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TEXTRON INC

FORM 8-K/A
(Amended Current report filing)

Filed 05/17/96 for the Period Ending 04/29/96

Address	40 WESTMINSTER ST PROVIDENCE, RI 02903
Telephone	4014212800
CIK	0000217346
Symbol	TXT
SIC Code	6162 - Mortgage Bankers and Loan Correspondents
Fiscal Year	01/02

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TEXTRON INC

FORM 8-K/A
(Unscheduled Material Events)

Filed 5/17/1996 For Period Ending 4/29/1996

Address	40 WESTMINSTER ST
	PROVIDENCE, Rhode Island 02903
Telephone	401-421-2800
CIK	0000217346
Industry	Conglomerates
Sector	Conglomerates
Fiscal Year	12/31

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20579

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) April 29, 1996

TEXTRON INC.

(Exact name of registrant as specified in its charter)

DELAWARE	1-5480	05-0315468
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

40 WESTMINSTER STREET, PROVIDENT, RHODE ISLAND 02903
(Address of principal executive offices) (Zip Code)

(401) 421-2800
Registrant's telephone number, including area code:

N/A
(Former name or former address, if changed since last report)

Amendment No. 1

The purpose of this Amendment is to revise

certain financial data with respect to the Registrant for the second and fourth quarters of 1995. The revisions were made to certain earnings and per share data for both continuing and discontinued operations in offsetting amounts and, accordingly, do not change the amounts of net income and net income per share for those periods. The revisions reflect the effect of more appropriate rounding. The following Exhibits were affected by the foregoing revisions and are amended hereby:

Exhibit 27.4: Restated financial data schedule for period ended July 1, 1995;

Exhibit 27.5: Restated financial data schedule for peri- od ended September 30, 1995; and

Exhibit 99.3: Restated financial statements and related financial information (page 38).

SIGNATURES

Pursuant to the requirements of the Securi- ties Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TEXTRON INC.
(Registrant)

By: /s/ Richard L. Yates
Name: Richard L. Yates
Title: Vice President and Controller

Dated: May 17, 1996

INDEX TO EXHIBITS

Exhibit No. Exhibit

23 Consent of Independent Auditors.*

Note: Exhibits 27.1 through 27.6 are filed electronically only.

27.1	Restated financial data schedule for period ended October 1, 1994.**
27.2	Restated financial data schedule for period ended December 31, 1994.**
27.3	Restated financial data schedule for period ended April 1, 1995.**
27.4	Restated financial data schedule for period ended July 1, 1995.*
27.5	Restated financial data schedule for period ended September 30, 1995.*
27.6	Restated financial data schedule for period ended December 30, 1995.**
99.1	Press release issued April 29, 1996.**
99.2	Voting Agreement and Election as of April 29, 1996, between Textron Inc. and Provident Companies, Inc.**
99.3	Restated financial statements and related information.*

* Filed herewith. ** Previously filed.

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 33-46501, Form S-3 No. 33-63227, Form S-8 No. 2-78073, Form S-8 No. 2-95413, Form S-8 No. 33-00668, Form S-8 No. 33-19402, Form S-8 No. 33-37139, Form S-8 No. 33-38094, Form S-8 No. 33-57025 and Form S-8 No. 33-63741) of Textron Inc. and in the related Prospectuses and Prospectus Supplements of our report dated January 25, 1996, except for note 1, as to which the date is April 29, 1996, with respect to the restated financial statements of Textron Inc. for the year ended December 30, 1995 included in its Current Report on Form 8-K dated April 29, 1996, as amended by its Current Report on Form 8-K/A dated May 17, 1996, filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

New York, New York
May 16, 1996

ARTICLE 5

This schedule contains the restatement of summary financial information previously extracted from Textron Inc.'s Consolidated Balance Sheet as of July 1, 1995 and Consolidated Statement of Income for the six months ended July 1, 1995, previously filed electronically with the Commission. The aforementioned quarterly financial statements were not required to be restated in the Company's Annual Report on Form 8-K dated April 29, 1996.

MULTIPLIER: 1000000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 30 1995
PERIOD END	JUL 01 1995
CASH	120
SECURITIES	0
RECEIVABLES	10454
ALLOWANCES	261
INVENTORY	1259
CURRENT ASSETS	0
PP&E	2779
DEPRECIATION	1534
TOTAL ASSETS	16940
CURRENT LIABILITIES	0
BONDS	10244
COMMON	12
PREFERRED MANDATORY	0
PREFERRED	15
OTHER SE	3069
TOTAL LIABILITY AND EQUITY	16940
SALES	3205
TOTAL REVENUES	4167
CGS	2629
TOTAL COSTS	2736
OTHER EXPENSES	0
LOSS PROVISION	78
INTEREST EXPENSE	411
INCOME PRETAX	334
INCOME TAX	132
INCOME CONTINUING	202
DISCONTINUED	28
EXTRAORDINARY	0
CHANGES	0
NET INCOME	230
EPS PRIMARY	2.65
EPS DILUTED	2.65

ARTICLE 5

This schedule contains the restatement of summary financial information previously extracted from Textron Inc.'s Consolidated Balance Sheet as of September 30, 1995 and Consolidated Statement of Income for the nine months ended September 30, 1995, previously filed electronically with the Commission. The aforementioned quarterly financial statements were not required to be restated in the Company's Annual Report on Form 8-K dated April 29, 1996.

MULTIPLIER: 1000000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 30 1995
PERIOD END	SEP 30 1995
CASH	78
SECURITIES	0
RECEIVABLES	10758
ALLOWANCES	272
INVENTORY	1244
CURRENT ASSETS	0
PP&E	2833
DEPRECIATION	1581
TOTAL ASSETS	17052
CURRENT LIABILITIES	0
BONDS	10193
COMMON	12
PREFERRED MANDATORY	0
PREFERRED	15
OTHER SE	3199
TOTAL LIABILITY AND EQUITY	17052
SALES	4763
TOTAL REVENUES	6224
CGS	3905
TOTAL COSTS	4071
OTHER EXPENSES	0
LOSS PROVISION	120
INTEREST EXPENSE	609
INCOME PRETAX	507
INCOME TAX	201
INCOME CONTINUING	306
DISCONTINUED	46
EXTRAORDINARY	0
CHANGES	0
NET INCOME	352
EPS PRIMARY	4.05
EPS DILUTED	4.05

TEXTRON INC.
INDEX TO RESTATED FINANCIAL STATEMENTS AND RELATED FINANCIAL INFORMATION

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Business Segment Data

	Revenues			Operating Income			Operating Income Margins		
(In millions)	1995	1994	1993	1995	1994	1993	1995	1994	1993
Manufacturing:									
Aircraft	$2,419	$2,186	$1,987	$ 237	$ 194	$ 171	9.8%	8.9%	8.6%
Automotive	1,576	1,557	1,221	138	139	96	8.8	8.9	7.9
Industrial	1,421	1,395	1,224	162	142	106	11.4	10.2	8.7
Systems and Components	1,052	1,540	1,839	85	99	125	8.1	6.4	6.8
	6,468	6,678	6,271	622	574	498	9.6	8.6	7.9
Finance	1,985	1,672	1,610	365	331	289	18.4	19.8	18.0
	$8,453	$8,350	$7,881	987	905	787	11.7	10.8	10.0
Corporate expenses and other - net				(98)	(78)	(85)			
Interest expense - net				(199)	(204)	(232)			
Income from continuing operations before income taxes				$ 690	$ 623	$ 470			

	Identifiable Assets			Capital Expenditures			Depreciation		
(In millions)	1995	1994	1993	1995	1994	1993	1995	1994	1993
Manufacturing:									
Aircraft	$ 1,739	$ 1,636	$ 1,658	$ 74	$ 78	$ 67	$ 49	$ 48	$ 46
Automotive	880	870	686	80	87	55	41	39	33
Industrial	1,250	849	585	76	70	63	45	41	33
Systems and Components	1,109	1,216	1,832	22	29	32	35	56	67
	4,978	4,571	4,761	252	264	217	170	184	179

Finance	10,816	9,900	8,801	23	22	20	20	18	18
Corporate, including investment in discontinued operation	1,628	1,554	1,750	8	16	15	12	10	9
Eliminations	(75)	(33)	(16)	-	-	-	-	-	-
	$17,347	$15,992	$15,296	$283	$302	$252	$202	$212	$206

Notes:
(i) Income of the Systems and Components segment for 1994 includes $30 million applicable to the Lycoming Turbine Engine division, sold in that year, the benefit of which was immaterial to Textron's net income due to the nontax deductibility of goodwill.

(ii) Income of the Finance segment is net of interest expense.

(iii) Corporate expenses and other - net for 1994 and 1993 include pretax charges of $9 million and $14 million, respectively, related to the early redemption of debt.

(iv) Identifiable assets of the discontinued operation included in Corporate were $1,161 million, $912 million, and $916 million, respectively, at the end of 1995, 1994, and 1993.

Management's Discussion and Analysis
Textron Inc.
1995 vs. 1994
* Textron's net income in 1995 was $479 million, up from $433 in 1994; earnings per share of $5.51 were 15% higher than the $4.80 reported last year.
* On April 29, 1996, Textron announced that The Paul Revere Corporation, an 83.3% owned subsidiary, has entered into an agreement with Provident Companies, Inc. whereby Provident will acquire all of the outstanding shares of Paul Revere's common stock for $26 per share. For its Paul Revere shares, Textron will receive $20 per share in cash (an aggregate of $750 million) and $6 per share in Provident common stock, for a total of approximately $975 million. (The number of shares of Provident common stock to be received will be determined in accordance with an exchange ratio based upon closing prices of Provident common stock prior to the closing of the transaction, subject to certain limitations. Based on the $31.50 closing price of Provident's stock on April 26, 1996, Textron would own approximately 7.1 million of Provident shares had the closing occurred on that date.) This transaction has been approved by the Boards of Directors of Paul Revere, Provident, and Textron and is subject to regulatory approvals and the consent of Provident and Paul Revere shareholders. It is expected to close in the third quarter of 1996. The estimated loss on sale will be approximately $90 million, net of Textron's share of Paul Revere's estimated net income for the period April 1996 through the closing date, which Textron will record in its financial statements at March 30, 1996 and for the three months then ended. Textron has restated its financial statements as presented herein to treat Paul Revere as a discontinued operation. See Note 1 to the consolidated financial statements for additional information.
* Textron's income from continuing operations in 1995 was $416 million, up from $366 million in 1994; earnings per share from continuing operations of $4.79 were 18% higher than the $4.06 reported last year. Revenues increased 1% to $8.5 billion in 1995 from $8.4 billion in 1994. Excluding the effects of the Textron Lycoming Turbine Engine and the Homelite divisions, which were sold in 1994, revenues were up 9%.
* Operating income of Textron's business segments aggregated $1.0 billion in 1995, up 9% from 1994, as a 15% increase in the aggregate income of the Aircraft, Industrial and Finance segments more than offset lower results in the Systems and Components segment. Operating income in the Automotive segment was essentially unchanged.
* Corporate expenses and other - net increased in 1995 by $20 million due in large part to an increase in compensation expense tied directly to changes in the market value of Textron's common stock ($17 million). To mitigate the impact on compensation expense of future increases in stock price, Textron entered into a cash-settlement option program on Textron's common stock in November 1995.
* The lower interest expense of the Textron Parent Company Borrowing Group - $199 million in 1995 vs. $204 million in 1994 - reflected a lower level of average borrowing, notwithstanding the incremental borrowing associated with acquisitions in the fourth quarter, partially offset by an increased cost of borrowing.

1994 vs. 1993
* Textron's net income in 1994 was $433 million, up from $379 million in 1993; earnings per share of $4.80 were 14% higher than the $4.21 reported for 1993.
* Textron's income from continuing operations in 1994 was $366 million, up from $299 million in 1993; earnings per share from continuing operations of $4.06 were 22% higher than the $3.32 reported for 1993. Revenues increased 6% to $8.4 billion in 1994 from $7.9 billion in 1993.
* Operating income was $0.9 billion in 1994, up 15% from 1993, as a 22% increase in the aggregate income of the Aircraft, Automotive, Industrial, and Finance segments more than offset lower results in the Systems and Components segment.
* Corporate expenses and other - net in 1994 were lower by $7 million than their corresponding level in 1993, principally as a result of a lower pretax charge related to the early redemptions of high coupon debt ($9 million in 1994 vs. $14 million in 1993).

* The lower interest expense of the Textron Parent Company Borrowing Group - $204 million in 1994 vs. $232 million in 1993 - principally reflected a lower level of average borrowing.

Aircraft
1995 vs. 1994
The Aircraft segment's revenues and income increased $233 million (11%) and $43 million (22%), respectively.
* Bell Helicopter's revenues increased, primarily as a result of higher international aircraft sales ($199 million) and higher revenues under the V-22 engineering and manufacturing development contract ($97 million), partially offset by lower sales to foreign military customers and to the U.S. Government ($95 million). Bell's income increased primarily as a result of the higher revenues.
* Cessna's revenues and income increased primarily as a result of higher sales of utility turboprop aircraft. Increased product development expenses, principally related to the Bravo and Excel Citation aircraft ($32 million), were partially offset by reduced JPATS bid and proposal expenses and product support costs ($23 million).

1994 vs. 1993
The Aircraft segment's revenues and income increases of $199 million (10%)and $23 million (13%), respectively, related principally to Bell Helicopter.
* Bell Helicopter's revenues increased, primarily as a result of higher revenues under the V-22 and other military contracts ($233 million) and higher international aircraft sales ($54 million), partially offset by lower sales of spare parts, both military and commercial ($40 million). Bell's income increased as a result of the higher revenues and improved manufacturing efficiencies, partially offset by increased product development expenses related to three new helicopter models ($13 million) and lower margins on commercial spares ($13 million).
* Cessna's revenues and income increased primarily as a result of improved margins attributable to lower LIFO expense and a shift in sales mix to domestic utility turboprop aircraft ($12 million). Lower product development expenses related to the Citation X aircraft and lower expenses for the JPATS competition ($18 million) offset higher product support costs ($10 million) resulting from an adjustment to the warranty reserve for certain aircraft models. 1993 benefited from an $18 million insurance settlement.

Automotive
1995 vs. 1994
The Automotive segment's revenues increased $19 million (1%) despite a reduction in North American automotive production, due to higher production of models with Textron content. Income decreased slightly, due to start-up costs related to the launch of new products and facilities.

1994 vs. 1993
The Automotive segment's revenues and income increased $336 million (28%) and $43 million (45%), respectively, as a result of (a) the inclusion for the full year of a business acquired in May 1993 (resulting in higher revenues of $208 million in 1994), (b) higher automotive production, and
(c) lower warranty provisions ($6 million). 1993 included a provision for the consolidation of certain manufacturing operations ($7 million).

Industrial
1995 vs. 1994
The Industrial segment's revenues increased $26 million (2%) and income increased $20 million (14%). The increases were due principally to higher sales in the fastening systems business ($166 million), reflecting Avdel's results for the full year in 1995 compared with nine months in 1994, and the acquisition of Elco Industries in October 1995. In addition, sales were higher and performance was better in the turf care equipment and contractor tool businesses. Partially offsetting these increases was the divestiture of the Homelite division in August 1994 ($189 million of sales and $14 million of income). Excluding the impact of Homelite, revenues and income increased 18% and 26%, respectively.

1994 vs. 1993
The Industrial segment's revenues increased $171 million (14%) and income increased $36 million (34%). The increases were due principally to higher fastening systems sales including the sales of Avdel, the results of which have been included in Textron's consolidated results beginning in the second quarter of 1994 ($192 million). These favorable factors were partially offset by (a) lower income in the turf care equipment business, resulting from the implementation of a change in distribution, which lowered sales, and (b) higher costs. The sale of Homelite in August 1994 resulted in a gain of $8 million. 1993 included a provision for the consolidation of certain manufacturing operations ($9 million).

Systems and Components
1995 vs. 1994
The Systems and Components segment's revenues decreased $488 million (32%) and income decreased $14 million (14%). The decrease in revenues was due to the divestiture of the Lycoming Turbine Engine division ($379 million) and to reduced shipments on certain U.S. Government and commercial aerospace contracts. The income decrease was also due to the October 1994 divestiture of Lycoming Turbine Engine ($30 million, the after-tax effect of which was immaterial to net income due to the nontax deductibility of goodwill). These unfavorable factors were partially offset by provisions in 1994 for legal matters and the consolidation of certain manufacturing operations ($25 million).
Textron's Systems and Components segment will be impacted in 1996 by a further decline in revenues, due primarily to lower U.S. Government spending for the defense products of this segment and the expected continued weakness in the commercial aerospace industry, including the effects of certain customers consolidating their operations.
In response to this adverse business environment, Textron continues to leverage its defense technology for commercial applications, reduce costs in line with the lower business base, and pursue business opportunities that may arise, including joint ventures and divestitures.

1994 vs. 1993
Revenues and income in 1994 were $1.161 billion and $94 million, respectively, compared to $1.224 billion and $105 million, respectively, for 1993 excluding Lycoming Turbine Engine and provisions ($25 million in 1994 and $31 million in 1993) for legal matters and the consolidation of certain manufacturing operations. The decreases in revenues ($63 million) and income ($11 million) were due primarily to further weakness in the defense and commercial aerospace markets.

Finance
1995 vs. 1994
The Finance segment's revenues increased $313 million (19%), while income increased $34 million (10%).
* Avco Financial Services' (AFS) revenues increased $276 million due primarily to (a) a higher level of finance receivables outstanding (average receivables were $6.867 billion in 1995 vs. $5.696 billion in 1994), (b) an increase in earned insurance premiums ($62 million), and (c) an increase in investment income ($11 million), due primarily to higher yields (7.78% in 1995 vs. 7.06% in 1994) and a higher level of invested assets. These higher revenues were partially offset by a decrease in yields on finance receivables (18.20% in 1995 vs. 18.39% in 1994), due primarily to an increase in the level of retail installment contracts outstanding. AFS' income increased $28 million, due primarily to those factors and a decrease in the ratio of operating expenses to revenues (32.25% in 1995 vs. 33.67% in 1994). This favorable impact was partially offset by an increase in the average cost of borrowed funds (7.32% in 1995 vs. 6.63% in 1994) and an increase in the ratio of net credit losses to average finance receivables (2.10% in 1995 vs. 1.99% in 1994). The increase in delinquencies and net credit losses, which began during the latter part of 1995, was due to economic slowdowns in the U.S. and other countries in which AFS operates. The consumer debt load has continued to increase faster than the consumers' ability to pay. AFS has tightened its underwriting standards and unless the economies in the countries in which it operates decline further, AFS believes these trends will turn around by mid-1996.
* Textron Financial Corporation's (TFC) income increased $6 million on higher revenues of $37 million primarily due to (a) higher yields on finance receivables (10.34% in 1995 vs. 9.45% in 1994), (b) a higher level of finance receivables outstanding (average receivables were $2.839 billion in 1995 vs. $2.641 billion in 1994), and (c) a lower provision for loan losses ($6 million), reflecting an improvement in the equipment portfolio and stabilization of nonperforming real estate assets. These factors were partially offset by increased interest expense.

1994 vs. 1993
The Finance segment's revenues increased $62 million (4%), while income increased $42 million (15%).
* AFS' revenues increased $42 million, due primarily to a higher level of finance receivables outstanding (average receivables were $5.696 billion in 1994 vs. $5.208 billion in 1993), partially offset by a decline in yields on finance receivables (18.39% in 1994 vs. 19.10% in 1993). Its income increased $33 million, due to (a) the higher level of finance receivables outstanding, (b) a decrease in the average cost of borrowed funds (6.63% in 1994 vs. 6.97% in 1993), (c) a decrease in insurance losses in both finance- related and nonfinance-related insurance operations, and (d) a decrease in policy acquisition costs ($6 million), due to a reduction in nonfinance-related insurance premiums earned. These favorable factors were partially offset by
(a) the decline in yields and (b) an increase in loan loss provisions ($15 million), due to growth in finance receivables outstanding, offset in part by an improvement in the ratio of net credit losses to average finance receivables. The ratio decreased to 1.99% in 1994 from 2.14% in 1993.
* TFC's income increased $9 million on higher revenues of $20 million, due principally to (a) a higher level of finance receivables outstanding (average receivables were $2.641 billion in 1994 vs. $2.435 billion in 1993),
(b) higher leveraged lease income ($4 million), primarily related to the higher sales of residual appreciation rights and the benefit of a nonrecourse debt refinancing, and (c) a decrease in loan loss provisions ($7 million). These factors were partially offset by increased interest expense.

Discontinued Operation

1995 vs. 1994
Paul Revere's revenues increased $189 million (14%) due to increased premiums in all lines of business, particularly the individual and group disability lines ($98 million), and to higher net investment income ($76 million), including net realized investment gains. Its income decreased $8 million (6%), primarily as a result of a higher individual disability insurance benefit ratio and reserve strengthening related to the excess risk reinsurance line of business ($59 million), primarily as a result of a loss recognition study. Effective in March 1995, new business in the excess risk reinsurance line is no longer being written. The decreases in income were partially offset by higher net realized investment gains ($77 million in 1995 vs. $23 million in 1994), an improved benefit ratio in the group disability insurance line of business (76.4% in 1995 vs. 77.1% in 1994), and improved expense ratios across all lines of business.
The higher benefit ratio in individual disability insurance - 85.3% excluding the impact of the reserve strengthening in the excess risk reinsurance line of business, compared with 83.8% in 1994 - was the result of adverse claims experience in the excess risk reinsurance line and the block of policies issued between 1985 and 1989, especially in Florida and California, partially offset by the favorable impact of a reinsurance transaction in the third quarter of 1995. In addition, policies issued to physicians have performed below expectations. During 1995, Paul Revere experienced gradual improvement in the individual disability insurance benefit ratio and expects this gradual improvement to continue throughout 1996, as it continues to introduce new products, initiate pricing and underwriting adjustments, and emphasize improved claims management.
Establishment of insurance reserves requires making various actuarial assumptions. While actual experience could differ from the assumed actuarial experience underlying its policy and claim reserves, Textron believes that these reserves have been determined on reasonable bases and are adequate. The continued decline in market interest rates and/or the absence of morbidity improvements, could result in adjustments to reserve amounts and deferred costs. Paul Revere has undertaken underwriting and claims management measures mentioned above to mitigate the impact of these potential occurrences.

1994 vs. 1993
Paul Revere's revenues increased $138 million (12%), due to continued growth in its individual disability insurance line ($83 million),

increased premium volume in group insurance ($27 million) and higher net investment income ($26 million). Its income decreased $15 million (10%), primarily attributed to a significantly higher individual disability insurance benefit ratio (83.8% in 1994 vs. 72.9% in 1993). Positive earnings factors included higher net realized investment gains ($23 million in 1994 vs. $15 million in 1993) and increased group disability and individual life insurance income.

Liquidity & Capital Resources
Financing for Textron is conducted through two separate borrowing groups:
the Textron Parent Company Borrowing Group (consisting of all entities of Textron other than its finance subsidiaries) and Textron's finance subsidiaries.

Parent Company Borrowing Group
Management believes that the Textron Parent Company Borrowing Group will continue to have adequate access to credit markets and that its credit facilities and cash flows from operations--including dividends received from Textron's finance operations--will continue to be more than sufficient to meet its operating needs and to finance growth. Information about the cash flows of this group is set forth in its statement of cash flows on page 11.
* Cash flows from operating activities in 1995 of $536 million were approximately the same as they were in 1994. The effect of increased income and reductions of the cash value of company-owned life insurance were offset by increases in receivables and inventory, due principally to increased business, and reductions of accrued and other liabilities.
* The Group's debt increased by $192 million in 1995, as cash used for capital expenditures, acquisitions, purchases of 1.7 million shares of Textron common stock under its stock repurchase program, and payments of dividends exceeded the $536 million of cash provided by operations. Notwithstanding the increase in debt, Textron's ratio of debt to total capital decreased to 34% at December 30, 1995, from 35% at December 31, 1994.
* Cash flows from operating activities in 1994 of $538 million were down from the 1993 level. The decrease was due to higher receivables (due in large part to changed payment terms with a major customer and higher sales volume) and lower reductions in inventories in 1994 compared to those in 1993. These factors were partially offset by increased income and increased customer deposits in 1994.
* The Group's debt decreased by $443 million in 1994, as operating cash flows and cash proceeds from divestitures exceeded capital expenditures, payments of dividends, and purchases of 3.3 million shares of Textron common stock. During 1994, Textron redeemed an aggregate principal amount of $121 million of its 9-1/4% fixed rate debt, resulting in a pretax charge to income of $9 million.

Capital Expenditures
* Capital expenditures: See the table on page 3 for capital expenditures by business segment for 1995, 1994, and 1993. Such expenditures reflect Textron's growth strategy in its Aircraft, Automotive, and Industrial segments. Aggregate capital expenditures for 1996 are expected to more closely approximate the higher level of spending in 1994, as Textron invests in (a) new Citation aircraft models and single-engine aircraft and
(b) increased capacity and improved manufacturing productivity in the Industrial segment. Spending is expected to be lower in 1996 in the Automotive segment following significant investments in 1994 and 1995.
* Acquisitions: In 1995, Textron acquired Elco Industries at an aggregate cost of $230 million. In 1993, Textron acquired the plastics operations of the Acustar division of Chrysler Corporation at a cost of $139 million.
* Dispositions: In 1994, Textron sold its Homelite and Lycoming Turbine Engine divisions. Cash proceeds aggregated $495 million.
* Debt and credit facilities: Textron had a $1.5 billion credit facility with 36 banks at December 30, 1995. The portion of the credit facility not used or reserved as support for commercial paper or bank borrowings was $681 million at that date. Textron had $211 million available at December 30, 1995 for the issuance of unsecured debt securities under its shelf registration statement with the Securities and Exchange Commission. On February 1, 1996, a new shelf registration statement became effective, covering an additional aggregate amount of $800 million of (a) debt issuable by Textron and (b) preferred securities issuable by entities formed by Textron as to which Textron would provide certain guarantees. On February 9, 1996, a trust sponsored by Textron issued $500 million of such preferred securities, the proceeds of which were invested by the trust in Textron's newly issued 7.92% Junior Subordinated Deferrable Interest Debentures due 2045. The proceeds from the issuance of the debentures were initially used by Textron for the repayment of long-term borrowings and, ultimately, will be used for general corporate purposes.
* Interest rate exchange agreements: The difference between the variable rate the Group received and the fixed rate it paid on interest rate exchange agreements increased its reported interest expense by $14 million in 1995, $27 million in 1994, and $33 million in 1993.

Finance Subsidiaries
This group includes AFS and TFC. Information about the cash flows of this group is set forth in its statement of cash flows included in Note 17 to the consolidated financial statements.
* Dividends: The amount of the net assets of Textron's finance subsidiaries available for cash dividends and other payments to the Textron Parent Company Borrowing Group is restricted by the terms of lending agreements. The finance subsidiaries paid dividends to the Textron Parent Company Borrowing Group of $117 million, $106 million, and $94 million in 1995, 1994, and 1993, respectively.
* Capital resources: AFS and TFC each utilize a broad base of financial sources for their respective liquidity and capital requirements. Cash is provided from both operations and several different sources of borrowings, including unsecured borrowings under bank lines of credit, the issuance of commercial paper and short-term bank debt, and sales of medium- and long-term debt in the U.S. and foreign financial markets. During 1995, the net proceeds from medium- and long-term financing sources, including the issuances described below, totaled $1.9 billion. Debt increased by $693 million in 1995, due principally to receivable growth and debt assumed upon the acquisition of HFC of Australia, Ltd.

* Debt and credit facilities: During 1995, AFS issued $1.4 billion of unsecured debt securities, including $1.1 billion under its shelf registration statements. At December 31, 1995, AFS had $1.3 billion available for unsecured debt securities under its shelf registration statement with the Securities and Exchange Commission and $417 million available for similar securities under its shelf registration statements with the Canadian

provincial security exchanges. In 1994, TFC established a medium-term note facility for $500 million. TFC had $367 million available under this facility at December 31, 1995. By utilizing medium- and long-term fixed rate financing, as well as interest rate exchange agreements, Textron's finance subsidiaries effectively had a combined ratio of variable rate debt to total debt of 43% at December 31, 1995.
* Acquisition: In January 1995, AFS acquired HFC of Australia, Ltd., and through this acquisition added approximately $436 million of finance receivables to its portfolio.
* Interest rate exchange agreements: The difference between the variable rate the finance subsidiaries received and the fixed rate they paid on interest rate exchange agreements increased their reported interest expense by $13 million in 1995, $21 million in 1994, and $47 million in 1993.
* Investment in real estate: Textron's finance subsidiaries have substantial amounts of investments and finance receivables backed up or secured by real estate. AFS had residential real estate loans outstanding of $2.5 billion at December 31, 1995, which were secured primarily by first and second mortgages on single family homes, and averaged $27 thousand in outstanding principal balance. Residential real estate loans are geographically dispersed and loan amounts are limited to a maximum of 85% of the property's appraised market value, although most loans are made at significantly lower loan to value ratios. TFC had real estate loans and leveraged leases of real estate aggregating $426 million and $188 million, respectively, at December 31, 1995. The commercial real estate portfolio of $196 million, consisting principally of first mortgages on income producing properties, is diversified both geographically and by type of property financed. Nonearning commercial real estate loans were $72 million at December 31, 1995 ($76 million at December 31, 1994).
* Finance receivables: Textron's finance subsidiaries have a diversified portfolio of other consumer and commercial receivables.

For further information about investments and finance receivables, see Note 2 and Note 3 to the consolidated financial statements.

Discontinued Operation - Paul Revere
Management believes that Paul Revere's cash flow from operating activities will continue to provide sufficient liquidity for its operations so that Paul Revere will be able to meet its obligations and pay dividends to its shareholders.
* Investment in real estate: At December 31, 1995, Paul Revere held $309 million of first mortgages on real estate. The real estate portfolio is well diversified geographically and by type of property financed.
* Mortgage-backed securities: Paul Revere's investments included mortgage- backed securities with an amortized cost of $561 million at December 31, 1995 ($773 million at December 31, 1994) a substantial portion of which is guaranteed by the U.S. Government or U.S. Government agencies. Future investment income from mortgage-backed securities may be affected by the timing of principal payments and the yields on reinvestment alternatives available at the time of such payments.
* Other investments: Paul Revere also has significant investments in other debt securities. The predominant portion of these investments is in high quality, investment grade assets. Paul Revere's investment strategies place an emphasis on matching investment maturities with the timing of amounts estimated to be payable under insurance contracts.

Other Matters

* Environmental: Textron is involved in a number of remedial actions under various federal and state laws and regulations relating to the environment which impose liability on companies to clean up, or contribute to the cost of cleaning up, sites on which their hazardous wastes or materials were disposed or released. Expenditures to evaluate and remediate contaminated sites approximated $15 million, $14 million and $18 million in 1995, 1994, and 1993, respectively. Textron currently projects that expenditures for remediation will range between $10 million and $20 million for each of the years 1996 and 1997. (See the Summary of Significant Accounting Policies and Note 15 to the consolidated financial statements for further information about environmental matters.) Based upon the information currently available, Textron believes it has made adequate provision for costs associated with known remediation efforts. Despite the uncertainty concerning the overall costs of additional remedial actions that might be identified in the future, it is not currently anticipated that such costs will have a material adverse effect on Textron's liquidity, net income or financial condition.
* Interest rate management: As part of managing its interest rate risk, Textron utilizes interest rate exchange agreements. The objective is not to speculate for profit, but, rather, is to convert variable rate debt into fixed rate debt, with respect to specific designated borrowings. These agreements do not involve a high degree of complexity or risk. For further information about these agreements and the debt and credit facilities of the Textron Parent Company Borrowing Group and the finance subsidiaries, see Note 7 to the consolidated financial statements.
* Foreign currency exchange agreements: Textron's exposure to foreign exchange rate risk is not significant due to the diversification of its operations among various divisions and geographic locations, there being no one significant foreign operation and no significant exposure to highly inflationary currencies. Textron enters into forward exchange contracts to hedge the risk associated with currency fluctuations on certain firm sales and purchase commitments denominated in foreign currencies. For further information about these contracts see the Summary of Significant Accounting Policies in the consolidated financial statements.

Backlog

(Unaudited) (In billions)	December 30, 1995	December 31, 1994
U.S. Government:		
Aircraft	$1.2	$1.6
Systems and Components	.5	.7
	1.7	2.3
Commercial:		
Aircraft	2.3	2.2
Industrial	.3	.3

Systems and Components	.5	.5
	3.1	3.0
	$4.8	$5.3

Note:
The decrease in the Aircraft segment's U.S. Government backlog was due primarily to revenues recorded in 1995 under the V-22 program.

Condensed Financial Information for the Textron Parent Company Borrowing

Group

Statement of Income

For each of the three years in the period ended December 30, 1995

(In millions)	1995	1994	1993
Revenues	$6,468	$6,680	$6,275
Costs and expenses			
Cost of sales	5,294	5,514	5,210
Selling and administrative	650	668	648
Interest	199	206	236
Total costs and expenses	6,143	6,388	6,094
	325	292	181
Pretax income of finance subsidiaries	365	331	289
Income from continuing operations before income taxes	690	623	470
Income taxes	(274)	(257)	(171)
Income from continuing operations	416	366	299
Income from discontinued operation, net of income taxes	63	67	80
Net income	$ 479	$ 433	$ 379

Balance Sheet

(In millions)	December 30, 1995	December 31, 1994
Assets		
Cash	$ 56	$ 20
Receivables - net	777	702
Inventories	1,284	1,211
Investments in finance subsidiaries	1,475	1,334
Property, plant and equipment - net	1,297	1,146
Goodwill, less accumulated amortization of $233 and $194	1,344	1,231
Investment in discontinued operation	1,161	912
Other (including net prepaid income taxes)	1,177	1,262
Total assets	$8,571	$7,818
Liabilities and shareholders' equity		
Accounts payable and accrued liabilities (including income taxes)	$3,385	$3,354
Debt	1,774	1,582
Shareholders' equity	3,412	2,882
Total liabilities and shareholders' equity	$8,571	$7,818

Statement of Cash Flows

For each of the three years in the period ended December 30, 1995

(In millions)	1995	1994	1993

Cash flows from operating activities:			
Income from continuing operations	$ 416	$ 366	$ 299
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Undistributed earnings of finance subsidiaries	(106)	(97)	(85)
Depreciation and amortization	221	238	229
Other - net	5	31	141
Net cash provided by operating activities	536	538	584
Net cash provided (used) by investing activities	(437)	224	(168)
Net cash used by financing activities	(63)	(754)	(432)
Net increase (decrease) in cash	36	8	(16)
Cash at beginning of year	20	12	28
Cash at end of year	$ 56	$ 20	$ 12

Report of Management

The consolidated financial statements of Textron Inc. have been prepared by management and have been audited by Textron's independent auditors, Ernst & Young LLP, whose report appears below. Management is responsible for the consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles and include amounts based on management's best estimates and judgments.

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

The Board of Directors, through its Audit Committee, oversees management's financial reporting responsibilities. The Audit Committee, comprised of four outside directors, meets regularly with the independent auditors, representatives of management and the internal auditors to discuss and make inquiries into their activities. Both the independent auditors and the internal auditors have free access to the Audit Committee, with and without management representatives in attendance.

/s/James F. Hardymon

James F. Hardymon
Chairman and Chief Executive Officer

/s/Stephen L. Key

Stephen L. Key
Executive Vice President and Chief Financial Officer

January 25, 1996, except for note 1, as to which the date is April 29, 1996

Report of Independent Auditors

To the Board of Directors and Shareholders Textron Inc.

We have audited the accompanying consolidated balance sheet of Textron Inc. as of December 30, 1995 and December 31, 1994, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 30, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Textron Inc. at December 30, 1995 and December 31, 1994 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 30, 1995 in conformity with generally accepted accounting principles.

/s/Ernst & Young LLP

New York, New York
January 25, 1996, except for note 1, as to which the date is April 29, 1996

Consolidated Statement of Income

For each of the three years in the period ended December 30, 1995 (In millions except per share amounts)	1995	1994	1993
Revenues			
Manufacturing sales	$6,468	$6,678	$6,271
Finance revenues	1,985	1,674	1,614
Total revenues	8,453	8,352	7,885
Costs and expenses			
Cost of sales	5,294	5,514	5,210
Selling and administrative	1,253	1,198	1,163
Interest	812	665	668
Provision for losses on collection of finance receivables, less recoveries	169	162	153
Other finance expenses	235	190	221
Total costs and expenses	7,763	7,729	7,415
Income from continuing operations before income taxes	690	623	470
Income taxes	(274)	(257)	(171)
Income from continuing operations	416	366	299
Income from discontinued operation, net of income taxes	63	67	80
Net income	$ 479	$ 433	$ 379
Per common share:			
Income from continuing operations	$ 4.79	$ 4.06	$ 3.32
Discontinued operation	.72	.74	.89
Net income	$ 5.51	$ 4.80	$ 4.21

See summary of significant accounting policies and notes to consolidated financial statements.

Consolidated Balance Sheet

(Dollars in millions)	December 30, 1995	December 31, 1994
Assets		
Cash	$ 84	$ 49
Investments	778	672
Receivables - net:		
Finance	9,362	8,583
Commercial and U.S. Government	777	702
	10,139	9,285
Inventories	1,284	1,211
Property, plant and equipment, less accumulated depreciation of $1,585 and $1,389	1,373	1,215
Goodwill, less accumulated amortization of $347 and $298	1,491	1,388
Investment in discontinued operation	1,161	912
Other (including net prepaid income taxes)	1,037	1,260
Total assets	$17,347	$15,992
Liabilities and shareholders' equity		
Liabilities		
Accounts payable	$ 684	$ 619
Accrued postretirement benefits other than pensions	919	931
Other accrued liabilities (including income taxes)	2,121	2,218
Debt:		
Textron Parent Company Borrowing Group	1,774	1,582
Finance subsidiaries	8,437	7,760

	10,211	9,342
Total liabilities	13,935	13,110
Shareholders' equity		
Capital stock:		
Preferred stock (15,000,000 shares authorized):		
$2.08 Cumulative Convertible Preferred Stock, Series A (liquidation value - $16.8)	8	9
$1.40 Convertible Preferred Dividend Stock, Series B (preferred only as to dividends)	7	7
Common stock, 12.5 cents par value (250,000,000 shares authorized; 93,462,000 and 92,284,000 shares issued)	12	12
Capital surplus	750	702
Retained earnings	2,864	2,518
Other	129	(108)
	3,770	3,140
Less cost of treasury shares	358	258
Total shareholders' equity	3,412	2,882
Total liabilities and shareholders' equity	$17,347	$15,992

See summary of significant accounting policies and notes to consolidated financial statements.

Consolidated Statement of Cash Flows For each of the three years in the period ended December 30, 1995 (in millions)	1995	1994	1993
Cash flows from operating activities:			
Income from continuing operations	$ 416	$ 366	$ 299
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	342	338	357
Provision for losses on receivables	208	200	195
Deferred income taxes	28	53	20
Changes in assets and liabilities excluding those related to acquisitions and divestitures:			
Increase in commercial and U.S. Government receivables	(40)	(163)	(27)
Decrease (increase) in inventories	(28)	64	176
Decrease (increase) in other assets	25	(51)	(46)
Increase in accounts payable	54	86	78
Increase (decrease) in accrued liabilities	(96)	100	(23)
Other - net	35	(28)	(58)
Cash from operating activities of continuing operations	944	965	971
Cash from operating activities of discontinued operation	349	314	330
Net cash provided by operating activities	1,293	1,279	1,301
Cash flows from investing activities:			
Purchases of investments	(188)	(189)	(287)
Proceeds from disposition of investments	96	65	114
Maturities and calls of investments	55	56	127
Finance receivables:			
Originated or purchased	(6,237)	(6,020)	(5,011)
Repaid or sold	5,695	4,803	4,253
Cash used in acquisitions	(252)	(9)	(139)
Net proceeds from sales of businesses and minority interest in subsidiary	-	492	175
Capital expenditures	(279)	(294)	(246)
Other investing activities - net	30	2	32
Cash used by investing activities of continuing operations	(1,080)	(1,094)	(982)
Cash used by investing activities of discontinued operation	(420)	(520)	(521)

Net cash used by investing activities	(1,500)	(1,614)	(1,503)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	(253)	449	485
Proceeds from issuance of long-term debt	2,984	2,078	1,666
Principal payments on long-term debt	(2,347)	(2,072)	(1,954)
Proceeds from exercise of stock options	42	12	19
Purchases of Textron common stock	(100)	(166)	-
Purchases of Textron common stock from Paul Revere	(22)	(25)	-
Dividends paid	(133)	(124)	(110)
Capital contribution to Paul Revere	-	-	(100)
Cash from financing activities of continuing operations	171	152	6
Cash from financing activities of discontinued operation	86	206	191
Net cash provided by financing activities	257	358	197
Net increase (decrease) in cash	50	23	(5)
Elimination of cash flow of discontinued operation	(15)	-	-
Cash at beginning of year	49	26	31
Cash at end of year	$ 84	$ 49	$ 26
Supplemental Information:			
Cash paid during the year for:			
Interest	$ 765	$ 624	$ 642
Income taxes	276	194	144
Non-cash transactions:			
Liabilities assumed for acquisitions	562	-	58

See summary of significant accounting policies and notes to consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For each of the three years in the period ended December 30, 1995	Shares outstanding* (In thousands)			Dollars (In millions)		
	1995	1994	1993	1995	1994	1993
$2.08 Preferred stock						
Beginning balance	297	321	377	$ 9	$ 9	$ 11
Conversion to common stock	(30)	(24)	(56)	(1)	-	(2)
Ending balance	267	297	321	$ 8	$ 9	$ 9
$1.40 Preferred stock						
Beginning balance	126	138	153	$ 7	$ 7	$ 8
Conversion to common stock	(8)	(12)	(15)	-	-	$ (1)
Ending balance	118	126	138	$ 7	$ 7	$ 7
Common stock						
Beginning balance	85,497	88,413	87,563	$ 12	$ 12	$ 11
Purchases	(1,734)	(3,346)	-	-	-	-
Conversion of preferred stock to common stock	81	75	151	-	-	1
Exercise of stock options	1,091	349	695	-	-	-
Other issuances of common stock	-	6	4	-	-	-
Ending balance	84,935	85,497	88,413	$ 12	$ 12	$ 12
Capital surplus						
Beginning balance				$ 702	$ 687	$ 661
Conversion of preferred stock to common stock				1	1	1
Exercise of stock options				47	14	25
Ending balance				$ 750	$ 702	$ 687
Retained earnings						
Beginning balance				$2,518	$2,209	$1,940
Net income				479	433	379
Dividends declared:						

	1995	1994	1993
Preferred stock	(1)	(1)	(1)
Common stock (per share: $1.56 in 1995; $1.40 in 1994 and $1.24 in 1993)	(132)	(123)	(109)
Ending balance	$2,864	$2,518	$2,209
Treasury stock			
Beginning balance	$ 258	$ 92	$ 91
Exercise of stock options	-	-	1
Purchases of common stock	100	166	-
Ending balance	$ 358	$ 258	$ 92
Other			
Beginning balance	$ (108)	$ (52)	$ (52)
Currency translation adjustment	5	1	(23)
Securities valuation adjustment	216 **	(71)	11
Pension liability adjustment	3	-	(3)
Shares allocated to ESOP participants' accounts	13	14	15
Ending balance	$ 129	$ (108)	$ (52)

* Shares issued at the end of 1995, 1994, 1993 and 1992 were as follows (in thousands): $2.08 Preferred - 336; 366; 390 and 446 shares, respectively; $1.40 Preferred - 604; 613; 625 and 640 shares, respectively; Common - 93,462; 92,284; 91,859 and 91,007 shares, respectively.

** Includes net unrealized gains relating to the transfer of all of Paul Revere's debt securities from the held to maturity category to the available for sale category of its investment portfolio ($133 million) (See note 1 for further information about Paul Revere's investments), partially offset by an adjustment to deferred policy acquisition costs ($73 million).

See summary of significant accounting policies and notes to consolidated financial statements.

Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of Textron and all of its majority- and wholly-owned subsidiaries, excluding Paul Revere which is reflected as a discontinued operation. All significant intercompany transactions are eliminated.

Textron consists of two borrowing groups - the Textron Parent Company Borrowing Group (comprised of all entities of Textron other than its finance subsidiaries) and Textron's finance subsidiaries. Separate financial information is presented on pages 10 and 11 for the Textron Parent Company Borrowing Group and in Note 17 on page 37 for the finance subsidiaries.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in those statements and accompanying notes. Actual results could differ from such estimates.

Finance receivables

Interest income is recognized in revenues using the interest method. Accrual of interest income is suspended for accounts which are contractually delinquent by more than three months (commercial) or three payments (consumer). Accrual of interest on commercial loans is resumed, and suspended interest income is recognized, when loans become contractually current, whereas subsequent interest income on consumer loans is recognized when collected. Fees received and direct loan origination costs are deferred and amortized to revenues over the contractual lives of the respective loans using the interest method.

Finance receivables are written off when they are deemed uncollectible. Commercial loans are written down to the fair value of the related collateral (less estimated costs to sell) when the collateral is repossessed or when no payment has been received for six months, unless management deems the loans collectible. Foreclosed real estate loans are transferred from finance receivables to other assets at the lower of the fair value of the related real estate (less estimated costs to sell) or the outstanding loan balance.

Provisions for losses on finance receivables are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover the losses in the existing receivable portfolio.

Investments

Securities classified in the available for sale category are carried at estimated fair value and consist of those securities which Textron intends to hold for an indefinite period of time but not necessarily to maturity. Unrealized gains and losses related to securities available for sale, net of applicable income taxes, are reported as a separate component of shareholders' equity.

Net realized gains or losses resulting from sales or calls of investments are included in revenues. The cost of securities sold is determined primarily on the specific identification method.

Inventories

Inventories are carried at the lower of cost or market.

Long-term contracts and programs

Sales under fixed-price contracts and programs are generally recorded as deliveries are made. Sales under cost reimbursement-type contracts are recorded as costs are incurred and fees are earned. Certain contracts are awarded on a fixed-price incentive fee basis. Incentive fees on such contracts are considered when estimating revenues and profit rates and are recorded when the amounts can reasonably be determined. Profits expected to be realized on long-term contracts and programs are based on estimates of total sales value and costs at completion. (Cost of sales under programs is determined on a program-average method and is computed as a percentage of the sale price of the units being sold under the program.) Such estimates are reviewed and revised periodically throughout the lives of the contracts and programs. Revisions to contract profits are recorded in the accounting period in which the revisions are made. Revisions to program profits are recorded over the balance of the programs. Estimated losses on contracts and programs are recorded when identified.

Program accounting has evolved in practice as a method of accounting for the costs of certain products manufactured under production-type contracts in connection with long-term programs. The program method, with origins prior to the issuance in 1981 of SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" and used by a limited number of companies (mainly commercial airframe manufacturers), consists of estimating the entire quantity of units to be produced over the life of a program and the related revenues, costs, and profits to be realized and recognizing those profits throughout that period. The program method has been used by Textron in accounting for its subcontract work under the Airbus A330/340 commercial aircraft program, because the criteria required for its use are present - that is, (a) at the beginning of the program (in 1988) Textron did not yet have firm orders that would, by themselves, recover all of the initial investment in design, development, tooling, and early production effort and (b) Textron has the ability to make reasonably dependable estimates of the number of units to be produced, the period of time over which they will be delivered, and the associated costs and selling prices.

Textron does not use the program method of accounting in connection with any of its government contracts.

Property, plant and equipment

The cost of property, plant and equipment is being depreciated based on the estimated useful lives of the assets.

In 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (FAS 121), which Textron is required to implement beginning in 1996. An impairment loss must be recognized to the extent the carrying value of an asset, including any goodwill relating to the asset, exceeds the fair value of the asset. The adoption of FAS 121 is not expected to have a material effect on Textron's results of operations.

Goodwill

Goodwill related to Textron's manufacturing operations is being amortized on the straight-line method over periods ranging from 20 to 40 years. Goodwill related to Textron's finance subsidiaries is being amortized on the straight-line method over 25 years.

Goodwill is reviewed periodically for impairment by comparing the carrying amount to the estimated future undiscounted cash flows of the businesses acquired. If this review indicates that goodwill will not be recoverable, Textron would reduce the carrying amount of the goodwill to its fair value - generally based on future discounted cash flows - by a noncash charge to earnings.

Income per common share

Income per common share is based on average common shares outstanding during each year assuming full conversion of outstanding preferred stock and exercise of stock options. Such average shares were 86,894,000 in 1995; 90,119,000 in 1994 and 90,052,000 in 1993.

Translation of foreign currencies, foreign exchange transactions and foreign currency exchange contracts.

Adjustments resulting from the translation of the financial statements of most of Textron's foreign operations are excluded from the determination of its income and accumulated in a separate component of shareholders' equity until the entity is sold or substantially liquidated.

Foreign exchange gains and losses included in income (which relate principally to transactions denominated in foreign currencies) have not been material.

Textron's exposure to foreign exchange rate risk is not significant due to the diversification of its operations among various divisions and geographic locations, there being no one significant foreign operation and no significant exposure to highly inflationary currencies. Textron enters into forward exchange contracts to hedge the risk associated with currency fluctuations on certain firm sales and purchase commitments denominated in foreign currencies. The gains and losses resulting from the impact of currency exchange rate movements on these contracts are recorded when the underlying transactions occur. Textron had open foreign currency forward exchange contracts totaling approximately $191 million and $110 million at December 30, 1995 and December 31, 1994, respectively. The unrealized losses relating to these contracts aggregated $6 million and $12 million at December 30, 1995 and December 31, 1994, respectively.

Interest rate exchange agreements

Textron's interest rate exchange agreements are accounted for on the accrual basis. Certain of the agreements are designated against specific long-term variable rate borrowings and the balance is designated against existing short-term borrowings, through their maturity, and the anticipated short-term borrowings which will replace the existing borrowings. Textron continuously monitors the level of short-term borrowings to ensure that there is a high degree of probability that its short-term borrowings will remain at a level in excess of the notional amount of the designated agreements. If Textron were to determine it probable that the level of anticipated short-term borrowings will at any time be less than the notional amount of designated agreements, any excess would be marked to market and the associated gain or loss recorded in income.

Premiums paid to terminate any such agreements are deferred and subsequently amortized to expense over the original terms of the agreements. Upon early extinguishment of any of the underlying debt originally hedged, unamortized premiums are recognized as an adjustment to the gain or loss on such early extinguishment.

Income taxes

Deferred income taxes are recognized for temporary differences between the financial reporting basis and income tax basis of assets and

liabilities based on enacted tax rates expected to be in effect when such amounts are expected to be realized or settled.

Environmental remediation
Environmental liabilities are recorded based on the most probable cost if known or on the estimated minimum cost, determined on a site by site basis. Textron's environmental liabilities are undiscounted and do not take into consideration any possible future insurance proceeds or any significant amounts of claims against other third parties.

Notes to Consolidated Financial Statements

1 Discontinued Operation

On April 29, 1996, Textron announced that The Paul Revere Corporation, an 83.3% owned subsidiary, has entered into an agreement with Provident Companies, Inc. whereby Provident will acquire all of the outstanding shares of Paul Revere's common stock for $26 per share. For its Paul Revere shares, Textron will receive $20 per share in cash (an aggregate of $750 million) and $6 per share in Provident common stock, for a total of approximately $975 million. (The number of shares of Provident common stock to be received will be determined in accordance with an exchange ratio based upon closing prices of Provident common stock prior to the closing of the transaction, subject to certain limitations. Based on the $31.50 closing price of Provident's stock on April 26, 1996, Textron would own approximately 7.1 million of Provident shares had the closing occurred on that date.) This transaction has been approved by the Boards of Directors of Paul Revere, Provident, and Textron and is subject to regulatory approvals and the consent of Provident and Paul Revere shareholders. It is expected to close in the third quarter of 1996. The estimated loss on sale will be approximately $90 million, net of Textron's share of Paul Revere's estimated net income for the period April 1996 through the closing date, which Textron will record in its financial statements at March 30, 1996 and for the three months then ended.

Textron has restated its financial statements as presented herein to treat Paul Revere as a discontinued operation.

The operating results of the Paul Revere are summarized below:

For each of the three years ended December 31, (In millions)	1995	1994	1993
Revenues	$ 1,520	$ 1,331	$ 1,193
Costs and expenses	1,397	1,200	1,047
Income before income taxes	123	131	146
Income taxes	(47)	(51)	(63)
Net income	76	80	83
Minority interest in net income	(13)	(13)	(3)
Textron's equity in net income	$ 63	$ 67	$ 80

Presented below is a summary of Paul Revere's financial position at December 31, 1995 and 1994:

(In millions)	1995	1994
Assets:		
Investments	$ 5,205	$ 4,686
Insurance policy acquisition costs	843	868
Other	996	355
Total assets	$ 7,044	$ 5,909
Liabilities:		
Insurance reserves	$ 5,099	$ 4,483
Other accrued liabilities	551	332
Total liabilities	5,650	4,815
Textron equity:		
Currency translation adjustment	(11)	(16)
Securities valuation adjustment	144	(36)
Capital and retained earnings	1,028	964
Total Textron equity	1,161	912

Minority interest	233	182
Total liabilities and equity	$ 7,044	$ 5,909

Recognition of revenues and expenses
Premiums from individual disability insurance are recognized in revenues when due. Benefits and expenses relating to individual disability insurance are recognized over the life of the contracts through the establishment of reserves for future policy benefits and the amortization of deferred policy acquisition costs. For investment products, revenues consist of policy and surrender charges assessed during the year.

Investments
Securities carried at amortized cost and classified in the held to maturity category are those which Paul Revere has both the ability and positive intent to hold to maturity. Securities classified in the available for sale category are carried at estimated fair value and consist of those securities which Paul Revere intends to hold for an indefinite period of time but not necessarily to maturity. Unrealized gains and losses related to securities available for sale, net of applicable income taxes, are reported as a separate component of shareholders' equity.

Net realized gains or losses resulting from sales or calls of investments are included in revenues. The cost of securities sold is determined primarily on the specific identification method.

Deferred policy acquisition costs
Costs which vary with and are related primarily to the production of new business, are deferred to the extent they are deemed recoverable from future profits. For disability insurance, these costs are amortized in proportion to premiums over the estimated lives of the policies. For investment products, these costs are amortized in proportion to estimated profits.

Insurance reserves and claims
Policy reserves represent the portion of premiums received, accumulated with interest, to provide for future claims. Such reserves for individual disability insurance products are based on Paul Revere's withdrawal, morbidity, and mortality experience. Claim reserves are established for future payments not yet due on claims already incurred, primarily relating to individual disability insurance. Other policyholder funds represent amounts accumulated under deferred contracts to provide annuities in the future.

Investments
The amortized cost and estimated fair value of Paul Revere's investments at the end of 1995 and 1994 were as follows:

(In millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
December 30, 1995				
Securities available for sale:				
Obligations of U.S., foreign and other governments and government agencies	$ 521	$ 96	$ 1	$ 616
Public utility securities	648	58	-	706
Corporate securities	2,559	225	11	2,773
Mortgage-backed securities*	561	36	1	596
Marketable equity securities	48	41	-	89
	$4,337	$456	$ 13	4,780
Other investments, at cost (estimated fair value $476)				425
				$5,205

* Paul Revere, in accordance with the "Guide to Implementation of Statement 115 on Accounting for Certain Investments and Debt Securities," reviewed its portfolio and transferred all its debt securities from the held to maturity category ($2.6 billion) to the available for sale category as of December 1, 1995. The net unrealized gains, net of applicable income taxes, relating to the securities reclassified at that date, were recorded as an increase to shareholders' equity. The transfer had no effect on Paul Revere's net income or cash flows.

Securities available for sale, at fair value:

(In millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value

December 31, 1994				
Obligations of U.S., foreign and other governments and government agencies	$ 181	$ 2	$ 6	$ 177
Public utility securities	202	1	14	189
Corporate securities	728	14	46	696
Mortgage-backed securities*	773	7	53	727
Marketable equity securities	65	56	2	119
	$1,949	$ 80	$ 121	1,908

Securities to be held to maturity, at amortized cost:

	Estimated fair value	Gross unrealized gains	Gross unrealized losses	Amortized cost
Obligations of U.S., foreign and other governments and government agencies	$ 333	$ 2	$ 16	347
Public utility securities	463	1	39	501
Corporate securities	1,498	15	139	1,622
	$ 2,294	$ 18	$ 194	2,470
Other investments, at cost (estimated fair value $321)				308
				$4,686

* A substantial portion of these securities is guaranteed by the U.S. Government or U.S. Government agencies.

Gross realized gains and losses from sales of securities classified as available for sale were $100 million and $12 million, respectively, in 1995 and $27 million and $2 million, respectively, in 1994. Gross gains and losses realized on sales of debt securities were $10 million and $2 million, respectively, in 1993. Net realized gains resulting from sales of marketable equity securities were $9 million in 1993.

Insurance reserves and claims

(In millions)	December 30, 1995	December 31, 1994
Future policy benefits	$1,371	$1,193
Unpaid claims and claim expenses	1,852	1,576
Other policyholder funds	1,876 *	1,714 *
	$5,099	$4,483

* The estimated fair value of the other policyholder funds at December 31, 1995 and 1994 was $1,849 million and $1,694 million, respectively, and was based on the cash surrender value of Paul Revere's financial products portfolio.

Establishment of insurance reserves requires making various actuarial assumptions. While actual experience could differ from the assumed actuarial experience underlying its policy and claim reserves, Textron believes that these reserves have been determined on reasonable bases and are adequate. The continued decline in market interest rates and/or the absence of morbidity improvements, could result in adjustments to reserve amounts and deferred costs. Paul Revere has undertaken underwriting and claims management measures to mitigate the impact of these potential occurrences.

2 Investments

The amortized cost and estimated fair value of investments at the end of 1995 and 1994 were as follows:

(In millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
December 30, 1995				
Obligations of U.S., foreign and other governments and government agencies	$ 237	$ 13	$ 1	$ 249

Public utility securities	61	2	-	63
Corporate securities	379	16	2	393
Mortgage-backed securities*	40	-	-	40
Marketable equity securities	21	3	-	24
	$ 738	$ 34	$ 3	769
Other investments, at cost (estimated fair value $9)				9
				$778
December 31, 1994				
Obligations of U.S., foreign and other governments and government agencies	$ 239	$ 3	$ 6	$ 236
Public utility securities	69	1	6	64
Corporate securities	327	2	16	313
Mortgage-backed securities*	37	2	4	35
Marketable equity securities	19	-	-	19
	$ 691	$ 8	$ 32	667
Other investments, at cost (estimated fair value $5)				5
				$672

*A substantial portion of these securities is guaranteed by the U.S. Government or U.S. Government agencies.

The amortized cost and estimated fair value of debt securities at the end of 1995 by contractual maturity date, were as follows:

(In millions)	Amortized cost	Estimated fair value
Due in 1996	$ 107	$ 107
Due 1997 to 2000	299	308
Due 2001 to 2005	196	207
Due after 2005	75	83
	677	705
Mortgage-backed securities	40	40
	$ 717	$ 745

3 Finance Receivables

Contractual maturities of finance receivables outstanding at the end of 1995 and total finance receivables outstanding at that date and at the end of 1994 were as follows:

	Contractual maturities			Less finance charges	Finance receivables outstanding	
(In millions)	1996	1997	After 1997		1995	1994
Consumer:						
Consumer loans	$1,775	$1,227	$1,240	$1,221	$3,021	$2,722
Real estate loans	721	511	3,804	2,523	2,513	2,415
Retail installment contracts	904	523	365	656	1,136	1,107
Other	125	87	77	25	264	92
	3,525	2,348	5,486	4,425	6,934	6,336
Commercial:						
Installment contracts	403	307	621	236	1,095	977
Real estate loans	78	83	268	3	426	440
Finance leases	154	154	342	127	523	523
Leveraged leases	9	16	613	311	327	321
Floorplan and other receivables	429	53	119	12	589	487

	1,073	613	1,963	689	2,960	2,748
	$4,598	$2,961	$7,449	$5,114	9,894	9,084
Less allowance for credit losses					270	250
Less finance-related insurance reserves and claims					262	251
					$9,362	$8,583

The maximum term over which consumer loans and retail installment contracts are written is ten years, but approximately 90% of these loans are written with terms of four years or less. Consumer real estate loans are written with a maximum term of 15 years. Nonearning consumer loans were $115 million at the end of 1995.

Commercial installment contracts have initial terms generally ranging from one to 12 years. Commercial real estate loans have initial terms generally ranging from three to five years. Finance leases have initial terms generally up to 12 years. Nonearning commercial loans were $99 million at the end of 1995.

Accounts are often repaid or refinanced prior to contractual maturity. Accordingly, the foregoing tabulation should not be regarded as a forecast of future cash collections. In 1995 and 1994, cash collections of receivables (excluding finance charges) were $5.7 billion and $4.7 billion, respectively. The ratio of cash collections to average net receivables was approximately 63% and 58%, respectively.

Textron had both fixed rate and variable rate loan commitments in the amount of $698 million at December 30, 1995. Generally, interest rates on these commitments are not set until the loans are funded; therefore, Textron is not exposed to interest rate changes.

4 Long-term Contract and Program Receivables

Long-term contract and program receivables at December 30, 1995 and December 31, 1994 aggregated $175 million and $153 million, respectively, including $81 million and $69 million, respectively, of unbilled costs and accrued profits on long-term contracts for which the contractual criteria for billing had not yet been met. An estimated $40 million and $53 million, respectively, of the unbilled amounts are not expected to be collected within one year. There are no significant amounts included in receivables which represent balances billed but unpaid under contractual retainage provisions or significant long-term contract receivables subject to uncertainty as to collection.

5 Inventories

(In millions)	December 30, 1995	December 31, 1994
Finished goods	$ 352	$ 288
Work in process	911	948
Raw materials	217	212
	1,480	1,448
Less progress and advance payments	196	237
	$1,284	$1,211

Inventories aggregating $754 million at December 30, 1995 and $664 million at December 31, 1994 were valued by the last-in, first-out (LIFO) method. (Had such LIFO inventories been valued at current costs, their carrying values would have been approximately $139 million and $144 million higher at those respective dates.) The remaining inventories, other than those related to certain long-term contracts and programs, are valued generally by the first-in, first-out method.

Inventories related to long-term contracts and programs, net of progress and advance payments, were $393 million at December 30, 1995 and $451 million at December 31, 1994. Such inventories include unamortized tooling and deferred learning costs - $171 million at December 30, 1995; $176 million at December 31, 1994; and $162 million at January 1, 1994 relating to Textron's subcontract work under the Airbus A330/340 program. Textron has been using a program size of 400 aircraft in accounting for this program since its inception. It had firm orders as of the end of 1995 from its two customers under the program, both of which are members of the consortium producing the aircraft and each of which is producing different sections of the wings for the aircraft, covering 191 and 207 sets of wing components, respectively; the corresponding orders as of the end of 1994 were 150 and 207, respectively, and as of the end of 1993 were 114 and 157, respectively. (Airbus Industrie had firm orders as of the end of 1995 for 274 A330/340s.) Textron has delivered 147 units to one customer and 140 units to the other customer through the end of 1995; deliveries in 1995 were 27 and 34 units, in 1994 were 36 and 42 units, and in 1993 were 33 and 30 units. Current customer delivery schedules call for completion of deliveries of the 400 units in the year 2001.

The portion of the unamortized tooling and deferred learning costs that would not be absorbed in cost of sales based on firm orders to Textron at December 30, 1995 - that is, assuming the Airbus A330/340 aircraft program were to be canceled after Textron completed deliveries under those orders - was $154 million (the corresponding amounts at the end of 1994 and 1993 were $157 million and $185 million, respectively). Textron continues to believe that in light of the orders to date, the outlook for the aircraft in the marketplace, and the customer contractual arrangements that exist on this program, it will recover all such costs.

As to government contracts, inventory costs also include general and administrative expenses ($14 million at December 30, 1995; $30 million at December 31, 1994), substantially all of which are clearly related to production.

6 Property, Plant and Equipment

	December 30,	December 31,

(In millions)	1995	1994
At cost:		
Land and buildings	$ 726	$ 670
Machinery and equipment	2,232	1,934
	2,958	2,604
Less accumulated depreciation	1,585	1,389
	$1,373	$1,215

7 Debt and Credit Facilities

The Textron Parent Company Borrowing Group and Textron's finance subsidiaries are independent borrowers, and, accordingly, their debt is supported by their own respective assets and cash flows. At the end of 1995

and 1994, debt consisted of the following

(In millions)	December 30, 1995	December 31, 1994
Textron Parent Company Borrowing Group:		
Senior:		
Borrowings under or supported by long-term credit facilities*	$ 882	$ 432
8.75% - 10.04%; due 1996 to 2022	254	241
Medium-term notes; due 1996 to 2011 (average rate - 9.3%)	333	357
Variable rate notes due 2000 to 2002 (average rate - 6.7%)	150	365
Other notes (average rate - 6.0%)	126	158
Total senior	1,745	1,553
Subordinated - 8.86% - 8.97%; due 1998 to 1999	29	29
Total Textron Parent Company Borrowing Group	1,774	1,582
Finance subsidiaries:		
Senior:		
Borrowings under or supported by credit facilities**	3,424	3,370
4.93% - 5.91%; due 1996 to 2000	896	1,322
6% - 7.99%; due 1996 to 2002	2,550	1,509
8% - 9.82%; due 1996 to 2000	834	710
10.4% - 11.85%; due 1996 to 1998	101	267
Variable rate notes due 1996 to 2000 (average rate - 6.1%)	597	543
Total senior	8,402	7,721
Senior subordinated - 10.28% - 11.56%; due 1996 to 1998	35	39
Total finance subsidiaries	8,437	7,760
Total debt	$10,211	$9,342

*The weighted average interest rates on these borrowings, before consideration of the effect of interest rate exchange agreements, at the end of 1995, 1994, and 1993 were 6.1%, 6.2%, and 3.6%, respectively. The corresponding weighted average interest rates on these borrowings during the years 1995, 1994, and 1993 were 6.1%, 4.4%, and 3.4%, respectively.

**The weighted average interest rates on these borrowings, before consideration of the effect of interest rate exchange agreements, at the end of 1995, 1994, and 1993 were 6.3%, 6.1%, and 3.7%, respectively. The corresponding weighted average interest rates on these borrowings during the years 1995, 1994, and 1993 were 6.4%, 4.7%, and 3.7%, respectively.

Required payments and sinking fund requirements during the next five years on debt outstanding at December 30, 1995 (excluding amounts that might become payable under credit facilities and revolving credit agreements) are as follows:

(In millions)	1996	1997	1998	1999	2000

Textron Parent Company Borrowing Group	$ 62	$ 66	$ 20	$ 52	$ 134
Finance subsidiaries	1,001	713	972	651	1,277
	$1,063	$779	$992	$703	$1,411

The Textron Parent Company Borrowing Group maintains credit facilities with various banks for borrowing funds on both a short- and a long-term basis. It has a credit agreement with 36 banks aggregating $1.5 billion which is available on a fully revolving basis until July 1, 2000. The portion of the credit facility not used or reserved as support for commercial paper or bank borrowings at December 30, 1995 was $681 million. Textron's finance subsidiaries have lines of credit with various banks aggregating $4.4 billion at December 30, 1995. The subsidiaries' lines of credit not used or reserved as support for commercial paper or bank borrowings at December 30, 1995 were $322 million.

The amount of the net assets of Textron's finance subsidiaries available for cash dividends and other payments to the Textron Parent Company Borrowing Group is restricted by the terms of lending agreements. As of December 30, 1995, approximately $341 million of their net assets of $1.5 billion was available to be transferred to the Textron Parent Company Borrowing Group pursuant to these restrictions. The finance subsidiaries' loan agreements also contain restrictions regarding additional debt, the creation of liens or guarantees, and the making of investments.

Interest rate exchange agreements
As part of managing its interest rate risk, Textron utilizes interest rate exchange agreements. The objective is not to speculate for profit, but, rather, is to convert variable rate debt into fixed rate debt, with respect to specific designated borrowings. These agreements do not involve a high degree of complexity or risk. During 1995, the finance subsidiaries had $759 million of interest rate exchange agreements go into effect. The agreements in effect at the end of 1995 and 1994, which had weighted average original terms of 8.3 years at both dates for the Textron Parent Company Borrowing Group and 3.2 years and 3.5 years, respectively, for the finance subsidiaries, had the effect of fixing the rate of interest on variable rate borrowings as follows:

	December 30, 1995		December 31, 1994	
Interest rate exchange agreements (Dollars in millions)	Notional amount	Weighted average interest rate	Notional amount	Weighted average interest rate
Textron Parent Company Borrowing Group	$ 602*	8.80%	$ 571	8.79%
Finance subsidiaries	1,338**	7.79	824	8.12
	$1,940	8.10	$1,395	8.40

*$150 million of the Textron Parent Company Borrowing Group's interest rate exchange agreements were designated against specific long-term variable rate notes and the balance was designated against existing and anticipated short-term variable rate borrowings. The effect of these agreements on the average rate of interest on the related borrowings was to adjust those rates on the long-term variable rate notes from an average of 6.7% to 9.0% and on the short-term variable rate borrowings from 6.1% to 8.6%. The interest rate exchange agreements in effect at the end of 1995 expire as follows: $172 million (8.7%) in 1996, $24 million (6.7%) in 1997, $100 million (9.0%) in 1998, and $306 million (8.9%) after 1999.
**$275 million of the finance subsidiaries interest rate exchange agreements were designated against specific long-term variable rate notes and the balance was designated against existing and anticipated short-term variable rate borrowings. The effect of these agreements on the average rate of interest on the related borrowings was to adjust those rates on the long-term variable rate notes from an average of 6.1% to 6.5% and on the short-term variable rate borrowings from 6.4% to 8.2%. The interest rate exchange agreements in effect at the end of 1995 expire as follows: $341 million (8.8%) in 1996, $260 million (8.6%) in 1997, $460 million (7.4%) in 1998, $262 million (6.5%) in 1999, and $15 million (6.7%) thereafter.
The finance subsidiaries have interest rate exchange agreements that have the effect of exchanging the indices used to determine interest expense under certain variable rate borrowings for the purpose of better matching the rate of interest incurred on their financing with the rate of interest earned on certain of their variable rate finance receivables. At the end of 1995, $250 million of such agreements were in effect. The agreements expire in 1996. Also, the finance subsidiaries have fixed-pay interest rate exchange agreements which become effective in 1996. These agreements expire through 1999 and will fix the rate of interest at 8.1% on $204 million of variable rate borrowings. The agreements will mitigate the exposure to increases in interest rates primarily by replacing maturing fixed-pay swap agreements and fixed-rate notes.
Textron did not have any exposure to loss in the event of nonperformance by the counterparties to its interest rate exchange agreements at either December 30, 1995 or December 31, 1994. While Textron may become exposed to loss for the periodic settlement of amounts due from counterparties in the event of nonperformance, Textron does not anticipate nonperformance by any of those parties. Textron believes that such risk is minimized by entering into contracts only with major, financially sound counterparties having no less than a long-term bond rating of "A," continuously monitoring the credit ratings of such counterparties, and limiting the amount of agreements entered into with any one financial institution. The amounts potentially subject to credit risk are generally limited to the amounts, if any, by which the counterparties obligations under the contracts exceed the obligations of Textron to the same counterparties.

8 Shareholders' Equity

Preferred stock
Each share of $2.08 Preferred Stock ($23.63 approximate stated value) is convertible into 2.2 shares of common stock and is redeemable by Textron at $50 per share.
Each share of $1.40 Preferred Dividend Stock ($11.82 approximate stated value) is convertible into 1.8 shares of common stock and is redeemable by Textron at $45 per share.

Preferred stock purchase rights
One-half of a Preferred Stock Purchase Right (Right) is attached to each outstanding share of common stock. Each whole Right entitles the holder to buy one unit of Series C Junior Participating Preferred Stock at an exercise price of $175. The Rights will become exercisable only under certain circumstances related to a person or group acquiring or offering to acquire a substantial block of Textron's common stock. If certain additional events then occur, each whole Right will allow holders of units to acquire common stock of Textron, or in some cases of an acquiring entity, having a value equal to twice the exercise price. The Rights expire in March 1996. In September 1995, Textron's Board of Directors approved the issuance of new Preferred Stock Purchase Rights (New Rights) to replace the existing Rights when they expire. One New Right will be attached to each outstanding share of common stock and, when exercisable, will entitle the holder to buy one one-hundredth of a share of Series C Junior Participating Preferred Stock at an exercise price of $250. The New Rights expire in September 2005, but may be redeemed earlier at a price of $.05 per New Right.

Stock options and performance awards
In April 1994, Textron's shareholders approved the adoption of the 1994 Long-Term Incentive Plan which authorizes the granting of awards to key employees in the following forms: (a) performance share units and (b) options to purchase Textron common stock at an exercise price equal to the fair value of the stock at the date of grant. The total number of shares of common stock for which options may be granted under the Plan is 5,000,000. Stock option transactions during 1995 are summarized as follows:

(Shares in thousands)	Shares	Average price
Shares under option at beginning of year	4,696	$44.31
Options granted	1,062	72.11
Options exercised (349 shares in 1994 and 701 shares in 1993)	(1,098)	38.26
Options canceled	(102)	51.13
Shares under option at end of year	4,558	52.09
Shares exercisable at end of year (2,957 shares in 1994)	2,944	45.38

Reserved shares
Shares of common stock reserved at December 30, 1995 for the subsequent conversion of preferred stock and the exercise of stock options were as follows:

(In thousands)	Shares
$2.08 Cumulative Convertible Preferred Stock, Series A*	739
$1.40 Convertible Preferred Dividend Stock, Series B*	1,088
Options granted to employees	4,558
	6,385

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

9 Leases

Rental expense was approximately $104 million, $108 million, and $114 million in 1995, 1994, and 1993, respectively. Future minimum rental commitments for all noncancellable operating leases in effect at December 30, 1995 approximated $73 million for 1996, $58 million for 1997, $43 million for 1998, $31 million for 1999, $24 million for 2000, and a total of $143 million thereafter.

10 Research and Development

Textron performs research and development under both company initiated programs and contracts with others, primarily the U.S. Government. Company initiated programs include research and development for commercial products and independent research and development related to government products and services. A significant portion of the cost incurred for independent research and development is recoverable from the U.S. Government through overhead cost allowances.
The costs related to research and development activities for which Textron is at risk are expensed as incurred and include amounts for (a)

company initiated programs and (b) the cost sharing portions of, and any losses incurred on, customer initiated programs. These costs for 1995, 1994, and 1993 were as follows:

(In millions)	1995	1994	1993
Company funded	$181	$187	$195
Customer funded	475	424	319
Total research and development costs	$656	$611	$514

11 Pension Benefits

Textron and certain of its subsidiaries have a number of defined benefit pension plans covering substantially all of their employees. Benefits under salaried plans are based on salary and years of service, while benefits under hourly plans generally are based on negotiated amounts and years of service. Textron's funding policy is consistent with the funding requirements of federal law and regulations. Plan assets consist principally of corporate and government bonds and common stocks. Pension cost (income) in 1995, 1994, and 1993 included the following components:

(In millions)	1995	1994	1993
Service cost - benefits earned during the year	$ 56	$ 69	$ 65
Interest cost on projected benefit obligation	210	199	183
Actual return on plan assets	(747)	(20)	(364)
Amortization of unrecognized transition net asset	(17)	(15)	(16)
Net amortization and deferral of actuarial gains (losses)	483	(233)	135
Net pension cost (income)	$ (15)	$ -	$ 3

The following table sets forth the funded status of Textron's pension plans at December 30, 1995 and December 31, 1994.

	December 30, 1995		December 31, 1994	
(In millions)	Assets exceed accumulated benefits	Accumulated benefits exceed assets	Assets exceed accumulated benefits	Accumulated benefits exceed assets
Actuarial present value of:				
Vested benefit obligation	$2,121	$ 426	$1,755	$ 519
Nonvested benefit obligation	91	35	76	35
Accumulated benefit obligation	2,212	461	1,831	554
Additional amounts related to projected pay increases	243	23	192	17
Projected benefit obligation	2,455	484	2,023	571
Plan assets at fair value	3,180	373	2,587	449
Plan assets in excess of (less than) projected benefit obligation	725	(111)	564	(122)
Unrecognized net actuarial gains	(312)	(26)	(167)	(19)
Unrecognized prior service cost	18	58	18	61
Unrecognized transition net asset	(132)	(1)	(147)	(3)
Adjustment required to recognize minimum liability	-	(24)	-	(27)
Net pension asset (liability) recognized on the consolidated balance sheet	$ 299	$ (104)	$ 268	$ (110)

Major actuarial assumptions used in the accounting for the defined benefit pension plans are shown in the following table. Net pension cost (income) is determined using these factors as of the end of the prior year; the funded status of the plans is determined using the discount rate and rate of compensation increase as of the end of the current year.

	December 30, 1995	December 31, 1994	January 1, 1994	January 2, 1993
Discount rate	7.25%	8.25%	7.25%	8.00%
Weighted average long-term rate of compensation increase	5.00	5.00	5.00	5.50
Long-term rate of return on plan assets	9.00	9.00	9.00	9.00

12 Employee Benefits Other than Pensions

Textron and certain of its subsidiaries have a number of defined contribution savings and other retirement plans, covering both salaried and hourly employees. Costs relating to these plans, which are generally funded

as accrued, amounted to approximately $36 million, $37 million, and $33 million for 1995, 1994, and 1993, respectively, of which $14 million, $18 million, and $17 million related to the employee stock ownership plan for 1995, 1994, and 1993, respectively.

Textron provides certain health care and life insurance benefits for certain retired employees. Postretirement benefit costs other than those related to pensions in 1995, 1994, and 1993 included the following components:

(In millions)	1995	1994	1993
Service cost - benefits earned during the year	$ 5	$ 9	$ 9
Interest cost on accumulated postretirement benefit obligation	58	61	67
Net amortization	(14)	(10)	(6)
Postretirement benefit costs	$49	$60	$70

Textron's postretirement benefit plans other than pensions currently are not funded.

The following table sets forth the status of these plans at the end of 1995 and 1994:

(In millions)	December 30, 1995	December 31, 1994
Actuarial present value of benefits attributed to:		
Retirees	$608	$598
Fully eligible active plan participants	89	75
Other active plan participants	97	89
Accumulated postretirement benefit obligation	794	762
Unrecognized net actuarial gains	101	145
Unrecognized prior service cost benefit	24	24
Postretirement benefit liability recognized on the consolidated balance sheet	$919	$931

An assumed discount rate of 8.25% and 7.25% was used to determine postretirement benefit costs other than pensions for 1995 and 1994, respectively. An assumed discount rate of 7.25% and 8.25% was used to determine the status of Textron's plans at December 30, 1995 and December 31, 1994, respectively. The weighted average annual assumed rate of increase in the per capita cost of covered benefits (that is, the health care cost trend rate) is 7% for retirees age 65 and over and 11% for retirees under age 65 in 1996, and both rates are assumed to decrease gradually to 5.5% until 2001 and 2003, respectively, and remain at that rate thereafter. Increasing these rates by one percentage point in each year would have increased the accumulated postretirement benefit obligation as of December 30, 1995 by $61 million and increased the aggregate of the service and interest cost components of postretirement benefit costs for 1995 by $5 million.

13 Income Taxes

Textron files a consolidated federal income tax return which includes all U.S. subsidiaries. Separate returns are filed for Textron's foreign subsidiaries.

Income from continuing operations before income taxes is summarized as follows:

(In millions)	1995	1994	1993
United States	$476	$446	$343
Foreign	214	177	127
Total	$690	$623	$470

Income taxes are summarized as follows:

(In millions)	1995	1994	1993
Current:			
Federal	$137	$103	$77
State	44	30	27
Foreign	65	71	47
	246	204	151
Deferred:			
Federal	31	57	20
State	(12)	2	2
Foreign	9	(6)	(2)
	28	53	20
Total	$274	$257	$171

Following is a reconciliation of the federal statutory income tax rate to the effective income tax rate as reflected in the consolidated statement of income:

	1995	1994	1993
Federal statutory income tax rate	35.0%	35.0%	35.0%
Increase (decrease) in taxes resulting from:			
State income taxes	2.9	3.3	3.9
Goodwill	2.5	5.9	3.3
Effect of tax rate change on net deferred tax asset	-	-	(2.8)
Other - net	(.7)	(2.9)	(3.0)
Effective income tax rate	39.7%	41.3%*	36.4%

*The increase in the effective income tax rate is due primarily to the impact of the nontax deductibility of goodwill related to the sale of the Lycoming Turbine Engine division.

Textron's net deferred tax asset consisted of gross deferred tax assets and gross deferred tax liabilities of $1,340 million and $1,009 million, respectively, at December 30, 1995 and $1,289 million and $927 million, respectively, at December 31, 1994. Management believes that such net deferred tax assets will be realized based on Textron's history of earnings and its expectations for the future.

The components of Textron's net deferred tax asset as of December 30, 1995 and December 31, 1994 were as follows:

(In millions)	December 30, 1995	December 31, 1994
Obligation for postretirement benefits other than pensions	$ 364	$ 363
Finance subsidiary transactions, principally leasing	(324)	(295)
Self insurance liabilities	162	171
Fixed assets, principally depreciation	(142)	(120)
Deferred compensation and vacation pay	86	66
Allowance for credit losses	85	92
Other, principally timing of other expense deductions	100	85
	$ 331	$ 362

Deferred income taxes have not been provided for the undistributed earnings of foreign subsidiaries which aggregated approximately $644 million at the

end of 1995. Management intends to reinvest such undistributed earnings for an indefinite period, except for distributions upon which incremental taxes would not be material. If all such earnings were distributed, taxes (net of foreign tax credits) would be increased by approximately $43 million, principally due to foreign withholding taxes.

14 Fair Value of Financial Instruments

The estimated fair value amounts indicated below have been determined by using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

(In millions)	December 30, 1995 Carrying value	December 30, 1995 Estimated fair value	December 31, 1994 Carrying value	December 31, 1994 Estimated fair value
Assets:				
Investments	$ 778	$ 778	$ 672	$ 672
Finance receivables:				
Consumer loans	6,475	6,457	6,074	6,062
Commercial loans	2,050	2,087	1,846	1,862
Liabilities:				
Debt:				
Textron Parent Company Borrowing Group:				
Debt	1,774	1,873	1,582	1,597
Interest rate exchange agreements	-	57	-	25
Finance subsidiaries:				
Debt	8,437	8,557	7,760	7,664
Interest rate exchange agreements	-	5	-	(25)
Foreign currency exchange contracts	-	6	-	12

Notes:
(i) Investments - The estimated fair values of investment securities were based on quoted market prices where available, appraisals, prices from independent brokers or discounted cash flow analyses.

(ii) Finance receivables - The estimated fair values of fixed rate consumer loans, real estate loans and commercial installment contracts were estimated based on discounted cash flow analyses. The estimated fair value of all variable rate receivables and fixed rate retail installment contracts approximated the net carrying value. The estimated fair values of nonperforming loans were based on independent appraisals, discounted cash flow analyses, using risk adjusted interest rates, or Textron valuations based upon the fair value of the related collateral.

(iii) Debt, interest rate exchange agreements, and foreign currency exchange contracts - The estimated fair value of fixed rate debt was determined by either independent investment bankers or discounted cash flow analyses. The fair values of variable rate debt approximated their carrying values. The estimated fair values of interest rate exchange agreements were determined by independent investment bankers and represent the estimated amounts that Textron or its counterparty would be required to pay to assume the other party's obligations under the agreements. The estimated fair values of the foreign currency exchange contracts were determined by Textron's foreign exchange banks.

15 Contingencies

There are pending or threatened against Textron and its subsidiaries lawsuits and other proceedings, some of which allege violations of federal government procurement regulations, involve environmental matters, or are or purport to be class actions. Among these suits and proceedings are some which seek compensatory, treble or punitive damages in substantial amounts; fines, penalties or restitution; or the remediation of allegedly hazardous wastes; or, which under federal government procurement regulations could result in suspension or debarment of Textron or its subsidiaries from U.S. Government contracting for a period of time. On the basis of information presently available, Textron believes that any liability for these suits and proceedings, or the impact of the application of such government regulations, would not have a material effect on Textron's net income or financial condition.
Textron's accrued estimated environmental liabilities are based on assumptions which are subject to a number of factors and uncertainties which can affect the reliability and precision of such accruals, including additional sites which may be identified, environmental regulations, level of cleanup required and technologies available, number and financial condition of other contributors to remediation, and time period over which remediation, may occur. It is estimated that Textron's accrued environmental remediation liabilities will be paid primarily over the next five to ten years.

16 Geographic and Business Segment Data

Presented below and on page 36 is selected financial information by geographic area and business segment, and a description of the nature of Textron's operations.

Geographic areas	Revenues by origin			Income by origin		
	1995	1994	1993	1995	1994	1993
United States	$6,841	$7,111	$6,903	$ 773	$ 728	$ 660
Canada	807	690	633	87	85	69
Asia/Pacific	412	231	167	64	46	35
Western Europe	393	318	178	63	46	23
	$8,453	$8,350	$7,881	987	905	787
Corporate expenses and other - net				(98)	(78)	(85)
Interest expense - net				(199)	(204)	(232)
Income from continuing operations before income taxes				$ 690	$ 623	$ 470

Destination of U.S. exports

(In millions)	1995	1994	1993
Western Europe	$ 306	$ 427	$ 476
Asia/Pacific	235	161	236
Canada	208	252	214
Mexico	72	146	114
Middle East	43	62	113
Other locations	136	148	143
	$1,000	$1,196	$1,296

Identifiable assets

(In millions)	1995	1994	1993
United States	$12,080	$11,520	$11,379
Canada	1,337	1,262	1,172
Asia/Pacific	1,348	766	546
Western Europe	1,077	949	501
Corporate, including investment in discontinued operation operation	1,628	1,554	1,750
Eliminations	(123)	(59)	(52)
	$17,347	$15,992	$15,296

Notes:

(i) Revenues include sales to the U.S. Government of $1.3 billion, $1.6 billion, and $1.6 billion in 1995, 1994, and 1993, respectively.

(ii) Revenues between geographic areas, predominantly revenues of U.S. divisions, were approximately 4% of total revenues in each of 1995, 1994, and 1993, respectively.

(iii) Assets in foreign locations relate principally to the Finance segment.

Nature of operations

Textron is a global multi-industry company with manufacturing and finance operations. Its principal markets (listed within segments in order of the amount of 1995 revenues) and the major locations of such markets are as follows:

Segment	Principal markets	Major locations
Aircraft	Military and commercial light and mid-sized helicopters; light and mid-sized business jets; and single-engine utility turboprop aircraft	North America and Asia/Pacific

Automotive	Automotive products sold to original equipment manufacturers	North America
Industrial	Fastening systems; golf and turf care equipment; and diversified products	North America and Western Europe
Systems and Components	Commercial aerospace and defense products	North America and Western Europe
Finance	Consumer and commercial loans	North America, Asia/Pacific and Western Europe

17 Condensed Financial Information for Textron's Finance Subsidiaries

Statement of Income (In millions)

For each of the three years ended December 31,	1995	1994	1993
Revenues	$1,985	$1,672	$1,610
Costs and expenses			
Selling and administrative	603	530	514
Interest	613	459	432
Provision for losses on collection of finance receivables, less recoveries	169	162	153
Other expenses	235	190	222
Total costs and expenses	1,620	1,341	1,321
Income before income taxes	365	331	289
Income taxes	(142)	(128)	(110)
Net income	$ 223	$ 203	$ 179

Balance Sheet (In millions)	December 31, 1995	December 31, 1994
Assets		
Cash	$ 28	$ 29
Investments	771	643
Finance receivables - net	9,370	8,622
Other	657	645
Total assets	$10,826	$ 9,939
Liabilities and equity		
Accounts payable and accrued liabilities (including income taxes)	$ 914	$ 845
Debt	8,437	7,760
Equity	1,475	1,334
Total liabilities and equity	$10,826	$9,939

Statement of Cash Flows (In millions)

For each of the three years ended December 31,	1995	1994	1993
Net cash provided by operating activities	$ 494	$ 527	$ 481
Net cash used by investing activities	(612)	(1,313)	(814)
Net cash provided by financing activities	117	801	344
Net (decrease) increase in cash	(1)	15	11
Cash at beginning of year	29	14	3
Cash at end of year	$ 28	$ 29	$ 14

Notes:

(i) TFC derives a substantial portion of its business from financing the sale and lease of products manufactured and sold by Textron. In 1995, 1994, and 1993, TFC paid Textron $461 million, $595 million, and $617 million, respectively, for the purchase of receivables and operating lease equipment. Under operating agreements with Textron, TFC generally has recourse to Textron with respect to finance receivables and leases of products manufactured and sold by Textron. At the end of 1995, finance receivables and operating lease equipment of $723 million ($852 million at the end of 1994) were due from Textron or subject to recourse to Textron.
(ii) Textron has agreed to cause TFC's pretax income available for fixed charges to be not less than 125% of its fixed charges and its consolidated shareholder's equity to be not less than $200 million. No related payments were required for 1995, 1994, or 1993.

Quarterly Financial Information for 1995 and 1994

(Unaudited) (In millions except per share amounts)	1st Quarter 1995	1st Quarter 1994	2nd Quarter 1995	2nd Quarter 1994	3rd Quarter 1995	3rd Quarter 1994	4th Quarter 1995	4th Quarter 1994
Income Statement Data:								
Revenues								
Manufacturing	$1,554	$1,688	$1,651	$1,775	$1,558	$1,621	$1,705	$1,594
Finance	475	400	487	406	499	421	524	445
Total revenues	$2,029	$2,088	$2,138	$2,181	$2,057	$2,042	$2,229	$2,039
Income								
Manufacturing	$ 140	$ 119	$ 164	$ 136	$ 152	$ 146	$ 166	$ 173
Finance	88	78	87	83	96	86	94	84
Operating income	228	197	251	219	248	232	260	257
Corporate expenses and other - net	(21)	(17)	(22)	(17)	(29)	(24)	(26)	(20)
Interest expense - net	(50)	(53)	(52)	(54)	(46)	(51)	(51)	(46)
Income from continuing operations before income taxes	157	127	177	148	173	157	183	191
Income taxes	(62)	(49)	(70)	(57)	(69)	(60)	(73)	(91)*
Income from continuing operations	95	78	107	91	104	97	110	100
Income from discontinued operation, net of income taxes	14	22	14	19	18	14	17	12
Net income	$ 109	$ 100	$ 121	$ 110	$ 122	$ 111	$ 127	$ 112
Per common share:								
Income from continuing operations	$ 1.09	$ .86	$ 1.23	$ 1.01	$ 1.20	$ 1.07	$ 1.26	$ 1.12
Income from discontinued operation	$ .16	$ .24	$ .17	$ .21	$ .21	$ .16	$ .19	$ .14
Net income	$ 1.25	$ 1.10	$ 1.40	$ 1.22	$ 1.41	$ 1.23	$ 1.45	$ 1.26
Common Stock Information								
Price Range: High	$ 57 1/8	$ 60 5/8	$ 61	$ 56 3/4	$ 70 1/8	$ 56 1/2	$ 77 3/8	$ 52 1/2
Low	48 5/8	53 3/4	56	50 3/4	57 7/8	50 1/4	65 1/2	46 1/2
Dividend per share	.39	.35	.39	.35	.39	.35	.39	.35

* The effective tax rate reflects the impact of the nontax deductibility of the $58 million of goodwill related to the sale of the Lycoming Turbine Engine division.

Five Year Summary

(In millions except per share amounts)

	1995	1994	1993	1992	1991
Revenues					
Manufacturing sales	$6,468	$6,678	$6,271	$5,616	$5,211
Finance revenues	1,985	1,674	1,614	1,626	1,565
Total revenues	8,453	8,352	7,885	7,242	6,776
Costs and expenses					
Cost of sales	5,294	5,514	5,210	4,560	4,185
Selling and administrative	1,253	1,198	1,163	1,150	1,091
Interest	812	665	668	739	752
Provision for losses on collection of finance receivables, less recoveries	169	162	153	160	135
Other finance expenses	235	190	221	221	215
Total costs and expenses	7,763	7,729	7,415	6,830	6,378
Income from continuing operations before income taxes	690	623	470	412	398
Income taxes	(274)	(257)	(171)	(160)	(160)
Income from continuing operations before cumulative effect of changes in accounting principles	416	366	299	252	238
Income from discontinued operation, net of income taxes	63	67	80	60	62
Cumulative effect of					

changes in accounting principles, net of income taxes	-	-	-	(667)	-
Net income (loss)	$ 479	$ 433	$ 379	($355)	$ 300
Per common share:					
Income from continuing operations before cumulative effect of changes in accounting principles	$ 4.79	$ 4.06	$ 3.32	$ 2.84	$2.71
Income from discontinued operation	.72	.74	.89	.68	.71
Cumulative effect of changes in accounting principles	-	-	-	($7.53)	-
Net income (loss)	$ 5.51	$ 4.80	$ 4.21	($4.01)	$3.42
Dividends declared	$ 1.56	$ 1.40	$ 1.24	$ 1.12	$ 1.03
Average common shares outstanding	86,894,000	90,119,000	90,052,000	88,580,000	87,563,000
Financial position at year-end					
Total assets	$17,347	$15,992	$15,296	$14,638	$12,341
Debt:					
Textron Parent Company Borrowing Group	$ 1,774	$ 1,582	$ 2,025	$ 2,283	$ 1,820
Finance subsidiaries	$ 8,437	$ 7,760	$ 6,847	$ 6,440	$ 5,664
Shareholders' equity	$ 3,412	$ 2,882	$ 2,780	$ 2,488	$ 2,928
Book value per common share	$ 39.92	$ 33.45	$ 31.18	$ 28.11	$ 33.65
Other data					
Capital expenditures	$ 279	$ 294	$ 246	$ 215	$ 152
Depreciation	$ 195	$ 206	$ 201	$ 194	$ 177
Common stock price range:					
High	$ 77 3/8	$ 60 5/8	$ 58 7/8	$ 44 3/4	$ 39 1/2
Low	$ 48 5/8	$ 46 1/2	$ 40 3/8	$ 33 3/4	$ 25
Number of common shareholders	26,000	27,000	28,000	30,000	31,000

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