

Consolidated Statements of Operations

For each of the years in the three-year period ended December 28, 2002

(In millions, except per share amounts)

	2002	2001	2000
Revenues			
Manufacturing revenues	\$ 10,028	\$ 11,612	\$ 12,399
Finance revenues	630	709	691
Total revenues	10,658	12,321	13,090
Costs, expenses and other			
Cost of sales	8,221	9,760	10,028
Selling and administrative	1,382	1,532	1,445
Interest, net	304	433	486
Provision for losses on finance receivables	138	82	37
Special charges	128	437	483
Gain on sale of businesses, net	(5)	(342)	—
Total costs, expenses and other	10,168	11,902	12,479
Income from operations before income taxes and distributions on preferred securities of subsidiary trusts	490	419	611
Income taxes	(100)	(227)	(308)
Distributions on preferred securities of subsidiary trusts, net of income taxes	(26)	(26)	(26)
Income before cumulative effect of change in accounting principle	364	166	277
Cumulative effect of change in accounting principle, net of income taxes	(488)	—	(59)
Net income (loss)	\$ (124)	\$ 166	\$ 218
Per common share:			
Basic:			
Income before cumulative effect of change in accounting principle	\$ 2.62	\$ 1.17	\$ 1.92
Cumulative effect of change in accounting principle, net of income taxes	(3.52)	—	(.41)
Net income (loss)	\$ (.90)	\$ 1.17	\$ 1.51
Diluted:			
Income before cumulative effect of change in accounting principle	\$ 2.60	\$ 1.16	\$ 1.90
Cumulative effect of change in accounting principle, net of income taxes	(3.48)	—	(.41)
Net income (loss)	\$ (.88)	\$ 1.16	\$ 1.49

See notes to the consolidated financial statements.

Consolidated Balance Sheets

As of December 28, 2002 and December 29, 2001

(Dollars in millions)

	2002	2001
Assets		
Textron Manufacturing		
Cash and cash equivalents	\$ 286	\$ 241
Commercial and U.S. Government receivables (less allowance for doubtful accounts of \$63 in 2002 and \$54 in 2001)	1,180	1,149
Inventories	1,611	1,727
Due from Textron Finance	—	510
Income taxes receivable	247	—
Other current assets	563	390
Total current assets	3,887	4,017
Property, plant and equipment, net	1,981	2,044
Goodwill	1,368	1,821
Other intangibles assets, net	83	144
Other assets	1,532	1,562
Total Textron Manufacturing assets	8,851	9,588
Textron Finance		
Cash	21	19
Finance receivables, net	5,589	5,492
Goodwill	181	204
Other assets	863	749
Total Textron Finance assets	6,654	6,464
Total assets	\$ 15,505	\$ 16,052
Liabilities and shareholders' equity		
Liabilities		
Textron Manufacturing		
Current portion of long-term debt and short-term debt	\$ 25	\$ 673
Accounts payable	877	994
Accrued liabilities	1,337	1,408
Total current liabilities	2,239	3,075
Accrued postretirement benefits other than pensions	611	626
Other liabilities	1,444	1,216
Long-term debt	1,686	1,261
Total Textron Manufacturing liabilities	5,980	6,178
Textron Finance		
Other liabilities	369	372
Deferred income taxes	398	357
Due to Textron Manufacturing	—	510
Debt	4,840	4,188
Total Textron Finance liabilities	5,607	5,427
Total liabilities	11,587	11,605
Textron Finance - obligated mandatorily redeemable preferred securities of Finance subsidiary holding solely junior subordinated debentures	27	28
Textron - obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Textron junior subordinated debt securities	485	485
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	6
Common stock (197,110,000 and 196,337,000 shares issued and 136,500,000 and 141,251,000 outstanding)	25	25
Capital surplus	1,080	1,064
Retained earnings	5,526	5,829
Accumulated other comprehensive loss	(225)	(223)
	6,417	6,706
Less cost of treasury shares	3,011	2,772
Total shareholders' equity	3,406	3,934
Total liabilities and shareholders' equity	\$ 15,505	\$ 16,052

See notes to the consolidated financial statements.

Statements of Cash Flows

For each of the years in the three-year period ended December 28, 2002

(In millions)	Consolidated		
	2002	2001	2000
Cash flows from operating activities:			
Income before cumulative effect of change in accounting principle	\$ 364	\$ 166	\$ 277
Adjustments to reconcile income to net cash provided by operating activities:			
Earnings of Textron Finance greater than distributions	—	—	—
Depreciation	341	400	382
Amortization	27	114	112
Provision for losses on finance receivables	139	82	37
Gain on sale of businesses, net	(5)	(342)	—
Special charges	128	437	483
Noncash gain on securitizations	(28)	(43)	(22)
Deferred income taxes	330	96	9
Changes in assets and liabilities excluding those related to acquisitions and divestitures:			
Commercial and U.S. Government receivables	3	(102)	69
Inventories	120	103	5
Other assets	(409)	(72)	(206)
Accounts payable	(165)	166	(95)
Accrued liabilities	(180)	(27)	(43)
Other - net	29	5	15
Net cash provided by operating activities	694	983	1,023
Cash flows from investing activities:			
Finance receivables:			
Originated or purchased	(9,263)	(7,527)	(7,032)
Repaid	7,739	5,750	5,233
Proceeds on receivables sales and securitization sales	1,151	2,019	1,556
Cash used in acquisitions	(2)	(596)	(85)
Net proceeds from dispositions	30	608	(9)
Capital expenditures	(296)	(532)	(527)
Proceeds on sale of fixed assets	67	83	56
Due (from) to Textron (Finance) Manufacturing	—	—	—
Net decrease (increase) in investment securities	—	8	(134)
Other investing activities - net	(27)	(133)	20
Net cash (used) provided by investing activities	(601)	(320)	(922)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	72	(608)	(450)
Proceeds from issuance of long-term debt	2,495	1,480	2,005
Principal payments and retirements on long-term debt	(2,207)	(1,360)	(1,048)
Proceeds from exercise of stock options	24	27	14
Purchases of Textron common stock	(248)	(47)	(353)
Dividends paid	(182)	(184)	(189)
Dividends paid to Textron Manufacturing	—	—	—
Capital contributions to Textron Finance	—	—	—
Net cash (used) provided by financing activities	(46)	(692)	(21)
Net increase (decrease) in cash and cash equivalents	47	(29)	80
Cash and cash equivalents at beginning of year	260	289	209
Cash and cash equivalents at end of year	\$ 307	\$ 260	\$ 289
Supplemental information:			
Cash paid during the year for interest**	\$ 314	\$ 421	\$ 479
Net cash paid during the year for income taxes (includes \$77 in 2002 and \$28 in 2001 related to the Automotive Trim sale and \$2 in 2001 and \$9 in 2000 for AFS disposal)	\$ 11	\$ 126	\$ 327
Supplemental schedule of non-cash investing & financing activities:			
Capital lease obligations incurred to finance future construction	\$ 79	\$ —	\$ —
Capital expenditures financed through capital leases	\$ 23	\$ —	\$ —

* Textron is segregated into two borrowing groups, Textron Manufacturing and Textron Finance as described in Note 1 to the consolidated financial statements along with the principles of consolidation. Textron Manufacturing's cash flows include the pretax income from Textron Finance. All significant transactions between Textron Manufacturing and Textron Finance have been eliminated from the "Consolidated" column.

** Includes \$8 and \$16 paid by Textron Manufacturing to Textron Finance in 2002 and 2001, respectively.

See notes to the consolidated financial statements.

Textron Manufacturing*

Textron Finance*

	2002	2001	2000		2002	2001	2000
	\$ 364	\$ 166	\$ 277		\$ 76	\$ 121	\$ 118
	(23)	(79)	(41)		—	—	—
	313	381	365		28	19	17
	17	92	97		10	22	15
	—	—	—		139	82	37
	(5)	(342)	—		—	—	—
	128	437	483		—	—	—
	—	—	—		(28)	(43)	(22)
	272	50	(9)		58	46	16
	3	(102)	69		—	—	—
	120	103	5		—	—	—
	(394)	(86)	(215)		(15)	14	9
	(142)	126	(82)		(23)	40	(13)
	(161)	(44)	(33)		(19)	17	(10)
	30	31	21		(1)	(26)	(2)
	522	733	937		225	292	165
	—	—	—		(9,263)	(7,614)	(7,032)
	—	—	—		7,739	5,750	5,233
	—	—	—		1,151	2,019	1,556
	(2)	(209)	(85)		—	(387)	—
	30	695	(9)		—	—	—
	(279)	(514)	(513)		(17)	(18)	(14)
	67	83	56		—	—	—
	510	(510)	—		(510)	510	—
	—	8	(134)		—	—	—
	—	2	24		(27)	(135)	(5)
	326	(445)	(661)		(927)	125	(262)
	(156)	(330)	(77)		228	(278)	(373)
	303	307	516		2,192	1,173	1,488
	(544)	(62)	(97)		(1,663)	(1,298)	(951)
	24	27	14		—	—	—
	(248)	(47)	(353)		—	—	—
	(182)	(184)	(189)		—	—	—
	—	—	—		(53)	(42)	(77)
	—	(40)	—		—	40	—
	(803)	(329)	(186)		704	(405)	87
	45	(41)	90		2	12	(10)
	241	282	192		19	7	17
	\$ 286	\$ 241	\$ 282		\$ 21	\$ 19	\$ 7
	\$ 126	\$ 156	\$ 154		\$ 196	\$ 282	\$ 325
	\$ 42	\$ 111	\$ 249		\$ (31)	\$ 15	\$ 78
	\$ 79	\$ —	\$ —		\$ —	\$ —	\$ —
	\$ 23	\$ —	\$ —		\$ —	\$ —	\$ —

Consolidated Statements of Changes in Shareholders' Equity

For each of the years in the three-year period ended December 28, 2002

	Shares Outstanding*			Dollars		
	(In thousands)			(In millions)		
	2002	2001	2000	2002	2001	2000
\$2.08 Preferred stock						
Beginning balance	133	143	159	\$ 5	\$ 5	\$ 5
Conversion to common stock	(13)	(10)	(16)	—	—	—
Ending balance	120	133	143	\$ 5	\$ 5	\$ 5
\$1.40 Preferred stock						
Beginning balance	62	67	74	\$ 6	\$ 7	\$ 7
Conversion to common stock	(6)	(5)	(7)	—	(1)	—
Ending balance	56	62	67	\$ 6	\$ 6	\$ 7
Common stock						
Beginning balance	141,251	140,933	147,002	\$ 25	\$ 24	\$ 24
Purchases	(5,734)	(738)	(6,627)	—	—	—
Exercise of stock options	689	882	430	—	—	—
Conversion of preferred stock to common stock	79	60	97	—	1	—
Other issuances of common stock	215	114	31	—	—	—
Ending balance	136,500	141,251	140,933	\$ 25	\$ 25	\$ 24
Capital surplus						
Beginning balance				\$ 1,064	\$ 1,026	\$ 1,009
Conversion of preferred stock to common stock				—	—	1
Exercise of stock options and other issuances				16	38	16
Ending balance				\$ 1,080	\$ 1,064	\$ 1,026
Retained earnings						
Beginning balance				\$ 5,829	\$ 5,848	\$ 5,817
Net income (loss)				(124)	166	218
Dividends declared on common stock (per share: \$1.30)				(179)	(185)	(187)
Ending balance				\$ 5,526	\$ 5,829	\$ 5,848
Treasury stock						
Beginning balance				\$ 2,772	\$ 2,744	\$ 2,387
Purchases of common stock				249	34	358
Issuance of common stock				(10)	(6)	(1)
Ending balance				\$ 3,011	\$ 2,772	\$ 2,744
Accumulated other comprehensive loss						
Beginning balance				\$ (223)	\$ (172)	\$ (98)
Currency translation adjustment				78	(20)	(74)
Deferred gains (losses) on hedge contracts				13	(32)	—
Unrealized gains on securities				2	1	—
Minimum pension liability adjustment				(95)	—	—
Other comprehensive loss				(2)	(51)	(74)
Ending balance				\$ (225)	\$ (223)	\$ (172)
Comprehensive income (loss)						
Net income (loss)				\$ (124)	\$ 166	\$ 218
Other comprehensive loss				(2)	(51)	(74)
Comprehensive income (loss)				\$ (126)	\$ 115	\$ 144

* Shares issued at the end of 2002, 2001, 2000 and 1999, were as follows (in thousands): \$2.08 Preferred - 189; 202; 212; and 228 shares, respectively; \$1.40 Preferred - 543; 549; 554; and 561 shares, respectively; Common - 197, 110; 196,337; 195,394; and 194,858 shares, respectively.

See notes to the consolidated financial statements.