3,079.6**	2,879.4
Receivables – net:		
Finance	**5,262.6**	4,631.5
Commercial and U.S. Government	**725.7**	796.7
	5,988.3	5,428.2
Inventories	**1,320.8**	1,231.7
Property, plant and equipment – net	**1,011.3**	960.3
Unamortized insurance policy acquisition costs	**509.8**	443.1
Goodwill, less accumulated amortization of $167.2 and $129.1	**1,083.3**	1,116.4
Other assets	**768.0**	479.0
Total assets	**$13,790.4**	$12,554.1
Liabilities and shareholders' equity		
Liabilities		
Accounts payable	**$ 503.5**	$ 516.6
Income taxes (principally deferred)	**350.6**	313.8
Accrued liabilities	**1,207.5**	1,126.6
Insurance reserves and claims	**2,564.4**	2,344.4
Debt:		
Textron Parent Company Borrowing Group	**1,956.0**	1,788.6
Finance and insurance subsidiaries	**4,661.3**	4,079.2
	6,617.3	5,867.8
Total liabilities	**11,243.3**	10,169.2
Shareholders' equity		
Capital stock:		
Preferred stock (15,000,000 shares authorized):		
$2.08 Cumulative Convertible Preferred Stock, Series A (liquidation value $28.6)	**13.5**	15.3
$1.40 Convertible Preferred Dividend Stock, Series B (preferred only as to dividends)	**8.2**	8.4
Common stock, 12.5¢ par value (250,000,000 shares authorized; 90,511,000 and 90,312,000 shares issued)	**11.3**	11.3
Capital surplus	**644.0**	626.3
Retained earnings	**1,989.2**	1,819.4
Unearned compensation related to employee stock ownership plan	**(93.0)**	–
Other, principally foreign currency translation	**23.3**	40.3
	2,596.5	2,521.0
Less cost of treasury shares	**49.4**	136.1
Total shareholders' equity	**2,547.1**	2,384.9
Total liabilities and shareholders' equity	**$13,790.4**	$12,554.1

See summary of significant accounting policies and notes to consolidated financial statements.

Textron Inc.
Consolidated Statement of Cash Flows

For each of the three years in the period ended December 30, 1989 *(In millions)*	**1989**	1988	1987
Cash flows from operating activities:			
Net income	**$ 259.2**	$ 234.4	$ 256.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**214.3**	204.7	202.9
Provision for losses on receivables	**119.5**	110.5	113.4
Deferred income taxes	**50.7**	28.7	61.6
Increase in insurance policy liabilities	**224.0**	206.8	183.1
Amortization of insurance policy acquisition costs	**115.8**	106.9	89.9
Contributions of common stock to employee benefit plans	**–**	–	64.4
Gains on sales of investments	**(8.4)**	(11.0)	(18.1)
Gain on sale of credit card receivables	**–**	–	(52.3)
Gain on sales of discontinued operations	**–**	–	(51.5)
Losses on early redemption of debt	**–**	15.6	56.1
Changes in assets and liabilities excluding those related to divestitures of businesses:			
Decrease (increase) in commercial and U.S. Government receivables	**78.3**	(59.9)	(60.6)
Increase in inventories	**(89.1)**	(21.3)	(8.3)
Additions to insurance policy acquisition costs	**(182.5)**	(171.3)	(142.6)
Decrease (increase) in other assets	**(91.0)**	(53.7)	31.1
Increase (decrease) in accounts payable	**(22.7)**	82.6	36.7
Increase (decrease) in income taxes payable	**(37.6)**	(21.8)	12.0
Increase (decrease) in accrued liabilities	**42.0**	(71.5)	59.6
Increase (decrease) in unearned insurance premiums and reserves for insurance losses and adjustment expenses	**24.9**	12.9	(16.7)
Other – net	**(47.7)**	9.9	(13.1)
Net cash provided by operating activities	**649.7**	602.5	803.9
Cash flows from investing activities:			
Purchases of investments	**(950.9)**	(840.1)	(1,003.4)
Proceeds from sales of investments	**597.9**	539.6	814.0
Finance receivables originated or purchased	**(3,627.5)**	(3,232.9)	(2,684.4)
Finance receivables repaid or sold	**2,726.7**	2,490.2	2,694.1
Collections on notes receivable	**9.6**	11.0	46.5
Capital expenditures	**(240.2)**	(217.8)	(229.6)
Proceeds from sales of property, plant and equipment	**13.3**	12.4	44.2
Proceeds from sales of discontinued operations	**32.7**	34.8	293.0
Net cash used by investing activities	**(1,438.4)**	(1,202.8)	(25.6)
Cash flows from financing activities:			
Increase in short-term debt	**169.0**	112.2	167.7
Proceeds from issuance of long-term debt	**1,709.7**	1,324.1	973.7
Principal payments on long-term debt	**(1,078.0)**	(687.4)	(2,101.7)
Receipts from interest sensitive insurance products	**103.0**	95.6	92.9
Return of account balances on interest sensitive insurance products	**(111.9)**	(79.2)	(73.3)
Sales of common stock	**100.0**	–	195.6
Purchases of common stock	**–**	(105.5)	(12.1)
Dividends paid	**(89.4)**	(87.1)	(87.0)
Net cash provided (used) by financing activities	**802.4**	572.7	(844.2)
Effect of exchange rate changes on cash	**(.4)**	1.1	1.0
Net increase (decrease) in cash	**13.3**	(26.5)	(64.9)
Cash at beginning of year	**16.0**	42.5	107.4
Cash at end of year	**$ 29.3**	$ 16.0	$ 42.5

See summary of significant accounting policies and notes to consolidated financial statements.

Textron Inc.
Consolidated Statement of Changes in Shareholders' Equity

For each of the three years in the period ended December 30, 1989 (Dollars in millions; shares in thousands)	Capital stock: Preferred $2.08	Capital stock: Preferred $1.40	Capital stock: Common	Capital surplus	Retained earnings	Unearned compensation related to employee stock ownership plan	Currency translation adjustment	Marketable equity securities valuation adjustment	Cost of treasury shares	Shares outstanding*: Preferred $2.08	Shares outstanding*: Preferred $1.40	Shares outstanding*: Common
Balance January 3, 1987	$26.3	$ 9.3	$10.2	$372.5	$1,502.8	$ –	$ (36.6)	$ 2.6	$ 39.9	1,044	301	79,672
Conversion of preferred stock	(8.7)	(.6)	.1	9.2	–	–	–	–	–	(367)	(54)	904
Sale of common stock in a public offering	–	–	.8	194.8	–	–	–	–	–	–	–	6,900
Purchases of common stock	–	–	–	–	–	–	–	–	12.1	–	–	(557)
Exercise of options	–	–	–	1.5	–	–	–	–	(2.2)	–	–	218
Contributions of common stock to employee benefit plans	–	–	.1	46.0	–	–	–	–	(18.3)	–	–	1,965
Currency translation adjustment	–	–	–	–	–	–	41.4	–	–	–	–	–
Marketable equity securities valuation adjustment	–	–	–	–	–	–	–	(2.3)	–	–	–	–
Net income	–	–	–	–	256.3	–	–	–	–	–	–	–
Dividends:												
Preferred stock	–	–	–	–	(2.0)	–	–	–	–	–	–	–
Common stock ($.975 per share)	–	–	–	–	(85.0)	–	–	–	–	–	–	–
Balance January 2, 1988	17.6	8.7	11.2	624.0	1,672.1	–	4.8	.3	31.5	677	247	89,102
Conversion of preferred stock	(2.3)	(.3)	.1	2.5	–	–	–	–	–	(96)	(27)	260
Purchases of common stock	–	–	–	–	–	–	–	–	105.5	–	–	(4,443)
Exercise of options	–	–	–	(.2)	–	–	–	–	(.9)	–	–	37
Currency translation adjustment	–	–	–	–	–	–	34.8	–	–	–	–	–
Marketable equity securities valuation adjustment	–	–	–	–	–	–	–	.4	–	–	–	–
Net income	–	–	–	–	234.4	–	–	–	–	–	–	–
Dividends:												
Preferred stock	–	–	–	–	(1.6)	–	–	–	–	–	–	–
Common stock ($1.00 per share)	–	–	–	–	(85.5)	–	–	–	–	–	–	–
Balance December 31, 1988	15.3	8.4	11.3	626.3	1,819.4	–	39.6	.7	136.1	581	220	84,956
Conversion of preferred stock	(1.8)	(.2)	–	2.0	–	–	–	–	–	(78)	(15)	199
Sale of common stock to employee stock ownership plan (ESOP)	–	–	–	16.3	–	–	–	–	(83.7)	–	–	3,653
Issuance of common stock	–	–	–	.1	–	–	–	–	(.2)	–	–	13
Prepayment of future employee benefits (ESOP)	–	–	–	–	–	(100.0)	–	–	–	–	–	–
Shares allocated to employees as ESOP loan is repaid	–	–	–	–	–	7.0	–	–	–	–	–	–
Exercise of options	–	–	–	(.7)	–	–	–	–	(2.8)	–	–	127
Currency translation adjustment	–	–	–	–	–	–	(17.2)	–	–	–	–	–
Marketable equity securities valuation adjustment	–	–	–	–	–	–	–	.2	–	–	–	–
Net income	–	–	–	–	259.2	–	–	–	–	–	–	–
Dividends:												
Preferred stock	–	–	–	–	(1.4)	–	–	–	–	–	–	–
Common stock ($1.00 per share)	–	–	–	–	(88.0)	–	–	–	–	–	–	–
Balance December 30, 1989	$13.5	$ 8.2	$11.3	$644.0	$1,989.2	$ (93.0)**	$ 22.4	$ .9	$ 49.4	503	205	88,948***

**Shares issued at the end of 1986, 1987, 1988 and 1989 were as follows (in thousands): $2.08 Preferred – 1,113; 746; 650 and 572 shares, respectively; $1.40 Preferred – 788; 734; 707 and 692 shares, respectively; Common – 81,646; 90,051; 90,312 and 90,511 shares, respectively. Treasury shares at the end of 1986, 1987, 1988 and 1989 were as follows (in thousands): $2.08 Preferred – 69 shares at all such dates; $1.40 Preferred – 487 shares at all such dates; Common – 1,974; 949; 5,356 and 1,563 shares, respectively.*

***Represents prepayment of future employee benefits. See Note 9 to the consolidated financial statements.*

****Common shares outstanding assuming full conversion of outstanding preferred stock and exercise of stock options were 90,626 at December 30, 1989.*

See summary of significant accounting policies and notes to consolidated financial statements.

Textron Inc.
Summary of Significant Accounting Policies

Principles of consolidation
The consolidated financial statements include the accounts of Textron and all of its majority-owned subsidiaries. All significant intercompany transactions are eliminated.

Textron consists of two borrowing groups — the Textron Parent Company Borrowing Group (comprised of all entities of Textron other than its finance and insurance subsidiaries) and the finance and insurance subsidiaries. To enhance the reader's understanding of Textron's operations, Textron has presented in Note 18 separate financial information for each of its two borrowing groups.

Finance subsidiaries
In 1988, Textron's finance subsidiaries adopted on a prospective basis (a) Statement of Financial Accounting Standards No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases", which changed the accounting for certain direct loan origination costs and fees, and (b) the revised Audit and Accounting Guide for Audits of Finance Companies, which, among other things, required the use of the interest method for recognizing interest income.

For consumer loans written after 1987, interest income is recognized in revenues using the interest method so as to produce a constant rate of return over the terms of the receivables. Accrual of interest income is suspended for accounts which are contractually delinquent by more than three payments. Subsequent interest income on these accounts is recognized when collected. Direct loan origination costs are deferred and subsequently recognized as an adjustment to income over the contractual lives of the respective loans. Unamortized amounts are recognized in income when loans are sold or paid in full. For consumer loans written prior to 1988, unearned charges (that is, the portion of the finance charge or discount included in the original face amount of the related receivable that is determined to be unearned at the balance sheet date) are recognized in revenues on the accrual basis beginning in the month following acquisition using (a) the Rule of 78s for loans with contractual terms of 84 months or less and (b) the actuarial method for loans with contractual terms over 84 months. When charges are not included in the original face amount of the loan, such charges are recognized in revenues as collected. Direct loan origination costs related to consumer loans written prior to 1988 were expensed as incurred.

For commercial loans, interest income is recognized in revenues using the interest method. Accrual of interest income is suspended for accounts which are contractually delinquent by more than three months, unless collection is not doubtful. In addition, detailed reviews of commercial loans result in earlier suspension if collection is doubtful. Accrual of interest is resumed when the loan becomes contractually current, and suspended interest income is recognized at that time. Direct loan origination fees and costs on commercial loans are deferred and amortized to revenue over the contractual lives of the respective receivables using the interest method. Unamortized amounts are recognized in income at the time that loans are sold or paid in full. Prior to 1988, a portion of unearned income (including loan origination fees) related to commercial loans (including leases) was recognized in income to offset direct loan origination costs.

Finance receivables are written off when they are deemed uncollectible, but in any event all consumer loan accounts for which no payment has been received for eight consecutive months are written off. Commercial loans are written off when the related collateral is repossessed or when no payment has been received for six consecutive months, unless management deems the loans collectible. Provisions for losses on finance receivables are charged to income in such amounts as management believes to be adequate.

The net investment in finance leases consists of the sum of all minimum lease payments and estimated residual values, less unearned income. The investment in leveraged leases consists of the sum of all lease payments (less the portion applicable to principal and interest on non-recourse debt) plus estimated residual values, less unearned income. Unearned income and investment tax credits are included in income over the terms of the related leases to produce a constant rate of return on the net investment.

Insurance subsidiaries
Credit Life, Credit Disability and Casualty Insurance
Unearned insurance premiums are taken into income over the life of the policies (a) on the actuarial method for decreasing term credit life insurance coverage and on the pro rata method for level term credit life coverage, (b) in relation to anticipated claims for credit disability insurance and (c) on the pro rata method for casualty insurance. The costs of acquiring new business (principally commissions and premium taxes) are deferred and subsequently amortized in the same manner as the related premiums are taken into income. Anticipated investment income is considered in determining if a premium deficiency relating to short-term contracts exists.

Non-cancellable Disability Income, Life and Group Insurance and Investment Products
Non-cancellable disability income insurance premiums are recognized in income when received; non-interest sensitive life and group insurance premiums are recognized in income when due.

Certain costs related directly to acquiring new non-cancellable disability income and non-interest sensitive life business (principally commissions and selling, selection and policy issue expenses) are deferred and subsequently amortized over the policies' premium paying periods in the proportion that annual premium revenues bear to total anticipated premium revenues. Amortization schedules are based on interest and withdrawal assumptions consistent with those used to compute liabilities for future policy benefits.

Liabilities for future policy benefits are computed by the net level premium method based upon estimated future investment yield and Textron's experience on mortality, morbidity, withdrawals and other assumptions which were appropriate at the time the policies were issued.

Revenues for investment products (primarily investment annuities) and interest sensitive life products consist of policy charges for the cost of insurance, policy administration and surrenders that are assessed against policy account balances. Earnings on policyholders' funds are included in investment income. Benefit reserves represent policy account balances. Expenses consist of benefit claims in excess of policy account balances and interest credited to policy account balances. The costs of acquiring new business (principally commissions and selling, selection and policy issue expenses) are deferred and subsequently amortized over the life of the policies in the proportion that the present value of expected gross profits each year bears to the total present value of expected gross profits.

Investments
Investments in marketable equity securities are carried at aggregate market value. Investments in bonds and notes are generally held until maturity and therefore are carried at amortized cost. Unrealized gains and losses, net of applicable income taxes, resulting from fluctuations in the aggregate market value of marketable equity securities are reflected as an adjustment to shareholders' equity. Net realized gains or losses resulting from sales of investments or from declines in market values of investments that are other than temporary are included in income. See Note 3 for further information about investments.

Inventories
Inventories are carried at the lower of cost or market. See Note 6 for further information about inventories.

Long-term contracts and programs
Sales under fixed-price contracts and programs are generally recorded as deliveries are made. Sales under cost reimbursement-type contracts are recorded as costs are incurred and fees are earned. Profits expected to be realized on long-term contracts and programs are based on estimates of total sales value and costs at completion, which estimates are reviewed and revised periodically throughout the lives of the contracts and programs. Adjustments to profits resulting from such revisions are recorded in the accounting period in which the revisions are made. Estimated losses on contracts and programs are recorded when identified. See Notes 5 and 6 for further information about receivables and inventories related to long-term contracts and programs.

Property, plant and equipment
The cost of property, plant and equipment is being depreciated based on the estimated useful lives of the assets. See Note 7 for further information about property, plant and equipment.

Goodwill
Goodwill related to Textron's manufacturing operations is being amortized on the straight-line method principally over 40 years. Goodwill related to Textron's finance and insurance subsidiaries is being amortized on the straight-line method over 25 years.

Income per common share
Income per common share is based on average common shares outstanding during each year assuming full conversion of outstanding preferred stock and exercise of stock options. Such average shares were 88,999,000 in 1989, 87,910,000 in 1988 and 87,733,000 in 1987.

Translation of foreign currencies and foreign exchange transactions
Adjustments resulting from the translation of the financial statements of most of Textron's foreign operations are excluded from the determination of its income and accumulated in a separate component of shareholders' equity until the entity is sold or substantially liquidated. Foreign exchange gains and losses included in income from continuing operations in 1989, 1988 and 1987 were not material.

Textron enters into forward exchange contracts which are designed to minimize its currency exchange risk on foreign currency transactions. Gains and losses on forward exchange contracts which hedge exposures on firm foreign currency commitments are deferred and recognized as adjustments to the bases of the acquired assets. Gains and losses on forward exchange contracts which hedge foreign currency assets or liabilities are recognized in income as incurred. Such amounts effectively offset gains and losses on the foreign currency assets or liabilities that are hedged.

Research and development
Company funded research and development expenditures are charged to expense as incurred. See Note 12 for further information about research and development.

Pension and other postemployment benefits
See Note 13 for information about Textron's accounting policies for pension and other postemployment benefits.

Interest rate agreements
As part of managing its interest rate exposure on certain of its borrowings, Textron is a party to various interest rate agreements, including interest rate exchange agreements, caps and collar agreements.

Interest differentials to be paid or received are accrued as interest rates fluctuate, and are recognized over the lives of the agreements as an adjustment to interest expense.

Fees and expenses incurred to enter into any such agreements are deferred and amortized over the terms of the agreements. Premiums paid to terminate any such agreements are deferred and amortized over the original terms of the agreements. Upon early extinguishment of any of the underlying debt originally hedged, unamortized premiums are recognized as an adjustment to the gain or loss on such early extinguishment.

Income taxes
Income tax expense is calculated based on income before income taxes per the consolidated financial statements. Such expense differs from taxes currently payable because of timing differences in that certain income and expense items are reported in Textron's consolidated statement of income in years different from those in which they are reported in Textron's income tax returns. Investment tax credits are accounted for under the deferral method for leasing operations. See Note 14 for further information about income taxes.

Textron Inc.
Notes to Consolidated Financial Statements

1. Acquisition of Avdel plc

In early 1989, Textron acquired Avdel plc, a fastening systems manufacturing business based in England, the total cost of which approximated $250 million. Avdel had net assets with a historical book value of approximately $40 million at December 31, 1988. In March 1989, the U.S. Federal Trade Commission (FTC) obtained a preliminary injunction from the U.S. District Court for the District of Columbia enjoining Textron from assuming or exercising any form of direction or control over the assets or operations of Avdel until a determination has been made whether the acquisition of Avdel by Textron would, as the FTC asserts, restrict competition in violation of Section 5 of the FTC Act and Section 7 of the Clayton Act. As a result of the preliminary injunction and in accordance with generally accepted accounting principles, Textron is precluded from consolidating in its financial statements the results of operations of Avdel and is therefore carrying its investment in Avdel at cost. Textron is defending its acquisition of Avdel.

While Textron's results of operations for 1989 do not include the results of Avdel, they do include interest expense of $22.3 million on the borrowings related to the purchase of Avdel. For 1989, Avdel's sales were $149 million and its earnings before income taxes approximated $23 million. Such results are unaudited and do not reflect any purchase adjustments which would be required as a result of Textron's acquisition of Avdel, principally amortization of goodwill.

2. Discontinued Operations

Discontinued operations (principally in the Commercial Products segment) had aggregate sales of $126 million and $360 million in 1988 and 1987, respectively. Operating results of units sold are reported as discontinued operations in Textron's consolidated statement of income. Such units reported income from operations of $3.5 million (net of applicable income taxes of $1.7 million) in 1987. A gain on the sales of these units of $24.3 million (net of applicable income taxes of $27.2 million) was recorded in 1987.

3. Investments

(In millions)	**December 30, 1989**	December 31, 1988
Commercial paper, at cost (approximates market)	**$ 152.6**	$ 185.8
Bonds, at amortized cost (estimated market: $2,483.4 and $2,272.6)	**2,459.3**	2,276.7
Marketable equity securities, at market (cost: $40.1 and $36.9)	**41.2**	38.6
First mortgages on real estate, at cost	**330.3**	277.2
Policy loans and other investments, at cost	**96.2**	101.1
	$3,079.6	$2,879.4

Approximately 86% of investment income in 1989, 83% in 1988 and 80% in 1987 was attributable to interest on commercial paper and bonds and 10% of investment income in 1989, 11% in 1988 and 13% in 1987 was attributable to income derived from first mortgages on real estate.

Net unrealized appreciation of bond market values was $28.2 million in 1989, and net unrealized depreciation of bond market values was $6.0 million and $125.5 million in 1988 and 1987, respectively.

Net realized gains and losses after income taxes resulting from sales of marketable equity securities were not material in 1989, 1988 and 1987. The cost of securities sold was determined primarily on the specific identification method.

4. Finance Receivables

Contractual maturities of finance receivables outstanding at December 30, 1989 and total finance receivables outstanding at December 30, 1989 and December 31, 1988 were as follows:

	Contractual maturities			Less finance charges	Finance receivables outstanding	
(In millions)	1990	1991	After 1991		**1989**	1988
Consumer:						
Consumer loans	$1,221.1	$ 817.0	$ 588.4	$ 609.1	**$2,017.4**	$1,905.2
Real estate loans	459.2	353.7	2,038.1	1,451.4	**1,399.6**	1,238.3
Retail installment contracts	358.5	151.9	141.7	160.3	**491.8**	460.7
Other	150.1	101.0	49.8	202.2	**98.7**	75.0
	2,188.9	1,423.6	2,818.0	2,423.0	**4,007.5**	3,679.2
Commercial:						
Finance leases	183.2	151.4	370.3	175.5	**529.4**	540.9
Installment contracts	206.6	142.7	240.6	94.6	**495.3**	430.5
Real estate loans	29.3	49.9	233.5	3.0	**309.7**	131.8
Leveraged leases	3.9	5.8	466.3	271.9	**204.1**	142.7
Other	110.5	–	–	.5	**110.0**	71.4
	533.5	349.8	1,310.7	545.5	**1,648.5**	1,317.3
	$2,722.4	$1,773.4	$4,128.7	$2,968.5	**5,656.0**	4,996.5
Less allowance for credit losses					**182.6**	168.8
Less finance-related insurance reserves and claims					**210.8**	196.2
					$5,262.6	$4,631.5

The maximum term over which consumer loans and retail installment contracts are written is 10 years, but approximately 90% of these loans are written with terms of four years or less. Consumer real estate loans are written with a maximum term of 15 years.

Finance leases have initial terms written generally up to 12 years. Commercial installment contracts have initial periods generally ranging from one to 10 years. Commercial real estate loans have initial periods generally ranging from three to five years. Leveraged leases have initial terms written up to 26 years.

Accounts are often repaid or refinanced prior to contractual maturity. Accordingly, the foregoing tabulation should not be regarded as a forecast of future cash collections. During 1989 and 1988, cash collections of receivables (excluding finance charges) were $2.8 billion and $2.4 billion, respectively. The ratio of cash collections to average net receivables was approximately 56% and 55%, respectively.

5. Long-term Contract Receivables

Long-term contract receivables at December 30, 1989 and December 31, 1988 aggregated $230.6 million and $272.8 million, respectively, including $95.3 million and $147.2 million, respectively, of unbilled costs and accrued profits on long-term contracts for which the contractual criteria for billing had not yet been met. An estimated $51.8 million and $91.9 million, respectively, of the unbilled costs are not expected to be collected within one year. There are no significant amounts included in receivables which represent balances billed but unpaid under contractual retainage provisions or significant amounts subject to uncertainty.

6. Inventories

(In millions)	**December 30, 1989**	December 31, 1988
Finished goods	**$ 245.9**	$ 214.5
Work in process	**1,310.7**	1,217.5
Raw materials	**181.5**	174.0
	1,738.1	1,606.0
Less progress payments	**417.3**	374.3
	$1,320.8	$1,231.7

Inventories aggregating $581 million at December 30, 1989 and $615 million at December 31, 1988 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 $106 million and $88 million higher at those respective dates.) The remaining inventories, other than those related to certain long-term contracts and programs, are valued generally by the first-in, first-out method.

Inventories relating to long-term contracts and programs, net of progress payments, were $499 million at December 30, 1989 and $544 million at December 31, 1988, including unamortized initial tooling and other non-recurring costs, direct production costs and manufacturing overhead. Inventories do not include any significant amounts of unamortized tooling, learning curve and other deferred costs, or claims or similar items subject to uncertainty concerning their ultimate realization. As to government contracts, inventory costs also generally include general and administrative expenses ($48 million at December 30, 1989; $52 million at December 31, 1988). Costs attributed to units delivered are based generally upon the estimated average cost per unit at contract or program completion.

7. Property, Plant and Equipment

(In millions)	**December 30, 1989**	December 31, 1988
At cost:		
Land and buildings	**$ 474.8**	$ 441.9
Machinery and equipment	**1,539.9**	1,387.7
	2,014.7	1,829.6
Less accumulated depreciation	**1,003.4**	869.3
	$1,011.3	$ 960.3

Depreciation applicable to continuing operations amounted to $174 million in 1989, $165 million in 1988 and $153 million in 1987, including depreciation using accelerated methods of $64 million, $64 million and $59 million, respectively.

8. Insurance Reserves and Claims

(In millions)	**December 30, 1989**	December 31, 1988
Future policy benefits and claim liabilities	**$1,427.5**	$1,259.7
Premium deposits and purchase payment funds	**968.4**	922.9
Unearned insurance premiums	**100.8**	88.4
Losses and adjustment expenses	**67.7**	73.4
	$2,564.4	$2,344.4

At December 30, 1989 and December 31, 1988, the liability for future policy benefits and claim liabilities included 68% and 65% for individual non-cancellable disability income, 18% and 20% for individual life, 9% and 12% for group products and 5% and 3% for individual investment products, respectively.

9. Debt and Credit Facilities

The Textron Parent Company Borrowing Group (comprised of all entities of Textron other than its finance and insurance subsidiaries) and Textron's finance and insurance subsidiaries are independent borrowers, and, accordingly, their debt is supported by their own respective assets and cash flows.

At December 30, 1989 and December 31, 1988, consolidated debt consisted of the following:

(In millions)	**December 30, 1989**	December 31, 1988
Textron Parent Company Borrowing Group:		
Senior:		
Borrowings under or supported by credit facilities*	**$ 752.1**	$ 741.6
10.55% – 11% Notes; due 1990 to 1998	**216.0**	116.0
7.5% – 9.25% Debentures; due 1990 to 2016	**95.1**	165.5
Medium-Term Notes, Series A, B and C; due 1990 to 1999 (average rate – 9.6%)	**351.9**	312.4
ESOP loan guarantee; due 1990 to 1996 (average rate – 8.2%)	**91.2**	–
Other notes (average rate – 10.0%)	**72.3**	76.0
Total senior	**1,578.6**	1,411.5
Subordinated:		
11.75% Subordinated Notes due 1995	**82.0**	81.9
9.25% – 9.5% Subordinated Debentures; due 1997 to 2017	**295.4**	295.2
Total subordinated	**377.4**	377.1
Total Textron Parent Company Borrowing Group	**1,956.0**	1,788.6
Finance and insurance subsidiaries:		
Senior:		
Bank loans and commercial paper**	**1,075.7**	935.3
7.625% – 9.938%; due 1990 to 1999	**1,023.5**	945.4
10% – 11.85%; due 1990 to 1995	**954.6**	819.4
12% – 13.25%; due 1990 to 1994	**219.9**	376.6
14% – 19.18%; due 1990 to 1994	**294.8**	185.3
Variable rate notes due 1991 to 1995	**60.0**	60.0
Commercial paper supported by revolving credit agreements expiring in 1992***	**705.0**	425.0
Total senior	**4,333.5**	3,747.0
Senior subordinated:		
8.875%; due 1996	**100.0**	103.9
9.375% – 12.75%; due 1990 to 1994	**63.2**	80.2
Subordinated bonds due 1996 (effective yield 11.6%)	**31.3**	31.3
Total senior subordinated	**194.5**	215.4
Junior subordinated:		
Zero coupon notes due 1990 (effective yield 13.62%)	**133.3**	116.8
Total finance and insurance subsidiaries	**4,661.3**	4,079.2
Total debt	**$6,617.3**	$5,867.8

**The weighted average interest rates on these borrowings at December 30, 1989, December 31, 1988 and January 2, 1988 were 8.9%, 9.6% and 7.6%, respectively, and the weighted average interest rates for the years 1989, 1988 and 1987 were 9.4%, 7.9% and 6.7%, respectively.*

***The weighted average interest rates on these borrowings at December 30, 1989, December 31, 1988 and January 2, 1988 were 10.1%, 10.3% and 8.3%, respectively, and the weighted average interest rates for the years 1989, 1988 and 1987 were 10.3%, 8.5% and 7.7%, respectively.*

****The weighted average interest rates on these borrowings at December 30, 1989, December 31, 1988 and January 2, 1988 were 8.9%, 9.2% and 7.7%, respectively, and the weighted average interest rates for the years 1989, 1988 and 1987 were 9.3%, 7.8% and 6.7%, respectively.*

Required payments and sinking fund requirements during the next five years on debt outstanding at December 30, 1989 (excluding short-term bank loans and commercial paper and amounts that might become payable under credit facilities and revolving credit agreements) are as follows:

(In millions)	1990	1991	1992	1993	1994
Textron Parent Company Borrowing Group	$177.2	$ 61.4	$118.3	$ 42.7	$ 91.6
Finance and insurance subsidiaries	498.0	439.0	557.6	652.3	355.1
	$675.2	$500.4	$675.9	$695.0	$446.7

Cash payments for interest were as follows:

(In millions)	**1989**	1988	1987
Textron Parent Company Borrowing Group	**$218.6**	$193.8	$186.3
Finance and insurance subsidiaries	**466.5**	378.5	386.5
	$685.1	$572.3	$572.8

The Textron Parent Company Borrowing Group maintains credit facilities with various banks for borrowing funds on a short- and long-term basis.

It has lines of credit with certain banks, principally on an informal basis, totaling $211 million which are available to it and are also partially available ($84 million) to TFC.

Additionally, the Textron Parent Company Borrowing Group has a credit agreement with 38 banks for a credit facility of $3.6 billion, of which (a) $1.9 billion is available on a revolving basis until December 31, 1992, unless extended pursuant to the terms of the agreement (after which date any outstanding loans will be payable in eight equal semi-annual installments commencing six months thereafter), and (b) $1.7 billion is available until December 31, 1991, unless extended pursuant to the terms of the agreement. Any loan under the $1.7 billion portion of the facility will be payable in eight equal semi-annual installments commencing six months following the making of such loan.

Borrowings under this credit facility are available at the prime rate or at a surcharge over a certificate of deposit rate or the Eurodollar Rate. Borrowings may also be made at fixed rates of interest competitively offered by individual banks. If the Textron Parent Company Borrowing Group's public debt ratings were to fall below certain levels, additional interest would be payable based on the ratio of its debt to consolidated net worth. Fees range from 1/8 to 3/8 of 1% per annum depending upon the Textron Parent Company Borrowing Group's public debt ratings.

The Textron Parent Company Borrowing Group's credit agreement contains provisions relating to its maximum allowable debt levels and debt to consolidated net worth ratios. In addition, it is required to maintain a minimum fixed charge coverage ratio and minimum levels of shareholders' equity.

The Textron Parent Company Borrowing Group's credit facilities not used or reserved as support for outstanding commercial paper or bank borrowings were $2.9 billion at December 30, 1989.

In 1989, the Textron Savings Plan became an employee stock ownership plan. The Plan purchased from Textron 3,652,969 shares of Textron common stock (which Textron had held in its treasury) with the proceeds of a $100 million bank loan to the Plan, the repayment of which is guaranteed by Textron. The purchased shares are being held by the trustee of the Plan until allocated to the accounts of participants. Textron applied the proceeds from its sale of these shares to reduce its debt. However, since Textron has guaranteed the repayment by the Plan of the $100 million bank loan, the Textron Parent Company Borrowing Group was required to record $100 million as debt with the offsetting charge (representing, effectively, Textron's prepayment of future employee benefits) recorded as a reduction of shareholders' equity. The bank loan is payable in quarterly installments beginning March 30, 1990 and bears interest at 85% of either the lower of the Eurodollar Rate or a base rate. The loan is prepayable in whole or in part on any interest payment date without penalty. As the loan is repaid, shares of Textron common stock are released for allocation to the accounts of participants and the appropriate portion of the prepayment of future employee benefits is expensed.

Textron's finance subsidiaries — Avco Financial Services (AFS) and Textron Financial Corporation (TFC) — have lines of credit with various banks aggregating $1.9 billion, of which $1.1 billion related to long-term loans. Lines of credit not used or reserved as support for commercial paper and bank borrowings amounted to $851 million, of which $112 million related to long-term loans. In support of these lines, AFS and TFC generally pay fees and/or maintain compensating balances.

Under operating agreements between Textron and TFC, Textron has made available to TFC a line of credit of up to $60 million for junior subordinated borrowings at the prime rate and Textron has agreed to lend to TFC, interest free, an amount not to exceed the deferred income tax liability of Textron attributable to the manu-

facturing profit deferred on products manufactured by Textron and financed by TFC.

Textron has also agreed to cause TFC's pre-tax income available for fixed charges to be not less than 125% of fixed charges. No such payments were required for 1989, 1988 or 1987.

Under interest rate exchange agreements, which expire through 2004, Textron and its finance subsidiaries make periodic fixed payments in exchange for periodic variable payments. Textron and its finance subsidiaries have entered into such agreements to mitigate their exposure to increases in interest rates on certain of their variable rate debt. These agreements had the effect of fixing the rate of interest on $720.9 million of variable interest rate borrowings at December 30, 1989 at approximately 10.1%. The agreements expire as follows: $98.6 million in 1990, $139.3 million in 1991 and $483.0 million thereafter. Textron terminated seven interest rate exchange agreements in early 1990, covering $250 million of variable interest rate borrowings. Textron may replace such interest rate exchange agreements with new agreements which have a longer average life if market conditions improve. In 1987, Textron terminated at a premium five such agreements, which had had the effect of fixing the rate of interest on an aggregate of $158 million of variable interest rate borrowings.

Textron and its finance subsidiaries entered into interest rate caps in 1989, for a period of 12 to 18 months, which had the effect of capping Textron's effective interest cost at approximately 10.73% on approximately $285 million of borrowings at December 30, 1989. Textron's interest rate caps enable it to limit its exposure to increasing interest rates by providing for payments to Textron in the event that interest rates exceed specified levels.

In 1989, in conjunction with the issuance of $100 million of 10.55% Senior Notes due 1990, the Textron Parent Company Borrowing Group entered into an interest rate exchange agreement, which had the effect of converting Textron's rate of interest on the notes to a variable rate (8.50% at December 30, 1989).

During 1989, AFS entered into certain agreements, which expire through 1993, whereby it will receive payments if interest rates exceed specified levels and will make payments if interest rates decline below specified levels, with respect to approximately $147 million of borrowings at December 31, 1989. In addition, AFS expects to replace fixed rate long-term debt maturing in 1990 and thereafter with variable rate short-term debt, and in contemplation of doing so has entered into interest rate exchange agreements which will have the effect of fixing the rate of interest at approximately 9.65% on $314.8 million of such variable rate debt.

In 1988, Textron purchased an aggregate of approximately $130 million of its high interest rate debt, resulting in an extraordinary loss, net of income taxes, of $9.7 million.

In 1987, AFS purchased $412 million of its outstanding notes at a premium. In addition, Textron purchased an aggregate of $161 million of its outstanding notes. These transactions resulted in extraordinary losses, net of income taxes, aggregating $32.6 million.

The amount of the net assets of Textron's finance and insurance subsidiaries available for cash dividends and other payments to the Textron Parent Company Borrowing Group is restricted by the terms of lending agreements and insurance statutory requirements. As of December 30, 1989, approximately $252 million of their net assets of $1.7 billion were available to be transferred to the Textron Parent Company Borrowing Group pursuant to these restrictions. The long-term notes, debentures and loan agreements of AFS and TFC also contain various provisions restricting additional debt, the creation of liens or guarantees and the making of investments.

10. Shareholders' Equity

Common stock

In April 1987, Textron's shareholders approved an amendment to Textron's charter increasing its authorized number of common shares to 250 million from the previously authorized 150 million shares. Also with shareholder approval, the common shares were split two-for-one in May 1987.

Preferred stock

Each share of $2.08 Preferred Stock ($23.63 approximate stated value) is convertible into 2.2 shares of common stock and is redeemable by Textron at $50 per share. In the event of involuntary liquidation, preferred shareholders would be entitled to $50 per share and accrued dividends, and in the event of voluntary liquidation to $50 per share.

Each share of $1.40 Preferred Dividend Stock ($11.82 approximate stated value) is convertible into 1.8 shares of common stock and is redeemable by Textron at $45 per share. In the event of liquidation, holders of each share of such stock would receive accrued dividends and thereafter share ratably on a converted basis with holders of common stock, subject to the prior rights of the $2.08 Preferred Stock.

Preferred stock purchase rights

One-half Preferred Stock Purchase Right (Right) is attached to each outstanding share of common stock. Each whole Right will entitle the holder to buy one unit of Series C Junior Participating Preferred Stock at an exercise price of $175, subject to adjustment. The Rights will be exercisable only if a person or group becomes the beneficial owner of 20% or more of Textron's common stock or commences a tender or exchange offer which would result in the offeror beneficially owning 30% or more of Textron's common stock or if the Board of Directors declares any person to be an "Adverse Person" (as defined). Upon the occurrence of certain defined events after the Rights become exercisable, each holder of a whole Right will be entitled to purchase Textron common stock having a value of twice the exercise price. Similarly, if Textron is involved in a merger or other business combination with another person in which its common stock is changed or converted, or if a sale of 50% or more of Textron's assets or earnings power is made to another person, each holder of a whole Right will be entitled to purchase common stock of such other person having a value of twice the exercise price. The Rights expire on March 20, 1996 and may generally be redeemed by Textron at a price of $.05 per whole Right at any time prior to ten business days (as such period may be extended) after a public announcement of the existence of a 20% holder. The Rights may not be redeemed if the independent directors have previously determined a person to be an Adverse Person.

Stock options and performance units

In 1987, Textron shareholders approved the adoption of its 1987 Long-Term Incentive Plan which authorizes the granting of awards to key employees through December 31, 1991 in either or both of the following forms: (a) performance units and (b) options to purchase Textron common stock.

Performance unit awards entitle recipients to payments based upon the attainment of performance targets. Such payments may be in cash, shares of common stock, or a combination thereof, as determined by a committee of the Board of Directors.

The Plan provides for both incentive stock options and non-qualified stock options and requires that such options be exercisable, for no more than eleven years, at a purchase price per share not less than the fair market value of Textron common stock at the date of grant. The total number of shares of common stock for which options may be granted under the current Plan is 3,000,000.

Option activity

Stock option transactions in 1989, 1988 and 1987 are summarized as follows:

	1989	1988	1987
Shares under option at beginning of year (at average prices of $23.59 in 1989; $23.26 in 1988 and $22.05 in 1987)	**2,689,153**	2,040,273	1,200,136
Options granted (at average prices of $24.25 in 1989; $24.44 in 1988 and $23.77 in 1987)	**913,275**	812,500	1,132,300
Options exercised (at average prices of $18.54 in 1989; $17.08 in 1988 and $19.69 in 1987)	**(160,919)**	(37,558)	(274,676)*
Options canceled (at average prices of $24.90 in 1989; $25.58 in 1988 and $29.72 in 1987)	**(51,392)**	(126,062)	(17,487)**
Shares under option at end of year (at average prices of $23.99 in 1989; $23.59 in 1988 and $23.26 in 1987)	**3,390,117**	2,689,153	2,040,273
Shares exercisable at end of year (at average prices of $23.79 in 1989; $23.73 in 1988 and $23.22 in 1987)	**2,081,791**	1,435,539	963,048

**Includes 32,732 shares which were accompanied by stock appreciation rights (SARs) and 20,668 shares surrendered upon the exercise of SARs. (SARs allow the holder to receive an amount of cash equal to the appreciation in market value of the shares upon exercising a stock option.)*

***Granted under a plan which expired in 1986.*

Reserved shares

Shares of common stock were reserved at December 30, 1989, as follows:

$2.08 Cumulative Convertible Preferred Stock, Series A*	1,258,017
$1.40 Convertible Preferred Dividend Stock, Series B*	1,245,218
Options granted to employees	3,390,117
	5,893,352

**Includes shares issuable upon conversion of shares of preferred stock held as treasury shares.*

11. Leases

Rental expense applicable to continuing operations for leased real estate, office locations, and machinery and equipment was approximately $116 million, $113 million and $104 million in 1989, 1988 and 1987, respectively. Future minimum rental commitments for all noncancellable operating leases in effect at December 30, 1989 approximated $76 million for 1990, $57 million for 1991, $42 million for 1992, $32 million for 1993, $23 million for 1994 and $103 million thereafter.

12. Research and Development

Textron performs research and development under both company initiated programs and contracts with others, primarily the U.S. Government. Company initiated programs include research and development for commercial products and independent research and development related to government products and services. A significant portion of the cost incurred for independent research and development is recoverable through overhead cost allowances.

Company funded research and development, as disclosed below, includes amounts charged to income with respect to (a) company initiated programs and (b) cost sharing portions of, and any losses incurred on, customer initiated programs.

(In millions)	**1989**	1988	1987
Company funded	**$202**	$168	$116
Customer funded	**343**	457	434
Total research and development	**$545**	$625	$550

13. Pension and Other Postemployment Benefits

Textron and certain of its subsidiaries have a number of defined benefit pension plans covering substantially all of their employees. Benefits under salaried plans are based on salary and years of service, while benefits under hourly plans generally are based on negotiated amounts and years of service. Textron's funding policy is consistent with the funding requirements of federal law and regulations. Plan assets consist principally of corporate and government bonds and common stocks.

Textron's major pension plans provide, among other things and subject to certain conditions, that in the event of plan termination or withdrawal of assets without a termination within three years following a change in control (as defined in the plans), assets in excess of termination liabilities shall be applied to increase the benefits of participants who are active employees immediately before the change in control. Additionally, in the event of any plan merger, consolidation or transfer within such three-year period, the accrued benefit of each such affected participant and beneficiary must be vested, increased as provided by the terms of the plans, and satisfied by the purchase of a guaranteed annuity contract.

Textron adopted Statement of Financial Accounting Standards No. 87, "Employer's Accounting for Pensions" (FAS 87) effective at the beginning of 1987. It is estimated that income from continuing operations in 1987 increased by approximately $12.0 million ($.14 per share) as a result of the adoption of FAS 87. The respective amounts of pension cost funded and deductible for tax purposes, allocable to government contracts and allowable in contract price determinations, are not affected by FAS 87. In 1989, pursuant to the requirements of FAS 87, Textron recognized a minimum liability (and related intangible asset) representing the unfunded accumulated benefit obligations of its underfunded pension plans. The recognition of such liability had no impact on Textron's results of operations. FAS 87 does not permit Textron to recognize assets with respect to its overfunded plans.

Pension costs applicable to continuing operations in 1989, 1988 and 1987 include the following components:

(In millions)	**1989**	1988	1987
Service cost – benefits earned during the year	**$ 52.2**	$ 50.3	$ 64.0
Interest cost on projected benefit obligation	**147.7**	131.4	120.6
Actual return on plan assets	**(296.5)**	(210.3)	(154.0)
Amortization of unrecognized transition net asset	**(15.8)**	(15.8)	(16.2)
Net amortization and deferral of actuarial gains/(losses)	**119.6**	49.8	(4.3)
Net pension cost	**$ 7.2**	$ 5.4	$ 10.1

The following table sets forth the funded status of Textron's pension plans at December 30, 1989 and December 31, 1988, including amounts for discontinued operations.

	December 30, 1989		December 31, 1988	
(In millions)	**Assets exceed accumulated benefits**	**Accumulated benefits exceed assets**	Assets exceed accumulated benefits	Accumulated benefits exceed assets
Actuarial present value of:				
Vested benefit obligation	**$1,410.0**	**$298.5**	$1,235.2	$226.2
Nonvested benefit obligation	**71.6**	**30.7**	115.3	15.5
Accumulated benefit obligation	**1,481.6**	**329.2**	1,350.5	241.7
Additional amounts related to projected pay increases	**228.1**	**8.2**	206.8	7.6
Projected benefit obligation	**1,709.7**	**337.4**	1,557.3	249.3
Plan assets at fair value	**2,206.4**	**250.3**	2,059.4	170.1
Plan assets in excess of/(less than) projected benefit obligation	**496.7**	**(87.1)**	502.1	(79.2)
Unrecognized net actuarial gain	**(153.6)**	**(8.6)**	(170.1)	(12.5)
Unrecognized prior service cost	**25.0**	**21.7**	26.7	6.9
Unrecognized transition (net asset)/ net obligation	**(283.9)**	**27.5**	(294.9)	42.4
Adjustment required to recognize minimum liability	**–**	**(35.0)**	–	–
Net pension asset (liability) recognized on the consolidated balance sheet	**$ 84.2**	**$(81.5)**	$ 63.8	$(42.4)

Major assumptions used in the accounting for the defined benefit pension plans are shown in the following table. Net pension cost is determined using these factors as of the end of the prior year; the funded status of the plans uses only the discount rate and rate of compensation increase as of the end of the current year.

	December 30, 1989	December 31, 1988	January 2, 1988	January 3, 1987
Discount rate	**8.25%**	8.75%	9.00%	8.00%
Weighted average long-term rate of compensation increase	**6.00%**	6.25%	6.00%	6.00%
Long-term rate of return on plan assets	**9.00%**	9.00%	9.00%	9.00%

Textron and certain of its subsidiaries also have several defined contribution savings and other retirement plans, including the employee stock ownership plan, covering both salaried and hourly employees. Eligible employees who participate in certain of these plans receive, within certain limits, matching Textron contributions. Costs applicable to continuing operations relating to these plans, which are generally funded as accrued, amounted to approximately $34 million, $35 million and $39 million for 1989, 1988 and 1987, respectively, of which $23 million, $25 million and $30 million related to the employee stock ownership plan for 1989, 1988 and 1987, respectively.

In addition, Textron provides certain health care and life insurance benefits for certain retired employees. Eligibility for these benefits is restricted to the particular benefit plans at the particular locations offering retiree benefits. These benefits and similar benefits for active employees are administered by insurance companies or other carriers who determine premiums for insured plans and expected costs to be paid during the year under self-insured plans. Textron recognizes the cost of providing these benefits by expensing the premiums and costs as incurred. Such costs applicable to continuing operations were approximately $207 million, $195 million and $185 million for 1989, 1988 and 1987, respectively. The cost of providing these benefits for the 18,200, 15,800 and 15,100 retirees in 1989, 1988 and 1987, respectively, receiving such benefits, is not separately identifiable from the costs of providing such benefits for the 58,000, 60,000 and 61,000 active employees in 1989, 1988 and 1987, respectively.

14. Income Taxes

Textron files a consolidated federal income tax return which includes all U.S. subsidiaries except the life insurance subsidiaries, which file separate returns. Separate returns are also filed for foreign subsidiaries.

Details of income from continuing operations before income taxes, income taxes and the deferred income tax effects of timing differences are summarized as follows:

(In millions)	**1989**	1988	1987
Income from continuing operations before income taxes:			
United States	**$304.1**	$329.9	$355.8
Foreign	**106.2**	103.4	96.8
Total	**$410.3**	$433.3	$452.6
Income taxes:			
Continuing operations	**$141.6**	$161.2	$191.5
Discontinued operations	**–**	–	28.9
Extraordinary losses	**(5.5)**	(20.3)	(23.5)
Total	**$136.1**	$140.9	$196.9
Current:			
Federal	**$ 25.6**	$ 42.6	$ 76.5
State	**29.2**	27.7	27.6
Foreign	**30.6**	41.9	31.2
	85.4	112.2	135.3
Deferred:			
Federal	**52.7**	31.3	58.8
State	**(2.0)**	(1.5)	(1.5)
Foreign	**–**	(1.1)	4.3
	50.7	28.7	61.6
Total	**$136.1**	$140.9	$196.9
Deferred income tax effects of timing differences:			
Additional depreciation for tax purposes	**$ 8.4**	$ 2.5	$ 1.8
Inventory valuation and long-term contract amounts	**7.9**	(7.7)	3.4
Finance subsidiary transactions – principally leasing	**27.0**	28.6	43.6
Disposition of discontinued operations	**(.2)**	9.0	(14.3)
Allowance for bad debts	**(12.1)**	(9.8)	(11.9)
Insurance policy acquisition costs	**20.1**	19.4	20.3
Liabilities for future policy benefits	**2.8**	(3.4)	(3.3)
Other – net	**(3.2)**	(9.9)	22.0
Total	**$ 50.7**	$ 28.7	$ 61.6

Following is a reconciliation of the federal statutory income tax rate to the effective income tax rate applicable to continuing operations:

	1989	1988	1987
Federal statutory income tax rate	**34.0%**	34.0%	40.0%
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal tax benefit	**4.5**	4.1	3.3
Amortization of goodwill	**3.2**	2.9	3.4
Foreign Sales Corporation benefit	**(1.9)**	(1.9)	(.7)
Tax credits	**(1.8)**	(.3)	(.8)
Nontaxable investment income	**(1.1)**	(1.1)	(1.4)
Foreign tax rate differential	**1.0**	1.9	.8
Other – net	**(3.4)**	(2.4)	(2.3)
Effective income tax rate	**34.5%**	37.2%	42.3%

The income tax on discontinued operations in 1987 differs from that which would result from application of the statutory tax rate in effect in 1987, primarily due to additional taxes on repatriated earnings of foreign subsidiaries.

Cash payments for income taxes were $100.0 million, $116.7 million and $146.7 million in 1989, 1988 and 1987, respectively.

Deferred income taxes have not been provided for the undistributed earnings of foreign subsidiaries which aggregated approximately $281 million at December 30, 1989. Management's intention is to reinvest such undistributed earnings outside the United States for an indefinite period, except for distributions upon which incremental U.S. income taxes would not be material.

At December 30, 1989, consolidated shareholders' equity included $105 million of U.S. life insurance subsidiaries' policyholders' surplus for financial reporting purposes on which no income taxes have been provided. Under present circumstances it is not anticipated that any of these earnings will become taxable.

FAS 96 — Accounting for Income Taxes

In 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (FAS 96), which is required to be implemented by Textron no later than the beginning of 1992.

As originally issued, FAS 96 would require Textron to modify its income tax accounting so that deferred taxes are stated at prevailing rates. In addition, FAS 96 would establish more restrictive criteria for the recognition of deferred tax assets and would significantly modify the tax accounting for purchase business combinations. However, the Board is considering requests to amend FAS 96 so as to permit the recognition of deferred tax assets in certain circumstances and reduce the complexities of FAS 96.

Textron is continuing to study the impact of FAS 96 (including consideration of any possible amendments to FAS 96) on its consolidated financial statements. Although the study is not yet complete, adoption of this statement as originally issued could possibly reduce shareholders' equity by an amount up to $150 million. The effect of certain amendments being considered would likely be to reduce this impact, possibly significantly.

15. Arbitration

Arbitration concerning terminated coproduction agreement

For ten years, Textron has been engaged in arbitration in Switzerland with the Government of Iran concerning conflicting claims and counterclaims arising out of a 1975 helicopter coproduction agreement between its Bell Helicopter Division and the former Government of Iran. The contract was terminated in 1978 and the arbitration started in 1979. While both factual and legal issues remain outstanding, an interim decision of the arbitrator handed down in June 1989 indicates that at the conclusion of the arbitration Bell will incur costs associated with the arbitration estimated to be not less than $15.0 million, which has been reported in 1989 as an extraordinary loss, net of income taxes, of $9.5 million ($.11 per share). Management believes that additional liabilities, if any, resulting from final resolution of this matter will not be material to Textron's financial condition.

Arbitration concerning former line of business

An insurance subsidiary of AFS participated in fronting programs with other insurance companies, which programs were discontinued prior to December 31, 1985. A dispute relating to one of these programs was heard by arbitrators in 1988 and, based on the arbitrators' subsequent rulings, AFS recorded an after-tax loss of $28.0 million ($.32 per Textron share) as an extraordinary item in 1988.

16. Contingencies

There are pending or threatened against Textron and its subsidiaries lawsuits and other proceedings, including the proceedings described in Notes 1 and 15, some of which allege violations of federal government procurement regulations, involve environmental matters, or are or purport to be class actions. Among these suits and proceedings are some which seek compensatory, treble or punitive damages in substantial amounts; indictments, fines, penalties or restitution; the cleanup of allegedly hazardous wastes; or, under federal government procurement regulations, could result in suspension or debarment of Textron or its subsidiaries from U.S. Government contracting for a period of time.

These suits and proceedings are being defended or contested on behalf of Textron and its subsidiaries. On the basis of information presently available, Textron believes that any such liability or the impact of the application of relevant government regulations would not have a material effect on Textron's financial condition.

17. Selected Financial Information by Business Segment and Geographic Area

Presented below and on page 31 of this report is selected financial information by business segment and geographic area for Textron.

Selected Financial Information by Business Segment

Business Segments	Identifiable assets			Capital expenditures			Depreciation		
(In millions)	**1989**	1988	1987	**1989**	1988	1987	**1989**	1988	1987
Aerospace Technology:									
Helicopters	**$ 645**	$ 632	$ 662	**$ 31**	$ 38	$ 44	**$ 27**	$ 27	$ 21
Propulsion	**1,292**	1,310	1,270	**49**	39	48	**36**	36	35
Systems	**850**	855	838	**37**	43	48	**41**	40	40
	2,787	2,797	2,770	**117**	120	140	**104**	103	96
Commercial Products	**959**	930	773	**91**	68	59	**48**	42	38
Financial Services:									
Finance and related insurance	**5,840**	5,148	4,463	**22**	16	10	**12**	10	10
Other insurance	**3,738**	3,466	3,135	**8**	11	7	**6**	5	4
	9,578	8,614	7,598	**30**	27	17	**18**	15	14
Discontinued operations	**–**	–	124	**–**	–	13	**–**	–	10
Corporate	**492**	256	212	**2**	5	6	**4**	5	5
Eliminations	**(26)**	(43)	(19)	**–**	–	–	**–**	–	–
	$13,790	$12,554	$11,458	**$240**	$220	$235	**$174**	$165	$163

The principal products and services of Textron's segments are as follows:

Helicopters — *helicopters and spare parts for the U.S. Government, foreign governments and civilian markets.*

Propulsion — *gas turbine and reciprocating engines and related products and gas turbine engine components, including fuel metering and injection devices; titanium and superalloy compressor components such as fan and compressor blades, vanes and impellers; and discs, hubs, cases, frames and precision gears. These products are sold as original equipment or spares for use in military, commercial and business aircraft and helicopters as well as certain vehicular applications.*

Systems — *development and production of: advanced technology tactical and strategic weapons systems; lightweight armored combat vehicles and weapon/turret control and stabilization systems; electrohydraulic flight control systems and other technologies for new generation aircraft; aircraft landing and satellite communications systems; advanced composites and fire protection materials; wings and other large aerospace structures; and air cushion vehicles. These products are sold principally to the U.S. Government and its prime contractors, foreign governments and commercial aircraft manufacturers.*

Commercial Products — *automotive functional components and decorative metal and plastic trim parts, which are sold primarily as original equipment; lawn and garden equipment; golf cars; turf maintenance equipment; fasteners and fastening systems; proprietary production machine tools; powered equipment and tools for contractors; and watch attachments.*

Finance and Related Insurance — *installment and secured real estate loans to consumers; finance-related credit life, disability and casualty insurance; equipment leasing; secured commercial loans; real estate mortgages and inventory financing.*

Other Insurance — *individual non-cancellable disability income insurance; group life, medical, dental and disability insurance; individual life and financial products; and collateral protection insurance products for financial institutions.*

Selected Financial Information by Geographic Area

Geographic Areas	Revenues			Income		
(In millions)	**1989**	1988	1987	**1989**	1988	1987
Revenues and income by origin – continuing operations:						
United States	**$6,550**	$6,543	$6,569	**$628**	$612	$629
Canada	**577**	434	344	**62**	44	48
Asia/Pacific	**171**	173	127	**27**	33	33
Western Europe	**133**	129	115	**15**	18	13
	$7,431	$7,279	$7,155	**732**	707	723
Corporate expenses and other – net				**(69)**	(71)	(73)
Interest expense – net				**(253)**	(203)	(197)
Income from continuing operations before income taxes				**$410**	$433	$453

Destination of U.S. exports – continuing operations:	Export sales		
	1989	1988	1987
Asia/Pacific	**$ 467**	$ 401	$205
Western Europe	**347**	329	345
Canada	**213**	155	104
Middle East	**69**	145	120
South America	**40**	41	56
Other locations	**74**	56	61
	$1,210	$1,127	$891

Identifiable assets by location:	Identifiable assets		
	1989	1988	1987
United States	**$11,178**	$10,303	$ 9,468
Canada	**1,401**	1,286	1,023
Asia/Pacific	**455**	453	367
Western Europe	**313**	315	302
Discontinued operations	**–**	–	124
Corporate	**492**	256	212
Eliminations	**(49)**	(59)	(38)
	$13,790	$12,554	$11,458

Notes:

(i) Corporate assets in 1989 include the investment in Avdel.

(ii) Revenues by geographic area exclude investment income of the Textron Parent Company Borrowing Group.

(iii) Revenues include sales to the U.S. Government of $1.7 billion, $2.1 billion and $2.6 billion in 1989, 1988 and 1987, respectively.

(iv) Revenues between geographic areas, predominantly revenues of U.S. divisions, were approximately 2%, 2% and 1% of total revenues in 1989, 1988 and 1987, respectively.

18. Financial Information by Borrowing Group

Textron consists of two borrowing groups — the Textron Parent Company Borrowing Group and the finance and insurance subsidiaries.

This framework is designed to enhance the borrowing power of the total company by separating borrowing oriented units of a specialized business nature such as financial services.

The Textron Parent Company Borrowing Group is comprised of all entities of Textron other than its finance and insurance subsidiaries. The financial statements of this group as set forth below reflect Textron's investments in its finance and insurance subsidiaries on the equity basis. Its sources of cash flow include dividends paid by the finance and insurance subsidiaries, as well as cash generated by other operating units.

The finance and insurance subsidiaries finance their respective operations by borrowing from their own group of external creditors.

Financial Information for the Textron Parent Company Borrowing Group

Statement of Income

For each of the three years in the period ended December 30, 1989
(In millions)

	1989	1988	1987
Revenues	**$5,282.1**	$5,348.8	$5,397.4
Costs and expenses:			
Cost of sales	**4,155.6**	4,278.7	4,387.7
Selling and administrative	**713.3**	656.8	604.3
Interest expense	**263.1**	208.5	206.1
Total costs and expenses	**5,132.0**	5,144.0	5,198.1
	150.1	204.8	199.3
Equity in pre-tax income of finance and insurance subsidiaries	**260.2**	228.5	253.3
Income from continuing operations before income taxes	**410.3**	433.3	452.6
Income taxes	**141.6**	161.2	191.5
Income from continuing operations before extraordinary losses	**268.7**	272.1	261.1
Discontinued operations, net of income taxes	**–**	–	27.8
Extraordinary losses, net of income taxes	**(9.5)**	(37.7)	(32.6)
Net income	**$ 259.2**	$ 234.4	$ 256.3

Balance Sheet

(In millions)

	December 30, 1989	December 31, 1988
Assets		
Cash	**$ 3.7**	$ 10.3
Receivables – net	**720.8**	815.3
Inventories	**1,320.8**	1,231.7
Investments in finance and insurance subsidiaries	**1,731.7**	1,615.9
Property, plant and equipment – net	**895.4**	850.3
Goodwill, less accumulated amortization of $72.2 and $52.8	**709.6**	723.9
Other assets	**564.4**	309.8
Total assets	**$5,946.4**	$5,557.2
Liabilities and shareholders' equity		
Accounts payable, income taxes and accrued liabilities	**$1,443.3**	$1,383.7
Debt	**1,956.0**	1,788.6
Shareholders' equity	**2,547.1**	2,384.9
Total liabilities and shareholders' equity	**$5,946.4**	$5,557.2

Financial Information for the Textron Parent Company Borrowing Group (continued)

Statement of Cash Flows

For each of the three years in the period ended December 30, 1989
(In millions)

	1989	1988	1987
Cash flows from operating activities:			
Net income	**$ 259.2**	$ 234.4	$ 256.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings of finance and insurance subsidiaries	**(114.1)**	(82.0)	(69.5)
Depreciation and amortization	**178.6**	171.4	170.3
Deferred income taxes	**12.1**	(.6)	14.3
Contributions of common stock to employee benefit plans	**–**	–	64.4
Gain on sales of discontinued operations	**–**	–	(51.5)
Losses on early redemption of debt	**–**	15.6	14.2
Changes in assets and liabilities excluding those related to divestitures of businesses:			
Decrease (increase) in receivables	**78.8**	(53.6)	(93.7)
Increase in inventories	**(89.1)**	(21.3)	(8.3)
Decrease (increase) in other assets	**(39.3)**	(16.5)	44.8
Increase (decrease) in accounts payable, income taxes payable and accrued liabilities	**(17.1)**	(135.3)	64.4
Other – net	**(7.9)**	5.6	(4.5)
Net cash provided by operating activities	**261.2**	117.7	401.2
Cash flows from investing activities:			
Purchases of investments	**(228.3)**	(43.8)	–
Proceeds from sales of investments	**40.4**	1.6	48.7
Collections on notes receivable	**9.6**	11.0	46.5
Capital expenditures	**(209.9)**	(192.8)	(215.7)
Proceeds from sales of property, plant and equipment	**13.3**	12.4	35.9
Proceeds from sales of discontinued operations	**32.7**	34.8	293.0
Net cash provided (used) by investing activities	**(342.2)**	(176.8)	208.4
Cash flows from financing activities:			
Increase (decrease) in short-term debt	**1.0**	(.7)	(21.2)
Proceeds from issuance of long-term debt	**682.7**	581.5	562.5
Principal payments on long-term debt	**(609.9)**	(324.6)	(1,281.9)
Capital contribution to finance subsidiary	**(10.0)**	–	–
Sales of common stock	**100.0**	–	195.6
Purchases of common stock	**–**	(105.5)	(12.1)
Dividends paid	**(89.4)**	(87.1)	(87.0)
Net cash provided (used) by financing activities	**74.4**	63.6	(644.1)
Effect of exchange rate changes on cash	**–**	.2	.3
Net increase (decrease) in cash	**(6.6)**	4.7	(34.2)
Cash at beginning of year	**10.3**	5.6	39.8
Cash at end of year	**$ 3.7**	$ 10.3	$ 5.6

Financial Information for Textron's Finance and Insurance Subsidiaries

Statement of Income

For each of the three years ended December 31, (In millions)

	1989	1988	1987
Revenues:			
Interest, discount and service charges	**$1,007.8**	$ 891.7	$ 829.3
Credit life, credit disability and casualty insurance premiums	**248.5**	223.2	220.2
Non-cancellable disability income, life and group insurance premiums	**587.8**	527.6	435.0
Investment income (including net capital gains)	**313.9**	294.2	282.3
Total revenues	**2,158.0**	1,936.7	1,766.8
Costs and expenses:			
Selling and administrative	**586.4**	533.6	433.6
Interest expense	**470.0**	393.4	374.1
Provision for losses on collection of finance receivables, less recoveries	**89.6**	85.0	87.7
Credit life, credit disability and casualty insurance losses and adjustment expenses, less recoveries	**100.1**	97.5	120.9
Death and other insurance benefits	**311.9**	285.0	224.2
Increase in insurance policy liabilities	**224.0**	206.8	183.1
Amortization of insurance policy acquisition costs	**115.8**	106.9	89.9
Total costs and expenses	**1,897.8**	1,708.2	1,513.5
Income before income taxes	**260.2**	228.5	253.3
Income taxes	**92.1**	83.7	101.7
Income before extraordinary losses	**168.1**	144.8	151.6
Extraordinary losses, net of income taxes	**–**	(28.0)	(24.6)
Net income	**$ 168.1**	$ 116.8	$ 127.0

Balance Sheet

(In millions)

	December 31, 1989	December 31, 1988
Assets		
Cash	**$ 25.6**	$ 5.7
Investments	**3,064.2**	2,875.5
Finance receivables – net	**5,298.4**	4,684.9
Property, plant and equipment – net	**100.5**	92.7
Unamortized insurance policy acquisition costs	**509.8**	443.1
Goodwill, less accumulated amortization of $95.0 and $76.3	**373.7**	392.5
Other assets	**242.0**	173.1
Total assets	**$9,614.2**	$8,667.5
Liabilities and equity		
Accounts payable, income taxes and accrued liabilities	**$ 656.8**	$ 628.0
Insurance reserves and claims	**2,564.4**	2,344.4
Debt	**4,661.3**	4,079.2
Equity	**1,731.7**	1,615.9
Total liabilities and equity	**$9,614.2**	$8,667.5

Notes:

(i) TFC derives a substantial portion of its business from financing the sale and lease of products manufactured and sold by Textron. In 1989, 1988 and 1987, TFC paid Textron $308.9 million, $312.3 million and $188.5 million, respectively, for the purchase of receivables. Under an operating agreement with Textron, TFC generally has recourse to Textron with respect to finance receivables and leases of products manufactured and sold by Textron. At December 31, 1989, finance receivables of $410.2 million ($407.1 million at December 31, 1988) were due from Textron or subject to recourse to Textron.

(ii) Approximately 72%, 77% and 69% of the credit life and credit disability insurance premiums earned and 24%, 24% and 14% of the casualty insurance premiums earned in 1989, 1988 and 1987, respectively, were related directly to AFS' consumer loan activities.

(iii) The outstanding indebtedness of the finance and insurance subsidiaries at December 31, 1989 and 1988 was as follows: AFS — $3.4 billion and $3.2 billion, respectively; TFC — $1.3 billion and $.9 billion, respectively.

Financial Information for Textron's Finance and Insurance Subsidiaries (continued)

Statement of Cash Flows

For each of the three years ended December 31, (In millions)

	1989	1988	1987
Cash flows from operating activities:			
Net income	**$ 168.1**	$ 116.8	$ 127.0
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**35.7**	33.3	32.6
Provision for losses on finance receivables	**109.4**	106.9	108.6
Deferred income taxes	**38.6**	29.3	47.3
Increase in insurance policy liabilities	**224.0**	206.8	183.1
Amortization of insurance policy acquisition costs	**115.8**	106.9	89.9
Gains on sales of investments	**(8.4)**	(11.0)	(16.0)
Gain on sale of credit card receivables	**–**	–	(52.3)
Losses on early redemption of debt	**–**	–	41.9
Changes in assets and liabilities:			
Additions to insurance policy acquisition costs	**(182.5)**	(171.3)	(142.6)
Decrease (increase) in other assets	**(51.7)**	(5.7)	6.0
Increase (decrease) in accounts payable, income taxes payable and accrued liabilities	**(17.5)**	84.2	47.2
Increase (decrease) in unearned insurance premiums and reserves for insurance losses and adjustment expenses	**24.9**	12.9	(16.7)
Other – net	**(31.5)**	9.7	(1.6)
Net cash provided by operating activities	**424.9**	518.8	454.4
Cash flows from investing activities:			
Purchases of investments	**(722.6)**	(796.3)	(1,003.4)
Proceeds from sales of investments	**557.5**	538.0	765.3
Finance receivables originated or purchased	**(3,627.5)**	(3,232.9)	(2,684.4)
Finance receivables repaid or sold	**2,744.3**	2,491.0	2,699.9
Capital expenditures	**(30.3)**	(25.0)	(13.9)
Proceeds from sales of property, plant and equipment	**–**	–	8.3
Net cash used by investing activities	**(1,078.6)**	(1,025.2)	(228.2)
Cash flows from financing activities:			
Increase in short-term debt	**168.0**	112.9	188.9
Proceeds from issuance of long-term debt	**1,027.0**	742.6	411.2
Principal payments on long-term debt	**(468.1)**	(362.8)	(819.8)
Receipts from interest sensitive insurance products	**103.0**	95.6	92.9
Return of account balances on interest sensitive insurance products	**(111.9)**	(79.2)	(73.3)
Capital contribution from Textron	**10.0**	–	–
Dividends paid – intercompany	**(54.0)**	(34.8)	(57.5)
Net cash provided (used) by financing activities	**674.0**	474.3	(257.6)
Effect of exchange rate changes on cash	**(.4)**	.9	.7
Net increase (decrease) in cash	**19.9**	(31.2)	(30.7)
Cash at beginning of year	**5.7**	36.9	67.6
Cash at end of year	**$ 25.6**	$ 5.7	$ 36.9

Quarterly Financial and Stock Information 1989 and 1988

(Unaudited)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
(In millions except per share amounts)	**1989**	1988	**1989**	1988	**1989**	1988	**1989**	1988
Income Statement Data:								
Revenues								
Aerospace Technology:								
Helicopters	**$ 293.3**	$ 314.0	**$ 268.8**	$ 316.2	**$ 214.3**	$ 307.7	**$ 302.1**	$ 334.0
Propulsion	**336.1**	353.3	**334.4**	299.9	**310.1**	289.8	**350.6**	365.4
Systems	**182.3**	227.9	**213.5**	246.5	**231.5**	240.8	**343.7**	312.8
	811.7	895.2	**816.7**	862.6	**755.9**	838.3	**996.4**	1,012.2
Commercial Products	**495.8**	438.8	**495.1**	452.5	**434.2**	393.2	**466.7**	449.9
Financial Services:								
Finance and related insurance	**281.3**	248.7	**297.2**	255.2	**293.2**	261.5	**302.5**	271.5
Other insurance	**236.1**	210.7	**238.3**	214.5	**251.5**	224.0	**257.9**	250.6
	517.4	459.4	**535.5**	469.7	**544.7**	485.5	**560.4**	522.1
Total revenues	**$1,824.9**	$1,793.4	**$1,847.3**	$1,784.8	**$1,734.8**	$1,717.0	**$2,023.5**	$1,984.2
Income								
Aerospace Technology:								
Helicopters	**$ 30.4**	$ 15.3	**$ 34.7**	$ 23.1	**$ 12.9**	$ 24.7	**$ 16.5**	$ 18.4
Propulsion	**35.0**	36.7	**31.6**	29.4	**29.4**	31.2	**36.5**	50.9
Systems	**3.7**	15.3	**5.0**	21.2	**23.3**	22.9	**48.6**	11.6
	69.1	67.3	**71.3**	73.7	**65.6**	78.8	**101.6**	80.9
Commercial Products	**49.9**	45.7	**48.4**	47.0	**27.2**	33.0	**39.1**	51.9
Financial Services:								
Finance and related insurance	**40.4**	42.8	**43.1**	41.5	**42.3**	37.4	**43.7**	33.1
Other insurance	**18.2**	18.0	**23.1**	15.1	**26.7**	17.8	**22.7**	22.8
	58.6	60.8	**66.2**	56.6	**69.0**	55.2	**66.4**	55.9
Segment operating income	**177.6**	173.8	**185.9**	177.3	**161.8**	167.0	**207.1**	188.7
Corporate expenses and other – net	**(15.8)**	(16.9)	**(15.4)**	(17.4)	**(16.6)**	(14.7)	**(20.8)**	(22.1)
Interest expense – net	**(61.0)**	(46.6)	**(63.2)**	(48.8)	**(60.8)**	(50.9)	**(68.5)**	(56.1)
Income before income taxes	**100.8**	110.3	**107.3**	111.1	**84.4**	101.4	**117.8**	110.5
Income taxes	**37.5**	41.9	**38.5**	42.2	**24.9**	38.6	**40.7**	38.5
Income before extraordinary losses	**63.3**	68.4	**68.8**	68.9	**59.5**	62.8	**77.1**	72.0
Extraordinary losses, net of income taxes	**–**	(29.7)	**(9.5)**	–	**–**	–	**–**	(8.0)
Net income	**$ 63.3**	$ 38.7	**$ 59.3**	$ 68.9	**$ 59.5**	$ 62.8	**$ 77.1**	$ 64.0
Income per common share:								
Income before extraordinary losses	**$ .73**	$ .76	**$ .78**	$ .78	**$ .66**	$ .72	**$ .85**	$ .83
Extraordinary losses	**–**	(.33)	**(.11)**	–	**–**	–	**–**	(.09)
Net income	**$ .73**	$ .43	**$ .67**	$ .78	**$ .66**	$ .72	**$ .85**	$ .74
Common Stock Information								
Price Range: High	**$ 29**	$ 29¼	**$ 28⅛**	$ 26½	**$ 29⅜**	$ 26¼	**$ 27⅞**	$ 27⅝
Low	**$ 23⅜**	$ 21½	**$ 25⅛**	$ 23	**$ 25⅜**	$ 22¼	**$ 22⅝**	$ 23
Dividend per share	**$ .25**	$ .25	**$ .25**	$ .25	**$ .25**	$ .25	**$ .25**	$ .25

Five-Year Summary*

(Dollars in millions except per share amounts)	**1989**	1988	1987**	1986	1985
Revenues:					
Sales	**$ 5,272.5**	$ 5,342.7	$ 5,388.4	$ 4,688.1	$ 3,732.9
Interest, discount and service charges	**1,007.8**	891.7	829.3	877.2	835.7
Insurance premiums	**836.3**	750.8	655.2	675.3	541.5
Investment income (including net capital gains)	**323.5**	300.3	291.3	286.4	231.5
Total revenues	**7,440.1**	7,285.5	7,164.2	6,527.0	5,341.6
Costs and expenses:					
Cost of sales	**4,155.6**	4,278.7	4,387.7	3,768.3	2,953.7
Selling and administrative	**1,299.7**	1,190.4	1,037.9	995.9	944.5
Interest expense	**733.1**	601.9	580.2	583.8	574.6
Provision for losses on collection of finance receivables, less recoveries	**89.6**	85.0	87.7	96.4	74.9
Insurance benefits and increase in policy liabilities	**636.0**	589.3	528.2	547.8	442.6
Amortization of insurance policy acquisition costs	**115.8**	106.9	89.9	111.2	72.1
Total costs and expenses	**7,029.8**	6,852.2	6,711.6	6,103.4	5,062.4
Income from continuing operations before income taxes	**410.3**	433.3	452.6	423.6	279.2
Income taxes	**141.6**	161.2	191.5	194.0	112.3
Income from continuing operations before extraordinary items and cumulative effect of a change in accounting principle	**268.7**	272.1	261.1	229.6	166.9
Discontinued operations, net of income taxes	**–**	–	27.8	16.3	56.7
Extraordinary items, net of income taxes	**(9.5)**	(37.7)	(32.6)	(6.7)	16.4
Cumulative effect of a change in accounting principle	**–**	–	–	–	11.8
Net income	**$ 259.2**	$ 234.4	$ 256.3	$ 239.2	$ 251.8
Per common share:					
Income from continuing operations	**$ 3.02**	$ 3.10	$ 2.97	$ 2.78	$ 2.23
Discontinued operations	**–**	–	.32	.20	.76
Extraordinary items	**(.11)**	(.43)	(.37)	(.08)	.22
Cumulative effect of a change in accounting principle	**–**	–	–	–	.16
Net income	**$ 2.91**	$ 2.67	$ 2.92	$ 2.90	$ 3.37
Dividends declared	**$ 1.00**	$ 1.00	$ .975	$ .90	$ .90
Average common shares outstanding	**88,999,000**	87,910,000	87,733,000	82,564,000	74,636,000
Financial Position at Year-End					
Total assets	**$ 13,790.4**	$ 12,554.1	$ 11,457.5	$ 11,517.8	$ 10,170.6
Debt:					
Textron Parent Company Borrowing Group	**$ 1,956.0**	$ 1,788.6	$ 1,489.7	$ 2,212.9	$ 1,541.9
Finance and insurance subsidiaries	**$ 4,661.3**	$ 4,079.2	$ 3,571.3	$ 3,642.1	$ 3,759.7
Shareholders' equity	**$ 2,547.1**	$ 2,384.9	$ 2,307.2	$ 1,847.2	$ 1,633.3
Book value per common share	**$ 28.24**	$ 27.60	$ 25.39	$ 22.38	$ 19.94
Other Data					
Capital expenditures***	**$ 240.2**	$ 219.9	$ 222.2	$ 185.4	$ 144.4
Depreciation***	**$ 173.6**	$ 164.7	$ 152.7	$ 115.3	$ 94.4
Number of common shareholders	**35,000**	36,000	37,000	36,000	40,000

**The results of operations of Ex-Cell-O and Avco are included from September 17, 1986 and January 10, 1985, respectively.*
***In 1987, AFS sold its credit card receivables, resulting in an after-tax profit of $34.4 million ($.39 per Textron share).*
****These items relate to continuing operations only.*

Textron Board of Directors*

B.F. Dolan (1)
Chairman and
Chief Executive Officer
Textron Inc.
Providence, RI

Joseph R. Carter (4)
Retired Chairman
Wyman-Gordon Company
(manufacturing firm)
Worcester, MA

R. Stuart Dickson (1,3)
Chairman
Ruddick Corporation
(diversified holding company)
Charlotte, NC

William M. Ellinghaus (1,2)
Retired President, AT&T
New York, NY

James F. Hardymon (1)
President and
Chief Operating Officer
Textron Inc.
Providence, RI

Webb C. Hayes, III (1,3)
Partner
Baker & Hostetler (attorneys)
Washington, DC

James R. Martin (1,4)
Retired Chairman
Massachusetts Mutual Life Insurance Company
Springfield, MA

Barbara Scott Preiskel (2,3)
Formerly Senior Vice President and General Counsel
Motion Picture Association
New York, NY

John J. Schmidt (4,5)
Consultant
(business and property development; business combinations)
Chicago, IL

Sam F. Segnar (1,4)
Chairman
Collecting Bank, N.A.
Houston, TX

Jean Head Sisco (4,5)
Partner
Sisco Associates
(management consultants)
Washington, DC

J. Paul Sticht (2,3)
Retired Chairman
RJR Nabisco, Inc.
(international consumer products company)
Winston-Salem, NC

Robert P. Straetz (5)
Retired Chairman
Textron Inc.
Providence, RI

Howard R. Swearer (3,5)
Director
Institute for International Studies
President Emeritus, Brown University
Providence, RI

Martin D. Walker (2)
Chairman and Chief Executive Officer
M.A. Hanna Company
(formulated polymers and natural resource concern)
Cleveland, OH

*Numbers indicate committee memberships
(1) Executive Committee: Chairman, B.F. Dolan
(2) Audit Committee: Chairman, Barbara Scott Preiskel
(3) Nominating Committee: Chairman, J. Paul Sticht
(4) Organization and Compensation Committee: Chairman, James R. Martin
(5) Pension Committee: Chairman, John J. Schmidt

Principal Corporate Officers

B.F. Dolan***
Chairman and
Chief Executive Officer

James F. Hardymon
President and
Chief Operating Officer

Dennis G. Little*
Executive Vice President and
Chief Financial Officer

Thomas D. Soutter***
Executive Vice President and
General Counsel

William F. Wayland*
Executive Vice President
Human Resources

Maurice G. Wilkins, Jr.**
Executive Vice President
Corporate Development

Richard A. McWhirter***
Senior Vice President
Insurance and Environmental Affairs

Raymond W. Caine, Jr.*
Vice President
Corporate Communications

Robert B. Clendenen**
Vice President
Internal Audit and
Business Ethics

Brian T. Downing
Vice President and Treasurer

Arnold M. Friedman**
Vice President and Deputy
General Counsel

Edward O. Handy, Jr.***
Vice President and Secretary

Mary L. Howell*
Vice President
Government Affairs

Gregory E. Hudson
Vice President
Taxes

William P. Janovitz*
Vice President and Controller

Cecil W. Labhart***
Vice President
Information Systems Services

Lorna E. Long***
Vice President
Human Resources

John L. Morse***
Vice President
Risk Management and Insurance

Richard A. Watson**
Vice President and President
Textron Investment Management Company

Principal Corporate Officers/Operations

Quentin G. Achuff***
Senior Vice President
Fastener Operations

Gary E. Atwell**
Group Vice President

Robert D. Batting*
Group Vice President

Charles F. Chapin***
Group Vice President

Frank Gulden
Group Vice President

George H. Hartmann*
Group Vice President

Derek Plummer***
Group Vice President

Willard R. Gallagher***
Vice President
International

Experience with Textron and its subsidiaries/divisions:
* 5-9 years
** 10-19 years
***20 years and over

Textron Divisions and Subsidiaries

Aircraft Engine Components
P.O. Box 11906
Newington, CT 06111
(203) 666-4601
A. Arthur Weigel
President

Airfoil Textron
P.O. Box 4427
Lima, OH 45802
(419) 226-2900
Edward J. Breznyak
President

Avco Financial Services
P.O. Box 19701
Irvine, CA 92713
(714) 553-1200
Warren R. Lyons
President

Avco Insurance Services/Balboa Life and Casualty
P.O. Box 19702
Irvine, CA 92713
(714) 553-0700
Carlton W. Honebein
President

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Dieter F. Wolter
President

Avdel plc
Welwyn Garden City
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England
44-707-372 624
John C. Marley
President

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(716) 297-1000
John W. Siedlecki
President

Bell Helicopter Textron
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(817) 280-2011
Leonard M. Horner
President

Cadillac Gage Textron
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(313) 777-7100
William C. Frank
President

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(815) 961-5000
James R. MacGilvray
President

Cherry
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George A. Andrews
President

CWC Castings
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(616) 733-1331
John L. Kelly
President

Davidson Exterior Trim Textron
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Americus, GA 31709
(912) 924-6111
D. Michael Weston
President

Davidson Instrument Panel Textron
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Portsmouth, NH 03801
(603) 433-4142
Frank J. Preston
President

Davidson Interior Trim Textron
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(603) 742-0720
Richard J. Ferrari
President

E-Z-Go
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William G. Paterson
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(815) 397-7070
Herbert L. Henkel
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Alan Y. Levanson
President

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Valencia, CA 91355
(805) 259-4030
Richard J. Millman
President

Jacobsen
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Robert W. Reid, Jr.
President

McCord Winn Textron
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Winchester, MA 01890
(617) 729-4400
William H. Walsh
President

North American Machine Tool
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Walled Lake, MI 48088
(313) 669-1400
James F. Horgan
President

Paul Revere Insurance Group
18 Chestnut Street
Worcester, MA 01608
(508) 799-4441
Aubrey K. Reid, Jr.
President

Randall
P.O. Box 46334
Cincinnati, OH 45246
(513) 896-9400
Richard J. Price
President

Speidel
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(401) 421-8600
Alfred M. Massotti
President

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Nashville, TN 37202
(615) 361-2000
John S. Kleban
President

Textron Defense Systems
201 Lowell Street
Wilmington, MA 01887
(508) 657-5111
Harold K. McCard
President

Textron Financial Corporation
P.O. Box 6687
Providence, RI 02940
(401) 272-8000
Stephen J. Davis
President

Textron Lycoming
550 South Main Street
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(203) 385-2000
John R. Myers
President

Textron Marine Systems
6600 Plaza Drive
New Orleans, LA 70127
(504) 245-6600
John J. Kelly
President

Textron Specialty Materials
Two Industrial Avenue
Lowell, MA 01851
(508) 452-8961
Paul R. Hoffman
President

Townsend
5250-77 Center Drive
Suite 300
Charlotte, NC 28217
(704) 525-8003
Robert P. Ross
President

Shareholder Information

Annual Meeting to be held April 25 in Providence
The annual meeting of Textron shareholders will be held at 10:30 a.m. on Wednesday, April 25, 1990, at the Omni Biltmore Hotel, 11 Dorrance Street, Providence, Rhode Island. Shareholders are encouraged to attend.

About Your Securities and Records
The common stock of Textron Inc. is listed on the New York, Midwest and Pacific Stock Exchanges and quoted in the daily stock tables carried by most newspapers. The ticker symbol for Textron is TXT. Textron's preferred stocks are traded only on the New York Stock Exchange.

First Chicago Trust Company of New York, 30 West Broadway, New York, NY 10007-2192, acts as transfer agent, registrar and dividend paying agent for Textron stock and maintains all shareholder records for the corporation. First Chicago also acts as conversion agent for Textron's $2.08 preferred stock and its $1.40 preferred dividend stock.

Shareholders may obtain information relating to their share position, dividends, transfer requirements, lost certificates, conversion rights, dividend reinvestment accounts and other related matters by telephoning First Chicago Trust Company of New York's "Telephone Response Center" at (212) 791-6422. Shareholders must provide their tax identification number, the name(s) in which their shares are registered and their record address when they request information. This service is available to all shareholders Monday through Friday 9:00 a.m. to 5:00 p.m. Eastern Time. Shareholders also may obtain this and other information about their holdings by writing to First Chicago at the above address.

Dividend Payments Mailed Quarterly
Quarterly dividends are mailed with the intent of reaching shareholders of common and preferred stock on the first business day of January, April, July and October. Postal delays may cause actual receipt dates to vary.

Free Automatic Dividend Reinvestment
Textron's Shareholder Investment Service offers common shareholders of record a convenient method to purchase additional shares of Textron common stock without paying brokerage, commission or other service fees.

Participants in the plan may choose to have all or part of their dividends automatically reinvested, make additional cash payments or do both in purchasing shares of Textron common stock. All brokerage expenses for these purchases are paid by Textron. Personal recordkeeping is simplified by an account statement that is mailed to participants.

More information and an authorization form may be obtained by writing to the Secretary, Textron Inc., P.O. Box 878, Providence, RI 02901 or by calling (401) 421-2800.

Additional Information Available To Shareholders
Questions about Textron should be directed to the Corporate Communications Department, Textron Inc., 40 Westminster Street, Providence, RI 02903 or by calling (401) 421-2800.

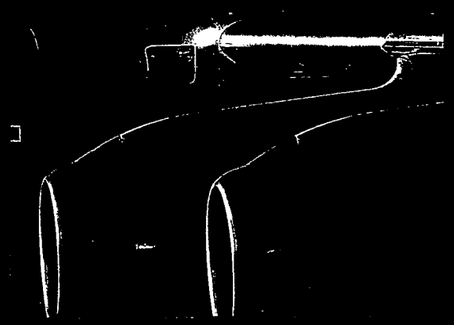
Form 10-K Available
After April 1, 1990, shareholders may, without charge, obtain copies of Textron's Form 10-K annual report filed with the Securities and Exchange Commission. Any request for this report should be addressed to Textron's Corporate Communications Department.

Design: Jack Hough Associates, Inc., Norwalk, CT and NYC
Major Photography: Mason Morfit

TEXTRON

Annual Report 1989

Textron Inc.
40 Westminster Street
Providence, RI 02903
(401) 421-2800



Aerospace Technology

Commercial Products

Financial Services

TEXTRON

Annual Report 1990

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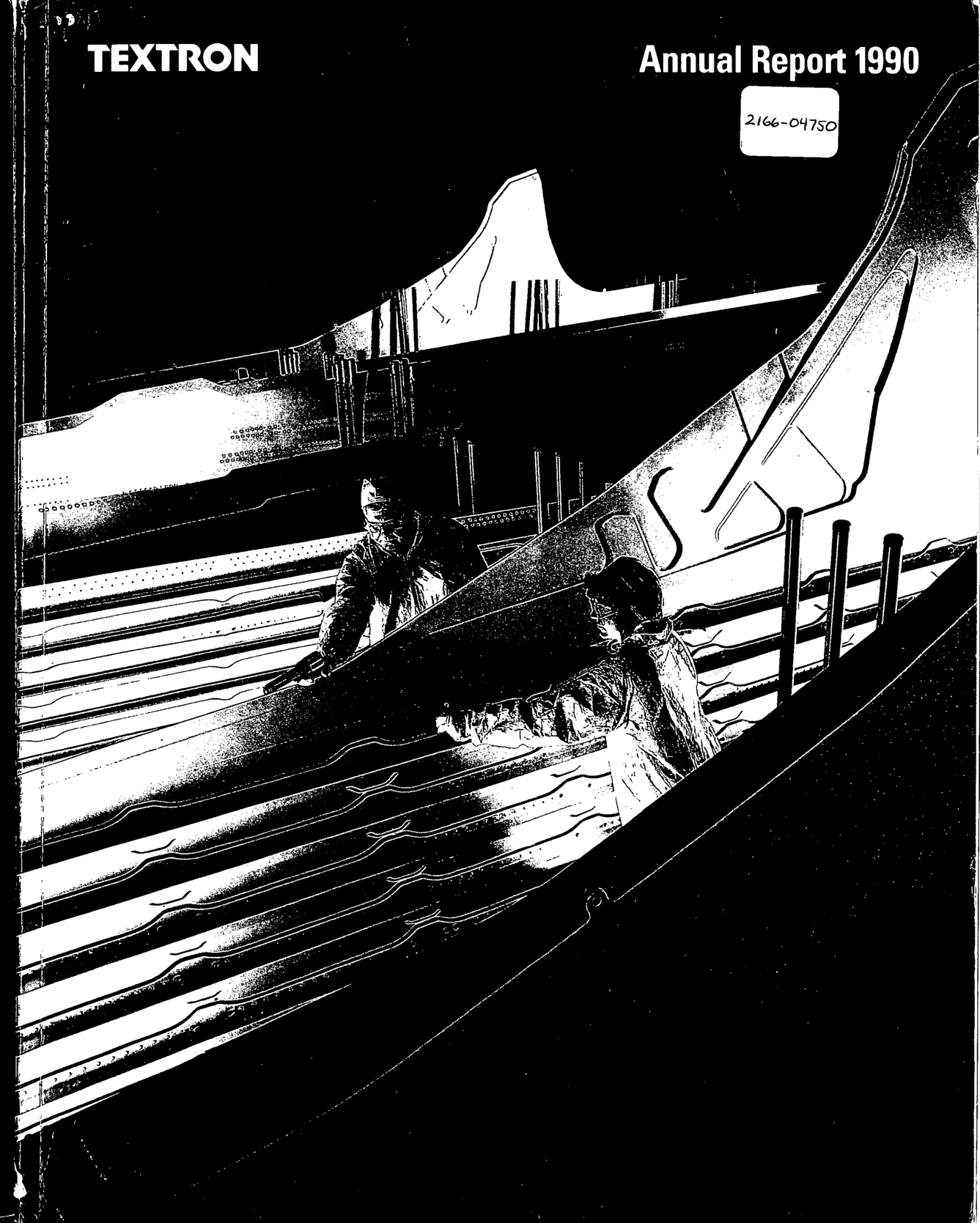

Textron is a diversified manufacturing and financial services company serving markets around the globe. With $7.9 billion in revenues in 1990 and a skilled workforce led by managers committed to excellence, the company has the resources and capabilities to profit from the continuing trend towards an integrated world economy.

Our three sectors–Aerospace Technology, Commercial Products and Financial Services–offer low-cost, high-quality products and services. Products range from advanced technology commercial and military helicopters and gas turbine engines to a broad array of sophisticated automotive components, fasteners and outdoor power equipment. Services include strong franchises in consumer and commercial finance and disability income insurance.

On The Cover:

Textron Aerostructures has been successful in converting its business mix from largely military to 80% commercial since the late 1980s. The division manufactures these aluminum top wing skin panels for the Airbus A330 and A340 long range commercial jetliners. It has a contract to produce 600 panel sets for the Airbus consortium.

Highlights

(Dollars in millions except per share data)	1990	1989
Revenues	**$ 7,917.6**	$ 7,440.1
Income:		
Income before extraordinary loss	**$ 283.0**	$ 268.7
Extraordinary loss	**–**	(9.5)
Net income	**$ 283.0**	$ 259.2
Income per common share:		
Income before extraordinary loss	**$ 3.18**	$ 3.02
Extraordinary loss	**–**	(.11)
Net income	**$ 3.18**	$ 2.91
Average common shares outstanding	**89,014,000**	88,999,000
Book value per common share	**$ 31.00**	$ 28.24
Dividends declared per common share	**$ 1.00**	$ 1.00
Return on average shareholders' equity*	**11%**	11%
Employees	**54,000**	58,000

**Based on income before extraordinary loss.*

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To Our Shareholders

Although the U.S. economy begins 1991 in a recessionary mode, Textron is better positioned than ever before to compete in global and domestic markets. Accordingly, we are optimistic about improved earnings for 1991.

Textron had a good year in 1990. Both revenues and net income increased to record levels, led by solid gains in our finance and insurance businesses and improved contract performance in our Aerospace Technology sector. These improvements reflect many of the positive changes we have made at Textron over the past few years and we expect to build upon them in the future.

Revenues and Income Rise

The company's net income of $283 million ($3.18 per share) was up 9% from $259 million ($2.91 per share) in the prior year, after an extraordinary loss of $10 million ($.11 per share). Revenues were up 6% to $7.9 billion compared with $7.4 billion in 1989. We continue to pay interest on the $250 million borrowed to purchase Avdel in early 1989, but because of a continuing challenge to the acquisition by the Federal Trade Commission which is being contested, we are unable to include Avdel's earnings in Textron's consolidated results.

Significant Change Since 1984

In 1984, beginning with its move to acquire Avco, Textron entered a new phase in its corporate development and significantly reshaped the company. Since then, total revenues increased to $7.9 billion from $3.2 billion. Net income also more than doubled to $283 million ($3.18 per share) from $114 million ($1.56 per share). Book value per share increased to $31.00 from $17.23 in 1984, and return on shareholders' equity has increased to 11% from 9%. Changes made over this period significantly strengthened Textron's operations, many of which are leaders in their chosen markets.

Improving Results: a Major Goal

We are committed to improving our financial performance. Achieving this goal will require several actions:

First, we intend to improve the returns from existing businesses and productivity improvement is a critical element of that effort.

Second, we are putting renewed emphasis on cash flow and this is tied to more effective asset utilization.

Third, we will redeploy underutilized assets.

In 1990, we repurchased 4.4 million shares of Textron common stock at an average price of $22.28 per share. In December, the Board of Directors authorized the repurchase of another five million shares.

In 1990 we also initiated a program to strengthen communications with the financial community, beginning with successful group meetings with financial analysts in New York, followed by individual meetings with analysts over the balance of the year. We are committed to maintaining a steady dialogue with the financial community in 1991.

Balancing Our Businesses

One of the points we stress in these communications is that we are less dependent on U.S. military business than the financial community has perceived. Textron generated 24% of its revenues and a substantially lower proportion of operating profit from contracts with the Department of Defense. Nonetheless, we think our defense business is solid and we are pleased with the funding our programs have received in the 1991 budget.

Events in the Middle East emphatically underscore the need for continued defense readiness and, despite the likelihood of future reductions in DoD spending, we expect to be an important government supplier of mostly tactical weapon systems in the years ahead.

Textron is proud of the role certain of its divisions have played in Operation Desert Storm and grateful to the brave men and women of America's armed forces who are making great sacrifices to bring this action to a just conclusion.

Left: James F. Hardymon, President and Chief Operating Officer; Right: B.F. Dolan, Chairman and Chief Executive Officer

Changing Our Acquisition Focus

The environment for major acquisitions has changed dramatically since the mid-1980s when we acquired Avco and Ex-Cell-O and sold off many of our less profitable divisions in the machine tool, industrial and consumer businesses. Today's prices make major acquisitions too expensive, therefore, we are looking for complementary product line additions to our existing businesses when the price is right and we can add value to what we acquire. Several such acquisitions were made in 1990 and this will remain our acquisition focus for the foreseeable future.

Adapting to Change

A major advantage of being a diversified business is the flexibility it provides to adapt to change by carefully shifting investments to more attractive areas in the dynamic world economy.

This is especially useful in today's uncertain business environment. Having multiple sources of earnings and cash flows gives Textron great stability, as well as the resources to adapt to change effectively and efficiently.

We enter 1991 with a sound financial base and strong credit ratings, experienced and professional operating management at both the corporate and divisional levels, quality products and services, and a skilled, dedicated workforce. Collectively, Textron employees own more than 21% of Textron's common stock, and are keenly interested in improving shareholder value. Although the U.S. economy begins 1991 in a recessionary mode, Textron is better positioned than ever before to compete in global and domestic markets. Accordingly, we are optimistic about improved earnings for 1991.

On behalf of the Board of Directors and management of Textron, we thank our shareholders, customers, suppliers and employees for their continued support.

B. F. Dolan

B.F. Dolan
Chairman and
Chief Executive Officer

James F. Hardymon

James F. Hardymon
President and
Chief Operating Officer

February 7, 1991

Aerospace Technology

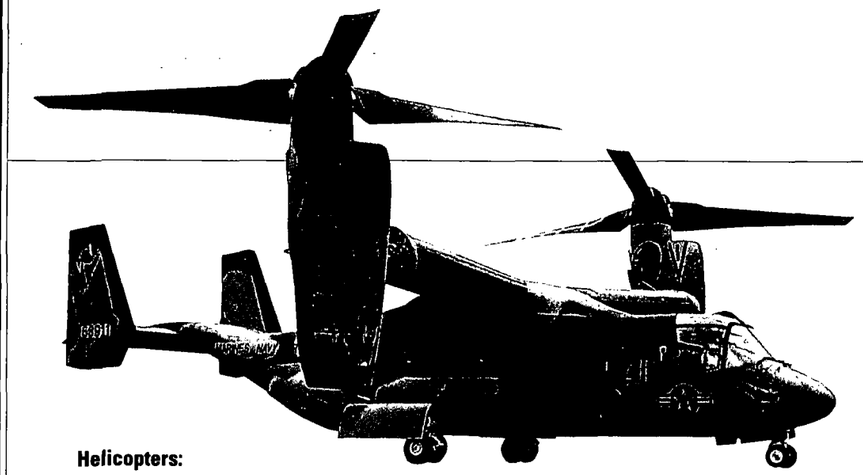
The Aerospace Technology sector consists of 14 divisions in three business segments: Helicopters, Propulsion and Systems. In 1990, our Aerospace Technology divisions accounted for $3.6 billion, or 46%, of Textron's revenues and $331 million, or 42%, of its operating income. In 1989, sector revenues and operating income were $3.4 billion and $308 million, respectively.

Commercial Aerospace Overtakes Defense

Our commercial aerospace business represented about half of sector sales in 1990 and substantially more than half of its profits. These businesses are growing and there is a concerted effort by Textron to continue that momentum.

Our commercial aerospace and defense businesses complement one another through their diversity. We have many advanced technology products–from materials and components to platforms–which are at various stages in their respective life cycles, lessening our dependence on any one program or product.

Above: Textron Specialty Materials uses an exclusive three-dimensional weaving system to fabricate both developmental and production components. This carbon composite structure, eight feet in diameter and weighing more than two tons, has potential application in the nozzle section of large, solid rocket motors such as the engine for the Space Shuttle.

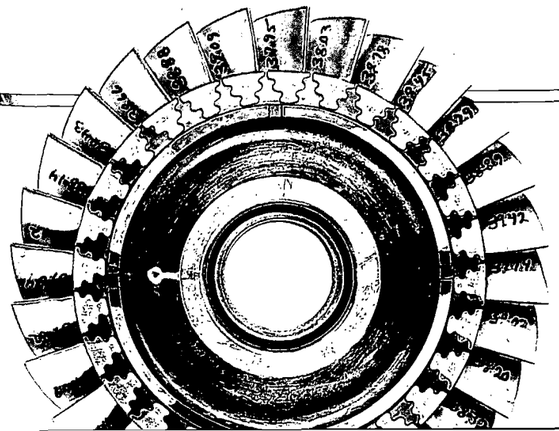


Helicopters:

Commercial helicopters;
Military helicopters;
Tiltrotor aircraft (above)

Propulsion:

Engine components, including discs, hubs, blades, vanes, and rotors (right);
Fuel metering components;
Gas turbine and piston engines



Systems:

Advanced composite materials;
Aerospace control systems (right);
Aircraft landing systems;
Aircraft wings and components;
Air cushion landing craft;
Armored vehicles;
Filters and filtration systems;
Strategic and tactical weapon systems

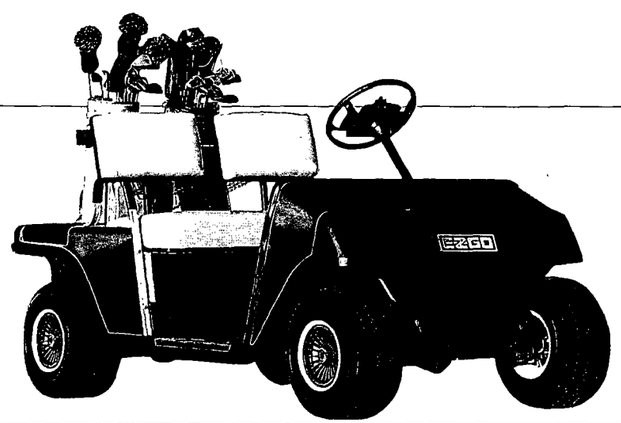
Commercial Products

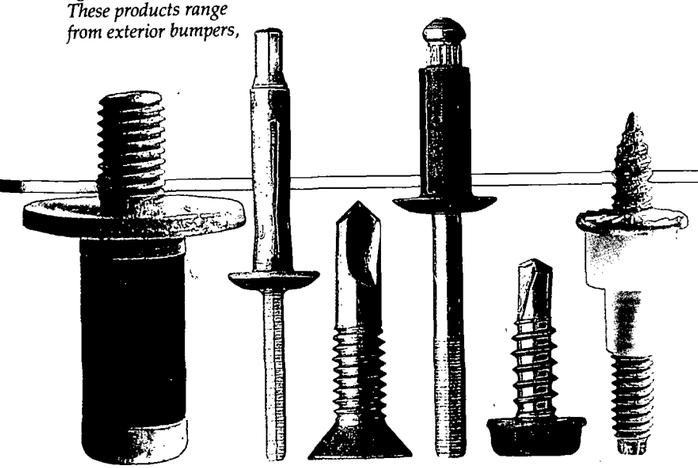
Textron's Commercial Products sector numbers 17 divisions in four businesses: Automotive, Fasteners, Outdoor products and Other. In 1990, the sector's contribution to Textron totaled $1.8 billion, or 23%, of revenues and $166 million, or 21%, of operating income. This compares with 1989 revenues of $1.9 billion and income of $164 million.

Close Ties to Customers

Our automotive components business is the largest within the Commercial Products sector with 1990 sales of approximately $790 million, or an average of $68 for every car and light truck built in North America. Our Commercial Products divisions serve many industries. Both our automotive and fastener divisions work closely with original equipment manufacturers and other customers to develop long-term supplier relationships as they constantly seek to grow existing businesses and increase penetration of their respective markets. All of our Commercial Products divisions pursue aggressive product development programs and maintain a broad, quality-oriented product mix backed by strong technical and customer support organizations.

Above: Nine Textron divisions produce a wide variety of parts and assemblies for North American automobile and light truck manufacturers. These products range from exterior bumpers, body moldings and trim parts, to interior trim, instrument panels, air bag components and fasteners.





Outdoor products:

Chain saws, trimmers and blowers;
Golf cars (above left);
Lawn mowers and tractors;
Turf maintenance equipment

Other:

Electrical test equipment;
Fashion jewelry;
Power hand tools;
Production machine tools;
Watch attachments (above);
Woodworking tools;
Worm gears

Fasteners:

Aerospace fasteners and systems;
Custom-engineered components;
Specialty fasteners and systems (left)

Automotive:

Camshafts;
Decorative trim parts;
Electro-mechanical components;
Exterior trim parts;
Instrument panels;
Interior trim components

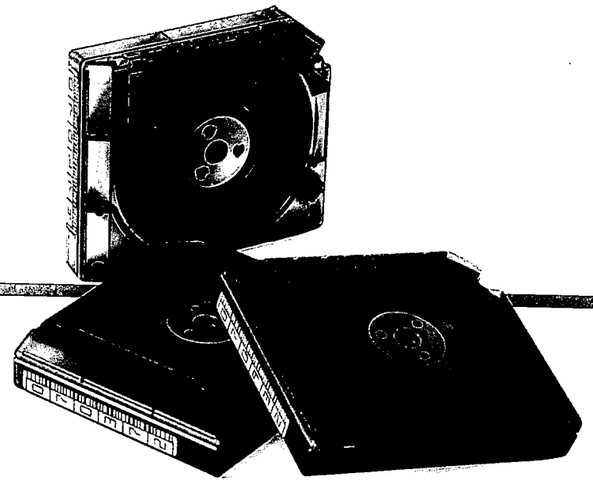
Financial Services

The Financial Services sector includes four divisions in two segments–Finance and related insurance and Other insurance–and is involved in selected areas of consumer and commercial finance and insurance.

Continued success in these businesses during 1990 is reflected in the sector's strong financial results. Revenues reached $2.4 billion, or 31%, of Textron's total revenues, while operating income rose 12% to $292 million, representing approximately 37% of its operating income. In 1989, sector revenues and operating income were $2.2 billion and $260 million, respectively.

Concentrating on Core Businesses

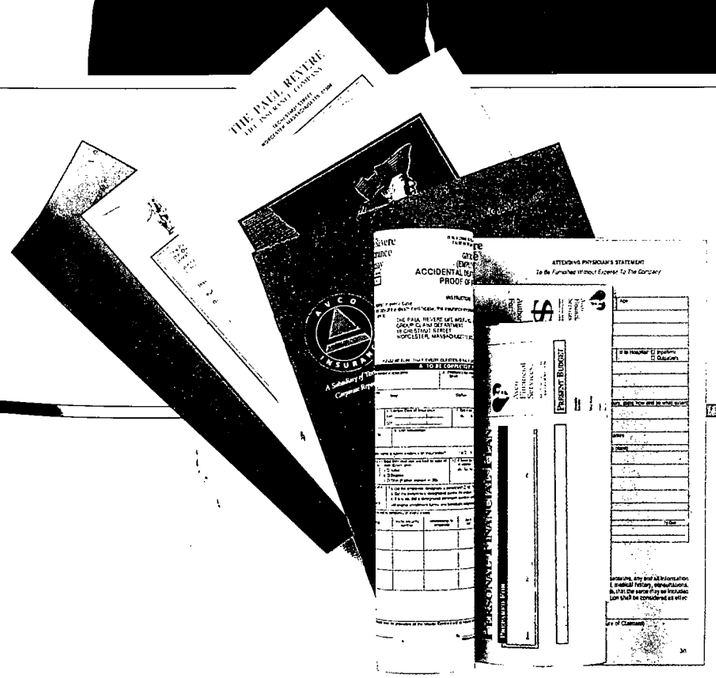
The Financial Services operations are either leaders in their fields or follow a carefully defined niche strategy to compete effectively and increase their respective market shares. Their continued growth depends upon consistently providing high quality customer service, introducing innovative financial products, and carefully managing their insurance underwriting and loan portfolios. Financial Services' operations are diversified geographically as well as in their business lines. Three of the four divisions have operations in Canada, and two also have extensive operations in Australia and the United Kingdom.



Finance and related insurance:

Collateral protection; Commercial finance; Consumer finance (Avco Financial Services logotype above right); Credit life and disability insurance; Computerized systems used throughout (left)

Avco Financial Services



Above: The continued growth of Textron's Financial Services sector is largely due to the experience and knowledge of its employees. The pursuit of quality and service has enabled our finance and insurance divisions to earn a reputation for leadership in their respective markets.

Other insurance:

Group insurance; Individual disability income insurance; Property/casualty insurance; Insurance literature (left)

Textron in Review

Our solid gain in operating income, achieved despite a weakening economy and reduced defense spending, supports our conviction that Textron's strategy of balanced diversification is a very valid one for the dynamic global environment in which we compete.

Textron's record results in 1990 reflect the combined strength of our three core business sectors – Aerospace Technology, Commercial Products and Financial Services. Operating income of the three business sectors aggregated $789 million, compared with $732 million in 1989.

This solid gain, achieved despite a weakening economy and reduced spending by the Department of Defense, supports our conviction that Textron's strategy of balanced diversification is a very valid one for the dynamic global environment in which we compete.

Repositioned For the 1990s

During the second half of the 1980s, we dedicated ourselves to repositioning Textron for the increasingly competitive world expected in the 1990s. Our strategic efforts were highlighted by two major acquisitions – Avco in 1985 and Ex-Cell-O in 1986 – followed by the divestiture of about 25 businesses. The divested businesses, which no longer met the company's long-term goals for growth and profitability, were principally from our industrial, consumer and machine tool groups.

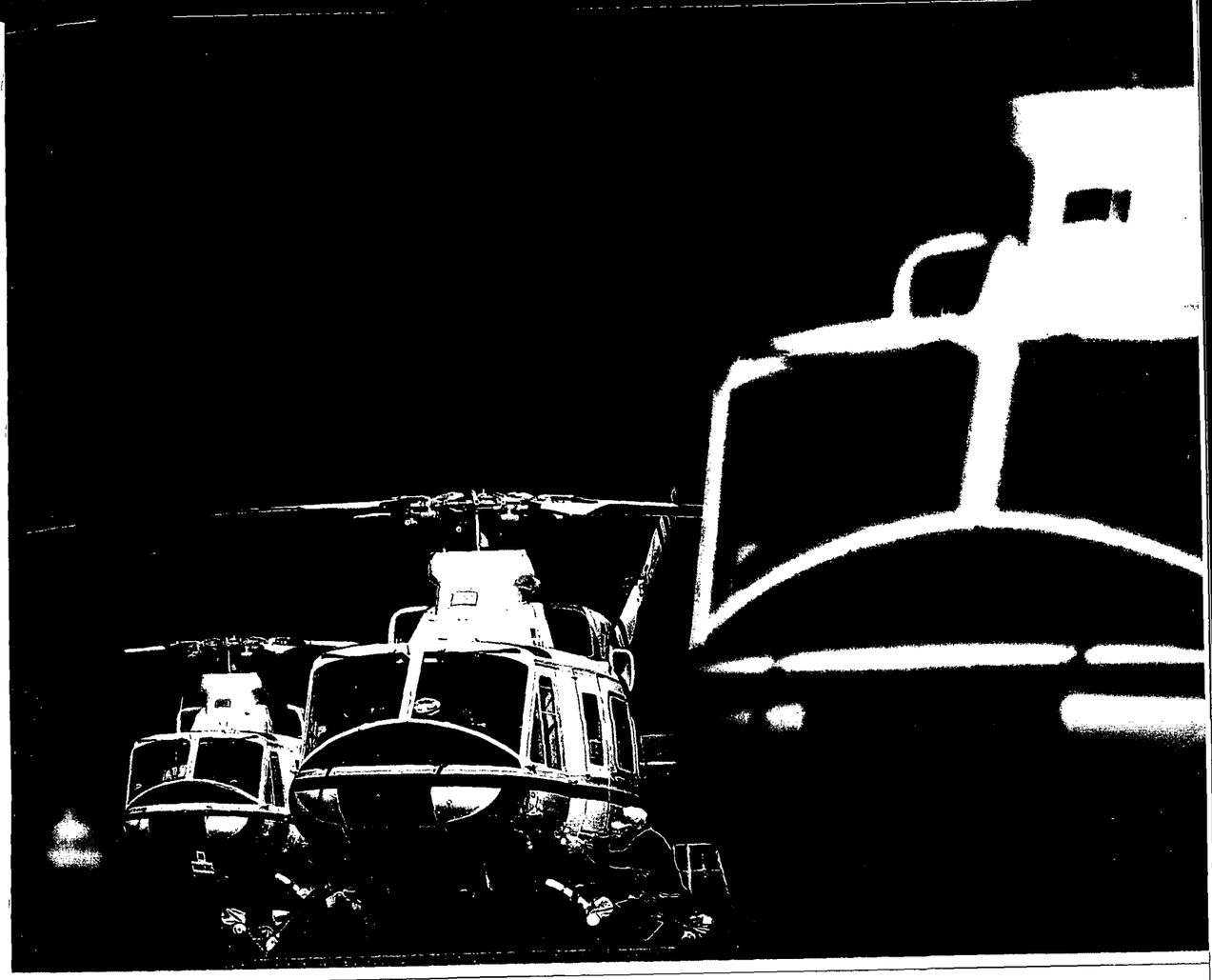
Acquisitions more than doubled Textron's size and gave us greater strength, stability and balance with important new growth opportunities. They enabled us to create a major new business sector – Financial Services – which has contributed significantly to Textron's profitability and growth prospects, accounting for more than one-third of the company's income in 1990. With the acquisition of Avco came Avco Financial Services (AFS), Avco Insurance Services and Paul Revere Insurance Group. Textron Financial Corporation (TFC), originally formed to finance the sale of Textron products, was expanded to provide financial services outside the company. At year end 1990, approximately 72% of TFC's $1.7 billion in finance receivables was derived from non-Textron business.

The consolidation of Avco into Textron also provided the foundation for our Propulsion segment, and it contributed significantly to the Systems segment of our aerospace business by adding the markets and technologies of Textron Aerostructures, Textron Defense Systems and Textron Specialty Materials.

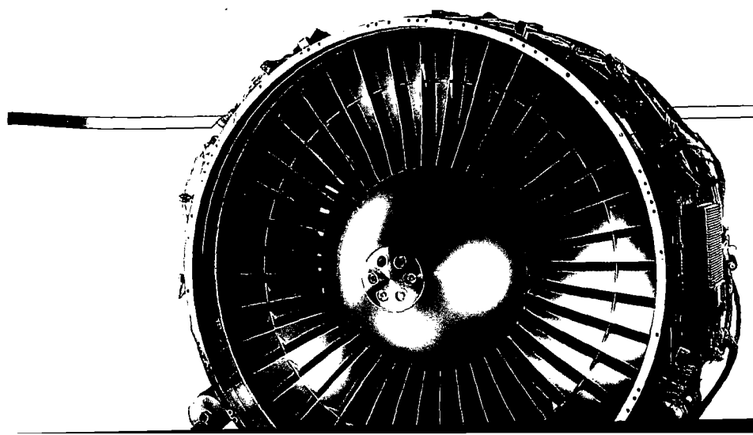
The Ex-Cell-O acquisition added three divisions to our Propulsion segment – Aircraft Engine Components, Airfoil and Fuel Systems. Ex-Cell-O's automotive components businesses – the three Davidson divisions and McCord Winn – joined Randall and CWC Castings and our Camcar, Cherry and Townsend fastener divisions in providing automotive components to the Big Three and foreign transplant manufacturers.

Focusing on the Basics

With these major acquisitions successfully integrated and the dispositions of non-strategic businesses behind us, Textron is now focused on improving returns from its broadly expanded operations.



Above: Three Bell Model 412 utility helicopters await lift-off at Petroleum Helicopter Inc.'s (PHI) facility in Morgan City, Louisiana. PHI is one of the largest buyers of Bell's commercial helicopters, which it uses to transport personnel, spare parts and supplies to offshore oil platforms in the Gulf of Mexico.

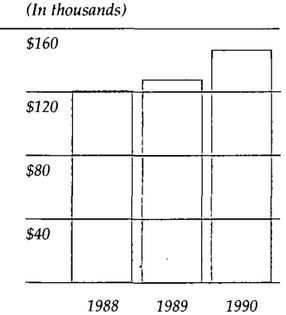


Left: Textron Lycoming's new LF507 turbine engine is the first of a series of advanced turbofans for the growing regional jetliner market in the 45 to 100 passenger range. It s initial application is for British Aerospace BAe146 commuter jets.

Left: A technician at Textron Filtration Systems inspects a filter element mesh pack prior to its use in a filter assembly. Textron Filtration Systems, formerly a unit of HR Textron, became a separate Textron division in 1990, reflecting its growing importance in advanced filtration products.

Revenues per Employee

(In thousands)



Right: Textron Marine Systems, builder of air cushion vehicles and surface effect ships, produced its first aluminum monohull vessel in 1990 for the U.S. Coast Guard. During its evaluation period, the new motor lifeboat rescued three persons from a sinking fishing vessel off the Oregon coast. Further evaluation by the Coast Guard will include testing of the ship's unique self-righting capability after a roll over.

Many of our operating units rank either first or second in sales in one or more of their major product lines. For example, E-Z-Go is number one in the fleet golf car business; Jacobsen is the leader in turf care products for the domestic golf market. Textron Specialty Materials is the sole producer of boron fiber, a light, strong material used in high-performance aircraft and for sporting goods applications, including golf clubs and tennis racquets. Textron Lycoming is the only producer of turbine engines for tanks. Cherry is the international market leader for aerospace blind rivets. Cone Drive, Davidson Interior Trim and Greenlee are first in sales in their respective businesses and Davidson Exterior Trim and Davidson Instrument Panel are first among independent producers in their automotive products lines. Paul Revere is the leader in the United States and Canada in non-cancellable disability income insurance for individuals. In recognition of its market leadership, some 33 other insurance companies have authorized their sales forces to market Paul Revere disability income insurance policies.

Focusing on the basics has become a theme for the 1990s. All of our divisions are dedicated to growth and profit improvement. Since joining Textron, AFS has discontinued a number of business lines in order to concentrate on its core consumer lending business, which has grown from $3.4 billion to $4.5 billion in five years. Consumer finance consists of small, often secured personal loans for goods purchased from retailers and for first or second home mortgages. This streamlining also included the termination of unprofitable or marginal commercial insurance lines previously offered by Avco Insurance Services so that it could focus on credit related insurance for either AFS customers or other financial institutions. The AFS consumer finance and related credit insurance business has approximately $4.5 billion in receivables, 1.8 million customers and 1,200 offices in five countries.

All of our divisions are dedicated to growth and profit improvement. We are focused on strengthening our existing divisions through product line acquisitions and, where necessary, downsizing operations.

Strengthening Existing Operations

We are focused on strengthening our existing divisions through product line acquisitions, adding new and more productive equipment and, where necessary, downsizing operations. Since the mid-1980s, Randall acquired a wheel cover business, a plastic injection molding unit and a metal stampings specialty firm; Camcar purchased a manufacturer of special fasteners and cold-headed products. In 1990, Jacobsen acquired the Classen line of aeration equipment for golf course and commercial applications. In certain instances, divisions have been split to create separate divisions to better focus on unique product lines. In 1990, Textron Filtration Systems was split off from HR Textron, and in January 1991, the Cone

Balancing our commercial and military aerospace businesses is a high priority in keeping with the outlook for leaner U.S. defense budgets. However, Textron will continue to participate in many important U.S. Government defense programs, most of which are oriented toward conventional strategies.

Drive and Micromatic Operations of the former North American Machine Tool Division also became separate Textron divisions.

Balancing Textron's Businesses

Balancing our commercial and military aerospace businesses is a high priority in keeping with the outlook for leaner U.S. defense budgets.

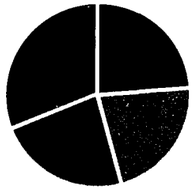
Textron Aerostructures has had outstanding success in converting to commercial business. Several years ago, as the sole builder of B-1B and C-5 wings, Aerostructures relied on the defense sector for approximately 80% of its business. With these major contracts successfully completed, Aerostructures presently receives about 80% of its business from commercial customers such as Gulfstream, British Aerospace and the British and German members of the European Airbus consortium.

More than half of Bell Helicopter's business was non-U.S. Government in 1990. Bell's current backlog in the commercial light helicopter line is more than $600 million and deliveries will stretch over two years for certain models. That business could increase further with the growth in helicopter use for petroleum exploration. Textron Marine Systems, which supplies about three quarters of the U.S. Navy's air cushion landing craft, is developing commercial applications for its Surface Effect Ship (SES) which affords high maneuverability, speed and seaworthiness. In 1990, the division began constructing two SES fireboats for the City of New York.

Textron participates in many important U.S. Government defense programs, most of which are oriented toward conventional rather than nuclear strategies. Our Textron Lycoming division has supplied the U.S. Army with more than 9,000 engines for the M1 and M1A1 main battle tanks. In late 1990, it signed a contract modification with the U.S. Army for an additional 2,586 AGT1500 gas turbine engines to be produced from 1991 through 1994, including foreign military sales. This contract modification could ultimately be worth approximately $1 billion. In addition, Textron has a large, carefully developed aftermarket business in spare parts and equipment.

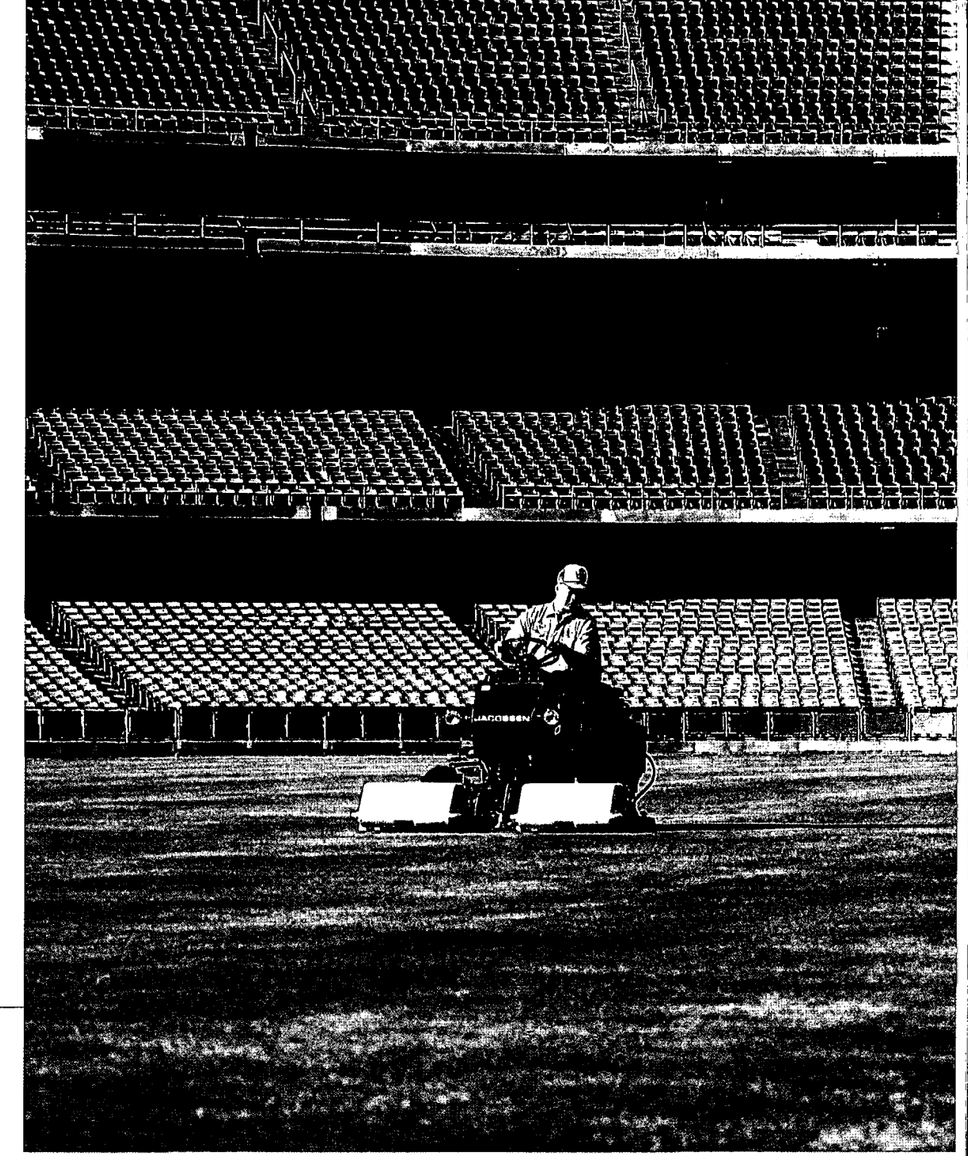
Bell Helicopter's hopes for the eventual production of the Bell-Boeing V-22 Osprey TiltRotor aircraft were raised by the widespread bipartisan support the V-22 received from Congress in 1990, including additional funds for research and development as well as for long-lead production materials. Bell, teamed with McDonnell Douglas, also is competing for the LH light helicopter program for the U.S. Army. Continued government funding of both programs remains at issue; if canceled the short-term effect would be minimal because the V-22 is still in development and plans for full-scale development of the LH have not been finalized.

Revenues by Business Sector

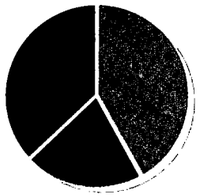


Aerospace Technology	
■ *U.S. Military*	24%
■ *Commercial*	22%
■ *Commercial Products*	23%
■ *Financial Services*	31%

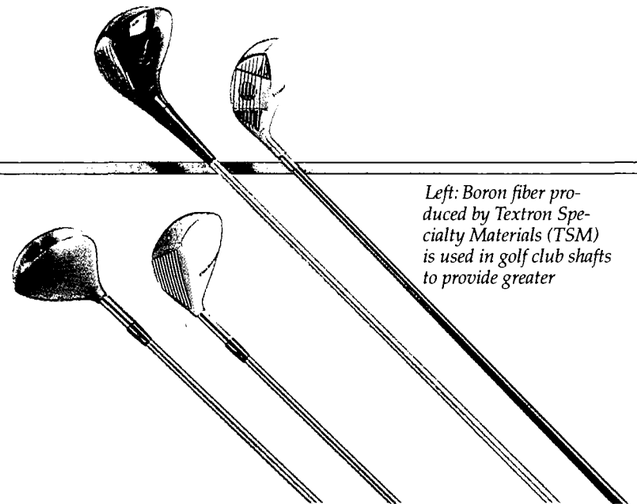
Right: Jacobsen Textron's professional turf care cutting and grooming equipment is built for the big jobs and can be found on golf courses and in parks and other recreational areas throughout the United States and in many parts of the world.



Operating Profit by Business Sector



■ *Aerospace Technology*	42%
■ *Commercial Products*	21%
■ *Financial Services*	37%



Left: Boron fiber produced by Textron Specialty Materials (TSM) is used in golf club shafts to provide greater strength and stiffness as well as lighter weight. TSM is the world's only commercial manufacturer of boron which is also used in high-perfomance aircraft.

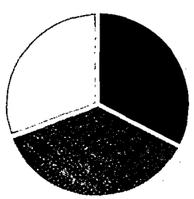
Developing New Products
Textron divisions maintain active product development programs to ensure continued leadership in their respective markets. E-Z-Go has significant new product development efforts under way to improve its overall competitiveness, including work on a new golf car. The popularity of golf is growing around the world, benefiting both E-Z-Go and Jacobsen. The National Golf Foundation estimates there are now some 22 million golfers in the United States, an increase of 25% in just two years. More than 1,000 new courses were opened during the past five years, including 285 in 1990, according to the Foundation.

Textron Lycoming's LF507 turbofan engine is scheduled for certification in 1991 and will power models of British Aerospace's BAe146 regional and commuter jetliners. Lycoming also is under tri-service contract to develop what will be the core of the new, more powerful turbine engines for heavy tracked vehicles for the year 2000 and beyond. In 1990, Textron Marine Systems completed design and delivered to the Coast Guard a new 47 foot patrol and rescue boat capable of righting itself in less than 30 seconds after capsizing or flipping end-over-end. The lifeboat's rugged aluminum hull, although lightweight, can withstand hurricane force winds. The craft is capable of speeds in excess of 25 knots, twice the speed of existing steel hull rescue vessels.

Because of its specialized technological expertise in developing high temperature materials and structures, Textron Specialty Materials was awarded a development contract for three-dimensional reinforced carbon components for such applications as the Space Shuttle's new advanced solid rocket motor.

Textron has always maintained a significant international presence. In 1990, U.S. export sales amounted to $1.1 billion, or 14%, of our total revenues. International sales are growing in importance as the world moves closer to a unified market.

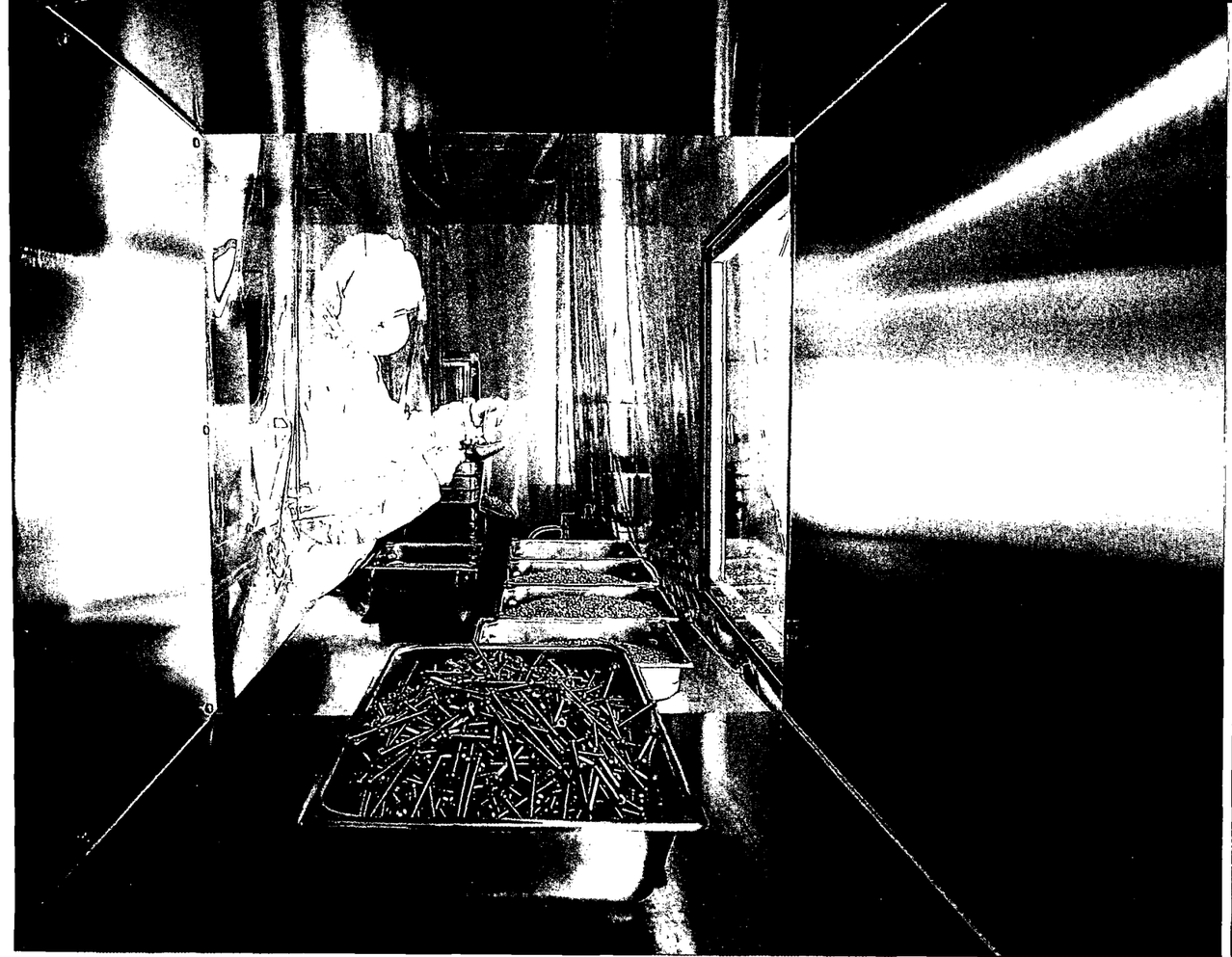
Aerospace Technology—Revenues by Segment



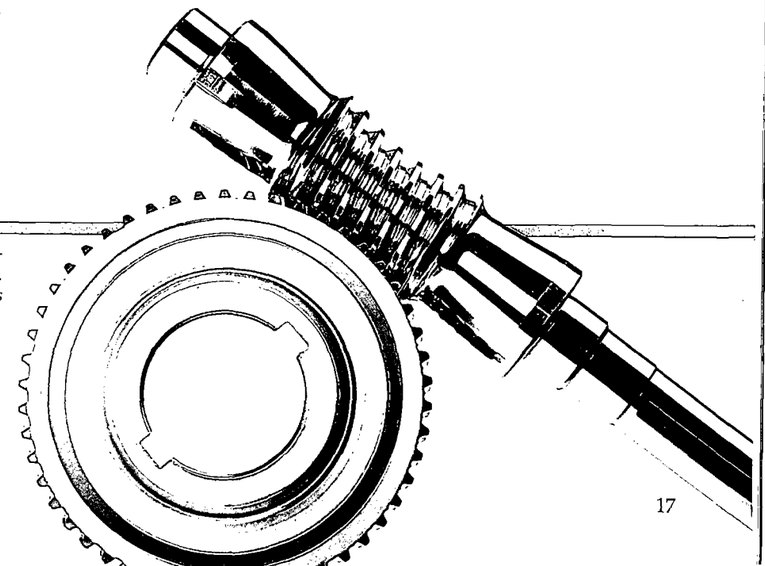
■ *Helicopters*	33%
■ *Propulsion*	36%
□ *Systems*	31%

Creating New Markets
International sales are growing in importance. As the world moves closer to a unified market, we are forming new alliances with companies in Europe, Asia and the Pacific Rim. In Western Europe alone, the 12-member European Community will create a single market of about 325 million consumers, nearly one-third larger than the U.S. market. Ultimately, the move toward a free market system in Eastern Europe should enhance opportunities there.

Textron has always maintained a significant international presence. In 1990, U.S. export sales amounted to $1.1 billion, or 14%, of our total revenues. Textron has many licensing agreements, joint ventures and other arrangements with foreign governments and commercial customers around the world. Bell Helicopter has programs with Indonesia, Norway, Turkey and Korea. Bell and an affiliate of Mitsui Ltd. have signed a partnership agreement for production of the Bell Model 230. The 230 will be produced at Bell's commercial helicopter plant in Canada, which opened in 1985 and now accounts for about one-

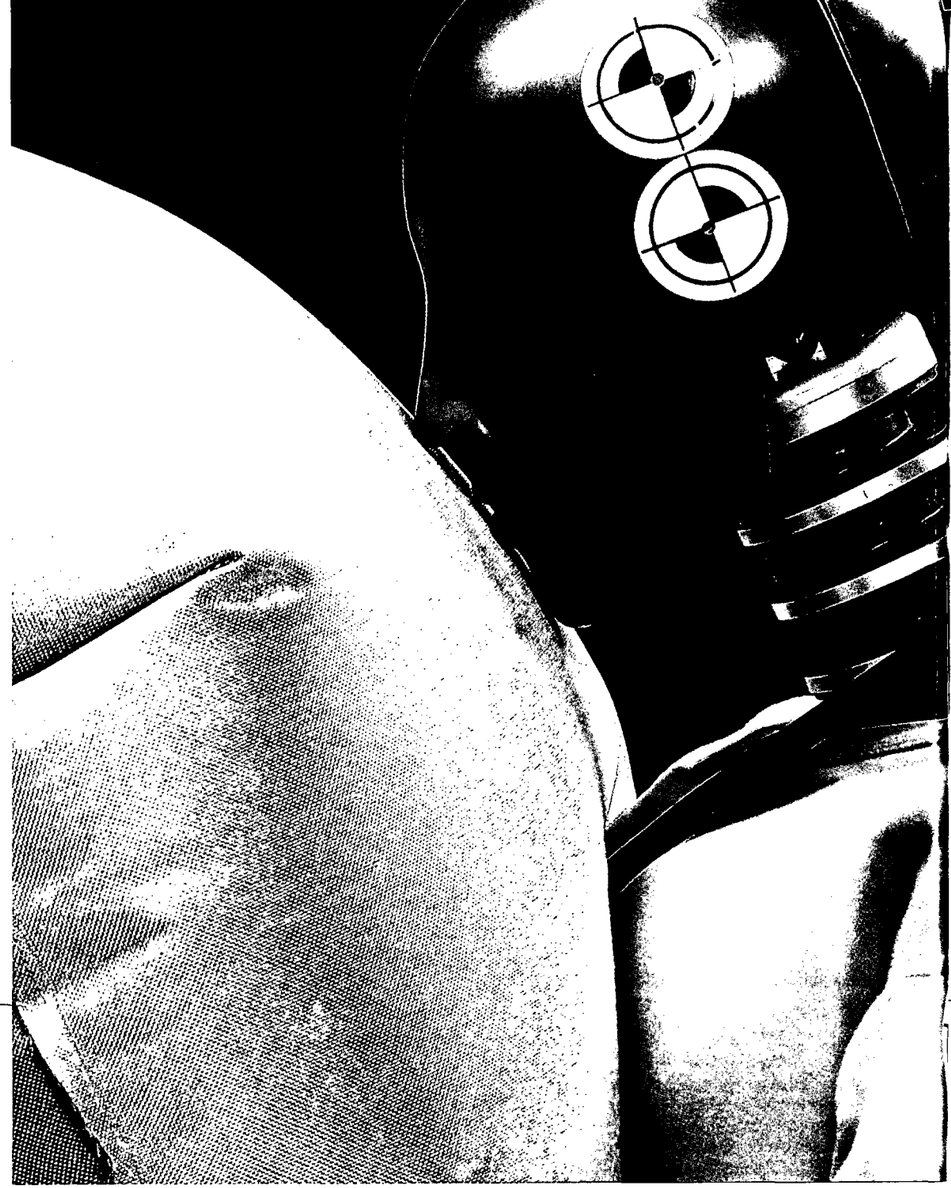


Above: Advanced technology manufacturing facilities, including this specialized clean room, were completed in 1990 at Camcar Textron's Decorah, Iowa operation. The installation enables Camcar to meet stringent standards for finishing and packaging fasteners destined for medical, aerospace and business equipment applications.

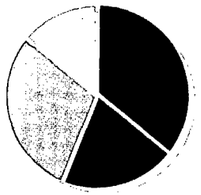


Right: A double-enveloping worm and gear set is the basic product of Cone Drive Textron, which was restructured as a separate Textron division in January, 1991. The company's products are used to power machinery in the mining, steel, automotive, printing, packaging and aerospace industries.

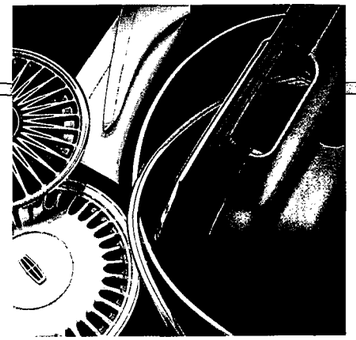
Right: Opportunities for marketing new products are continuously being analyzed by Textron's divisions. Seven divisions have designed and produced a wide range of fasteners and other components for automobile air bag assembly modules.



Commercial Products—Revenues



Automotive	*36%*
Fasteners	*20%*
Outdoor Products	*30%*
Other	*14%*



Left: Textron's automotive trim components contribute to the style and function of automobile exteriors. Products made by Textron divisions include wheel covers, front and rear fascia, body moldings and window trim.

Providing quality in all aspects of our operations is central to our continued success. Each division has its own quality awareness program in place and, while varying in scope, the common aim is to "do it right the first time."

third of the world's entire production of commercial helicopters. Mitsui has represented Bell in Japan for nearly 40 years, and more than 1,000 Bell helicopters have been registered there.

Globalization of the automotive business, particularly in North America and Europe, is becoming a reality. Davidson Instrument Panel and Marley Automotive Components Ltd., a long-time Davidson licensee and the largest instrument panel manufacturer in the United Kingdom, have entered into a joint venture to market and manufacture instrument panels for the European market. A manufacturing plant will be completed in The Netherlands in 1991. Production is scheduled to begin there in 1992 to support a Ford program already awarded to the joint venture. Davidson also will supply instrument panels for the North American version of this new Ford car line.

In November, B.F. Dolan, Textron's chairman and chief executive officer, was appointed vice chairman of the President's Export Council. The Council is the premier national advisory committee on international trade. Jacobsen received the President's "E Star" Award for excellence in exporting during a White House ceremony in May 1990, in recognition of its competitive achievements in world markets. Avco Financial Services in 1990 opened two offices in New Zealand and is analyzing the market for expansion opportunities in Europe, beyond the United Kingdom.

Becoming the Quality Leader

Providing quality in all aspects of our operations is central to our continued success. Our goal requires the involvement of every Textron employee. This is as true for the financial services businesses as for our manufacturing operations. Each division has its own quality awareness program and, while varying in scope, the common aim is to "do it right the first time."

Textron's quality initiatives emphasize employee teamwork, training and participation. As examples, Textron Lycoming's Quality Awareness Program includes 50 teams which meet regularly to discuss and resolve quality-related business issues. Bell Helicopter's Total Improvement Program includes about 120 teams, along with 3,400 employees trained in related courses. Our initiatives to ensure quality also require investment in new manufacturing technologies and timely, positive responses to critical customer needs, such as on-time deliveries and assistance in the areas of design, engineering and technical support.

Customer satisfaction is at the heart of our quality efforts. Many of our divisions meet regularly with OEM representatives to offer early customer input and to facilitate new product coordination. The Total Quality Management Program at Fuel Systems has been utilized by its major customers as a model for other suppliers. McCord Winn is an active participant in product development

team meetings at several customer locations. Several of our automotive divisions have received the highest quality awards from the Big Three in recognition of excellence. Ford has awarded its Q1 supplier award to 13 Textron facilities.

Camcar has invested significantly in new manufacturing technologies. Recognizing the unique high-technology requirements in the business equipment, aerospace and medical industries, the division recently completed construction of a unique facility which enables it to finish and package fastener assemblies and components in a "clean-room" environment. In some cases, several Textron divisions work closely in the same area. For example, seven of our divisions are involved in the development or production of components for automotive safety airbag modules.

The Financial Services operations have intensive programs to enhance service and quality. Computerization and automation of many manual procedures have reduced costs and upgraded customer service. Avco Financial Services has installed computer terminals at many of its dealer locations nationwide, enabling instantaneous decisions with respect to credit approval for consumer purchases at participating stores. Avco Financial Services and Paul Revere Insurance are in the midst of major initiatives to upgrade computerized systems in their field offices. Paul Revere was one of 10 semifinalists for the 1989 Malcolm Baldrige National Quality Award and has won similar quality awards in Australia and the Province of Quebec. Likewise, Textron Financial Corporation has developed state-of-the-art information management technology to facilitate the handling of customer accounts.

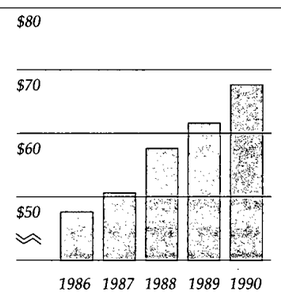
Textron is committed to the protection of the environment and the occupational health and safety of its employees. A number of our programs go beyond the letter of the federal and state regulations to provide additional protection for our employees and the environment.

Environmental and Safety Concerns

Textron is committed to the protection of the environment and the occupational health and safety of its employees. We have a number of programs to help assure compliance with federal and state requirements that go beyond the letter of the regulations in order to provide additional protection to our employees and the environment and at the same time reduce costs to the company.

Our manufacturing divisions have programs under way to reduce or eliminate hazardous waste and toxic chemical emissions through a combination of product redesign, process changes and recycling of waste material. Davidson Instrument Panel has begun recycling its major waste materials–vinyl and urethane foam scrap–into granular components for sale to secondary markets. Textron Aerostructures is participating in a University of Tennessee waste minimization program. Textron Filtration Systems recently installed a catalytic

Textron's Average Sales per Vehicle for every Car and Light Truck built in North America



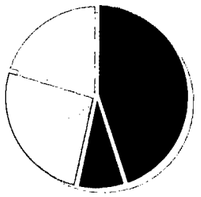
1986 sales assume that Ex-Cell-O's sales had been included for the full year.

Above: Major family purchases, such as a second car, are financed through loans from Avco Financial Services. With over 1,200 offices, Avco Financial Services provides its customers with affordable, convenient and personalized service.

Left: Textron's consumer and commercial finance and insurance divisions utilize extensive data processing and communication systems for instant retrieval of customer information and timely, accurate recordkeeping.

Right: Paul Revere Insurance Group has a tradition of providing quality financial products and exceptional customer service. Employee training at in-house training facilities provides the environment for learning about Paul Revere's products and policies and updating employee knowledge of industry trends and regulatory practices.

Financial Services—Revenues



Finance and Related Insurance	
■ *Consumer*	45%
■ *Commercial*	9%
Other Insurance	
□ *Disability*	26%
□ *All other*	20%

Bottom right: Textron Financial Corporation, the company's commercial finance division, continued to provide new financial products in 1990 by offering first mortgage loans for golf course operations such as New Seabury on Cape Cod, Massachusetts.

Textron exercises its corporate citizenship responsibility through active support of programs that benefit our employees and the communities in which they live and work.

oxidizer to reduce toxic chemical emissions, and Speidel is using high-efficiency dryers to eliminate the need to use Freon as a drying agent. E-Z-Go, Greenlee, Townsend, and others are replacing solvents in cleaning operations with non-hazardous cleaners.

The prevention of occupational accidents and injuries continues to be a high operational priority. Camcar couples hazard communication and safety training with a review of individual employee safety performance to identify and correct accident trends. Bell Helicopter has improved and expanded programs in personal protective equipment, safety training for supervisors, respiratory and hearing safety and health training. Randall has fostered a safer and less stressful workplace while increasing productivity through simple, ergonomic changes such as repositioning equipment and adding conveyor systems.

Supporting Our Employees

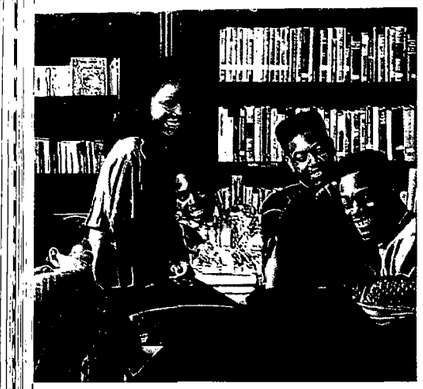
Textron exercises its corporate citizenship responsibility through active support of programs that benefit our employees and the communities in which they live and work. Through career counseling and tuition reimbursement for degree studies, we encourage the self-development of employees who wish to pursue educational and vocational training that is mutually beneficial to the individual and the company. In addition, we support a wide range of other programs to improve job and interpersonal skills.

Textron also sponsors career development programs for management employees at colleges and universities and other educational organizations.

Participatory programs, such as Total Quality Management, often focus on productivity and are an increasingly important part of the educational mix because they address problem-solving, teamwork, motivation and building self-esteem. Employee quality teams continue to make significant contributions to cutting costs, eliminating waste, reducing rework and improving employee satisfaction. Textron Aerostructures generated enthusiastic employee involvement through its "Best Producer" program which resulted in 4,000 work-improvement suggestions in 1990. Paul Revere Insurance Group's "Quality Has Value" process creates healthy competition between quality teams, providing an environment in which employees are constantly challenged to provide quality work and service.

Encouraging Healthful Lifestyles

In addition to educational and training opportunities, significant attention is given to the personal health and well-being of our employees and their families. We offer many "wellness" programs to encourage healthful living. These include stress and weight control, smoking cessation, blood pressure monitoring, nutrition awareness and physical fitness. Textron is committed to a drug-free workplace through pre-employment testing and, under certain circumstances, the testing of active employees.



Above: Textron employees contribute to their communities in many ways. Ms. Rosie Jones, a computer programmer at Textron Lycoming, who is also Miss Black America 1990, speaks with high school students about career opportunities in computer technology.

Employees and their families have a confidential source of help with personal problems in the Employee Assistance Program. We provide counseling for alcohol and drug abuse, and marriage and financial problems.

Making a Difference

Textron strives to be a caring neighbor in its plant communities. As a company and through our employees, we are committed to making a real difference through our active support of community, civic and educational activities. Many of our employees serve as instructors at local colleges and universities. They volunteer to serve on the boards of educational institutions, hospitals and to assist in scouting and other youth organizations.

Several divisions are actively involved in Adopt-A-School programs providing volunteers, materials, transportation and other incentives to improve the educational experience of our youth.

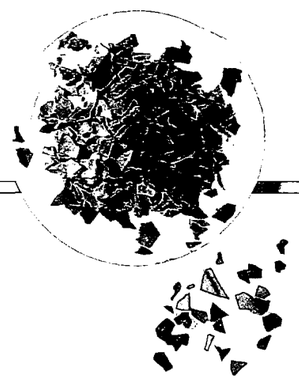
Bell Helicopter participates in many such educational activities. During the 1989 school year, Bell piloted an innovative instructional unit within 80 classrooms in 11 school districts. Called "Flight," the material featured helicopter technology and was used as part of a course on transportation. The project was so well-received that it has been reprinted and distributed nationwide in a joint effort by Bell, the American Helicopter Society, the Helicopter Association International and the Federal Aviation Administration.

Significant attention is given to the personal health and well-being of our employees and their families. Through the Textron Charitable Trust, we also offer college tuition assistance and match employee contributions to cultural, educational and environmental institutions and hospitals.

Charitable Trust Giving

Textron's philanthropic endeavors are largely supported through the Textron Charitable Trust, which directs and oversees our financial assistance to non-profit organizations on a nationwide basis. The Trust also offers college tuition assistance and matches employee contributions to cultural, educational and environmental institutions and hospitals. Giving by the Trust is supplemented by the charitable activities of our employees and divisions. Avco Financial Services, for example, allocates funds to each branch, region and area office to support its local communities. Priority is given to supporting employee involvement.

Below: Recycling materials used in manufacturing is one way Textron divisions pursue a quality environment. Davidson Instrument Panel, for example, reprocesses its vinyl and urethane waste into this granular form which is suitable for resale to secondary markets, for use in such things as carpet padding, garden hose and floor mats.



Financial Section

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The financial section of this report is printed on recycled paper.

Liquidity and Capital Resources

Financing for Textron is conducted through two separate borrowing groups: the Textron Parent Company Borrowing Group (consisting of all entities of Textron other than its finance and insurance subsidiaries) and the finance and insurance subsidiaries. This framework allows the finance and insurance subsidiaries, with specialized needs related to their portfolios of receivables and investments, to finance their respective operations, each through its own external group of creditors without guarantee from the Textron Parent Company Borrowing Group. Accordingly, the liquidity and capital resources of Textron's operations are best understood by separately considering its independent borrowing groups.

Textron Parent Company Borrowing Group

Sources of cash to the Textron Parent Company Borrowing Group include cash generated by the operations comprising this group and dividends received from the finance and insurance subsidiaries, supplemented with borrowings. Information about the cash flows of this group for each of the three years in the period ended December 29, 1990 is set forth in the Group's statement of cash flows included in Note 17 (page 58) to the consolidated financial statements.

The Textron Parent Company Borrowing Group's operating activities provided cash flows of $314.6 million in 1990, $53.4 million more than in 1989. The increase in operating cash flows reflects one-time, extraordinary dividends of $50.0 million received from Textron's finance and insurance operations and lower inventory levels, despite the buildup of inventories at Textron Aerostructures for the A330/A340 wing program entering production. These benefits were partially offset by an increased level of receivables due primarily to increased sales volume in the fourth quarter of 1990, and a reduction in payables due in large part to federal income tax payments involving timing differences related to prior years.

In early 1989, Textron acquired Avdel plc, a fastening systems manufacturing business based in England, the total cost of which approximated $250 million. In March 1989, the U.S. Federal Trade Commission (FTC) obtained a preliminary injunction from the U.S. District Court for the District of Columbia enjoining Textron from assuming or exercising any form of direction or control over the assets or operations of Avdel until a determination has been made as to whether the acquisition of Avdel by Textron would, as the FTC asserts, restrict competition in violation of Section 5 of the FTC Act and Section 7 of the Clayton Act. As a result of the preliminary injunction and in accordance with generally accepted accounting principles, Textron is precluded from consolidating in its financial statements the results of operations of Avdel and is therefore carrying its investment in Avdel at cost. A hearing before an FTC Administrative Law Judge, at which Textron is defending the acquisition of Avdel, began in Washington, D.C. in October 1990. A ruling by the Administrative Law Judge is not expected before mid-1991. The preliminary injunction of the U.S. District Court will remain in effect until there is a final resolution to the litigation. Avdel's cash flow is not available to Textron at the present time. However, since the date of acquisition, Textron has received cash dividends of $7.3 million from Avdel.

The Group's debt decreased by $30.6 million as operating cash flows exceeded capital asset additions and payments of dividends. Textron's ratio of debt to total capital improved to 42% at December 29, 1990, compared to 43% at December 30, 1989.

In 1989, cash flows from operating activities of $261.2 million reflected a reduction in receivables due primarily to the timing of collections and shipments on certain programs and contract loss reserves provided against certain unbilled receivables, offset by an increased level of inventories related to both the start-up of Aerostructures' wing program for the A330/A340 Airbus and the timing of certain shipments. The Group's debt increased by $167.4 million principally as a result of cash required for the acquisition of Avdel, capital asset additions and payments of dividends, which collectively exceeded operating cash flows.

In 1988, cash flows from operating activities of $117.7 million reflected reductions of accrued and other liabilities, related principally to the liquidation of contractual obligations, as well as increased levels of receivables and inventories. The Group's debt increased by $298.9 million principally as a result of cash required for capital asset additions, purchases of treasury shares and payments of dividends exceeding operating cash flows.

Capital expenditures during each of the three years in the period ended December 29, 1990 of $168 million, $210 million and $193 million, respectively, were primarily for the replacement of machinery and equipment and for machinery and equipment required for increased capacity at existing facilities and for expansion to accommodate new product lines. Capital expenditures during 1991 are not expected to differ substantially from the level of such expenditures in 1990.

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 were not material in the years 1988 and 1989, and approximated $15 million in 1990. Textron currently projects that expenditures for remediation will range between $15 million and $25 million for each of the years 1991 and 1992.

Both federal and state governments (and, to a lesser extent, third parties) continue to identify additional sites for remediation under environmental legislation. Based upon current experience, Textron anticipates that it will become involved in additional matters of this type. Textron cannot, however, reasonably estimate at this time the overall costs of remedial actions, including those already identified and additional similar actions beyond 1992, because of (a) uncertainties about the nature of environmental regulations being promulgated and the application of those regulations, (b) the unavailability of information about the number of additional sites at which Textron may be identified as a potentially responsible party, (c) the level of cleanup that may be required at specific sites and choices concerning the technologies to be applied in corrective actions, (d) the number of contributors to the costs of remediation at specific sites, and (e) the time periods over which remediation may occur.

Based upon the information currently available, Textron believes it has made adequate provision for costs associated with known remediation efforts, in accordance with generally accepted accounting principles. Despite the uncertainty concerning the overall costs of remedial actions after 1992, it is not currently anticipated that such costs will have a material adverse effect on the liquidity or financial condition of Textron.

As part of managing its interest rate exposure on certain of its variable rate borrowings, Textron has entered into interest rate exchange agreements which mitigate its exposure to increases in interest rates on such borrowings. Textron has also sold interest rate swaptions which give the counterparties the right to have Textron make periodic fixed payments in exchange for periodic variable payments.

In early 1990, Textron terminated seven interest rate exchange agreements covering $250 million of variable interest rate borrowings. As part of its plan to replace such agreements with new agreements with longer average lives, Textron entered into five interest rate exchange agreements covering $200 million of borrowings. Also in 1990, Textron sold swaptions covering $150 million of borrowings and counterparties exercised swaptions covering $125 million of borrowings. At December 29, 1990, interest rate exchange agreements, including those entered into through exercised swaptions, had the combined effect of fixing the rate of interest at approximately 9.02% on $381.4 million of Textron's variable rate borrowings. Such agreements expire through 2004. Swaptions outstanding at December 29, 1990, covering $75 million of variable rate borrowings, may be exercised by the counterparties through November 4, 1991.

Textron has also entered into interest rate cap agreements, expiring in 1992, which had the effect of capping Textron's effective interest cost at approximately 9.88% on $150 million of variable rate borrowings at December 29, 1990. Textron's interest rate caps enable it to limit its exposure to increasing interest rates by providing for payments to Textron in the event that interest rates exceed specified levels.

In 1989, Textron announced it may purchase up to an aggregate of five million of its common shares in the open market or otherwise. In December 1990, Textron announced that it may purchase up to an additional five million of its common shares from time to time in the open market or otherwise. As of December 29, 1990, 4,423,500 shares had been purchased for an aggregate cost of $98.6 million. Such purchases included purchases (aggregating $65.0 million) made by the Paul Revere Insurance Group and Avco Financial Services, Inc. (AFS), that have been accounted for in the Textron Parent Company Borrowing Group's balance sheet as purchases of stock for the Group's treasury and as dividends (special distributions) from the finance and insurance subsidiaries. In 1989, the Textron Savings Plan purchased from Textron 3,652,969 shares of Textron common stock, which Textron had held in its treasury.

Textron had $318.5 million available at December 29, 1990 for the issuance of unsecured debt securities under its shelf registration statement with the Securities and Exchange Commission. In 1990, Textron reduced its $3.6 billion bank credit agreement to $1.5 billion, as bank borrowing requirements beyond such level are not currently anticipated. Textron also had confirmed bank lines of credit of $77 million at December 29, 1990. Credit facilities not used or reserved as support for commercial paper or bank borrowings were $878 million at December 29, 1990.

Management believes that the Textron Parent Company Borrowing Group will continue to have adequate access to credit markets and that its credit facilities and cash flow from operations — including dividends received from Textron's finance and insurance operations — will continue to be more than sufficient to meet its operating needs and to finance anticipated growth.

Finance and insurance subsidiaries

This group includes AFS, consisting of Avco Financial Services Group and Avco Insurance Services (AIS), Textron Financial Corporation (TFC) and the Paul Revere Insurance Group. The insurance operations have historically generated positive cash flows sufficient to preclude the need for borrowings. Information about the cash flows of this group for each of the three years in the period ended December 31, 1990 is set forth in the Group's statement of cash flows included in Note 17 (page 60) to the consolidated financial statements.

The amount of the net assets of Textron's finance and insurance subsidiaries available for cash dividends and other payments to the Textron Parent Company Borrowing Group is restricted by the terms of lending agreements and insurance statutory requirements. The finance and insurance subsidiaries paid dividends of $128.9 million (excluding the $65.0 million for purchases of Textron common stock by the Paul Revere Insurance Group and AFS), $54.0 million and $34.8 million to the Textron Parent Company Borrowing Group in 1990, 1989 and 1988, respectively.

AFS and TFC each utilize a broad base of financial sources for their respective liquidity and capital requirements. Cash is provided from both operations and sev-

eral different sources of borrowings, including unsecured borrowings under bank lines of credit, the issuance of commercial paper and sales of medium- and long-term debt in the U.S. and foreign financial markets. During 1990, the net proceeds from medium- and long-term financing sources totaled $1.2 billion; debt increased by $657.6 million in 1990, due principally to growth in receivables. AFS had $304.2 million available at December 31, 1990 for the issuance of unsecured debt securities under shelf registration statements with the Securities and Exchange Commission.

AFS and TFC have interest rate exchange agreements, which expire through 1999, which had the effect of fixing the rate of interest at approximately 10.24% on $772.0 million of variable rate borrowings at December 31, 1990. In addition, AFS has certain agreements, expiring through 1993, whereby it will receive payments if interest rates exceed specified levels and will make payments if interest rates decline below specified levels, with respect to approximately $160.2 million of borrowings at December 31, 1990. By utilizing medium- and long-term fixed rate financing, as well as interest rate agreements such as interest rate exchange agreements, Textron's finance subsidiaries have a ratio of variable rate debt to total debt of 35% at December 31, 1990.

For liquidity purposes, AFS and TFC have a policy of maintaining sufficient unused bank lines of credit to support their outstanding commercial paper. Lines of credit not used or reserved as support for commercial paper and bank borrowings amounted to $1.1 billion at December 31, 1990.

Textron's finance and insurance subsidiaries have substantial amounts of investments and finance receivables backed up or secured by real estate. AFS has residential real estate loans outstanding of $1.8 billion at December 31, 1990, which are secured primarily by first and second mortgages on single family homes, and average $22 thousand in outstanding principal balance. Such loans are geographically dispersed among many customers and the loan amounts are limited to a maximum of 85% of the appraised market value at the time of loan origination, although most loans are made at significantly lower loan to value ratios. TFC has commercial real estate loans and leveraged leases of real estate aggregating $444.2 million and $124.2 million, respectively, at December 31, 1990. In addition, Textron's insurance subsidiaries have $235.1 million of first mortgages on commercial real estate at December 31, 1990. Commercial real estate lending and leveraged lease financing activities of Textron's finance and insurance subsidiaries are geographically dispersed and are not characterized by concentration of credit risk in any particular industry or class of customer. Commercial real estate lending criteria are conservative, and, accordingly, such loans are generally made at a 75% loan to value ratio on established properties with sufficient cash flows to meet debt service requirements. Textron's insurance subsidiaries' investments also include mortgage-backed securities at an amortized cost of $595.8 million, a substantial portion of which is guaranteed by the U.S. Government or U.S. Government agencies.

Textron believes it has made adequate provision for nonperforming real estate loans and that the estimated market value of substantially all of the properties securing the respective loans exceeds the outstanding balances of such loans, despite the general decline in real estate values during 1990.

Textron also has significant investments in debt securities. A substantial portion of these securities are in high quality, investment grade assets. Investments in debt securities are generally held until maturity.

For further information about investments and collateral for finance receivables, see Note 2, "Investments," and Note 3, "Finance Receivables," to the consolidated financial statements.

For further information about the debt and credit facilities of the Textron Parent Company Borrowing Group and the finance and insurance subsidiaries, see Note 8, "Debt and Credit Facilities," to the consolidated financial statements.

Results of Operations
1990 vs. 1989

Textron's net income in 1990 was $283.0 million ($3.18 per share), compared with $259.2 million ($2.91 per share) in 1989 after an extraordinary loss of $9.5 million ($.11 per share) arising from an interim arbitration ruling relating to Bell Helicopter's coproduction agreement with the Government of Iran, which was terminated in 1978. Revenues increased to $7.9 billion in 1990 from $7.4 billion in 1989.

Operating profits of Textron's six business segments aggregated $789.4 million in 1990, compared with $732.4 million in 1989. See the table under the caption "Revenues and Income by Business Segment" and the discussion of the results of each segment below.

The benefit of improved operating profits was partially offset by higher Textron Parent Company Borrowing Group interest expense and corporate expenses. The increase in corporate expenses reflects the effect of foreign exchange losses in 1990 compared to foreign exchange gains in 1989. Textron's effective income tax rate in 1990 of 38.4% was higher than the 1989 rate of 34.5% principally as a result of research and development tax credits taken in 1989.

1989 vs. 1988

Textron's income before extraordinary losses in 1989 was $268.7 million ($3.02 per share) compared with $272.1 million ($3.10 per share) in 1988. Revenues were $7.4 billion in 1989 compared with $7.3 billion in 1988. Operating profits aggregated $732.4 million in 1989, compared with $706.8 million in 1988.

Corporate expenses in 1989 reflect the favorable effect of foreign exchange gains. Higher interest expense reflects $22.3 million attributable to the debt incurred to finance the acquisition of Avdel and the effect of higher interest rates. Textron's 1989 results reflect a lower effec-

Revenues and Income by Business Segment

For a description of the businesses comprising each segment, see pages 63 to 65 of this report. For additional financial information by business segment, see Note 16.

Business Segments (In millions)	Revenues 1990	Revenues 1989	Revenues 1988	Income 1990	Income 1989	Income 1988
Aerospace Technology:						
Helicopters	**$1,195.4**	$1,078.5	$1,271.9	**$ 89.5**	$ 94.5	$ 81.5
Propulsion	**1,328.1**	1,331.2	1,308.4	**139.0**	132.5	148.2
Systems	**1,114.8**	971.0	1,028.0	**102.5**	80.6	71.0
	3,638.3	3,380.7	3,608.3	**331.0**	307.6	300.7
Commercial Products	**1,832.3**	1,891.8	1,734.4	**166.5**	164.6	177.6
Financial Services:						
Finance and related insurance	**1,307.0**	1,174.2	1,036.9	**189.0**	169.5	154.8
Other insurance	**1,137.4**	983.8	899.8	**102.9**	90.7	73.7
	2,444.4	2,158.0	1,936.7	**291.9**	260.2	228.5
	$7,915.0	$7,430.5	$7,279.4	**789.4**	732.4	706.8
Corporate expenses and other – net				**(74.3)**	(68.6)	(71.1)
Interest expense – net				**(255.9)**	(253.5)	(202.4)
Income before income taxes				**$459.2**	$410.3	$433.3

Notes:
(i) Revenues by business segment exclude investment income of the Textron Parent Company Borrowing Group.
(ii) Income of the Commercial Products segment in 1990 includes cash dividends received from Avdel plc of $7.3 million.
(iii) Income of the Finance and related insurance segment is net of interest expense.
(iv) Income of the Financial Services segments includes net pre-tax capital gains of $3 million in 1990, $8 million in 1989 and $11 million in 1988, principally in the Other insurance segment.
(v) Revenues between segments were approximately 1% of total revenues in each year.

Backlog

(Unaudited)

(In millions)	December 29, 1990	December 30, 1989
Government:		
Helicopters	**$ 788.0**	$ 888.0
Propulsion	**1,315.5**	717.0
Systems	**1,145.1**	1,285.3
Commercial Products	**1.0**	.7
	3,249.6	2,891.0
Commercial:		
Helicopters	**686.1**	524.2
Propulsion	**876.1**	840.2
Systems	**550.2**	704.7
Commercial Products	**226.3**	228.4
	2,338.7	2,297.5
	$5,588.3	$5,188.5

Results of Operations (continued)
1989 vs. 1988

tive income tax rate of 34.5% compared with 37.2% in 1988, due principally to research and development tax credits. Earnings per share for 1989 reflect an increased average number of shares outstanding over the prior year.

Net income in 1989 was $259.2 million ($2.91 per share) after an extraordinary loss of $9.5 million ($.11 per share). Net income in 1988 was $234.4 million ($2.67 per share), after extraordinary losses aggregating $37.7 million ($.43 per share) resulting from (a) a ruling by arbitrators in 1988 relative to insurance fronting programs in which one of the insurance subsidiaries of AFS participated with other insurance companies, which programs were discontinued prior to December 31, 1985 ($28.0 million, or $.32 per share), and (b) the early redemption of approximately $130 million of high interest rate debt ($9.7 million, or $.11 per share).

Aerospace Technology
1990 vs. 1989

The Aerospace Technology sector reported revenues of $3.6 billion in 1990, $257.6 million higher than the 1989 level, while income increased $23.4 million. The higher income was due to improved performances in the Propulsion and Systems segments, the benefit of which was partially offset by lower income in the Helicopters segment.

Bell Helicopter's revenues increased in its U.S. Government business due principally to higher sales of helicopters and spare parts, partially offset by a decrease in the level of effort required on the Bell-Boeing V-22 TiltRotor aircraft full scale development (FSD) program. Revenues increased in its non-U.S. Government business as a result of higher helicopter and spare parts sales, partially offset by lower volume on a major international contract on which shipments resumed in the fourth quarter of 1990, in accordance with contractual terms, after completion of the earlier phase in the third quarter of 1989. Income declined due to the effect of lower volume on this major international contract, partially offset by the increase in income from higher revenues on other contracts and a reduced provision for cost increases on the V-22 program — approximately $40 million in 1990 compared with approximately $50 million in 1989.

In 1986, the Bell-Boeing team was awarded the V-22 FSD contract at a target price of $1.729 billion and a ceiling price of $1.826 billion. Funding presently obligated to the contract by the U.S. Government is $1.747 billion. In early 1989, uncertainty arose as to the continuation of funding for the V-22 FSD contract when the Administration proposed to cancel the program and eliminate all funding from the defense budget for fiscal year 1990. Congress, however, ultimately approved continued FSD funding for fiscal year 1990. The Administration's proposed fiscal year 1991 defense budget again excluded a request for continued funding of the program; however, Congress subsequently approved both continued FSD funding and funding to initiate the production effort. The Administration's proposed fiscal year 1992 defense budget does not include a request for continued funding of the V-22 program; however, Bell-Boeing will continue its efforts to keep the FSD effort funded and to secure a production contract. While in the long term Bell would lose the benefit of production of V-22 aircraft if the production program were canceled, Textron believes that termination of the V-22 program would not have a material adverse effect on its income or cash flows in the shorter term.

Textron believes it has made adequate provision for anticipated losses on the V-22 development program. Although Textron believes that the cost estimates for the V-22 program are reasonable, such estimates remain subject to the uncertainties inherent in all large scale fixed-price development contracts.

Bell will continue to pursue other development and production opportunities for TiltRotor technology, as well as other opportunities that may arise in the rotary aircraft markets. The likelihood of success in these efforts cannot be determined at the present time.

The Propulsion segment's income increased $6.5 million, principally at Textron Lycoming, while revenues decreased $3.1 million. Contributing to record income at Lycoming were (a) increased deliveries of commercial engines, (b) an increased level of customer support operations and (c) a favorable change in product mix within its U.S. Government business, the benefit of which overcame the effects of a decrease in military spares sales. Partially offsetting these favorable effects were (a) reduced deliveries of piston engines in the general aviation market, principally due to a ten week work stoppage, and (b) higher losses in the LT101 turbine engine business attributable to lower sales, continuing high engineering costs related to improving engine reliability and an increased level of warranty claims. The aggregate income of the other Propulsion divisions approximated the 1989 level on slightly higher revenues. The benefit of a change in product mix from military to commercial programs was offset by a provision for the estimated cost of closing an Airfoil Textron plant.

Congress has authorized and appropriated funding for additional M1A1 and M1A2 Abrams tank production and the U.S. Army has awarded Textron Lycoming contract modifications which increase the total value of the contract for tank engines to over $1 billion. In addition to the base quantities, the contracts provide options to increase production in 1992, 1993 and 1994 for additional U.S. Army requirements and for future foreign military sales. This contract assures stable production of the engines through 1994 at economic production rates and provides a level of production which improves the engines' competitiveness in the international market.

The Systems segment's revenues increased $143.8 million and income increased $21.9 million as higher revenues and improved contract performance at Textron Aerostructures, Textron Defense Systems and Textron Marine Systems were partially offset by lower sales and provisions for restructuring at Bell Aerospace Textron and Cadillac Gage Textron. Textron Aerostructures' revenues nearly doubled and income increased substantially, principally as a result of (a) the completion of milestones related to prototype units and tooling and the shipment of the first production units of wing components for the Airbus A330/A340 aircraft programs, (b) increased deliveries and improved contract performance on the C-130 military aircraft empennage program, and (c) the completion of contractual negotiations for the nonrecurring development and tooling portions of a program for components of the Titan IV missile, partially offset by a provision for cost increases on the C-17 military aircraft wing component program. Textron Defense Systems' revenues increased principally due to increased revenues on its sensor fuzed weapon program, while its income increased significantly due to higher revenues and improved contract performance, which in 1989 reflected significant provisions for cost increases on fixed-price contracts. Textron Marine Systems' income increased significantly as a result of increased revenues on its LCAC landing craft program. Bell Aerospace Textron's revenues decreased due to the completion in 1989 of a gravity sensor system development and production contract and favorable pricing adjustments in 1989, partially offset by increased volume on aircraft landing systems in 1990. Its income declined as a result of lower revenues, additional provisions for cost increases on fixed-price development contracts and a provision related to the estimated cost of integrating these operations with Textron Defense Systems. Cadillac Gage's revenues and income declined significantly as a result of the completion of deliveries of Stingray tanks under a major international contract in the first quarter of 1990.

Defense expenditures are expected to decline in the next several years as a result of continuing pressures to reduce federal outlays, notwithstanding current events in the Persian Gulf. Defense industry profits also continue to be negatively impacted by procurement trends experienced in recent years, including the effects of increased competition requiring significant contractor investment, increased contractor financing of tooling and special equipment, and higher levels of nonrecoverable costs.

Textron has a diversified presence in both the commercial and government aerospace markets, and is focusing its resources where it has technological or other competitive advantages. Accordingly, the results of Textron's Aerospace Technology sector are not expected to decline in 1991 as the benefits of a strong U.S. and international commercial aerospace market and Textron's diversification within its U.S. Government business should tend to offset the effects of the potential decline in overall U.S. Government spending for defense.

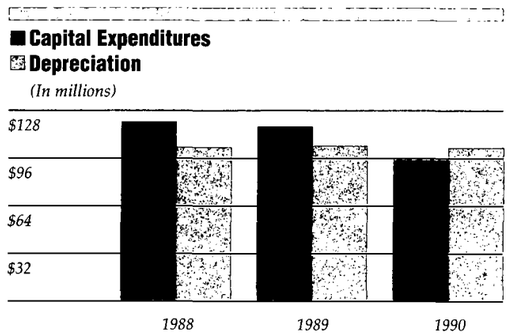
1989 vs. 1988

The Aerospace Technology sector reported revenues of $3.4 billion in 1989, $227.6 million lower than the 1988 level, while income increased slightly to $307.6 million. The higher income was due to improved performances in the Helicopters and Systems segments, the benefit of which was partially offset by lower income in the Propulsion segment.

Bell Helicopter's revenues declined by $193.4 million in 1989, due principally to lower U.S. military sales, reflecting a decreased level of effort on the Bell-Boeing V-22 TiltRotor aircraft FSD program, and lower commercial medium ship sales. Bell's income increased $13.0 million largely as a result of a more favorable mix of sales in its non-U.S. Government business, partially offset by an increase in the provision for cost increases on the V-22 program — approximately $50 million in 1989 compared with $25 million in 1988.

The Propulsion segment's revenues increased $22.8 million in 1989 principally due to increased volume at Textron Lycoming, which experienced a seven week work stoppage in 1988, while income declined $15.7 million. Lycoming's income declined as the effects of (a) a cumulative adjustment recorded to reflect a reduction in the estimated profit margin on the multi-year gas turbine engine contract for the M 1 Abrams tank, (b) increased product development and product improvement costs, and (c) a reduced level of overhaul sales and reduced margins on military spares were only partially offset by the benefit of increased engine deliveries. Income declined at certain other divisions due principally to lower military sales and lower margins on commercial programs as a result of a change in product mix from mature programs to new programs.

The Systems segment's revenues declined $57.0 million due principally to the completion of Textron Aerostructures' C-5B wing program in 1988, while income increased $9.6 million. Textron Aerostructures' income increased as the benefit of a cumulative adjustment recorded to reflect an increase in the estimated profit margin on its major commercial program more than offset the effect of the significant decrease in revenues resulting from the completion of its C-5B wing program. Textron Marine Systems recorded a strong increase in income as a result of increased revenues on its LCAC landing craft program. Cadillac Gage Textron's revenues increased as a result of deliveries of Stingray tanks under a major contract with an overseas customer. However, its income declined as lower volume and reduced margins on control systems products and reduced sales of armored combat vehicles more than offset the benefit of the higher level of Stingray revenues. Bell Aerospace Textron's revenues



decreased, due principally to a reduced volume of aircraft landing systems and the completion of a gravity sensor system development and production contract. Its income approximated last year's level, as the effects of lower revenues and additional provisions for cost increases on fixed-price development contracts were offset by favorable pricing adjustments. Textron Defense Systems' revenues and income approximated last year's levels, as results in both years reflected significant cost increases on certain fixed-price contracts. Provisions for cost increases on certain fixed-price contracts were significant to the Systems segment and were approximately at the same level in 1989 as they were in 1988.

Commercial Products

1990 vs. 1989

Revenues of $1.8 billion in 1990 were $59.5 million lower than in 1989, due principally to revenues related to a divested product line. Income increased $1.9 million despite slowdowns in the automotive and construction industries. Operating results in 1990 benefited from cash dividends of $7.3 million received from Avdel, while 1989 reflected a loss related to the divestiture of a product line.

Excluding revenues in 1989 related to the divested product line, revenues and income in the automotive business approximated the 1989 levels, despite sharply reduced production releases by the automotive manufacturers in the fourth quarter of 1990. Two automotive divisions reported income gains as a result of broader market penetration of Textron's instrument panel and interior door panel products and reduced start-up costs on new programs and processes. While the aggregate income of the remaining automotive divisions was lower than the 1989 level, margins were generally maintained due to the benefit of cost reduction programs.

Revenues and income in the fasteners business declined slightly as the effects of the slowdowns in the automotive and construction industries were only partially offset by an increased volume of commercial aerospace fastener products and the avoidance of one-time costs incurred in 1989 from implementing improved systems at one fastener division.

Revenues increased slightly in the outdoor products business due to higher sales of golf cars and turf maintenance equipment products, partially offset by lower sales of construction equipment attributable to softness in that market. Income increased slightly as the absence of significant warranty costs incurred in 1989 at one division and the benefit from the higher sales of golf cars and turf maintenance equipment products were substantially offset by a significant decrease in income at another division, due primarily to lower sales of construction equipment.

Revenues and income decreased significantly in the machine tool business, reflecting a continuing low level of orders from the "Big Three" U.S. automotive companies. Revenues and income in the contractor tool business approximated the 1989 levels as a result of aggressive marketing programs, the benefit of which was offset by the continuing effects of the soft market conditions in the construction industry.

The current slowdown in the automotive industry will adversely affect the results of Textron's Commercial Products sector in the first quarter of 1991. All divisions with automotive customers have implemented contingency plans to minimize the impact on income of reduced customer requirements for automotive components. The full year 1991 results are difficult to forecast due to uncertainty as to the length of the automotive industry slowdown and the potentially disruptive effect of anticipated fluctuations in production schedules throughout the year.

1989 vs. 1988

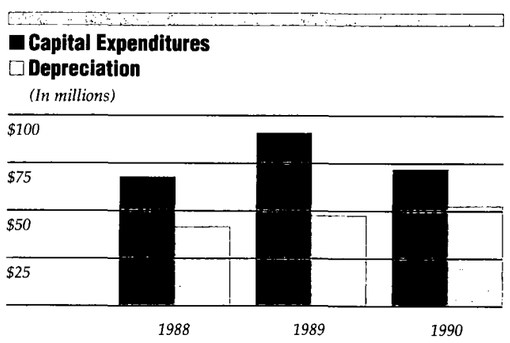
Revenues of $1.9 billion in 1989 were $157.4 million higher than the 1988 level, reflecting increases in virtually all businesses. However, income decreased $13.0 million to $164.6 million as a loss on the planned divestiture of a product line and lower margins in the automotive and fasteners businesses were only partially offset by improved results in the outdoor products, machine tool and contractor tool businesses.

Revenues in the automotive business increased over the 1988 level, principally as a result of broader market penetration of Textron's instrument panel and interior door panel products. This upward sales trend masked an underlying softness in the automotive supplier business which resulted in reduced volumes of automotive products at certain divisions. Despite higher overall revenues, automotive margins decreased due principally to significantly lower volume at one division, which was particularly affected by reduced customer production requirements, and increased start-up costs associated with new programs and processes.

Income in the fasteners business declined as significant costs related to implementing improved manufacturing processes at one division more than offset the benefit of increased revenues.

Revenues in the outdoor products business increased, due principally to market penetration in the consumer line, increased shipments of golf cars and the successful introduction of a new lightweight fairway mower. Income, although higher, was depressed by significant warranty costs at one division.

Revenues and income increased in the machine tool



business due principally to shipping orders booked in 1988 to the "Big Three" U.S. automotive companies, while revenues and income increased in the contractor tool business as a result of aggressive marketing programs, the benefit of which more than offset the effects of the soft market conditions in the construction industry.

Financial Services

1990 vs. 1989

Revenues of the Financial Services sector increased $286.4 million to a record $2.4 billion in 1990 and income increased $31.7 million to $291.9 million. The increase in income was due to improved performances in all businesses.

The Finance and related insurance segment's revenues increased $132.8 million and income increased $19.5 million. Income in AFS' consumer finance and related insurance business increased principally due to higher revenues attributable to a higher level of finance receivables outstanding, a decrease in the cost of borrowed funds and a decrease in the operating expense ratio, partially offset by higher insurance losses, higher credit losses and a decrease in investment income. With the softening in the economy, the ratio of net credit losses to average net receivables increased to 1.84% in 1990 from 1.76% in 1989. While charge-offs may increase in 1991 as a result of the recessionary economy, Textron does not presently expect a material effect on its 1991 results.

In TFC's commercial finance business, income increased due principally to higher revenues related to an increased level of receivables, an improved spread between receivable yields and the cost of borrowed funds, and a significant gain on the sale of an interest in an aircraft lease, the benefit of which was partially offset by higher charge-offs and a significant increase in loss provisions, principally attributable to its real estate loan portfolio.

The Other insurance segment's revenues increased $153.6 million in 1990 and income increased $12.2 million. The Paul Revere Insurance Group's revenues increased as a result of a new reinsurance agreement, effective January 1, 1990, with another individual disability income insurer, and higher levels of individual and group disability insurance premiums. Its income increased due to higher revenues, lower claim rates and improved persistency of individual disability income products and improved group medical and dental loss ratios, the benefit of which was partially offset by higher group long-term disability insurance claim rates and an increase in the investment valuation reserve. Income in AFS' nonfinance-related insurance business increased primarily due to an increase in premiums earned and a decrease in loss and operating expense ratios, partially offset by lower investment income.

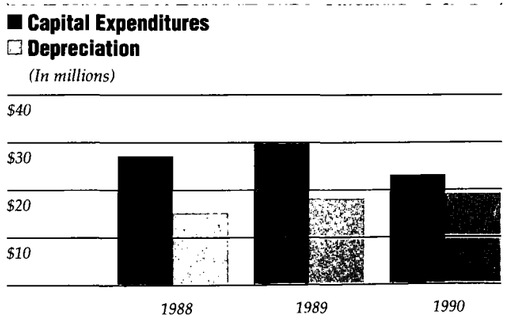
1989 vs. 1988

Revenues of the Financial Services sector increased $221.3 million to $2.2 billion in 1989 and income increased $31.7 million to $260.2 million. The increase in income was due to improved performances in all businesses.

The Finance and related insurance segment's revenues increased $137.3 million and income increased $14.7 million. AFS' consumer finance and related insurance business reported higher revenues and income as a result of an increase in the level of finance receivables outstanding, increased insurance premiums and higher investment income, partially offset by the effects of an increase in the cost of borrowed funds and lower yields on outstanding receivables, due principally to an increase in real estate loans. The ratio of net credit losses to average net receivables — 1.76% in 1989 compared to 1.77% in 1988 — remained at a low level.

In TFC's commercial finance business, revenues and income increased due to a higher level of receivables, principally attributable to growth in its real estate portfolio, an improved spread between receivable yields and interest rates on borrowed funds, and lower loss provisions.

The Other insurance segment's revenues increased $84.0 million in 1989 and income increased $17.0 million. The Paul Revere Insurance Group reported higher revenues mainly due to growth in individual disability insurance, attributable to an increased level of renewal business, and growth in group insurance products, attributable to increased business written and higher premium rates. Paul Revere's income increased due to higher revenues and lower claim rates in individual disability income insurance, partially offset by higher claim rates related to individual life and group medical products. AFS' nonfinance-related insurance business reported higher income due to an increase in premiums earned and a decrease in insurance losses and operating expenses, partially offset by lower investment income, due to a decrease in invested assets and lower capital gains.



For information about new accounting standards not required to be adopted by Textron until a future date, see Note 12, "Pension and Other Postemployment Benefits," and Note 13, "Income Taxes," to the consolidated financial statements.

Report of Management

The consolidated financial statements of Textron Inc. have been prepared by management and have been audited by Textron's independent auditors, Ernst & Young, whose report appears below. Management is responsible for the consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles and include amounts based on management's judgments.

Management is also responsible for maintaining internal accounting control systems designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded and that transactions are executed and recorded in accordance with established policies and procedures. Textron's systems are under continuing review and are supported by, among other things, business conduct and other written guidelines, an internal audit function and the selection and training of qualified personnel.

The Board of Directors is responsible for the Company's financial and accounting policies, practices and reports. Its Audit Committee, comprised of four outside directors, meets regularly with the independent auditors, representatives of management and the internal auditors to discuss and make inquiries into their activities. Both the independent auditors and the internal auditors have free access to the Audit Committee, with and without management representatives in attendance.

B. F. Dolan
Chairman and Chief Executive Officer

Dennis G. Little
Executive Vice President and Chief Financial Officer

February 7, 1991

Report of Independent Auditors

To the Board of Directors and Shareholders
Textron Inc.

We have audited the accompanying consolidated balance sheet of Textron Inc. as of December 29, 1990 and December 30, 1989, 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 29, 1990. 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 generally accepted auditing standards. 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 29, 1990 and December 30, 1989 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 29, 1990 in conformity with generally accepted accounting principles.

Ernst & Young

New York, New York
February 7, 1991

Textron Inc.
Consolidated Statement of Income

For each of the three years in the period ended December 29, 1990 (In millions except per share amounts)	**1990**	1989	1988
Revenues:			
Sales	**$5,470.6**	$5,272.5	$5,342.7
Interest, discount and service charges	**1,139.3**	1,007.8	891.7
Insurance premiums	**974.7**	836.3	750.8
Investment income (including net capital gains)	**333.0**	323.5	300.3
Total revenues	**7,917.6**	7,440.1	7,285.5
Costs and expenses:			
Cost of sales	**4,370.1**	4,202.8	4,307.9
Selling and administrative	**1,343.6**	1,252.5	1,161.2
Interest expense	**774.6**	733.1	601.9
Provision for losses on collection of finance receivables, less recoveries	**123.5**	89.6	85.0
Insurance benefits and increase in policy liabilities	**720.5**	636.0	589.3
Amortization of insurance policy acquisition costs	**126.1**	115.8	106.9
Total costs and expenses	**7,458.4**	7,029.8	6,852.2
Income before income taxes	**459.2**	410.3	433.3
Income taxes	**176.2**	141.6	161.2
Income before extraordinary losses	**283.0**	268.7	272.1
Extraordinary losses, net of income taxes:			
Arbitration concerning terminated coproduction agreement	**–**	(9.5)	–
Arbitration concerning former line of business	**–**	–	(28.0)
Early redemption of debt	**–**	–	(9.7)
Net income	**$ 283.0**	$ 259.2	$ 234.4
Income per common share:			
Income before extraordinary losses	**$ 3.18**	$ 3.02	$ 3.10
Extraordinary losses	**–**	(.11)	(.43)
Net income	**$ 3.18**	$ 2.91	$ 2.67

See summary of significant accounting policies and notes to consolidated financial statements.

Textron Inc.
Consolidated Balance Sheet

(Dollars in millions)	December 29, 1990	December 30, 1989
Assets		
Cash	$ 66.4	$ 29.3
Investments	3,348.1	3,079.6
Receivables – net:		
Finance	5,889.5	5,262.6
Commercial and U.S. Government	793.9	725.7
	6,683.4	5,988.3
Inventories	1,294.2	1,320.8
Property, plant and equipment – net	1,000.7	1,011.3
Unamortized insurance policy acquisition costs	566.1	509.8
Goodwill, less accumulated amortization of $205.3 and $167.2	1,045.2	1,083.3
Other assets	887.4	768.0
Total assets	$14,891.5	$13,790.4
Liabilities and shareholders' equity		
Liabilities		
Accounts payable	$ 521.9	$ 503.5
Income taxes (principally deferred)	328.7	350.6
Accrued liabilities	1,237.8	1,207.5
Insurance reserves and claims	2,896.4	2,564.4
Debt:		
Textron Parent Company Borrowing Group	1,925.4	1,956.0
Finance and insurance subsidiaries	5,318.9	4,661.3
	7,244.3	6,617.3
Total liabilities	12,229.1	11,243.3
Shareholders' equity		
Capital stock:		
Preferred stock (15,000,000 shares authorized):		
$2.08 Cumulative Convertible Preferred Stock, Series A (liquidation value $26.6)	12.5	13.5
$1.40 Convertible Preferred Dividend Stock, Series B (preferred only as to dividends)	8.1	8.2
Common stock, 12.5¢ par value (250,000,000 shares authorized; 90,621,000 and 90,511,000 shares issued)	11.3	11.3
Capital surplus	644.6	644.0
Retained earnings	2,183.8	1,989.2
Unearned compensation related to employee stock ownership plan	(73.1)	(93.0)
Other	19.9	23.3
	2,807.1	2,596.5
Less cost of treasury shares	144.7	49.4
Total shareholders' equity	2,662.4	2,547.1
Total liabilities and shareholders' equity	$14,891.5	$13,790.4

See summary of significant accounting policies and notes to consolidated financial statements.

Textron Inc.
Consolidated Statement of Cash Flows

For each of the three years in the period ended December 29, 1990 *(In millions)*	1990	1989	1988
Cash flows from operating activities:			
Net income	$ 283.0	$ 259.2	$ 234.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	220.0	214.3	204.7
Provision for losses on receivables	149.7	119.5	110.5
Deferred income taxes	(8.5)	50.7	28.7
Increase in insurance policy liabilities	264.9	224.0	206.8
Amortization of insurance policy acquisition costs	126.1	115.8	106.9
Gains on sales of investments	(2.5)	(8.4)	(11.0)
Loss on early redemption of debt	–	–	15.6
Changes in assets and liabilities:			
Decrease (increase) in commercial and U.S. Government receivables	(71.1)	78.3	(59.9)
Decrease (increase) in inventories	26.6	(89.1)	(21.3)
Additions to insurance policy acquisition costs	(182.4)	(182.5)	(171.3)
Increase in other assets	(73.9)	(91.0)	(53.7)
Increase (decrease) in accounts payable	26.3	(22.7)	82.6
Decrease in income taxes payable	(9.1)	(37.6)	(21.8)
Increase (decrease) in accrued liabilities	14.2	42.0	(71.5)
Increase in unearned insurance premiums and reserves for insurance losses and adjustment expenses	21.1	24.9	12.9
Other – net	(7.2)	(47.7)	9.9
Net cash provided by operating activities	777.2	649.7	602.5
Cash flows from investing activities:			
Purchases of investments	(779.1)	(950.9)	(840.1)
Proceeds from sales of investments	560.2	597.9	539.6
Finance receivables originated or purchased	(3,746.9)	(3,627.5)	(3,232.9)
Finance receivables repaid or sold	2,956.2	2,726.7	2,490.2
Collections on notes receivable	4.0	9.6	11.0
Capital expenditures	(191.2)	(240.2)	(217.8)
Proceeds from sales of property, plant and equipment	13.2	13.3	12.4
Proceeds from sales of discontinued operations	–	32.7	34.8
Net cash used by investing activities	(1,183.6)	(1,438.4)	(1,202.8)
Cash flows from financing activities:			
Increase in short-term debt	209.3	169.0	112.2
Proceeds from issuance of long-term debt	1,960.2	1,709.7	1,324.1
Principal payments on long-term debt	(1,551.2)	(1,078.0)	(687.4)
Receipts from interest sensitive insurance products	108.9	103.0	95.6
Return of account balances on interest sensitive insurance products	(97.2)	(111.9)	(79.2)
Sale of Textron common stock to employee stock ownership plan	–	100.0	–
Purchases of Textron common stock	(98.6)	–	(105.5)
Dividends paid	(88.4)	(89.4)	(87.1)
Net cash provided by financing activities	443.0	802.4	572.7
Effect of exchange rate changes on cash	.5	(.4)	1.1
Net increase (decrease) in cash	37.1	13.3	(26.5)
Cash at beginning of year	29.3	16.0	42.5
Cash at end of year	$ 66.4	$ 29.3	$ 16.0

See summary of significant accounting policies and notes to consolidated financial statements.

Textron Inc.
Consolidated Statement of Changes in Shareholders' Equity

For each of the three years in the period ended December 29, 1990 (Dollars in millions; shares in thousands)	Capital stock Preferred $2.08	Capital stock Preferred $1.40	Capital stock Common	Capital surplus	Retained earnings	Unearned compensation related to employee stock ownership plan	Pension liability adjustment	Currency translation adjustment	Marketable equity securities valuation adjustment	Cost of treasury shares	Shares outstanding* Preferred $2.08	Shares outstanding* Preferred $1.40	Shares outstanding* Common
Balance January 2, 1988	$17.6	$ 8.7	$11.2	$624.0	$1,672.1	$ –	$ –	$ 4.8	$ .3	$ 31.5	677	247	89,102
Conversion of preferred stock to common stock	(2.3)	(.3)	.1	2.5	–	–	–	–	–	–	(96)	(27)	260
Purchases of common stock	–	–	–	–	–	–	–	–	–	105.5	–	–	(4,443)
Exercise of options	–	–	–	(.2)	–	–	–	–	–	(.9)	–	–	37
Currency translation adjustment	–	–	–	–	–	–	–	34.8	–	–	–	–	–
Marketable equity securities valuation adjustment	–	–	–	–	–	–	–	–	.4	–	–	–	–
Net income	–	–	–	–	234.4	–	–	–	–	–	–	–	–
Dividends:													
Preferred stock	–	–	–	–	(1.6)	–	–	–	–	–	–	–	–
Common stock ($1.00 per share)	–	–	–	–	(85.5)	–	–	–	–	–	–	–	–
Balance December 31, 1988	15.3	8.4	11.3	626.3	1,819.4	–	–	39.6	.7	136.1	581	220	84,956
Conversion of preferred stock to common stock	(1.8)	(.2)	–	2.0	–	–	–	–	–	–	(78)	(15)	199
Sale of common stock to employee stock ownership plan (ESOP)	–	–	–	16.3	–	–	–	–	–	(83.7)	–	–	3,653
Issuance of common stock	–	–	–	.1	–	–	–	–	–	(.2)	–	–	13
Prepayment of future employee benefits (ESOP)	–	–	–	–	–	(100.0)	–	–	–	–	–	–	–
Shares allocated to participants' accounts in the ESOP as the ESOP loan is repaid	–	–	–	–	–	7.0	–	–	–	–	–	–	–
Exercise of options	–	–	–	(.7)	–	–	–	–	–	(2.8)	–	–	127
Currency translation adjustment	–	–	–	–	–	–	–	(17.2)	–	–	–	–	–
Marketable equity securities valuation adjustment	–	–	–	–	–	–	–	–	.2	–	–	–	–
Net income	–	–	–	–	259.2	–	–	–	–	–	–	–	–
Dividends:													
Preferred stock	–	–	–	–	(1.4)	–	–	–	–	–	–	–	–
Common stock ($1.00 per share)	–	–	–	–	(88.0)	–	–	–	–	–	–	–	–
Balance December 30, 1989	13.5	8.2	11.3	644.0	1,989.2	(93.0)	–	22.4	.9	49.4	503	205	88,948
Conversion of preferred stock to common stock	(1.0)	(.1)	–	1.1	–	–	–	–	–	–	(41)	(11)	110
Purchases of common stock	–	–	–	–	–	–	–	–	–	98.6	–	–	(4,424)
Shares allocated to participants' accounts in the ESOP as the ESOP loan is repaid	–	–	–	–	–	19.9	–	–	–	–	–	–	–
Pension liability adjustment	–	–	–	–	–	–	(12.3)	–	–	–	–	–	–
Exercise of options	–	–	–	(.5)	–	–	–	–	–	(3.3)	–	–	143
Currency translation adjustment	–	–	–	–	–	–	–	10.5	–	–	–	–	–
Marketable equity securities valuation adjustment	–	–	–	–	–	–	–	–	(1.6)	–	–	–	–
Net income	–	–	–	–	283.0	–	–	–	–	–	–	–	–
Dividends:													
Preferred stock	–	–	–	–	(1.3)	–	–	–	–	–	–	–	–
Common stock ($1.00 per share)	–	–	–	–	(87.1)	–	–	–	–	–	–	–	–
Balance December 29, 1990	$12.5	$ 8.1	$11.3	$644.6	$2,183.8	$ (73.1)**	$ (12.3)	$ 32.9	$ (.7)	$144.7	462	194	84,777***

**Shares issued at the end of 1987, 1988, 1989 and 1990 were as follows (in thousands): $2.08 Preferred – 746; 650; 572 and 531 shares, respectively; $1.40 Preferred – 734; 707; 692 and 681 shares, respectively; Common – 90,051; 90,312; 90,511 and 90,621 shares, respectively. Treasury shares at the end of 1987, 1988, 1989 and 1990 were as follows (in thousands): $2.08 Preferred – 69 shares at all such dates; $1.40 Preferred – 487 shares at all such dates; Common – 949; 5,356; 1,563 and 5,844 shares, respectively.*

***Represents prepayment of future employee benefits. See Note 8 to the consolidated financial statements.*

****Common shares outstanding assuming full conversion of outstanding preferred stock and exercise of stock options were 86,633 at December 29, 1990.*

See summary of significant accounting policies and notes to consolidated financial statements.

Textron Inc.
Summary of Significant Accounting Policies

Principles of consolidation
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 consists of two borrowing groups — the Textron Parent Company Borrowing Group (comprised of all entities of Textron other than its finance and insurance subsidiaries) and the finance and insurance subsidiaries. To enhance the reader's understanding of Textron's operations, Textron has presented in Note 17 separate financial information for each of its two borrowing groups.

Finance subsidiaries
For consumer finance receivables, interest income is recognized in revenues using the interest method so as to produce a constant rate of return over the terms of the receivables. Accrual of interest income is suspended for accounts which are contractually delinquent by more than three payments. Subsequent interest income on these accounts is recognized when collected. Direct loan origination costs are deferred and subsequently recognized as an adjustment to revenues over the contractual lives of the respective loans. Unamortized amounts are recognized in revenues when loans are sold or paid in full.

For commercial finance receivables, interest income is recognized in revenues using the interest method. Accrual of interest income is suspended for accounts which are contractually delinquent by more than three months, unless collection is not doubtful. In addition, detailed reviews of commercial loans result in earlier suspension if collection is doubtful. Accrual of interest is resumed when the loan becomes contractually current, and suspended interest income is recognized at that time. Direct loan origination fees and costs on commercial loans are deferred and amortized to revenue over the contractual lives of the respective loans using the interest method. Unamortized amounts are recognized in revenues when loans are sold or paid in full.

Finance receivables are written off when they are deemed uncollectible, but in any event all consumer loan accounts for which no payment has been received for six consecutive months (eight consecutive months prior to 1990) are written off. Commercial loans are written off when the related collateral is repossessed or when no payment has been received for six consecutive months, unless management deems the loans collectible. Provisions for losses on finance receivables are charged to income in such amounts as management believes to be adequate.

The net investment in finance leases consists of the sum of all minimum lease payments and estimated residual values, less unearned income. The net investment in leveraged leases consists of the sum of all lease payments (less the portion applicable to principal and interest on non-recourse debt) plus estimated residual values, less unearned income. Unearned income and investment tax credits are included in income over the terms of the related leases to produce a constant rate of return on the net investment.

Insurance subsidiaries

Credit Life, Credit Disability and Casualty Insurance
Unearned insurance premiums are deferred and subsequently recognized in revenues over the lives of the policies (a) on the actuarial method for decreasing term credit life insurance coverage and on the pro rata method for level term credit life coverage, (b) in relation to anticipated claims for credit disability insurance and (c) on the pro rata method for casualty insurance. The costs of acquiring new business (principally commissions and premium taxes) are deferred and subsequently amortized to expense in the same manner as the related premiums are taken into revenues. Anticipated investment income is considered in determining if a premium deficiency relating to short-term contracts exists.

Non-cancellable Disability Income, Life and Group Insurance and Investment Products
Non-cancellable disability income insurance premiums are recognized in revenues when received; non-interest sensitive life and group insurance premiums are recognized in revenues when due.

Certain costs related directly to acquiring new non-cancellable disability income and non-interest sensitive life business (principally commissions, selling, selection and policy issue expenses) are deferred and subsequently amortized to expense over the policies' premium paying periods in the proportion that annual premium revenues bear to total anticipated premium revenues. Amortization schedules are based on interest and withdrawal assumptions consistent with those used to compute liabilities for future policy benefits.

Liabilities for future policy benefits are computed by the net level premium method based upon estimated future investment yield and Textron's experience on mortality, morbidity, withdrawals and other assumptions which were appropriate at the time the policies were issued.

Revenues from investment products (primarily investment annuities) and interest sensitive life products consist of policy charges for the cost of insurance, policy administration and surrenders that are assessed against policyholders' account balances. Earnings on policyholders' funds are included in investment income. Benefit reserves represent policyholders' account balances. Expenses consist of benefit claims in excess of policyholders' account balances and interest credited to policyholders' account balances. The costs of acquiring new business (principally commissions, selling, selection and policy issue expenses) are deferred and subsequently amortized to expense over the lives of the policies in the proportion that the present value of expected gross profits each year bears to the total present value of expected gross profits.

Investments
Investments in marketable equity securities are carried at market value. Investments in debt securities are generally held until maturity and therefore are carried at amortized cost. Unrealized gains and losses, net of applicable income taxes, resulting from fluctuations in the aggregate market value of marketable equity securities are reflected as an adjustment to shareholders' equity. Net realized gains or losses resulting from sales of investments or from declines in market values of investments that are other than temporary are included in revenues. See Note 2 for further information about investments.

Inventories
Inventories are carried at the lower of cost or market. See Note 5 for further information about inventories.

Long-term contracts and programs
Sales under fixed-price contracts and programs are generally recorded as deliveries are made. Sales under cost reimbursement-type contracts are recorded as costs are incurred and fees are earned. Profits expected to be realized on long-term contracts and programs are based on estimates of total sales value and costs at completion, which estimates are reviewed and revised periodically throughout the lives of the contracts and programs. Adjustments to profits resulting from such revisions to contracts are recorded in the accounting period in which the revisions are made. Revisions to program profits are recorded over the balance of the programs. Estimated losses on contracts and programs are recorded when identified. See Notes 4 and 5 for further information about receivables and inventories related to long-term contracts and programs.

Property, plant and equipment
The cost of property, plant and equipment is being depreciated based on the estimated useful lives of the assets. See Note 6 for further information about property, plant and equipment.

Goodwill
Goodwill related to Textron's manufacturing operations is being amortized on the straight-line method principally over 40 years. Goodwill related to Textron's finance and insurance subsidiaries is being amortized on the straight-line method over 25 years.

Income per common share
Income per common share is based on average common shares outstanding during each year assuming full conversion of outstanding preferred stock and exercise of stock options. Such average shares were 89,014,000 in 1990; 88,999,000 in 1989 and 87,910,000 in 1988.

Translation of foreign currencies and foreign exchange transactions
Adjustments resulting from the translation of the financial statements of most of Textron's foreign operations are excluded from the determination of its income and accumulated in a separate component of shareholders' equity until the entity is sold or substantially liquidated.

Foreign exchange gains and losses included in income (which relate principally to transactions denominated in foreign currencies) in 1990, 1989 and 1988 were not material.

Textron enters into forward exchange contracts to minimize its currency exchange risk on foreign currency transactions. At December 29, 1990, Textron and its finance subsidiaries had outstanding $113.4 million in contracts to purchase/sell various currencies maturing through 1996. While Textron is exposed to credit loss for the periodic settlement of amounts due under such contracts in the event of nonperformance by the counterparties to the contracts, Textron does not anticipate nonperformance by any of those parties.

Gains and losses on forward exchange contracts which hedge exposures on firm foreign currency commitments to acquire assets are deferred and recognized as adjustments to the bases of those assets. Gains and losses on forward exchange contracts which hedge foreign currency assets or liabilities are recognized in income as incurred. Such amounts effectively offset gains and losses on the foreign currency assets or liabilities that are hedged.

Research and development
Company funded research and development expenditures are charged to expense as incurred. See Note 11 for further information about research and development.

Pension and other postemployment benefits
See Note 12 for information about Textron's accounting policies for pension and other postemployment benefits.

Interest rate agreements
As part of managing its interest rate exposure on certain of its borrowings, Textron is a party to various interest rate agreements, including interest rate exchange agreements, caps and collar agreements. While Textron is exposed to credit loss for the periodic settlement of amounts due under such agreements in the event of nonperformance by the counterparties to the interest rate agreements, Textron does not anticipate nonperformance by any of those parties.

Interest differentials to be paid or received are accrued and recognized in expense over the lives of the agreements.

Fees and expenses incurred to enter into any such agreements are deferred and subsequently amortized to expense over the terms of the agreements. Premiums paid to terminate any such agreements are deferred and subsequently amortized to expense over the original terms of the agreements. Upon early extinguishment of any of the underlying debt originally hedged, unamortized premiums are recognized as an adjustment to the gain or loss on such early extinguishment.

Income taxes
Income tax expense is calculated based on income before income taxes per the consolidated financial statements. Such expense differs from taxes currently payable because of timing differences in that certain income and expense items are reported in Textron's consolidated statement of income in years different from those in which they are reported in Textron's income tax returns. Investment tax credits are accounted for under the deferral method for leasing operations. See Note 13 for further information about income taxes.

Textron Inc.
Notes to Consolidated Financial Statements

1. Acquisition of Avdel plc

In early 1989, Textron acquired Avdel plc, a fastening systems manufacturing business based in England, the total cost of which approximated $250 million. Avdel had net assets with a historical book value of approximately $40 million at December 31, 1988. In March 1989, the U.S. Federal Trade Commission (FTC) obtained a preliminary injunction from the U.S. District Court for the District of Columbia enjoining Textron from assuming or exercising any form of direction or control over the assets or operations of Avdel until a determination has been made as to whether the acquisition of Avdel by Textron would, as the FTC asserts, restrict competition in violation of Section 5 of the FTC Act and Section 7 of the Clayton Act. As a result of the preliminary injunction and in accordance with generally accepted accounting principles, Textron is precluded from consolidating in its financial statements the results of operations of Avdel and is therefore carrying its investment in Avdel at cost.

A hearing before an FTC Administrative Law Judge, at which Textron is defending the acquisition of Avdel, began in Washington, D.C. in October 1990. A ruling by the Administrative Law Judge is not expected before mid-1991. The preliminary injunction of the U.S. District Court will remain in effect until there is a final resolution to the litigation.

While Textron's results of operations for 1990 and 1989 do not include the results of Avdel, (a) they do include interest expense of $21 million and $22 million, respectively, on the borrowings related to the purchase of Avdel and (b) they include in 1990 $7 million of cash dividends received from Avdel. Avdel's sales and earnings before income taxes in 1990 (unaudited) were $163 million and $22 million, respectively. Avdel's sales were $149 million in 1989 and its earnings before income taxes were $23 million. Such results do not reflect any purchase adjustments which would be required as a result of Textron's acquisition of Avdel, principally amortization of goodwill.

2. Investments

(In millions)	**December 29, 1990**	December 30, 1989
Debt securities:		
Commercial paper, at cost (approximates market)	**$ 276.3**	$ 152.6
Bonds, at amortized cost (estimated market: $2,635.5 and $2,558.4)	**2,682.7**	2,534.3
	2,959.0	2,686.9
Marketable equity securities, at market (cost: $35.9 and $40.1)	**35.3**	41.2
First mortgages on real estate, at cost	**235.1**	255.3
Policy loans and other investments, at cost	**118.7**	96.2
	$3,348.1	$3,079.6

The amortized cost and estimated market value of debt securities at December 29, 1990 are as follows:

(In millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
U.S. Treasury securities and obligations of other U.S. Government agencies and authorities	$ 38.2	$ 3.2	$ .4	$ 41.0
Obligations of states, municipalities and political subdivisions	282.0	3.3	9.9	275.4
Obligations of foreign governments and agencies	154.0	3.5	3.1	154.4
Public utility securities	168.4	4.3	5.1	167.6
Corporate securities	1,720.6	31.7	87.0	1,665.3
Mortgage-backed securities*	595.8	31.2	18.9	608.1
	$2,959.0	$77.2	$124.4	$2,911.8

A substantial portion of these securities is guaranteed by the U.S. Government or U.S. Government agencies.

The amortized cost and estimated market value of debt securities at December 29, 1990, by contractual maturity, are presented below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In millions)	Amortized cost	Estimated market value
Due in 1991	$ 381.8	$ 379.3
Due 1992 to 1995	820.6	810.6
Due 1996 to 2000	940.9	923.6
Due after 2000	815.7	798.3
	$2,959.0	$2,911.8

Approximately 89% of investment income in 1990, 86% in 1989 and 83% in 1988 was attributable to interest on commercial paper and bonds and 9% of investment income in 1990, 10% in 1989 and 11% in 1988 was attributable to income derived from first mortgages on real estate.

Proceeds from sales of debt securities (including securities that are sold at maturity; excluding commercial paper) during 1990 were $548.9 million. Gains and losses after income taxes realized on those sales were $4.3 million and $3.0 million, respectively. Net realized gains and losses after income taxes resulting from sales of marketable equity securities were not material in 1990, 1989 and 1988. The cost of securities sold was determined primarily on the specific identification method.

3. Finance Receivables

Contractual maturities of finance receivables outstanding at December 29, 1990 and total finance receivables outstanding at December 29, 1990 and December 30, 1989 were as follows:

(In millions)	Contractual maturities 1991	1992	After 1992	Less finance charges	Finance receivables outstanding 1990	1989
Consumer:						
Consumer loans	$1,270.8	$ 862.0	$ 667.7	$ 665.3	**$2,135.2**	$2,017.4
Real estate loans	549.0	454.3	2,565.2	1,785.2	**1,783.3**	1,399.6
Retail installment contracts	352.3	167.7	162.5	169.5	**513.0**	491.8
Other	156.9	104.0	55.6	205.1	**111.4**	98.7
	2,329.0	1,588.0	3,451.0	2,825.1	**4,542.9**	4,007.5
Commercial:						
Finance leases	173.0	127.9	349.3	168.7	**481.5**	529.4
Installment contracts	184.5	135.1	260.6	106.3	**473.9**	495.3
Real estate loans	80.0	94.5	312.1	42.4	**444.2**	309.7
Leveraged leases	5.6	6.1	480.0	274.3	**217.4**	204.1
Other	117.4	15.2	.9	.7	**132.8**	110.0
	560.5	378.8	1,402.9	592.4	**1,749.8**	1,648.5
	$2,889.5	$1,966.8	$4,853.9	$3,417.5	**6,292.7**	5,656.0
Less allowance for credit losses					**176.0***	182.6
Less finance-related insurance reserves and claims					**227.2**	210.8
					$5,889.5	$5,262.6

At December 29, 1990, Textron changed the maximum period a consumer loan could remain outstanding without receiving a payment before being written off from eight months to six months. The effect of this change was to reduce the allowance for credit losses (and finance receivables) by $33.9 million.

The maximum term over which consumer loans and retail installment contracts are written is 10 years, but approximately 90% of these loans are written with terms of four years or less. Consumer real estate loans are written with a maximum term of 15 years. Consumer loans are unsecured or secured by personal property and are in relatively small amounts. Retail installment contracts are secured by personal property. Consumer real estate loans are secured by real property and are limited to a maximum of 85% of the property's appraised market value.

Finance leases have initial terms written generally up to 12 years. Commercial installment contracts have initial periods generally ranging from one to 10 years. Commercial real estate loans have initial periods generally ranging from three to five years. Leveraged leases have initial terms written up to 31 years. Finance leases and installment contracts are secured by the financed equipment, the personal guarantee of the principals and, in some instances, by recourse arrangements with the originating vendor. Commercial real estate loans are secured by real property and are generally limited to a maximum of 85% of the property's appraised market value. Leveraged leases are secured by the ownership of the leased asset.

Accounts are often repaid or refinanced prior to contractual maturity. Accordingly, the foregoing tabulation should not be regarded as a forecast of future cash collections. During 1990 and 1989, cash collections of receivables (excluding finance charges) were $2.9 billion and $2.8 billion, respectively. The ratio of cash collections to average net receivables was approximately 52% and 56%, respectively. At December 29, 1990, the accrual of interest income was suspended on $112 million of finance receivables.

4. Long-term Contract Receivables

Long-term contract receivables at December 29, 1990 and December 30, 1989 aggregated $217 million and $231 million, respectively, including $68 million and $95 million, respectively, of unbilled costs and accrued profits on long-term contracts for which the contractual criteria for billing had not yet been met. An estimated $41 million and $52 million, respectively, of the unbilled costs are not expected to be collected within one year. There are no significant amounts included in receivables which represent balances billed but unpaid under contractual retainage provisions or significant amounts subject to uncertainty.

5. Inventories

(In millions)	**December 29, 1990**	December 30, 1989
Finished goods	**$ 240.0**	$ 245.9
Work in process	**1,232.9**	1,310.7
Raw materials	**184.3**	181.5
	1,657.2	1,738.1
Less progress payments	**363.0**	417.3
	$1,294.2	$1,320.8

Inventories aggregating $504 million at December 29, 1990 and $581 million at December 30, 1989 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 $123 million and $106 million higher at those respective dates.) The remaining inventories, other than those related to certain long-term contracts and programs, are valued generally by the first-in, first-out method.

Inventories related to long-term contracts and programs, net of progress payments, were $514 million at December 29, 1990 and $499 million at December 30, 1989. Such inventories include unamortized tooling, deferred learning costs and costs related to unnegotiated, customer-directed changes of approximately $121 million at December 29, 1990 and $150 million at December 30, 1989. Textron expects to recover such amounts on the related contracts and programs. As to government contracts, inventory costs also generally include general and administrative expenses ($41 million at December 29, 1990; $48 million at December 30, 1989). Costs attributed to units delivered are based generally upon the estimated average cost per unit at contract or program completion.

6. Property, Plant and Equipment

(In millions)	**December 29, 1990**	December 30, 1989
At cost:		
Land and buildings	**$ 507.6**	$ 474.8
Machinery and equipment	**1,616.8**	1,539.9
	2,124.4	2,014.7
Less accumulated depreciation	**1,123.7**	1,003.4
	$1,000.7	$1,011.3

Depreciation of property, plant and equipment was $179 million in 1990, $174 million in 1989 and $165 million in 1988, including depreciation using accelerated methods of $62 million, $64 million and $64 million, respectively.

7. Insurance Reserves and Claims

(In millions)	**December 29, 1990**	December 30, 1989
Future policy benefits and claim liabilities	**$1,673.9**	$1,427.5
Premium deposits and purchase payment funds	**1,045.8**	968.4
Unearned insurance premiums	**118.6**	100.8
Losses and adjustment expenses	**58.1**	67.7
	$2,896.4	$2,564.4

At December 29, 1990 and December 30, 1989, the liability for future policy benefits and claim liabilities included 71% and 68% for individual non-cancellable disability income, 16% and 18% for individual life, 9% and 9% for group products and 4% and 5% for individual investment products, respectively.

The laws of many states in which Textron's insurance subsidiaries are admitted require as a condition of admission that all insurance companies so admitted collectively guarantee to policyholders the solvency of other insurance companies admitted in the particular state. Textron's insurance subsidiaries have not been required to date to make any significant payments pursuant to such guarantees, and the amount of any such payments which may be required in the future cannot be predicted.

8. Debt and Credit Facilities

The Textron Parent Company Borrowing Group (comprised of all entities of Textron other than its finance and insurance subsidiaries) and Textron's finance and insurance subsidiaries are independent borrowers, and, accordingly, their debt is supported by their own respective assets and cash flows.

At December 29, 1990 and December 30, 1989, consolidated debt consisted of the following:

(In millions)	**December 29, 1990**	December 30, 1989
Textron Parent Company Borrowing Group:		
Senior:		
Borrowings under or supported by long-term credit facilities*	**$ 695.5**	$ 752.1
10.75% – 11% Notes; due 1991 to 1998	**116.1**	216.0
7.5% – 9.25% Debentures; due 1991 to 2016	**95.1**	95.1
Medium-Term Notes, Series A, B and C; due 1991 to 2010 (average rate – 9.7%)	**378.5**	351.9
Variable rate notes due 1997 to 2000 (average rate – 8.8%)	**150.0**	–
ESOP loan guarantee; due 1991 to 1995 (average rate – 7.5%)	**75.8**	91.2
Other notes (average rate – 9.8%)	**58.3**	72.3
Total senior	**1,569.3**	1,578.6
Subordinated:		
9.25% – 9.5% Subordinated Debentures; due 2016 to 2017	**246.2**	295.4
8.86% – 11.75% Subordinated Notes; due 1995 to 1999	**109.9**	82.0
Total subordinated	**356.1**	377.4
Total Textron Parent Company Borrowing Group	**1,925.4**	1,956.0
Finance and insurance subsidiaries:		
Senior:		
Borrowings under or supported by credit facilities**	**2,009.6**	1,780.7
7.94% – 9.94%; due 1991 to 2000	**1,322.6**	1,023.5
10% – 11.85%; due 1991 to 1996	**892.6**	954.6
12.25% – 13.94%; due 1991 to 1995	**546.4**	219.9
14% – 15.45%; due 1991 to 1994	**142.4**	294.8
Variable rate notes due 1991 to 1995	**160.0**	60.0
Total senior	**5,073.6**	4,333.5
Senior subordinated:		
8.45% – 8.8%; due 1991 to 1996	**199.8**	100.0
11.75% – 12.75%; due 1991 to 1994	**14.2**	63.2
Subordinated bonds due 1996 (effective yield 11.6%)	**31.3**	31.3
Total senior subordinated	**245.3**	194.5
Junior subordinated:		
Zero coupon notes due 1990 (effective yield 13.6%)	–	133.3
Total finance and insurance subsidiaries	**5,318.9**	4,661.3
Total debt	**$7,244.3**	$6,617.3

**The weighted average interest rates on these borrowings at December 29, 1990, December 30, 1989 and December 31, 1988 were 8.4%, 8.9% and 9.6%, respectively, and the weighted average interest rates for the years 1990, 1989 and 1988 were 8.4%, 9.4% and 7.9%, respectively.*

***The weighted average interest rates on these borrowings at December 29, 1990, December 30, 1989 and December 31, 1988 were 9.2%, 9.6% and 10.0%, respectively, and the weighted average interest rates for the years 1990, 1989 and 1988 were 9.2%, 10.0% and 8.3%, respectively.*

Required payments and sinking fund requirements during the next five years on debt outstanding at December 29, 1990 (excluding amounts that might become payable under credit facilities and revolving credit agreements) are as follows:

(In millions)	1991	1992	1993	1994	1995
Textron Parent Company Borrowing Group	$ 61.1	$140.1	$ 46.5	$ 93.5	$162.5
Finance and insurance subsidiaries	734.7	578.9	851.7	528.0	200.3
	$795.8	$719.0	$898.2	$621.5	$362.8

Cash payments for interest were as follows:

(In millions)	**1990**	1989	1988
Textron Parent Company Borrowing Group	**$243.8**	$218.6	$193.8
Finance and insurance subsidiaries	**507.5**	466.5	378.5
	$751.3	$685.1	$572.3

The Textron Parent Company Borrowing Group maintains credit facilities with various banks for borrowing funds on both a short- and a long-term basis.

It has lines of credit with certain banks, principally on an informal basis, totaling $77 million which are available to it and are also partially available ($34 million) to TFC.

In 1990, the Textron Parent Company Borrowing Group reduced its $3.6 billion bank credit agreement with 38 banks to $1.5 billion, as such reduced credit facilities will be more than sufficient to meet Textron's operating needs and to finance anticipated growth. This credit facility is available on a revolving basis until December 31, 1992, after which date any outstanding loans will be payable in eight equal semi-annual installments commencing six months thereafter.

Borrowings under this credit facility are available at the prime rate or at a surcharge over a certificate of deposit rate or the Eurodollar Rate. Borrowings may also be made at fixed rates of interest competitively offered by individual banks. If the Textron Parent Company Borrowing Group's public debt ratings were to fall below certain levels, additional interest would be payable based on the ratio of its debt to consolidated net worth. Fees range from 1/8 to 3/8 of 1% per annum depending upon the Textron Parent Company Borrowing Group's public debt ratings.

The Textron Parent Company Borrowing Group's credit agreement contains provisions relating to its maximum allowable debt levels and debt to consolidated net worth ratios. In addition, it is required to maintain a minimum fixed charge coverage ratio and a minimum level of shareholders' equity.

The Textron Parent Company Borrowing Group's credit facilities not used or reserved as support for outstanding commercial paper or bank borrowings at December 29, 1990 were $878 million.

In 1989, the Textron Savings Plan became an employee stock ownership plan. The Plan purchased from Textron 3,652,969 shares of Textron common stock (which Textron had held in its treasury) with the proceeds of a $100 million bank loan to the Plan, the repayment of which is guaranteed by Textron. Since Textron guaranteed the repayment by the Plan of the bank loan, the Textron Parent Company Borrowing Group was required to record the bank loan as debt with the offsetting charge (representing, effectively, Textron's prepayment of future employee benefits) recorded as a reduction of shareholders' equity. As the loan is repaid, shares of Textron common stock are released for allocation to the accounts of participants and the appropriate portion of the prepayment of future employee benefits is expensed.

Textron's finance subsidiaries — Avco Financial Services (AFS) and Textron Financial Corporation (TFC) — have lines of credit with various banks aggregating $2.5 billion, of which $1.5 billion relates to long-term loans. Lines of credit not used or reserved as support for commercial paper and bank borrowings amounted to $1.1 billion, of which $228 million related to long-term loans. In support of these lines, AFS and TFC generally pay fees and/or maintain compensating balances.

Under operating agreements between Textron and TFC, Textron has made available to TFC a line of credit of up to $60 million for junior subordinated borrowings at the prime rate and Textron has agreed to lend to TFC, interest free, an amount not to exceed the deferred income tax liability of Textron attributable to the manufacturing profit deferred on products manufactured by Textron and financed by TFC.

Textron has also agreed to cause TFC's pre-tax income available for fixed charges to be not less than 125% of its fixed charges. No related payments were required for 1990, 1989 or 1988.

Under interest rate exchange agreements, Textron and its finance subsidiaries make periodic fixed payments in exchange for periodic variable payments. Textron and its finance subsidiaries have entered into such agreements to mitigate their exposure to increases in interest rates on certain of their variable rate debt. These agreements had the effect of fixing the rate of interest on variable interest rate borrowings as follows:

Interest rate exchange agreements	**December 29, 1990**		December 30, 1989	
(In millions)	**Notional amount**	**Weighted average interest rate**	Notional amount	Weighted average interest rate
Textron Parent Company Borrowing Group (expire through 2004)	**$ 381.4**	**9.02%**	$313.1	9.51%
Finance subsidiaries (expire through 1999)	**772.0**	**10.24%**	407.8	10.50%
	$1,153.4	**9.84%**	$720.9	10.10%

In 1990, Textron sold interest rate swaptions covering $150 million of borrowings. These swaptions give the counterparties the right to have Textron make periodic fixed payments in exchange for periodic variable payments. Swaptions covering $125 million of borrowings were exercised by counterparties in 1990. Swaptions outstanding at December 29, 1990, covering $75 million of variable rate borrowings, may be exercised by the counterparties through November 4, 1991.

Textron and its finance subsidiaries have entered into interest rate cap agreements to limit their exposure to increasing interest rates by providing for payments to Textron in the event that interest rates exceed specified levels. These agreements had the effect of capping Textron's interest rates as follows:

Interest rate cap agreements	**December 29, 1990**		December 30, 1989	
(In millions)	**Notional amount**	**Weighted average interest rate**	Notional amount	Weighted average interest rate
Textron Parent Company Borrowing Group (expire through 1992)	**$150.0**	**9.88%**	$240.0	10.85%
Finance subsidiaries (expire through 1991)	**25.0**	**8.99%**	45.0	10.07%
	$175.0	**9.76%**	$285.0	10.73%

AFS has entered into certain agreements, which expire through 1993, whereby it will receive payments if interest rates exceed specified levels and will make payments if interest rates decline below specified levels, with respect to approximately $160 million and $147 million of borrowings at December 31, 1990 and 1989, respectively. In addition, AFS expects to replace fixed rate long-term debt maturing in 1991 and thereafter with variable rate short-term debt, and in contemplation of doing so has entered into interest rate exchange agreements which will have the effect of fixing the rate of interest at approximately 9.93% on $46 million of such variable rate debt.

In 1988, Textron purchased an aggregate of approximately $130 million of its high interest rate debt, resulting in an extraordinary loss, net of income taxes, of $9.7 million.

The amount of the net assets of Textron's finance and insurance subsidiaries available for cash dividends and other payments to the Textron Parent Company Borrowing Group is restricted by the terms of lending agreements and insurance statutory requirements. As of December 29, 1990, approximately $121 million of their net assets of $1.7 billion was available to be transferred to the Textron Parent Company Borrowing Group pursuant to these restrictions. The long-term notes, debentures and loan agreements of AFS and TFC also contain various restrictive provisions regarding additional debt, the creation of liens or guarantees and the making of investments.

9. Shareholders' Equity

Preferred stock

Each share of $2.08 Preferred Stock ($23.63 approximate stated value) is convertible into 2.2 shares of common stock and is redeemable by Textron at $50 per share. In the event of involuntary liquidation, preferred shareholders would be entitled to $50 per share and accrued dividends. In the event of voluntary liquidation, shareholders would be entitled to $50 per share.

Each share of $1.40 Preferred Dividend Stock ($11.82 approximate stated value) is convertible into 1.8 shares of common stock and is redeemable by Textron at $45 per share. In the event of liquidation, holders of each share of such stock would receive accrued dividends and thereafter share ratably on a converted basis with holders of common stock, subject to the prior rights of the $2.08 Preferred Stock.

Preferred stock purchase rights
One-half Preferred Stock Purchase Right (Right) is attached to each outstanding share of common stock. Each whole Right will entitle the holder to buy one unit of Series C Junior Participating Preferred Stock at an exercise price of $175, subject to adjustment. The Rights will be exercisable only if a person or group becomes the beneficial owner of 20% or more of Textron's common stock or commences a tender or exchange offer which would result in the offeror beneficially owning 30% or more of Textron's common stock or if the Board of Directors declares any person to be an "Adverse Person" (as defined). Upon the occurrence of certain defined events after the Rights become exercisable, each holder of a whole Right will be entitled to purchase Textron common stock having a value of twice the exercise price. Similarly, if Textron is involved in a merger or other business combination with another person in which its common stock is changed or converted, or if a sale of 50% or more of Textron's assets or earnings power is made to another person, each holder of a whole Right will be entitled to purchase common stock of such other person having a value of twice the exercise price. The Rights expire on March 20, 1996 and may generally be redeemed by Textron at a price of $.05 per whole Right at any time prior to ten business days (as such period may be extended) after a public announcement of the existence of a 20% holder. The Rights may not be redeemed if the independent directors have previously determined a person to be an Adverse Person.

Stock options and performance units
In April 1990, Textron's shareholders approved the adoption of the 1990 Long-Term Incentive Plan, which authorizes the granting of awards to key employees through December 31, 1994 in either or both of the following forms: (a) performance units and (b) options to purchase Textron common stock.

Performance unit awards entitle recipients to payments upon the attainment of performance targets established at the time such awards are granted or if otherwise approved by a committee of the Board of Directors. Such payments will be in cash, shares of common stock, or a combination thereof, as determined by such committee.

The Plan provides for both incentive stock options and non-qualified stock options and requires that such options be exercisable at a purchase price per share not less than the fair market value of Textron common stock at the date of grant and in the case of incentive stock options within ten years. The total number of shares of common stock for which options may be granted under the Plan is 5,000,000.

Option activity
Stock option transactions in 1990, 1989 and 1988 are summarized as follows:

	1990	1989	1988
Shares under option at beginning of year (at average prices of $23.99 in 1990; $23.59 in 1989 and $23.26 in 1988)	**3,390,117**	2,689,153	2,040,273
Options granted (at average prices of $25.86 in 1990; $24.25 in 1989 and $24.44 in 1988)	**949,275**	913,275	812,500
Options exercised (at average prices of $19.41 in 1990; $18.54 in 1989 and $17.08 in 1988)	**(144,440)***	(160,919)	(37,558)
Options canceled (at average prices of $25.52 in 1990; $24.90 in 1989 and $25.58 in 1988)	**(185,243)***	(51,392)	(126,062)
Shares under option at end of year (at average prices of $24.53 in 1990; $23.99 in 1989 and $23.59 in 1988)	**4,009,709**	3,390,117*	2,689,153*
Shares exercisable at end of year (at average prices of $23.97 in 1990; $23.79 in 1989 and $23.73 in 1988)	**2,623,464**	2,081,791	1,435,539

Granted under plans which expired prior to 1990.

Reserved shares
Shares of common stock reserved at December 29, 1990 were as follows:

$2.08 Cumulative Convertible Preferred Stock, Series A*	1,167,525
$1.40 Convertible Preferred Dividend Stock, Series B*	1,225,357
Options granted to employees	4,009,709
	6,402,591

Includes shares issuable upon conversion of shares of preferred stock held as treasury shares.

10. Leases

Rental expense for leased real estate, office locations, and machinery and equipment was approximately $118 million, $116 million and $113 million in 1990, 1989 and 1988, respectively. Future minimum rental commitments for all noncancellable operating leases in effect at December 29, 1990 approximated $73 million for 1991, $58 million for 1992, $46 million for 1993, $36 million for 1994, $22 million for 1995 and $133 million thereafter.

11. Research and Development

Textron performs research and development under both company initiated programs and contracts with others, primarily the U.S. Government. Company initiated programs include research and development for commercial products and independent research and development related to government products and services. A significant portion of the cost incurred for independent research and development is recoverable from the U.S. Government through overhead cost allowances.

Company funded research and development, as indicated below, includes amounts charged to income with respect to (a) company initiated programs and (b) cost sharing portions of, and any losses incurred on, customer initiated programs.

(In millions)	**1990**	1989	1988
Company funded	**$199**	$202	$168
Customer funded	**323**	343	457
Total research and development	**$522**	$545	$625

12. Pension and Other Postemployment Benefits

Textron and certain of its subsidiaries have a number of defined benefit pension plans covering substantially all of their employees. Benefits under salaried plans are based on salary and years of service, while benefits under hourly plans generally are based on negotiated amounts and years of service. Textron's funding policy is consistent with the funding requirements of federal law and regulations. Plan assets consist principally of corporate and government bonds and common stocks.

Textron's major pension plans provide, among other things and subject to certain conditions, that in the event of plan termination or withdrawal of assets without a termination within three years following a change in control (as defined in the plans), assets in excess of termination liabilities shall be applied to increase the benefits of participants who are active employees immediately before the change in control. Additionally, in the event of any plan merger, consolidation or transfer within such three-year period, the accrued benefit of each such affected participant and beneficiary must be vested, increased as provided by the terms of the plans, and satisfied by the purchase of a guaranteed annuity contract.

Pension cost in 1990, 1989 and 1988 includes the following components:

(In millions)	**1990**	1989	1988
Service cost – benefits earned during the year	**$ 57.5**	$ 52.2	$ 50.3
Interest cost on projected benefit obligation	**153.6**	147.7	131.4
Actual return on plan assets	**4.2**	(296.5)	(210.3)
Amortization of unrecognized transition net asset	**(15.8)**	(15.8)	(15.8)
Net amortization and deferral of actuarial gains/(losses)	**(188.2)**	119.6	49.8
Net pension cost	**$ 11.3**	$ 7.2	$ 5.4

The following table sets forth the funded status of Textron's pension plans at December 29, 1990 and December 30, 1989.

(In millions)	December 29, 1990 Assets exceed accumulated benefits	December 29, 1990 Accumulated benefits exceed assets	December 30, 1989 Assets exceed accumulated benefits	December 30, 1989 Accumulated benefits exceed assets
Actuarial present value of:				
Vested benefit obligation	**$1,059.2**	**$ 754.9**	$1,410.0	$298.5
Nonvested benefit obligation	**34.6**	**59.0**	71.6	30.7
Accumulated benefit obligation	**1,093.8**	**813.9**	1,481.6	329.2
Additional amounts related to projected pay increases	**220.7**	**6.1**	228.1	8.2
Projected benefit obligation	**1,314.5**	**820.0**	1,709.7	337.4
Plan assets at fair value	**1,649.6**	**681.1**	2,206.4	250.3
Plan assets in excess of/(less than) projected benefit obligation	**335.1**	**(138.9)**	496.7	(87.1)
Unrecognized net actuarial (gains)/losses	**3.3**	**17.4**	(153.6)	(8.6)
Unrecognized prior service cost	**8.2**	**63.3**	25.0	21.7
Unrecognized transition (net asset)/ net obligation	**(249.6)**	**11.3**	(283.9)	27.5
Adjustment required to recognize minimum liability	**–**	**(86.0)***	–	(35.0)
Net pension asset (liability) recognized on the consolidated balance sheet	**$ 97.0**	**$(132.9)**	$ 84.2	$ (81.5)

The adjustment required to recognize the minimum liability is equal to the excess of the accumulated benefit obligation over plan assets. A corresponding amount is recognized as either an intangible asset or a reduction of shareholders' equity. Because the intangible asset that is recognized may not exceed the amount of unrecognized prior service cost, the balance of $19.9 million, net of income tax benefits of $7.6 million, is reported as a separate reduction of shareholders' equity at December 29, 1990.

Major assumptions used in the accounting for the defined benefit pension plans are shown in the following table. Net pension cost is determined using these factors as of the end of the prior year; the funded status of the plans uses only the discount rate and rate of compensation increase as of the end of the current year.

	December 29, 1990	December 30, 1989	December 31, 1988	January 2, 1988
Discount rate	**8.25%**	8.25%	8.75%	9.00%
Weighted average long-term rate of compensation increase	**6.00%**	6.00%	6.25%	6.00%
Long-term rate of return on plan assets	**9.00%**	9.00%	9.00%	9.00%

Textron and certain of its subsidiaries also have several defined contribution savings and other retirement plans, including the employee stock ownership plan, covering both salaried and hourly employees. Eligible employees who participate in certain of these plans receive, within certain limits, matching Textron contributions. Costs relating to these plans, which are generally funded as accrued, amounted to approximately $38 million, $34 million and $35 million for 1990, 1989 and 1988, respectively, of which $25 million, $23 million and $25 million related to the employee stock ownership plan for 1990, 1989 and 1988, respectively.

In addition, Textron provides certain health care and life insurance benefits for certain retired employees. Eligibility for these benefits is restricted to the particular benefit plans at the particular locations offering retiree benefits. These benefits and similar benefits for active employees are administered by insurance companies or other carriers who determine premiums for insured plans and expected costs to be paid during the year under self-insured plans. Textron recognizes the cost of providing these benefits by expensing the premiums and costs as incurred. Such costs were approximately $236 million, $207 million and $195 million for 1990, 1989 and 1988, respectively. The cost of providing these benefits for approximately 15,800 retirees receiving such benefits is not separately identifiable from the costs of providing such benefits for the 54,000, 58,000 and 60,000 active employees in 1990, 1989 and 1988, respectively.

FAS 106 – Employers' Accounting for Postretirement Benefits Other Than Pensions

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (FAS 106), which is required to be implemented by Textron by the beginning of 1993.

When implemented, FAS 106 will require Textron to recognize the cost of providing postretirement benefits other than pensions using the accrual method of accounting. Currently, Textron expenses such costs as paid. In the year of adoption of FAS 106, the transition obligation may be recognized immediately or amortized over 20 years.

Textron is currently studying its postretirement benefit plans and the impact of FAS 106 on its consolidated financial statements. Although the study is not yet complete and is dependent on the benefit plans in place in the year of adoption, the impact of FAS 106 on Textron's consolidated financial statements is expected to be significant.

13. Income Taxes

Textron files a consolidated federal income tax return which includes all U.S. subsidiaries except the life insurance subsidiaries. Separate returns are filed for Textron's life insurance subsidiaries, as well as Textron's foreign subsidiaries.

Details of income before income taxes, income taxes and the deferred income tax effects of timing differences are summarized as follows:

(In millions)	1990	1989	1988
Income before income taxes:			
United States	**$337.9**	$304.1	$329.9
Foreign	**121.3**	106.2	103.4
Total	**$459.2**	$410.3	$433.3
Income taxes:			
Before extraordinary losses	**$176.2**	$141.6	$161.2
Extraordinary losses	**–**	(5.5)	(20.3)
Total	**$176.2**	$136.1	$140.9
Current:			
Federal	**$121.3**	$ 25.6	$ 42.6
State	**26.2**	29.2	27.7
Foreign	**37.2**	30.6	41.9
	184.7	85.4	112.2
Deferred:			
Federal	**(16.0)**	52.7	31.3
State	**2.9**	(2.0)	(1.5)
Foreign	**4.6**	–	(1.1)
	(8.5)	50.7	28.7
Total	**$176.2**	$136.1	$140.9
Deferred income tax effects of timing differences:			
Additional depreciation for tax purposes	**$ 3.6**	$ 8.4	$ 2.5
Inventory valuation and long-term contract amounts	**1.0**	7.9	(7.7)
Finance subsidiary transactions – principally leasing	**8.5**	27.0	28.6
Allowance for bad debts	**(11.4)**	(12.1)	(9.8)
Insurance policy acquisition costs	**15.9**	20.1	19.4
Liabilities for future policy benefits	**(5.4)**	2.8	(3.4)
Other – principally timing of expense deductions	**(20.7)**	(3.4)	(.9)
Total	**$ (8.5)**	$ 50.7	$ 28.7

Following is a reconciliation of the federal statutory income tax rate to the effective income tax rate as reflected in the consolidated statement of income:

	1990	1989	1988
Federal statutory income tax rate	**34.0%**	34.0%	34.0%
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal tax benefit	**4.2**	4.5	4.1
Amortization of goodwill	**2.8**	3.2	2.9
Foreign Sales Corporation benefit	**(1.5)**	(1.9)	(1.9)
Higher tax on foreign income	**1.5**	1.0	1.9
Nontaxable investment income	**(.8)**	(1.1)	(1.1)
Tax credits	**(.2)**	(1.8)	(.3)
Other – net	**(1.6)**	(3.4)	(2.4)
Effective income tax rate	**38.4%**	34.5%	37.2%

Cash payments for income taxes were $185 million, $100 million and $117 million in 1990, 1989 and 1988, respectively.

Deferred income taxes have not been provided for the undistributed earnings of foreign subsidiaries which aggregated approximately $257 million at December 29, 1990. Management's intention is to reinvest such undistributed earnings outside the United States for an indefinite period, except for distributions upon which incremental U.S. income taxes would not be material.

At December 29, 1990, consolidated shareholders' equity included $105 million of U.S. life insurance subsidiaries' policyholders' surplus for financial reporting purposes on which no income taxes have been provided. Under present circumstances it is not anticipated that any of these earnings will become taxable.

FAS 96 — Accounting for Income Taxes

In 1987, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (FAS 96), which is required to be implemented by Textron no later than the beginning of 1992. Adoption of FAS 96 may be made by either a restatement of prior years' financial statements or a cumulative effect charge to income in the year of adoption.

As originally issued, FAS 96 would require Textron to modify its income tax accounting so that deferred taxes are stated at prevailing rates. In addition, FAS 96 would establish more restrictive criteria for the recognition of deferred tax assets and would significantly modify the accounting for income taxes in purchase business combinations. However, the FASB is considering requests to amend FAS 96 so as to (a) permit the recognition of deferred tax assets in certain circumstances, (b) reduce the complexities of FAS 96 and (c) delay the implementation date of FAS 96.

Textron is continuing to study the impact of FAS 96 (including consideration of possible amendments to FAS 96) on its consolidated financial statements. Although the study is not yet complete, adoption of this statement as originally issued could possibly reduce shareholders' equity by an amount up to $150 million. The effect of certain amendments being considered by the FASB would likely be to reduce this impact, possibly significantly.

14. Arbitration

Arbitration concerning terminated coproduction agreement

Since 1979, Textron has been engaged in arbitration in Switzerland with the Government of Iran concerning conflicting claims and counterclaims arising out of a 1975 helicopter coproduction agreement between its Bell Helicopter Division and the Government of Iran. The contract was terminated in 1978 and the arbitration started in 1979. While both factual and legal issues remain outstanding, an interim decision of the arbitrator handed down in 1989 indicated that at the conclusion of the arbitration Bell will incur costs associated with the arbitration estimated to be not less than $15.0 million, which was reported in 1989 as an extraordinary loss, net of income taxes, of $9.5 million ($.11 per share). Management believes that such additional liabilities, as may result from final resolution of this matter, will not be material to Textron's financial condition.

Arbitration concerning former line of business

An insurance subsidiary of AFS participated in fronting programs with other insurance companies, which programs were discontinued prior to December 31, 1985. A dispute relating to one of these programs was heard by arbitrators in 1988 and, based on the arbitrators' subsequent rulings, AFS recorded an after-tax loss of $28.0 million ($.32 per Textron share) as an extraordinary item in 1988.

15. Contingencies

There are pending or threatened against Textron and its subsidiaries lawsuits and other proceedings, including the proceedings described in Notes 1 and 14, some of which allege violations of federal government procurement regulations, involve environmental matters, or are or purport to be class actions. Among these suits and proceedings are some which seek compensatory, treble or punitive damages in substantial amounts; fines, penalties or restitution; the cleanup of allegedly hazardous wastes; or, under federal government procurement regulations, could result in suspension or debarment of Textron or its subsidiaries from U.S. Government contracting for a period of time. These suits and proceedings are being defended or contested on behalf of Textron and its subsidiaries. On the basis of information presently available, Textron believes that any such liability or the impact of the application of relevant government regulations would not have a material effect on Textron's financial condition.

16. Selected Financial Information by Business Segment and Geographic Area

Presented below and on page 29 of this report is selected financial information by business segment and geographic area for Textron.

Selected Financial Information by Business Segment

For a description of the businesses comprising each segment, see pages 63 to 65 of this report.

Business Segments	Identifiable assets			Capital expenditures			Depreciation		
(In millions)	**1990**	1989	1988	**1990**	1989	1988	**1990**	1989	1988
Aerospace Technology:									
Helicopters	**$ 612**	$ 645	$ 632	**$ 24**	$ 31	$ 38	**$ 26**	$ 27	$ 27
Propulsion	**1,372**	1,292	1,310	**36**	49	39	**35**	36	36
Systems	**871**	850	855	**35**	37	43	**42**	41	40
	2,855	2,787	2,797	**95**	117	120	**103**	104	103
Commercial Products	**945**	959	930	**72**	91	68	**53**	48	42
Financial Services:									
Finance and related insurance	**6,506**	5,840	5,148	**16**	22	16	**14**	12	10
Other insurance	**4,069**	3,738	3,466	**7**	8	11	**5**	6	5
	10,575	9,578	8,614	**23**	30	27	**19**	18	15
Corporate	**537**	492	256	**1**	2	5	**4**	4	5
Eliminations	**(21)**	(26)	(43)	**–**	–	–	**–**	–	–
	$14,891	$13,790	$12,554	**$191**	$240	$220	**$179**	$174	$165

Selected Financial Information by Geographic Area

Geographic Areas	Revenues			Income		
(In millions)	**1990**	1989	1988	**1990**	1989	1988
Revenues and income by origin:						
United States	**$6,836**	$6,550	$6,543	**$ 666**	$ 628	$ 612
Canada	**692**	577	434	**68**	62	44
Asia/Pacific	**216**	171	173	**31**	27	33
Western Europe	**171**	133	129	**24**	15	18
	$7,915	$7,431	$7,279	**789**	732	707
Corporate expenses and other – net				**(74)**	(69)	(71)
Interest expense – net				**(256)**	(253)	(203)
Income before income taxes				**$ 459**	$ 410	$ 433

	Export sales		
Destination of U.S. exports:	**1990**	1989	1988
Western Europe	**$ 458**	$ 347	$ 329
Canada	**232**	213	155
Asia/Pacific	**225**	467	401
Middle East	**61**	69	145
South America	**38**	40	41
Other locations	**89**	74	56
	$ 1,103	$ 1,210	$ 1,127

	Identifiable assets		
Identifiable assets by location:	**1990**	1989	1988
United States	**$11,831**	$11,178	$10,303
Canada	**1,615**	1,401	1,286
Asia/Pacific	**514**	455	453
Western Europe	**450**	313	315
Corporate	**537**	492	256
Eliminations	**(56)**	(49)	(59)
	$14,891	$13,790	$12,554

Notes:

(i) Corporate assets in 1990 and 1989 include the investment in Avdel.

(ii) Revenues by geographic area exclude investment income of the Textron Parent Company Borrowing Group.

(iii) Revenues include sales to the U.S. Government of $1.9 billion, $1.7 billion and $2.1 billion in 1990, 1989 and 1988, respectively.

(iv) Revenues between geographic areas, predominantly revenues of U.S. divisions, were approximately 4%, 2% and 2% of total revenues in 1990, 1989 and 1988, respectively.

(v) Assets in foreign locations principally relate to the Financial Services segments.

17. Financial Information by Borrowing Group

Textron consists of two borrowing groups — the Textron Parent Company Borrowing Group and the finance and insurance subsidiaries.

This framework is designed to enhance the borrowing power of the total company by separating borrowing oriented units of a specialized business nature such as financial services.

The Textron Parent Company Borrowing Group is comprised of all entities of Textron other than its finance and insurance subsidiaries. The financial statements of this group as set forth below reflect Textron's investments in its finance and insurance subsidiaries on the equity basis. Its sources of cash flow include dividends paid by the finance and insurance subsidiaries, as well as cash generated by other operating units.

The finance and insurance subsidiaries finance their respective operations by borrowing from their own group of external creditors.

Financial Information for the Textron Parent Company Borrowing Group

Statement of Income

For each of the three years in the period ended December 29, 1990

(In millions)	**1990**	1989	1988
Revenues	**$5,473.2**	$5,282.1	$5,348.8
Costs and expenses:			
Cost of sales	**4,370.1**	4,202.8	4,307.9
Selling and administrative	**677.3**	666.1	627.6
Interest expense	**258.5**	263.1	208.5
Total costs and expenses	**5,305.9**	5,132.0	5,144.0
	167.3	150.1	204.8
Equity in pre-tax income of finance and insurance subsidiaries	**291.9**	260.2	228.5
Income before income taxes	**459.2**	410.3	433.3
Income taxes	**176.2**	141.6	161.2
Income before extraordinary losses	**283.0**	268.7	272.1
Extraordinary losses, net of income taxes	**–**	(9.5)	(37.7)
Net income	**$ 283.0**	$ 259.2	$ 234.4

Balance Sheet

(In millions)	**December 29, 1990**	December 30, 1989
Assets		
Cash	**$ 32.5**	$ 3.7
Receivables – net	**786.3**	720.8
Inventories	**1,294.2**	1,320.8
Investments in finance and insurance subsidiaries	**1,729.7**	1,731.7
Property, plant and equipment – net	**877.0**	895.4
Goodwill, less accumulated amortization of $91.7 and $72.2	**690.1**	709.6
Other assets	**608.6**	564.4
Total assets	**$6,018.4**	$5,946.4
Liabilities and shareholders' equity		
Accounts payable, income taxes and accrued liabilities	**$1,430.6**	$1,443.3
Debt	**1,925.4**	1,956.0
Shareholders' equity	**2,662.4**	2,547.1
Total liabilities and shareholders' equity	**$6,018.4**	$5,946.4

Financial Information for the Textron Parent Company Borrowing Group (continued)

Statement of Cash Flows

For each of the three years in the period ended December 29, 1990
(In millions)

	1990	1989	1988
Cash flows from operating activities:			
Net income	**$ 283.0**	$ 259.2	$ 234.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings of finance and insurance subsidiaries	**(59.0)***	(114.1)	(82.0)
Depreciation and amortization	**182.0**	178.6	171.4
Deferred income taxes	**(13.7)**	12.1	(.6)
Loss on early redemption of debt	**–**	–	15.6
Changes in assets and liabilities:			
Decrease (increase) in receivables	**(68.4)**	78.8	(53.6)
Decrease (increase) in inventories	**26.6**	(89.1)	(21.3)
Increase in other assets	**(30.2)**	(39.3)	(16.5)
Decrease in accounts payable, income taxes payable and accrued liabilities	**(31.5)**	(17.1)	(135.3)
Other – net	**25.8**	(7.9)	5.6
Net cash provided by operating activities	**314.6**	261.2	117.7
Cash flows from investing activities:			
Purchases of investments	**(1.9)**	(228.3)	(43.8)
Proceeds from sales of investments	**6.1**	40.4	1.6
Collections on notes receivable	**4.0**	9.6	11.0
Capital expenditures	**(168.5)**	(209.9)	(192.8)
Proceeds from sales of property, plant and equipment	**13.2**	13.3	12.4
Proceeds from sales of discontinued operations	**–**	32.7	34.8
Net cash used by investing activities	**(147.1)**	(342.2)	(176.8)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	**(.8)**	1.0	(.7)
Proceeds from issuance of long-term debt	**709.9**	682.7	581.5
Principal payments on long-term debt	**(726.0)**	(609.9)	(324.6)
Sale of Textron common stock to employee stock ownership plan	**–**	100.0	–
Capital contribution to finance subsidiary	**–**	(10.0)	–
Special distribution from finance and insurance subsidiaries	**65.0**	–	–
Purchases of Textron common stock	**(98.6)**	–	(105.5)
Dividends paid	**(88.4)**	(89.4)	(87.1)
Net cash provided (used) by financing activities	**(138.9)**	74.4	63.6
Effect of exchange rate changes on cash	**.2**	–	.2
Net increase (decrease) in cash	**28.8**	(6.6)	4.7
Cash at beginning of year	**3.7**	10.3	5.6
Cash at end of year	**$ 32.5**	$ 3.7	$ 10.3

**Net of an extraordinary dividend of $50.0 million.*

Financial Information for Textron's Finance and Insurance Subsidiaries

Statement of Income

For each of the three years ended December 31,
(In millions)

	1990	1989	1988
Revenues:			
Interest, discount and service charges	**$1,139.3**	$1,007.8	$ 891.7
Credit life, credit disability and casualty insurance premiums	**287.4**	248.5	223.2
Non-cancellable disability income, life and group insurance premiums	**687.3**	587.8	527.6
Investment income (including net capital gains)	**330.4**	313.9	294.2
Total revenues	**2,444.4**	2,158.0	1,936.7
Costs and expenses:			
Selling and administrative	**666.3**	586.4	533.6
Interest expense	**516.1**	470.0	393.4
Provision for losses on collection of finance receivables, less recoveries	**123.5**	89.6	85.0
Credit life, credit disability and casualty insurance losses and adjustment expenses, less recoveries	**115.8**	100.1	97.5
Death and other insurance benefits	**339.8**	311.9	285.0
Increase in insurance policy liabilities	**264.9**	224.0	206.8
Amortization of insurance policy acquisition costs	**126.1**	115.8	106.9
Total costs and expenses	**2,152.5**	1,897.8	1,708.2
Income before income taxes	**291.9**	260.2	228.5
Income taxes	**104.0**	92.1	83.7
Income before extraordinary loss	**187.9**	168.1	144.8
Extraordinary loss, net of income taxes	**–**	–	(28.0)
Net income	**$ 187.9**	$ 168.1	$ 116.8

Balance Sheet

(In millions)

	December 31, 1990	December 31, 1989
Assets		
Cash	**$ 33.9**	$ 25.6
Investments	**3,338.8**	3,064.2
Finance receivables – net	**5,958.4**	5,298.4
Property, plant and equipment – net	**103.4**	100.5
Unamortized insurance policy acquisition costs	**566.1**	509.8
Goodwill, less accumulated amortization of $113.6 and $95.0	**355.1**	373.7
Other assets	**288.1**	242.0
Total assets	**$10,643.8**	$9,614.2
Liabilities and equity		
Accounts payable, income taxes and accrued liabilities	**$ 698.8**	$ 656.8
Insurance reserves and claims	**2,896.4**	2,564.4
Debt	**5,318.9**	4,661.3
Equity	**1,729.7**	1,731.7
Total liabilities and equity	**$10,643.8**	$9,614.2

Notes:

(i) TFC derives a substantial portion of its business from financing the sale and lease of products manufactured and sold by Textron. In 1990, 1989 and 1988, TFC paid Textron $355.7 million, $308.9 million and $312.3 million, respectively, for the purchase of receivables. Under an operating agreement with Textron, TFC generally has recourse to Textron with respect to finance receivables and leases of products manufactured and sold by Textron. At December 31, 1990, finance receivables of $481.7 million ($410.2 million at December 31, 1989) were due from Textron or subject to recourse to Textron.

(ii) Approximately 72%, 72% and 77% of the credit life and credit disability insurance premiums earned and 20%, 24% and 24% of the casualty insurance premiums earned in 1990, 1989 and 1988, respectively, were related directly to AFS' consumer loan activities.

(iii) The outstanding indebtedness of the finance and insurance subsidiaries at December 31, 1990 and 1989 was as follows: AFS — $4.0 billion and $3.4 billion, respectively; TFC — $1.3 billion and $1.3 billion, respectively.

Financial Information for Textron's Finance and Insurance Subsidiaries (continued)

Statement of Cash Flows

For each of the three years ended December 31, (In millions)

	1990	1989	1988
Cash flows from operating activities:			
Net income	$ 187.9	$ 168.1	$ 116.8
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	38.0	35.7	33.3
Provision for losses on finance receivables	143.3	109.4	106.9
Deferred income taxes	5.2	38.6	29.3
Increase in insurance policy liabilities	264.9	224.0	206.8
Amortization of insurance policy acquisition costs	126.1	115.8	106.9
Gains on sales of investments	(2.5)	(8.4)	(11.0)
Changes in assets and liabilities:			
Additions to insurance policy acquisition costs	(182.4)	(182.5)	(171.3)
Increase in other assets	(20.7)	(51.7)	(5.7)
Increase (decrease) in accounts payable, income taxes payable and accrued liabilities	65.5	(17.5)	84.2
Increase in unearned insurance premiums and reserves for insurance losses and adjustment expenses	21.1	24.9	12.9
Other – net	(21.8)	(31.5)	9.7
Net cash provided by operating activities	624.6	424.9	518.8
Cash flows from investing activities:			
Purchases of investments	(777.2)	(722.6)	(796.3)
Proceeds from sales of investments	554.1	557.5	538.0
Finance receivables originated or purchased	(3,746.9)	(3,627.5)	(3,232.9)
Finance receivables repaid or sold	2,923.1	2,744.3	2,491.0
Capital expenditures	(22.7)	(30.3)	(25.0)
Net cash used by investing activities	(1,069.6)	(1,078.6)	(1,025.2)
Cash flows from financing activities:			
Increase in short-term debt	210.1	168.0	112.9
Proceeds from issuance of long-term debt	1,250.3	1,027.0	742.6
Principal payments on long-term debt	(825.2)	(468.1)	(362.8)
Receipts from interest sensitive insurance products	108.9	103.0	95.6
Return of account balances on interest sensitive insurance products	(97.2)	(111.9)	(79.2)
Capital contribution from Textron	–	10.0	–
Special distribution to Textron	(65.0)	–	–
Dividends paid to Textron	(128.9)*	(54.0)	(34.8)
Net cash provided by financing activities	453.0	674.0	474.3
Effect of exchange rate changes on cash	.3	(.4)	.9
Net increase (decrease) in cash	8.3	19.9	(31.2)
Cash at beginning of year	25.6	5.7	36.9
Cash at end of year	$ 33.9	$ 25.6	$ 5.7

Includes an extraordinary dividend of $50.0 million.

Quarterly Financial and Stock Information 1990 and 1989

(Unaudited)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
(In millions except per share amounts)	1990	1989	1990	1989	1990	1989	1990	1989
Income Statement Data:								
Revenues								
Aerospace Technology:								
Helicopters	$ 214.6	$ 293.3	$ 300.4	$ 268.8	$ 304.8	$ 214.3	$ 375.6	$ 302.1
Propulsion	358.1	336.1	333.5	334.4	279.9	310.1	356.6	350.6
Systems	253.2	182.3	246.5	213.5	275.0	231.5	340.1	343.7
	825.9	811.7	880.4	816.7	859.7	755.9	1,072.3	996.4
Commercial Products	470.6	495.8	496.9	495.1	425.3	434.2	439.5	466.7
Financial Services:								
Finance and related insurance	309.2	281.3	319.9	297.2	332.7	293.2	345.2	302.5
Other insurance	277.7	236.1	291.0	238.3	281.2	251.5	287.5	257.9
	586.9	517.4	610.9	535.5	613.9	544.7	632.7	560.4
Total revenues	$1,883.4	$1,824.9	$1,988.2	$1,847.3	$1,898.9	$1,734.8	$2,144.5	$2,023.5
Income								
Aerospace Technology:								
Helicopters	$ 16.5	$ 30.4	$ 27.0	$ 34.7	$ 23.7	$ 12.9	$ 22.3	$ 16.5
Propulsion	40.7	35.0	32.4	31.6	32.6	29.4	33.3	36.5
Systems	13.8	3.7	17.9	5.0	25.8	23.3	45.0	48.6
	71.0	69.1	77.3	71.3	82.1	65.6	100.6	101.6
Commercial Products	46.8	49.9	54.9	48.4	31.9	27.2	32.9	39.1
Financial Services:								
Finance and related insurance	45.9	40.4	47.9	43.1	49.6	42.3	45.6	43.7
Other insurance	25.5	18.2	22.7	23.1	25.1	26.7	29.6	22.7
	71.4	58.6	70.6	66.2	74.7	69.0	75.2	66.4
Segment operating income	189.2	177.6	202.8	185.9	188.7	161.8	208.7	207.1
Corporate expenses and other – net	(18.9)	(15.8)	(20.2)	(15.4)	(18.0)	(16.6)	(17.2)	(20.8)
Interest expense – net	(64.7)	(61.0)	(66.2)	(63.2)	(63.8)	(60.8)	(61.2)	(68.5)
Income before income taxes	105.6	100.8	116.4	107.3	106.9	84.4	130.3	117.8
Income taxes	39.4	37.5	44.3	38.5	40.3	24.9	52.2	40.7
Income before extraordinary loss	66.2	63.3	72.1	68.8	66.6	59.5	78.1	77.1
Extraordinary loss, net of income taxes	–	–	–	(9.5)	–	–	–	–
Net income	$ 66.2	$ 63.3	$ 72.1	$ 59.3	$ 66.6	$ 59.5	$ 78.1	$ 77.1
Income per common share:								
Income before extraordinary loss	$ .73	$ .73	$ .80	$ .78	$ .75	$ .66	$ .90	$ .85
Extraordinary loss	–	–	–	(.11)	–	–	–	–
Net income	$ .73	$ .73	$ .80	$ .67	$ .75	$ .66	$ .90	$ .85
Common Stock Information								
Price Range: High	$ 25⅛	$ 29	$ 24¾	$ 28⅛	$ 24¼	$ 29⅜	$ 27½	$ 27⅞
Low	$ 21⅛	$ 23⅜	$ 22½	$ 25⅛	$ 19⅜	$ 25⅜	$ 19⅝	$ 22⅝
Dividend per share	$ .25	$ .25	$ .25	$ .25	$ .25	$ .25	$ .25	$ .25

Five-Year Summary*

(Dollars in millions except per share amounts)	1990	1989	1988	1987**	1986
Revenues:					
Sales	**$ 5,470.6**	$ 5,272.5	$ 5,342.7	$ 5,388.4	$ 4,688.1
Interest, discount and service charges	**1,139.3**	1,007.8	891.7	829.3	877.2
Insurance premiums	**974.7**	836.3	750.8	655.2	675.3
Investment income (including net capital gains)	**333.0**	323.5	300.3	291.3	286.4
Total revenues	**7,917.6**	7,440.1	7,285.5	7,164.2	6,527.0
Costs and expenses:					
Cost of sales	**4,370.1**	4,202.8	4,307.9	4,387.7	3,768.3
Selling and administrative	**1,343.6**	1,252.5	1,161.2	1,037.9	995.9
Interest expense	**774.6**	733.1	601.9	580.2	583.8
Provision for losses on collection of finance receivables, less recoveries	**123.5**	89.6	85.0	87.7	96.4
Insurance benefits and increase in policy liabilities	**720.5**	636.0	589.3	528.2	547.8
Amortization of insurance policy acquisition costs	**126.1**	115.8	106.9	89.9	111.2
Total costs and expenses	**7,458.4**	7,029.8	6,852.2	6,711.6	6,103.4
Income from continuing operations before income taxes	**459.2**	410.3	433.3	452.6	423.6
Income taxes	**176.2**	141.6	161.2	191.5	194.0
Income from continuing operations before extraordinary losses	**283.0**	268.7	272.1	261.1	229.6
Discontinued operations, net of income taxes	**–**	–	–	27.8	16.3
Extraordinary losses, net of income taxes	**–**	(9.5)	(37.7)	(32.6)	(6.7)
Net income	**$ 283.0**	$ 259.2	$ 234.4	$ 256.3	$ 239.2
Per common share:					
Income from continuing operations	**$ 3.18**	$ 3.02	$ 3.10	$ 2.97	$ 2.78
Discontinued operations	**–**	–	–	.32	.20
Extraordinary losses	**–**	(.11)	(.43)	(.37)	(.08)
Net income	**$ 3.18**	$ 2.91	$ 2.67	$ 2.92	$ 2.90
Dividends declared	**$ 1.00**	$ 1.00	$ 1.00	$ .975	$ .90
Average common shares outstanding	**89,014,000**	88,999,000	87,910,000	87,733,000	82,564,000
Financial Position at Year-End					
Total assets	**$ 14,891.5**	$ 13,790.4	$ 12,554.1	$ 11,457.5	$ 11,517.8
Debt:					
Textron Parent Company Borrowing Group	**$ 1,925.4**	$ 1,956.0	$ 1,788.6	$ 1,489.7	$ 2,212.9
Finance and insurance subsidiaries	**$ 5,318.9**	$ 4,661.3	$ 4,079.2	$ 3,571.3	$ 3,642.1
Shareholders' equity	**$ 2,662.4**	$ 2,547.1	$ 2,384.9	$ 2,307.2	$ 1,847.2
Book value per common share	**$ 31.00**	$ 28.24	$ 27.60	$ 25.39	$ 22.38
Other Data					
Capital expenditures***	**$ 191.2**	$ 240.2	$ 219.9	$ 222.2	$ 185.4
Depreciation***	**$ 179.3**	$ 173.6	$ 164.7	$ 152.7	$ 115.3
Number of common shareholders	**33,000**	35,000	36,000	37,000	36,000

**The results of operations of Ex-Cell-O are included from September 17, 1986.*
***In 1987, AFS sold its credit card receivables, resulting in an after-tax profit of $34.4 million ($.39 per Textron share).*
****These items relate to continuing operations only.*

Directory of Divisions

Aerospace Technology

Helicopters

Bell Helicopter Textron — *Leonard M. Horner, President*

P.O. Box 482
Fort Worth, TX 76101
(817) 280-2011

Helicopters and spare parts for the U.S. Government, foreign governments and civilian markets; tiltrotor aircraft development; aftermarket sales of technical, training and logistics support services.

Propulsion

Aircraft Engine Components — *A. Arthur Weigel, President*

P.O. Box 11906
Newington, CT 06131
(203) 666-4601

Gas turbine engine components such as discs, hubs, cases, and frames to customer design for engine producers and the spares market.

Airfoil Textron — *Edward J. Breznyak, President*

P.O. Box 4427
Lima, OH 45802
(419) 226-2900

Fan blades, compressor blades, vanes, impellers and integrally bladed rotors for commercial and military turbine engines.

Fuel Systems Textron — *William G. Paterson, President*

700 N. Centennial
Zeeland, MI 49464
(616) 772-9171

Gas turbine engine fuel metering components consisting of main engine fuel injector devices, fuel metering and distribution valves and augmentor fuel injector systems for jet aircraft engine builders, the U.S. Government and commercial airlines.

Textron Lycoming — *John R. Myers, President*

550 Main Street
Stratford, CT 06497
(203) 385-2000

Gas turbine and piston engine manufacture, repair and overhaul; related products and services for military and commercial customers worldwide.

Systems

Avco Overseas Services Corporation — *Dieter F. Wolter, President*

Park 10, 17200 Park Row
Houston, TX 77084
(713) 492-3200

Logistics support to clients overseas, principally in the procurement of spare parts and equipment, and in the recruiting, screening and testing of qualified professionals.

Bell Aerospace Textron — *John W. Siedlecki, President*

P.O. Box One
Buffalo, NY 14240
(716) 297-1000

Microwave and inertial-based hardware and software products, including aircraft landing systems, inertial systems and components and subsystems for satellite communications.

Cadillac Gage Textron — *William C. Frank, President*

P.O. Box 1027
Warren, MI 48090
(313) 777-7100

Lightweight armored combat vehicles, turrets, advanced suspension systems and weapon/turret control and stabilization systems for the U.S. and foreign governments.

HR Textron — *Richard J. Millman, President*

25200 W. Rye Canyon Rd.
Valencia, CA 91355
(805) 259-4030

Control systems for high-performance aircraft, space launch vehicles, helicopters, missiles and gas turbine engines.

Textron Aerostructures — *John S. Kleban, President*

P.O. Box 210
Nashville, TN 37202
(615) 361-2000

Aircraft wings and components for business, commercial and military aircraft, including the Gulfstream IV business jet, British Aerospace's BAe146 commuter jet, A330/A340 Airbus program, and C-17 airlifter; nosecones and aft-skirts for Titan IV boosters.

Textron Defense Systems — *Harold K. McCard, President*

201 Lowell Street
Wilmington, MA 01887
(508) 657-5111

Advanced technology weapon systems, such as the reentry vehicle and fuze for the Peacekeeper missile; logistic services, including hardware and spares, for both Peacekeeper and Minuteman; development of a family of "smart" anti-armor munitions.

Systems (continued)

Textron Filtration Systems — *Jan O. Johnson, President*

2323 Teller Road
Newbury Park, CA 91320
(805) 499-2661

Advanced technology filters and filter systems for the military and commercial aerospace markets, chemical processing industries, fluid power markets, and electronics and pharmaceutical industries.

Textron Marine Systems — *John J. Kelly, President*

6600 Plaza Drive
New Orleans, LA 70127
(504) 245-6600

Air cushion, amphibious assault landing craft for the U.S. Navy; a new aluminium motor lifeboat for the Coast Guard, and other innovative, high-performance marine products for military and commercial applications.

Textron Specialty Materials — *Paul R. Hoffman, President*

Two Industrial Avenue
Lowell, MA 01851
(508) 452-8961

High-temperature, high-strength advanced composite materials such as boron and silicon carbide fibers in metal and ceramic matrices; carbon fibers and carbon composites, and fire protection materials, principally for offshore energy exploration companies and chemical plants.

Commercial Products

Automotive

CWC Castings — *John L. Kelly, President*

1085 W. Sherman Blvd.
Muskegon, MI 49441
(616) 733-1331

Automotive camshafts, steel and stainless steel castings.

Davidson Exterior Trim Textron — *D. Michael Weston, President*

Route 6, Box 10
Americus, GA 31709
(912) 924-6111

Exterior trim parts, principally soft bumpers and body moldings, for North American automotive manufacturers.

Davidson Instrument Panel Textron — *Frank J. Preston, President*

Orchard Park
875 Greenland Rd., Bldg C
Portsmouth, NH 03801
(603) 433-4142

Advanced technology thermoplastic and polyurethane instrument panels for automobile and light truck manufacturers in North America; newly formed Davidson/Marley joint venture to produce instrument panels in Europe.

Davidson Interior Trim Textron — *Richard J. Ferrari, President*

P.O. Box 1504
Dover, NH 03820
(603) 742-0720

Polymer-based automobile trim components, including armrests, console assemblies, instrument panel components and door panel assemblies.

McCord Winn Textron — *William H. Walsh, President*

620 Washington Street
Winchester, MA 01890
(617) 729-4400

Precision fuel pump armatures, electric/pneumatic lumbar support systems, windshield washer systems, fluid sensors, horn pads and molded plastic components for North American automobile and light truck manufacturers and their suppliers.

Randall — *Russell G. Downing, President*

P.O. Box 46334
Cincinnati, OH 45246
(513) 896-9400

Functional and decorative metal parts in roll sections, stampings and tubular steel; bright metal and painted moldings; decorative plastic painted components and chrome-plated components; wheel ornamentation trim covers, hub caps and trim rings.

Fasteners

Avdel plc — *John C. Marley, President*

Welwyn Garden City
Herts AL7 1QB England
44-707-372 624

Specialized engineered fastening and assembly systems, including innovative hand-held and automatic assembly systems for global markets.

Camcar — *James R. MacGilvray, President*

600-18th Avenue
Rockford, IL 61104
(815) 961-5000

Custom-engineered components and fasteners for many industries; automotive and commercial assemblies combining precision Camcar products with metal stampings, plastic and rubber components.

Cherry — *George A. Andrews, President*

P.O. Box 2157
Santa Ana, CA 92707
(714) 545-5511

Blind rivet fasteners and fastener installation systems for aerospace, automotive, transportation and other commercial markets.

Fasteners (continued)

Townsend — *Robert P. Ross, President*

5250-77 Center Drive
Suite 300
Charlotte, NC 28217
(704) 525-8003

Threaded and non-threaded specialty fasteners; proprietary fastening systems; installation machines and precision cold-formed parts and subassemblies for the automotive, construction, electronics and office automation markets, as well as for all major consumer goods markets.

Outdoor Products

E-Z-Go — *L.T. Walden, Jr., President*

P.O. Box 388
Augusta, GA 30913
(404) 798-4311

Electric- and gasoline-powered golf and utility vehicles designed to move people and/or cargo of up to 3,000 pounds.

Homelite — *Robert W. Reid, President*

14401 Carowinds Blvd.
Charlotte, NC 28241
(704) 588-3200

Electric- and gasoline-powered string trimmers, hedge trimmers, brushcutters and chain saws; gasoline-powered blowers, generators, pumps, heaters and compactors; lawn mowers, riding mowers, lawn tractors and snow throwers sold under the Homelite/Jacobsen names.

Jacobsen — *Richard D. Miller, President*

1721 Packard Avenue
Racine, WI 53403
(414) 637-6711

Quality grass mowing and turf maintenance equipment for golf course and commercial use; greens and fairway mowers, rotary mowers and other powered turf equipment.

Other

Cone Drive Textron — *John G. Melvin, President*

240 East Twelfth Street
Traverse City, MI 49685
(616) 946-8410

Worm gears and speed reducers used in equipment in the mining, steel, aerospace, automotive, printing, packaging and brewing industries.

Greenlee Textron — *Herbert L. Henkel, President*

4455 Boeing Drive
Rockford, IL 61109
(815) 397-7070

Powered equipment, electrical test instruments and hand tools such as conduit benders, cable pullers and punch and die metal hole-making systems; woodworking tools and equipment including augers, router bits and polycrystalline diamond and indexible tooling.

Micromatic Textron — *James F. Horgan, Chairman; Michael J. Brennan, President*

345 East 48th Street
Holland, MI 49423
(616) 392-1461

Proprietary production machine tools, components and systems designed and manufactured for several industries.

Speidel — *Alfred M. Massotti, President*

70 Ship Street
Providence, RI 02903
(401) 421-8600

Watch attachments and fashion jewelry products, including identification bracelets, neckchains and watches; British Sterling men's toiletries.

Financial Services

Finance

Avco Financial Services — *Warren R. Lyons, President*

P.O. Box 19701
Irvine , CA 92713
(714) 553-1200

Consumer financing, both unsecured and secured by personal property, through nearly 1,200 AFS loan offices in the United States, Australia, Canada, New Zealand and the United Kingdom.

Textron Financial Corporation — *Stephen J. Davis, President*

P.O. Box 6687
Providence, RI 02940
(401) 621-4200

Commercial financing, including equipment leasing, commercial real estate financing and secured lending and inventory financing directly through 35 offices across the United States and indirectly through its relationships with manufacturers, dealers and financial intermediaries.

Insurance

Avco Insurance Services/Balboa Life and Casualty — *Carlton W. Honebein, President*

P.O. Box 19702
Irvine , CA 92713
(714) 553-0700

Credit life and disability insurance; collateral protection; involuntary unemployment insurance; credit property and property/casualty insurance, sold in the United States, Australia, Canada and the United Kingdom.

Paul Revere Insurance Group — *Charles E. Soule, President*

18 Chestnut Street
Worcester, MA 01608
(508) 799-4441

Individual non-cancellable disability income insurance for professionals, corporate executives and small business owners; a full line of group insurance products, and individual life insurance and financial products.

Textron Board of Directors*

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Providence, RI

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Worcester, MA

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Providence, RI

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Providence, RI

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Cleveland, OH

* Numbers indicate committee memberships

(1) Executive Committee: Chairman, B.F. Dolan
(2) Audit Committee: Chairman, Barbara Scott Preiskel
(3) Nominating Committee: Chairman, J. Paul Sticht
(4) Organization and Compensation Committee: Chairman, James R. Martin
(5) Pension Committee: Chairman, Jean Head Sisco

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Chairman and Chief Executive Officer

James F. Hardymon
President and Chief Operating Officer

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Executive Vice President and Chief Financial Officer

Thomas D. Soutter***
Executive Vice President and General Counsel

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Maurice G. Wilkins, Jr.**
Executive Vice President
Corporate Development

Richard A. McWhirter***
Senior Vice President and Secretary

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Corporate Communications

Robert B. Clendenen**
Vice President
Internal Audit and Business Ethics

Brian T. Downing
Vice President and Treasurer

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Vice President
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Vice President and Controller

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Vice President
Information Systems Services

Lorna E. Long***
Vice President
Human Resources

John L. Morse***
Vice President
Risk Management and Insurance

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Group Vice President

Robert D. Batting*
Group Vice President

Charles F. Chapin***
Group Vice President

Frank Gulden
Group Vice President

George H. Hartmann**
Group Vice President

Derek Plummer***
Group Vice President

Richard A. Watson**
Group Vice President

Service with Textron and its subsidiaries/divisions:
* 5-9 years
** 10-19 years
***20 years and over

Shareholder Information

Annual Meeting to be held April 24 in Providence
The annual meeting of Textron shareholders will be held at 10:30 a.m. on Wednesday, April 24, 1991, at the Omni Biltmore Hotel, 11 Dorrance Street, Providence, Rhode Island. Shareholders are encouraged to attend.

About Your Securities and Records
The common stock of Textron Inc. is listed on the New York, Midwest and Pacific Stock Exchanges and quoted in the daily stock tables carried by most newspapers. The ticker symbol for Textron is TXT. Textron's preferred stocks are traded only on the New York Stock Exchange.

First Chicago Trust Company of New York, 30 West Broadway, New York, NY 10007-2192, acts as transfer agent, registrar and dividend paying agent for Textron stock and maintains all shareholder records for the corporation. First Chicago also acts as conversion agent for Textron's $2.08 preferred stock and its $1.40 preferred dividend stock.

Shareholders may obtain information relating to their share position, dividends, transfer requirements, lost certificates, conversion rights, dividend reinvestment accounts and other related matters by telephoning First Chicago Trust Company of New York's "Telephone Response Center" at (212) 791-6422. Shareholders must provide their tax identification number, the name(s) in which their shares are registered and their record address when they request information. This service is available to all shareholders Monday through Friday 9:00 a.m. to 5:00 p.m. Eastern Time. Shareholders also may obtain this and other information about their holdings by writing to First Chicago at the above address.

Dividend Payments Mailed Quarterly
Quarterly dividends are mailed with the intent of reaching shareholders of common and preferred stock on the first business day of January, April, July and October. Postal delays may cause actual receipt dates to vary.

Free Automatic Dividend Reinvestment
Textron's Shareholder Investment Service offers common shareholders of record a convenient method to purchase additional shares of Textron common stock without paying brokerage, commission or other service fees.

Participants in the plan may choose to have all or part of their dividends automatically reinvested, make additional cash payments or do both in purchasing shares of Textron common stock. Brokerage expenses for these purchases are paid by Textron. Personal recordkeeping is simplified by an account statement that is mailed to participants.

More information and an authorization form may be obtained by writing to the Secretary, Textron Inc., P.O. Box 878, Providence, RI 02901 or by calling (401) 421-2800.

Additional Information Available to Shareholders
Questions about Textron should be directed to the Corporate Communications Department, Textron Inc., 40 Westminster Street, Providence, RI 02903 or by calling (401) 421-2800.

Form 10-K Available
After April 1, 1991, shareholders may, without charge, obtain copies of Textron's Form 10-K annual report filed with the Securities and Exchange Commission. Requests for this report should also be addressed to Textron's Corporate Communications Department.

Design: Jack Hough Associates, Inc., Norwalk, CT & NYC
Major Photography: Mason Morfit. Photo page 10 courtesy of Saab Cars USA, Inc.

TEXTRON

1990 Annual Report

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