TEXTRON INC
Form 10-K
February 20, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 29, 2007

Commission File Number 1-5480

Textron Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**05-0315468** (I.R.S. Employer Identification No.)
40 Westminster Street, Providence, RI (Address of principal executive offices)	**02903** (zipcode)

Registrant s Telephone Number, Including Area Code: **(401) 421-2800**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock par value $0.125	New York Stock Exchange Chicago Stock Exchange
$2.08 Cumulative Convertible Preferred Stock,	New York Stock Exchange

Series A no par value

$1.40 Convertible Preferred Dividend Stock, Series B (preferred only as to dividends) no par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes x. No o.

Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o. No x.

Indicate by check mark whether 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 o.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o. No x.

The aggregate market value of the registrant s Common Stock held by non-affiliates at June 30, 2007 was approximately $13,742,545,000 based on the New York Stock Exchange closing price for such shares on that date. The registrant has no non-voting common equity.

At February 9, 2008, 248,688,866 shares of Common Stock were outstanding.

Documents Incorporated by Reference

Part III of this Report incorporates information from certain portions of the registrant s Proxy Statement for its Annual Meeting of Shareholders to be held on April 23, 2008.

PART I

Item 1. Business

Textron Inc. is a multi-industry company that leverages its global network of aircraft, industrial and finance businesses to provide customers with innovative solutions and services around the world. We have approximately 44,000 employees in 34 countries. Textron Inc. was founded in 1923 and reincorporated in Delaware on July 31, 1967. Unless otherwise indicated, references to Textron Inc., the Company, we, our and us this Annual Report on Form 10-K refer to Textron Inc. and its consolidated subsidiaries.

We operate our business through four operating segments. Three of our operating segments represent our manufacturing businesses: Bell, Cessna and Industrial. Our fourth segment consists of our Finance business. A description of the business of each of our segments is set forth below. Our business segments include operations that are unincorporated divisions of Textron Inc. and others that are separately incorporated subsidiaries. Financial information by business segment and geographic area appears in Note 20 to the Consolidated Financial Statements on pages 73 through 75 of this Annual Report on Form 10-K. The following description of our business should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations on pages 15 through 32 of this Annual Report on Form 10-K. Information included in this Annual Report on Form 10-K refers to our continuing businesses unless otherwise indicated.

Bell Segment

The Bell segment is comprised of Bell Helicopter and Textron Systems.

Bell Helicopter is one of the leading suppliers of helicopters, tiltrotor aircraft, and helicopter-related spare parts and services in the world. Bell Helicopter manufactures for both military and commercial applications. Revenues for Bell Helicopter accounted for approximately 19%, 20% and 21% of our total revenues in 2007, 2006 and 2005, respectively.

Bell Helicopter supplies advanced military helicopters and support to the U.S. Government and to military customers outside the U.S. Bell Helicopter is one of the leading suppliers of helicopters to the U.S. Government and, in association with The Boeing Company, the only supplier of military tiltrotor aircraft. Bell Helicopter s three major U.S. Government programs are for the V-22 tiltrotor aircraft, the H-1 helicopters and the Armed Reconnaissance Helicopter (ARH).

Bell Helicopter is teamed with The Boeing Company to develop, produce and support the V-22 Osprey tiltrotor aircraft for the U.S. Department of Defense. Tiltrotor aircraft are designed to provide the benefits of both helicopters and fixed-wing aircraft. The U.S. Government has issued contracts for 113 production V-22 aircraft through production Lot 11, of which 78 have been delivered as of the end of 2007. The U.S. Government s program of record for the V-22 calls for a total of 458 production units.

The U.S. Marine Corps H-1 helicopter program includes an advanced attack model and a utility model, the AH-1Z and UH-1Y, respectively, both of which were designed to have 84% parts commonality between them. Through Low Rate Initial Production (LRIP) contracts, the U.S. Government has contracted for the production of 26 UH-1Y aircraft and eight AH-1Z aircraft, of which 10 were delivered by the end of 2007.

Phase II of the H-1 Operational Evaluation (OPEVAL) is scheduled to commence in the first half of 2008; successful completion of OPEVAL is required prior to our receiving authorization for full-rate production. The U.S. Government s program of record for the H-1 program calls for a total of 280 production units.

Bell Helicopter currently is working under a U.S. Government System Development and Demonstration contract for development of the ARH. During 2007, after uncertainty about whether the U.S. Government would continue with the ARH program, the U.S. Army agreed to restructure the program. Bell continues to work with the U.S. Army to finalize details of the restructure and anticipates that initial LRIP contract awards will be granted in mid-2008. The U.S. Government s program of record for the ARH currently calls for a total of 368 production units; however, based upon communications from the U.S. Army, we expect that the U.S. Government will increase production requirements to 512 units during 2008.

Bell Helicopter also is a leading supplier of commercially certified helicopters and support to corporate, offshore petroleum exploration and development, utility, charter, police, fire, rescue and emergency medical helicopter operators. Bell Helicopter produces a variety of commercial aircraft types, including light single and twin engine helicopters and medium twin engine helicopters, along with other related products. The commercial helicopters currently offered by Bell include the 206, 407 and 412; in addition, the 429 is expected to be certified in the 2008-2009 time-frame.

Bell Helicopter s Customer Support and Service division provides post-sale service and support to its customers for its installed base of approximately 13,000 helicopters and tiltrotors through a network of five Bell-owned service centers, over 130 independent service centers and seven parts distribution centers that are located throughout the world. Collectively, these service centers offer logistics support, including parts, support equipment, technical data, training devices, pilot and maintenance training, component repairs, engine repair and overhaul, aircraft modifications, post-sale customizing, accessory manufacturing, contractor maintenance, field service and product support engineering.

Bell Helicopter competes against a number of competitors based in the U.S. and other countries for its helicopter business, and its parts and support business competes against numerous competitors around the world. Competition is based primarily on price, product quality and reliability, product support, contract performance and reputation.

Textron Systems is a primary supplier to the defense, aerospace and general aviation markets, providing approximately 10%, 9% and 8% of Textron s revenues in 2007, 2006 and 2005, respectively. Textron Systems principal strategy is to address the U.S. Department of Defense s emphasis on network centric warfare by leveraging advances in information technology in the development and production of networked sensors, weapons and the associated algorithms and software. Textron Systems manufactures precision weapons, airborne and ground-based surveillance systems, sophisticated intelligence and situational awareness software, armored vehicles and turrets, reciprocating piston aircraft engines, and aircraft and missile control actuators, valves and related components. While Textron Systems sells most of its products to U.S. customers, it also sells certain products to customers outside the U.S. through sales representatives and distributors located in various global locations. Textron Systems includes HR Textron, Lycoming Engines, Overwatch Geospatial Operations, Overwatch Tactical Operations, Textron Defense Systems, Textron Marine & Land Systems, and AAI Corporation.

Textron Systems has produced approximately 900 armored security vehicles (ASV) for the U.S. Army since inception of the current U.S. Army contract in June 2005. This contract calls for more than 750 additional units through May 2009. The ASVs currently are deployed in locations around the globe, particularly in Iraq and Afghanistan, serving various missions, including convoy escorts, patrolling, checkpoints, forward operating base patrol, urban operations, reconnaissance and surveillance patrols, and tactical overwatch for civilian and military police operations.

Textron Systems is a tier-one supplier of unattended ground sensors and intelligent munitions systems for the U.S. Army s Future Combat System. Textron Systems also is the U.S. Air Force s prime contractor for the Sensor Fuzed Weapon and a subcontractor to The Boeing Company for tail actuation systems on the Joint Direct Attack Munition and the next generation Small Diameter Bomb.

In November 2007, we acquired United Industrial Corporation, which operates through its wholly owned subsidiary, AAI Corporation (AAI). AAI is a leading provider of intelligent aerospace and defense systems, including: tactical unmanned aircraft systems (UAS), training and simulation systems, automated aircraft test and maintenance equipment, armament systems, aviation ground support equipment, countersniper detection systems, and logistical, engineering and supply chain services. AAI adds important capabilities to our existing aerospace and defense businesses and advances our strategy to deliver broader and more integrated solutions to our customers. As a part of Textron Systems, AAI remains the prime system integrator for the U.S. Army s premier tactical UAS, the Shadow®, which includes the One System® Ground Control Station the U.S. Army s standard for interoperability of manned and unmanned airborne assets.

Textron Systems competes against a number of competitors in the U.S. and other countries on the basis of technology, contract performance, price, product quality and reliability, product support and reputation.

Cessna Segment

Based on unit sales, Cessna Aircraft Company is the world s largest manufacturer of general aviation aircraft. Cessna currently has four major product lines: Citation business jets, Caravan single engine turboprops, Cessna single engine piston aircraft, and aftermarket services. Revenues in the Cessna segment accounted for approximately 38%, 36% and 35% of our total revenues in 2007, 2006 and 2005, respectively.

The family of business jets currently produced by Cessna includes the Mustang, Citation CJ1+, Citation CJ2+, Citation CJ3, Citation CJ4, Citation Encore+, Citation XLS+, Citation Sovereign and Citation X. The Citation X is the world s fastest business jet with a maximum operating speed of Mach 0.92. First customer deliveries of the Citation XLS+ and Citation CJ4 are scheduled to commence in late 2008 and 2010, respectively.

The Cessna Caravan is the world s best selling utility turboprop. Caravans are offered in four models: the Grand Caravan, the Super Cargomaster, the Caravan 675 and the Caravan Amphibian. Caravans are used in the U.S. primarily for overnight express package shipments and for personal transportation. International uses of Caravans include humanitarian flights, tourism and freight transport.

Cessna offers 10 models in its single engine piston product line, which include the four-place Skyhawk, Skyhawk SP, Skyhawk TD, Skylane, Turbo Skylane, Cessna 350, Cessna 400, six-place Stationair, Turbo Stationair, and the recently announced two-place Light Sport Aircraft, the Model 162 SkyCatcher. First customer deliveries of the SkyCatcher are scheduled to commence in late 2009. In December 2007, Cessna purchased certain assets of Columbia Aircraft Manufacturing Corporation, a producer of high-performance single engine aircraft, including two low-wing, composite four-place aircraft, which now are branded as the Cessna 350 and Cessna 400. Cessna also recently announced its plan to develop the Citation Columbus, a wide-body, eight-passenger business jet designed for intercontinental travel. Cessna is targeting Federal Aviation Administration certification by the end of 2013, with deliveries beginning in 2014.

The Citation family of aircraft currently is supported by 10 Citation Service Centers owned or operated by Cessna, along with authorized independent service stations and centers located in more than 18 countries throughout the world. The Wichita Citation Service Center is the world s largest general aviation maintenance facility. Cessna-owned Service Centers provide customers with 24-hour service and maintenance. Cessna also provides around-the-clock parts support for Citation aircraft. Cessna Caravan and single engine piston customers receive product support through independently owned service stations and around-the-clock parts support through Cessna.

Cessna markets its products worldwide primarily through its own sales force, as well as through a network of authorized independent sales representatives, depending upon the product line. Cessna has several competitors in various market segments. Cessna s aircraft compete with other aircraft that vary in size, speed, range, capacity, handling characteristics and price. Cessna operates a business jet fractional ownership business through a joint venture called CitationShares. Cessna s current ownership interest in CitationShares is 88%. This business offers shares of Citation aircraft for operation throughout the contiguous U.S. and in Canada, Mexico, Central America, the Caribbean and Bermuda. CitationShares also has a limited advance purchase jet aircraft charter product called the Vector Jetcard.

Industrial Segment

The Industrial segment includes our Kautex, Fluid & Power, Greenlee, E-Z-GO and Jacobsen businesses.

Kautex, headquartered in Bonn, Germany, is a leading global designer and manufacturer of blow-molded fuel systems and other blow-molded parts for automobile original equipment manufacturers and, to a lesser extent, other industrial customers. Revenues of Kautex accounted for approximately 13%, 13% and 15% of our total revenues in 2007, 2006 and 2005, respectively. Kautex operates plants near its major customers all around the world. Kautex also is a leading supplier of windshield and headlamp washer systems in the original equipment automobile market. In North America, Kautex produces metal fuel fillers and engine camshafts for the automotive market. In Europe, Kautex produces bottles and plastic containers for food, household, laboratory and industrial uses. Kautex also manufactures blow-molded fuel systems for the all-terrain vehicle and watercraft markets and tanks for selective catalytic reduction systems used to reduce emissions from diesel engines. In 2007, Kautex announced that it has received the first production order for fuel systems using its new next generation fuel system manufacturing process, which is designed to reduce emissions from fuel systems and lower manufacturing costs. Kautex has a number of competitors worldwide, some of whom are owned by the automotive original equipment manufacturers that comprise Kautex s targeted customer base. Competition typically is based on a number of factors, including price, product quality and reliability, prior experience and available manufacturing capacity.

Fluid & Power designs and manufactures four product lines: Gear Technologies, Industrial Pumps, Polymer Systems and Hydraulics. Gear Technologies includes industrial gears, mechanical transmission systems, worm gear speed reducers, screwjacks, gear motors and gear sets under the David Brown, Benzlers, Cone Drive and Radicon brand names, primarily for the defense, industrial and mining industries. Industrial Pumps includes centrifugal and reciprocating pumps for the oil, gas, petrochemical, nuclear and desalinization industries under the Union brands. Polymer Systems includes industrial pumps, extrusion equipment and screen changers for the polymer industry under the Maag brand name. Hydraulics includes hydraulic pumps, valves, pilot controls and power takeoffs under the David Brown, Hydreco and Powauto brands. These products are sold to a variety of customers, including original equipment manufacturers, engineering contractors, governments, distributors and end users. Fluid & Power faces competition from other manufacturers based primarily on price, product quality and reliability, and product support.

Greenlee designs and manufactures powered equipment, electrical test and measurement instruments, hand and hydraulic powered tools, and electrical and fiber optic connectors under the Greenlee, Fairmont, Klauke, Progressive and Tempo brand names. The products principally are used in the electrical construction and maintenance, telecommunications and plumbing industries. Greenlee distributes its products through a global network of sales representatives and distributors and sells its products directly to home improvement retailers and original equipment manufacturers. Through a joint venture, Greenlee also sells hand and powered tools for the plumbing and mechanical industries in North America. In December 2007, Greenlee acquired Paladin Tools, a provider of tools and accessories for the telecommunications, data communications and wiring industries. The Greenlee businesses face competition from numerous manufacturers based primarily on price and product quality and reliability.

E-Z-GO designs and manufactures golf cars and off-road utility vehicles powered by electric and internal combustion engines under the E-Z-GO name, as well as multipurpose utility vehicles under the E-Z-GO and Cushman brand names. In the fourth quarter of 2007, E-Z-GO introduced its new energy-efficient RXV golf car, which it expects will provide reduced energy and maintenance costs for its customers. E-Z-GO s commercial customers consist primarily of golf courses, resort communities and municipalities, as well as commercial and industrial users such as airports and factories. E-Z-GO s golf cars and off-road utility vehicles also are sold in the consumer market. Sales are made through a network of distributors and directly to end users. E-Z-GO has two major competitors for golf cars and several other competitors for off-road utility vehicles. Competition is based primarily on price, product quality and reliability, product support and reputation.

Jacobsen designs and manufactures professional turf-maintenance equipment and specialized turf-care vehicles. Major brand names include Ransomes, Jacobsen and Cushman. Jacobsen s commercial customers consist primarily of golf courses, resort communities, sporting venues and municipalities. Sales are made through a network of distributors and dealers. Jacobsen has two major competitors for professional turf-maintenance equipment and several other competitors for specialized turf care. Competition is based primarily on price, product quality and reliability, and product support.

Finance Segment

Our Finance segment consists of Textron Financial Corporation, a diversified commercial finance company with core operations in six markets:

- *Asset-Based Lending* provides revolving credit facilities secured by receivable and inventory, related equipment and real estate term loans, and factoring programs across a broad range of manufacturing and service industries;
- *Aviation Finance* provides financing for new and used Cessna business jets, single engine turboprops, piston-engine airplanes, Bell helicopters and other general aviation aircraft;
- *Distribution Finance* primarily offers inventory finance programs for dealers of products manufactured by Textron and for dealers of a variety of other household, housing, leisure, agricultural and technology products;
- *Golf Finance* primarily makes mortgage loans for the acquisition and refinancing of golf courses and provides term financing for E-Z-GO golf cars and Jacobsen turf-care equipment;
- *Resort Finance* primarily extends loans to developers of vacation interval resorts, secured principally by notes receivable and interval inventory; and
- *Structured Capital* primarily engages in long-term leases of large-ticket equipment and real estate, primarily with investment grade lessees.

Textron Financial Corporation s financing activities are confined almost exclusively to secured lending and leasing to commercial markets. Textron Financial Corporation s services are offered primarily in North America. However, Textron Financial Corporation finances certain Textron products worldwide, principally Bell helicopters and Cessna aircraft. Textron Financial Corporation also finances many of the sales at E-Z-GO and Jacobsen.

In 2007, 2006 and 2005, our Finance segment paid our manufacturing segments $1.2 billion, $1.0 billion and $0.8 billion, respectively, related to the sale of Textron-manufactured products that it financed. Our Cessna and Industrial segments also received proceeds in those years of $27 million, $63 million and $41 million, respectively, from the sale of equipment from their manufacturing operations to Textron Financial Corporation for use under operating lease agreements.

The commercial finance environment in which Textron Financial Corporation operates is highly fragmented and extremely competitive. Textron Financial Corporation is subject to competition from various types of financing institutions, including banks, leasing companies, insurance companies, commercial finance companies and finance operations of equipment vendors. Competition within the commercial finance industry is primarily focused on price, term, structure and service.

Textron Financial Corporation s largest business risk is the collectibility of its finance receivable portfolio. See Finance Portfolio Quality in Management s Discussion and Analysis of Financial Condition and Results of Operations on page 23 for a detailed discussion of the credit quality of this portfolio.

Backlog

Our backlog at the end of 2007 and 2006 is summarized below:

(In millions)	December 29, 2007	December 30, 2006
U.S. Government:		
Bell Helicopter	$ 2,805	$ 2,363
Textron Systems	2,092	1,152
Other	1	7
Total U.S. Government Backlog	4,898	3,522
Commercial:		
Bell Helicopter	1,004	756
Cessna	12,583	8,467
Other	771	613
Total Commercial Backlog	14,358	9,836
Total Backlog	$ 19,256	$ 13,358

At December 29, 2007, approximately 97% of the U.S. Government backlog was funded. Unfunded backlog represents the award value of U.S. Government contracts received, generally related to cost-plus type contracts, in excess of the funding formally appropriated by the U.S. Government. The U.S. Government is obligated only up to the funded amount of the contract. Additional funding is appropriated as the contract progresses.

Cessna s backlog includes approximately $2.0 billion in orders from a major fractional jet customer. Orders from this fractional aircraft operator are included in backlog when the customer enters into a definitive master agreement and has established preliminary delivery dates for the aircraft. Preliminary delivery dates are subject to change through amendment to the master agreement. Final delivery dates are established approximately 12 to 18 months prior to delivery. Orders from other commercial customers, which cover a wide spectrum of industries, are included in backlog upon the customer entering into a definitive purchase order and receipt of required deposits.

Approximately 56% of our total backlog at December 29, 2007 represents orders that are not expected to be filled in 2008, including $1.2 billion in orders for the new Citation CJ4 aircraft with first customer deliveries scheduled for 2010.

U.S. Government Contracts

In 2007, approximately 19% of our consolidated revenues were generated by or resulted from contracts with the U.S. Government. This business is subject to competition, changes in procurement policies and regulations, the continuing availability of funding which is dependent upon congressional appropriations, national and international priorities for defense spending, world events, and the size and timing of programs in which we may participate.

Our contracts with the U.S. Government generally may be terminated by the U.S. Government for convenience or if we default in whole or in part by failing to perform under the terms of the applicable contract. If the U.S. Government terminates a contract for convenience, we normally will be entitled to payment for the cost of contract work performed before the effective date of termination plus reasonable profit on such work, adjusted to reflect any rate of loss had the contract been completed, plus reasonable costs of settlement of the work terminated. If, however, the U.S. Government terminates a contract for default, generally: (a) we will be paid the contract price for completed supplies delivered and accepted, an agreed-upon amount for manufacturing materials delivered and accepted and for the protection and preservation of property, and for partially completed products accepted by the U.S. Government; (b) the U.S. Government will not be liable for our costs with respect to unaccepted items and will be entitled to repayment of advance payments and progress payments related to the terminated portions of the contract; and (c) we may be liable for excess costs incurred by the U.S. Government in procuring undelivered items from another source.

Research and Development

Information regarding our research and development expenditures is contained in Note 16 to the Consolidated Financial Statements on page 70 of this Annual Report on Form 10-K.

Patents and Trademarks

We own, or are licensed under, numerous patents throughout the world relating to products, services and methods of manufacturing. Patents developed while under contract with the U.S. Government may be subject to use by the U.S. Government. We also own or license active trademark registrations and pending trademark applications in the U.S. and in various foreign countries or regions, as well as trade names and service marks. While our intellectual property rights in the aggregate are important to the operation of our business, we do not believe that any existing patent, license, trademark or other intellectual property right is of such importance that its loss or termination would have a material adverse effect on our business taken as a whole. Some of these trademarks, trade names and service marks are used in this Annual Report on Form 10-K and other reports, including: AAI; AB Benzlers; AH-1Z; APCO; BA609; Bell/Agusta Aerospace Company, LLC; Bell Helicopter; Benzlers; Bravo; Cadillac Gage; Caravan; Caravan 675; Caravan Amphibian; Cessna; Cessna 350; Cessna 400; Citation; Citation Encore+; CitationShares; Citation X; Citation XLS+; Citation Sovereign; CJ1; CJ1+; CJ2; CJ2+; CJ3; CJ4; Cone Drive; Cushman; David Brown; Eclipse; Excel; E-Z-GO; Fairmont; Fly Smart; Fly Bell; Gear Technologies; Global Technology Center; Grand Caravan; Greenlee; H-1; HR Textron; Huey II; Hydraulics; Hydreco; Jacobsen; Kautex; Kiowa Warrior; Klauke Progressive; Lycoming; Maag; McCauley; Modular Affordable Product Lines; Mustang; Next Generation Fuel System; Overwatch Systems; Paladin; PDCue; Polymer Systems; Powauto; Power Advantage; ProParts; Quick Draw Loan; Radicon; Ransomes; Rothenberger LLC; RXV; Sensor Fuzed Weapon; SHADOW; Sovereign; SkyBOOKS; SkyPLUS; SkyCatcher; Skyhawk; Skyhawk SP; Skyhawk TD; Skylane; ST 4X4; Stationair; Super Cargomaster; SuperCobra; SYMTX; TDCue; Tempo; Textron; Textron Business Services; Textron Business Systems; Textron Defense Systems; Textron Financial Corporation; Textron Fluid & Power; Textron Marine & Land Systems; Textron Six Sigma; Textron Systems; Turbo Skylane; Turbo Stationair; UAV SYSTEMS SPECIALIST; UH-1Y; Union Pump; US Helicopter; V-22 Osprey; Vector; Vector Jetcard; XLS; 429; 429 Global Ranger; and 429 Light Twin. These marks and their related trademark designs and logotypes (and variations of the foregoing) are trademarks, trade names or service marks of Textron Inc., its subsidiaries, affiliates or joint ventures.

Environmental Considerations

Our operations are subject to numerous laws and regulations designed to protect the environment. Compliance with these laws and expenditures for environmental control facilities has not had a material effect on our capital expenditures, earnings or competitive position. Additional information regarding environmental matters is contained in Note 15 to the Consolidated Financial Statements on pages 69 and 70 of this Annual Report on Form 10-K.

Employees

At December 29, 2007, we had approximately 44,000 employees.

Available Information

We make available free of charge on our Internet website (www.textron.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Forward-Looking Information

Certain statements in this Annual Report on Form 10-K and other oral and written statements made by us from time to time are forward-looking statements, including those that discuss strategies, goals, outlook or other non-historical matters, or project revenues, income, returns or other financial measures. These forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update or revise any forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements, including the following: (a) changes in worldwide economic and political conditions that impact demand for our products, interest rates and foreign exchange rates; (b) the interruption of production at our facilities or our customers or suppliers; (c) performance issues with key suppliers, subcontractors and business partners; (d) our ability to perform as anticipated and to control costs under contracts with the U.S. Government; (e) the U.S. Government s ability to unilaterally modify or terminate its contracts with us for the U.S. Government s convenience or for our failure to perform, to change applicable procurement and accounting policies, and, under certain circumstances, to suspend or debar us as a contractor eligible to receive future contract awards; (f) changing priorities or reductions in the U.S. Government defense budget, including those related to Operation Iraqi Freedom, Operation Enduring Freedom and the Global War on Terrorism; (g) changes in national or international funding priorities, U.S. and foreign military budget constraints and determinations, and government policies on the export and import of military and commercial products; (h) legislative or regulatory actions impacting defense operations; (i) the ability to control costs and successful implementation of various cost-reduction programs; (j) the timing of new product launches and certifications of new aircraft products; (k) the occurrence of slowdowns or downturns in customer markets in which our products are sold or supplied or where Textron Financial Corporation offers financing; (l) changes in aircraft delivery schedules or cancellation of orders; (m) the impact of changes in tax legislation; (n) the extent to which we are able to pass raw material price increases through to customers or offset such price increases by reducing other costs; (o) our ability to offset, through cost reductions, pricing pressure brought by original equipment manufacturer customers; (p) our ability to realize full value of receivables; (q) the availability and cost of insurance; (r) increases in pension expenses and other postretirement employee costs; (s) Textron Financial Corporation s ability to maintain portfolio credit quality; (t) Textron Financial Corporation s access to debt financing at competitive rates; (u) uncertainty in estimating contingent liabilities and establishing reserves to address such contingencies; (v) risks and uncertainties related to acquisitions and dispositions; (w) the efficacy of research and development investments to develop new products; (x) the launching of significant new products or programs which could result in unanticipated expenses; (y) bankruptcy or other financial problems at major suppliers or customers that could cause disruptions in our supply chain or difficulty in collecting amounts owed by such customers; and (z) difficulties or unanticipated expenses in connection with the consummation or integration of acquisitions, potential difficulties in employee retention following the acquisition and risks that the acquisition does not perform as planned or disrupts our current plans and operations or that anticipated synergies and opportunities will not be realized.

Item 1A. Risk Factors

Our business, financial condition and results of operations are subject to various risks, including those discussed below, which may affect the value of our securities. The risks discussed below are those that we believe currently are the most significant, although additional risks not presently known to us or that we currently deem less significant also may impact our business, financial condition or results of operations, perhaps materially.

We have customer concentration with the U.S. Government.

During 2007, we derived approximately 19% of our revenues from sales to a variety of U.S. Government entities. Our U.S. Government revenues have continued to grow both organically and through acquisitions, such as our recent acquisition of UIC. Our ability to compete successfully for and retain U.S. Government business is highly dependent on technical excellence, management proficiency, strategic alliances, cost-effective performance, and the ability to recruit and retain key personnel. Our revenues from the U.S. Government largely result from contracts awarded to us under various U.S. Government programs, primarily defense-related programs. The funding of these programs is subject to congressional appropriation decisions. Although multiple-year contracts may be planned in connection with major procurements, Congress generally appropriates funds on a fiscal year basis even though a program may continue for several years. Consequently, programs often are only partially funded initially, and additional funds are committed only as Congress makes further appropriations. The reduction or termination of funding, or changes in the timing of funding, for a U.S. Government program in which we provide products or services would result in a reduction or loss of anticipated future revenues attributable to that program, and could have a negative impact on our results of operations. While the overall level of U.S. defense spending has increased in recent years for numerous reasons, including increases in funding of operations in Iraq and Afghanistan and the U.S. Department of Defense s military transformation initiatives, we can give no assurance that such spending will continue to grow or not be reduced. Significant changes in national and international priorities for defense spending could impact the funding, or the time of funding, of our programs, which could negatively impact our results of operations and financial condition.

U.S. Government contracts may be terminated at any time and may contain other unfavorable provisions.

The U.S. Government typically can terminate or modify any of its contracts with us either for its convenience or if we default by failing to perform under the terms of the applicable contract. A termination arising out of our default could expose us to liability and have an adverse effect on our ability to compete for future contracts and orders.

If any of our contracts are terminated by the U.S. Government, our backlog would be reduced, in accordance with contract terms, by the expected value of the remaining work under such contracts, and our financial condition and results of operations could be adversely affected. In addition, on those contracts for which we are teamed with others and are not the prime contractor, the U.S. Government could terminate a prime contract under which we are a subcontractor, irrespective of the quality of our products and services as a subcontractor.

As a U.S. Government contractor, we are subject to a number of procurement rules and regulations.

We must comply with and are affected by laws and regulations relating to the formation, administration and performance of U.S. Government contracts. These laws and regulations, among other things, require certification and disclosure of all cost and pricing data in connection with contract negotiation, define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. Government contracts and restrict the use and dissemination of classified information and the exportation of certain products and technical data. Our U.S. Government contracts contain provisions that allow the U.S. Government to unilaterally suspend us from receiving new contracts pending resolution of alleged violations of procurement laws or regulations, reduce the value of existing contracts, issue modifications to a contract and control and potentially prohibit the export of our products, services and associated materials. A violation of specific laws and regulations could result in the imposition of fines and penalties or the termination of our contracts and, under certain circumstances, suspension or debarment from future contracts for a period of time. These laws and regulations affect how we do business with our customers and, in some instances, impose added costs on our business.

Cost overruns on U.S. Government contracts could subject us to losses or adversely affect our future business.

Contract and program accounting require judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. Assumptions have to be made regarding the length of time to complete the contract because costs include expected increases in wages and prices for materials. Incentives or penalties related to performance on contracts are considered in estimating sales and profit rates and are recorded when there is sufficient information for us to assess anticipated performance. Estimates of award fees also are used in estimating sales and profit rates based on actual and anticipated awards. Because of the significance of these estimates, it is likely that different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect our future financial results of operations.

Under fixed-price contracts, we receive a fixed price irrespective of the actual costs we incur, and, consequently, any costs in excess of the fixed price are absorbed by us. Under time and materials contracts, we are paid for labor at negotiated hourly billing rates and for certain expenses. Under cost reimbursement contracts, which are subject to a contract-ceiling amount, we are reimbursed for allowable costs and paid a fee, which may be fixed or performance based. However, if our costs exceed the contract ceiling or are not allowable under the provisions of the contract or applicable regulations, we may not be able to obtain reimbursement for all such costs. Under each type of contract, if we are unable to control costs we incur in performing under the contract, our financial condition and results of operations could be adversely affected. Cost overruns also may adversely affect our ability to sustain existing programs and obtain future contract awards.

Delays in aircraft delivery schedules or cancellation of orders may adversely affect our financial results.

Aircraft customers, including sellers of fractional share interests, may respond to weak economic conditions by delaying delivery of orders or canceling orders. Weakness in the economy may result in fewer hours flown on existing aircraft and, consequently, lower demand for spare parts and maintenance. Weak economic conditions also may cause reduced demand for used business jets or helicopters. We may accept used aircraft on trade-in that would be subject to fluctuations in the fair market value of the aircraft while in inventory. Reduced demand for new and used aircraft, spare parts and maintenance can have an adverse effect on our financial results of operations.

Developing new products and technologies entails significant risks and uncertainties.

Delays or cost overruns in the development and acceptance of new products, or certification of new aircraft products and other products, could affect our financial results of operations. These delays could be caused by unanticipated technological hurdles, production changes to meet customer demands, unanticipated difficulties in obtaining required regulatory certifications of new aircraft products, coordination with joint venture partners or failure on the part of our suppliers to deliver components as agreed. We also could be adversely affected if the general efficacy of our research and development investments to develop products is less than expected. Furthermore, because of the lengthy research and development cycle involved in bringing certain of our products to market, we cannot predict the economic conditions that will exist when any new product is complete. A reduction in capital spending in the aerospace or defense industries could have a significant effect on the demand for new products and technologies under development, which could have an adverse effect on our financial performance or results of operations.

We have entered, and expect to continue to enter, into joint venture, teaming and other arrangements, and these activities involve risks and uncertainties.

We have entered, and expect to continue to enter, into joint venture, teaming and other arrangements, and these activities involve risks and uncertainties, including the risk of the joint venture or related business partner failing to satisfy its obligations, which may result in certain liabilities to us for guarantees and other commitments, the challenges in achieving strategic objectives and expected benefits of the business arrangement, the risk of conflicts arising between us and our partners and the difficulty of managing and resolving such conflicts, and the difficulty of managing or otherwise monitoring such business arrangements.

We may make acquisitions and dispositions that increase the risks of our business.

We may enter into acquisitions or dispositions in the future in an effort to enhance shareholder value. Acquisitions or dispositions involve a certain amount of risks and uncertainties that could result in our not achieving expected benefits. With respect to acquisitions, such risks include difficulties in integrating newly acquired businesses and operations in an efficient and cost-effective manner; challenges in achieving expected strategic objectives, cost savings and other benefits; the risk that the acquired businesses markets do not evolve as anticipated and that the technologies acquired do not prove to be those needed to be successful in those markets; the risk that we pay a purchase price that exceeds what the future results of operations would have merited; and the potential loss of key employees of the acquired businesses. With respect to dispositions, the decision to dispose of a business or asset may result in a writedown of the related assets if the fair market value of the assets, less costs of disposal, is less than the book value. In addition, we may encounter difficulty in finding buyers or alternative exit strategies at acceptable prices and terms and in a timely manner. We may also underestimate the costs of retained liabilities or indemnification obligations. In addition, unanticipated delays or difficulties in effecting acquisitions or dispositions may divert the attention of our management and resources from our existing operations.

Our operations could be adversely affected by interruptions of production that are beyond our control.

Our business and financial results may be affected by certain events that we cannot anticipate or that are beyond our control, such as natural disasters and national emergencies that could curtail production at our facilities and cause delayed deliveries and canceled orders. In addition, we purchase components and raw materials and information technology and other services from numerous suppliers, and, even if our facilities are not directly affected by such events, we could be affected by interruptions at such suppliers. Such suppliers may be less likely than our own facilities to be able to quickly recover from such events and may be subject to additional risks such as financial problems that limit their ability to conduct their operations.

Our business could be adversely affected by strikes or work stoppages and other labor issues.

Approximately 14,000 of our employees, or 32% of our total employees, are unionized. As a result, we may experience work stoppages, which could negatively impact our ability to manufacture our products on a timely basis, resulting in strain on our relationships with our customers and a loss of revenues. In addition, the presence of unions may limit our flexibility in responding to competitive pressures in the marketplace, which could have an adverse effect on our financial results of operations.

In addition to our workforce, the workforces of many of our customers and suppliers are represented by labor unions. Work stoppages or strikes at the plants of our key customers could result in delayed or canceled orders for our products. Work stoppages and strikes at the plants of our key suppliers could disrupt our manufacturing processes. Any of these results could adversely affect our financial results of operations.

Our international business is subject to the risks of doing business in foreign countries.

Our international business exposes us to certain unique and potentially greater risks than our domestic business, and our exposure to such risks may increase if our international business continues to grow. Our international business is subject to local government regulations and procurement policies and practices, including regulations relating to import-export control, investments, exchange controls and repatriation of earnings or cash settlement challenges, as well as to varying currency, geopolitical and economic risks. We also are exposed to risks associated with using foreign representatives and consultants for international sales and operations and teaming with international subcontractors and suppliers in connection with international programs.

Our Finance borrowing group s business is dependent on its continuing access to the capital markets.

Our financings are conducted through two borrowing groups: Finance and Manufacturing. Our Finance group consists of Textron Financial Corporation and its subsidiaries, which are the entities through which we operate in the Finance segment. Our Finance group relies on its access to the capital markets to fund asset growth, fund operations, and meet debt obligations and other commitments. This group raises funds through commercial paper borrowings, issuances of medium-term notes and other term debt securities, and syndication and securitization of receivables. Additional liquidity is provided to our Finance group through bank lines of credit. Much of the capital markets funding is made possible by the maintenance of credit ratings that are acceptable to investors. If the credit ratings of our Finance group were to be lowered, it might face higher borrowing costs, a disruption of its access to the capital markets or both. Our Finance group also could lose access to financing for other reasons, such as a general disruption of the capital markets. Any disruption of our Finance group s access to the capital markets could adversely affect its business and our profitability.

If our Finance group is unable to maintain portfolio credit quality, our financial performance could be adversely affected.

A key determinant of financial performance of our Finance group is its ability to maintain the quality of loans, leases and other credit products in its finance asset portfolios. Portfolio quality may adversely be affected by several factors, including finance receivable underwriting procedures, collateral quality, geographic or industry concentrations, or general economic downturns. Any inability by our Finance group to successfully collect its finance receivable portfolio and to resolve problem accounts may adversely affect our cash flow, profitability and financial condition.

We are subject to legal proceedings and other claims.

We are subject to legal proceedings and other claims arising out of the conduct of our business, including proceedings and claims relating to private transactions; government contracts; lack of compliance with applicable laws and regulations; production partners; product liability; employment; and environmental, safety and health matters. Under federal government procurement regulations, certain claims brought by the U.S. Government could result in our being suspended or debarred from U.S. Government contracting for a period of time. On the basis of information presently available, we do not believe that existing proceedings and claims will have a material effect on our financial position or results of operations. However, litigation is inherently unpredictable, and we could incur judgments or enter into settlements for current or future claims that could adversely affect our financial position or our results of operations in any particular period.

The levels of our reserves are subject to many uncertainties and may not be adequate to cover writedowns or losses.

In addition to reserves at our Finance group, we establish reserves in our Manufacturing group to cover uncollectible accounts receivable, excess or obsolete inventory, fair market value writedowns on used aircraft and golf cars, recall campaigns, warranty costs and litigation. These reserves are subject to adjustment from time to time depending on actual experience and are subject to many uncertainties, including bankruptcy or other financial problems at key customers.

In the case of litigation matters for which reserves have not been established because the loss is not deemed probable, it is reasonably possible such matters could be decided against us and could require us to pay damages or make other expenditures in amounts that are not presently estimable.

The effect on our financial results of many of these factors depends, in some cases, on our ability to obtain insurance covering potential losses at reasonable rates.

Currency, raw material price and interest rate fluctuations may adversely affect our results.

We are exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates, raw material prices and interest rates. We monitor and manage these exposures as an integral part of our overall risk management program. In some cases, we purchase derivatives or enter into contracts to insulate our financial results of operations from these fluctuations. Nevertheless, changes in currency exchange rates, raw material prices and interest rates can have substantial adverse effects on our financial results of operations.

We may be unable to effectively mitigate pricing pressures.

In some markets, particularly where we deliver component products and services to original equipment manufacturers, we face ongoing customer demands for price reductions, which sometimes are contractually obligated. In some cases, we are able to offset these reductions through technological advances or by lowering our cost base through improved operating and supply chain efficiencies. However, if we are unable to effectively mitigate future pricing pressures, our financial results of operations could be adversely affected.

Failure to perform by our subcontractors or suppliers could adversely affect our performance.

We rely on other companies to provide raw materials, major components and subsystems for our products. Subcontractors also perform services that we provide to our customers in certain circumstances. We depend on these subcontractors and vendors to meet our contractual obligations to our customers. Our ability to meet our obligations to our customers may be adversely affected if suppliers do not provide the agreed-upon supplies or perform the agreed-upon services in compliance with customer requirements and in a timely and cost-effective manner. Such events may adversely affect our financial results of operations or damage our reputation and relationships with our customers. The risk of these adverse effects may be greater in circumstances where we rely on only one or two subcontractors or suppliers for a particular product or service.

The increasing costs of certain employee and retiree benefits could adversely affect our results.

Our earnings and cash flow may be impacted by the amount of income or expense we expend or record for employee benefit plans. This is particularly true for our pension plans, which are dependent on actual plan asset returns and factors used to determine the value and current costs of plan benefit obligations.

In addition, medical costs are rising at a rate faster than the general inflation rate. Continued medical cost inflation in excess of the general inflation rate increases the risk that we will not be able to mitigate the rising costs of medical benefits. Increases to the costs of pension and medical benefits could have an adverse effect on our financial results of operations.

Unanticipated changes in our tax rates or exposure to additional income tax liabilities could affect our profitability.

We are subject to income taxes in both the U.S. and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of income among these different jurisdictions. Our effective tax rates could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities or changes in tax laws, which could affect our profitability. In particular, the carrying value of deferred tax assets is dependent on our ability to generate future taxable income. In addition, the amount of income taxes we pay is subject to audits in various jurisdictions, and a material assessment by a tax authority could affect our profitability.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

On December 29, 2007, we operated a total of 77 plants located throughout the U.S. and 56 plants outside the U.S. We own 68 plants and lease the remainder for a total manufacturing space of approximately 22.2 million square feet.

We also own or lease offices, warehouse and other space at various locations. We consider the productive capacity of the plants operated by each of our business segments to be adequate. In general, our facilities are in good condition, are considered to be adequate for the uses to which they are being put and are substantially in regular use.

Item 3. Legal Proceedings

We are subject to actual and threatened legal proceedings and other claims arising out of the conduct of our business. These proceedings include claims relating to private transactions, government contracts, lack of compliance with applicable laws and regulations, production partners, product liability, employment, and environmental, safety and health matters. Some of these legal proceedings seek damages, fines or penalties in substantial amounts or remediation of environmental contamination. Under federal government procurement regulations, certain claims brought by the U.S. Government could result in our suspension or debarment from U.S. Government contracting for a period of time. On the basis of information presently available, we do not believe that existing proceedings and claims will have a material effect on our financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of our security holders during the last quarter of the period covered by this Annual Report on Form 10-K.

Executive Officers of the Registrant

The following table sets forth certain information concerning our executive officers as of February 20, 2008. All of our executive officers are members of our Management Committee and Transformation Leadership Team.

Name	Age	Current Position with Textron Inc.
Lewis B. Campbell	61	Chairman, President and Chief Executive Officer; Director
Kenneth C. Bohlen	55	Executive Vice President and Chief Innovation Officer
John D. Butler	60	Executive Vice President Administration and Chief Human Resources Officer
Ted R. French	53	Executive Vice President and Chief Financial Officer
Mary L. Howell	55	Executive Vice President Government Affairs, Strategy and Business Development, International, Communications and Investor Relations
Terrence O Donnell	63	Executive Vice President and General Counsel

Mr. Campbell joined Textron in September 1992 as Executive Vice President and Chief Operating Officer. He was named Chief Executive Officer in July 1998 and was appointed Chairman of our Board of Directors in February 1999. Mr. Campbell served as President and Chief Operating Officer from January 1994 to July 1998 and reassumed the position of President in September 2001. Mr. Campbell has been a Director of Textron since January 1994 and is Chairman of our International Advisory Council.

Mr. Bohlen joined Textron in November 1999 as Senior Vice President and Chief Information Officer and became Executive Vice President and Chief Innovation Officer in April 2000.

Mr. Butler joined Textron in July 1997 as Executive Vice President and Chief Human Resources Officer and became Executive Vice President Administration and Chief Human Resources Officer in January 1999.

Mr. French joined Textron in December 2000 as Executive Vice President and Chief Financial Officer of Textron Inc. and assumed the additional position of Chairman and Chief Executive Officer of Textron Financial Corporation in January 2004.

Ms. Howell has been Executive Vice President Government Affairs, Strategy and Business Development, International, Communications and Investor Relations since October 2000 and serves on our International Advisory Council. Ms. Howell joined Textron in 1980 and became an Executive Vice President in August 1995.

Mr. O Donnell joined Textron as Executive Vice President and General Counsel in March 2000. Mr. O Donnell is a Senior Partner in the Washington, D.C.-based law firm of Williams & Connolly, which he first joined in 1977. From 1989 to 1992, he served as General Counsel of the U.S. Department of Defense.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The principal market on which our common stock is traded is the New York Stock Exchange under the symbol TXT. Our stock also is traded on the Chicago Stock Exchange. At December 29, 2007, there were approximately 15,000 record holders of Textron common stock. On July 18, 2007, our Board of Directors approved a two-for-one split of our common stock effected in the form of a 100% stock dividend. The additional shares resulting from the stock split were distributed on August 24, 2007 to shareholders of record on August 3, 2007. Prior period per share data has been restated to reflect this stock split. The high and low common stock prices per share as reported on the New York Stock Exchange, and the dividends paid per share are provided in the following table:

	2007			2006		
	High	Low	Dividends per Share	High	Low	Dividends per Share
First quarter	$ 49.10	$ 44.08	$ 0.194	$ 47.20	$ 37.88	$ 0.194
Second quarter	56.91	45.35	0.194	49.05	41.25	0.194
Third quarter	63.13	53.01	0.23	46.56	40.55	0.194
Fourth quarter	73.38	62.58	0.23	49.19	44.09	0.194

Issuer Repurchases of Equity Securities

Fourth Quarter	Total Number of Shares Purchased	Average Price Paid per Share (excluding commissions)	Total Number of Shares Purchased as Part of Publicly Announced Plan*	Maximum Number of Shares That May Be Purchased under the Plan**
Month 1 (September 30, 2007 November 3, 2007)	8,134*	$ 66.04		22,749,000
Month 2 (November 4, 2006 December 1, 2007)				22,749,000
Month 3 (December 2, 2007 December 29, 2007)	962*	70.61		22,749,000
Total	9,096	66.53		

* *Amount represents the number of shares we received as payment for the exercise price of employee stock options, which are not included in the publicly announced plan.*

** *On July 18, 2007, our Board of Directors approved a new plan authorizing the repurchase of up to 24 million shares of our common stock. The plan has no expiration date.*

Stock Performance Graph

The following graph compares the change in value of $100 invested on December 31, 2002 in Textron common stock, the Standard & Poor s 500 Stock Index and a market-weighted peer group index. The values calculated assume dividend reinvestment. Our peer group consists of the following 17 companies, which operate in the various industries in which we conduct business: The Boeing Company, Crane Co., Dover Corporation, General Dynamics Corporation, Honeywell International, Inc., Illinois Tool Works Inc., ITT Industries, Inc., Johnson Controls Inc., Lockheed Martin Corporation, Millipore Corporation, Northrop Grumman Corporation, Pall Corp., Parker Hannifin Corp., Raytheon Company, Rockwell Automation, Inc., Tyco International LTD. and United Technologies Corporation.

Item 6. Selected Financial Data

(Dollars in millions, except per share amounts and where otherwise noted)	2007	2006	2005	2004	2003
Revenues					
Bell	$ 3,915	$ 3,408	$ 2,881	$ 2,254	$ 2,348
Cessna	5,000	4,156	3,480	2,473	2,299
Industrial	3,435	3,128	3,054	3,046	2,836
Finance	875	798	628	545	572
Total revenues	$ 13,225	$ 11,490	$ 10,043	$ 8,318	$ 8,055
Segment profit					
Bell	$ 335	$ 249	$ 368	$ 250	$ 234
Cessna	865	645	457	267	199
Industrial	218	163	150	194	150
Finance	222	210	171	139	122
Total segment profit	1,640	1,267	1,146	850	705
Special charges			(118)	(59)	(77)
Gain on sale of businesses					15
Corporate expenses and other, net	(253)	(202)	(199)	(157)	(123)
Interest expense, net	(87)	(90)	(90)	(94)	(96)
Income taxes	(385)	(269)	(223)	(165)	(109)
Distributions on preferred securities, net of income taxes					(13)
Income from continuing operations	$ 915	$ 706	$ 516	$ 375	$ 302
Per share of common stock**					
Income from continuing operations basic	$ 3.66	$ 2.76	$ 1.93	$ 1.36	$ 1.11
Income from continuing operations diluted	$ 3.59	$ 2.71	$ 1.89	$ 1.34	$ 1.10
Dividends declared	$ 0.85	$ 0.78	$ 0.70	$ 0.66	$ 0.65
Book value at year-end	$ 13.99	$ 10.51	$ 12.55	$ 13.45	$ 13.40
Common stock price: High	$ 73.38	$ 49.19	$ 40.02	$ 37.31	$ 28.85
Low	$ 44.08	$ 37.88	$ 32.92	$ 25.42	$ 13.42
Year-end	$ 71.62	$ 46.88	$ 38.49	$ 36.90	$ 28.59
Common shares outstanding *(In thousands)***					
Basic average	249,792	255,098	267,062	274,674	271,750
Diluted average*	254,826	260,444	272,892	280,339	274,434
Year-end	250,061	251,192	260,370	270,746	274,476
Financial position					
Total assets	$ 19,956	$ 17,550	$ 16,499	$ 15,875	$ 15,171
Manufacturing group debt	$ 2,148	$ 1,800	$ 1,934	$ 1,770	$ 2,008
Finance group debt	$ 7,311	$ 6,862	$ 5,420	$ 4,783	$ 4,407
Mandatorily redeemable preferred securities Finance group	$	$	$	$	$ 26
Shareholders equity	$ 3,507	$ 2,649	$ 3,276	$ 3,652	$ 3,690
Manufacturing group debt-to-capital (net of cash)	32%	29%	26%	25%	30%
Manufacturing group debt-to-capital	38%	40%	37%	33%	35%
Investment data					
Capital expenditures, including capital leases	$ 423	$ 447	$ 380	$ 294	$ 289
Depreciation	$ 298	$ 271	$ 284	$ 265	$ 260
Research and development	$ 814	$ 786	$ 692	$ 574	$ 573
Other data					
Number of employees at year-end	44,000	40,000	37,000	34,000	31,000
Number of common shareholders at year-end	15,000	16,000	17,000	18,000	19,000

** Diluted average common shares outstanding assumes full conversion of outstanding preferred stock and exercise of stock options.*

*** All prior periods presented have been restated to reflect a two-for-one stock split in 2007.*

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

2007 was an exceptional year in many respects. We experienced strong sales and organic growth, particularly in our aerospace and defense businesses. Cessna set a new record with 773 jet orders, while demand for commercial helicopters remained strong with Bell Helicopter recording 268 orders. Our aircraft and defense backlog increased to $18.8 billion, up 45% from a year ago.

We strategically acquired businesses to complement our core growth areas, the most significant of which was the acquisition of United Industrial Corporation (UIC). UIC, operating through its wholly owned subsidiary, AAI Corporation (AAI), is a leading provider of intelligent aerospace and defense systems, including unmanned aircraft and ground control stations, aircraft and satellite test equipment, training systems and countersniper devices. In addition to AAI, we acquired certain assets of CAV-Air LLC, a helicopter maintenance and service center; Columbia Aircraft Manufacturing Corporation, which produces high-performance, single engine aircraft; and Paladin Tools, a provider of tools and accessories for the telecommunications industry. We paid approximately $1.1 billion in cash for these four acquisitions.

We also made considerable investments in innovation, new product development and capacity expansion across our businesses, including the continued development of our commercial aircraft product offerings, with the Bell Model 429 and the Cessna CJ4.

In our Finance segment, we generated significant growth in our managed finance receivables, while portfolio quality statistics remained relatively stable.

In July, our Board of Directors approved a two-for-one stock split of our common stock and increased our annual dividend by 19% to $0.92 per share. We have continued to repurchase our common stock, spending $295 million in 2007 to acquire approximately 6 million shares. With a 30% increase in income from continuing operations during 2007 and these share repurchases, our diluted earnings per share from continuing operations increased 32% to $3.59 per share.

* *Diluted earnings per share are for continuing operations only.*

Consolidated Results of Operations

Revenues

Revenues increased $1.7 billion, or 15%, to $13.2 billion in 2007, compared with 2006. The primary reasons for this increase are:

• Higher manufacturing volume of $1.0 billion with $631 million at Cessna, primarily related to an increase in business jet deliveries; $253 million in Bell s U.S. Government business, largely related to the H-1 program and higher armored security vehicle (ASV) deliveries; and a $148 million increase in the Industrial segment, principally due to higher demand at Kautex;

• Higher pricing of $344 million, with $212 million at Cessna, $94 million in Bell s commercial business and $46 million in the Industrial segment;

• Additional revenues from newly acquired businesses of $166 million, primarily the acquisitions of Overwatch Systems and AAI in the Bell segment;

• Favorable foreign exchange impact of $148 million in the Industrial segment; and

• A $66 million impact from higher average finance receivables due to growth in the aviation and resort finance businesses in the Finance segment.

In 2006, our revenues increased $1.5 billion, or 14%, compared with 2005, primarily due to higher manufacturing sales volume of $1.0 billion, higher pricing of $274 million and higher revenues in the Finance segment of $170 million.

Segment Profit

Segment profit increased $373 million, or 29%, to $1.6 billion in 2007, compared with 2006. This increase is primarily due to the following factors, which were partially offset by inflation of $256 million:

• Higher pricing of $344 million, with $212 million at Cessna, $94 million in Bell s commercial business and $46 million in the Industrial segment;

• Favorable cost performance of $164 million, which includes net charges in 2007 for the Armed Reconnaissance Helicopter (ARH) Low Rate Initial Production (LRIP) program of $50 million, the $32 million favorable impact of the recovery of ARH System Development and Demonstration (SDD) launch-related costs written off in 2006 and lower charges related to the H-1 LRIP program of $43 million;

• A $148 million net benefit from higher volume, partially offset by unfavorable product mix; and

• Profit from newly acquired businesses of $20 million.

In 2006, our segment profit increased $121 million, or 11%, compared with 2005, primarily due to higher pricing of $274 million, higher sales volume of $198 million, improved cost performance of $54 million in the Industrial segment, favorable warranty performance at Cessna of $39 million and higher profit in the Finance segment of $39 million. These increases were partially offset by inflation of $272 million, higher spending for engineering and new product development of $74 million, higher overhead of $55 million in Bell s commercial business and increased charges related to the H-1 LRIP program of $68 million.

Corporate Expenses and Other, net

Corporate expenses and other, net increased $51 million in 2007, compared with 2006, primarily due to the following:

• $26 million of higher compensation expenses, largely related to stock appreciation;

• $14 million of higher professional and consulting fees, related to corporate initiatives;

• $11 million of increased costs for divested operations, primarily due to higher pension costs and other retained liabilities; and

• A $6 million increase in our contribution to the Textron Charitable Trust;

• Partially offset by an $8 million gain on an insurance settlement.

Corporate expenses and other, net increased $3 million in 2006, compared with 2005, principally due to $7 million of higher share-based compensation expense and $4 million of higher incentive compensation, partially offset by $8 million of lower expenses related to corporate initiatives.

Special Charges

There were no special charges in 2007 or 2006. In 2005, special charges totaled $118 million and included $112 million related to the 2001 disposition of the Automotive Trim (Trim) business and $6 million in restructuring expense in the Industrial segment.

In 2005, the $112 million in special charges that were incurred in connection with the disposition of Trim included $91 million in impairment charges to write down preferred stock acquired in the disposition and $21 million to cover exposures related to certain guarantees for leases, environmental and workers compensation matters.

Income Taxes

Our effective tax rate increased to 29.6% in 2007 from 27.6% in 2006. In comparison with the Federal statutory rate, in 2007 we had a 1.7% less favorable impact attributed to our foreign tax rate differential, a 1.2% favorable impact on the 2006 rate related to the adoption of the Canadian dollar as the functional currency for U.S. tax purposes of one of our Canadian subsidiaries, and a 1.3% less favorable impact from tax settlements in 2007, compared with settlements in 2006, partially offset by a 1.3% impact from lower state income taxes and a 1% benefit related to the manufacturing deduction. The effective tax rate decreased to 27.6% in 2006 from 30.2% in 2005, largely due to the impact of these items on the 2006 effective tax rate.

Discontinued Operations

Discontinued operations primarily reflect after-tax results of the Fastening Systems business, which was sold in 2006. Operating results of our discontinued businesses are summarized in Note 2 to the Consolidated Financial Statements.

In 2006, the loss from discontinued operations primarily includes a $120 million after-tax impairment charge for the Fastening Systems business based on the estimated fair value less cost to sell at the time according to offers received from potential purchasers. In 2005, the loss from discontinued operations includes a $335 million goodwill impairment charge related to the Fastening Systems business. In addition, we recorded an after-tax charge of approximately $52 million, which included $37 million related to previously deferred foreign currency translation losses and $7 million in curtailment losses for employee retirement plans. The gain on disposal, net of income taxes, of $46 million in 2005 primarily related to a tax benefit recorded upon the sale of InteSys.

Segment Analysis

Our four reportable segments are: Bell, Cessna, Industrial and Finance. These segments reflect the manner in which we manage our operations. Segment profit is an important measure used for evaluating performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense, certain corporate expenses and special charges. The measurement for the Finance segment includes interest income and expense and excludes special charges.

Each segment s revenues and profit as a percentage of consolidated revenues and profit are provided below:

Bell

(Dollars in millions)	2007	2006	2005
Revenues	$ 3,915	$ 3,408	$ 2,881
Segment profit	$ 335	$ 249	$ 368
Profit margin	9%	7%	13%
Backlog at Bell Helicopter	$ 3,809	$ 3,119	$ 2,812
Backlog at Textron systems	$ 2,379	$ 1,335	$ 1,169

Bell Helicopter is in the early stages of development or production for a number of government and commercial programs that are anticipated to significantly drive revenue and profit growth in future years. Government programs generally follow a three-phase cycle consisting of: development, transition to production and full-rate production. Each phase has specific risks and operational challenges. Over the next few years, the segment s major government programs will be transitioning through various phases of this cycle. Bell Helicopter programs with the U.S. Government include the V-22 tiltrotor, the H-1 and the ARH. Bell Helicopter s commercial business has invested in the commercial version of the tiltrotor aircraft and the new Model 429 during 2007; we expect to receive FAA certification of the Model 429 in the 2008-2009 time-frame. Major programs at Textron Systems include the ASV and unmanned aircraft systems.

In the past two years, we have made significant investments to conduct research and development, transition development contracts to production, increase our production capacity and implement improved operational systems to manage anticipated growth in Bell Helicopter s government programs and commercial product lines. The costs of investing in improved operational systems resulted in higher overhead expenses during 2006. Due to the shorter production cycle for our commercial business, the higher overhead costs in 2006 were reflected in lower earnings in that year; however, since our government business has a longer production cycle, a portion of these costs was also absorbed into work-in-progress inventory, particularly for the V-22. Accordingly, as V-22 aircraft were delivered in 2007, the overhead expenses reflected in inventory resulted in lower margins. While overhead expenses moderated in 2007, we expect higher overhead costs in the future largely due to costs incurred to support significant ramp-up to full-rate production of the V-22 aircraft.

During 2007, Textron Systems successfully integrated its fourth quarter 2006 acquisition, Overwatch Systems, into its business and completed the acquisition of AAI. As a leading provider of intelligent aerospace and defense systems, including unmanned aircraft and ground control stations, aircraft and satellite test equipment, training systems and countersniper devices, AAI significantly augments our product offering to the U.S. Government.

Bell Revenues

U.S. Government Business

Revenues increased $388 million in 2007 for the U.S. Government business, compared with 2006, primarily due to higher volume and mix of $253 million and revenues from newly acquired businesses of $122 million. The volume increase is primarily due to the following:

- $161 million in higher H-1 program revenue, principally due to delivery of the first 10 production units;
- $78 million in higher ASV revenue due to a 21% increase in deliveries to 576 units;
- A $70 million increase in V-22 program revenue, primarily due to higher spares revenues;
- $56 million in higher revenue for Intelligent Battlefield Systems; and
- A $16 million increase from Sensor Fused Weapon deliveries.

These increases were partially offset by:

• Lower spares and service sales of $74 million for military helicopters other than the V-22 and

• Lower Joint Direct Attack Munitions volume of $63 million.

In 2006, revenues increased $376 million, compared with 2005, primarily due to higher net volume and mix of $343 million and the benefit from acquisitions of $28 million. The volume increase is primarily due to higher ASV deliveries of $286 million, higher ARH SDD development revenues of $94 million, increased spares and service sales of $37 million, and additional Intelligent Battlefield Systems volume of $22 million, partially offset by lower V-22 volume of $80 million and lower H-1 revenue of $18 million.

Commercial Business

In 2007, revenues for the commercial business increased $119 million, compared with 2006, primarily due to higher pricing of $94 million and revenues from newly acquired businesses of $43 million, partially offset by lower volume of $17 million. Volume decreased as higher helicopter deliveries of $50 million were more than offset by lower Huey II kit deliveries of $44 million and lower spares and service volume of $18 million.

In 2006, revenues increased $151 million for our commercial business, compared with 2005, due to higher volume of $105 million and pricing of $46 million. The volume increase is primarily due to higher civil aircraft deliveries of $176 million, higher spares and service sales of $53 million, and additional deliveries of Huey II kits of $10 million, partially offset by lower international military deliveries of $116 million.

Bell Segment Profit

U.S. Government Business

Segment profit in our U.S. Government business increased $39 million in 2007, compared with 2006, primarily due to improved cost performance of $64 million, higher net volume and mix of $16 million, and the benefit from acquisitions of $10 million, partially offset by the impact from inflation and pricing of $30 million. The improved cost performance is primarily due to:

• $43 million in lower charges for the H-1 LRIP program, which are discussed in more detail below;

• $25 million in lower costs related to the ARH SDD contract due to a $14 million 2006 write-off of launch-related costs and the $11 million impact of the subsequent partial recovery of these costs; and

• $21 million in improvements with ASV due to improved productivity and lower indirect costs;

• Partially offset by $50 million in ARH LRIP 2007 charges as discussed below; and

• $22 million in lower V-22 profitability largely due to a $15 million impact from lower margin units, which have been unfavorably impacted by higher overhead costs associated with increasing production capacity, and a $6 million award fee recognized in 2006.

In 2006, profit in our U.S. Government business decreased $25 million, compared with 2005. The decrease was primarily due to inflation of $33 million and unfavorable cost performance of $24 million, partially offset by the impact of higher net volume and mix of $35 million. The unfavorable performance reflected higher anticipated costs for the H-1 LRIP contracts of $68 million and charges of $14 million related to the ARH SDD contract, partially offset by favorable program performance at Textron Systems of $34 million, primarily related to Hurricane Katrina.

H-1 Program The H-1 program continues in development while we are concurrently working on the initial production aircraft under firm fixed-price LRIP contracts with the U.S. Government. In 2006, we recorded program charges of $82 million related to the LRIP contracts. Through the third quarter of 2006, we recorded $29 million in charges based on our estimate that the costs to complete would exceed contractual reimbursement during the transition to production phase. These charges primarily reflected the impact of higher estimated incremental costs for resources added to meet the contractual schedule requirements and higher anticipated efforts in final assembly. In the fourth quarter of 2006, acceptance of the initial aircraft by the U.S. Government was delayed, and no aircraft were delivered. This delay was a result of changes in the development and engineering requirements that were identified in the final stages of assembly and acceptance testing. Due to this delay and the costs associated with the additional development efforts, rework of in-process units and resulting inefficiencies, and a reduction in previously anticipated learning curve improvements, we increased our estimate of the completion costs and recorded an additional $53 million charge in the fourth quarter of 2006.

During 2007, the production process has continued to mature, and we have completed delivery of all the Lot 1 aircraft as well as the first Lot 2 aircraft. Our manufacturing performance during the year has been substantially consistent with our expectations. Prospectively, our costs are anticipated to increase primarily due to anticipated delays in receiving cabins from a supplier. Additionally, during the fourth quarter, we committed to higher pricing levels on an anticipated Lot 5 contract that will likely result in a loss once contract negotiations are finalized, primarily due to higher cabin supplier costs. Accordingly, in the fourth quarter of 2007, we recorded a net charge of $30 million to reflect the higher cost estimates for existing contract completion resulting from supplier delays, as well as the estimated loss resulting from our price commitment on the Lot 5 contract.

ARH Program The ARH SDD contract is a cost plus incentive fee contract under which our eligibility for fees is reduced as total contract costs increase. In 2006, we continued our development activities as costs exceeded the original contract amount for this program and expensed $14 million in unreimbursed costs related to this effort. In the third quarter of 2007, we reached an agreement with our customer under which we recovered $18 million of launch-related costs previously written off. The amount included $11 million that had been charged to our U.S. Government business and $7 million that had been charged to our Commercial business through overheads. In December 2007, we agreed to expand the scope of the development contract efforts on a funded basis.

In the fourth quarter of 2006, we completed certain phases of the critical design review under the ARH SDD contract and determined the initial production configuration of the aircraft, including aircraft configuration changes required by the U.S. Government. Our cost estimates based on this configuration, which included anticipated transition to production costs, exceeded the fixed pricing contained in two options the U.S. Government had under this program for the first two LRIP lots. The option for the first LRIP lot expired in 2006, while the option for the second lot (for 18-36 aircraft) was set to expire in December 2007. At that time, we were in discussions with the U.S. Government related to the possible reinstatement of the first option, extension of the second option, delivery schedule, number of units to be exercised under the options and possible additional aircraft to be contracted, in addition to those under the options, at revised pricing. At the end of 2006, due to the uncertainty of this exposure and the ultimate outcome of our discussions with the U.S. Government, we did not believe that a loss was probable under the guidelines established by Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies.

In March 2007, we received correspondence from the U.S. Government that created uncertainty about whether it would proceed into the production phase of the ARH program. Accordingly, we provided for losses of $18 million in supplier obligations for long-lead component production incurred at our own risk to support anticipated ARH LRIP contract awards.

In the second quarter of 2007, the U.S. Army agreed to re-plan the ARH program, and we reached a non-binding memorandum of understanding (MOU) related to aircraft specifications, pricing methodology and delivery schedules for initial LRIP aircraft. We also agreed to conduct additional SDD activities on a funded basis. Based on the plan at that time and our related estimates of aircraft production costs, including costs related to risks associated with achieving learning curve and schedule assumptions, we expected to lose approximately $73 million on the production of the proposed initial LRIP aircraft. Accordingly, an additional charge of $55 million was taken in the second quarter of 2007 for estimated LRIP contract losses.

In December 2007, the U.S. Government s remaining option related to production of aircraft under the original ARH program expired unexercised. We are continuing to restructure the program through negotiations with the U.S. Government, including reducing the number of units and modifying the pricing and delivery schedules previously reached under the MOU. Based on the current status of these negotiations and our contractual commitments with our vendors related to materials for the anticipated production units we have procured at our risk, we have revised our best estimate of the expected loss to $50 million, resulting in a $23 million reduction of previously established reserves. We expect that the initial LRIP contract awards will be finalized in mid-2008. Until the contract negotiations are finalized, including pricing, aircraft specifications and delivery schedules, losses related to future contract awards or additional recovery of our vendor obligations are uncertain.

Commercial Business

In 2007, profit increased $47 million, compared with 2006, primarily due to higher pricing of $94 million and lower engineering, research and development expense of $18 million, partially offset by inflation of $44 million and the net impact of an unfavorable product mix of $23 million. Lower overhead expense of $36 million, which included a $7 million recovery discussed above related to the ARH program, was offset by higher costs of $37 million as we streamlined our legacy commercial product line, resulting in certain vendor termination costs.

In 2006, profit decreased $94 million, compared with 2005, primarily due to unfavorable cost performance of $140 million and inflation of $28 million, partially offset by higher pricing of $46 million and the impact of increased volume and mix of $42 million.

The unfavorable cost performance reflected increased overhead costs of $55 million, the impact of the $30 million gain on the sale of our interest in the Model AB139 program in 2005, higher net research and development expense of $29 million, and the $13 million prior year impact of the resolution of uncertainties and receipt of cash related to a collaborative research and development agreement, partially offset by $18 million in additional reserves recorded by Lycoming in 2005 for a crankshaft retirement program and related service bulletins.

Cessna

(Dollars in millions)		2007		2006		2005
Revenues	$	5,000	$	4,156	$	3,480
Segment profit	$	865	$	645	$	457
Profit margin		17%		16%		13%
Backlog	$	12,583	$	8,467	$	6,342

Demand in the business jet market continued to strengthen in 2007, which was reflected in a 49% increase in our backlog, in addition to a 26% increase in business jet deliveries. Over the past three years, Cessna has increased its annual production rate and has continued to focus on improving margins while investing in engineering, research and development in Cessna s continual effort to bring new technology and products to market. Citation business jets are the largest component of Cessna s revenues. We delivered 387, 307 and 252 Citation business jets in 2007, 2006 and 2005, respectively.

Cessna Revenues

In 2007, Cessna s revenues increased $844 million, compared with 2006, due to higher volume of $631 million, primarily due to higher Citation business jet deliveries, and improved pricing of $212 million. In 2006, revenues increased $676 million, compared with 2005, due to higher volume of $493 million, primarily related to Citation business jets, and improved pricing of $183 million.

Cessna Segment Profit

In 2007, Cessna s segment profit increased $220 million, compared with 2006, primarily due to improved pricing, along with the $139 million impact of higher volume and favorable warranty performance of $14 million, partially offset by inflation of $106 million and increased engineering and product development expense of $41 million. Favorable warranty performance included the $19 million impact of lower estimated warranty costs for aircraft sold in 2007 related to initial model launches as discussed below, partially offset by a lower benefit of $5 million from other favorable warranty performance (a $28 million benefit in 2007, compared with $33 million in 2006).

Segment profit increased $188 million at Cessna in 2006, compared with 2005, primarily due to improved pricing, the $102 million impact of higher volume and favorable warranty performance of $39 million, partially offset by inflation of $112 million and higher engineering and product development costs of $41 million. Favorable warranty performance included the $24 million impact of lower estimated warranty costs for aircraft sold in 2006 related to initial model launches as discussed below, as well as a $15 million incremental benefit from other favorable warranty performance in 2006 (a $33 million benefit in 2006, compared with $18 million in 2005).

During initial model launches, Cessna typically incurs higher warranty-related costs until the production process matures, at which point warranty costs generally moderate. For the Sovereign and CJ3 production lines, in the second half of 2006 management estimated that the production lines had reached this maturity level based on historical production and warranty patterns, resulting in lower estimated warranty costs than earlier production aircraft. Accordingly, Cessna has had favorable warranty performance in the past two years due to the lower point-of-sale warranty costs for Sovereign and CJ3 aircraft sold. Management expects improved performance on these models to continue in the foreseeable future.

Industrial

(Dollars in millions)	2007	2006	2005
Revenues	$ 3,435	$ 3,128	$ 3,054
Segment profit	$ 218	$ 163	$ 150
Profit	6%	5%	5%

The Industrial segment includes the businesses of Kautex, Fluid & Power, Greenlee, E-Z-GO and Jacobsen. During 2007, we experienced positive organic revenue growth, largely due to double-digit increases at Fluid & Power and Greenlee, including record sales at Fluid & Power. In the fourth quarter, Greenlee expanded its product offerings through its acquisition of Paladin Tools, and E-Z-GO introduced its new energy-efficient RXV golf car.

Industrial Revenues

Revenues in the Industrial segment increased $307 million in 2007, compared with 2006, primarily due to higher volume of $148 million, favorable foreign exchange impact of $148 million and higher pricing of $46 million, partially offset by the 2006 divestiture of non-core product lines of $37 million.

Revenues in the Industrial segment increased $74 million in 2006, compared with 2005, primarily due to higher volume of $89 million, higher pricing of $46 million and a favorable foreign exchange impact of $10 million, partially offset by the divestiture of non-core product lines of $72 million.

Industrial Segment Profit

Segment profit in the Industrial segment increased $55 million in 2007, compared with 2006, mainly due to improved cost performance of $60 million, higher pricing of $46 million, the $20 million impact of higher volume and mix, and a $15 million gain on the sale of land, partially offset by inflation of $83 million. Improved cost performance was primarily attributable to cost reduction efforts at Kautex, while inflation largely reflects increases in material costs.

Segment profit in the Industrial segment increased $13 million in 2006, compared with 2005, mainly due to $54 million of improved cost performance, higher pricing of $46 million and the $24 million impact of higher net volume and mix, partially offset by $100 million of inflation and a $7 million impact from divestitures of non-core product lines.

Finance

(Dollars in millions)	2007	2006	2005
Revenues	$ 875	$ 798	$ 628
Segment profit	$ 222	$ 210	$ 171
Profit	25%	26%	27%

During 2007, our Finance segment s managed finance receivables grew by 9% to $11 billion, while our portfolio quality statistics remained relatively stable. As a percentage of finance receivables, our 60+ day delinquency decreased to 0.43% at the end of 2007 from 0.77% at the end of 2006, while nonperforming assets as a percentage of finance assets increased to 1.34% from 1.28%, respectively. Managed finance receivables include finance receivables that are owned and reported on our balance sheet, along with securitized or sold finance receivables for which risks of ownership are retained to the extent of our subordinated interests. In 2008, we expect continued growth in our managed finance receivables at a moderate pace and continued stability in our portfolio quality statistics.

The disruption in the credit market during the second half of 2007 had minimal impact on our Finance segment s ability to access the capital markets to refinance its maturing debt obligations and to fund growth in the finance receivable portfolio. However, this disruption in the credit markets did result in an increase in our borrowing costs. The increase in the spread between the London Interbank Offered Rate (LIBOR), the primary index against which our variable-rate debt is priced, and the Federal Funds rate had an $11 million negative impact on borrowing spreads. This negative impact was almost completely mitigated by the issuances of new lower cost debt.

Finance Revenues

Revenues in the Finance segment increased $77 million in 2007, compared with 2006. Our revenue growth is primarily attributed to the following factors:

• Higher average finance receivables of $722 million, primarily due to growth in the aviation and resort finance businesses, which resulted in additional revenues of $66 million;

• $21 million gain on the sale of a leveraged lease investment; and

• $20 million increase in securitization income, primarily related to a $588 million increase in the level of receivables sold into the distribution finance revolving securitization.

These increases were partially offset by the following decreases:

• $17 million decrease in portfolio yields related to competitive pricing pressures;

• $13 million in lower leveraged lease earnings due to an unfavorable cumulative earnings adjustment attributable to the recognition of residual value impairments; and

• $8 million reduction in leveraged lease earnings from the adoption of a new accounting standard.

Revenues in the Finance segment increased $170 million in 2006, compared with 2005. The increase was primarily due to a $103 million increase related to higher average finance receivables and a $90 million increase from the higher interest rate environment, partially offset by an $18 million decrease in other income, largely due to lower fees and securitization income. Average finance receivables increased $1.3 billion from levels in the corresponding period in 2005, primarily due to growth in the distribution, golf and aviation finance businesses.

Finance Segment Profit

Segment profit in the Finance segment increased $12 million in 2007, compared with 2006, primarily due to a $30 million increase in net interest margin, partially offset by an $11 million increase in selling and administrative expenses, largely attributable to finance receivable portfolio growth and a $7 million increase in provision for loan losses, reflecting an increase in nonperforming assets and net charge-offs in the distribution finance portfolio. Net interest margin increased due to a number of factors, including the following:

• An increase of $56 million in securitization and other fee income as described above, and

• An increase of $30 million related to growth in average finance receivables;

• Partially offset by a $17 million decrease in portfolio yields related to competitive pricing pressures;

• Lower leveraged lease earnings of $13 million due to an unfavorable cumulative earnings adjustment attributable to the recognition of residual value impairments;

• Higher borrowing costs of $11 million relative to the Federal Funds rate;

• A reduction in leveraged lease earnings of $8 million from the adoption of a new accounting standard; and

• Lower leveraged lease earnings of $7 million due to a gain in 2006 on the sale of an option related to a leveraged lease asset.

Segment profit in the Finance segment increased $39 million in 2006, compared with 2005, due to an increase in net interest margin. The growth in average finance receivables generated $54 million of higher net margin, which was partially offset by an $18 million decrease in other income.

Finance Portfolio Quality

The following table presents information about the Finance segment s portfolio quality:

(millions, except for ratios)		2007		2006		2005
Finance receivables	$	8,603	$	8,310	$	6,763
Allowance for losses on finance receivables	$	89	$	93	$	96
Nonperforming assets	$	123	$	113	$	111
Provision for loan losses	$	33	$	26	$	29
Net charge-offs	$	37	$	29	$	32
Ratio of nonperforming assets to total finance assets		1.34%		1.28%		1.53%
Ratio of allowance for losses on receivables to nonaccrual finance receivables		111.7%		123.1%		108%
60+ days contractual delinquency as a percentage of finance receivables		0.43%		0.77%		0.79%

The Finance segment s portfolio quality continues to be strong as indicated by low rates of delinquency and nonperforming assets. Net charge-offs as a percentage of average finance receivables also remain stable and relatively low at 0.45% during 2007 as compared with 0.38% and 0.51% during 2006 and 2005, respectively.

Nonperforming assets by business, and as a percentage of the owned finance assets for each business, are as follows:

(Dollars in millions)		2007			2006			2005	
Asset-based lending	$	23	2.31%	$	16	1.81%	$	6	0.81%
Distribution finance		23	1.20%		7	0.28%		2	0.11%
Golf finance		21	1.24%		29	1.89%		13	0.99%
Aviation finance		20	0.89%		12	0.70%		14	1.07%
Resort finance		9	0.57%		16	1.22%		31	2.67%
Liquidating portfolios		27	24.73%		33	19.74%		45	13.64%
Total nonperforming assets	$	123	1.34%	$	113	1.28%	$	111	1.53%

Nonperforming assets include nonaccrual finance receivables and repossessed assets that are not guaranteed by our Manufacturing group. We believe that nonperforming assets generally will be in the range of 1% to 4% of finance assets, depending on economic conditions.

In 2007, the increases in nonperforming assets as a percentage of owned finance assets for asset-based lending and distribution finance, compared with 2006, relate to weakening U.S. economic conditions, which began to have a negative impact on borrowers in certain industries.

In 2006, the $16 million increase in golf finance was primarily the result of two delinquent golf course mortgage loans whose operations were affected by the prolonged effects of Hurricane Katrina, while the $10 million increase in asset-based lending is the result of two loans in unrelated industries.

Liquidity and Capital Resources

Our financings are conducted through two separate borrowing groups. The Manufacturing group consists of Textron Inc., consolidated with the entities that operate in the Bell, Cessna and Industrial segments, while the Finance group consists of the Finance segment, comprised of Textron Financial Corporation and its subsidiaries. We designed this framework to enhance our borrowing power by separating the Finance group. Our Manufacturing group operations include the development, production and delivery of tangible goods and services, while our Finance group provides financial services. Due to the fundamental differences between each borrowing group s activities, investors, rating agencies and analysts use different measures to evaluate each group s performance. To support those evaluations, we present balance sheet and cash flow information for each borrowing group within the Consolidated Financial Statements.

We assess liquidity for our Manufacturing group in terms of our ability to provide adequate cash to fund our operating, investing and financing activities. Our principal source of liquidity is operating cash flows. We also have liquidity available to us via committed bank lines of credit and the commercial paper market, as well as access to the public capital markets that provide us with long-term capital at satisfactory terms.

For 2008, we expect future significant uses of cash for our Manufacturing group to include investments in businesses and new product development, capital expenditures, repurchases of common stock, dividends to shareholders and debt retirement. For 2008, we expect capital expenditures of about $550 million and stock repurchases in the range of 3 million to 4 million shares. We expect to fund both of these future uses of cash with cash generated by operating activities.

Our Finance group mitigates liquidity risk (i.e., the risk that we will be unable to fund maturing liabilities or the origination of new finance receivables) by developing and preserving reliable sources of capital. We use a variety of financial resources to meet these capital needs. Cash for the Finance group is provided from finance receivable collections, sales and securitizations, as well as the issuance of commercial paper and term debt in the public and private markets. This diversity of capital resources enhances its funding flexibility, limits dependence on any one source of funds, and results in cost-effective funding. The Finance group also can borrow from the Manufacturing group when the availability of such borrowings creates an economic advantage to Textron in comparison with borrowings from other sources. In making particular funding decisions, management considers market conditions, prevailing interest rates and credit spreads, and the maturity profile of its assets and liabilities.

On July 18, 2007, our Board of Directors approved a two-for-one split of our common stock to be effected in the form of a 100% stock dividend. The additional shares resulting from the stock split were distributed on August 24, 2007 to shareholders of record on August 3, 2007. Also, on July 18, 2007, our Board of Directors approved a 19% increase in our annualized common stock dividend rate from $0.775 per share to $0.92 per share and authorized the repurchase of up to 24 million shares of our common stock. The rate at which we expect to repurchase shares under this authorization will depend on various factors, including prevailing share price and alternate uses of cash.

Manufacturing Group Cash Flows of Continuing Operations

(In millions)	**2007**	**2006**	**2005**
Operating activities	$ 1,186	$ 1,119	$ 894
Investing activities	(1,474)	(742)	(362)
Financing activities	(77)	(1,072)	(403)

Operating cash flows have increased over the past three years, primarily due to earnings growth. Changes in our working capital components resulted in a $50 million use of cash in 2007, a $206 million source of cash in 2006 and a $21 million use of cash in 2005. A significant use of operating cash is related to increased production and inventory build-up primarily to support increasing sales at Bell and Cessna. Cash used for inventories totaled $473 million, $379 million and $181 million in 2007, 2006 and 2005, respectively. Partially offsetting the use of cash for inventories, and also related to increasing sales, were customer deposits within accrued liabilities, which provided a significant source of operating cash. Net cash received from customers on deposit totaled $297 million, $141 million and $(28) million in 2007, 2006 and 2005, respectively.

Investing cash flows have largely been driven by cash outflows for acquisitions that totaled $1.1 billion in 2007, largely due to the acquisition of AAI, and $338 million in 2006, primarily due to Overwatch Systems. Other significant investing cash outflows include capital expenditures of $391 million in 2007, $419 million in 2006 and $356 million in 2005.

We used $995 million less cash for financing activities in 2007, compared with 2006. The decrease is due principally to the issuance of $350 million in 10-year notes in 2007, the paydown of $242 million of short-term debt in 2006 and a $457 million decrease in 2007 in purchases of our common stock from 2006. In 2007, 2006 and 2005, we repurchased approximately 6 million, 17 million and 16 million shares of common stock, respectively, under Board-authorized share repurchase programs.

Dividend payments to shareholders totaled $154 million, $244 million and $189 million in 2007, 2006 and 2005, respectively. The timing of our quarterly dividend payments resulted in three payments in 2007, five payments in 2006 and four payments in 2005.

Finance Group Cash Flows of Continuing Operations

(In millions)		2007		2006		2005
Operating activities	$	262	$	338	$	247
Investing activities		(281)		(1,680)		(950)
Financing activities		29		1,391		587

Cash used for investing activities decreased in 2007, compared with 2006, largely due to a $774 million decrease in finance receivable originations, net of collections, a $481 million increase in proceeds from receivable sales and securitizations, and the $164 million impact in 2006 of cash used for an acquisition. Proceeds from receivable sales increased primarily due to the sale of $588 million of receivables into the distribution finance revolving securitization in the first quarter of 2007. In 2006, more cash was used for investing activities resulting in higher net cash outflows for originations of $655 million, primarily due to increased growth in the finance receivable portfolio, partially offset by higher proceeds from receivable sales of $130 million.

The decrease in financing cash inflows in 2007 primarily reflects a reduction in borrowings due to lower managed receivable growth in comparison with 2006. In addition, during 2007, we used the proceeds from the sale of receivables, including securitizations to fund asset growth, instead of additional borrowings. In 2006, more cash was obtained from financing activities, principally due to an increase in debt outstanding to fund asset growth.

Consolidated Cash Flows of Continuing Operations

(In millions)		2007		2006		2005
Operating activities	$	1,027	$	1,017	$	952
Investing activities		(1,469)		(2,062)		(1,223)
Financing activities		87		399		284

Operating cash flows have increased over the past three years, primarily due to earnings growth. Other sources and uses of cash from operating activities are primarily related to our Manufacturing group and are discussed in more detail within the Manufacturing Group Cash Flows of Continuing Operations section above.

Cash used for investing activities decreased in 2007, compared with 2006, largely due to a $786 million decrease in finance receivable originations, net of collections (excluding $12 million from captive financing activities) and a $424 million increase in proceeds from receivable sales and securitizations collections (excluding $57 million from captive financing activities). These decreases were partially offset by $590 million in higher cash outflows for acquisitions. In 2007, we acquired four businesses, including AAI, for a total outflow of $1.1 billion, while in 2006, we acquired three businesses for $502 million, including the Overwatch Systems and Electrolux Financial Corporation acquisitions.

We received less cash from financing activities in 2007, primarily due to a reduction in borrowings, largely a result of lower managed receivable growth in comparison with 2006. In addition, during 2007, we used the proceeds from the sale of receivables, including securitizations to fund asset growth, instead of additional borrowings. The decrease in cash borrowed by the Finance group in 2007 from 2006 was partially offset by proceeds from the issuance of $350 million in 10-year notes by the Manufacturing group in 2007, a $457 million decrease in the purchases of our common stock and $90 million in lower dividend payments due to timing.

Captive Financing

Through our Finance group, we provide diversified commercial financing to third parties. In addition, this group finances retail purchases and leases for new and used aircraft and equipment manufactured by our Manufacturing group, otherwise known as captive financing. In the Consolidated Statements of Cash Flows, cash received from customers or from securitizations is reflected as operating activities when received from third parties. However, in the cash flow information provided for the separate borrowing groups, cash flows related to captive financing activities are reflected based on the operations of each group. For example, when product is sold by our Manufacturing group to a customer and is financed by the Finance group, the origination of the finance receivable is recorded within investing activities as a cash outflow in the Finance group s Statement of Cash Flows. Meanwhile, in the Manufacturing group s Statement of Cash Flows, the cash received from the Finance group on the customer s behalf is recorded within operating cash flows as a cash inflow. Although cash is transferred between the two borrowing groups, there is no cash transaction reported in the consolidated cash flows at the time of the original financing. These captive financing activities, along with all significant intercompany transactions, are reclassified or eliminated from the Consolidated Statements of Cash Flows.

Reclassification and elimination adjustments included in the Consolidated Statement of Cash Flows are summarized below:

(In millions)	2007	2006	2005
Reclassifications from investing activities:			
Finance receivable originations for Manufacturing group inventory sales	$ (1,160)	$ (1,015)	$ (824)
Cash received from customers, sale of receivables and securitizations	881	691	724
Other	(7)	(36)	11
Total reclassifications from investing activities	(286)	(360)	(89)
Dividends paid by Finance group to Manufacturing group	(135)	(80)	(100)
Total reclassifications and adjustments	$ (421)	$ (440)	$ (189)

Consolidated Discontinued Operations Cash Flows

(In millions)	2007	2006	2005
Operating activities	$ 22	$ (48)	$ 84
Investing activities	63	653	28
Financing activities		2	(1)

Discontinued operations cash flows in 2007 are primarily related to the realization of cash tax benefits. In 2006, cash inflows from investing activities are primarily due to net cash proceeds of $636 million for the sale of the Fastening Systems business. See Note 2 to the Consolidated Financial Statements for details concerning this sale.

Capital Resources

The debt (net of cash)-to-capital ratio for our Manufacturing group as of December 29, 2007 was 32%, compared with 29% at December 30, 2006, and the gross debt-to-capital ratio as of December 29, 2007 was 38%, compared with 40% at December 30, 2006.

Our Manufacturing group targets a gross debt-to-capital ratio that is consistent with an A rated company. Consistent with the methodology used by members of the financial community, leverage of the Manufacturing group excludes the debt of our Finance group. In turn, our Finance group limits its borrowings to an amount, taking into account the risk profile of its assets, consistent with a single A credit rating. Surplus capital of Textron Financial Corporation is returned to Textron Inc.

Borrowings historically have been a secondary source of funds for our Manufacturing group and, along with the collection of finance receivables, are a primary source of funds for our Finance group. Both borrowing groups utilize a broad base of financial sources for their respective liquidity and capital needs. Our credit ratings are predominantly a function of our ability to generate operating cash flows and satisfy certain financial ratios. Since high-quality credit ratings provide us with access to a broad base of global investors at an attractive cost, we target a long-term A rating from the independent debt-rating agencies. The credit ratings and outlooks of these three debt-rating agencies by borrowing group are as follows:

	Fitch	Moody s	Standard & Poor s
Long-term ratings:			
Manufacturing	A-	A3	A-
Finance	A-	A3	A-
Short-term ratings:			
Manufacturing	F2	P2	A2
Finance	F2	P2	A2
Outlook	Positive	Stable	Stable

Under separate shelf registration statements filed with the Securities and Exchange Commission, we may issue public debt and other securities in one or more offerings up to a total maximum offering of $2.0 billion, and the Finance group may issue an unlimited amount of public debt securities. In the fourth quarter of 2007, we issued $350 million in 10-year notes under our registration statement. At December 29, 2007, we had $1.2 billion available under our registration statement. During 2007, the Finance group issued $1.4 billion of term debt and CAD 220 million of term debt under its registration statement. In addition, the Finance group issued $300 million of 6% Fixed-to-Floating Rate Junior Subordinated Notes, which mature in 2067. The Finance group has the right to redeem the notes at par beginning in 2017 and is obligated to redeem the notes beginning in 2042.

We have a policy of maintaining unused committed bank lines of credit in an amount not less than outstanding commercial paper balances. These facilities are in support of commercial paper and letters of credit issuances only, and neither of these lines of credit was drawn at December 29, 2007 or December 30, 2006.

Our primary committed credit facilities at December 29, 2007 include the following:

(In millions)	Facility Amount	Commercial Paper Outstanding	Letters of Credit Outstanding	Amount Not Reserved as Support for Commercial Paper and Letters of Credit
Manufacturing group - multi-year facility expiring in 2012*	$ 1,250	$	$ 22	$ 1,228
Finance group - multi-year facility expiring in 2012	1,750	1,447	13	290

** The Finance group is permitted to borrow under this multi-year facility.*

In connection with the acquisition of AAI, we entered into an interim $750 million credit facility that was subsequently terminated in January 2008.

Under a support agreement, Textron Inc. is required to maintain 100% ownership of Textron Financial Corporation. The agreement also requires Textron Inc. to ensure that Textron Financial Corporation maintains fixed charge coverage of no less than 125% and consolidated shareholder s equity of no less than $200 million.

Contractual Obligations

Manufacturing Group

The following table summarizes the known contractual obligations, as defined by reporting regulations, of our Manufacturing group as of December 29, 2007, as well as an estimate of the timing in which these obligations are expected to be satisfied:

	Payments Due by Period						
(In millions)	Less than 1 Year	2 Years	3 Years	4 Years	5 Years	More than 5 Years	Total
Liabilities reflected in balance sheet:							
Long-term debt*	$ 350	$	$ 251	$ 16	$ 300	$ 1,068	$ 1,985
Capital lease obligations*	5	5	6	6	6	135	163
Pension benefits for unfunded plans	15	16	15	17	18	195	276

Postretirement benefits other than pensions	76	74	70	66	61	489	836
Other long-term liabilities	139	85	53	48	37	295	657
Liabilities not reflected in balance sheet:							
Operating leases	60	52	43	32	27	171	385
Purchase obligations	2,499	593	228	45	13	23	3,401
Total Manufacturing group	$ 3,144	$ 825	$ 666	$ 230	$ 462	$ 2,376	$ 7,703

** Amounts exclude interest payments.*

We maintain defined benefit pension plans and postretirement benefit plans other than pensions as discussed in Note 12 to the Consolidated Financial Statements. Included in the above table are discounted estimated benefit payments we expect to make related to unfunded pension and other postretirement benefit plans. Actual benefit payments are dependent on a number of factors, including mortality assumptions, expected retirement age, rate of compensation increases and medical trend rates, which are subject to change in future years. We also expect to make contributions to our funded pension plans in the range of approximately $53 million to $73 million per year over the next five years, which are not reflected in the above table.

Other long-term liabilities included in the table consist primarily of undiscounted amounts on the Consolidated Balance Sheet as of December 29, 2007 representing obligations under deferred compensation arrangements and estimated environmental remediation costs. Payments under deferred compensation arrangements have been estimated based on management s assumptions of expected retirement age, mortality, stock price and rates of return on participant deferrals. The timing of cash flows associated with environmental remediation costs is largely based on historical experience. Other long-term liabilities, such as deferred taxes and unrecognized tax benefits, have been excluded from the table due to the uncertainty of the timing of payments combined with the absence of historical trends to be used as a predictor for such payments.

Operating leases represent undiscounted obligations under noncancelable leases. Purchase obligations represent undiscounted obligations for which we are committed to purchase goods and services as of December 29, 2007. The ultimate liability for these obligations may be reduced based upon termination provisions included in certain purchase contracts, the costs incurred to date by vendors under these contracts or by recourse under firm contracts with the U.S. Government under normal termination clauses.

In January 2005, we contracted with a third-party service provider for the oversight of our information technology infrastructure, including maintenance, operational oversight and purchases of hardware (the IT Contract). The IT Contract covers a 10-year period and is subject to variable pricing and quantity provisions for both purchases of computer hardware and system design modifications. We have retained the right to approve significant design, equipment purchase and related decisions by the service provider. We can terminate the IT Contract for convenience prior to its full term and would consequently be subject to variable termination fees that decline over time and do not exceed $46 million at December 29, 2007.

Finance Group

The following table summarizes our Finance group s known contractual obligations, as defined by reporting regulations. Due to the nature of finance companies, we also have contractual cash receipts that will be received in the future. We generally borrow funds at various contractual maturities to match the maturities of our finance receivables. The contractual payments and receipts as of December 29, 2007 are detailed below:

	Payments/Receipts Due by Period						
(In millions)	**Less than 1 Year**	**2 Years**	**3 Years**	**4 Years**	**5 Years**	**More than 5 Years**	**Total**
Contractual payments:							
Commercial paper and other short-term debt	$ 1,461	$	$	$	$	$	$ 1,461
Term debt	1,259	1,551	1,913	592	42	477	5,834
Loan commitments	49	2		3			54
Operating leases	6	5	4	4	1	2	22
Total contractual payments	2,775	1,558	1,917	599	43	479	7,371
Cash and receipts:							
Finance receivables	3,362	1,484	669	645	686	1,757	8,603
Operating leases	28	23	22	19	15	30	137
Total receipts	3,390	1,507	691	664	701	1,787	8,740
Cash	60						60
Total cash and receipts	3,450	1,507	691	664	701	1,787	8,800
Net cash and receipts (payments)	$ 675	$ (51)	$ (1,226)	$ 65	$ 658	$ 1,308	$ 1,429
Cumulative net cash and receipts	$ 675	$ 624	$ (602)	$ (537)	$ 121	$ 1,429	

Finance receivable receipts related to finance leases and term loans are based on contractual cash flows, while receipts related to revolving loans are based on historical cash flow experience. These amounts could differ due to prepayments, charge-offs and other factors. Receipts and contractual payments exclude finance charges from receivables, debt interest payments, proceeds from sale of operating lease equipment and other items.

As shown in the preceding table, our cash and receipts are expected to be sufficient to cover maturing debt and other contractual liabilities for the next two years. At December 29, 2007, our Finance group had $2.7 billion in debt and $406 million in other liabilities that are payable within the next 12 months.

At December 29, 2007, our Finance group had unused commitments to fund new and existing customers under $1.6 billion of committed revolving lines of credit, compared with $1.3 billion at December 30, 2006. These loan commitments generally have an original duration of less than three years and do not necessarily represent future cash requirements since many of the agreements will not be used to the extent committed or will expire unused. We are not exposed to interest rate changes on these commitments since the interest rates are not set until the loans are funded.

Off-Balance Sheet Arrangements

Performance Guarantee

In 2004, through our Bell Helicopter business, we formed AgustaWestlandBell LLC (AWB LLC) with AgustaWestland North America Inc. (AWNA). This venture was created for the joint design, development, manufacture, sale, customer training and product support of the VH-71 helicopter, and certain variations and derivatives thereof, to be offered and sold to departments or agencies of the U.S. Government. In March 2005, AWB LLC received a $1.2 billion cost reimbursement-type subcontract from Lockheed Martin for the System Development and Demonstration phase of the U.S. Marine Corps Helicopter Squadron Program. We guaranteed to Lockheed Martin the due and prompt performance by AWB LLC of all its obligations under this subcontract, provided that our liability under the guaranty shall not exceed 49% of AWB LLC s aggregate liability to Lockheed Martin under the subcontract. AgustaWestland N.V., AWNA s parent company, has guaranteed the remaining 51% to Lockheed Martin. We have entered into cross-indemnification agreements with AgustaWestland N.V. in which each party indemnifies the other related to any payments required under these agreements that result from the indemnifying party s workshare under any subcontracts received. AWB LLC s maximum obligation is 50% of the total contract value, which equates to $613 million, for a maximum amount of our liability under the guarantee of $300 million at December 29, 2007 through completion.

Finance Receivable Sales and Securitizations

Our Finance group sells finance receivables utilizing both whole-loan sales and securitizations, primarily utilizing asset-backed securitization structures. As a result of these transactions, finance receivables are removed from the balance sheet, and the proceeds received are used to reduce the recorded debt levels. Despite the reduction in the recorded balance sheet position, we generally retain a subordinated interest in the finance receivables sold through securitizations, which may affect operating results through periodic fair value adjustments. These retained interests are more fully discussed in the Securitizations section of Note 5 to the Consolidated Financial Statements. We utilize these off-balance sheet financing arrangements to further diversify funding alternatives. These arrangements provided net proceeds of $731 million, $50 million and $361 million in 2007, 2006 and 2005, respectively, and net pre-tax gains of $62 million, $42 million and $49 million, respectively. Proceeds from securitizations include amounts received related to incremental increases in the level of distribution finance receivables sold into a revolving conduit and exclude amounts received related to the ongoing replenishment of the outstanding sold balance of these short-duration receivables.

As of December 29, 2007, our Finance group had two significant off-balance sheet financing arrangements: the distribution finance revolving securitization trust and the aviation finance securitization trust. The distribution finance revolving securitization trust is a master trust that purchases inventory finance receivables from the Finance group and issues asset-backed notes to investors. The distribution finance revolving securitization trust had $2.0 billion of one-month LIBOR-based variable-rate asset-backed notes outstanding as of December 29, 2007. These notes each have a three-year term and mature in May 2008, 2009 and 2010. The aviation finance securitization trust purchases finance leases and installment contracts secured by general aviation aircraft. This trust is funded through a commercial paper conduit commitment of a $600 million revolving credit facility which expires in December 2008. As of December 31, 2007, the aviation securitization trust had $433 million outstanding under its facility. The amount of pre-tax gains recorded upon the ongoing sale of receivables in these arrangements and the value of our subordinated interest are impacted by the pricing of the investor notes issued by the distribution finance securitization trust and the interest rate obtained by the commercial paper conduit which funds the aviation finance securitization trust. The trusts have not experienced any material disruption to their funding; however, the commercial paper conduit, which provides funding to the aviation finance securitization trust, did experience an increase in borrowing spreads in 2007.

Critical Accounting Policies

To prepare our Consolidated Financial Statements to be in conformity with generally accepted accounting principles, we must make complex and subjective judgments in the selection and application of accounting policies. The accounting policies that we believe are most critical to the portrayal of our financial condition and results of operations are listed below. We believe these policies require our most difficult, subjective and complex judgments in estimating the effect of inherent uncertainties. This section should be read in conjunction with Note 1 to the Consolidated Financial Statements, which includes other significant accounting policies.

Allowance for Losses on Finance Receivables

Our allowance for losses on finance receivables is intended to provide for losses inherent in the portfolio, which requires the application of estimates and significant judgment as to the ultimate outcome of collection efforts and realization of collateral values, among other factors. Therefore, changes in economic conditions or credit metrics, including past due and nonperforming accounts, or other events affecting specific obligors or industries may require additions or reductions to our reserves.

For homogeneous loan pools, we examine current delinquencies, characteristics of the existing accounts, historical loss experience, underlying collateral value, and general economic conditions and trends. We estimate losses will range from 0.3% to 6.0% of finance receivables depending on the specific homogeneous loan pool. For larger balance commercial loans, we also consider borrower specific information, industry trends and estimated discounted cash flows. Our process involves the use of estimates and a high degree of management judgment. While we believe that our consideration of the factors and assumptions referred to above results in an accurate evaluation of existing losses in the portfolio based on prior trends and experience, changes in the assumptions or trends within reasonable historical volatility may have a material impact on our allowance for losses. The allowance for losses on finance receivables currently represents 1.03% of total finance receivables. During the last five years, net charge-offs as a percentage of average finance receivables have ranged from 0.38% to 2.08%.

Long-Term Contracts

We make a substantial portion of our sales to government customers pursuant to long-term contracts. These contracts require development and delivery of products over multiple years and may contain fixed-price purchase options for additional products. We account for these long-term contracts under the percentage-of-completion method of accounting.

Under the percentage-of-completion method, we estimate profit as the difference between total estimated revenue and cost of a contract. We then recognize that estimated profit over the contract term based on either the costs incurred (under the cost-to-cost method, which typically is used for development effort) or the units delivered (under the units-of-delivery method, which is used for production effort), as appropriate under the circumstances. The percentage-of-completion method of accounting involves the use of various estimating techniques to project costs at completion and, in some cases, includes estimates of recoveries asserted against the customer for changes in specifications. Due to the size, length of time and nature of many of our contracts, the estimation of total contract costs and revenue through completion is complicated and subject to many variables relative to the outcome of future events over a period of several years. We are required to make numerous assumptions and estimates relating to items such as expected engineering requirements, complexity of design and related development costs, performance of subcontractors, availability and cost of materials, labor productivity and cost, overhead and capital costs, manufacturing efficiencies and the achievement of contract milestones, including product deliveries.

Our cost estimation process is based on the professional knowledge and experience of engineers and program managers along with finance professionals. We update our projections of costs at least semiannually or when circumstances significantly change. Adjustments to projected costs are recognized in earnings when determinable. Anticipated losses on contracts are recognized in full in the period in which the losses become probable and estimable. Due to the significance of judgment in the estimation process described above, it is likely that materially different revenues and/or cost of sales amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Our earnings could be reduced by a material amount resulting in a charge to earnings if (a) total estimated contract costs are significantly higher than expected due to changes in customer specifications prior to contract amendment, (b) total estimated contract costs are significantly higher than previously estimated due to cost overruns or inflation, (c) there is a change in engineering efforts required during the development stage of the contract or (d) we are unable to meet contract milestones.

Goodwill

We evaluate the recoverability of goodwill annually in the fourth quarter or more frequently if events or changes in circumstances, such as declines in sales, earnings or cash flows, or material adverse changes in the business climate, indicate that the carrying value of an asset might be impaired. We completed our annual impairment test in the fourth quarter of 2007 using the estimates from our long-term strategic plans. No adjustment was required to the carrying value of our goodwill based on the analysis performed.

Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. Fair values are primarily established using a discounted cash flow methodology using assumptions consistent with market participants. The determination of discounted cash flows is based on the businesses strategic plans and long-range planning forecasts. The revenue growth rates included in the forecasts represent our best estimates based on current and forecasted market conditions, and the profit margin assumptions are projected by each reporting unit based on the current cost structure and anticipated net cost reductions. If different assumptions were used in these forecasts, the related undiscounted cash flows used in measuring impairment could be different, potentially resulting in an impairment charge. The impact of reducing our fair value estimates by 10% would have no impact on our goodwill assessment, with the exception of our Fluid Handling Products (FHP) and Golf & Turfcare (G&T) components. Assuming a 10% reduction in our fair value estimates, the carrying value of these components may approximate or exceed fair value.

Our operating plans and projections anticipate continued investments in capital expenditures at our FHP component to capture additional business in the oil and gas markets. During 2007, FHP achieved revenue growth of 20% and operating profit growth of approximately 25%. We anticipate continued sales growth over the five-year planning period as well as operating margin improvements. Should the revenue growth rates and operating margins over the planning period approximate historical levels, the estimated fair value would be reduced by up to approximately $50 million and may result in the carrying value of the component exceeding its estimated fair value, potentially resulting in an impairment charge. At December 29, 2007, the goodwill allocated to this component totaled approximately $216 million.

Our operating plans and projections for our G&T component anticipate operating margin improvements over the five-year planning period resulting in high single-digit margins and assume annual revenue growth of approximately 4%. A 100-basis-point decline in our operating margin assumptions would reduce the estimated fair value by up to approximately $35 million and may result in the carrying value of the component exceeding its estimated fair value, potentially resulting in an impairment charge. At December 29, 2007, the goodwill allocated to this component totaled approximately $141 million.

Retirement Benefits

We maintain various pension and postretirement plans for our employees globally. These plans include significant pension and postretirement benefit obligations, which are calculated based on actuarial valuations. Key assumptions used in determining these obligations and related expenses include expected long-term rates of return on plan assets, discount rates and healthcare cost projections. We also make assumptions regarding employee demographic factors such as retirement patterns, mortality, turnover and the rate of compensation increases. We evaluate and update these assumptions annually.

To determine the expected long-term rate of return on plan assets, we consider the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on plan assets will increase pension expense. For 2007, the assumed expected long-term rate of return on plan assets used in calculating pension expense was 8.53%, compared with 8.54% in 2006. In 2007 and 2006, the assumed rate of return for our qualified domestic plans, which represent approximately 88% of our total pension assets, was 8.74% and 8.75%, respectively. A 50-basis-point decrease in this long-term rate of return would result in a $22 million annual increase in pension expense for our qualified domestic plans.

The discount rate enables us to state expected future benefit payments as a present value on the measurement date, reflecting the current rate at which the pension liabilities could be effectively settled. This rate should be in line with rates for high-quality fixed income investments available for the period to maturity of the pension benefits, which fluctuate as long-term interest rates change. A lower discount rate increases the present value of the benefit obligations and increases pension expense. In 2007, the weighted-average discount rate used in calculating pension expense was 5.59%, compared with 5.55% in 2006. For our qualified domestic plans, the assumed discount rate was 5.66% in 2007, compared with 5.65% for 2006. A 50-basis-point decrease in this discount rate would result in a $34 million annual increase in pension expense for our qualified domestic plans.

The trend in healthcare costs is difficult to estimate, and it has an important effect on postretirement liabilities. The 2007 medical and prescription drug healthcare cost trend rates represent the weighted-average annual projected rate of increase in the per capita cost of covered benefits. The 2007 medical rate of 8% is assumed to decrease to 5% by 2015 and then remain at that level. The 2007 prescription drug rate of 12% is assumed to decrease to 5% by 2015 and then remain at that level. See Note 12 to the Consolidated Financial Statements for the impact of a one-percentage-point change in the cost trend rate.

Warranty Liabilities

We provide limited warranty and product maintenance programs, including parts and labor, for certain products for periods ranging from one to five years. A significant portion of these liabilities arises from our commercial aircraft businesses. We also may incur costs related to product recalls.

We estimate the costs that may be incurred under warranty programs and record a liability in the amount of such costs at the time product revenue is recognized. Factors that affect this liability include the number of products sold, historical costs per claim, contractual recoveries from vendors, and historical and anticipated rates of warranty claims, including production and warranty patterns for new models. During our initial aircraft model launches, we typically incur higher warranty-related costs until the production process matures, at which point warranty costs moderate.

We assess the adequacy of our recorded warranty and product maintenance liabilities periodically and adjust the amounts as necessary. Adjustments are made to accruals as claim data and actual experience warrant. Should future warranty experience differ materially from our historical experience, we may be required to record additional warranty liabilities, which could have a material adverse effect on our results of operations and cash flows in the period in which these additional liabilities are required.

Securitized Transactions

Securitized transactions involve the sale of finance receivables to qualified special purpose trusts. We may retain an interest in the assets sold in the form of interest-only securities, seller certificates, cash reserve accounts and servicing rights and obligations. At the time of sale, a gain or loss is recorded based on the difference between the proceeds received and the allocated carrying value of the finance receivables sold. The allocated carrying value is determined based on the relative fair values of the finance receivables sold and the interests retained. As such, the fair value estimate of the retained interests has a direct impact on the gain or loss recorded. We estimate fair value based on the present value of future cash flows expected under management s best estimates of key assumptions credit losses, prepayment speeds and discount rates commensurate with the risks involved. Retained interests are recorded at fair value as a component of other assets in the Consolidated Balance Sheets.

We review the fair values of the retained interests quarterly using updated assumptions and compare such amounts with the carrying value of the retained interests. When the carrying value exceeds the fair value of the retained interests, we determine whether the decline in fair value is other than temporary. When we determine the value of the decline is other than temporary, we write down the retained interests to fair value with a corresponding charge to income. When a change in fair value of the retained interests is deemed temporary, we record a corresponding credit or charge to other comprehensive income for any unrealized gains or losses. A hypothetical adverse change of 10% and 20% to the expected credit losses, residual cash flows discount rates or prepayment rate assumptions would not have a material impact on the current value of the residual cash flows associated with the retained interests. Hypothetical sensitivities should be used with caution, as the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, a change in one factor may magnify or counteract the sensitivities losses. For example, increases in interest rates may result in lower prepayments and increased credit losses.

Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities, applying enacted tax rates that we expect to be in effect for the year in which we expect the differences will reverse or settle. Based on the evaluation of available evidence, we recognize future tax benefits, such as net operating loss carryforwards, to the extent that we believe it is more likely than not that we will realize these benefits. We periodically assess the likelihood that we will be able to recover our deferred tax assets and reflect any changes in our estimates in the valuation allowance, with a corresponding adjustment to earnings or other comprehensive income (loss), as appropriate.

In assessing the need for a valuation allowance, we look to the future reversal of existing taxable temporary differences, taxable income in carryback years, the feasibility of tax planning strategies and estimated future taxable income. The valuation allowance can be affected by changes to tax laws, changes to statutory tax rates and changes to future taxable income estimates.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which may result in proposed assessments. Our estimate for the potential outcome for any uncertain tax issue is highly judgmental. We assess our income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and information available at the reporting date. For those tax positions for which it is more likely than not that a tax benefit will be sustained, we record the amount that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. Interest and penalties are accrued, where applicable. If we do not believe that it is more likely than not that a tax benefit will be sustained, no tax benefit is recognized. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities due to closure of income tax examinations, new regulatory or judicial pronouncements, or other relevant events. As a result, our effective tax rate may fluctuate significantly on a quarterly and annual basis.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risks

Our financial results are affected by changes in U.S. and foreign interest rates. As part of managing this risk, we enter into interest rate exchange agreements to convert certain floating-rate debt to fixed-rate debt and vice versa. The overall objective of our interest rate risk management is to achieve a prudent balance between floating- and fixed-rate debt. We continually monitor our mix of floating- and fixed-rate debt and adjust the mix, as necessary, based on our evaluation of internal and external factors. The difference between the rates our Manufacturing group received and the rates it paid on interest rate exchange agreements did not significantly impact interest expense in 2007, 2006 or 2005.

Our Finance group limits its risk to changes in interest rates with its strategy of matching floating-rate assets with floating-rate liabilities. This strategy includes the use of interest rate exchange agreements. At December 29, 2007, floating-rate liabilities in excess of floating-rate assets were $51 million, net of $2.3 billion of interest rate exchange agreements, which effectively converted fixed-rate debt to a floating-rate equivalent. Interest rate exchange agreements designated as hedges of debt had the net effect of increasing interest expense for our Finance group by $25 million in 2007 and $27 million in 2006, and decreasing interest expense by $11 million in 2005.

Foreign Exchange Risks

Our financial results are affected by changes in foreign currency exchange rates and economic conditions in the foreign markets in which products are manufactured and/or sold. For 2007, the impact of foreign exchange rate changes from 2006 increased revenues by approximately $148 million (1.3%) and increased segment profit by approximately $12 million (0.9%).

For our manufacturing operations, we manage exposures to foreign currency assets and earnings primarily by funding certain foreign currency denominated assets with liabilities in the same currency so that certain exposures are naturally offset. We primarily use borrowings denominated in euro and British pound sterling for these purposes.

In managing its foreign currency transaction exposures, we also enter into foreign currency forward exchange and option contracts. These contracts generally are used to fix the local currency cost of purchased goods or services or selling prices denominated in currencies other than the functional currency. The notional amount of outstanding foreign exchange contracts and foreign currency options was approximately $1.2 billion at the end of 2007 and $765 million at the end of 2006.

Quantitative Risk Measures

In the normal course of business, we enter into financial instruments for purposes other than trading. To quantify the market risk inherent in our financial instruments, we utilize a sensitivity analysis. The financial instruments that are subject to market risk (interest rate risk, foreign exchange rate risk and equity price risk) include finance receivables (excluding lease receivables), debt (excluding lease obligations), interest rate exchange agreements, foreign currency exchange contracts and marketable security price forward contracts.

Presented below is a sensitivity analysis of the fair value of financial instruments outstanding at year-end. We estimate the fair value of the financial instruments using discounted cash flow analysis and indicative market pricing as reported by leading financial news and data providers. This sensitivity analysis is most likely not indicative of actual results in the future. The following table illustrates the sensitivity to a hypothetical change in the fair value of the financial instruments assuming a 10% decrease in interest rates, a 10% strengthening in exchange rates against the U.S. dollar and a 10% decrease in the quoted market price of the marketable equity security.

(In millions)	2007 Carrying Value*	2007 Fair Value*	2007 Sensitivity of Fair Value to a 10% Change	2006 Carrying Value*	2006 Fair Value*	2006 Sensitivity of Fair Value to a 10% Change
Interest rate risk						
Manufacturing group:						
Debt	$ (2,148)	$ (2,170)	$ (37)	$ (1,800)	$ (1,833)	$ (36)
Interest rate exchanges				(8)	(8)	2
Finance group:						
Finance receivables	7,364	7,378	33	7,019	6,982	27
Debt	(7,311)	(7,288)	(80)	(6,862)	(6,868)	(82)
Interest rate exchanges debt	19	19	18	(52)	(52)	31
Foreign exchange rate risk						
Manufacturing group:						
Debt	(778)	(776)	(78)	(741)	(756)	(76)
Foreign currency exchange contracts	52	52	76	12	12	58
Equity price risk						
Manufacturing group:						
Marketable security price forward contracts	62	62	(18)	24	24	(14)

** The value represents an asset or (liability).*

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements and the related reports of our independent registered public accounting firm thereon are included in this Annual Report on Form 10-K on the pages indicated below.

Supplementary Information:

All other schedules are omitted either because they are not applicable or not required, or because the required information is included in the financial statements or notes thereto.

Report of Management

Management is responsible for the integrity and objectivity of the financial data presented in this Annual Report on Form 10-K. The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States and include amounts based on management s best estimates and judgments. Management also is responsible for establishing and maintaining adequate internal control over financial reporting for Textron Inc. as such term is defined in Exchange Act Rules 13a-15(f). With the participation of our management, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control Integrated Framework, we have concluded that Textron Inc. maintained, in all material respects, effective internal control over financial reporting as of December 29, 2007.

The independent registered public accounting firm, Ernst & Young LLP, has audited the Consolidated Financial Statements of Textron Inc. and has issued an attestation report on Textron s internal controls over financial reporting as of December 29, 2007, as stated in its reports, which are included herein.

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

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

Lewis B. Campbell Chairman, President and Chief Executive Officer February 13, 2008	Ted R. French Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Shareholders of Textron Inc.

We have audited Textron Inc. s internal control over financial reporting as of December 29, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Textron Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Textron Inc. maintained, in all material respects, effective internal control over financial reporting as of December 29, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets as of December 29, 2007 and December 30, 2006, and the related Consolidated Statements of Operations, Shareholders Equity and Cash Flows for each of the three years in the period ended December 29, 2007 of Textron Inc. and our report dated February 13, 2008 expressed an unqualified opinion thereon.

Boston, Massachusetts

February 13, 2008

Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements and Schedule.

To the Board of Directors and Shareholders of Textron Inc.

We have audited the accompanying Consolidated Balance Sheets of Textron Inc. as of December 29, 2007 and December 30, 2006, and the related Consolidated Statements of Operations, Shareholders Equity and Cash Flows for each of the three years in the period ended December 29, 2007. Our audits also included the financial statement schedule contained on page 77. These financial statements and schedule are the responsibility of Textron Inc. s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the consolidated financial position of Textron Inc. at December 29, 2007 and December 30, 2006 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 29, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Textron Inc. s internal control over financial reporting as of December 29, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 13, 2008 expressed an unqualified opinion thereon.

As discussed in Note 5 to the Consolidated Financial Statements, in 2007 Textron Inc. adopted Financial Accounting Standards Board (FASB) Staff Position No. 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leverage Lease Transaction, as discussed in Note 13 to the Consolidated Financial Statements, in 2007 Textron Inc. adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109, and as discussed in Note 1 to the Consolidated Financial Statements, in 2006 Textron Inc. adopted Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An amendment of FASB Statement Nos. 87, 88, 106, and 132(R).

Boston, Massachusetts

February 13, 2008

Consolidated Statements of Operations

For each of the years in the three-year period ended December 29, 2007

(In millions, except per share data)	2007	2006	2005
Revenues			
Manufacturing	$ 12,350	$ 10,692	$ 9,415
Finance	875	798	628
Total revenues	13,225	11,490	10,043
Costs, expenses and other			
Cost of sales	9,716	8,528	7,464
Selling and administrative	1,692	1,523	1,403
Interest expense, net	484	438	290
Provision for losses on finance receivables	33	26	29
Special charges			118
Total costs, expenses and other	11,925	10,515	9,304
Income from continuing operations before income taxes	1,300	975	739
Income taxes	(385)	(269)	(223)
Income from continuing operations	915	706	516
Income (loss) from discontinued operations, net of income taxes	2	(105)	(313)
Net income	$ 917	$ 601	$ 203
Basic earnings (loss) per share			
Continuing operations	$ 3.66	$ 2.76	$ 1.93
Discontinued operations	0.01	(0.41)	(1.17)
Basic earnings per share	$ 3.67	$ 2.35	$ 0.76
Diluted earnings (loss) per share			
Continuing operations	$ 3.59	$ 2.71	$ 1.89
Discontinued operations	0.01	(0.40)	(1.15)
Diluted earnings per share	$		