TEXTRON INC
Form 10-K
February 15, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

[x] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 30, 2017

or

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____.

Commission File Number 1-5480

Textron Inc.

(Exact name of registrant as specified in its charter)

Delaware	**05-0315468**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

40 Westminster Street, Providence, RI	**02903**
(Address of principal executive offices)	(Zip code)

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

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock par value $0.125	New York Stock Exchange

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ü No___

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ü No___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ü No____

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

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

Large accelerated filer [ü]

Accelerated filer [__]

Non-accelerated filer [__]
(do not check if smaller reporting company)

Smaller reporting company [__]

Emerging growth company [__]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [__]

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

The aggregate market value of the registrant s Common Stock held by non-affiliates at July 1, 2017 was approximately $12.5 billion based on the New York Stock Exchange closing price for such shares on that date. The registrant has no non-voting common equity.

At February 3, 2018, 261,771,970 shares of Common Stock were outstanding.

Documents Incorporated by Reference

Part III of this Report incorporates information from certain portions of the registrant s Definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 25, 2018.

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Textron Inc.

Index to Annual Report on Form 10-K

For the Fiscal Year Ended December 30, 2017

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PART I

Item 1. Business

Textron Inc. is a multi-industry company that leverages its global network of aircraft, defense, industrial and finance businesses to provide customers with innovative products and services around the world. We have approximately 37,000 employees worldwide. Textron Inc. was founded in 1923 and reincorporated in Delaware on July 31, 1967. Unless otherwise indicated, references to Textron Inc., the Company, we, our and us in this Annual Report on Form 10-K refer to Textron Inc. and its consolidated subsidiaries.

We conduct our business through five operating segments: Textron Aviation, Bell, Textron Systems and Industrial, which represent our manufacturing businesses, and Finance, which represents our finance business. A description of the business of each of our segments is set forth below. Our business segments include operations that are unincorporated divisions of Textron Inc. and others that are separately incorporated subsidiaries. Financial information by business segment and geographic area appears in Note 16 to the Consolidated Financial Statements on pages 67 through 68 of this Annual Report on Form 10-K. The following description of our business should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations on pages 19 through 34 of this Annual Report on Form 10-K. Information included in this Annual Report on Form 10-K refers to our continuing businesses unless otherwise indicated.

Textron Aviation Segment

Textron Aviation is a leader in general aviation. Textron Aviation manufactures, sells and services Beechcraft and Cessna aircraft, and services the Hawker brand of business jets. The segment has two principal product lines: aircraft and aftermarket. Aircraft includes sales of business jets, turboprop aircraft, piston engine aircraft, and military trainer and defense aircraft. Aftermarket includes commercial parts sales, and maintenance, inspection and repair services. Revenues in the Textron Aviation segment accounted for 33%, 36% and 36% of our total revenues in 2017, 2016 and 2015, respectively. Revenues for Textron Aviation s principal lines of business were as follows:

(In millions)		**2017**	**2016**	**2015**
Aircraft	$	3,112$	3,412$	3,404
Aftermarket		1,574	1,509	1,418
Total revenues	$	4,686$	4,921$	4,822

The family of jets currently produced by Textron Aviation includes the Citation M2, Citation CJ3+, Citation CJ4, Citation XLS+, Citation Latitude, Citation Sovereign+, and the Citation X+, the fastest civilian jet in the world. In addition, the new Citation Longitude, a super-midsize jet which achieved first flight in October 2016, is expected to enter into service in early 2018. Textron Aviation is also continuing the development of the Citation Hemisphere, a large-cabin jet.

Textron Aviation s turboprop aircraft include the Beechcraft King Air C90GTx, King Air 250, King Air 350ER and King Air 350i, and the Cessna Caravan and Grand Caravan EX. The Cessna Denali, a high-performance single engine turboprop aircraft, is expected to achieve its first flight in 2018. In addition, Textron Aviation recently announced the Cessna Skycourier, a twin-engine, high-wing, large-utility turboprop aircraft, which is targeted for first flight in 2019. Textron Aviation s piston engine aircraft include the Beechcraft Baron and Bonanza, and the Cessna Skyhawk, Skylane, and the Turbo Stationair.

Textron Aviation also offers the T-6 trainer, which is used to train pilots from more than 20 countries, the AT-6 light attack military aircraft, and the Scorpion. The Scorpion is a highly affordable, multi-mission aircraft designed primarily for the tactical military jet aviation market. This aircraft is not yet in production, pending customer orders.

In support of its family of aircraft, Textron Aviation operates a global network of 18 service centers, two of which are co-located with Bell Helicopter, along with more than 350 authorized independent service centers located throughout the world. Textron Aviation-owned service centers provide customers with 24-hour service and maintenance. Textron Aviation also provides its customers with around-the-clock parts support and offers a mobile support program with over 60 mobile service units and several dedicated support aircraft. In addition, Able Aerospace Services, Inc., a subsidiary of Textron Aviation, also provides component and maintenance, repair and overhaul services in support of commercial and military fixed- and rotor-wing aircraft.

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Textron Aviation markets its products worldwide through its own sales force, as well as through a network of authorized independent sales representatives. Textron Aviation has several competitors domestically and internationally in various market segments. Textron Aviation s aircraft compete with other aircraft that vary in size, speed, range, capacity and handling characteristics on the basis of price, product quality and reliability, direct operating costs, product support and reputation.

Bell Segment

Bell Helicopter is one of the leading suppliers of military and commercial helicopters, tiltrotor aircraft, and related spare parts and services in the world. Revenues for Bell accounted for 23%, 23% and 26% of our total revenues in 2017, 2016 and 2015, respectively. Revenues by Bell s principal lines of business were as follows:

(In millions)		**2017**	**2016**	**2015**
Military:				
V-22 Program	$	1,129$	1,151$	1,194
Other Military		947	936	839
Commercial		1,241	1,152	1,421
Total revenues	$	3,317$	3,239$	3,454

Bell supplies advanced military helicopters and support to the U.S. Government and to military customers outside the United States. Bell s primary U.S. Government programs are the V-22 tiltrotor aircraft and the H-1 helicopters. Bell is one of the leading suppliers of helicopters to the U.S. Government and, in association with The Boeing Company (Boeing), the only supplier of military tiltrotor aircraft. Tiltrotor aircraft are designed to provide the benefits of both helicopters and fixed-wing aircraft. Through its strategic alliance with Boeing, Bell produces and supports the V-22 tiltrotor aircraft for the U.S. Department of Defense (DoD), and also for Japan under the U.S. Government-sponsored foreign military sales program. The H-1 helicopter program includes a utility model, the UH-1Y, and an advanced attack model, the AH-1Z, which have 84% parts commonality between them. While the U.S. Marine Corps is the primary customer for H-1 helicopters, we also sell H-1 helicopters under the U.S. Government-sponsored foreign military sales program.

Bell is developing the V-280 Valor, a next generation vertical lift aircraft as part of the Joint Multi Role Technology Demonstrator (JMR-TD) initiative. The JMR-TD program is the science and technology precursor to the Department of Defense s Future Vertical Lift program. Aircraft designed through this initiative will compete to replace thousands of aging utility and attack helicopters for the U.S. Armed Forces over the next decade. The V-280 achieved its first flight in December 2017.

Through its commercial business, Bell is a leading supplier of commercially certified helicopters and support to corporate, offshore petroleum exploration and development, utility, charter, police, fire, rescue and emergency medical helicopter operators, and foreign governments. Bell produces a variety of commercial aircraft types, including light single- and twin-engine helicopters and medium twin-engine helicopters, along with other related products. The helicopters currently offered by Bell for commercial applications include the 407GXP, 412EP, 412EPI, 429, 429WLG, 505 Jet Ranger X and Huey II. In addition, the 525 Relentless, Bell s first super medium commercial helicopter, is expected to achieve certification in 2019.

For both its military programs and its commercial products, Bell provides post-sale support and service for an installed base of approximately 13,000 helicopters through a network of five Bell-operated service centers, four global parts distribution centers and over 100 independent service centers located in 35 countries. Collectively, these service sites offer a complete range of logistics support, including parts, support equipment, technical data, training devices, pilot and maintenance training, component repair and overhaul, engine repair and overhaul, aircraft modifications, aircraft customizing, accessory manufacturing, contractor maintenance, field service and product support engineering.

Bell competes against a number of competitors throughout the world for its helicopter business and its parts and support business. Competition is based primarily on price, product quality and reliability, product support, performance and reputation.

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Textron Systems Segment

Textron Systems product lines consist of unmanned systems, marine and land systems, and simulation, training and other defense and aviation mission support products and services. Textron Systems is a supplier to the defense, aerospace and general aviation markets, and represents 13%, 13% and 11% of our total revenues in 2017, 2016 and 2015, respectively. This segment sells its products to U.S. Government customers and to customers outside the U.S. through foreign military sales sponsored by the U.S. Government and directly through commercial sales channels. Textron Systems competes on the basis of technology, contract performance, price, product quality and reliability, product support and reputation. Revenues by Textron Systems product lines were as follows:

(In millions)		**2017**	**2016**	**2015**
Unmanned Systems	$	714$	763$	686
Marine and Land Systems		470	294	188
Simulation, Training and Other		656	699	646
Total revenues	$	1,840$	1,756$	1,520

Unmanned Systems

Our Unmanned Systems product line includes the offerings of the Unmanned Systems and Support Solutions businesses. The Unmanned Systems business has designed, manufactured and fielded combat-proven unmanned aircraft systems for more than 25 years. This business s products include the U.S. Army s premier tactical unmanned aircraft system, the Shadow, which has surpassed one million flight hours since its introduction, and the Aerosonde Small Unmanned Aircraft System, a multi-mission capable unmanned aircraft system that has amassed more than 200,000 flight hours in commercial and military operations around the world. In addition, its unmanned aircraft and interoperable command and control technologies provide critical situational awareness and actionable intelligence for users worldwide. Our Support Solutions business provides logistical support for various unmanned systems as well as training and supply chain services to government and commercial customers worldwide.

Marine and Land Systems

Our Marine and Land Systems product line includes advanced marine craft, armored vehicles, turrets and related subsystems, in service with U.S. and international militaries, special operations forces, police forces and civilian entities. Marine and Land Systems primary U.S. Government program is for the development and production of the U.S. Navy s next generation Landing Craft Air Cushion as part of the Ship-to-Shore Connector program.

Simulation, Training and Other

Our Simulation, Training and Other product line includes products and services from five businesses: TRU Simulation + Training, Textron Airborne Solutions, Electronic Systems, Lycoming, and Weapons and Sensors.

TRU Simulation + Training designs, develops, manufactures, installs, and provides maintenance of advanced flight training courseware and devices, including full flight simulators, for both rotary- and fixed-wing aircraft for commercial airlines, aircraft original equipment manufacturers (OEMs), flight training centers and training organizations worldwide. Through its training centers, TRU Simulation + Training provides initial type-rating and recurrency training for pilots, as well as maintenance training in its Aviation Maintenance Training Academy. Textron Airborne Solutions, which includes Airborne Tactical Advantage Company, focuses on live military air-to-air and air-to-ship training and support services for U.S. Navy, Marine and Air Force pilots. Electronic Systems provides high technology test equipment, electronic warfare test and training solutions and intelligence software solutions for U.S. and international defense, intelligence and law enforcement communities.

Lycoming specializes in the engineering, manufacture, service and support of piston aircraft engines for the general aviation and remotely piloted aircraft markets. Weapons and Sensors offers advanced precision guided weapons systems, airborne and ground-based sensors and surveillance systems, and protection systems for the defense and aerospace industries.

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Industrial Segment

Our Industrial segment designs and manufactures a variety of products within three principal product lines. Industrial segment revenues, which represented 30%, 28% and 26% of our total revenues in 2017, 2016 and 2015, respectively, were as follows:

(In millions)	2017	2016	2015
Fuel Systems and Functional Components	$ 2,330	$ 2,273	$ 2,078
Specialized Vehicles	1,486	1,080	1,021
Tools and Test Equipment	470	441	445
Total revenues	$ 4,286	$ 3,794	$ 3,544

Fuel Systems and Functional Components

Our Fuel Systems and Functional Components product line is produced by our Kautex business unit which is headquartered in Bonn, Germany and operates over 30 plants in 14 countries. Kautex is a leading developer and manufacturer of blow-molded plastic fuel systems for cars, light trucks and all-terrain vehicles. Kautex also develops and manufactures clear-vision systems for automobiles and selective catalytic reduction systems used to reduce emissions from diesel engines, as well as plastic bottles and containers for medical, household, agricultural, laboratory and industrial uses. Additionally, Kautex operates a business that produces cast iron engine camshafts, crankshafts and other engine components. Kautex serves the global automobile market, with operating facilities near its major customers around the world.

Our automotive products have several major competitors worldwide, some of which are affiliated with the OEMs that comprise our targeted customer base. Competition typically is based on a number of factors including price, technology, environmental performance, product quality and reliability, prior experience and available manufacturing capacity.

Specialized Vehicles

Our Specialized Vehicles product line includes products sold by the Textron Specialized Vehicles businesses under the E-Z-GO, Textron Off Road, Arctic Cat, TUG Technologies, Douglas Equipment, Premier, Safeaero, Ransomes, Jacobsen, Cushman and Dixie Chopper brands. These businesses design, manufacture and sell golf cars, off-road utility vehicles, recreational side-by-side and all-terrain vehicles, snowmobiles, light transportation vehicles, aviation ground support equipment and professional turf-maintenance equipment, as well as specialized turf-care vehicles. See Note 2 to the Consolidated Financial Statements for additional information regarding the acquisition of Arctic Cat that we completed on March 6, 2017.

These businesses have a diversified customer base that includes golf courses and resorts, government agencies and municipalities, consumers, outdoor enthusiasts, and commercial and industrial users such as factories, warehouses, airports, planned communities, hunting preserves, educational and corporate campuses, sporting venues, municipalities and landscaping professionals. Sales are made through a combination of factory direct resources and a network of independent distributors and dealers worldwide. We have two major competitors for both golf cars and professional turf-maintenance equipment, and several competitors for off-road utility vehicles, recreational all-terrain and light transportation vehicles, side-by-sides and snowmobiles, aviation ground support equipment, and specialized turf-care products. Competition is based primarily on price, product quality and reliability, product features, product support and reputation.

Tools and Test Equipment

The Tools and Test Equipment product line includes products sold by businesses that design and manufacture powered equipment, electrical test and measurement instruments, mechanical and hydraulic tools, cable connectors, fiber optic assemblies, underground and aerial transmission and distribution products and power utility products. This product line encompasses the Greenlee, Greenlee Communications, Greenlee Utility, HD Electric, Klauke, Sherman+Reilly and Endura businesses and brands. Their products are used principally in the construction, maintenance, telecommunications, data communications, electrical, utility and plumbing industries, and are distributed through a global network of sales representatives and distributors, as well as through direct sales to home improvement retailers and OEMs. The businesses have plant operations in five countries with almost half of their combined revenues coming from outside the United States. These businesses face competition from numerous manufacturers based primarily on price, delivery lead time, product quality and reliability.

Finance Segment

Our Finance segment, or the Finance group, is a commercial finance business that consists of Textron Financial Corporation (TFC) and its consolidated subsidiaries. The Finance segment provides financing primarily to purchasers of new and pre-owned Textron Aviation aircraft and Bell helicopters. A substantial number of the new originations in our finance receivable portfolio are cross-border transactions for aircraft sold outside of the U.S. Finance receivables originated in the U.S. are primarily for purchasers who had difficulty in accessing other sources of financing for the purchase of Textron-manufactured products. In 2017, 2016 and 2015, our Finance group paid our Manufacturing group $174 million, $173 million and $194 million, respectively, related to the sale of Textron-manufactured products to third parties that were financed by the Finance group.

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The commercial finance business traditionally is extremely competitive. Our Finance segment is subject to competition from various types of financing institutions, including banks, leasing companies, commercial finance companies and finance operations of equipment vendors. Competition within the commercial finance industry primarily is focused on price, term, structure and service.

Our Finance segment s largest business risk is the collectability of its finance receivable portfolio. See Finance Portfolio Quality in Management s Discussion and Analysis of Financial Condition and Results of Operations on page 28 for information about the Finance segment s credit performance.

Backlog

Our backlog at the end of 2017 and 2016 is summarized below:

(In millions)		**December 30, 2017**	**December 31, 2016**
Bell	$	4,598$	5,360
Textron Systems		1,406	1,841
Textron Aviation		1,180	1,041
Total backlog	$	7,184$	8,242

Approximately 38% of our total backlog at December 30, 2017 represents orders that are not expected to be filled in 2018.

Backlog with the U.S. Government represented 58% of our total backlog at December 30, 2017 and excluded amounts where funding has not been formally appropriated. At December 30, 2017 and December 31, 2016, Bell s backlog included $1.6 billion and $1.7 billion, respectively, related to a multi-year contract with the U.S. Government for the purchase of V-22 tiltrotor aircraft.

For information regarding the impact of the new revenue recognition accounting standard on backlog, see Note 1 to the Consolidated Financial Statements on page 48 of this Annual Report on Form 10-K.

U.S. Government Contracts

In 2017, approximately 22% of our consolidated revenues were generated by or resulted from contracts with the U.S. Government, excluding those contracts under the U.S. Government-sponsored foreign military sales program. This business is subject to competition, changes in procurement policies and regulations, the continuing availability of funding, which is dependent upon congressional appropriations, national and international priorities for defense spending, world events, and the size and timing of programs in which we may participate.

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

Research and Development

Information regarding our research and development expenditures is contained in Note 1 to the Consolidated Financial Statements on page 47 of this Annual Report on Form 10-K.

Patents and Trademarks

We own, or are licensed under, numerous patents throughout the world relating to products, services and methods of manufacturing. Patents developed while under contract with the U.S. Government may be subject to use by the U.S. Government. We also own or license active trademark registrations and pending trademark applications in the U.S. and in various foreign countries or regions, as well as trade names and service marks. While our intellectual property rights in the aggregate are important to the operation of our business, we do not believe that any existing patent, license, trademark or other intellectual property right is of such importance that its loss or termination would have a material adverse effect on our business taken as a whole. Some of these trademarks, trade names and service marks are used in this Annual Report on Form 10-K and other reports, including: A-2PATS; Able Aerospace Services; Able Preferred; Aeronautical Accessories; AAI; acAlert; Aerosonde; AirScout; Alterra; AH-1Z; Ambush; Arctic Cat; Ascent;

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AVCOAT; Baron; BattleHawk; Bearcat; Beechcraft; Beechcraft T-6; Bell; Bell Helicopter; Bell 505; BENDWORKS; BlackWorks McCauley; Bonanza; Cadillac Gage; CAP; Caravan; Caravan Amphibian; Caravan 675; Cessna; Cessna 350; Cessna 400; Cessna SkyCourier; Cessna Turbo Skylane JT-A; Cessna Turbo Skyhawk JT-A; Citation; CITATION ALPINE EDITION; Citation Encore+; Citation Latitude; Citation Longitude; Citation M2; Citation Sovereign; Citation X; Citation X+; Citation XLS+; CJ1+; CJ2+; CJ3; CJ3+; CJ4; Clairity; CLAW; CLEARTEST; Commando; Cushman; Customer Advantage Plans; CUSV; DataScout; Denali; Dixie Chopper; Dixie Chopper Stryker; Double Vision; Duct Dawg; Eclipse; El Tigre; ENFORCER; E-Z-GO; E-Z-GO EXPRESS; FAST-N-LATCH; FASTRAP; Firecat; Firefly; FOREVER WARRANTY; Fury; G3 Tugger; GatorEye; Gator Grips; GLOBAL MISSION SUPPORT; Gorilla; Grand Caravan; Greenlee; H-1; HAULER; HDE; Hawker; Hemisphere; Huey; Huey II; iCommand; iPress; IE2; Instinct; Integrated Command Suite; INTELLIBRAKE; INTELLI-CRIMP; Jacobsen; Jacobsen HoverKing; Jet Ranger X; Kautex; King Air; King Air C90GTx; King Air 250; King Air 350; Kiowa Warrior; Klauke; LF; LOOKOUT; Lycoming; Lynx; M1117 ASV; MADE FOR THE TRADE; McCauley; Mechtronix; MicroObserver; Millenworks; Mission Critical Support (MCS); MISSIONLINK; Motorfist; MudPro; Mustang; Next Generation Carbon Canister; Next Generation Fuel System; NGCC; NGFS; NightWarden; Odyssey; ONSLAUGHT; Overwatch; Pantera; PDCue; Power Advantage; Premier; Pro-Fit; ProFlight; ProParts; ProPropeller; Prowler; Ransomes; REALCue; REALFeel; Recoil; Relentless; ROCONNECT; RT2; RXV; SABER; Safeaero; Safe-Zone; Scorpion; Shadow; Shadow Knight; Shadow Master; Sherman+Reilly; Skyhawk; Skyhawk SP; Skylane; SkyPLUS; Sno Pro; SnoCross; Sovereign; Speed Punch; Speedrack; Spider; Stampede; Stationair; ST 4X4; Super Cargomaster; Super Medium; SuperCobra; SYMTX; Synturian; TDCue; Team Arctic; Textron; Textron Airborne Solutions; Textron Aviation; Textron Defense Systems; Textron Financial Corporation; Textron GSE; Textron Marine & Land Systems; Textron Off Road; Textron Systems; Thundercat; TI-Metal; TRUESET; TRU Simulation + Training; TRUCKSTER; TTx; TUG; Turbo Skylane; Turbo Stationair; TRV; UH-1Y; Under Dawg; V-Watch; VALOR; Value-Driven MRO Solutions; V-22 Osprey; V-247; V-280; Watchman; Wildcat; Wolverine; ZR; 2FIVE; 206; 407; 407GT; 407GX; 412; 429; 505; 525 and 525 Relentless. These marks and their related trademark designs and logotypes (and variations of the foregoing) are trademarks, trade names or service marks of Textron Inc., its subsidiaries, affiliates or joint ventures.

Environmental Considerations

Our operations are subject to numerous laws and regulations designed to protect the environment. Compliance with these laws and expenditures for environmental control facilities has not had a material effect on our capital expenditures, earnings or competitive position. Additional information regarding environmental matters is contained in Note 14 to the Consolidated Financial Statements on page 66 of this Annual Report on Form 10-K.

We do not believe that existing or pending climate change legislation, regulation, or international treaties or accords are reasonably likely to have a material effect in the foreseeable future on our business or markets nor on our results of operations, capital expenditures or financial position. We will continue to monitor emerging developments in this area.

Employees

At December 30, 2017, we had approximately 37,000 employees.

Executive Officers of the Registrant

The following table sets forth certain information concerning our executive officers as of February 15, 2018.

Name	Age	Current Position with Textron Inc.
Scott C. Donnelly	56	Chairman, President and Chief Executive Officer
Frank T. Connor	58	Executive Vice President and Chief Financial Officer
Julie G. Duffy	52	Executive Vice President, Human Resources
E. Robert Lupone	58	Executive Vice President, General Counsel, Secretary and Chief Compliance Officer

Mr. Donnelly joined Textron in June 2008 as Executive Vice President and Chief Operating Officer and was promoted to President and Chief Operating Officer in January 2009. He was appointed to the Board of Directors in October 2009 and became Chief Executive Officer of Textron in December 2009, at which time the Chief Operating Officer position was eliminated. In July 2010, Mr. Donnelly was appointed Chairman of the Board of Directors effective September 1, 2010. Previously, Mr. Donnelly was the President and CEO of General Electric Company s Aviation business unit, a position he had held since July 2005. GE s Aviation business unit is a leading maker of commercial and military jet engines and components, as well as integrated digital, electric power and mechanical systems for aircraft. Prior to July 2005, Mr. Donnelly served as Senior Vice President of GE Global Research, one of the world s largest and most diversified industrial research organizations with facilities in the U.S., India, China and Germany and held various other management positions since joining General Electric in 1989.

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Mr. Connor joined Textron in August 2009 as Executive Vice President and Chief Financial Officer. Previously, Mr. Connor was head of Telecom Investment Banking at Goldman, Sachs & Co. from 2003 to 2008. Prior to that position, he served as Chief Operating Officer of Telecom, Technology and Media Investment Banking at Goldman, Sachs & Co. from 1998 to 2003. Mr. Connor joined the Corporate Finance Department of Goldman, Sachs & Co. in 1986 and became a Vice President in 1990 and a Managing Director in 1996.

Ms. Duffy was named Executive Vice President, Human Resources in July 2017. Ms. Duffy joined Textron in 1997 as a member of the corporate legal team and has since held positions of increasing responsibility within the Company s legal function, most recently serving as Vice President and Deputy General Counsel-Litigation, a position she had held since 2011. In that role she was responsible for managing the corporate litigation staff with primary oversight of litigation throughout Textron. She has also played an active role in developing, implementing and standardizing human resources policies across the Company and served as the senior legal advisor on employment and benefits issues.

Mr. Lupone joined Textron in February 2012 as Executive Vice President, General Counsel, Secretary and Chief Compliance Officer. Previously, he was senior vice president and general counsel of Siemens Corporation (U.S.) since 1999 and general counsel of Siemens AG for the Americas since 2008. Prior to joining Siemens in 1992, Mr. Lupone was vice president and general counsel of Price Communications Corporation.

Available Information

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

Forward-Looking Information

Certain statements in this Annual Report on Form 10-K and other oral and written statements made by us from time to time are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements, which may describe strategies, goals, outlook or other non-historical matters, or project revenues, income, returns or other financial measures, often include words such as believe, expect, anticipate, intend, plan, estimate, guidance, project, target, potential, will, should, could, li expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results to differ materially from those expressed or implied by such forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update or revise any forward-looking statements. In addition to those factors described herein under Risk Factors, among the factors that could cause actual results to differ materially from past and projected future results are the following:

- Interruptions in the U.S. Government s ability to fund its activities and/or pay its obligations;
- Changing priorities or reductions in the U.S. Government defense budget, including those related to military operations in foreign countries;
- Our ability to perform as anticipated and to control costs under contracts with the U.S. Government;

- The U.S. Government s ability to unilaterally modify or terminate its contracts with us for the U.S. Government s convenience or for our failure to perform, to change applicable procurement and accounting policies, or, under certain circumstances, to withhold payment or suspend or debar us as a contractor eligible to receive future contract awards;

- Changes in foreign military funding priorities or budget constraints and determinations, or changes in government regulations or policies on the export and import of military and commercial products;

- Volatility in the global economy or changes in worldwide political conditions that adversely impact demand for our products;

- Volatility in interest rates or foreign exchange rates;

- Risks related to our international business, including establishing and maintaining facilities in locations around the world and relying on joint venture partners, subcontractors, suppliers, representatives, consultants and other business partners in connection with international business, including in emerging market countries;

- Our Finance segment s ability to maintain portfolio credit quality or to realize full value of receivables;

- Performance issues with key suppliers or subcontractors;

- Legislative or regulatory actions, both domestic and foreign, impacting our operations or demand for our products;

- Our ability to control costs and successfully implement various cost-reduction activities;

- The efficacy of research and development investments to develop new products or unanticipated expenses in connection with the launching of significant new products or programs;

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- The timing of our new product launches or certifications of our new aircraft products;
- Our ability to keep pace with our competitors in the introduction of new products and upgrades with features and technologies desired by our customers;
- Pension plan assumptions and future contributions;
- Demand softness or volatility in the markets in which we do business;
- Cybersecurity threats, including the potential misappropriation of assets or sensitive information, corruption of data or operational disruption;
- Difficulty or unanticipated expenses in connection with integrating acquired businesses;
- The risk that acquisitions do not perform as planned, including, for example, the risk that acquired businesses will not achieve revenues and profit projections; and
- The impact of changes in tax legislation (including the recently enacted Tax Cuts and Jobs Act).

Item 1A. Risk Factors

Our business, financial condition and results of operations are subject to various risks, including those discussed below, which may affect the value of our securities. The risks discussed below are those that we believe currently are the most significant to our business.

We have customer concentration with the U.S. Government; reduction in U.S. Government defense spending may adversely affect our results of operations and financial condition.

During 2017, we derived approximately 22% of our revenues from sales to a variety of U.S. Government entities. Our revenues from the U.S. Government largely result from contracts awarded to us under various U.S. Government defense-related programs. The funding of these programs is subject to congressional appropriation decisions and the U.S. Government budget process which includes enacting relevant legislation, such as appropriations bills and accords on the debt ceiling. Although multiple-year contracts may be planned in connection with major procurements, Congress generally appropriates funds on a fiscal year basis even though a program may continue for several years. Consequently, programs often are only partially funded initially, and additional funds are committed only as Congress makes further appropriations. Further uncertainty with respect to ongoing programs could also result in the event that the U.S. Government finances its operations through temporary funding measures such as continuing resolutions rather than full-year appropriations. If we incur costs in advance or in excess of funds committed on a contract, we are at risk for non-reimbursement of those costs until additional funds are appropriated. The reduction, termination or delay in the timing of funding for U.S. Government programs for which we currently provide or propose to provide products or services may result in a loss of anticipated future revenues that could materially and adversely impact our results of operations and financial condition. Significant changes in national and international policies or priorities for defense spending could impact the funding, or the timing of funding, of our programs, which could negatively impact our results of operations and financial condition.

Under the Budget Control Act of 2011, the U.S. Government committed to significantly reduce the federal deficit over ten years. As a result, long-term funding for various programs in which we participate, as well as future purchasing decisions by our U.S. Government customers, could be reduced, delayed or cancelled. In addition, these cuts could adversely affect the viability of the suppliers and subcontractors under our programs. There are many variables in how these budget cuts could be implemented that make it difficult to determine specific impacts; however, we expect that sequestration, as currently provided for under the Budget Control Act, would result in lower revenues, profits and cash flows for our company. Such circumstances may also result in an impairment of our goodwill and intangible assets. Because our U.S. Government contracts generally require us to continue to perform even if the U.S. Government is unable to make timely payments; if, for example, the debt ceiling is not raised, and, as a result, our customer does not pay us on a timely basis, we may need to finance our continued performance of the impacted contracts from our other resources on an interim basis. An extended delay in the timely payment by the U.S. Government could result in a material adverse effect on our cash flows, results of operations and financial condition.

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

The U.S. Government typically can terminate or modify any of its contracts with us either for its convenience or if we default by failing to perform under the terms of the applicable contract. In the event of termination for the U.S. Government s convenience, contractors are generally protected by provisions covering reimbursement for costs incurred on the contracts and profit on those costs but not the anticipated profit that would have been earned had the contract been completed. A termination arising out of our default for failure to perform could expose us to liability, including but not limited to, all costs incurred under the contract plus potential liability for re-procurement costs in excess of the total original contract amount, less the value of work performed and accepted by the customer under the contract. Such an event could also have an adverse effect on our ability to compete for future contracts and orders. If any of our contracts are terminated by the U.S. Government whether for convenience or default, our backlog and anticipated revenues would be reduced by the expected value of the remaining work under such contracts. We also enter into fee for service contracts with the U.S. Government where we retain ownership of, and consequently the risk of loss on, aircraft

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and equipment supplied to perform under these contracts. Termination of these contracts could materially and adversely impact our results of operations. On contracts for which we are teamed with others and are not the prime contractor, the U.S. Government could terminate a prime contract under which we are a subcontractor, irrespective of the quality of our products and services as a subcontractor. In addition, in the event that the U.S. Government is unable to make timely payments, failure to continue contract performance places the contractor at risk of termination for default. Any such event could result in a material adverse effect on our cash flows, results of operations and financial condition.

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

We must comply with and are affected by laws and regulations relating to the formation, administration and performance of U.S. Government contracts. These laws and regulations, among other things, require certification and disclosure of all cost and pricing data in connection with contract negotiation, define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. Government contracts, and safeguard and restrict the use and dissemination of classified information, covered defense information, and the exportation of certain products and technical data. New laws, regulations or procurement requirements or changes to current ones (including, for example, regulations related to cybersecurity) can significantly increase our costs and risks and reduce our profitability. Our failure to comply with procurement regulations and requirements could allow the U.S. Government to suspend or debar us from receiving new contracts for a period of time, reduce the value of existing contracts, issue modifications to a contract, withhold cash on contract payments, and control and potentially prohibit the export of our products, services and associated materials, any of which could negatively impact our results of operations, financial condition or liquidity. A number of our U.S. Government contracts contain provisions that require us to make disclosure to the Inspector General of the agency that is our customer if we have credible evidence that we have violated U.S. criminal laws involving fraud, conflict of interest, or bribery; the U.S. civil False Claims Act; or received a significant overpayment under a U.S. Government contract. Failure to properly and timely make disclosures under these provisions may result in a termination for default or cause, suspension and/or debarment, and potential fines.

As a U.S. Government contractor, our businesses and systems are subject to audit and review by the Defense Contract Audit Agency (DCAA) and the Defense Contract Management Agency (DCMA).

We operate in a highly regulated environment and are routinely audited and reviewed by the U.S. Government and its agencies such as DCAA and DCMA. These agencies review our performance under contracts, our cost structure and our compliance with laws and regulations applicable to U.S. Government contractors. The systems that are subject to review include, but are not limited to, our accounting, estimating, material management and accounting, earned value management, purchasing and government property systems. If an audit uncovers improper or illegal activities we may be subject to civil and criminal penalties and administrative sanctions that may include the termination of our contracts, forfeiture of profits, suspension of payments, fines, and, under certain circumstances, suspension or debarment from future contracts for a period of time. Whether or not illegal activities are alleged, the U.S. Government also has the ability to decrease or withhold certain payments when it deems systems subject to its review to be inadequate. These laws and regulations affect how we conduct business with our government customers and, in some instances, impose added costs on our business.

The use of multi-award contracts by the U.S. Government may increase competition and pricing pressure.

The U.S. Government increasingly relies upon competitive contract award types, including indefinite-delivery, indefinite-quantity and multi-award contracts, which have the potential to create greater competition and increased pricing pressure, as well as to increase our cost by requiring that we submit multiple bids. In addition, multi-award contracts require that we make sustained efforts to obtain task orders and delivery orders under the contract. Further, the competitive bidding process is costly and demands managerial time to prepare bids and proposals for contracts that may not be awarded to us or may be split among competitors.

Our profitability and cash flow may vary depending on the mix of our government contracts and our ability to control costs.

Under fixed-price contracts, generally we receive a fixed price irrespective of the actual costs we incur, and, consequently, any costs in excess of the fixed price are absorbed by us. Changes in underlying assumptions, circumstances or estimates used in developing the pricing for such contracts may adversely affect our results of operations. Additionally, fixed-price contracts may require progress payments rather than performance based payments which can delay our ability to recover a significant amount of costs incurred on a contract and thus affect the timing of our cash flows. Fixed-price incentive-based fee arrangements provide that allowable costs incurred are reimbursable but are subject to a cost-share which could negatively impact our profitability. Under time and materials contracts, we are paid for labor at negotiated hourly billing rates and for certain expenses. Under cost-reimbursement contracts that are subject to a contract-ceiling amount, we are reimbursed for allowable costs and paid a fee, which may be fixed or performance based, however, if our costs exceed the contract ceiling or are not allowable under the provisions of the contract or applicable regulations, we may not be able to obtain reimbursement for all such costs. Under each type of contract, if we are unable to control costs incurred in performing under the contract, our cash flows, results of operations and financial condition could be adversely affected. Cost overruns also may adversely affect our ability to sustain existing programs and obtain future contract awards.

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Demand for our aircraft products is cyclical and could adversely affect our financial results.

Demand for business jets, turbo props and commercial helicopters has been cyclical and difficult to forecast. Therefore, future demand for these products could be significantly and unexpectedly less than anticipated and/or less than previous period deliveries. Similarly, there is uncertainty as to when or whether our existing commercial backlog for aircraft products will convert to revenues as the conversion depends on production capacity, customer needs and credit availability. Changes in economic conditions may cause customers to request that firm orders be rescheduled or cancelled. Reduced demand for our aircraft products or delays or cancellations of orders could result in a material adverse effect on our cash flows, results of operations and financial condition.

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

We may enter into acquisitions in an effort to expand our business and enhance shareholder value. Acquisitions involve risks and uncertainties that could result in our not achieving expected benefits. Such risks include difficulties in integrating newly acquired businesses and operations in an efficient and cost-effective manner; challenges in achieving expected strategic objectives, cost savings and other benefits; the risk that the acquired businesses markets do not evolve as anticipated and that the acquired businesses products and technologies do not prove to be those needed to be successful in those markets; the risk that our due diligence reviews of the acquired business do not identify or adequately assess all of the material issues which impact valuation of the business or that may result in costs or liabilities in excess of what we anticipated; the risk that we pay a purchase price that exceeds what the future results of operations would have merited; the risk that the acquired business may have significant internal control deficiencies or exposure to regulatory sanctions; and the potential loss of key customers, suppliers and employees of the acquired businesses. In addition, unanticipated delays or difficulties in effecting acquisitions may prevent the consummation of the acquisition or divert the attention of our management and resources from our existing operations.

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

A key determinant of the financial performance of our Finance segment is the quality of loans, leases and other assets in its portfolio. Portfolio quality may be adversely affected by several factors, including finance receivable underwriting procedures, collateral value, geographic or industry concentrations, and the effect of general economic conditions. In addition, a substantial number of the new originations in our finance receivable portfolio are cross-border transactions for aircraft sold outside of the U.S. Cross-border transactions present additional challenges and risks in realizing upon collateral in the event of borrower default, which may result in difficulty or delay in collecting on the related finance receivables. If our Finance segment has difficulty successfully collecting its finance receivable portfolio, our cash flow, results of operations and financial condition could be adversely affected.

We may need to obtain financing in the future; such financing may not be available to us on satisfactory terms, if at all.

We may periodically need to obtain financing in order to meet our debt obligations as they come due, to support our operations and/or to make acquisitions. Our access to the debt capital markets and the cost of borrowings are affected by a number of factors including market conditions and the strength of our credit ratings. If we cannot obtain adequate sources of credit on favorable terms, or at all, our business, operating results, and financial condition could be adversely affected.

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

We rely on other companies to provide raw materials, major components and subsystems for our products. Subcontractors also perform services that we provide to our customers in certain circumstances. We depend on these suppliers and subcontractors to meet our contractual obligations to our customers and conduct our operations. Our ability to meet our obligations to our customers may be adversely affected if suppliers or subcontractors do not provide the agreed-upon supplies or perform the agreed-upon services in compliance with customer requirements and in a timely and cost-effective manner. Likewise, the quality of our products may be adversely impacted if companies to whom we delegate manufacture of major components or subsystems for our products, or from whom we acquire such items, do not provide components or subsystems which meet required specifications and perform to our and our customers expectations. Our suppliers may be less likely than us to be able to quickly recover from natural disasters and other events beyond their control and may be subject to additional risks such as financial problems that limit their ability to conduct their operations. The risk of these adverse effects may be greater in circumstances where we rely on only one or two subcontractors or suppliers for a particular raw material, product or service. In particular, in the aircraft industry, most vendor parts are certified by the regulatory agencies as part of the overall Type Certificate for the aircraft being produced by the manufacturer. If a vendor does not or cannot supply its parts, then the manufacturer s production line may be stopped until the manufacturer can design, manufacture and certify a similar part itself or identify and certify another similar vendor s part, resulting in significant delays in the completion of aircraft. Such events may adversely affect our financial results, damage our reputation and relationships with our customers, and result in regulatory actions and/or litigation.

Our business could be negatively impacted by information technology disruptions and security threats.

Our information technology (IT) and related systems are critical to the smooth operation of our business and essential to our ability to perform day to day operations. From time to time, we update and/or replace IT systems used by our businesses. The implementation of new systems can present temporary disruptions of business activities as existing processes are transitioned to the new systems, resulting in productivity issues, including delays in production, shipments or other business operations. In addition, we outsource certain support functions, including certain global IT infrastructure services, to third-party service providers. Any disruption of such outsourced processes or functions also could have a material adverse impact on our operations. In addition, as a U.S. defense contractor, we face certain security threats, including threats to our IT infrastructure, unlawful attempts to gain access to our information and threats to the physical security of our facilities and employees, as do our customers, suppliers, subcontractors and joint venture partners. Cybersecurity threats, such as malicious software, attempts to gain unauthorized access to our confidential, classified or otherwise proprietary information or that of our employees or customers, as well as other security breaches, are persistent, continue to evolve and require highly skilled IT resources. While we have experienced cybersecurity attacks, we have not suffered any material losses relating to such attacks, and we believe our threat detection and mitigation processes and procedures are robust. Due to the evolving nature of these security threats, the possibility of future material incidents cannot be completely mitigated. Future attacks or breach of data security, whether of our systems or the systems of our service providers or other third parties who may have access to our data for business purposes, could disrupt our operations, cause the loss of business information or compromise confidential information, exposing us to liability or regulatory action. Such an incident also could require significant management attention and resources, increase costs, which may not be covered by insurance, and result in reputational damage, potentially adversely affecting our competitiveness and our results of operations.

Developing new products and technologies entails significant risks and uncertainties.

To continue to grow our revenues and segment profit, we must successfully develop new products and technologies or modify our existing products and technologies for our current and future markets. Our future performance depends, in part, on our ability to identify emerging technological trends and customer requirements and to develop and maintain competitive products and services. Delays or cost overruns in the development and acceptance of new products, or certification of new aircraft and other products, could affect our results of operations. These delays could be caused by unanticipated technological hurdles, production changes to meet customer demands, unanticipated difficulties in obtaining required regulatory certifications of new aircraft or other products, coordination with joint venture partners or failure on the part of our suppliers to deliver components as agreed. We also could be adversely affected if our research and development investments are less successful than expected or if we do not adequately protect the intellectual property developed through these efforts. Likewise, new products and technologies could generate unanticipated safety or other concerns resulting in expanded product liability risks, potential product recalls and other regulatory issues that could have an adverse impact on us. Furthermore, because of the lengthy research and development cycle involved in bringing certain of our products to market, we cannot predict the economic conditions that will exist when any new product is complete. A reduction in capital spending in the aerospace or defense industries could have a significant effect on the demand for new products and technologies under development, which could have an adverse effect on our financial condition and results of operations. In addition, our investments in equipment or technology that we believe will enable us to obtain future service contracts for our U.S. Government or other customers may not result in contracts or revenues sufficient to offset such investment. The market for our product offerings may not develop or continue to expand as we currently anticipate. Furthermore, we cannot be sure that our competitors will not develop competing technologies which gain superior market acceptance compared to our products. A significant failure in our new product development efforts or the failure of our products or services to achieve market acceptance relative to our competitors products or services could have an adverse effect on our financial condition and results of operations.

We are subject to the risks of doing business in foreign countries.

During 2017, we derived approximately 38% of our revenues from international business, including U.S. exports, and we expect international revenues to continue to increase. Conducting business internationally exposes us to additional risks than if we conducted our business solely within the U.S. We maintain manufacturing facilities, service centers, supply centers and other facilities worldwide, including in various emerging market countries. We also have entered into, and expect to continue to enter into, joint venture arrangements in emerging market countries, some of which may require capital investment, guaranties or other commitments. Risks related to international operations include import, export and other trade restrictions; changing U.S. and foreign procurement policies and practices; restrictions on technology transfer; difficulties in protecting intellectual property; increasing complexity of employment and environmental, health and safety regulations; foreign investment laws; exchange controls; repatriation of earnings or cash settlement challenges, competition from foreign and multinational firms with home country advantages; economic and government instability, acts of terrorism and related safety concerns. The impact of any one or more of these or other factors could adversely affect our business, financial condition or operating results.

Additionally, some international government customers require contractors to agree to specific in-country purchases, technology transfers, manufacturing agreements or financial support arrangements, known as offsets, as a condition for a contract award. The contracts generally extend over several years and may include penalties if we fail to perform in accordance with the offset requirements which are often subjective. We also are exposed to risks associated with using foreign representatives and consultants for international sales and operations and teaming with international subcontractors and suppliers in connection with international programs. In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by laws and regulations applicable to us, such as the Foreign Corrupt Practices Act. Although we maintain policies and procedures designed to facilitate compliance with these laws, a violation of such laws by any of our international representatives,

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consultants, joint ventures, business partners, subcontractors or suppliers, even if prohibited by our policies, could have an adverse effect on our business and reputation.

We are subject to increasing compliance risks that could adversely affect our operating results.

As a global business, we are subject to laws and regulations in the U.S. and other countries in which we operate. Our increased focus on international sales and global operations requires importing and exporting goods and technology, some of which have military applications subjecting them to more stringent import-export controls across international borders on a regular basis. For example, we sometimes initially must obtain licenses and authorizations from various U.S. Government agencies before we are permitted to sell certain of our aerospace and defense products outside the U.S. Both U.S. and foreign laws and regulations applicable to us have been increasing in scope and complexity. For example, both U.S. and foreign governments and government agencies regulate the aviation industry, and they may impose new regulations with additional aircraft security or other requirements or restrictions, including, for example, restrictions and/or fees related to carbon emissions levels. Changes in environmental and climate change laws and regulations, including laws relating to greenhouse gas emissions, could lead to the necessity for new or additional investment in product designs or manufacturing processes and could increase environmental compliance expenditures, including costs to defend regulatory reviews. New or changing laws and regulations or related interpretation and policies could increase our costs of doing business, affect how we conduct our operations, adversely impact demand for our products, and/or limit our ability to sell our products and services. Compliance with laws and regulations of increasing scope and complexity is even more challenging in our current business environment in which reducing our operating costs is often necessary to remain competitive. In addition, a violation of U.S. and/or foreign laws by one of our employees or business partners could subject us or our employees to civil or criminal penalties, including material monetary fines, or other adverse actions, such as denial of import or export privileges and/or debarment as a government contractor which could damage our reputation and have an adverse effect on our business.

We are subject to legal proceedings and other claims.

We are subject to legal proceedings and other claims arising out of the conduct of our business, including proceedings and claims relating to commercial and financial transactions; government contracts; alleged lack of compliance with applicable laws and regulations; production partners; product liability; patent and trademark infringement; employment disputes; and environmental, safety and health matters. Due to the nature of our manufacturing business, we may be subject to liability claims arising from accidents involving our products, including claims for serious personal injuries or death caused by weather or by pilot, driver or user error. In the case of litigation matters for which reserves have not been established because the loss is not deemed probable, it is reasonably possible that such claims could be decided against us and could require us to pay damages or make other expenditures in amounts that are not presently estimable. In addition, we cannot be certain that our reserves are adequate and that our insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, we may not be able to obtain insurance coverage at acceptable levels and costs in the future. Litigation is inherently unpredictable, and we could incur judgments, receive adverse arbitration awards or enter into settlements for current or future claims that could adversely affect our financial position or our results of operations in any particular period.

Intellectual property infringement claims of others and the inability to protect our intellectual property rights could harm our business and our customers.

Intellectual property infringement claims may be asserted by third parties against us or our customers. Any related indemnification payments or legal costs we may be obliged to pay on behalf of our businesses, our customers or other third parties could be costly. In addition, we own the rights to many patents, trademarks, brand names, trade names and trade secrets that are important to our business. The inability to enforce these intellectual property rights may have an adverse effect on our results of operations. Additionally, our intellectual property could be at risk due to various cybersecurity threats.

Certain of our products are subject to laws regulating consumer products and could be subject to repurchase or recall as a result of safety issues.

As a distributor of consumer products in the U.S., certain of our products also are subject to the Consumer Product Safety Act, which empowers the U.S. Consumer Product Safety Commission (CPSC) to exclude from the market products that are found to be unsafe or hazardous. Under certain circumstances, the CPSC could require us to repair, replace or refund the purchase price of one or more of our products, or potentially even discontinue entire product lines, or we may voluntarily do so, but within strictures recommended by the CPSC. The CPSC also can impose fines or penalties on a manufacturer for non-compliance with its requirements. Furthermore, failure to timely notify the CPSC of a potential safety hazard can result in significant fines being assessed against us. Any repurchases or recalls of our products or an imposition of fines or penalties could be costly to us and could damage the reputation or the value of our brands. Additionally, laws regulating certain consumer products exist in some states, as well as in other countries in which we sell our products, and more restrictive laws and regulations may be adopted in the future.

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

Our earnings and cash flow may be adversely impacted by the amount of income or expense we expend or record for employee benefit plans. This is particularly true for our defined benefit pension plans, where required contributions to those plans and related expenses are driven by, among other things, our assumptions of the expected long-term rate of return on plan assets, the discount rate used for future payment obligations and the rates of future cost growth. Additionally, as part of our annual evaluation of these plans, significant changes in our assumptions, due to changes in economic, legislative and/or demographic experience or circumstances, or changes in our actual investment returns could negatively impact the funded status of our plans requiring us to substantially increase our pension liability with a resulting decrease in shareholders equity. Also, changes in pension legislation and regulations could increase the cost associated with our defined benefit pension plans.

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

Approximately 7,200, or 27%, of our U.S. employees are unionized, and many of our non-U.S. employees are represented by organized councils. As a result, we may experience work stoppages, which could negatively impact our ability to manufacture our products on a timely basis, resulting in strain on our relationships with our customers and a loss of revenues. The presence of unions also may limit our flexibility in responding to competitive pressures in the marketplace. In addition, the workforces of many of our suppliers and customers are represented by labor unions. Work stoppages or strikes at the plants of our key suppliers could disrupt our manufacturing processes; similar actions at the plants of our customers could result in delayed or canceled orders for our products. Any of these events could adversely affect our results of operations.

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

We are exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates, raw material prices and interest rates. Currency variations also contribute to variations in sales of products and services in impacted jurisdictions. Accordingly, fluctuations in foreign currency rates could adversely affect our profitability in future periods. We monitor and manage these exposures as an integral part of our overall risk management program. In some cases, we purchase derivatives or enter into contracts to insulate our results of operations from these fluctuations. Nevertheless, changes in currency exchange rates, raw material prices and interest rates can have substantial adverse effects on our results of operations.

We may be unable to effectively mitigate pricing pressures.

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

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

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

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017 and significantly changed U.S. income tax law. We have made provisional estimates of the impact of the Act on the remeasurement of our net deferred tax assets and the one-time transition tax in 2017. However, the financial reporting effects of the Act are complex and are subject to change as guidance interpreting the Act is issued. The effect of such guidance, as well as any additional tax reform legislation in the United States or elsewhere, could adversely affect our effective tax rate, have a material impact on the value of our deferred tax assets or increase our future U.S. tax expense.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

On December 30, 2017, we operated a total of 63 plants located throughout the U.S. and 52 plants outside the U.S. We own 61 plants and lease the remainder for a total manufacturing space of approximately 24.6 million square feet. We consider the productive capacity of the plants operated by each of our business segments to be adequate. We also own or lease offices, warehouses, training and service centers and other space at various locations. In general, our facilities are in good condition, are considered to be adequate for the uses to which they are being put and are substantially in regular use.

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Item 3. Legal Proceedings

As previously reported in Textron s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, on February 7, 2012, a lawsuit was filed in the United States Bankruptcy Court, Northern District of Ohio, Eastern Division (Akron) by Brian A. Bash, Chapter 7 Trustee for Fair Finance Company against TFC, Fortress Credit Corp. and Fair Facility I, LLC. TFC provided a revolving line of credit of up to $17.5 million to Fair Finance Company from 2002 through 2007. The complaint alleges numerous counts against TFC, as Fair Finance Company s working capital lender, including receipt of fraudulent transfers and assisting in fraud perpetrated on Fair Finance investors. The Trustee seeks avoidance and recovery of alleged fraudulent transfers in the amount of $316 million as well as damages of $223 million on the other claims. The Trustee also seeks trebled damages on all claims under Ohio law. On November 9, 2012, the Court dismissed all claims against TFC. The trustee appealed, and on August 23, 2016, the 6th Circuit Court of Appeals reversed the dismissal in part and remanded certain claims back to the trial court. We are vigorously defending this lawsuit.

We also are subject to actual and threatened legal proceedings and other claims arising out of the conduct of our business, including proceedings and claims relating to commercial and financial transactions; government contracts; alleged lack of compliance with applicable laws and regulations; production partners; product liability; patent and trademark infringement; employment disputes; and environmental, health and safety matters. Some of these legal proceedings and claims seek damages, fines or penalties in substantial amounts or remediation of environmental contamination. As a government contractor, we are subject to audits, reviews and investigations to determine whether our operations are being conducted in accordance with applicable regulatory requirements. Under federal government procurement regulations, certain claims brought by the U.S. Government could result in our suspension or debarment from U.S. Government contracting for a period of time. On the basis of information presently available, we do not believe that existing proceedings and claims will have a material effect on our financial position or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

The principal market on which our common stock is traded is the New York Stock Exchange under the symbol TXT. At December 30, 2017, there were approximately 8,800 record holders of Textron common stock. The high and low sales prices per share of our common stock as reported on the New York Stock Exchange and the dividends paid per share are provided in the following table:

	2017			2016		
	High	Low	Dividends per Share	High	Low	Dividends per Share

First quarter	$	50.93$	43.66$	0.02$	41.74$	30.69$	0.02
Second quarter		48.67	45.00	0.02	40.61	34.00	0.02
Third quarter		54.07	47.00	0.02	41.33	35.06	0.02
Fourth quarter		57.71	51.07	0.02	49.82	37.19	0.02

Issuer Repurchases of Equity Securities

The following provides information about our fourth quarter 2017 repurchases of equity securities that are registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended:

Period *(shares in thousands)*	**Total Number of Shares Purchased ***	**Average Price Paid per Share (excluding commissions)**	**Total Number of Shares Purchased as part of Publicly Announced Plan ***	**Maximum Number of Shares that may yet be Purchased under the Plan**
October 1, 2017 November 4, 2017	740	$ 53.44	740	14,767
November 5, 2017 December 2, 2017	860	53.52	860	13,907
December 3, 2017 December 30, 2017	825	55.55	825	13,082
Total	2,425	$ 54.19	2,425	

** These shares were purchased pursuant to a plan authorizing the repurchase of up to 25 million shares of Textron common stock that had been announced on January 25, 2017. This plan has no expiration date.*

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Stock Performance Graph

The following graph compares the total return on a cumulative basis at the end of each year of $100 invested in our common stock on December 31, 2012 with the Standard & Poor s (S&P) 500 Stock Index, the S&P 500 Aerospace & Defense (A&D) Index and the S&P 500 Industrials Index, all of which include Textron. The values calculated assume dividend reinvestment.

	2012	2013	2014	2015	2016	2017
Textron Inc.	$ 100.00	$ 148.69	$ 170.68	$ 170.59	$ 197.59	$ 230.63
S&P 500	100.00	132.39	150.51	152.59	170.84	208.14
S&P 500 A&D	100.00	154.92	172.63	182.01	216.42	305.97
S&P 500 Industrials	100.00	131.64	147.91	152.19	167.59	205.41

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Item 6. Selected Financial Data

(Dollars in millions, except per share amounts)		2017	2016	2015	2014	2013
Revenues						
Textron Aviation	$	4,686$	4,921$	4,822$	4,568$	2,784
Bell		3,317	3,239	3,454	4,245	4,511
Textron Systems		1,840	1,756	1,520	1,624	1,665
Industrial		4,286	3,794	3,544	3,338	3,012
Finance		69	78	83	103	132
Total revenues	$	14,198$	13,788$	13,423$	13,878$	12,104
Segment profit						
Textron Aviation (a)	$	303$	389$	400$	234$	(48)
Bell		415	386	400	529	573
Textron Systems		139	186	129	150	147
Industrial		290	329	302	280	242
Finance		22	19	24	21	49
Total segment profit		1,169	1,309	1,255	1,214	963
Corporate expenses and other, net		(132)	(172)	(154)	(161)	(166)
Interest expense, net for Manufacturing group		(145)	(138)	(130)	(148)	(123)
Special charges (b)		(130)	(123)		(52)	
Income tax expense (c)		(456)	(33)	(273)	(248)	(176)
Income from continuing operations	$	306$	843$	698$	605$	498
Earnings per share						
Basic earnings per share continuing operations	$	1.15$	3.11$	2.52$	2.17$	1.78
Diluted earnings per share continuing operations	$	1.14$	3.09$	2.50$	2.15$	1.75
Basic average shares outstanding (*in thousands)*		266,380	270,774	276,682	279,409	279,299
Diluted average shares outstanding (*in thousands)*		268,750	272,365	278,727	281,790	284,428
Common stock information						
Dividends declared per share	$	0.08$	0.08$	0.08$	0.08$	0.08
Book value at year-end	$	21.60$	20.62$	18.10$	15.45$	15.54
Price at year-end	$	56.59$	48.56$	42.01$	42.17$	36.61
Financial position						
Total assets	$	15,340$	15,358$	14,708$	14,605$	12,944
Manufacturing group debt	$	3,088$	2,777$	2,697$	2,811$	1,931
Finance group debt	$	824$	903$	913$	1,063$	1,256
Shareholders equity	$	5,647$	5,574$	4,964$	4,272$	4,384
Manufacturing group debt-to-capital (net of cash)		26%	23%	26%	33%	15%
Manufacturing group debt-to-capital		35%	33%	35%	40%	31%
Investment data						
Capital expenditures	$	423$	446$	420$	429$	444
Manufacturing group depreciation	$	362$	368$	383$	379$	335

(a) Segment profit included amortization of $12 million and $63 million in 2015 and 2014, respectively, related to fair value step-up adjustments of Beechcraft acquired inventories sold during the period.

(b) Special charges included $90 million and $123 million in 2017 and 2016, respectively, related to our 2016 restructuring plan. We also recorded special charges of $40 million in 2017 related to the Arctic Cat acquisition, which included restructuring, integration and transaction costs. For 2014, special charges included acquisition and restructuring costs related to the acquisition of Beechcraft.

(c) Income tax expense for 2017 included a $266 million charge to reflect our provisional estimate of the net impact of the Tax Cuts and Jobs Act, which was enacted on December 22, 2017. In 2016, we recognized an income tax benefit of $319 million, inclusive of interest, of which $206 million is attributable to continuing operations and $113 million is attributable to discontinued operations. This benefit was a result of the final settlement with the Internal Revenue Service Office of Appeals for our 1998 to 2008 tax years.

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

Overview and Consolidated Results of Operations

During 2017, we maintained focus on investing in our businesses through continued development of new products and services. We also completed the strategic acquisition of Arctic Cat, a platform to expand and grow our Textron Specialized Vehicles business. In addition, we continued to take cost reduction actions through the execution of our restructuring plans and integration activities in order to realign our businesses, improve overall operating efficiency and better position our businesses for the future. All of these activities support our overall strategy of long-term growth and expansion of our product portfolio and the creation of long-term shareholder value. Financial highlights of 2017 include the following:

- Generated $947 million in cash from operating activities of our manufacturing businesses, net of a $300 million discretionary contribution to fund a U.S. pension plan.
- Invested $634 million in research and development activities, $423 million in capital expenditures and $316 million for the acquisition of Arctic Cat.
- Returned $603 million to our shareholders through share repurchases and dividend payments.
- Continued execution of our 2016 restructuring plan and the restructuring and integration of the Arctic Cat acquisition, resulting in special charges of $130 million.

An analysis of our consolidated operating results is set forth below. A more detailed analysis of our segments operating results is provided in the Segment Analysis section on pages 21 to 28.

Revenues

				% Change	
(Dollars in millions)	**2017**	**2016**	**2015**	**2017**	**2016**
Revenues	$ 14,198	$ 13,788	$ 13,423	3%	3%

Revenues increased $410 million, 3%, in 2017, compared with 2016, largely driven by increases in the Industrial, Textron Systems and Bell segments, partially offset by lower revenues at the Textron Aviation segment. The net revenue increase included the following factors:

- Higher Industrial revenues of $492 million, primarily due to the impact from the acquisition of Arctic Cat described in the Segment Analysis section below.

- Higher Textron Systems revenues of $84 million, primarily due to higher volume of $176 million in the Marine and Land Systems product line, partially offset by lower volume in the other products lines.

- Higher Bell revenues of $78 million, primarily due to an increase in commercial revenues of $89 million, largely reflecting higher commercial aircraft deliveries.

- Lower Textron Aviation revenues of $235 million, primarily due to lower volume and mix of $307 million, largely the result of lower military and commercial turboprop volume.

Revenues increased $365 million, 3%, in 2016, compared with 2015, largely driven by increases in the Industrial, Textron Systems and Textron Aviation segments, partially offset by lower revenues at the Bell segment. The net revenue increase included the following factors:

- Higher Industrial revenues of $250 million, primarily due to higher volume of $168 million, largely in the Fuel Systems and Functional Components product line, and the impact from acquired businesses of $121 million.

- Higher Textron Systems revenues of $236 million, primarily due to higher volume of $106 million in the Marine and Land Systems product line and $77 million in the Unmanned Systems product line.

- Higher Textron Aviation revenues of $99 million, primarily due to the impact from an acquired business of $66 million and higher volume and mix of $42 million, largely the result of higher Citation jet volume of $165 million, partially offset by lower commercial turboprop volume.

- Lower Bell revenues of $215 million, primarily due to a decrease in commercial revenues of $269 million, largely reflecting lower commercial aircraft deliveries.

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Cost of Sales and Selling and Administrative Expense

					% Change	
(Dollars in millions)		**2017**	**2016**	**2015**	**2017**	**2016**
Cost of sales	$	11,795$	11,311$	10,979	4%	3%
Gross margin as a percentage of Manufacturing revenues		16.5%	17.5%	17.7%		
Selling and administrative expense	$	1,337$	1,304$	1,304	3%	

In 2017, cost of sales increased $484 million, 4%, and selling and administrative expense increased $33 million, 3%, compared with 2016, primarily due to an increase from acquired businesses, largely Arctic Cat. Gross margin as a percentage of Manufacturing revenues decreased 100 basis points from 2016, primarily due to lower margins at the Textron Systems segment, largely reflecting an unfavorable impact from net program adjustments, and the Industrial segment, which included the impact from the Arctic Cat acquisition.

Cost of sales increased $332 million, 3%, in 2016, compared with 2015, largely due to higher volume at the Textron Systems, Industrial and Textron Aviation segments, and an increase from acquired businesses. These increases were partially offset by lower volume at the Bell segment and favorable cost performance across all of our manufacturing segments.

Interest Expense

					% Change	
(Dollars in millions)		**2017**	**2016**	**2015**	**2017**	**2016**
Interest expense	$	174$	174$	169		3%

Interest expense on the Consolidated Statements of Operations includes interest for both the Finance and Manufacturing borrowing groups with interest related to intercompany borrowings eliminated. Interest expense for the Finance segment is included within segment profit and includes intercompany interest. Consolidated interest expense increased $5 million in 2016, compared with 2015, primarily due to higher average debt outstanding.

Special Charges

In 2016, we initiated a plan to restructure and realign our businesses by implementing headcount reductions, facility consolidations and other actions in order to improve overall operating efficiency across Textron. Under this plan, Textron Systems discontinued production of its sensor-fuzed weapon product within its Weapons and Sensors operating unit, we combined our Jacobsen business with the Textron Specialized Vehicles business by consolidating facilities and general and administrative functions, and we reduced headcount at Textron Aviation, as well as other businesses and corporate functions. In December 2017, we decided to take additional restructuring actions to further consolidate operating facilities and streamline product lines, primarily within the Bell, Textron Systems and Industrial segments, which resulted in additional special charges of $45 million in the fourth quarter of 2017. We recorded total special charges of $213 million since the inception of the 2016 plan, which included $97 million of severance costs,

$84 million of asset impairments and $32 million in contract terminations and other costs. Of these amounts, $83 million was incurred at Textron Systems, $63 million at Textron Aviation, $38 million at Industrial, $28 million at Bell and $1 million at Corporate. The total headcount reduction under this plan is expected to be approximately 2,100 positions, representing 5% of our workforce.

In connection with the acquisition of Arctic Cat, as discussed in Note 2 to the Consolidated Financial Statements, we initiated a restructuring plan in the first quarter of 2017 to integrate this business into our Textron Specialized Vehicles business within the Industrial segment and reduce operating redundancies and maximize efficiencies. Under the Arctic Cat plan, we recorded restructuring charges of $28 million in 2017, which included $19 million of severance costs, largely related to change-of-control provisions, and $9 million of contract termination and other costs. In addition, we recorded $12 million of acquisition-related integration and transaction costs in 2017.

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Special charges recorded for these plans are as follows:

(In millions)		Severance Costs	Asset Impairments	Contract Terminations and Other	Acquisition Integration/ Transaction Costs	Total Special Charges
2017						
Industrial	$	26$	1$	19$	12$	58
Textron Aviation		11	17			28
Bell		3	12	8		23
Textron Systems		6	16	(1)		21
Total	$	46$	46$	26$	12$	130
2016						
Industrial	$	17$	2$	1$	$	20
Textron Aviation		33	1	1		35
Bell		4	1			5
Textron Systems		15	34	13		62
Corporate		1				1
Total	$	70$	38$	15$	$	123

Income Taxes

	2017	2016	2015
Effective tax rate	59.8%	3.8%	28.1%

In 2017, our effective tax rate was significantly higher than the U.S. federal statutory tax rate of 35%, largely due to the impact from the Tax Cuts and Jobs Act (the Act). In the fourth quarter of 2017, we recorded a provisional estimate of $266 million for one-time adjustments resulting from the Act. Approximately $154 million of this provisional estimate represents a charge resulting from the remeasurement of our U.S. federal deferred tax assets and liabilities, and the remainder represents a provision for the transition tax on post-1986 earnings and profits previously deferred from U.S. income taxes. In addition, the Act reduces the U.S. federal corporate tax rate from 35% to 21%, which is expected to lower our effective tax rate for 2018 and future years.

In 2016, our effective tax rate was significantly lower than the U.S. federal statutory tax rate of 35%, largely due to a settlement with the U.S. Internal Revenue Service Office of Appeals for our 1998 to 2008 tax years. This settlement resulted in a $206 million benefit recognized in continuing operations and a $113 million benefit in discontinued operations.

For a full reconciliation of our effective tax rate to the U.S. federal statutory tax rate of 35% see Note 13 to the Consolidated Financial Statements.

Segment Analysis

We operate in, and report financial information for, the following five business segments: Textron Aviation, Bell, Textron Systems, Industrial and Finance. Segment profit is an important measure used for evaluating performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense, certain corporate expenses and special charges. The measurement for the Finance segment includes interest income and expense along with intercompany interest income and expense.

In our discussion of comparative results for the Manufacturing group, changes in revenues and segment profit typically are expressed for our commercial business in terms of volume, pricing, foreign exchange and acquisitions. Additionally, changes in segment profit may be expressed in terms of mix, inflation and cost performance. Volume changes in revenues represent increases/decreases in the number of units delivered or services provided. Pricing represents changes in unit pricing. Foreign exchange is the change resulting from translating foreign-denominated amounts into U.S. dollars at exchange rates that are different from the prior period. Revenues generated by acquired businesses are reflected in Acquisitions for a twelve-month period. For segment profit, mix represents a change due to the composition of products and/or services sold at different profit margins. Inflation represents higher material, wages, benefits, pension or other costs. Performance reflects an increase or decrease in research and development, depreciation, selling and administrative costs, warranty, product liability, quality/scrap, labor efficiency, overhead, product line profitability, start-up, ramp up and cost-reduction initiatives or other manufacturing inputs.

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Approximately 22% of our 2017 revenues were derived from contracts with the U.S. Government. For our segments that have significant contracts with the U.S. Government, we typically express changes in segment profit related to the government business in terms of volume, changes in program performance or changes in contract mix. Changes in volume that are described in net sales typically drive corresponding changes in our segment profit based on the profit rate for a particular contract. Changes in program performance typically relate to profit recognition associated with revisions to total estimated costs at completion that reflect improved or deteriorated operating performance or award fee rates. Changes in contract mix refers to changes in operating margin due to a change in the relative volume of contracts with higher or lower fee rates such that the overall average margin rate for the segment changes.

Textron Aviation

					% Change	
(Dollars in millions)		**2017**	**2016**	**2015**	**2017**	**2016**
Revenues	$	4,686$	4,921$	4,822	(5)%	2%
Operating expenses		4,383	4,532	4,422	(3)%	2%
Segment profit		303	389	400	(22)%	(3)%
Profit margin		6.5%	7.9%	8.3%		
Backlog	$	1,180$	1,041$	1,074	13%	(3)%

Textron Aviation Revenues and Operating Expenses

Factors contributing to the 2017 year-over-year revenue change are provided below:

(In millions)		2017 versus 2016
Volume and mix	$	(307)
Other		72
Total change	$	(235)

Textron Aviation s revenues decreased $235 million, 5%, in 2017, compared with 2016, primarily due to lower volume and mix of $307 million, largely the result of lower military and commercial turboprop volume. We delivered 180 Citation jets, 86 King Air turboprops and 13 Beechcraft T-6 trainers in 2017, compared with 178 Citation jets, 106 King Air turboprops and 38 Beechcraft T-6 trainers in 2016. The portion of the segment s revenues derived from aftermarket sales and services represented 34% of its total revenues in 2017, compared with 31% in 2016.

Textron Aviation s operating expenses decreased $149 million, 3%, in 2017, compared with 2016, largely due to lower net volume as described above.

Factors contributing to the 2016 year-over-year revenue change are provided below:

(In millions)		**2016 versus 2015**
Acquisitions	$	66
Volume and mix		42
Other		(9)
Total change	$	99

Textron Aviation s revenues increased $99 million, 2%, in 2016, compared with 2015, primarily due to the impact from an acquisition of a repair and overhaul business in the first quarter of 2016, and higher volume and mix of $42 million. The increase in volume and mix was largely due to higher Citation jet volume of $165 million, partially offset by lower commercial turboprop volume. We delivered 178 Citation jets and 106 King Air turboprops in 2016, compared with 166 Citation jets and 117 King Air turboprops in 2015. The portion of the segment s revenues derived from aftermarket sales and services represented 31% of its total revenues in 2016, compared with 29% in 2015, largely resulting from the acquisition.

Textron Aviation s operating expenses increased $110 million, 2%, in 2016, compared with 2015, largely due to higher net volume as described above and additional operating expenses resulting from the acquisition. These increases were partially offset by improved cost performance of $64 million, largely attributable to lower research and development costs and lower compensation expense.

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Textron Aviation Segment Profit

Factors contributing to 2017 year-over-year segment profit change are provided below:

(In millions)		2017 versus 2016
Volume and mix	$	(99)
Pricing, net of inflation		56
Performance and other		(43)
Total change	$	(86)

Segment profit at Textron Aviation decreased $86 million, 22%, in 2017, compared with 2016, primarily as a result of lower net volume and mix as described above. The favorable impact of $56 million from pricing, net of inflation, was largely offset by an unfavorable impact of $43 million from performance and other, largely reflecting higher research, development and engineering costs, which included costs related to the Scorpion program in 2017.

Factors contributing to 2016 year-over-year segment profit change are provided below:

(In millions)		2016 versus 2015
Performance and other	$	65
Volume and mix		(49)
Inflation and pricing		(27)
Total change	$	(11)

Segment profit at Textron Aviation decreased $11 million, 3%, in 2016, compared with 2015, primarily as a result of the mix of products sold and the unfavorable impact from inflation and pricing of $27 million. These decreases were partially offset by favorable performance and other of $65 million, largely attributable to lower research and development costs and lower compensation expense.

Bell

					% Change	
(Dollars in millions)		2017	2016	2015	2017	2016
Revenues:						
V-22 Program	$	1,129$	1,151$	1,194	(2)%	(4)%
Other Military		947	936	839	1%	12%
Commercial		1,241	1,152	1,421	8%	(19)%
Total revenues		3,317	3,239	3,454	2%	(6)%
Operating expenses		2,902	2,853	3,054	2%	(7)%
Segment profit		415	386	400	8%	(4)%
Profit margin		12.5%	11.9%	11.6%		
Backlog	$	4,598$	5,360$	5,224	(14)%	3%

Bell s major U.S. Government programs at this time are the V-22 tiltrotor aircraft and the H-1 helicopter platforms, which are both in the production stage and represent a significant portion of Bell s revenues from the U.S. Government.

Bell Revenues and Operating Expenses

Factors contributing to the 2017 year-over-year revenue change are provided below:

(In millions)		**2017 versus 2016**
Volume and mix	$	57
Other		21
Total change	$	78

Bell s revenues increased $78 million, 2%, in 2017, compared with 2016, primarily due to an $89 million increase in commercial revenues, largely due to higher deliveries as Bell delivered 132 commercial aircraft in 2017, compared with 114 aircraft in 2016. Military deliveries were largely unchanged in 2017 compared with 2016, as we delivered 22 V-22 aircraft in both years and 38 H-1 aircraft in 2017, compared with 35 H-1 aircraft in 2016.

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Bell s operating expenses increased $49 million, 2%, in 2017, compared with 2016, primarily due to higher volume as described above.

Factors contributing to the 2016 year-over-year revenue change are provided below:

(In millions)		**2016 versus 2015**
Volume and mix	$	(225)
Other		10
Total change	$	(215)

Bell s revenues decreased $215 million, 6%, in 2016, compared with 2015, primarily due to the following factors:

- $269 million decrease in commercial revenues, primarily due to lower aircraft deliveries, as we delivered 114 commercial aircraft in 2016, compared with 175 aircraft in 2015.
- $43 million decrease in V-22 program revenues, primarily due to lower aircraft deliveries, as we delivered 22 V-22 aircraft in 2016, compared with 24 V-22 aircraft in 2015.
- $97 million increase in other military revenues, primarily reflecting higher H-1 program revenues, as we delivered 35 H-1 aircraft in 2016, compared with 24 H-1 aircraft in 2015.

Bell s operating expenses decreased $201 million, 7%, in 2016, compared with 2015, primarily due to lower net sales volume as described above.

Bell Segment Profit

Factors contributing to 2017 year-over-year segment profit change are provided below:

(In millions)		**2017 versus 2016**
Performance and other	$	66
Volume and mix		(37)
Total change	$	29

Bell s segment profit increased $29 million, 8%, in 2017, compared with 2016, reflecting a favorable impact from performance and other of $66 million, largely the result of improved manufacturing performance and lower research and development costs, partially offset by an unfavorable impact from volume and mix of $37 million.

Factors contributing to 2016 year-over-year segment profit change are provided below:

(In millions)		**2016 versus 2015**
Volume and mix	$	(46)
Performance and other		32
Total change	$	(14)

Bell s segment profit decreased $14 million, 4%, in 2016, compared with 2015. The unfavorable impact from volume and mix was primarily due to lower commercial aircraft deliveries, while the favorable performance and other was largely the result of lower research and development costs.

Bell Backlog

Bell s backlog decreased $762 million, 14%, in 2017, and increased $136 million, 3%, in 2016. The decrease in 2017 was primarily due to deliveries on the V-22 and H-1 programs in excess of orders.

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Textron Systems

(Dollars in millions)	2017	2016	2015	% Change 2017	% Change 2016
Revenues	$ 1,840	$ 1,756	$ 1,520	5%	16%
Operating expenses	1,701	1,570	1,391	8%	13%
Segment profit	139	186	129	(25)%	44%
Profit margin	7.6%	10.6%	8.5%		
Backlog	$ 1,406	$ 1,841	$ 2,328	(24)%	(21)%

Textron Systems Revenues and Operating Expenses

Factors contributing to the 2017 year-over-year revenue change are provided below:

(In millions)	2017 versus 2016
Volume	$ 67
Acquisitions	10
Other	7
Total change	$ 84

Revenues at Textron Systems increased $84 million, 5%, in 2017, compared with 2016, primarily due to higher volume of $176 million in the Marine and Land Systems product line, partially offset by lower volume in the other product lines, largely due to the final deliveries of our discontinued sensor-fuzed weapon product in the first half of 2017.

Textron Systems operating expenses increased $131 million, 8%, in 2017, compared with 2016, primarily due to higher volume as described above and the unfavorable impact from net program adjustments described below.

Factors contributing to the 2016 year-over-year revenue change are provided below:

(In millions)	2016 versus 2015
Volume	$ 200
Acquisitions	32
Other	4
Total change	$ 236

Revenues at Textron Systems increased $236 million, 16%, in 2016, compared with 2015, primarily due to higher volume of $106 million in the Marine and Land Systems product line and $77 million in the Unmanned Systems product line, and the impact from an acquisition of $32 million.

Textron Systems operating expenses increased $179 million, 13%, in 2016, compared with 2015, primarily due to higher volume as described above.

Textron Systems Segment Profit

Factors contributing to 2017 year-over-year segment profit change are provided below:

(In millions)		**2017 versus 2016**
Performance	$	(28)
Volume and mix		(13)
Other		(6)
Total change	$	(47)

Textron Systems segment profit decreased $47 million, 25%, in 2017, compared with 2016, primarily due to unfavorable performance. Performance reflects an unfavorable impact from net program adjustments compared with 2016, largely due to $44 million of adjustments recorded in 2017 related to the Tactical Armoured Patrol Vehicle program (TAPV). In 2017, this program experienced inefficiencies resulting from various production issues during the ramp up and subsequent production.

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Factors contributing to 2016 year-over-year segment profit change are provided below:

(In millions)		2016 versus 2015
Performance	$	43
Volume and mix		13
Other		1
Total change	$	57

Textron Systems segment profit increased $57 million, 44%, in 2016, compared with 2015, primarily due to improved cost performance and higher volume as described above.

Textron Systems Backlog

Backlog at Textron Systems decreased $435 million, 24%, in 2017, primarily due to deliveries in excess of orders in the Marine and Land Systems product line as TAPV deliveries near completion, and final deliveries of our discontinued sensor-fuzed weapon product in 2017. In 2016, backlog decreased by $487 million, 21%, primarily due to deliveries in excess of orders in the Weapons and Sensors business and Unmanned Systems product line.

Industrial

					% Change	
(Dollars in millions)		2017	2016	2015	2017	2016
Revenues:						
Fuel Systems and Functional Components	$	2,330$	2,273$	2,078	3%	9%
Other Industrial		1,956	1,521	1,466	29%	4%
Total revenues		4,286	3,794	3,544	13%	7%
Operating expenses		3,996	3,465	3,242	15%	7%
Segment profit		290	329	302	(12)%	9%
Profit margin		6.8%	8.7%	8.5%		

Industrial Revenues and Operating Expenses

Factors contributing to the 2017 year-over-year revenue change are provided below:

(In millions)		2017 versus 2016
Acquisitions	$	393
Volume		77
Foreign exchange		27

Other		(5)
Total change	$	492

Industrial segment revenues increased $492 million, 13%, in 2017, compared with 2016, primarily due to the impact from acquired businesses of $393 million, largely related to the acquisition of Arctic Cat as described below. Revenues were also impacted by higher volume of $77 million, primarily related to the Fuel Systems and Functional Components product line and a favorable impact of $27 million from foreign exchange, primarily related to the Euro.

On March 6, 2017, we acquired Arctic Cat, a manufacturer of all-terrain vehicles, side-by-sides and snowmobiles, in addition to related parts, garments and accessories. Arctic Cat provides a platform to expand our product portfolio and increase our distribution channel to support growth within our Textron Specialized Vehicles business. The operating results of Arctic Cat have been included in our financial results only for the period subsequent to the completion of the acquisition. See Note 2 to the Consolidated Financial Statements for additional information regarding this acquisition.

Operating expenses for the Industrial segment increased $531 million, 15%, in 2017, compared with 2016, primarily due to additional operating expenses from acquired businesses. The increase in operating expenses was also due to higher volume as described above.

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Factors contributing to the 2016 year-over-year revenue change are provided below:

(In millions)		**2016 versus 2015**
Volume	$	168
Acquisitions		121
Foreign exchange		(35)
Other		(4)
Total change	$	250

Industrial segment revenues increased $250 million, 7%, in 2016, compared with 2015, primarily due to higher volume of $168 million and the impact from acquired businesses of $121 million. The increase in volume was primarily related to the Fuel Systems and Functional Components product line, largely reflecting automotive industry demand in Europe.

Operating expenses for the Industrial segment increased $223 million, 7%, in 2016, compared with 2015, primarily due to the impact from higher volume as described above and additional operating expenses from acquired businesses.

Industrial Segment Profit

Factors contributing to 2017 year-over-year segment profit change are provided below:

(In millions)		**2017 versus 2016**
Pricing and inflation	$	(23)
Performance and other		(10)
Volume and mix		(6)
Total change	$	(39)

Industrial s segment profit decreased $39 million, 12%, in 2017, compared with 2016, largely due to an unfavorable impact from pricing and inflation of $23 million, primarily in the Fuel Systems and Functional Components product line, and unfavorable performance and other of $10 million. Performance and other primarily included the operating results of Arctic Cat, partially offset by favorable performance in the Fuel Systems and Functional Components product line.

Factors contributing to 2016 year-over-year segment profit change are provided below:

(In millions)		**2016 versus 2015**

Inflation, net of pricing	$	19
Foreign exchange		(12)
Volume		11
Performance and other		9
Total change	$	27

Segment profit for the Industrial segment increased $27 million, 9%, in 2016, compared with 2015, largely due to a $19 million favorable impact from inflation, net of pricing, primarily in our Specialized Vehicles product line, and higher volume as described above, partially offset by an unfavorable impact of $12 million from changes in foreign currency exchange rates.

Finance

(In millions)	**2017**	**2016**	**2015**
Revenues	$ 69	$ 78	$ 83
Segment profit	22	19	24

Finance segment revenues decreased in both 2017 and 2016, primarily attributable to lower average finance receivables. Finance segment profit increased in 2017, compared with 2016, primarily due to lower provision for loan losses, partially offset by lower average finance receivables. Finance segment profit decreased in 2016, compared with 2015, primarily due to lower average finance receivables.

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Finance Portfolio Quality

The following table reflects information about the Finance segment s credit performance related to finance receivables.

(Dollars in millions)		**December 30, 2017**	**December 31, 2016**
Finance receivables*	$	850$	946
Nonaccrual finance receivables		61	87
Ratio of nonaccrual finance receivables to finance receivables		7.18%	9.20%
60+ days contractual delinquency	$	34$	40
60+ days contractual delinquency as a percentage of finance receivables		4.00%	4.23%

** Excludes finance receivables held for sale of $30 million at December 31, 2016.*

Liquidity and Capital Resources

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

Key information that is utilized in assessing our liquidity is summarized below:

(Dollars in millions)		**December 30, 2017**	**December 31, 2016**
Manufacturing group			
Cash and equivalents	$	1,079$	1,137
Debt		3,088	2,777
Shareholders equity		5,647	5,574
Capital (debt plus shareholders equity)		8,735	8,351
Net debt (net of cash and equivalents) to capital		26%	23%
Debt to capital		35%	33%
Finance group			
Cash and equivalents	$	183$	161
Debt		824	903

We believe that our calculations of debt to capital and net debt to capital are useful measures as they provide a summary indication of the level of debt financing (i.e., leverage) that is in place to support our capital structure, as well as to provide an indication of the capacity to add further leverage. We believe that we will have sufficient cash to meet our future needs, based on our existing cash balances, the cash we expect to generate from our manufacturing operations and other available funding alternatives, as appropriate.

Textron has a senior unsecured revolving credit facility that expires in September 2021 for an aggregate principal amount of $1.0 billion, of which up to $100 million is available for the issuance of letters of credit. At December 30, 2017, there were no amounts borrowed against the facility and there were $11 million of letters of credit issued against it.

We also maintain an effective shelf registration statement filed with the Securities and Exchange Commission that allows us to issue an unlimited amount of public debt and other securities. During 2017, we issued $1.0 billion of public debt under this registration statement, which consisted of $350 million in 3.65% Notes due March 2027, $300 million in 3.375% Notes due March 2028, and $350 million of Floating Rate Notes due November 2020.

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Manufacturing Group Cash Flows

Cash flows from continuing operations for the Manufacturing group as presented in our Consolidated Statements of Cash Flows are summarized below:

(In millions)		**2017**	**2016**	**2015**
Operating activities	$	947$	988$	1,038
Investing activities		(745)	(621)	(496)
Financing activities		(266)	(146)	(308)

In 2017, cash flows provided by operating activities was $947 million, compared with $988 million in 2016, a 4% decrease, as higher pension contributions of $308 million and lower earnings were largely offset by improvements in working capital. Significant factors contributing to the favorable change in working capital included an increase in cash flows of $769 million related to changes in inventory between the periods, principally in the Textron Aviation and Textron Systems segments, $333 million related to changes in customer deposits and $179 million from changes in net taxes paid/received, partially offset by changes in accounts payable and accounts receivable. The increase in cash flows from customer deposits between the periods is primarily related to lower performance-based payments received on certain military contracts in the Bell segment in 2016.

Cash flows provided by operating activities was $988 million in 2016, compared with $1,038 million in 2015, a 5% decrease. This decrease was primarily the result of changes in working capital, which included lower customer deposits of $257 million largely related to performance-based payments on certain military contracts in the Bell segment, along with a $34 million reduction in dividends received from the Finance group. These decreases were partially offset by a $75 million increase in cash proceeds from the settlements of corporate-owned life insurance policies and $42 million in lower payments for taxes and pension contributions as disclosed below.

Net tax (receipts)/payments were $(16) million, $163 million and $187 million in 2017, 2016 and 2015, respectively. Pension contributions were $358 million, $50 million and $68 million in 2017, 2016 and 2015, respectively. In 2017, pension contributions included a $300 million discretionary contribution to fund a U.S. pension plan.

Investing cash flows included capital expenditures of $423 million, $446 million and $420 million in 2017, 2016 and 2015, respectively. In 2017, cash flows from investing activities included a $316 million aggregate cash payment, including the repayment of debt and net of cash acquired, for the acquisition of Arctic Cat. Investing cash flows also included cash used for acquisitions of $186 million and $81 million in 2016 and 2015, respectively.

Total financing cash flows included proceeds from long-term debt of $992 million and $345 million in 2017 and 2016, respectively. In 2017, 2016 and 2015, financing activities also included the repayment of outstanding debt of $704 million, $254 million and $100 million, respectively.

Share Repurchases

On January 25, 2017, we announced the adoption of a plan authorizing the repurchase of up to 25 million shares of Textron common stock to offset the impact of dilution from share-based compensation and benefit plans and for opportunistic capital management purposes. This plan has no expiration date and replaced the previous plan adopted in 2013 that had 4.0 million remaining shares available for repurchase. During 2017, we repurchased an aggregate of 11.9 million shares of our outstanding common stock for $582 million under this plan. Under the 2013 share repurchase authorization, we repurchased an aggregate of 6.9 million and 5.2 million shares of our outstanding common stock in 2016 and 2015, respectively, for $241 million and $219 million, respectively.

Dividends

Dividend payments to shareholders totaled $21 million, $22 million and $22 million in 2017, 2016 and 2015, respectively.

Dividends received from the Finance group, which totaled $29 million and $63 million in 2016 and 2015, respectively, are included within cash flows from operating activities for the Manufacturing group as they represent a return on investment.

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Finance Group Cash Flows

The cash flows from continuing operations for the Finance group as presented in our Consolidated Statements of Cash Flows are summarized below:

(In millions)		2017	2016	2015
Operating activities	$	(24)$	11$	30
Investing activities		140	142	197
Financing activities		(94)	(51)	(259)

The Finance group s cash flows from operating activities included net tax payments of $48 million, $11 million and $11 million in 2017, 2016 and 2015, respectively. Cash flows from investing activities primarily included collections on finance receivables totaling $273 million, $292 million and $351 million in 2017, 2016 and 2015, respectively, partially offset by finance receivable originations of $174 million, $173 million and $194 million, respectively.

Cash flows used in financing activities included payments on long-term and nonrecourse debt of $137 million, $203 million and $256 million in 2017, 2016 and 2015, respectively, which were partially offset by proceeds from long-term debt of $44 million, $180 million and $61 million, respectively. In 2016 and 2015, dividend payments to the Manufacturing group totaled $29 million and $63 million, respectively.

Consolidated Cash Flows

The consolidated cash flows from continuing operations, after elimination of activity between the borrowing groups, are summarized below:

(In millions)		2017	2016	2015
Operating activities	$	980$	1,014$	1,094
Investing activities		(662)	(523)	(388)
Financing activities		(360)	(168)	(504)

Consolidated cash flows provided by operating activities was $980 million in 2017, compared with $1,014 million in 2016, a 3% decrease, as higher pension contributions of $308 million and lower earnings were largely offset by improvements in working capital. Significant factors contributing to the favorable change in working capital included an increase in cash flows of $764 million related to changes in inventory between the periods, principally in the Textron Aviation and Textron Systems segments, $333 million related to changes in customer deposits and $142 million of lower net tax payments, partially offset by changes in accounts payable and accounts receivable. The increase in cash flows from customer deposits between the periods is primarily related to lower performance-based payments received on certain military contracts in the Bell segment in 2016.

Cash flows provided by operating activities was $1,014 million in 2016, compared with $1,094 million in 2015, a 7% decrease. This decrease was primarily the result of changes in working capital, which included lower customer deposits of $257 million largely related to performance-based payments on certain military contracts in the Bell segment. These decreases were partially offset by a $75 million increase in cash proceeds from the settlements of corporate-owned life insurance policies and $42 million in lower payments for taxes and pension contributions as disclosed below.

Net tax payments were $32 million, $174 million and $198 million in 2017, 2016 and 2015, respectively. Pension contributions were $358 million, $50 million and $68 million in 2017, 2016 and 2015, respectively. In 2017, pension contributions included a $300 million discretionary contribution to fund a U.S. pension plan.

Investing cash flows included capital expenditures of $423 million, $446 million and $420 million in 2017, 2016 and 2015, respectively. In 2017, cash flows from investing activities included a $316 million aggregate cash payment, including the repayment of debt and net of cash acquired, for the acquisition of Arctic Cat. Investing cash flows also included cash used for acquisitions of $186 million and $81 million in 2016 and 2015, respectively.

In 2017, 2016 and 2015, cash used in financing activities included the repayment of outstanding debt of $841 million, $457 million and $356 million, respectively, and share repurchases of $582 million, $241 million and $219 million, respectively, partially offset by proceeds from long-term debt of $1.0 billion, $525 million and $61 million, respectively.

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Captive Financing and Other Intercompany Transactions

The Finance group provides financing primarily to purchasers of new and pre-owned Textron Aviation aircraft and Bell helicopters manufactured by our Manufacturing group, otherwise known as captive financing. In the Consolidated Statements of Cash Flows, cash received from customers is reflected as operating activities when received from third parties. However, in the cash flow information provided for the separate borrowing groups, cash flows related to captive financing activities are reflected based on the operations of each group. For example, when product is sold by our Manufacturing group to a customer and is financed by the Finance group, the origination of the finance receivable is recorded within investing activities as a cash outflow in the Finance group s statement of cash flows. Meanwhile, in the Manufacturing group s statement of cash flows, the cash received from the Finance group on the customer s behalf is recorded within operating cash flows as a cash inflow. Although cash is transferred between the two borrowing groups, there is no cash transaction reported in the consolidated cash flows at the time of the original financing. These captive financing activities, along with all significant intercompany transactions, are reclassified or eliminated from the Consolidated Statements of Cash Flows.

Reclassification adjustments included in the Consolidated Statements of Cash Flows are summarized below:

(In millions)		**2017**	**2016**	**2015**
Reclassification adjustments from investing activities:				
Cash received from customers	$	241$	248$	284
Finance receivable originations for Manufacturing group inventory sales		(174)	(173)	(194)
Other		(10)	(31)	(1)
Total reclassification adjustments from investing activities		57	44	89
Reclassification adjustments from financing activities:				
Dividends received by Manufacturing group from Finance group			(29)	(63)
Total reclassification adjustments to cash flow from operating activities	$	57$	15$	26

Under a Support Agreement between Textron and TFC, Textron is required to maintain a controlling interest in TFC. The agreement, as amended in December 2015, also requires Textron to ensure that TFC maintains fixed charge coverage of no less than 125% and consolidated shareholder s equity of no less than $125 million. There were no cash contributions required to be paid to TFC in 2017, 2016 and 2015 to maintain compliance with the support agreement.

Contractual Obligations

Manufacturing Group

The following table summarizes the known contractual obligations, as defined by reporting regulations, of our Manufacturing group as of December 30, 2017:

			Payments Due by Period			
(In millions)		**Total**	**Year 1**	**Years 2-3**	**Years 4-5**	**More Than 5 Years**
Debt	$	3,108$	14$	820$	514$	1,760
Purchase obligations not reflected in balance sheet		2,360	2,111	232	17	

Interest on borrowings	775	133	252	156	234
Pension benefits for unfunded plans	404	27	51	47	279
Postretirement benefits other than pensions	289	31	55	46	157
Other long-term liabilities	476	111	125	72	168
Operating leases	397	80	115	65	137
Total Manufacturing group	$ 7,809	$ 2,507	$ 1,650	$ 917	$ 2,735

Pension and Postretirement Benefits

We maintain defined benefit pension plans and postretirement benefit plans other than pensions as described in Note 11 to the Consolidated Financial Statements. Included in the above table are discounted estimated benefit payments we expect to make related to unfunded pension and other postretirement benefit plans. Actual benefit payments are dependent on a number of factors, including mortality assumptions, expected retirement age, rate of compensation increases and medical trend rates, which are subject to change in future years. Our policy for funding pension plans is to make contributions annually, consistent with applicable laws and regulations; however, future contributions to our pension plans are not included in the above table. In 2018, we expect to make approximately $27 million of contributions to our funded pension plans and the Retirement Account Plan. Based on our current assumptions, which may change with changes in market conditions, our current contribution for each of the years from 2019 through 2022 are estimated to be in the range of approximately $50 million to $55 million under the plan provisions in place at this time.

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Other Long-Term Liabilities

Other long-term liabilities consist of undiscounted amounts in the Consolidated Balance Sheets that primarily include obligations under deferred compensation arrangements, estimated environmental remediation costs, and a one-time transition tax, as disclosed in Note 13 to the Consolidated Financial Statements, that will be paid over an eight-year period. Payments under deferred compensation arrangements have been estimated based on management s assumptions of expected retirement age, mortality, stock price and rates of return on participant deferrals. The timing of cash flows associated with environmental remediation costs is largely based on historical experience. Certain other long-term liabilities, such as deferred taxes, unrecognized tax benefits and product liability, warranty and litigation reserves, have been excluded from the table due to the uncertainty of the timing of payments combined with the absence of historical trends to be used as a predictor for such payments.

Purchase Obligations

Purchase obligations include undiscounted amounts committed under legally enforceable contracts or purchase orders for goods and services with defined terms as to price, quantity and delivery dates. Approximately 33% of the purchase obligations we disclose represent purchase orders issued for goods and services to be delivered under firm contracts with the U.S. Government for which we have full recourse under customary contract termination clauses.

Finance Group

The following table summarizes the known contractual obligations, as defined by reporting regulations, of our Finance group as of December 30, 2017:

		Payments Due by Period				
(In millions)		**Total**	**Year 1**	**Years 2-3**	**Years 4-5**	**More Than 5 Years**
Term debt	$	525$	22$	401$	50$	52
Subordinated debt		299				299
Interest on borrowings		182	23	34	24	101
Total Finance group	$	1,006$	45$	435$	74$	452

At December 30, 2017, the Finance group also had $38 million in other liabilities that are payable within the next 12 months.

Critical Accounting Estimates

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

Long-Term Contracts

We make a substantial portion of our sales to government customers pursuant to long-term contracts. These contracts require development and delivery of products over multiple years and may contain fixed-price purchase options for additional products. We account for these long-term contracts under the percentage-of-completion method of accounting. Under this method, we estimate profit as the difference between total estimated revenues and cost of a contract. The percentage-of-completion method of accounting involves the use of various estimating techniques to project costs at completion and, in some cases, includes estimates of recoveries asserted against the customer for changes in specifications. Due to the size, length of time and nature of many of our contracts, the estimation of total contract costs and revenues through completion is complicated and subject to many variables relative to the outcome of future events over a period of several years. We are required to make numerous assumptions and estimates relating to items such as expected engineering requirements, complexity of design and related development costs, product performance, performance of subcontractors, availability and cost of materials, labor productivity and cost, overhead and capital costs, manufacturing efficiencies and the achievement of contract milestones, including product deliveries, technical requirements, or schedule.

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

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or inflation, (c) there is a change in engineering efforts required during the development stage of the contract or (d) we are unable to meet contract milestones.

At the outset of each contract, we estimate the initial profit booking rate. The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements (for example, a newly-developed product versus a mature product), schedule (for example, the number and type of milestone events), and costs by contract requirements in the initial estimated costs at completion. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule, and costs aspects of the contract. Likewise, the profit booking rate may decrease if we are not successful in retiring the risks; and, as a result, our estimated costs at completion increase. All of the estimates are subject to change during the performance of the contract and, therefore, may affect the profit booking rate. When adjustments are required, any changes from prior estimates are recognized using the cumulative catch-up method with the impact of the change from inception-to-date recorded in the current period.

The following table sets forth the aggregate gross amount of all program profit adjustments that are included within segment profit for the three years ended December 30, 2017:

(In millions)		**2017**	**2016**	**2015**
Gross favorable	$	92$	106$	111
Gross unfavorable		(87)	(23)	(33)
Net adjustments	$	5$	83$	78

Goodwill

We evaluate the recoverability of goodwill annually in the fourth quarter or more frequently if events or changes in circumstances, such as declines in sales, earnings or cash flows, or material adverse changes in the business climate, indicate that the carrying value of a reporting unit might be impaired. The reporting unit represents the operating segment unless discrete financial information is prepared and reviewed by segment management for businesses one level below that operating segment, in which case such component is the reporting unit. In certain instances, we have aggregated components of an operating segment into a single reporting unit based on similar economic characteristics.

We calculate the fair value of each reporting unit, primarily using discounted cash flows. These cash flows incorporate assumptions for short- and long-term revenue growth rates, operating margins and discount rates that represent our best estimates of current and forecasted market conditions, cost structure, anticipated net cost reductions, and the implied rate of return that we believe a market participant would require for an investment in a business having similar risks and business characteristics to the reporting unit being assessed. The revenue growth rates and operating margins used in our discounted cash flow analysis are based on our strategic plans and long-range planning forecasts. The long-term growth rate we use to determine the terminal value of the business is based on our assessment of its minimum expected terminal growth rate, as well as its past historical growth and broader economic considerations such as gross domestic product, inflation and the maturity of the markets we serve. We utilize a weighted-average cost of capital in our impairment analysis that makes assumptions about the capital structure that we believe a market participant would make and include a risk premium based on an assessment of risks related to the projected cash flows of each reporting unit. We believe this approach yields a discount rate that is consistent with an implied rate of return that an independent investor or market participant would require for an investment in a company having similar risks and business characteristics to the reporting unit being assessed.

If the reporting unit s estimated fair value exceeds its carrying value, there is no impairment, and no further analysis is performed. Otherwise, the amount of the impairment is determined by comparing the carrying amount of the reporting unit s goodwill to the implied fair value of that goodwill. The implied fair value of goodwill is determined by assigning a fair value to all of the reporting unit s assets and liabilities, including any unrecognized intangible assets, as if the reporting unit had been acquired in a business combination. If the carrying amount of the goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

Based on our annual impairment review, the fair value of all of our reporting units exceeded their carrying values, and we do not believe that there is a reasonable possibility that any units might fail the initial step of the impairment test in the foreseeable future.

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Retirement Benefits

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

To determine the weighted-average expected long-term rate of return on plan assets, we consider the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on plan assets will increase pension expense. For 2017, the assumed expected long-term rate of return on plan assets used in calculating pension expense was 7.57%, compared with 7.58% in 2016. For the last six years, the assumed rate of return for our domestic plans, which represent approximately 91% of our total pension assets, was 7.75%. A 50 basis-point decrease in this long-term rate of return in 2017 would have increased pension cost for our domestic plans by approximately $30 million.

The discount rate enables us to state expected future benefit payments as a present value on the measurement date, reflecting the current rate at which the pension liabilities could be effectively settled. This rate should be in line with rates for high-quality fixed income investments available for the period to maturity of the pension benefits, which fluctuate as long-term interest rates change. A lower discount rate increases the present value of the benefit obligations and increases pension expense. In 2017, the weighted-average discount rate used in calculating pension expense was 4.13%, compared with 4.66% in 2016. For our domestic plans, the assumed discount rate was 4.25% in 2017, compared with 4.75% in 2016. A 50 basis-point decrease in the weighted-average discount rate would have increased pension cost for our domestic plans by approximately $37 million in 2017.

The trend in healthcare costs is difficult to estimate and has an important effect on postretirement liabilities. The 2017 medical and prescription drug healthcare cost trend rates represent the weighted-average annual projected rate of increase in the per capita cost of covered benefits. In 2017, we assumed a trend rate of 7.25% for both medical and prescription drug healthcare rates and assumed this rate would gradually decline to 5% by 2024 and then remain at that level. See Note 11 to the Consolidated Financial Statements for the impact of a one-percentage-point change in the cost trend rate.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Risks

Our financial results are affected by changes in foreign currency exchange rates in the various countries in which our products are manufactured and/or sold. For our manufacturing operations, we manage our foreign currency transaction exposures by entering into foreign currency exchange contracts. These contracts generally are used to fix the local currency cost of purchased goods or services or selling prices denominated in currencies other than the functional currency. The notional amount of outstanding foreign currency exchange contracts was approximately $426 million and $665 million at December 30, 2017 and December 31, 2016, respectively. We also manage exposures to foreign currency assets and earnings primarily by funding certain foreign currency-denominated assets with liabilities in the same currency so that certain exposures are naturally offset. We primarily use borrowings denominated in British pound sterling for these purposes. The impact of foreign currency exchange rate changes on our Consolidated Financial Statements are as follows:

(In millions)	2017	2016	2015
Increase (decrease) in revenues	$ 27	$ (36)	$ (244)
Decrease in segment profit	(1)	(12)	(20)

Interest Rate Risks

Our financial results are affected by changes in interest rates. As part of managing this risk, we seek to achieve a prudent balance between floating- and fixed-rate exposures. We continually monitor our mix of these exposures and adjust the mix, as necessary. For our Finance group, we limit our risk to changes in interest rates with a strategy of matching floating-rate assets with floating-rate liabilities.

Quantitative Risk Measures

In the normal course of business, we enter into financial instruments for purposes other than trading. The financial instruments that are subject to market risk include finance receivables (excluding leases), debt (excluding capital lease obligations) and foreign currency exchange contracts. To quantify the market risk inherent in these financial instruments, we utilize a sensitivity analysis that includes a hypothetical change in fair value assuming a 10% decrease in interest rates and a 10% strengthening in foreign exchange rates against the U.S. dollar. The fair value of these financial instruments is estimated using discounted cash flow analysis and indicative market pricing as reported by leading financial news and data providers.

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At the end of each year, the table below provides the carrying and fair values of these financial instruments along with the sensitivity of fair value to the hypothetical changes discussed above. This sensitivity analysis is most likely not indicative of actual results in the future.

		December 30, 2017			December 31, 2016		
(In millions)		**Carrying Value***	**Fair Value***	**Sensitivity of Fair Value to a 10% Change**	**Carrying Value***	**Fair Value***	**Sensitivity of Fair Value to a 10% Change**
Manufacturing group							
Foreign exchange rate risk							
Debt	$	(212)$	(232)$	(23)$	(187)$	(211)$	(21)
Foreign currency exchange contracts		11	11	26	(3)	(3)	29
	$	(201)$	(221)$	3$	(190)$	(214)$	8
Interest rate risk							
Debt	$	(3,007)$	(3,136)$	(33)$	(2,690)$	(2,809)$	(22)
Finance group							
Interest rate risk							
Finance receivables	$	643$	675$	14$	759$	788$	15
Debt		(824)	(799)	2	(903)	(831)	20

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

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Item 8. Financial Statements and Supplementary Data

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

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

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Consolidated Statements of Operations

For each of the years in the three-year period ended December 30, 2017

(In millions, except per share data)		**2017**	**2016**	**2015**
Revenues				
Manufacturing revenues	$	14,129$	13,710$	13,340
Finance revenues		69	78	83
Total revenues		14,198	13,788	13,423
Costs, expenses and other				
Cost of sales		11,795	11,311	10,979
Selling and administrative expense		1,337	1,304	1,304
Interest expense		174	174	169
Special charges		130	123	
Total costs, expenses and other		13,436	12,912	12,452
Income from continuing operations before income taxes		762	876	971
Income tax expense		456	33	273
Income from continuing operations		306	843	698
Income (loss) from discontinued operations, net of income taxes*		1	119	(1)
Net income	$	307$	962$	697
Basic earnings per share				
Continuing operations	$	1.15$	3.11$	2.52
Discontinued operations			0.44	
Basic earnings per share	$	1.15$	3.55$	2.52
Diluted earnings per share				
Continuing operations	$	1.14$	3.09$	2.50
Discontinued operations			0.44	
Diluted earnings per share	$	1.14$	3.53$	2.50

** See Note 13 to the Consolidated Financial Statements for additional information regarding the year ended December 31, 2016.*

See Notes to the Consolidated Financial Statements.

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Consolidated Statements of Comprehensive Income

For each of the years in the three-year period ended December 30, 2017

(In millions)		**2017**	**2016**	**2015**
Net income	$	307$	962$	697
Other comprehensive income (loss), net of tax:				
Pension and postretirement benefits adjustments, net of reclassifications		109	(178)	184
Foreign currency translation adjustments		107	(49)	(65)
Deferred gains (losses) on hedge contracts, net of reclassifications		14	20	(11)
Other comprehensive income (loss)		230	(207)	108
Comprehensive income	$	537$	755$	805

See Notes to the Consolidated Financial Statements.

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Consolidated Balance Sheets

(In millions, except share data)	December 30, 2017	December 31, 2016
Assets		
Manufacturing group		
Cash and equivalents	$ 1,079	$ 1,137
Accounts receivable, net	1,363	1,064
Inventories	4,150	4,464
Other current assets	435	388
Total current assets	7,027	7,053
Property, plant and equipment, net	2,721	2,581
Goodwill	2,364	2,113
Other assets	2,059	2,331
Total Manufacturing group assets	14,171	14,078
Finance group		
Cash and equivalents	183	161
Finance receivables, net	819	935
Other assets	167	184
Total Finance group assets	1,169	1,280
Total assets	$ 15,340	$ 15,358
Liabilities and shareholders equity		
Liabilities		
Manufacturing group		
Short-term debt and current portion of long-term debt	$ 14	$ 363
Accounts payable	1,205	1,273
Accrued liabilities	2,441	2,257
Total current liabilities	3,660	3,893
Other liabilities	2,006	2,354
Long-term debt	3,074	2,414
Total Manufacturing group liabilities	8,740	8,661
Finance group		
Other liabilities	129	220
Debt	824	903
Total Finance group liabilities	953	1,123
Total liabilities	9,693	9,784
Shareholders equity		
Common stock (262.3 million and 270.3 million shares issued, respectively, and 261.5 million and 270.3 million shares outstanding, respectively)	33	34
Capital surplus	1,669	1,599
Treasury stock	(48)	
Retained earnings	5,368	5,546
Accumulated other comprehensive loss	(1,375)	(1,605)
Total shareholders equity	5,647	5,574
Total liabilities and shareholders equity	$ 15,340	$ 15,358

See Notes to the Consolidated Financial Statements.

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Consolidated Statements of Shareholders Equity

(In millions, except per share data)	Common Stock	Capital Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance at January 3, 2015	$ 36	$ 1,459	$ (340)	$ 4,623	$ (1,506)	$ 4,272
Net income				697		697
Other comprehensive income					108	108
Dividends declared ($0.08 per share)				(22)		(22)
Share-based compensation activity		126				126
Purchases of common stock			(219)			(219)
Other		2				2
Balance at January 2, 2016	36	1,587	(559)	5,298	(1,398)	4,964
Net income				962		962
Other comprehensive loss					(207)	(207)
Dividends declared ($0.08 per share)				(22)		(22)
Share-based compensation activity	1	119				120
Purchases of common stock						