textron ANNUAL REPORT FOR 1967

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CORPORATION FILE

	1967	1966 Restated to include Fafnir and Gorham	1966 As reported in annual report
......	$1,445,985,000	$1,291,878,000	$1,132,174,000
......	117,136,000	111,208,000	84,713,000
......	61,526,000	57,271,000	43,913,000
......	$2.07	$1.94	$1.73

puted on the basis of full conversion of all preferred stock.

yees 62,000 / Plants 145 / Securityholders 75,000.

A NEW KIND OF ANNUAL REPORT

Textron has been called a new kind of company; it is fitting that this year it is publishing a new kind of annual report. A report which might be called a dialogue with the investment community on how a multi-market or conglomerate company operates.

The question and answer structure of the report has been built upon the hundreds of questions sent us in response to a survey of security analysts last November. The analysts covered a wide range of institutions, including brokerage firms, banks, mutual funds and insurance companies.

In an accompanying letter Textron pointed out that it has always been interested in having its annual report answer not only the questions of shareholders, but also of the investment community.

The letter further noted that because of the increased number of single-industry companies moving toward wide diversification, questions on the goals, philosophy of management, and general methods of operation of Textron as a pioneering example of the multi-market corporate form might be especially pertinent.

After the analysts' questions were assembled into logical groupings, Textron top executives taped answers to the principal queries. The result appears in this report, beginning on Page Two. We feel that the section not only answers analysts' questions, but supplies the information usually present in annual reports.

textron PROVIDENCE, RHODE ISLAND

BOARD OF DIRECTORS

John E. Bierwirth	*Chairman of the Board, National Distillers and Chemical Corporation, New York City*
Frederic C. Church	*Chairman of the Board, Boit, Dalton & Church Inc., Boston, Mass.*
Stanley M. Cooper	*Retired Chairman, The Fafnir Bearing Co., New Britain, Conn.*
Georges F. Doriot	*President, American Research and Development Corporation, Boston, Mass.*
Henry C. Flower, Jr.	*Retired Vice-Chairman, J. Walter Thompson Company, New York City*
Harry B. Freeman	*Chairman of the Board, Rhode Island Hospital Trust Company, Providence, R. I.*
Norman B. Frost	*Frost & Towers, Attorneys, Washington, D. C.*
Harvey Gaylord	*Executive Vice President, Textron Inc., Washington, D. C.*
Herman E. Goodman	*President, The Franklin Corporation, New York City*
Robert L. Huffines, Jr.	*President, Cherokee Securities Corporation, Yemassee, South Carolina*
G. William Miller	*President, Textron Inc., Providence, R. I.*
Arthur T. Roth	*Chairman of the Board, Franklin National Bank, Mineola, N. Y.*
Rupert C. Thompson, Jr.	*Chairman of the Board, Textron Inc., Providence, R. I.*
Leslie H. Warner	*President, General Telephone & Electronics Corporation, New York City*

OFFICERS

Rupert C. Thompson, Jr.	*Chairman of the Board*
G. William Miller	*President and Chief Executive Officer*
Joseph B. Collinson	*Executive Vice President — Finance and Administration*
Harvey Gaylord	*Executive Vice President — Operations*
Jerome Ottmar	*Executive Vice President — Operations*
Robert E. Grant	*Group Vice President — Operations*
Thomas J. Riggs, Jr.	*Group Vice President — Operations*
Thomas M. Leonard	*Vice President — Operations*
Don C. Miller	*Vice President — Operations*
Robert S. Eisenhauer	*Vice President — Public Relations and Advertising*
John B. Henderson	*Vice President, General Counsel and Secretary*
Charles F. Chapin	*Vice President*
Thomas C. Musgrave, Jr.	*Vice President*
Robert R. Thurber	*Vice President*
G. Richard Westin	*Treasurer*
Douglas L. Grote	*Assistant Vice President*
Theodore F. McDonald	*Director of Tax Planning*
Delbert J. Hayden	*Assistant Treasurer*
Thomas M. Curtin	*Assistant Secretary*
Edward O. Handy, Jr.	*Assistant Secretary*
M. A. Hambly	*Assistant Secretary*

HIGHLIGHTS

Sales ....

Pretax Income ....

Net Income ....

Net Income per Common Share* .

* *Per share results are com*

Emplo

A CONSUMER COLLECTION

Textron's internal growth over the last five years has benefited from many new products developed by its Consumer Group. Model Maud Adams is pictured on the covers with a number of Textron's latest consumer products.

Front Cover: *Gorham sterling silver coffee service and sterling candelabra; Bell's swift JetRanger commercial helicopter; Homelite XL 101 lightweight chain saw; Speidel Adorna watchband.*

Back Cover: *Fine stationery by Eaton Paper division of Gorham; E-Z-Go golf car; Patterson-Sargent/Vita-Var interior latex wall paint; Bravura after shave lotion by Speidel.*

Inside Cover: *Shuron / Continental wraparound sunglasses; Wagner Magnalite cookware by Randall; Sheaffer's Deskette ballpoint with stick-anywhere adhesive base.*

MESSAGE TO SECURITYHOLDERS

February 20, 1968

The last words in our annual report message to shareholders a year ago were, "For many years Textron policies have been directed not only toward building a long history of profitable growth, but also toward preparing for the day when the Textron concept might be more severely tested by business conditions. Textron is ready to meet that test."

The year 1967 provided a measure of testing, with more difficult business conditions than have existed in recent years. The economy generally was sluggish and uncertain, and in some industries actually turned down. Many corporations reported decreases in earnings; others showed smaller percentage gains.

Textron, however, continued its substantial rate of growth, reaching its objectives in sales and earnings per share as both moved to new high levels. Earnings per share results in this report, incidentally, are based on the assumption of full conversion of preferred stock. For the first time, after-tax return on common shareholders' investment for the year reached Textron's long-term target of 20 percent.

A year ago, Textron reported sales of $1.1 billion. During the year there were two major acquisitions, Gorham Corporation and The Fafnir Bearing Company, but even without them Textron's 1967 sales went up approximately 14 percent and earnings per share a little over 17 percent. Acquisition of these two internationally-known companies through exchanges of stock is commented on later in this report.

Textron's multi-market form of corporate organization showed its basic strength during the year, with balanced product groups offsetting unsettled conditions in the economy. New products, development of new markets, more efficient production, increased sales of helicopters and better control of costs all had an effect in helping to improve return on shareholders' investment.

The year was an active one for Textron on a number of fronts. In June, the company marketed $50 million of 5⅞% sinking fund debentures due May 1, 1992. The greater part of the financing was used to retire long-term bank borrowings, and the remainder was added to working capital.

In August, for the second time in two years, Textron's common stock was split two for one. Along with the split the board of directors increased the quarterly dividend. This was the sixth increase in five years.

At a special meeting in October, shareholders authorized the move of Textron's state of incorporation from Rhode Island to Delaware and this was accomplished at year end. The modern regulations of Delaware offer a more advantageous corporate base. The move also permitted issuance of a new $2.08 convertible preferred stock which was used in the purchase of The Fafnir Bearing Company.

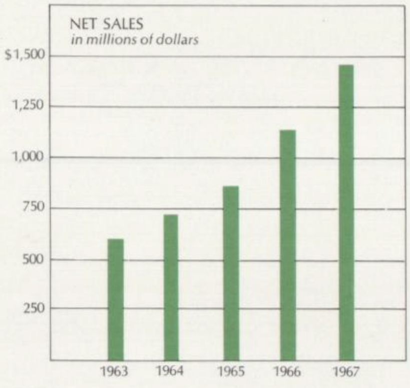
At the January board meeting, Stanley M. Cooper, former chairman of Fafnir, was named a Textron director.

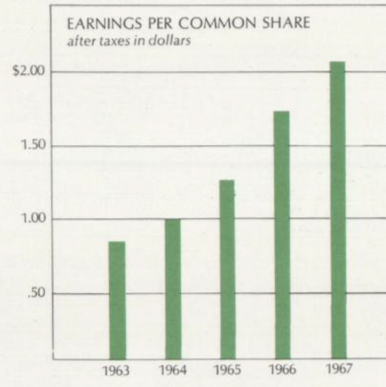
Textron will continue to be tested during 1968, especially since we are budgeting a decline of approximately eight percent in Bell Helicopter production as sales to the United States armed forces level off.

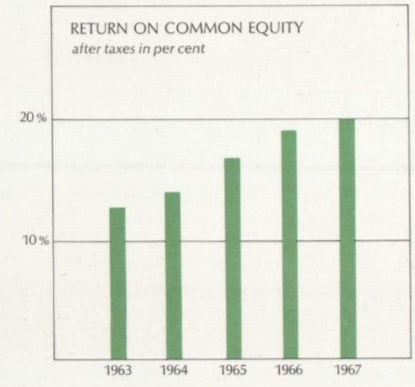
Nevertheless, we expect to continue to meet our growth objectives in both sales and earnings. The increases will come through a continuation of our pattern of internal growth and through selected acquisitions.

Chairman

President

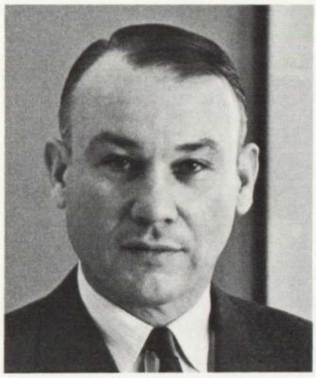




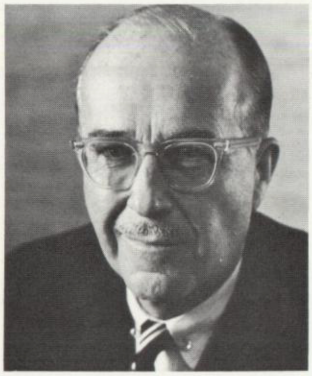


ANSWERS TO ANALYSTS

The following section gives officers' answers to questions on Textron and the multi-market philosophy, asked by security analysts as a result of a survey last November. (See inside cover for details.)



G. William Miller, president; with Textron 12 years.



Rupert C. Thompson, Jr., chairman; with Textron 12 years.

• TEXTRON AND THE NEW BUSINESS PHILOSOPHY... HOW THE COMPANY OPERATES.

Question: Why has diversification become so popular? What are the advantages of the conglomerate or multi-market company?

Answer: *(by Rupert C. Thompson, Jr., chairman):* Textron started its pioneer diversification program fifteen years ago for two principal reasons: to avoid the cyclical effect of a single industry and to be able to participate in new growth areas in order to achieve continuing high rates of return for its shareholders. These reasons have proven to be sound.

The so-called conglomerate company has come into prominence within recent years in response to some additional basic forces. One is the technological explosion, which on the one hand has been creating large new markets, while at the same time threatening many traditional product lines with obsolescence. The multi-market philosophy permits the redeployment of resources to take advantage of new opportunities and to assure constant renewal so that return to shareholders is at a continuing high level.

Q. How does Textron manage such a wide range of companies?

A *(by G. William Miller, president):* We bring into Textron only proven companies, with existing management organizations which have a record of accomplishment behind them, and which have the willingness and desire to continue to operate the company as part of Textron. Then we keep our operating decisions with the division management, as close to the scene of action as possible. At the same time the corporate organization relieves the division management of many non-operating functions which burden an independent company. This gives the division president and his team more time for their primary job — to run their company as profitably as possible. Textron reserves to itself only those things which are best done centrally, or are out of the ordinary course of business, or affect planning and allocation of resources.

The link from corporate headquarters to the divisions is a central organization of group executives. These men are generalists, with wide business and operating experience. They are able to provide the coordination, supervision and planning assistance necessary to assure that every unit of Textron is being operated to its fullest potential. This method is not unique, but it certainly is becoming a pattern as the most effective way to manage and control diversified operations.

Thus it is that Textron is able to maintain the initiative and incentive of a decentralized operation, but at the same time give its divisions the advantage of experienced and professional counsel and services. It has worked out well in our case.

Q What are the problems of organizational structure and philosophy that might arise as Textron continues to grow?

A *(by Mr. G. W. Miller):* I think that Textron has demonstrated that its management organization is sound: the results show that. Continued growth should not bring about any necessity for a major change. Once you have a successful company with proven management techniques, I think the best thing is to stick with it and try to refine and improve, taking an evolutionary approach in having the organization grow as the size of the company grows. Perhaps there will be some areas to which we will give greater attention in the future, but I am sure that we will continue to keep our central staff to a minimum and to emphasize strength on the divisional firing lines.

Q How large can Textron grow with its present organizational structure?

A *(by Mr. Thompson):* Frankly, I do not see any practical limit to the size Textron can achieve within its own objectives for growth. We have fewer operating units than many large companies today. By modern organizational standards, coordination of many more units than we have presents no special problems. As we grow in the future, it is probable that we will acquire additional companies, but we are also charting expansion of our present units through development of new products and markets. We believe that, even under Textron's growth target of 15 per cent a year, it will be many years before the size of the company would be beyond what experience tells us can be managed successfully.

"We . . . continue to stress proprietary or brand name products, or products with a high degree of technological content . . ."

- **TEXTRON GROWTH AREAS... CONCEPT OF ACQUISITIONS**

Q Is Textron guided by any general acquisition plan?

A *(by Mr. Thompson):* To date Textron has stayed within the manufacturing area. This does not preclude the possibility of our ever going into other fields. We are continually evaluating them, but short range, I think it would be unlikely that we will enter other areas. In manufacturing, we have an experienced and successful organization for judging the performance of our units — we have the commonality of design, manufacture, and sale of a product.

We hope to continue to stress proprietary or brand name products, or products with a high degree of technological content behind them. In the case of proprietary products we have more opportunity to develop our place in the market; in technological products we have a higher degree of protection against sudden obsolescence.

Thus far there has been a sufficient supply of attractive possibilities to satisfy our rather deliberate acquisition program to make relatively few, high quality acquisitions which are then assimilated before we move on to the next.

Q Will you please comment upon the past year's acquisitions?

A *(by Mr. G. W. Miller):* The two main acquisitions of the past year illustrate rather well what was just said. The first, Gorham, makes high quality brand name products. It is possibly the foremost manufacturer of fine silverware in the country, as well as a leading producer of social stationery, with a long record both of successful operation and significant growth. The second, Fafnir Bearing, is internationally known in the precision ball bearing field — a large and successful company in a high technology product area. Each of these companies will make an immediate important contribution to Textron earnings, and each has inherent growth which will contribute to our continued improvement in the years ahead. They have been accounted for in 1967 on a pooling of interests concept, and have added about $10 million to net income for the year. In addition they illustrate a trend in our recent acquisition program: both companies came to us to discuss merger after other firms had indicated interest in acquiring them.

Q Do you believe that the number of attractive companies may dry up?

A *(by Mr. Thompson):* With the increase in merger activity, the price of companies has certainly gone up. However, Textron really is not concerned with bargains. We want solid, well managed companies with good records of performance and growth, which can make an addition to Textron and which want to be affiliated with it. I think that companies which fill these requirements will continue to be available at prices which we feel justified in paying.

Q How much of Textron's growth has been from acquisitions? What are your targets for the future?

A *(by Mr. Thompson):* In each of the past several years a major portion of Textron's sales growth has come from divisions which were a part of the company at the beginning of the year. Even in the last year, despite two large acquisitions, approximately half of our sales increase over that reported in 1966 was internal.

We have an objective of averaging a 15 per cent increase in earnings per share annually, and I believe that a substantial part of this can be developed from the expansion of companies presently in the group.

Jerome Ottmar, executive vice president — operations, with Textron 9 years.

Charles F. Chapin, vice president, is principally involved in acquisitions; with Textron 4 years.

Q What are some of Textron's specific acquisition standards?

A *(by Charles F. Chapin, vice president):* To be considered as a new product acquisition, a company should be able to make an immediate meaningful contribution to Textron's earnings per share. In general, the preferable size is $50 million or more in annual sales. In addition to the targets mentioned by Mr. Thompson, we are looking for leaders in small or moderate-size industries whose markets are not saturated, and where there is an opportunity to expand in the future at an above average rate.

Return on investment is, of course, of prime importance. Remember too, we must have good management willing to continue, quality products and growth potential.

"We have an advantage . . . in being able to circulate ideas and experience freely from division to division."

Q Would you be interested in acquiring an aerospace company?

A *(by Mr. Chapin):* Textron had approximately 28 percent of its 1967 profits in the aerospace area, which is certainly not out of proportion. However, this is an adequate participation in that segment of the economy. Textron expects its present aerospace activities to continue their internal growth so that further acquisitions will not be needed to assure balance. Of course, an especially attractive company would always be favorably considered.

• GROWTH IN PEOPLE... HOW TEXTRON MOTIVATES

Q It is usually said that the most important element in a company's success is its ability to motivate management. How does Textron do it?

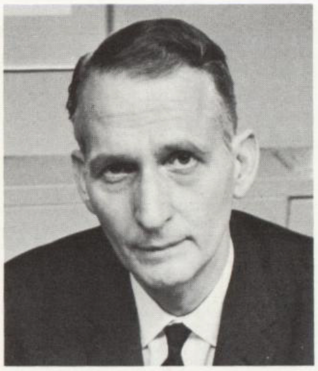
A *(by Jerome Ottmar, executive vice president):* Our philosophy of a high degree of divisional autonomy has helped us to motivate men like our division presidents, most of whom have for many years prior to acquisition successfully managed their companies and in some cases founded them. There is nothing like being your own day to day boss. Our division heads have both authority and responsibility. And we relieve them of many financial and other details so they can concentrate on product development, manufacturing and marketing, which for the average manager is the most interesting part of the job.

Obviously, an adequate incentive compensation program is necessary. Our financial incentives, for both divisional and corporate management, are based on return on investment, which is what shareholders are interested in. In addition, the Textron employees' stock savings plan gives our divisional people a direct interest as Textron shareholders in the company as a whole.

A *(by Don C. Miller, vice president):* Another point: the top level of divisional management is aware that it is in competition with other divisions toward improvement in overall Textron results. This is a thing of pride, and results in substantial effort being exerted to make sure that their division contributes better than average performance.

Q Does Textron work with its acquired companies in developing management techniques?

Robert E. Grant, group vice president — operations; with Textron 8 years.



Don C. Miller, vice president — operations; with Textron 1 year.

A *(by Robert E. Grant, group vice president):* Yes, of course. This is an important part of our responsibility, and I think our corporate structure and philosophy provide an outstanding framework in which to fulfill it.

Let's consider an example where the division president came up through one specialty route. He may, in such a case, be an expert in marketing, research, finance, or whatever. Understandably, he will be stronger in his own field than in others, and we would attempt to provide this particular president with exposure to the other areas of management where he is less familiar. Our method of broad review of problem areas and our discussion of major projects provides learning ground where each man can gain from the experience of the others. Also, where we find that the top man in a particular division is strongly oriented towards one field of management, we attempt to back him up with executives who are strong in other areas. We generally can recognize group strengths and weaknesses, so we can be of help in the selection of additions to the team.

We also carry on a continuing effort toward upgrading within the divisions in the areas of specific management techniques, such as systems and controls, data processing, and manufacturing and marketing methods. We have an advantage in a business structure such as ours in being able to circulate ideas and experience freely from division to division. Business problems usually are not unique, and we as supervisors generally find that the problem facing us today in one division has been faced and licked before in another division.

This exposure to the ideas of other divisions is also provided on a more formal basis by a continuing program of company-wide meetings on mutual problems, such as electronic data processing, financial controls, and performance improvement.

Textron Advanced Transportation Concepts:

1. The swift new Bell JetRanger commercial helicopter.
2. Ready for 1968 delivery is the 15-place 205A, Bell's largest commercial helicopter.
3. The Bell HueyCobra made a highly successful debut in Vietnam last fall, is twice as fast as previous helicopter gun ships.
4. Production of commercial air cushion vehicles was begun by Bell Aerosystems in 1967. In photo, a Bell ACV skims over the ice in Lake Erie test.
5. Bell Aerosystems has designed a 100-ton surface effect ship for Navy study.

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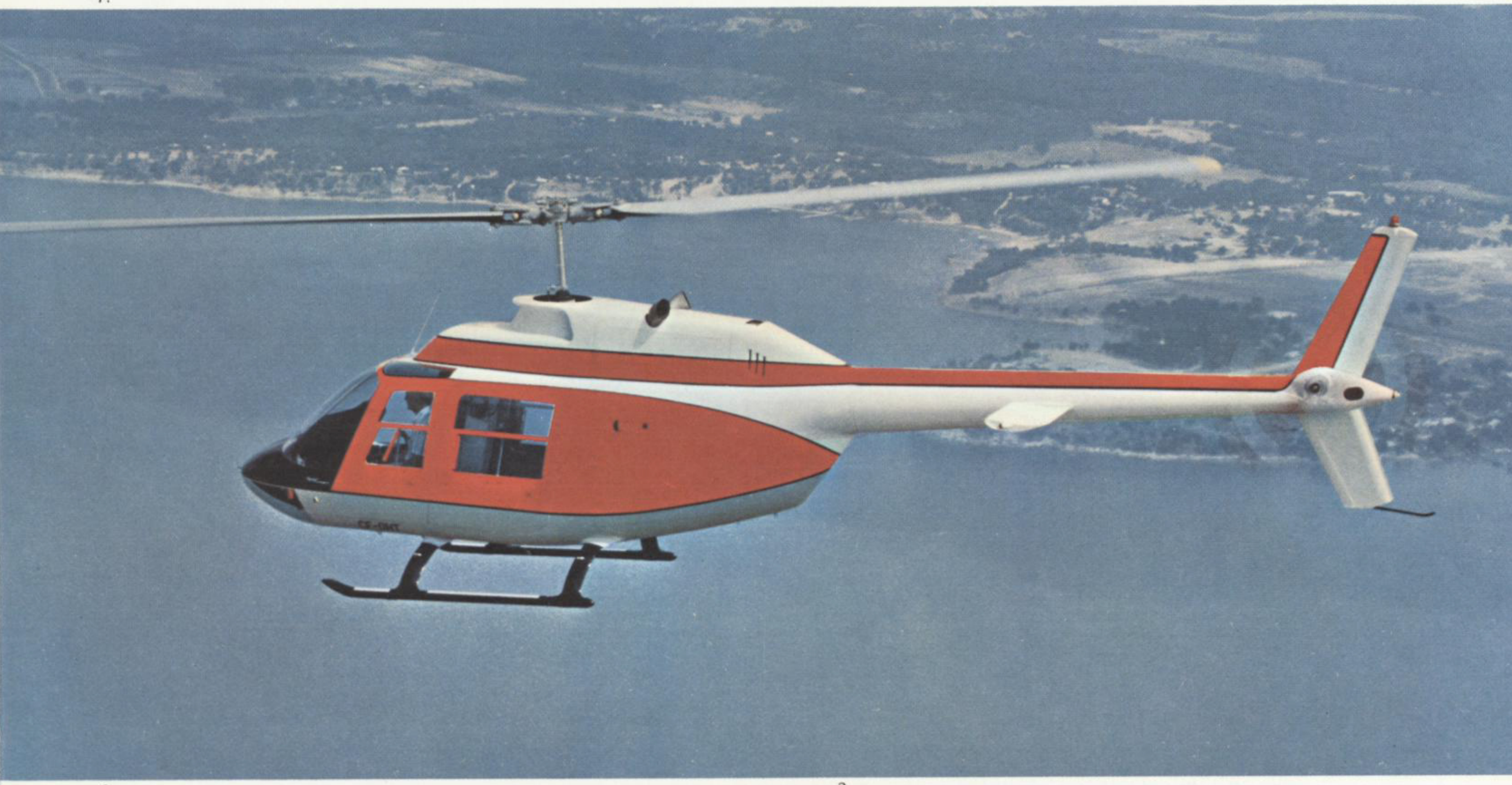

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". . . in 1967 one-fifth of our sales volume was from products not being made five years ago."

• GROWTH FROM WITHIN . . . RESEARCH AND DEVELOPMENT OF NEW PRODUCTS

Q How is product development handled? Some examples?

A *(by Mr. Ottmar):* Our divisions, of course, are constantly on the lookout for product extensions or new product fields. We encourage them not to feel restrained by any charter imposed by Textron, but to think in broad fashion toward developing markets for the future needs of their customers. Homelite, for instance, is constantly looking for development of portable or relatively lightweight gasoline-powered products. This is to take advantage of the compact Homelite engine, which has been such a success in making chainsaws light enough to develop an entirely new market for the weekend or leisure time saw user. With this background, Homelite now has moved into the new product area of fruit and vegetable harvesting.

In another area Homelite's engineering and marketing know-how was used to benefit a smaller Textron company — E-Z-Go Car. With Homelite's help E-Z-Go has become a leader in the field of golf cars, is now producing a utility, three-wheeled vehicle for golf course and park maintenance, and is preparing to move into the area of in-plant transportation with a small one-man runabout. Here is a case of taking recreational vehicle know-how and putting it into industrial transportation.

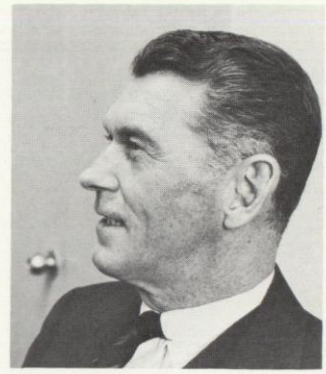
In the machine tool group, the most important current area in our extensive product development effort is in numerical control models. This is paying off. Whereas there has been a degree of softening in capital goods recently, our backlog in numerically controlled lathes is at an all time high.

A *(by Mr. D. C. Miller):* The successful research and product development program of Spencer Kellogg is right in line with several points of Textron's philosophy — concentration on areas of highest profit potential and thinking of new products in a broad industrial area. Spencer Kellogg since 1961 has been changed from a company almost completely engaged in the preparation of natural vegetable oils, to a company whose principal product thrust is in the much more profitable area of specialty chemicals in the protective coating field.

Q How much is Textron spending on research and development? Will this decrease or increase over the next few years?

A *(by Thomas C. Musgrave, vice president):* In 1967, Textron's company-financed expenditures for research and development were approximately $22 million.

Harvey Gaylord, executive vice president — operations, is in charge of the Aerospace group; with Textron 8 years.



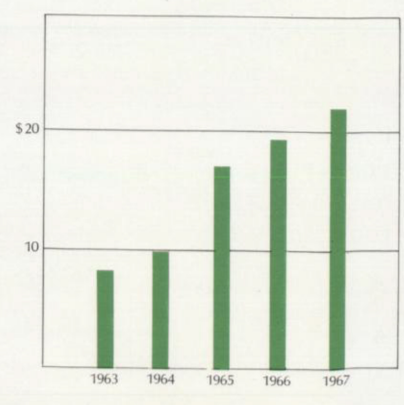
Thomas C. Musgrave, Jr., vice president — is active principally in the Aerospace area; with Textron 5 years.

Over the past five years Textron has plowed back an amount equivalent to 19 percent of its pretax profits into company-financed research and development. All of this has been expensed, not capitalized. We think the payoff in new products is pointed out by the fact that in 1967 one-fifth of our sales volume was from products not being made five years ago. We anticipate that our research and development efforts will continue to expand in line with our overall growth.

Q What is the outlook for military helicopter requirements?

A *(by Harvey Gaylord, executive vice president):* The big impetus for military use of helicopters came at the time when the United States Army decided to provide air mobility for ground divisions. Since that time, in addition to use in fully air mobile Army divisions, such as the First Air Cavalry, helicopters have become basic to all other combat divisions. There is no question but that through the success of the Bell Huey helicopter in Vietnam, the concept of air mobility has been proven.

RESEARCH AND DEVELOPMENT EXPENDITURES
(in millions of dollars)



"In 1968 Bell's commercial helicopter business should increase by at least one-third."

The air mobile concept has also been taken up by the military services of other countries. For example, several hundred Hueys are currently being built for West Germany jointly by Bell and a group of German companies. The Canadian military now are in the process of equipping their units in much the same way as has the United States, and this will represent another requirement for the basic Bell Huey helicopters. U. S. military services have acquired several thousand Bell helicopters, and we see no reason why comparable numbers should not be ordered by the armed forces of other nations over a period of time.

Bell's extensive research in many areas, including new rotor systems, propulsion, flight control, stability, and all-weather operations, will result in advanced new machines, as well as improved present models.

Q What is the potential commercial helicopter market?

A *(by Mr. Gaylord):* The commercial market has been growing ever since the introduction of the first commercially certificated helicopter by Bell in March 1946. Advances of technology and the advent of the jet turbine engine, ideal for this type of craft, have improved the economics of helicopters in the last three or four years. Both Bell's five-place JetRanger and its 15-place 205A are turbine-powered and are very much faster and easier to maintain than previous models.

As helicopter efficiency increases the commercial market can be expected to broaden substantially. Areas of high growth include corporate transportation for executives and high priority material, professional helicopter services, especially those in remote parts of the world, and police and ambulance applications. Helicopter use in congested metropolitan areas is expanding with the opening of new heliports.

Other factors in the rapid expansion of the commercial helicopter market will be public acceptance of helicopters resulting from their much-publicized use in Vietnam, and the growing pool of potential commercial helicopter pilots who have obtained their experience there.

Within the last four years, while meeting all military demands, Bell's sales of commercial models have more than doubled, and it is reasonable within the next few years to look forward to a similar growth. In 1968 Bell's commercial helicopter business should increase by at least one-third.

Q What is the status of the air cushion vehicle?

A *(by Mr. Musgrave):* Bell Aerosystems is the U. S. leader in the development and manufacture of these craft, which skim at high speed above land or water on a cushion of air. In addition, it has, through license, acquired from two leading British companies, Westland and Hovercraft Development, use of the English know-how and patents. The Navy is using three Bell-Westland craft in Vietnam and Bell is now fabricating three additional ACV's for delivery to the Army early in 1968.

Thomas J. Riggs, Jr., group vice president — operations; with Textron 8 years.

Thomas M. Leonard, vice president — operations; with Textron 6 years.

A *(by Mr. Gaylord):* The air cushion vehicle and its potential can be said to be in very much the same state as was the helicopter in the late 1940's. While development capability has been proven, all its uses have not yet been determined. We believe ACV technology can be advanced in due course to play an important role in mass transportation.

Q Under Textron's return on investment basis for compensation of divisional executives, how can you be sure that the necessary development of future products is being pursued?

A *(by Thomas J. Riggs, Jr., group vice president-operations):* Of course, any incentive system where profit is an element must cope with this. It is one of a corporate group executive's important responsibilities to see that adequate efforts are devoted to future product needs. He can watch over this by studying and verifying the marketing function of a division to determine that it has made adequate provision for product or market obsolescence and by reviewing the engineering and research functions for adequacy in product development. In Textron, division management well understands that one of the elements of leadership is not only to make plans for today but to make plans for tomorrow, that without research, without long range planning there will be no tomorrow.

1. Camcar titanium and superalloy fasteners and Fafnir ball bearings have been chosen for the Pratt & Whitney Aircraft JT9D turbofan engine that will power the giant new Boeing 747 commercial airliner.

2. Fafnir's long time leadership in precision ball bearings is illustrated here. In center is an ignition bearing built in 1921 for the Ford Model T automobile. Surrounding it are some of the latest Fafnir models including titanium, gold plated, glass, and cast cobalt alloy bearings.

3. Campbell, Wyant and Cannon casts blocks for the new 1,000 HP, 12-cylinder, V-149 engine, built by Detroit Diesel Engine Division of General Motors.

4. Models are used to demonstrate a new line of Jones & Lamson N/C turret lathes.

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"We are encouraging product development everywhere . . ."

Q Does Textron attempt to coordinate divisional research?
A *(by Thomas M. Leonard, vice president-operations):* The operating areas of our companies vary so widely that there is comparatively little commonality in the R&D efforts. Some coordination is obtained through meetings of group vice presidents in Providence. We keep each other pretty well aware of what is going on in each of our divisions. In addition some divisions that have closely-aligned facilities or processes confer or do some work together on their joint problems.

Q Is Textron stressing new product development in the non-aerospace areas?
A *(by Mr. Grant):* We are encouraging product development everywhere, including constant emphasis on internal growth in our non-aerospace divisions. Speidel provides a good example, with internal sales expansion provided by entry into a new product line, men's toiletries, first with British Sterling and now with Bravura, both introductions being extremely successful. Meanwhile, Speidel has made a technical advance in its original watchband line with the metal Romunda band which has the appearance of leather.

Q What did Textron spend on advertising last year?
A *(by Robert S. Eisenhauer, vice president):* Approximately $22 million for 1967, up from $18.5 million in 1966. Additions of Gorham and Fafnir accounted for some of the increase. The figures include all advertising expenses, not just media.

Several consumer products divisions, especially Homelite, Sheaffer and Speidel, expanded their use of television last year. In order to take advantage of the increased seasonal demand for its products, sparked by the growth of its men's toiletries line, Speidel for the first time spread its greatly-increased advertising over all three TV networks in peak selling weeks. Sales responded well, and the same technique will be followed in 1968. Non-consumer divisions, of course, devoted most of their advertising to trade publications.

Q What is the significance of the reincorporation of Textron in Delaware?
A *(by John B. Henderson, vice president and general counsel):* As a result of reincorporating in Delaware, Textron has come under a state corporation law which has been more completely interpreted than any other in the country. More major companies are incorporated in Delaware than in any other jurisdiction. The Delaware law has been recently refined and improved so that better than ever before it meets the needs of modern companies, their shareholders and customers. For instance, Delaware permits the issuance of preferred stock with flexible features which can be tailored to specific transactions. It would have been more difficult for us to make the Fafnir acquisition if we had not been in a position to fix promptly the terms for the convertible preferred on which this transaction was based.

John B. Henderson, vice president and general counsel; with Textron 6 years.

Robert S. Eisenhauer, vice president — public relations and advertising; with Textron 7 years.

• HIGHER EFFICIENCY . . . REFINEMENT PROGRAM

Q How is improvement in profit margins being accomplished?
A *(by Mr. Leonard):* Certainly one of the most important weapons in enhancing Textron's profit margins is the Performance Improvement Program. This began in 1962, and has resulted in an establishment of hundreds of individual projects at the divisional level. These projects include such items as new production techniques, improved purchasing procedures, more effective marketing for particular products, value analysis, better inventory control, and many others.

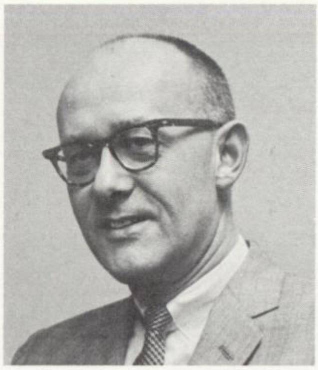
It all boils down to the fact that to get top performance, you have to have a specific program for accomplishing the desired result. We ask divisions to analyze each PIP proposal, make feasibility studies if necessary, and once a project is listed as desirable and obtainable, to have a time table, define responsibility, and follow through to "bring home the bacon."

A *(by Mr. Riggs):* Often Textron's financial support for new equipment enables a division to make great improvement in its profit margins. For example: the new automatic camshaft molding machine at Campbell, Wyant and Cannon not only has reduced costs but has improved the quality of the product.

New materials can play a part in margin improvement. The engineering department of Sprague Meter has completely replaced the internal metal linkages of the company's gas meters with new self-lubricating plastics that provide cost savings in addition to improved performance.

"... we should have substantial unused borrowing power available to support future growth."

Joseph B. Collinson, executive vice president — finance and administration; with Textron 9 years.



G. Richard Westin, treasurer; with Textron 12 years.

• FINANCIAL STRENGTH ... ACCOUNTING METHODS, CONTROL SYSTEMS

Q Does Textron have adequate financial controls?

A *(by Joseph B. Collinson, executive vice president—finance and administration):* I would say our reports and controls have proven quite adequate; however, we are continually improving them.

Our financial and budget control systems have been refined over the years, as you might expect. Through the corporate office we have controls on divisional capital expenditures, leases, major expense projects, contributions and salaries.

Divisional reports of cash receipts and cash requirements are received daily; sales are reported weekly. Each month we receive divisional balance sheets and income statements, and product line profit and loss statements. Quarterly, we receive divisional budgets for the next twelve months. These are brought up to date at the end of each quarter, so we have a moving 12-month operating plan, revised four times a year.

We compare a division's results with the budget. This is done principally at a monthly meeting of Textron's top corporate management group at which operations of the corporation as a whole are reviewed and each division's results scrutinized carefully. Action to be taken, if any, is usually planned at this meeting.

Q Will you please comment on Textron's accounting policies, with particular regard to inventories?

A *(by Mr. Collinson):* Our accounting policies are conservative. For instance, we have in all cases spread the investment credit over the life of capital assets, rather than increasing income in the year of acquisition. Income taxes are accrued when the related income is recorded, and not deferred.

Since Textron operates in many different industries, it has many different inventory accounting methods in its divisions, but we have tried to be realistic in our evaluation of inventory and in many cases have used a LIFO inventory method, thereby reducing our value to less than current costs. Our depreciation has been in agreement with tax depreciation, and in every case possible we have used accelerated depreciation methods. Research and development costs are charged off currently as are tooling expenses, in most instances.

Q What is Textron's policy on its debt to equity ratio and the use of leverage?

A *(by Mr. Collinson):* We feel that our long term debt has been unusually low in relation to our equity. Currently our equity is about $368 million and our long term debt only $67 million. Generally an equity to debt ratio of 2 to 1 is thought to be satisfactory. On this basis we should have substantial unused borrowing power available to support future growth.

Q How do you communicate the Textron philosophy to divisions?

A *(by Mr. Eisenhauer):* An important part of Textron's corporate public relations effort involves communication of the Textron story to all employees. Elements of this program include a quarterly newsletter for distribution to divisions and a regular flow of information about Textron.

Incidentally, each year we provide a number of four-year college scholarships for employees' children, as well as making available company gifts to match employee contributions to educational institutions. We also offer counsel in divisional public relations efforts, especially in relations with plant communities.

Q Will you please comment on Textron's breakdown of sales and income?

A *(by Mr. Collinson):* Textron has been a leader in such expanded reporting. In 1960 our annual report broke down both sales and earnings by groups. Since this seemed to arouse no interest, we returned to showing only sales of product groups. When the SEC in 1966 indicated it would like both

"We believed . . . that building a solid domestic base was our first priority."

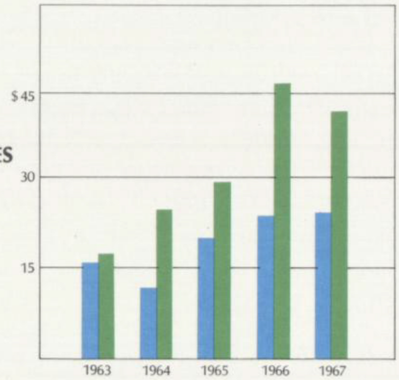
sales and earnings broken down into such areas, Textron once again reported on profits as well as sales by product group in our annual report for 1966. We are once more repeating such a breakdown in this report.

Q Have capital expenditures been adequate for the size of the company and for sustaining continued high growth?

A *(by Mr. Collinson):* For the last several years our capital expenditures have exceeded depreciation and in no instance have we had to reject a divisional project if an adequate return on investment was projected.

I think it is significant that during the last five years, we have expended $160 million in capital additions and improvements against depreciation of $105 million and against a total net plant account at the end of 1967 of $170 million. So we have virtually replenished our entire fixed asset account in five years. In just the last year we added or expanded 16 divisional manufacturing facilities with a total of 900,000 square feet of new space. Certainly our facilities are adequate to sustain our continued high rate of growth.

CAPITAL EXPENDITURES
DEPRECIATION
(in millions of dollars)



(Includes pooled companies)

Q Does Textron have stock options?

A *(by G. Richard Westin, treasurer):* No — we discontinued giving options in 1960, replacing them with a company-wide employees stock savings plan. Under this program, eligible employees may contribute up to 10 per cent of base pay to the plan, for purchase of Textron common stock in the open market. For each $1 that the employee puts in, Textron adds 50 cents. Since 1960, when the plan was begun, approximately 2,655,000 shares of stock have been purchased in the open market for the plan. We have now approximately 16,000 employees in the plan, saving at a rate of $10 million per year, which, with Textron's contribution and dividends, results in investment under the plan at an annual rate of $16.3 million. This program provides a high degree of incentive.

• INTERNATIONAL EXPANSION

Q What are Textron's general plans for expansion abroad? Has this been slow by choice?

A *(by Mr. G. W. Miller):* We have been somewhat slow in going abroad, by our own decision. The most favorable period for foreign expansion occurred before the new Textron was ready to commit major management efforts to international activities. We believed — I think rightly — that building a solid domestic base was our first priority. We have, however, made substantial moves in the international field recently and we will continue to do so, within the limits of the recent government restrictions on direct investments. Our international operations generally have been added through acquisition of domestic companies with foreign plants. That technique has allowed us to establish bases abroad without the expense and risk of starting brand new operations.

As a result, in 1967 foreign sales, including exports and products manufactured abroad, were approximately $113 million, or about 8 percent of our total. I think that percentage will expand in the future, but at the moment we do not have any specific objective. Within ten years I would hope that approximately 20 percent or more of our total business volume would be in the international area.

Q What effect will the new U. S. foreign investment rules have on Textron overseas operations and expansion plans?

A *(by Mr. Westin):* We have in the past financed our foreign subsidiaries by a combination of capital investment from the U. S., retained earnings, and borrowings in host countries.

The new regulations, which include a moratorium on transfers of capital from the U. S. to Western Europe and limitations on new investment in all other countries, should not adversely affect our present foreign operations. We have recently made several international moves, including plans for a new plant in the Netherlands, which can be continued within the scope of the present regulations. We feel that sufficient funds will be available in foreign financial markets to enable us to finance present and future operations abroad.

"In our opinion, a company like Textron adds to the spirit of competition in the American market place."

• THE FUTURE... TEXTRON'S LONG RANGE PLANS

Q What are Textron's planned objectives and strategy for future growth — over the next three years and over five years or more? What are the restrictions on such growth?

A *(by Mr. Thompson):* I would think that in the years ahead Textron's objectives will continue very much along the same lines that they have in the past several years. As has been stated earlier, our objective is to increase our earnings per share on the average at a rate of 15 per cent a year, by internal expansion and by selective acquisitions. This will certainly be our target over the next few years and I see no reason why it should not continue to be our objective over the period beyond five years. Again I think in all probability we will continue principally in manufacturing areas and in proven industries, emphasizing those that have strong technological positions and growth potential.

A *(by Mr. G. W. Miller):* I would like to add this: Textron's corporate strategy has been well established. First, to build a strong company through acquisition of proven businesses in growth areas. Second, and especially in the last five years, to give priority to growth from within, by improving the basic building units through new product development, better market penetration, new physical facilities, better use of financial controls. This pattern has been working successfully and I am sure it will continue to work well in the future.

Q What would be the effect on Textron's sales and earnings if the Vietnam war ends in 1968?

A *(by Mr. G. W. Miller):* The principal effect would, of course, be on our Bell Helicopter volume. We do not have any substantial amount of other aerospace business related to Vietnam. It is our opinion that helicopter production would not be severely retrenched if there were a cessation of hostilities. Government planning in this particular war has been to draw on existing military inventories where possible, supplemented by a gradual buildup of military equipment and materiel. This strategy contemplates a re-supply of worldwide stocks following the war, rather than a sudden and sharp cutback. This program has been well publicized by the Defense Department. So far as Textron is concerned, this means that when the war ends there will be a need to re-supply helicopter inventories to troops in the United States and Europe and to new units which require air mobile capabilities. This is not to say that there will not be some effect, because if the war suddenly stopped and there was a need to redeploy national resources to other areas, there might be some stretch-out in re-equipping in the armed forces with modern helicopters.

For 1968, incidentally, Textron is programming into its sales and earnings budget a gradual decline in Bell Helicopter volume — about 8 percent for the year. Even so, we see no reason why Textron cannot in 1968 reach its earnings target.

Q How will your future acquisitions be financed?

A *(by Mr. Thompson):* Of course this depends on the nature of the company with which we are talking. In the case of the two large acquisitions in the last year, Gorham was an exchange for common stock and Fafnir for a convertible preferred stock. Where possible we shall do acquisitions for cash since we usually make the greatest impact on our earnings per share this way.

We see no need for any additional equity financing in the near future. We may, however, have some additional debt financing in connection with our acquisitions. This probably, in the near term, would be in the form of bank borrowing and not public financing.

Q Will Textron ever use tenders in making acquisitions?

A *(by Mr. G. W. Miller):* It is highly unlikely that we will use the tender route unless the management of the company concerned is favorable to our doing so. We must have the complete cooperation and high morale of any organization that affiliates with us. We do not impose Textron upon other managements; we always retain management of an acquired company and need its enthusiastic support.

Q Is Textron's future going to be adversely affected by the antitrust laws and recent court decisions?

A *(by Mr. Henderson):* No one has a crystal ball for the future, but I feel there is nothing in the Supreme Court cases to date, such as the Clorox case, which suggests that the type of selective acquisition program in which Textron is engaged will be adversely affected. It is Textron's policy to comply fully with the letter and the spirit of the antitrust laws. We believe these laws are in the interests of a free economy, but we do not think they were intended to decree that only those companies which gained stature a generation ago can be in the forefront of the business community today. In our opinion, a company like Textron adds to the spirit of competition in the American market place.

1. Canadian military forces have selected Bell's Huey helicopter for all-around ground support.
2. Ledeen valve control system, built by Hydraulic Research and Manufacturing, automatically regulates pipeline flow in Caribbean refinery of Standard Oil Co. (N. J.).
3. Bell Aerosystems' Lunar Excursion Module (LEM) ascent rocket engine is designed to propel U. S. astronauts off the moon as part of the last stage of the Apollo mission. Here the engine is being prepared for test firing.
4. New Bostitch package sealing machine automatically adjusts for carton size.

1.

2.

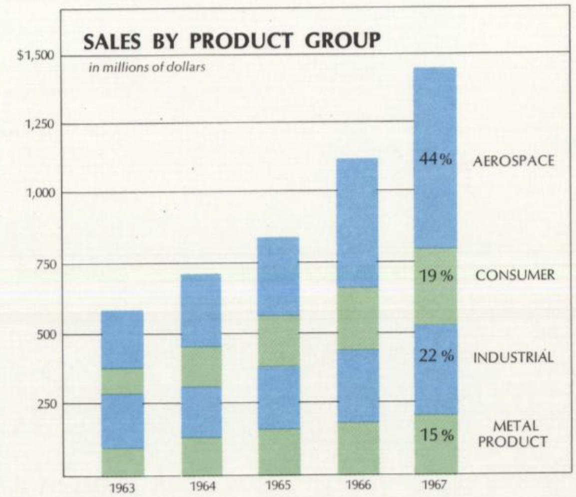
3.

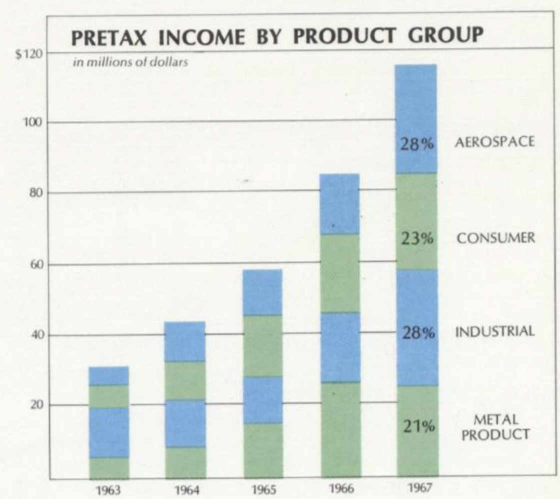
4.

1967 SALES AND PRETAX INCOME BY PRODUCT GROUP

(In Thousands of Dollars)

PRODUCT GROUP	SALES	PRETAX INCOME	PER CENT RETURN ON SALES *(Pretax)*
Aerospace	$ 642,884	$32,562	5.1%
Consumer	267,978	26,582	9.9%
Industrial	318,230	32,858	10.3%
Metal Product	216,893	25,134	11.6%
Total	$1,445,985	$117,136	8.1%





FIVE YEAR COMPARISONS *(All dollar figures in thousands except amounts per share)*

Financial Results (prior years as reported in Textron Annual Reports)

	1967	1966	1965	1964	1963
Net sales	$ 1,445,985	$ 1,132,174	$ 850,957	$ 720,206	$ 587,048
Income before Federal income taxes	117,136	84,713	58,889	44,085	32,247
Net income	61,526	43,913	29,139	22,085	18,047
Depreciation and other non-cash charges	28,104	19,744	16,202	13,307	11,137
Salaries, wages and employee benefits	504,000	407,000	300,000	257,000	228,000
Net income per common share *	2.07	1.73	1.29	1.00	.84
Dividends declared per common share	.65	.55	.46	.40	.35
Financial Position at Year End					
Working capital	$ 253,988	$ 161,965	$ 129,454	$ 124,735	$ 105,229
Long term debt	67,384	59,500	45,590	57,911	35,555
Net property, plant and equipment	169,887	123,219	88,746	78,129	62,711
Shareholders' equity	368,189	236,194	182,184	165,918	152,373
Financial Results (prior years restated to reflect poolings of interests)					
Net sales	$ 1,445,985	$ 1,291,878	$ 1,026,609	$ 873,266	$ 728,739
Net income	61,526	57,271	43,996	33,999	28,764
Net income per common share *	2.07	1.94	1.50	1.17	1.02

* *Based on average common shares outstanding, adjusted for stock splits and assuming that preferred shares were converted into common shares.*

textron INC.

CONSOLIDATED STATEMENT OF INCOME

Years Ended December 30, 1967 and December 31, 1966

		1966	
	1967	Restated for Poolings of Interests	Per Annual Report
Net sales	$1,445,985,000	$1,291,878,000	$1,132,174,000
Costs and expenses:			
Cost of sales	1,140,403,000	1,008,178,000	899,342,000
Selling and administrative expenses	183,229,000	167,555,000	143,770,000
Interest expense	5,217,000	4,937,000	4,349,000
	1,328,849,000	1,180,670,000	1,047,461,000
Income before Federal income taxes	117,136,000	111,208,000	84,713,000
Provision for Federal income taxes	55,610,000	53,937,000	40,800,000
Net income	$ 61,526,000	$ 57,271,000	$ 43,913,000
Net income per common share*	$2.07	$1.94	$1.73

*Based on average shares outstanding during the year, assuming full conversion of preferred stock.

See notes to financial statements.

textron INC. **CONSOLIDATE**

ASSETS	*December 30, 1967*	*December 31, 1966*
Current assets:		
Cash	$ 29,889,000	$ 25,555,000
Marketable securities	2,645,000	6,221,000
Accounts receivable (less allowances of $4,378,000 and $4,866,000)	171,653,000	162,965,000
Inventories, at lower of cost or market:		
Finished goods	88,321,000	72,919,000
Work in process (less progress payments of $85,438,000 and $69,180,000)	135,239,000	120,736,000
Raw materials and supplies	48,562,000	54,079,000
	272,122,000	247,734,000
Prepaid expenses	3,386,000	3,347,000
Total current assets	479,695,000	445,822,000
Property, plant and equipment, at cost:		
Land and buildings	72,412,000	65,916,000
Machinery and equipment	265,131,000	233,207,000
	337,543,000	299,123,000
Less accumulated depreciation and amortization	167,656,000	144,365,000
	169,887,000	154,758,000
Unamortized debt discount and expenses	4,281,000	4,238,000
Other assets (including patents, at cost less amortization)	15,794,000	15,673,000
	$669,657,000	$620,491,000

See notes to financial statements

LANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY	*December 30, 1967*	*December 31, 1966*
Current liabilities:		
Notes payable	$ 24,240,000	$ 16,757,000
Accounts payable	67,247,000	64,635,000
Accrued expenses and other current liabilities	103,834,000	85,912,000
Federal income taxes	24,700,000	37,905,000
Current maturities of long term debt	1,004,000	11,325,000
Dividends payable	4,682,000	3,795,000
Total current liabilities	225,707,000	220,329,000
Long term debt	67,384,000	65,694,000
Other liabilities	8,377,000	8,972,000
Shareholders' equity:		
Capital stock:		
$2.08 convertible preferred, Series A (Liquidation value — $152,319,000)	71,993,000	71,849,000
$1.25 convertible preferred	1,618,000	2,130,000
Common	6,727,000	3,298,000
Capital surplus	73,218,000	73,283,000
Earned surplus	227,779,000	190,326,000
	381,335,000	340,886,000
Less common stock in treasury, at cost	13,146,000	15,390,000
Total shareholders' equity	368,189,000	325,496,000
	$669,657,000	$620,491,000

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS

Years Ended December 30, 1967 and December 31, 1966

	1967	1966
Balance at beginning of year (restated for poolings of interests)	$ 73,283,000	$ 71,187,000
Additions:		
Capital in excess of par value of shares issued upon:		
Conversion of 20,464 and 27,750 shares of $1.25 preferred stock into 88,110 and 119,450 common shares	483,000	673,000
Exercise of warrants for 435,120 and 553,160 common shares	3,155,000	4,080,000
Exercise of employees' stock options of pooled companies	80,000	709,000
Declaration of stock dividends by pooled company	—	809,000
	77,001,000	77,458,000
Deductions:		
Par value of common shares issued in stock split	3,298,000	—
Charges resulting from issuance of treasury shares for companies acquired	485,000	4,175,000
	3,783,000	4,175,000
Balance at end of year	$ 73,218,000	$ 73,283,000

CONSOLIDATED STATEMENT OF EARNED SURPLUS

Years Ended December 30, 1967 and December 31, 1966

	1967	1966
Balance at beginning of year (restated for poolings of interests)	$190,326,000	$158,234,000
Net income for the year	61,526,000	57,271,000
	251,852,000	215,505,000
Textron dividends — $1.25 convertible preferred stock	91,000	116,000
— Common stock — $.65 in 1967, $.55 in 1966	16,569,000	13,101,000
Dividends of pooled companies prior to acquisition	5,747,000	7,974,000
Total dividends	22,407,000	21,191,000
Charge resulting from the issuance of treasury shares for companies acquired and for stock options	1,666,000	3,988,000
	24,073,000	25,179,000
Balance at end of year	$227,779,000	$190,326,000

See notes to financial statements

CONSOLIDATED STATEMENT OF CHANGES IN WORKING CAPITAL

Year Ended December 30, 1967

Source of working capital:	
Net income	$ 61,526,000
Depreciation and other non-cash charges	28,104,000
Long term borrowings	50,000,000
Proceeds from exercise of options and warrants	3,692,000
Property, plant and equipment sold	1,882,000
	145,204,000
Application of working capital:	
Additions to property, plant and equipment	41,160,000
Dividends	22,407,000
Reduction of long term debt	48,310,000
Non-current assets of companies acquired for cash	1,141,000
Other	3,691,000
	116,709,000
Increase in working capital during 1967	$ 28,495,000

NOTES TO FINANCIAL STATEMENTS

General

During 1967 Textron acquired the Gorham Corporation in exchange for 893,312 shares of common stock and acquired The Fafnir Bearing Company in exchange for 3,046,388 shares of $2.08 Cumulative Convertible Preferred Stock, Series A. These transactions have been accounted for as poolings of interests and accordingly, operating results of these companies have been included in the consolidated statement of income for the entire year 1967 and 1966 consolidated financial statements have been restated to include the financial position and operations of these companies.

Inventories

Cost of $212,701,000 of inventory was determined generally on a first-in, first-out or average method and the balance of $59,421,000 on a last-in, first-out method.

Long Term Debt

Exclusive of amounts due in 1968, the debt consists of the following:

5⅞% Sinking Fund Debentures due May 1, 1992 (Sinking fund payments commencing in 1973)	$50,000,000
5% Subordinated Debentures due May 1, 1984 ($100,000 and proceeds received upon exercise of warrants are payable to sinking fund quarterly)	13,809,000
Other notes	3,575,000
	$67,384,000

Capital Stock

The $1.25 Convertible Preferred Stock, $25 stated value, is entitled to cumulative dividends and is convertible into 4.314 shares of common stock for each share of preferred. There were 75,000 shares authorized of which 64,741 were outstanding at December 30, 1967. There are 5,000,000 shares of preferred stock authorized of which 3,046,388 shares of $2.08 Cumulative Convertible Preferred Stock, Series A were outstanding. Each share of Series A stock is convertible into 1.1 shares of common stock and is redeemable after December 31, 1972 at prices ranging from $55 in 1973 to $50 in 1978 and thereafter. From 1973 through 1977 the Series A stock may not be redeemed except in its entirety and in 1978 and thereafter all or any part may be redeemed at anytime. In the event of liquidation each share is entitled to an amount equal to the prevailing redemption price. At December 30, 1967, 75,000,000 shares of common stock, 25¢ par value, were authorized of which 26,320,218 were outstanding after deducting 587,933 held in the treasury. Shares of common stock reserved were as follows:

$1.25 Convertible Preferred Stock	279,293
$2.08 Cumulative Convertible Preferred Stock, Series A	3,351,027
Warrants (exercisable at $7.50 per share until May 1, 1969 with $1.25 price increases each five years until expiration in 1984)	725,040
Options granted to employees	71,194
	4,426,554

At December 31, 1966 stock options for 7,720 shares of common stock were outstanding. Upon the acquisition of Gorham and Fafnir, Textron substituted options on 40,464 shares of its common stock and 29,980 shares of its $2.08 cumulative convertible preferred stock for options on shares of the acquired companies. During 1967, options for 9,968 common shares were exercised leaving options on 38,216 common shares, at prices ranging from $13.14 to $36.25, and options on 29,980 preferred shares, at prices ranging from $36.64 to $38.27, outstanding at December 30, 1967. At December 30, 1967 options for 18,686 shares of common stock and 29,980 shares of preferred stock were exercisable and no shares are reserved for granting of future options.

The number of shares has been adjusted for the two-for-one stock split declared July 26, 1967 and for the reincorporation of the Company in Delaware on January 2, 1968. In connection with the reincorporation the common stock authorized was increased from 30,000,000 to 75,000,000 shares and 5,000,000 shares of preferred stock were authorized.

Pensions

The Company and its consolidated subsidiaries have several pension plans covering 84% of their employees. The total pension expense charged to consolidated earnings for the year was approximately $14,000,000 which includes amortization of unfunded prior service cost over periods ranging from 10 to 30 years. The Company's policy is to fund pension cost accrued.

Leases

Annual rentals payable under long term leases on property, plant and equipment are approximately $6,100,000 and the aggregate rentals payable under these leases, discounted to December 30, 1967, are approximately $36,600,000. Under certain leases Textron is also required to pay insurance, taxes and repairs.

AUDITORS' REPORT

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N. Y. 10017

The Board of Directors and Shareholders
Textron Inc.

We have examined the accompanying consolidated balance sheet of Textron Inc. at December 30, 1967 and the related consolidated statements of income, earned surplus, capital surplus and changes in working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have received the report of other independent accountants with respect to their examination of the financial statements of The Fafnir Bearing Company and its subsidiaries, which financial statements are included in the accompanying consolidated statements.

In our opinion, based upon our examination and the report of other independent accountants, the statements mentioned above present fairly the consolidated financial position of Textron Inc. at December 30, 1967 and the consolidated results of operations and changes in working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated.

February 20, 1968

Arthur Young & Company

TRANSFER AGENTS

Common Stock

Rhode Island Hospital Trust Company, Providence, Rhode Island
Morgan Guaranty Trust Company of New York, New York City
Bank of America National Trust and Savings Association, Los Angeles, California

Convertible Preferred Stock

$1.25 Convertible Preferred Stock

Rhode Island Hospital Trust Company, Providence, Rhode Island
The Chase Manhattan Bank, New York City
Bank of America National Trust and Savings Association, Los Angeles, California

$2.08 Cumulative Convertible Preferred Stock, Series A

Rhode Island Hospital Trust Company, Providence, Rhode Island
Morgan Guaranty Trust Company of New York, New York City

textron

• Aerospace Product Group

Accessory Products
Valves, pressure regulators, fluid controls, fire suppression systems.
Fuel Engineering — Autoclaves, hydroclaves, heat exchange equipment.

Bell Aerosystems
Rocket engines, missile and spacecraft propulsion systems, positive expulsion rocket fuel tanks, vertical lift aircraft, air cushion vehicles, inertial guidance, automatic landing systems, other aerospace and avionic devices.

Bell Helicopter
Helicopters, vertical lift aircraft.

Dalmo Victor
Electronic warfare systems, aerospace antennas, electro-optics, magnetic systems, automatic test equipment.

Hydraulic Research and Manufacturing
Electro-hydraulic valves and servo control systems, hydraulic-pneumatic control systems, high performance filters.
Ledeen — Automated controls for fluid and gas processing and transmission.

Spectrolab/Heliotek
Electro-optics, solar cells, space power arrays, solar simulators.

• Consumer Product Group

Caroline Foods
Processed broilers and other poultry products.

Gorham
Sterling silver and stainless steel flatware, sterling and silverplated holloware, decorative accessories, memorial markers.
Eaton Paper — Social stationery, desk and photo accessories, personal record and appointment books.
Camp — Packaged stationery, student and office paper supplies.

Homelite
Chain saws, power lawn mowers, generators, pumps.
E-Z-Go — Electric golf cars, in-plant vehicles.
Terry Industries (Canada) — Chain saws, pumps, generators, portable space heaters.

Patterson-Sargent/Vita-Var
BPS, Vita-Var and Allied paints and varnishes.

Randall *(Housewares Division)*
Magnalite cast aluminum and Wagner/Griswold cast iron cooking ware, Randall/Griswold styled mail-boxes, Durham tubular furniture.
Hall-Mack — Bathroom accessories.

Sheaffer Pen
Writing instruments, Skrip writing fluid.
Maico — Electronic hearing aids, audiometers.

Shuron/Continental
Eyeglass frames, lenses, optical machinery.

Speidel
Twist-O-Flex watch bands, identification bracelets, jewelry chain, British Sterling and Bravura men's toiletries.

• Industrial Product Group

Aetna Bearing
Ball and roller bearings.

Burkart
Polyurethane foam and fiber cushioning materials.

Campbell, Wyant and Cannon
Grey iron castings for engine blocks, cylinder heads, camshafts, gears and parts.

Electronic Research
Frequency control products.

Fafnir
Precision ball bearings for industrial, aerospace and farm equipment fields and the after market.

Fanner
Chaplets and chills used in casting, electrical line products, service fittings for utilities, metal abrasives, hand tools, special forgings, malleable iron hardware, plastic products, abrasive wheels.

MB Electronics
Environmental test systems, electronic instrumentation.

Randall *(Automotive and Appliance Parts Division)*
Automobile and appliance trim, automobile door frames, body parts, automotive tubular products.

Spencer Kellogg
Chemical products, linseed oil and other oilseed and corn milling products.

Sprague
Gas meters and regulators, marine fittings, liquid gas containers and fittings.

Walker/Parkersburg
Underfloor electrical distribution systems, pre-engineered metal buildings.

• Metal Product Group

Bostitch
Staplers and staples, stapling hammers, pneumatic nailers, container machinery.

Camcar
Cold flow headed metal parts, proprietary and special fasteners for aerospace, automotive and appliance industries.

Pittsburgh Steel Foundry and Machine
Heavy duty rolling mills and auxiliary equipment, aluminum and steel foil mills, metallurgical furnaces, steel castings.

Townsend
Special fasteners for aerospace, automotive, appliance and construction industries, fastening tools, automatic fastening machines.

Waterbury Farrel
Waterbury cold heading machines, Sendzimir and other rolling mills, presses, Cleveland hobbing machines, Cridan pipe threading machines.
Jones & Lamson — Turret lathes, cylindrical and thread grinders, optical comparators.
Precision Methods and Machines — Rolling mill components, precision machining.
Thompson Grinder — Precision surface grinders.


E-Z-GO