

Consolidated Statements of Income

For each of the years in the three-year period ended December 29, 2001

(In millions except per share amounts)

	2001	2000	1999
Revenues			
Manufacturing revenues	\$ 11,612	\$12,399	\$11,391
Finance revenues	709	691	463
Total revenues	12,321	13,090	11,854
Costs, expenses and other			
Cost of sales	9,760	10,028	9,242
Selling and administrative	1,532	1,445	1,318
Interest, net	433	486	233
Provision for losses on finance receivables	82	37	32
Special charges, net	437	483	(1)
Gains on sale of divisions	(342)	-	-
Total costs, expenses and other	11,902	12,479	10,824
Income from continuing operations before income taxes and distributions on preferred securities of subsidiary trusts	419	611	1,030
Income taxes	(227)	(308)	(381)
Distributions on preferred securities of subsidiary trusts, net of income taxes	(26)	(26)	(26)
Income from continuing operations	166	277	623
Gain on disposal of discontinued operations, net of income taxes	-	-	1,646
Income before extraordinary loss and cumulative effect of change in accounting principle	166	277	2,269
Extraordinary loss from debt retirement, net of income taxes	-	-	(43)
Cumulative effect of change in accounting principle, net of income taxes	-	(59)	-
Net income	\$ 166	\$ 218	\$ 2,226
Per common share:			
Basic:			
Income from continuing operations	\$ 1.17	\$ 1.92	\$ 4.14
Discontinued operations, net of income taxes	-	-	10.94
Extraordinary loss from debt retirement, net of income taxes	-	-	(.28)
Cumulative effect of change in accounting principle, net of income taxes	-	(.41)	-
Net income	\$ 1.17	\$ 1.51	\$ 14.80
Diluted:			
Income from continuing operations	\$ 1.16	\$ 1.90	\$ 4.05
Discontinued operations, net of income taxes	-	-	10.70
Extraordinary loss from debt retirement, net of income taxes	-	-	(.27)
Cumulative effect of change in accounting principle, net of income taxes	-	(.41)	-
Net income	\$ 1.16	\$ 1.49	\$ 14.48

See notes to the consolidated financial statements.

Consolidated Balance Sheets

As of December 29, 2001 and December 30, 2000

(Dollars in millions)

2001 2000

Assets

Textron Manufacturing

Cash and cash equivalents	\$ 241	\$ 282
Commercial and U.S. Government receivables (less allowance for doubtful accounts of \$54 in 2001 and \$58 in 2000)	1,149	1,318
Inventories	1,727	1,871
Due from Textron Finance	510	-
Other current assets	390	443
Total current assets	4,017	3,914
Property, plant and equipment, net	2,044	2,568
Intangibles, net	1,965	2,340
Other assets	1,562	1,417
Total Textron Manufacturing assets	9,588	10,239

Textron Finance

Cash	19	7
Finance receivables, net	5,492	5,473
Other assets (including net intangibles of \$204 in 2001 and \$217 in 2000)	953	651
Total Textron Finance assets	6,464	6,131
Total assets	\$ 16,052	\$ 16,370

Liabilities and shareholders' equity

Liabilities

Textron Manufacturing

Current portion of long-term debt and short-term debt	\$ 673	\$ 615
Accounts payable	994	1,200
Income taxes payable	24	77
Other accrued liabilities	1,384	1,371
Total current liabilities	3,075	3,263
Accrued postretirement benefits other than pensions	623	715
Other liabilities	1,219	1,224
Long-term debt	1,261	1,469
Total Textron Manufacturing liabilities	6,178	6,671

Textron Finance

Other liabilities	372	211
Deferred income taxes	357	315
Due to Textron Manufacturing	510	-
Debt	4,188	4,667
Total Textron Finance liabilities	5,427	5,193
Total liabilities	11,605	11,864

Textron Finance – obligated mandatorily redeemable preferred securities of Finance subsidiary holding solely junior subordinated debentures

	28	28
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Textron – obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Textron junior subordinated debt securities

	485	484
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Shareholders' equity

Capital stock:		
Preferred stock:		
\$2.08 Cumulative Convertible Preferred Stock, Series A (liquidation value \$11)	5	5
\$1.40 Convertible Preferred Dividend Stock, Series B (preferred only as to dividends)	6	7
Common stock (196,337,000 and 195,394,000 shares issued and 141,251,000 and 140,933,000 outstanding)	25	24
Capital surplus	1,064	1,026
Retained earnings	5,829	5,848
Accumulated other comprehensive loss	(223)	(172)
	6,706	6,738
Less cost of treasury shares	2,772	2,744
Total shareholders' equity	3,934	3,994
Total liabilities and shareholders' equity	\$ 16,052	\$ 16,370

See notes to the consolidated financial statements.

Statements of Cash Flows

For each of the years in the three-year period ended December 29, 2001

(In millions)

	Consolidated		
	2001	2000	1999
Cash flows from operating activities:			
Income from continuing operations	\$ 166	\$ 277	\$ 623
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Earnings of Textron Finance greater than distributions	-	-	-
Depreciation	400	382	349
Amortization	114	112	91
Provision for losses on finance receivables	82	37	32
Gains on sale of divisions	(342)	-	-
Special charges, net	437	483	(1)
Gains on securitizations	(43)	(22)	-
Deferred income taxes	96	9	63
Changes in assets and liabilities excluding those related to acquisitions and divestitures:			
Commercial and U.S. Government receivables	(102)	69	34
Inventories	103	5	13
Other assets	(72)	(206)	(144)
Accounts payable	166	(95)	149
Other accrued liabilities	(27)	(43)	(85)
Other - net	5	15	(8)
Net cash provided by operating activities	983	1,023	1,116
Cash flows from investing activities:			
Finance receivables:			
Originated or purchased	(7,527)	(7,032)	(4,920)
Repaid	5,750	5,233	3,783
Proceeds on receivables sales and securitization sales	2,019	1,556	307
Cash used in acquisitions	(596)	(85)	(1,574)
Net proceeds from dispositions	608	(9)	2,950
Capital expenditures	(532)	(527)	(532)
Due (from) to Textron (Finance) Manufacturing	-	-	-
Net decrease (increase) in investment securities	8	(134)	-
Other investing activities - net	(50)	76	29
Net cash (used) provided by investing activities	(320)	(922)	43
Cash flows from financing activities:			
Decrease in short-term debt	(608)	(450)	(1,131)
Proceeds from issuance of long-term debt	1,480	2,005	3,195
Principal payments and retirements on long-term debt	(1,360)	(1,048)	(2,174)
Proceeds from exercise of stock options	27	14	50
Purchases of Textron common stock	(47)	(353)	(751)
Dividends paid	(184)	(189)	(192)
Dividends paid to Textron Manufacturing	-	-	-
Capital contributions to Textron Finance	-	-	-
Net cash (used) provided by financing activities	(692)	(21)	(1,003)
Net (decrease) increase in cash and cash equivalents	(29)	80	156
Cash and cash equivalents at beginning of year	289	209	53
Cash and cash equivalents at end of year	\$ 260	\$ 289	\$ 209
Supplemental information:			
Cash paid during the year for interest	\$ 421	\$ 479	\$ 239
Cash paid during the year for income taxes (includes \$2 and \$9 in 2001 and 2000, respectively, for AFS disposal and \$28 million in 2001 related to the Automotive Trim sale)	\$ 126	\$ 327	\$ 1,167

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

See notes to the consolidated financial statements.

Textron Manufacturing*			Textron Finance*		
2001	2000	1999	2001	2000	1999
\$ 166	\$ 277	\$ 623	\$ 121	\$ 118	\$ 79
(70)	(36)	(43)	-	-	-
381	365	337	19	17	12
92	97	84	22	15	7
-	-	-	82	37	32
(342)	-	-	-	-	-
437	483	(1)	-	-	-
-	-	-	(43)	(22)	-
50	(9)	68	46	16	(5)
(102)	69	34	-	-	-
103	5	13	-	-	-
(86)	(215)	(143)	14	9	(1)
126	(82)	147	40	(13)	2
(44)	(33)	(113)	17	(10)	28
31	21	1	(26)	(2)	(9)
742	942	1,007	292	165	145
-	-	-	(7,614)	(7,032)	(4,920)
-	-	-	5,750	5,233	3,783
-	-	-	2,019	1,556	307
(209)	(85)	(859)	(387)	-	(715)
695	(9)	2,945	-	-	5
(514)	(513)	(521)	(18)	(14)	(11)
(510)	-	-	510	-	-
8	(134)	-	-	-	-
85	80	55	(135)	(5)	(26)
(445)	(661)	1,620	125	(262)	(1,577)
(330)	(77)	(1,045)	(278)	(373)	(86)
307	516	799	1,173	1,488	2,396
(62)	(97)	(974)	(1,298)	(951)	(1,200)
27	14	50	-	-	-
(47)	(353)	(751)	-	-	-
(184)	(189)	(192)	-	-	-
-	-	-	(51)	(82)	(36)
(49)	(5)	(353)	49	5	353
(338)	(191)	(2,466)	(405)	87	1,427
(41)	90	161	12	(10)	(5)
282	192	31	7	17	22
\$ 241	\$ 282	\$ 192	\$ 19	\$ 7	\$ 17
\$ 156	\$ 154	\$ 57	\$ 282	\$ 325	\$ 182
\$ 111	\$ 249	\$ 1,132	\$ 15	\$ 78	\$ 35

Consolidated Statements of Changes in Shareholders' Equity

For each of the years in the three-year period ended December 29, 2001

	Shares Outstanding*			Dollars		
	(In thousands)			(In millions)		
	2001	2000	1999	2001	2000	1999
\$2.08 Preferred stock						
Beginning balance	143	159	178	\$ 5	\$ 5	\$ 6
Conversion to common stock	(10)	(16)	(19)	-	-	(1)
Ending balance	133	143	159	\$ 5	\$ 5	\$ 5
\$1.40 Preferred stock						
Beginning balance	67	74	86	\$ 7	\$ 7	\$ 7
Conversion to common stock	(5)	(7)	(12)	(1)	-	-
Ending balance	62	67	74	\$ 6	\$ 7	\$ 7
Common stock						
Beginning balance	140,933	147,002	154,742	\$ 24	\$ 24	\$ 24
Purchases	(738)	(6,627)	(9,779)	-	-	-
Exercise of stock options	882	430	1,428	-	-	-
Conversion of preferred stock to common stock	60	97	129	1	-	-
Other issuances of common stock	114	31	482	-	-	-
Ending balance	141,251	140,933	147,002	\$ 25	\$ 24	\$ 24
Capital surplus						
Beginning balance				\$ 1,026	\$ 1,009	\$ 931
Conversion of preferred stock to common stock				-	1	1
Exercise of stock options and other issuances				38	16	77
Ending balance				\$ 1,064	\$ 1,026	\$ 1,009
Retained earnings						
Beginning balance				\$ 5,848	\$ 5,817	\$ 3,786
Net income				166	218	2,226
Dividends declared:						
Preferred stock				-	-	(1)
Common stock (per share: \$1.30)				(185)	(187)	(194)
Ending balance				\$ 5,829	\$ 5,848	\$ 5,817
Treasury stock						
Beginning balance				\$ 2,744	\$ 2,387	\$ 1,661
Purchases of common stock				34	358	748
Issuance of common stock				(6)	(1)	(22)
Ending balance				\$ 2,772	\$ 2,744	\$ 2,387
Accumulated other comprehensive loss						
Beginning balance				\$ (172)	\$ (98)	\$ (96)
Currency translation adjustment				(20)	(74)	8
Deferred losses on hedge contracts				(32)	-	-
Unrealized gains (losses) on securities				1	-	(13)
Pension liability adjustment				-	-	3
Other comprehensive loss				(51)	(74)	(2)
Ending balance				\$ (223)	\$ (172)	\$ (98)
Comprehensive income						
Net income				\$ 166	\$ 218	\$ 2,226
Other comprehensive loss				(51)	(74)	(2)
Comprehensive income				\$ 115	\$ 144	\$ 2,224

*Shares issued at the end of 2001, 2000, 1999 and 1998, were as follows (in thousands): \$2.08 Preferred - 202; 212; 228; and 247 shares, respectively; \$1.40 Preferred - 549; 554; 561; and 573 shares, respectively; Common - 196,337; 195,394; 194,858; and 193,277 shares, respectively.

See notes to the consolidated financial statements.