SHAW INDUSTRIES LTD.

Annual Report 1997

POSITIONING

PRODUCTS

PEOPLE

SHAW INDUSTRIES IS A GLOBAL ENERGY SERVICES COMPANY SPECIALIZING IN PRODUCTS AND SERVICES FOR THE EXPLORATION AND PRODUCTION, PIPELINE AND DOWNSTREAM SECTORS OF THE OIL AND GAS INDUSTRY. THROUGH ITS 50/50 JOINT VENTURE WITH DRESSER INDUSTRIES, INC., THE COMPANY IS THE WORLD LEADER IN THE DESIGN AND MANUFACTURE OF CORROSION, INSULATION AND WEIGHT COATING PRODUCTS UTILIZED IN THE PIPELINE INDUSTRY FOR OIL AND GAS GATHERING AND LONG DISTANCE TRANSMISSION APPLICATIONS. THE JOINT VENTURE OPERATES TWENTY-NINE PLANTS LOCATED IN ALL MAJOR ENERGY PRODUCING MARKETS AND, IN ADDITION TO THESE PERMANENT FACILITIES, EMPLOYS ITS ENGINEERING EXPERTISE TO INSTALL TEMPORARY, PROJECT-SPECIFIC PLANTS ANYWHERE IN THE WORLD. THE COMPANY'S WHOLLY OWNED DIVISIONS AND SUBSIDIARIES ALSO PROVIDE PROPRIETARY ULTRASONIC WELD INSPECTION SERVICES AND HEAT SHRINKABLE SLEEVES UTILIZED FOR CORROSION PROTECTION APPLICATIONS BY THE GLOBAL PIPELINE INDUSTRY. IN THE EXPLORATION AND PRODUCTION SECTOR, THE COMPANY PROVIDES SEISMIC EQUIPMENT FOR GATHERING GEOPHYSICAL DATA, DRILL STRING COMPONENTS FOR DRILLING OIL AND GAS WELLS AND INSPECTION AND REFURBISHMENT SERVICES FOR DRILL PIPE, PRODUCTION TUBING AND CASING. FOR PETROCHEMICAL, UTILITY AND INDUSTRIAL MARKETS, THE COMPANY MANUFACTURES WIRE AND CABLE FOR USE IN PROCESS INSTRUMENTATION AND CONTROL SYSTEMS AND HEAT SHRINKABLE TUBING USED FOR ELECTRICAL, ELECTRONIC AND TELECOMMUNICATIONS APPLICATIONS.

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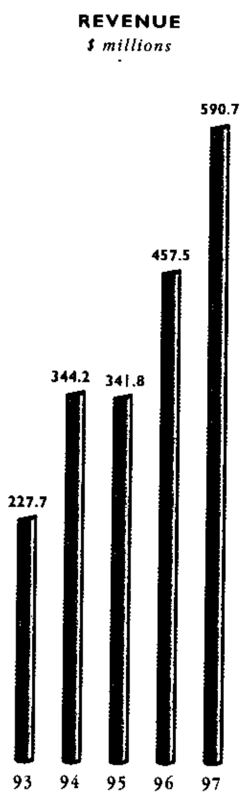
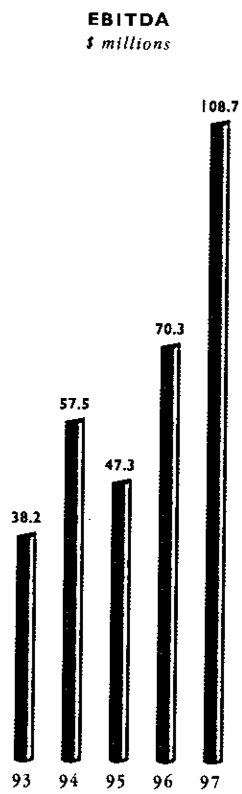
ANNUAL MEETING

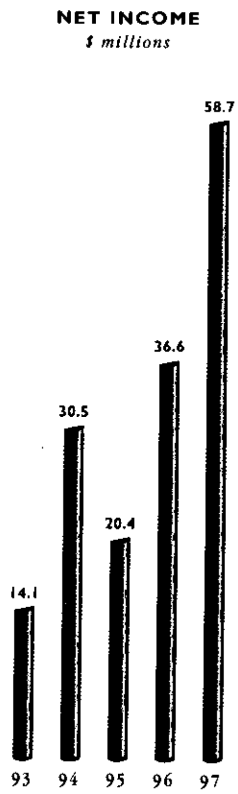
Tuesday, May 12, 1998, 11:00 a.m.
The Royal York Hotel
Toronto, Ontario, Canada

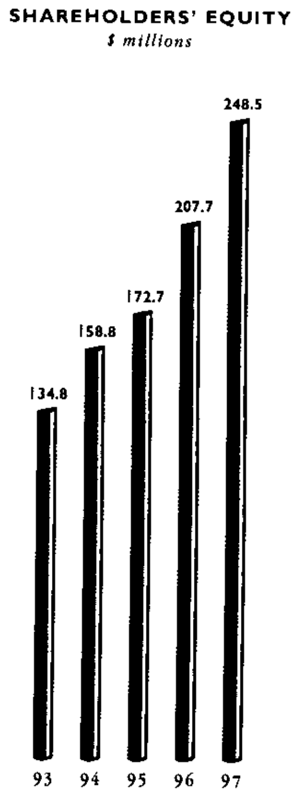
FINANCIAL SUMMARY

(In thousands except per share amounts)	1997	1996
OPERATING RESULTS		
Revenue	$ 590,701	$ 457,548
Net income for the year	$ 58,662	$ 36,585
Net income per share (Class A and Class B)		
Basic	$ 2.94	$ 1.85
Fully diluted	$ 2.86	$ 1.80
CASH FLOW		
Cash from operating activities	$ 75,172	$ 47,040
Additions to fixed assets	$ 32,971	$ 26,470
FINANCIAL POSITION		
Working capital	$ 116,517	$ 108,934
Total assets	$ 432,269	$ 337,138
Shareholders' equity per share (Class A and Class B)	$ 12.36	$ 10.49









REPORT TO SHAREHOLDERS

1997 RESULTS

The positive fundamentals evident in the energy service industry continued to underpin the company's sustained growth during the year just completed. During fiscal 1997, Shaw Industries achieved record consolidated revenue of $590.7 million. This result surpassed the comparable consolidated revenue of $457.5 million, generated during the prior year, by 29.1%. Net income, at $58.7 million or $2.86 per share, fully diluted, also reached a new record which exceeded the prior year level of $1.80 per share by 58.9%.

Although some clouds appeared on the horizon during the fourth quarter of the year in the form of the Asian economic crisis and a decline in the price of oil, basic demand for Shaw Industries' products and services remains strong. Order input rates and backlogs are higher on a year over year basis and the energy exploration and pipeline construction cycles continue to be poised for further growth.

Two small but strategically important acquisitions were completed during 1997 and the company's operating divisions focused on achieving increased productivity while removing production bottlenecks and adding capacity. For the first time in the current energy cycle, revenue growth at several business units was constrained by capacity limitations. At OMSCO Industries, Guardian Oilfield Services and Canusa – EMI, programs were implemented to expand facilities in order to provide increased capacity for 1998 and beyond. As a result, capital expenditures grew to $33.0 million in 1997 and are expected to continue at high levels through 1999 in order to meet anticipated strength in customer demand.

OPERATIONS

The formation of the Dresser – Shaw joint venture, in March 1996, resulted in the combination of the pipe protection interests of Shaw Industries and Dresser Industries into a single, highly focused coatings provider with the capability of serving the pipeline industry anywhere in the world. In order to ensure the continuation of this successful alliance on a long-term basis, the terms of the joint venture agreement were modified, effective August 1, 1997, to extend the term through to the year 2030. These changes solidified the company's position as a 50% partner in a strategic global franchise and reaffirmed the company's strategy of focused growth within the energy service sector.

Participation in the pipecoating joint venture provides Shaw Industries with the capability to utilize this position in the pipeline industry to expand the activities of its other businesses in this sector such as Shaw Pipeline Services and Canusa – CPS. Demand for Shaw Pipeline Services' ultrasonic girth weld inspection technology reached new highs as several major international contracts were secured for both offshore and land based projects. The acquisition of the assets of QED Inspection Services allowed the division to offer a full package of radiographic

inspection services and provided a significant increase in international capabilities with service bases in the United Kingdom, Singapore, the United Arab Emirates and Australia. Canusa – CPS achieved significant growth in both domestic and international markets during 1997 with the successful introduction of several new products designed specifically for transmission pipeline projects and to meet the stringent requirements of the European market.

At OMSCO Industries, the continued growth in drilling activity, resulted in higher drill pipe sales. In response to longer lead times, particularly at the Houston facility, this division implemented several programs to increase capacity and improve service levels. Higher drilling rates and rig utilization levels in Western Canada and the North Sea, coupled with increased productivity at the division's in-plant inspection and refurbishment facilities allowed Guardian Oilfield Services to achieve higher revenues and profitability in both markets.

Strong fundamentals supporting the oil and gas markets continued to provide producers with the impetus to expand their land positions through increased purchases at oil and gas lease sales. Higher activity and the return to developing known reserves with workovers and in-field drilling ensured continuing growth in seismic exploration. At Mark Products, programs were implemented in both Houston and Calgary to strengthen the division and provide expanded capabilities to serve both land-based and marine geophysical markets. While the cost of these programs impacted the division's 1997 results, the benefits in terms of increased performance are already being achieved in 1998.

A concentration on improved customer service levels through the adoption of World Class Manufacturing techniques coupled with the introduction of a dozen new products helped Shawflex to achieve increased revenue and higher profitability in the highly competitive North American wire and cable markets. Early in 1997, Canusa – EMI completed the acquisition of Markel Corporation's heat shrinkable products business which provided increased North American manufacturing capacity and access to a number of important new customers. Costs incurred during the integration of this acquisition and the expansion of the Cincinnati distribution facility coupled with the costs of a major process system upgrade in Plymouth provided a strong foundation for future revenue and profitability growth in both of these core markets.

OUTLOOK

The recent turbulence in the financial markets of the Far East is a sobering reminder of events that can affect a global entity such as Shaw Industries. However, the broad geographic expansion and product diversification that we have experienced in recent years will help to cushion the impact of cyclical swings and unforeseen regional factors.

Although tempered somewhat in the Far East, international energy producers continue to be optimistic about the near term as the fundamentals in the energy industry are more robust than at any time in recent memory. This optimism is being translated into higher drilling rates in the North Sea, Mexico, Latin America and the Middle East as international producers expect 1998 worldwide oil and gas exploration and production expenditures to rise by over ten percent for the third consecutive year.

As always, we will continue to seek opportunities for strategic acquisitions and consolidations which are an important element of the company's strategy of delivering higher shareholder value through continuing growth.

In this annual report, we are featuring a number of Shaw Industries employees at work. This focus on the company's employees, both the ones featured in the photography contained in this annual report and the approximately 4,300 others working at company and joint venture locations around the world, salutes the contributions made by these individuals to the company's success in 1997.

Geoffrey Hyland

Geoffrey F. Hyland
President and Chief Executive Officer

Leslie Shaw

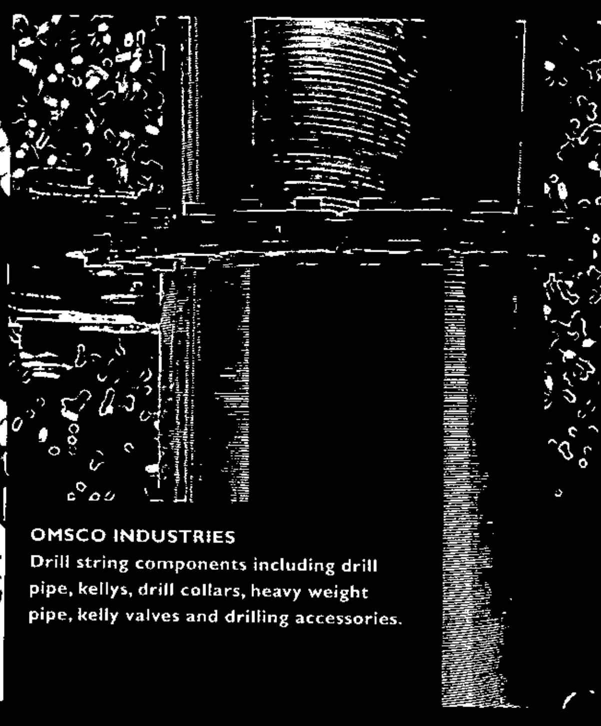
Leslie E. Shaw
Chairman of the Board

SHAW INDUSTRIES AT A GLANCE

Exploration & Production

MARK PRODUCTS
Geophones, hydrophones, land cables, ocean bottom cables, connectors and accessories utilized for the acquisition of geophysical data.

GUARDIAN OILFIELD SERVICES
Mobile and in-plant inspection and refurbishment of drill pipe, production tubing and casing, premium threading and a complete tubular management program.

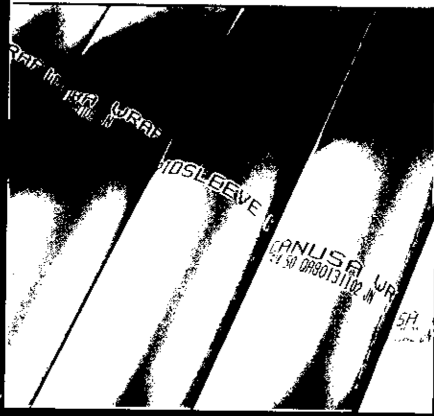


OMSCO INDUSTRIES
Drill string components including drill pipe, kellys, drill collars, heavy weight pipe, kelly valves and drilling accessories.

SHAW INDUSTRIES WILL CONTINUE TO FOCUS ON THE DEVELOPMENT OF TECHNOLOGICALLY ADVANCED PRODUCTS AND SERVICES FOR THE ENERGY INDUSTRY.

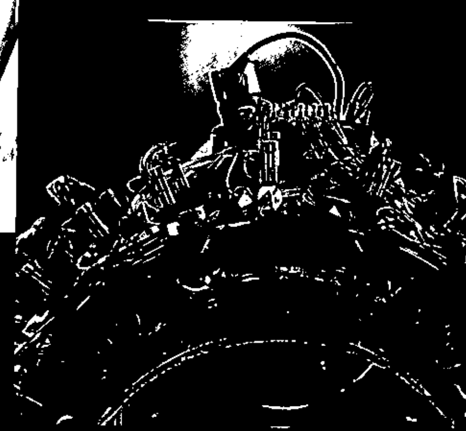
Pipeline

DRESSER – SHAW JOINT VENTURE
High performance coating and lining systems for pipeline corrosion protection and weight coating applications on land and marine pipelines.

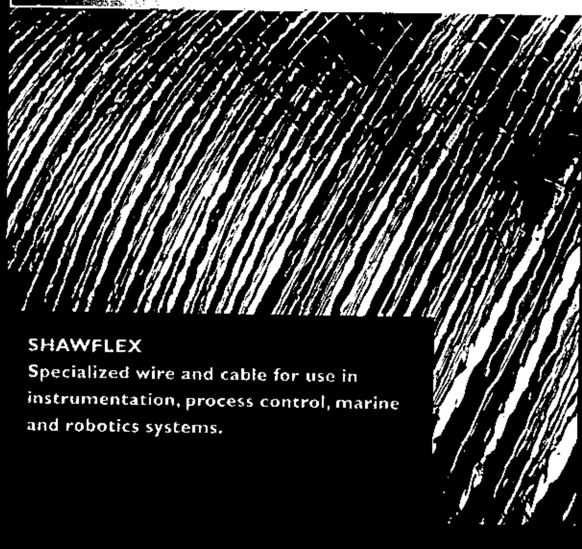


CANUSA – CPS
Adhesives, sealants, heat shrinkable joint protection systems and liquids based coating systems for pipeline applications.

SHAW PIPELINE SERVICES
Ultrasonic and radiographic girth weld inspection for land and marine pipelines.

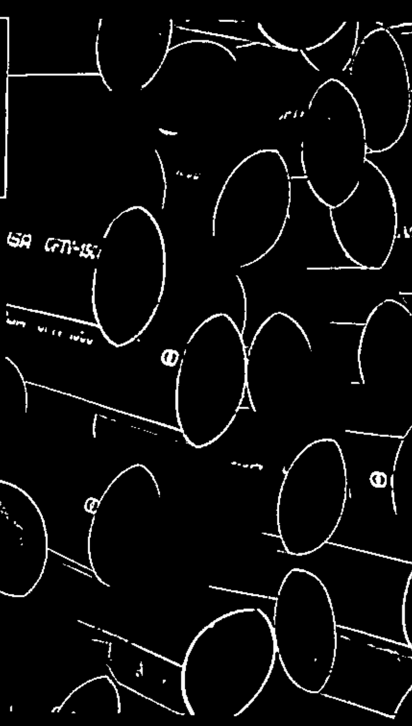


Petrochemical Utility & Industrial



SHAWFLEX
Specialized wire and cable for use in instrumentation, process control, marine and robotics systems.

CANUSA – EMI
Heat shrinkable tubing, sheet, moulded products and kits for protection and sealing in electrical, electronic and telecommunications applications.



EXPLORATION
& PRODUCTION

WORLDWIDE EXPLORATION AND PRODUCTION EXPENDITURES GREW AT THE RATE OF 18.7% IN 1997. ONGOING RESERVE DEPLETION AND RISING DEMAND FOR OIL AND GAS ENCOURAGED ENERGY PRODUCERS TO COMMIT GREATER RESOURCES TO THE ACQUISITION OF LAND AND OFFSHORE EXPLORATION ACREAGE AND TO UNDERTAKE LARGE SCALE SEISMIC SURVEYS.

With energy producers achieving stronger cash flows during the year, well drilling activity in North America and international markets rose as rig counts and utilization rates reached the highest levels seen since the mid-1980s. Canadian producers continued to drill new wells at record rates while drilling activity also gained strength in most other markets during 1997. Much of the international investment growth occurred in the deep water sectors of the Gulf of Mexico, the North Sea and offshore West Africa but land-based drilling also increased in Latin America, the Middle East and the former Soviet Union.

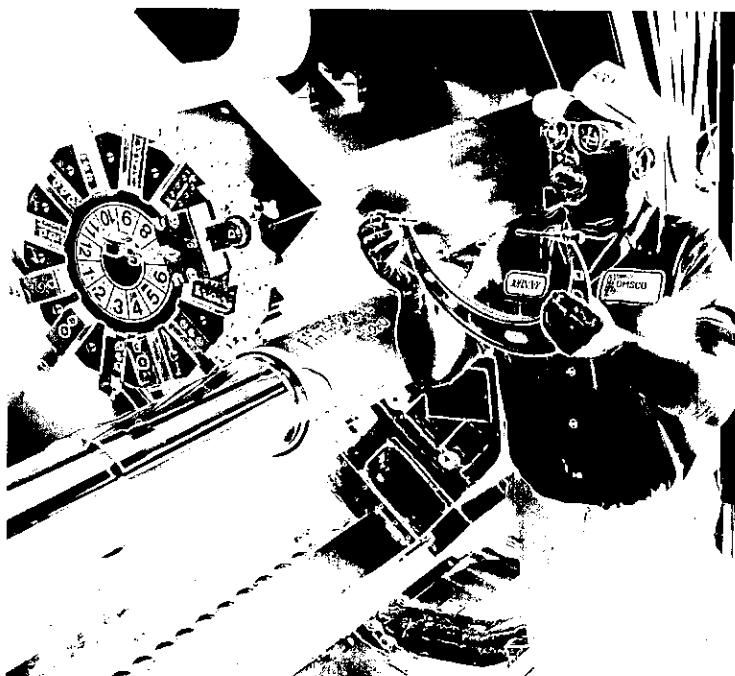
MARK PRODUCTS

Mark Products manufactures geophysical survey equipment including geophones, hydrophones, cables, connectors and accessories utilized to gather seismic signals on land, in transition zones such as marshes and other shallow water areas and in offshore deepwater marine environments. The division also manufactures specialized, severe service cables for ocean bottom surveys and for use in downhole reservoir monitoring applications. Mark Products' engineering group continually modifies existing products to improve their performance and develops new products which keep pace with the rapidly changing geophysical technology.

During 1997, Mark Products continued to enhance the capabilities of its state of the art geophone, the Ultraphone™ UM-2, by extending the range of applications for which it was designed. Major new product introductions included a Gemini dual sensor unit containing both a hydrophone and gimbal mounted UM-2 geophones for marine applications, a UM-2 based, three component sensor capable of simultaneously measuring seismic signals in three directions and lightweight cables designed for both land and transition zone use.

The geophone rental program, originally established to meet the seasonal requirements of Canadian seismic crews, was expanded in the United

MARK PRODUCTS
Thomas Pallickal examines a three component geophysical sensor.



OMSCO INDUSTRIES
Johnny Zambrano checks tolerances on the slip recess of a drill collar.

States and Europe where geophysical contractors embraced the added flexibility of temporarily increasing crew channel counts or equipping additional crews to meet changing customer needs.

With the cost of acquiring seismic data continuing to decline and the increased accuracy of reservoir definition available through improved geophysical technologies, energy producers are utilizing more data before drilling new fields and are resurveying existing fields to optimize recovery. These trends support a positive outlook for the geophysical industry in 1998.

OMSCO INDUSTRIES

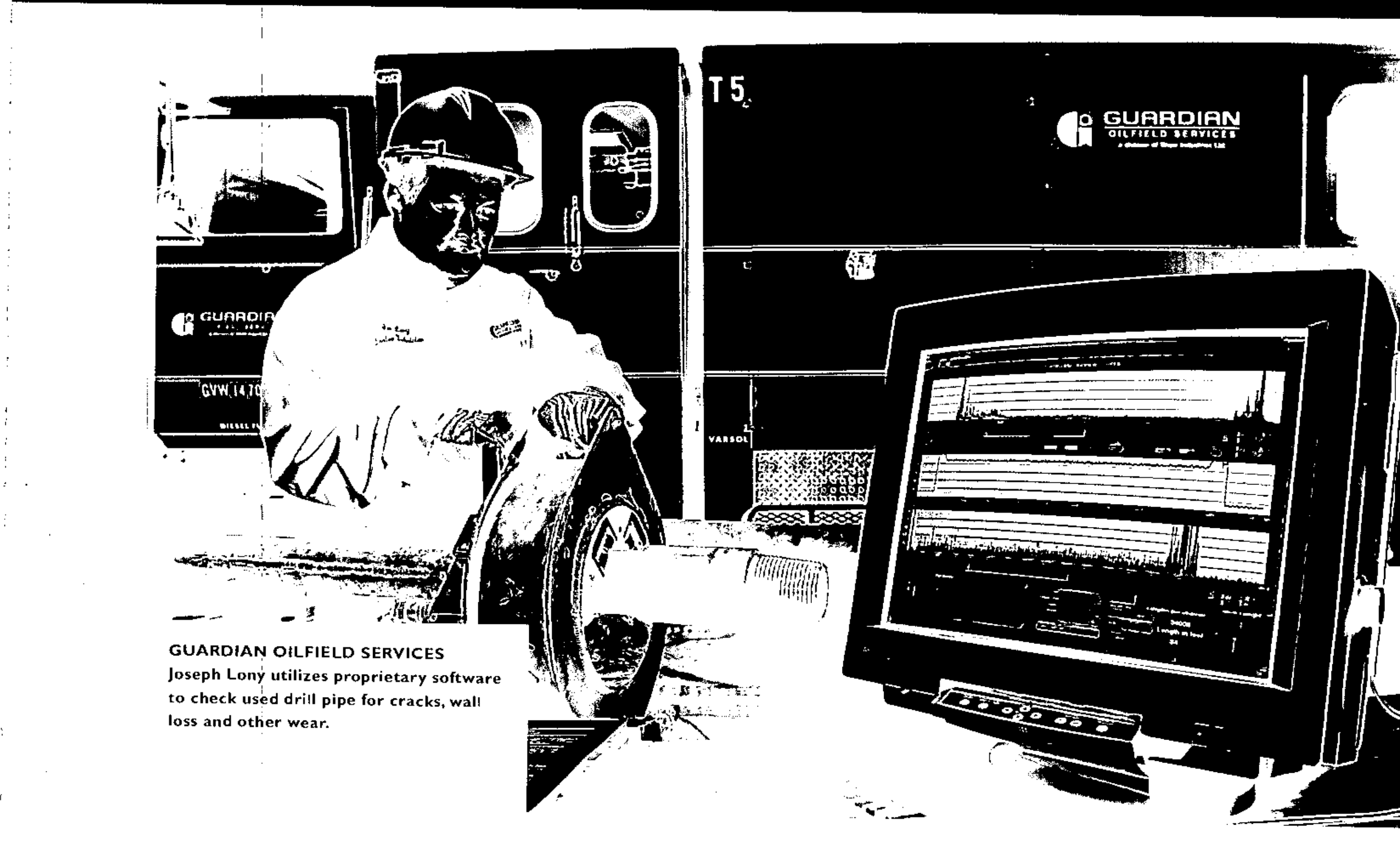
OMSCO Industries manufactures standard and heavy weight drill pipe, drill collars, kellys, kelly valves and other drilling accessories for both oil and gas wells. New products introduced during 1997 included a thread form specifically designed for the high torque applications prevalent in today's short and medium radius directional drilling applications.

Increased drilling activity and higher rig utilization rates resulted in significant growth in demand for all drill string components with industry backlogs for drill pipe in particular rising rapidly throughout the year. In order to improve service levels, OMSCO Industries moved quickly to implement several programs to add capacity at both the Houston, Texas and Cumbernauld, Scotland manufacturing facilities. In Houston, manufacturing engineering and operations staff dedicated many hours to the design and re-layout of the division's existing drill pipe processing lines to improve material flow and operational efficiency while expanding quality control capabilities through the installation of a new electromagnetic inspection (EMI) line. These changes will result in the achievement of significant capacity increases early in the year while additional capacity will be realized prior to year end through the installation of a new upsetter and third weld line. In Cumbernauld, the installation of a new welder and higher capacity heat treating stations will permit a substantial increase in plant output during 1998.

GUARDIAN OILFIELD SERVICES

Guardian Oilfield Services provides a complete tubular management program for energy producers, drilling contractors and tool rental companies from seven locations in Western Canada. During 1997, Guardian implemented expansion programs at two of these locations utilizing additional land acquired for this purpose. The division's broad range of capabilities has enabled the development of customer specific alliance agreements whereby these customers utilize Guardian for all of their casing and tubing inspection requirements, drilling related inspection and API threading. Continuing consolidation in the contract drilling industry has allowed Guardian to secure service contracts which entail the responsibility to manage all of the tubular requirements for the majority of the rigs active in the Western Canadian sedimentary basin.

A strengthening North Sea drilling market and continuing productivity gains underscored improved results at the Guardian – PTS facility in Peterhead, Scotland. Guardian's Mexican facility in Villahermosa continued working under contract for PEMEX, the state oil company, while bidding for additional work through the government's expanding privatization program.



GUARDIAN OILFIELD SERVICES
Joseph Lony utilizes proprietary software to check used drill pipe for cracks, wall loss and other wear.

PIPELINE

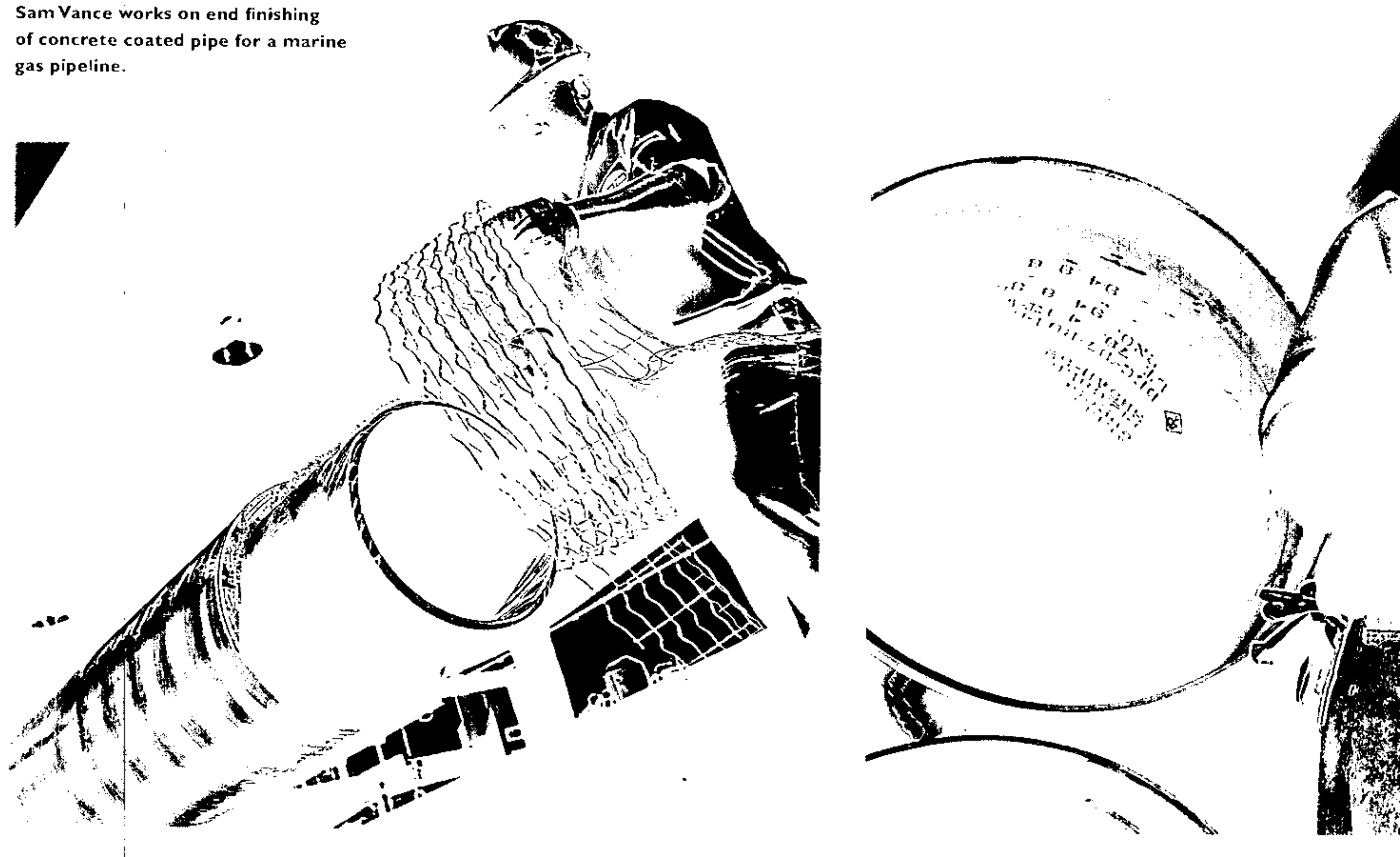
GROWTH IN THE CONSUMPTION OF NATURAL GAS HAS ACCELERATED IN RECENT YEARS, NOT ONLY IN NORTH AMERICA WHERE IT IS NOW THE FUEL OF CHOICE FOR RESIDENTIAL, COMMERCIAL, INDUSTRIAL AND POWER GENERATION REQUIREMENTS, BUT ALSO IN DEVELOPING COUNTRIES WHERE GAS IS FINDING INCREASING FAVOUR FOR THE GENERATION OF ELECTRICITY IN MANY OF THE WORLD'S RAPIDLY INDUSTRIALIZING ECONOMIES. SHAW INDUSTRIES IS STRONGLY FOCUSED ON THE GAS INDUSTRY WHERE THIS WORLDWIDE CONSUMPTION GROWTH WILL CREATE SIGNIFICANT POTENTIAL FOR THE COMPANY'S PIPELINE BUSINESSES.

In North America, the pipeline building cycle is entering a new growth phase. Major new projects and capacity expansions have been announced to ship increased quantities of gas from Western Canada, the Maritimes and the Gulf of Mexico to U.S. Midwestern and Northeastern markets. Elsewhere, "world class" projects are being planned to expand the gas delivery infrastructure in the North Sea, Latin America, the Middle East and the Far East.

DRESSER – SHAW JOINT VENTURE

The Dresser – Shaw joint venture is a long term, 50/50 alliance incorporating Shaw Pipe Protection, the pipecoating operations of Shaw Industries and Bredero Price, the pipecoating operations of Dresser Industries of Dallas, Texas. Headquartered in Slough, England, the joint venture provides advanced pipecoating, insulation and weight coating products for corrosion protection, physical barrier and negative buoyancy applications from 29 plants around the world. The joint venture's Operational Support Group provides the engineering expertise necessary for the modification and maintenance of existing plants, the installation of new process technologies and the establishment of permanent or project-specific plants wherever they are required throughout the world.

DRESSER - SHAW JOINT VENTURE
Sam Vance works on end finishing of concrete coated pipe for a marine gas pipeline.

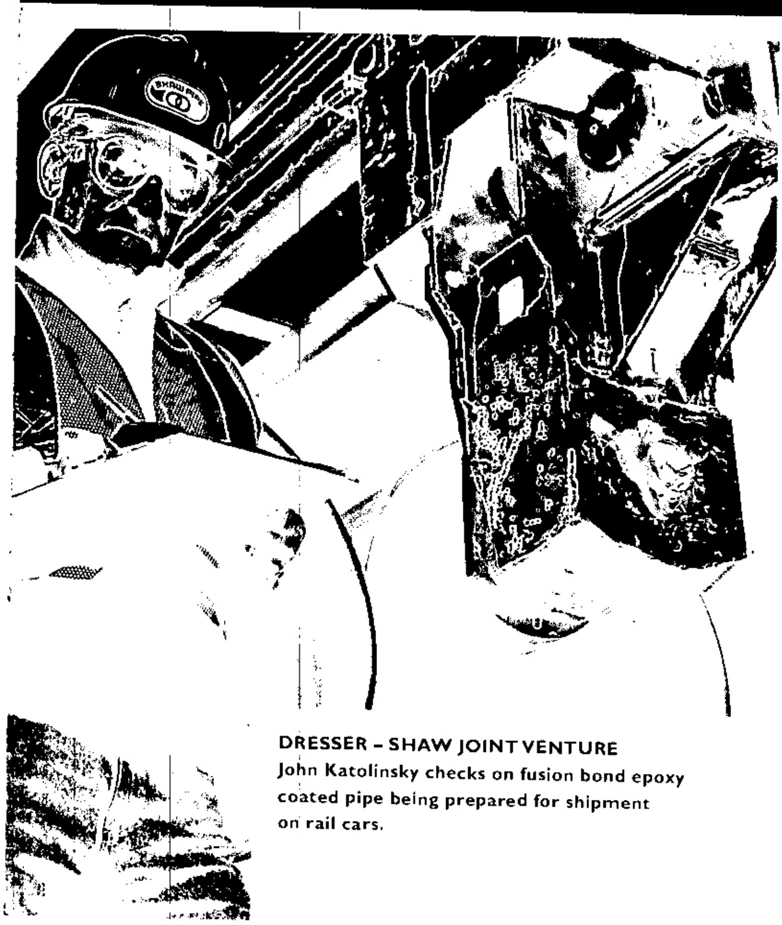


Record drilling levels in Western Canada resulted in strong demand for small diameter pipeline coatings as producers invested heavily in new gathering systems needed to support anticipated increases in export capacity. In order to maintain service levels, Shaw Pipe Protection secured several temporary storage locations to handle the influx of pipe into its Edmonton, Alberta coating facilities and approved a program to develop a company-owned site which will provide permanent capacity to meet future storage requirements.

During 1997, Shaw Pipe Protection continued to focus on programs keyed to the division's technical resource strengths and broad product line capability which together allow the joint venture to provide enhanced levels of customer service. A major step in the development of products with unique performance and handling attributes occurred with the use of the company's new High Performance Composite Coating (HPCC) on a 530 km 30 inch diameter high temperature oil line. HPCC is a proprietary, high performance product incorporating both fusion bonded epoxy and polyolefin resins applied to produce a tough abrasion and corrosion resistant coating which is engineered to suit specific customer requirements.

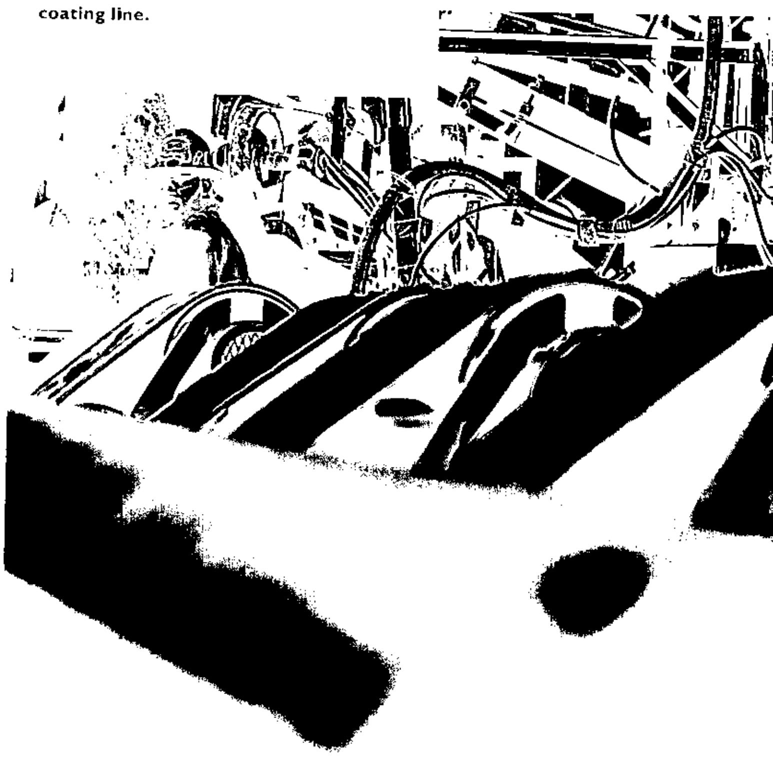
In the United States, continuing success with deep water exploration programs has made the offshore Gulf of Mexico the most active area for new pipeline construction. With corrosion protection and concrete weight coating activity increasing by 50% in the Gulf of Mexico during 1997, the joint venture implemented several programs to increase productivity at the Harvey, Louisiana facility. Rationalization of U.S. pipecoating capacity continued with the goals of improving resource utilization, increasing productivity and more effectively meeting customer needs.

Productivity improvement issues were also addressed in the North Sea with several programs implemented to increase throughput and reduce costs at the Farsund, Norway facility. At Leith, Scotland, work was completed on projects to relocate and upgrade the capabilities of several processes in anticipation of a busy schedule of coating for several major offshore pipelines including the Elgin-Franklin and DONG-South Arne projects which will link offshore gas fields and transport the gas to markets in the United Kingdom and Denmark. Two small, strategic acquisitions were also completed late in 1997 and a project is underway to integrate their assets into the Leith facility.



DRESSER – SHAW JOINT VENTURE
John Katolinsky checks on fusion bond epoxy coated pipe being prepared for shipment on rail cars.

DRESSER – SHAW JOINT VENTURE
Martin Livingstone operates the conveyor system on a concrete coating line.



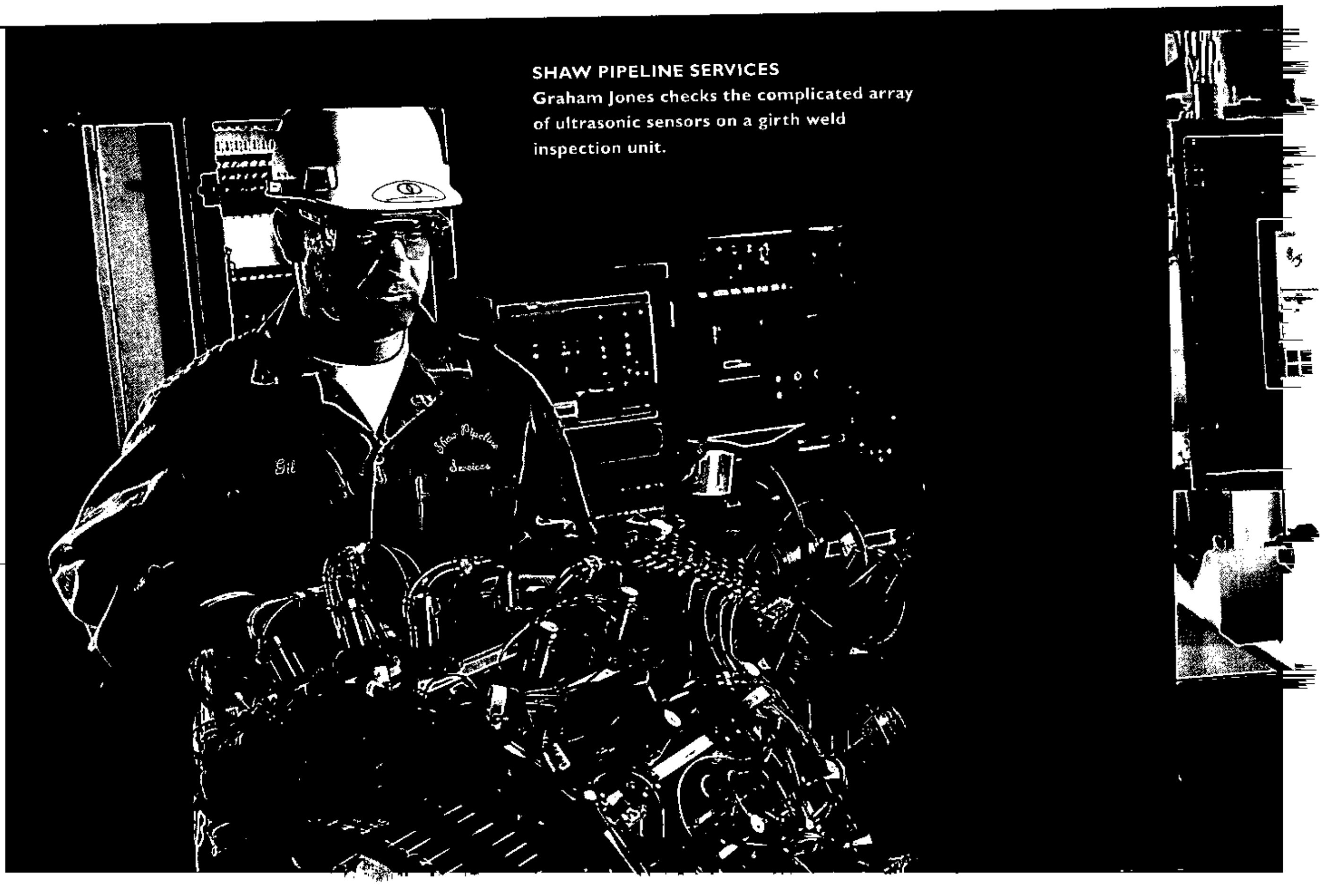
In other international markets, coating activity levels increased at a number of plants as the demand for natural gas for power generation and ndustrial requirements continued to grow. Facilities located in Australia, Malaysia and Thailand were all busy while, looking ahead, major natural gas projects are planned for Malaysia and Indonesia in 1999 and 2000. The impact of political and currency instability will be felt hroughout the Far East during 1998 with the cancellation of some infrastructure programs, however pipeline spending is expected to remain re atively strong.

Preparations are underway to improve asset management and increase returns at several plants in the Middle and Far East including a major upgrade of the Kuantan, Malaysia facility to incorporate increased productivity in conjunction with the relocation of this facility to an improved nearby site.

SHAW PIPELINE SERVICES

Shaw Pipeline Services provides pipeline girth weld and line pipe inspection services to pipeline owners and contractors and to pipe manufacturers around the world. Ultrasonic (UT) girth weld inspection revenues grew substantially during 1997 as robust activity in the Gulf of Mexico was augmented by the negotiation of major contracts with two superbarge operators and the award of the first international land-based UT projects in Saudi Arabia and Brazil. Recognition of this technology's superiority resulted in the receipt of technical approvals from several new customers and the conclusion of a long-term agreement with a major lay barge operator solidified the division's preeminent industry position.

Although the benefits of the UT inspection technology are becoming well established, many pipeline projects, particularly for small diameter, short distance lines, will continue to utilize traditional radiographic inspection (RT) technology. In order to meet customer needs for both systems, introduce prospective customers to the UT technology and rapidly expand international project support capabilities, the assets of QED Inspection Services with operating bases in the United Kingdom, the United Arab Emirates, Singapore and Australia were acquired. Successful introduction of new weld cross-section display software by the engineering group, improvements in equipment functionality and



SHAW PIPELINE SERVICES
Graham Jones checks the complicated array of ultrasonic sensors on a girth weld inspection unit.

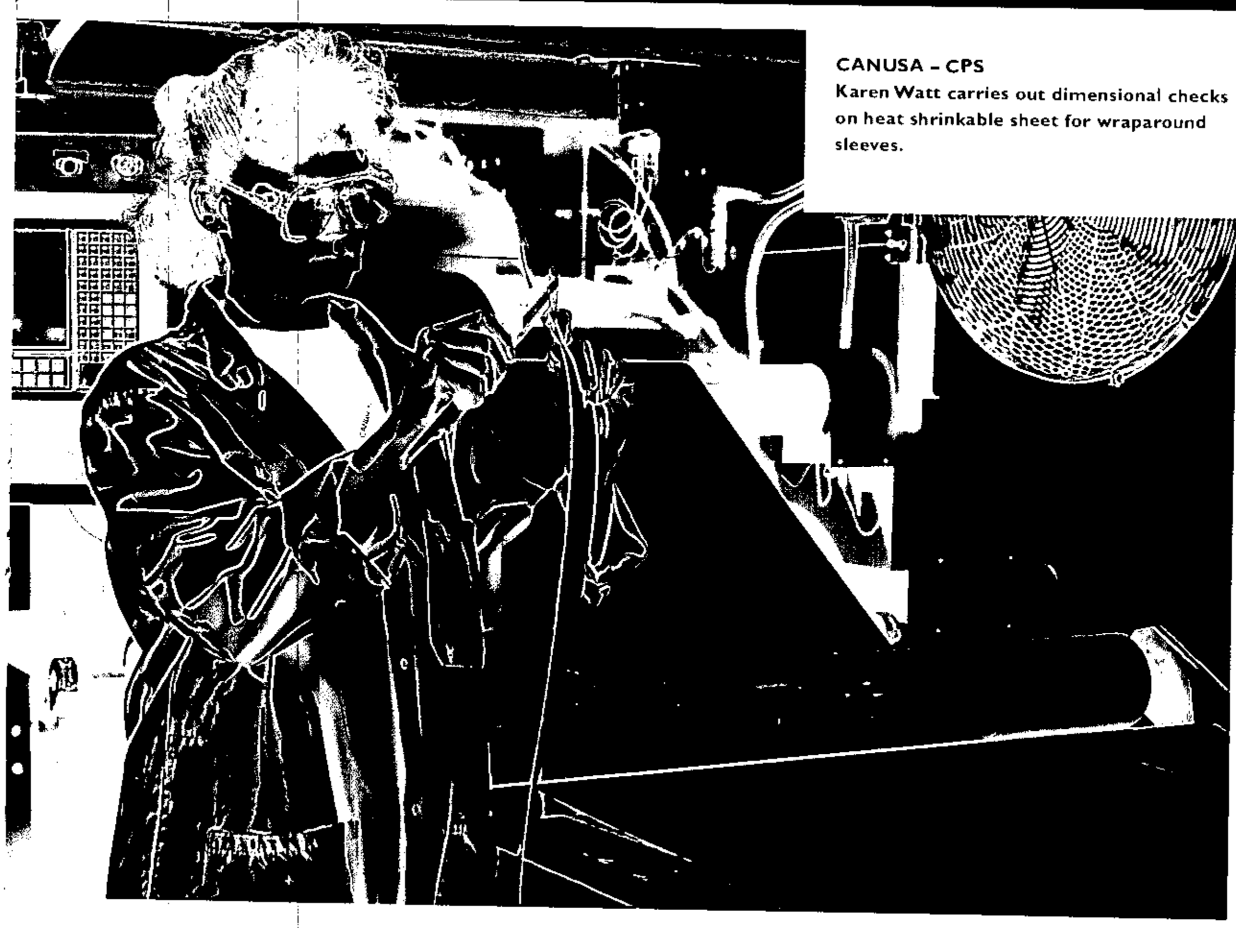
packaging and the redesign of instrumentation systems to increase reliability and reduce manufacturing costs all enhanced the state of the art aspects of the division's UT technology.

CANUSA – CPS

Canusa – CPS is a leading manufacturer of specialized materials including heat shrinkable sleeves, adhesives, sealants and liquid coatings for corrosion, insulation, physical and pipeline joint protection applications. In 1997, the division achieved significant growth in both North American and international markets bolstered by the increase in worldwide pipeline construction activity. During the year, a new sales office was opened in Abu Dhabi and preparations were underway to open a sales office in Singapore early in 1998. Major transmission projects were secured in Latin America, Eastern Europe and Africa and the division also received several important product approvals from major pipeline customers.

New product development programs focused on the evolving needs of pipeline contractors for ease of installation and increased reliability with the introduction of the GTS-65 Global Transmission Sleeve, the first in a family of products designed for reliable installation anywhere in the world in any climate. Products introduced for insulated pipe applications included a new, low cost sealant for high temperature gathering systems and a new District Heating Casing. Pipeline coating technologies are continuing to evolve at a rapid pace as the use of technically sophisticated, multi-layer coatings extends to cover a broader range of installation and operating conditions. To meet these specialized requirements, Canusa – CPS is developing new, highly engineered products for abrasion resistance and high temperature applications.

In order to support this division's rapid growth, several manufacturing programs were completed including the implementation of a sophisticated, new production planning and control system and the commissioning of new, high capacity process equipment which will reduce costs while significantly increasing output.



CANUSA – CPS
Karen Watt carries out dimensional checks on heat shrinkable sheet for wraparound sleeves.

PETROCHEMICAL, UTILITY & INDUSTRIAL

THE NORTH AMERICAN ECONOMIES, WITH THEIR PRODUCTIVE, HIGHLY MOBILE WORKFORCES, CONTINUED TO BENEFIT FROM LOW INTEREST RATES, DECLINING UNEMPLOYMENT AND STRONG DOMESTIC DEMAND DURING 1997.

In this environment, companies will continue to invest heavily in computer technologies, process control systems, robotics and telecommunications networks in order to derive maximum benefit from the productivity gains and lower costs such investments provide.

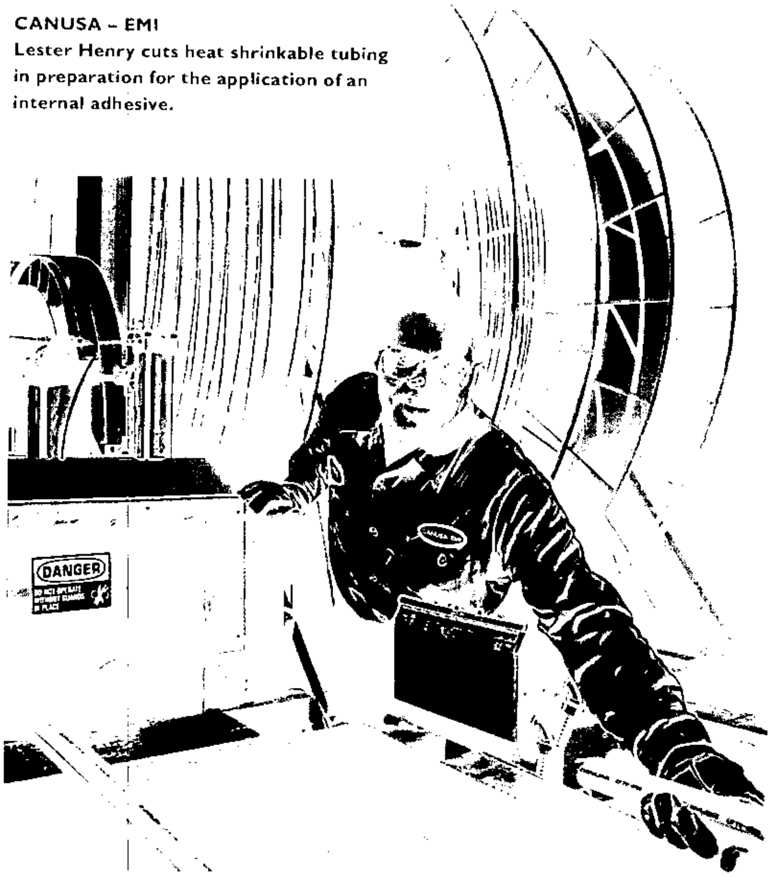
SHAWFLEX

Shawflex is a Canadian manufacturer which targets high value added segments of the North American wire and cable industry. In 1997, the division focused on the implementation or extension of several programs including faster response times, increased channels of distribution and a broader product line which together are supported by the use of World Class Manufacturing techniques. These programs allow Shawflex to differentiate itself from other participants in the wire and cable industry through greater design flexibility, reduced manufacturing cycle times and improved customer service. Increasingly, new products are playing an important role in both domestic growth and expansion into the highly competitive U.S. market where Shawflex is focusing on specialty cables for the rapidly growing automation and control markets.

CANUSA – EMI

Canusa – EMI is a leading, global provider of heat shrink based systems and related products for electrical, electronic, telecommunications and mechanical insulation applications. In North America, Canusa – EMI broadened its product range and secured increased market share through the acquisition of the heat shrinkable products business of Markel Corporation. The Markel production assets were transferred to Canusa – EMI's Toronto, Ontario facility and the packaging assets were transferred to a new, enlarged facility in Cincinnati, Ohio which incorporates an expanded printing, cutting and kitting operation. This program allowed Canusa – EMI to provide enhanced, value added services by efficiently packaging small product quantities and kits for private label distributors and other resellers. Internally developed new products introduced during 1997 included high expansion ratio tubing, anti-track tubing, ribbon fibre protectors and medium wall halogen free tubing. In Europe, Canusa Systems also broadened its product line and increased the level of sales representation in continental markets.

CANUSA – EMI
Lester Henry cuts heat shrinkable tubing in preparation for the application of an internal adhesive.

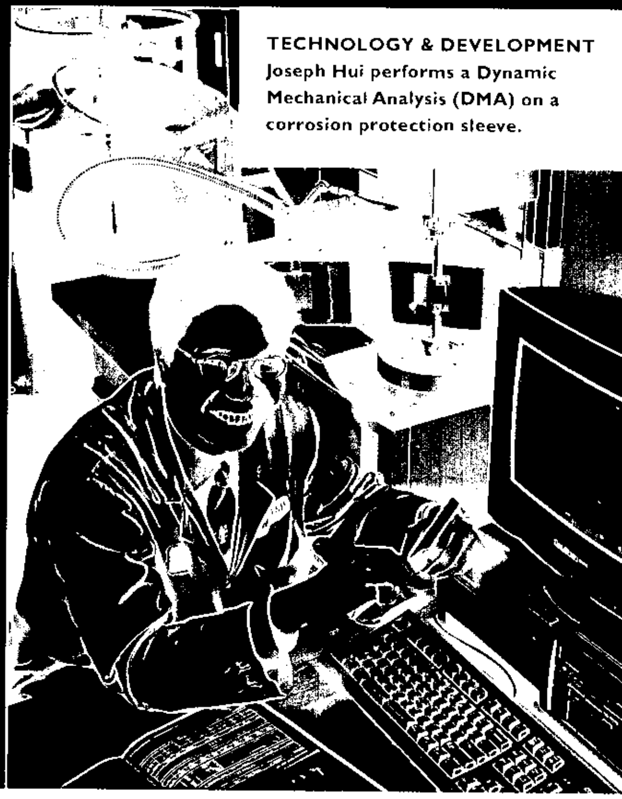


SHAWFLEX
Gil Giffin checks the application of a mylar shield on instrumentation cable prior to jacketing.

SHAW INDUSTRIES
AT WORK

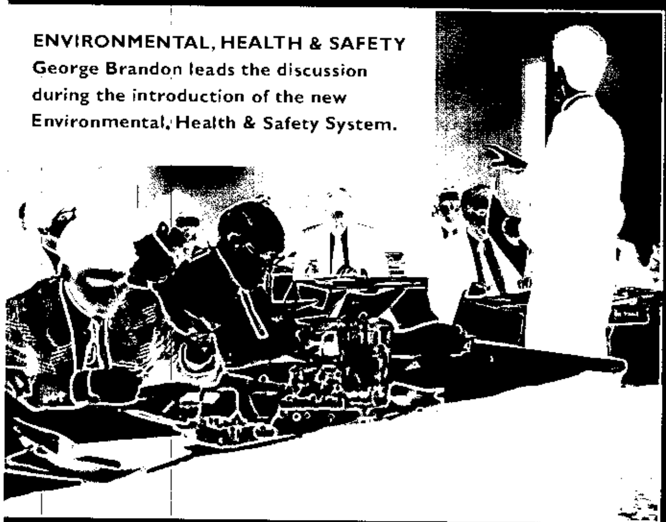
TECHNOLOGY & DEVELOPMENT

SHAW INDUSTRIES' INVESTMENT IN TECHNOLOGY AND DEVELOPMENT IS PAYING OFF through the introduction of new products and processes which have been developed to meet customer needs or increase the efficiency and productivity of company facilities. Currently, the corporate Technology and Development Group includes 23 researchers and support staff whose specialized areas of expertise encompass adhesives, polyolefin crosslinking, coatings and thermal insulation, polymer compounds, liquid coatings and motion and pressure sensors. Several of the company's divisions also conduct product and process development programs, often in cooperation with the corporate Technology and Development Group. Through the combined efforts of both corporate and divisional research and engineering personnel, a substantial number of development programs have reached a successful conclusion and have resulted in an impressive list of developments which have contributed to Shaw Industries' revenue and profitability growth over the years. The corporate Technology and Development Group is also charged with keeping abreast of new technologies which might be relevant to the company's future operations. The group is continually examining these new technologies to assess their potential value to Shaw Industries' businesses.



TECHNOLOGY & DEVELOPMENT
Joseph Hui performs a Dynamic Mechanical Analysis (DMA) on a corrosion protection sleeve.

ENVIRONMENTAL, HEALTH & SAFETY



ENVIRONMENTAL, HEALTH & SAFETY
George Brandon leads the discussion during the introduction of the new Environmental, Health & Safety System.

PROTECTION OF THE ENVIRONMENT AND MAINTENANCE OF HEALTHY AND SAFE WORK PRACTICES CONTINUE TO GAIN INCREASING PROMINENCE as companies recognize that these issues play an important role in controlling costs and increasing productivity in all types of businesses. Following an intensive period of development by the Human Resources Group at Shaw Industries, implementation of a new Environmental, Health and Safety (EHS) Management System began with introductory training sessions held during 1997 in several cities where company facilities are located. With strong support from the Board of Directors, corporate and senior divisional management, these training sessions were utilized to explain the system and carry the message concerning its importance to operating management and supervisory personnel. The EHS Management System fosters continual improvement in EHS performance and meets the requirements of the internationally recognized standard ISO 14001. Each Shaw Industries' business has developed its own implementation plan and many were well along toward completion of the introduction of this new system by the end of 1997.

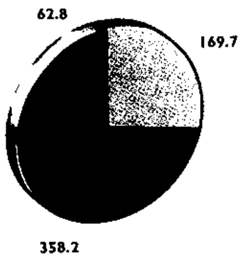
FINANCIAL
REVIEW

Shaw Industries Ltd. is a global energy services company specializing in products and services for the exploration and production, pipeline and downstream sectors of the oil and gas industry through businesses operating from plants and customer service centres in North America, Europe, the Middle East and Asia-Pacific region.

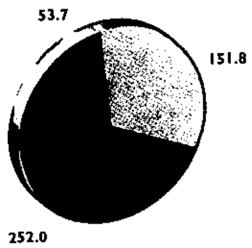
REVENUE

Consolidated revenue of $590.7 million is a record for the company, an improvement of 29.1% over 1996. The company classifies its revenue, from products and services sold to three sectors of the energy services industry, namely, exploration and production, pipeline, and petrochemical, utility and industrial.

CONSOLIDATED REVENUE
$ millions



1997



1996

- Exploration and production
- Pipeline
- Petrochemical, utility and industrial

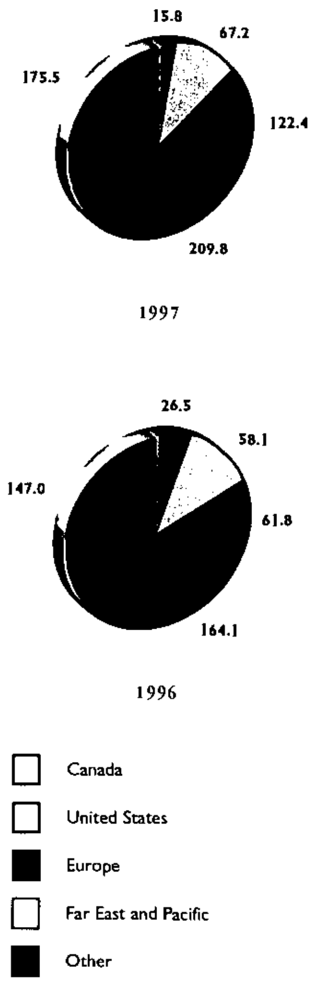
The exploration and production market sector includes Mark Products which manufactures geophysical sensors, cables and connectors at plants in the United States and Canada; OMSCO Industries which manufactures drill string components in the United States and Scotland and Guardian Oilfield Services which provides tubular management services and carries out inspection, testing and refurbishment of oilfield tubulars in Canada, Mexico and the United Kingdom. Worldwide drilling activity increased considerably in 1997 creating increased demand for new drill pipe and the provision of inspection and refurbishment services for production tubulars at levels not experienced for many years. Consequently, Guardian Oilfield Services and OMSCO Industries recorded higher revenues than in 1996. Revenue generated by Mark Products was below the prior year as the decline in the capital replacement cycle of the marine seismic segment exceeded market gains in the land-based seismic business. Supported by strong market demand, 1997 revenue in the exploration and production sector increased 11.8% to $169.7 million, although manufacturing capacity limitations at OMSCO Industries constrained this growth rate.

The pipeline sector is the largest sector of Shaw Industries and includes worldwide land and marine markets for pipecoating, lining and insulation products served by the Dresser – Shaw joint venture, Canusa – CPS which manufactures heat shrinkable sleeves and adhesives for pipeline joint protection and pipecoating processes respectively and Shaw Pipeline Services which provides ultrasonic and radiographic weld inspection services for land and marine pipeline construction. Strong demand for small diameter pipecoating in western Canadian oil and gas gathering markets and for corrosion and concrete coatings for U.S. clients operating offshore in the Gulf of Mexico, continuation of the long-term contract with Statoil in Norway and major project work in the Asia-Pacific region underpinned solid gains for the Dresser – Shaw joint venture. Revenue from heat shrinkable sleeves and adhesives increased at Canusa – CPS, a result achieved through the successful introduction of new products and by supplying robust worldwide demand from pipecoating and pipeline construction markets. During the year Shaw Pipeline Services firmly established its ultrasonic girth weld inspection technology in the pipeline construction market. Boosted by the midyear acquisition of the assets of QED Inspection Services which added radiographic inspection technology and operating bases in the United Kingdom, the United Arab Emirates, Singapore and Australia, this division generated increased revenue in 1997. Based upon healthy market demand for the company's products and services and the introduction of new products, pipeline sector revenue increased 42.1% in 1997 to $358.2 million.

The petrochemical, utility and industrial sector includes Shawflex, a manufacturer of wire and cable for process instrumentation and control applications, and Canusa – EMI, which manufactures heat shrinkable tubing for electrical, electronic, and telecommunications applications. Canusa – EMI generated gains in revenue boosted by the acquisition of the heat shrinkable products business of Markel Corporation, a U.S. based manufacturer of thin walled heat shrinkable tubing, and from market share gains achieved through the building of a strong distribution network. Success in penetrating the United States market and the addition of new products aided Shawflex in surpassing the prior year result. On a combined basis, petrochemical, utility and industrial sector revenue achieved a 16.9% improvement in 1997 to $62.8 million.

The strong demand for the company's products and services stemmed from increased activity in worldwide markets which resulted in consolidated revenue increases in the major geographic areas. The Canadian exploration and production and pipeline sectors were at record levels of activity, accounting for revenue increases by Mark Products, OMSCO Industries, Guardian Oilfield Services, Canusa – CPS and the joint venture. In the United States, higher drilling activity drove the demand for drill string components manufactured by OMSCO Industries. Pipeline construction in the Gulf of Mexico was active which generated revenue for Shaw Pipeline Services and the joint venture. In Europe, revenues doubled from the prior year with solid gains made by the joint venture, Canusa – CPS, OMSCO Industries and Canusa – EMI. Revenue in the Other geographic segment, which includes Mexico, Colombia, Africa and the Middle East, was primarily due to joint venture activity.

REVENUE BY GEOGRAPHIC SEGMENT
$ millions

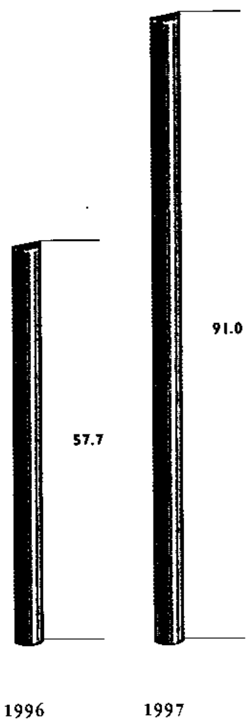


INCOME FROM OPERATIONS

Income from operations increased 57.9% above the 1996 level, reaching $91.0 million which established a new record for Shaw Industries. Very strong demand for the company's products and services in worldwide energy markets, and productivity improvements which favorably affected margins, substantially accounted for the improvement.

In the exploration and production sector, Mark Products recorded a reduced year-over-year result due to lower revenues while OMSCO Industries generated improved results driven by higher market demand for drill pipe. To capitalize on the business environment, OMSCO Industries commenced a major capacity expansion program in Houston, Texas, the benefits of which will start to flow in 1998. Guardian Oilfield Services benefited from improved processing efficiencies in Scotland and from the upturn in

INCOME FROM OPERATIONS
$ millions



Canadian drilling activity. Guardian also achieved improved results by enlarging service center facilities and through expanding its client base in tubular management services.

Business units operating in the pipeline sector registered healthy income gains over the prior year. The pipecoating operations of the Dresser – Shaw joint venture recorded improvements in Canada, where small diameter pipecoating volume was at an all time high, in the expanding Gulf of Mexico market and in international projects, notably in Thailand, Malaysia and Indonesia. The turmoil in currency markets in South East Asia has not had a significant impact on business units operating in these locations, as major contracts are primarily written in United States dollars. A slight downturn in the North Sea occurred where scheduling and product mix affected the outcome, however the backlog at year-end in both Scotland and Norway closed higher. Canusa – CPS benefited from successfully carrying out several business strategies, including adding new processes and the upgrading of existing equipment, which resulted in labour efficiency gains and material savings in manufacturing while continuing to emphasize global market expansion. Shaw Pipeline Services profited through the consolidation of its worldwide position in the pipeline girth weld inspection market following the QED acquisition and by adding additional ultrasonic inspection capacity to service offshore pipeline construction markets.

Shawflex and Canusa – EMI, comprising the petrochemical, utility and industrial sector, both benefited from market share gains in the United States and from new product introductions. Early in the year Canusa – EMI acquired the heat shrinkable products business of U.S. based Markel Corporation which added manufacturing capacity and sales volume to the division's thin wall heat shrink tubing product line.

Depreciation increased 20.1% to $15.3 million reflecting capital improvements to plant and equipment in all business units. Goodwill amortization for the year 1997 was $1.1 million as a result of the acquisition of Markel and the consideration for the extended joint venture term with Dresser Industries, Inc. Research and development expenses increased 30.8% to $3.6 million as new products, new technologies and improvements in process development continued to be keys to focused growth.

Interest on bank indebtedness was $1.9 million compared with $1.0 million in the prior year. The company's share of joint venture indebtedness accounted for $1.8 million of the total interest expenses. Interest on long-term debt was $2.0 million (1996 – nil) in respect to the payment commitment to Dresser Industries as a result of the amendment to the joint venture agreement.

Income taxes in 1997 were 36.4% of income before taxes and minority interest, a decrease from 38.5% in 1996. The decrease was primarily due to the application of prior years' losses in certain jurisdictions, the benefit of which was not previously recognized. Percentage income tax rates could be reduced further, if in future years, additional unrecognized income tax benefits in the United Kingdom, the Netherlands and Thailand are realized.

The minority interest in losses of subsidiaries of $0.7 million compares with the prior year of $0.6 million and relates to the non-wholly owned subsidiaries of the joint venture which, in aggregate, recorded a net loss for the year.

JOINT VENTURE

On February 29, 1996, a joint venture agreement was entered which combined the pipecoating business of Dresser Industries and the pipecoating business of Shaw Industries. The Shaw Industries 1996 Annual Report describes the initial joint venture agreement and provides an operational commentary and financial results for the initial ten months (March 1, 1996 to December 31, 1996) of the joint venture's operations.

Effective August 1, 1997, the joint venture agreement was amended to extend the arrangement to the year 2030 with equal ownership and equal entitlement to worldwide earnings. Certain terms and conditions contained in the initial joint venture agreement including the ownership structure, the four-year term, the provision for early termination after two years and the minimum sale price to Shaw Industries of U.S.$175 million were replaced and/or amended by the August 1, 1997 agreement.

As consideration for entering into these long-term arrangements, the company agreed to pay Dresser Industries, Inc., U.S.$41.7 million plus interest over four years. The company made the first contractual principal and interest payment totaling U.S.$8.3 million on September 4, 1997. Four remaining annual payments are due on the 31st of July each year commencing in 1998. Shaw Industries will amortize the total amount of the consideration over the term of the joint venture agreement to the year 2030. The company accounts for its interest in the joint venture on a proportionate consolidation basis with reported assets and liabilities based on ownership. As stated in note 15 to the consolidated financial statements, revenue, expenses and net income were consolidated for the period January 1, 1997 to July 31, 1997 based on the entitlement under the February 29, 1996 shareholders' agreement and thereafter based on the entitlement under the August 1, 1997 amended agreement.

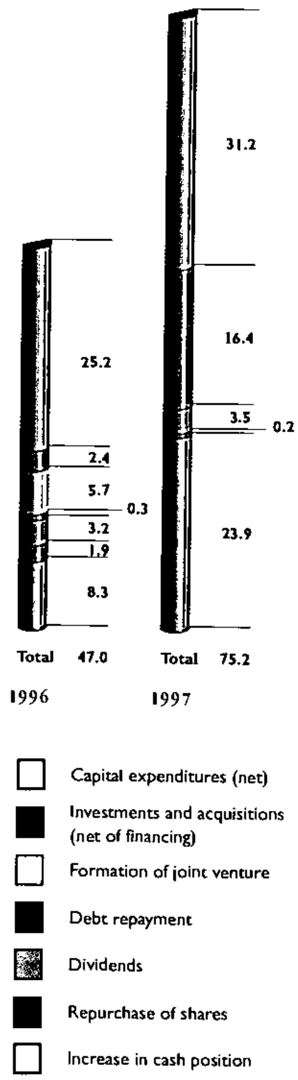
DIVIDENDS

Dividends per share were increased by 10% during 1997 to $0.1815 and $0.165 for Class A and Class B shares respectively. The dividend applicable to Class A shares includes a non-cumulative premium of 10% above that applicable to Class B shares. The Board of Directors determines dividend payments based on consideration of net earnings over a period of years and the company's overall financial standing.

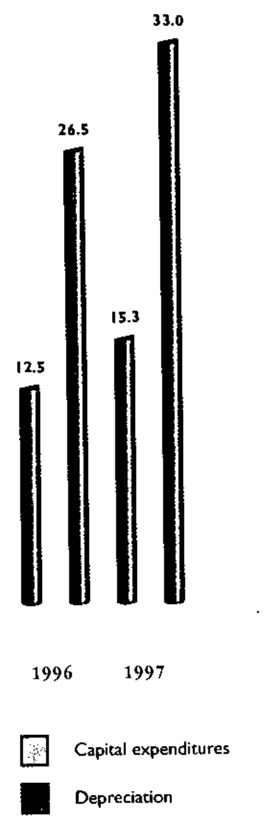
LIQUIDITY AND CAPITALIZATION

Total working capital of $116.5 million represented a decrease in the current ratio from 1.87 to 1 to 1.81 to 1, mainly due to the current portion of the long-term debt to Dresser Industries. Note 7 to the consolidated financial statements, describes the particulars of the Dresser Industries promissory note. Cash, net of bank indebtedness, increased by $23.9 million to $47.5 million with $13.4 million in joint venture operations and $34.1 million in Shaw Industries' other divisions. Cash from operating activities of $75.2 million included $50.0 million from the company's share of the Dresser – Shaw joint venture, an increase of $12.3 million from Shaw Industries' 1996 share, which was for the initial ten months of joint venture operations.

USES OF CASH FROM OPERATING ACTIVITIES
$ millions



CAPITAL EXPENDITURES AND DEPRECIATION
$ millions



During 1997, there were capital expenditures of $33.0 million of which $14.6 million related to the joint venture and $18.4 million to Shaw Industries' divisions. Capacity expansions at OMSCO Industries in Houston, Texas and Cumbernauld, Scotland, accounted for 43% of the Shaw division expenditures with plant upgrades and capacity expansions at Canusa – EMI, Shaw Pipeline Services and Canusa – CPS substantially accounted for the balance. During the year two acquisitions, both asset transactions, were completed for a total cash consideration of $7.0 million with $3.8 million allocated to fixed assets, $1.7 million to goodwill and $1.6 million to working capital. The purchase by the joint venture of the assets of two North Sea based companies, accounted for $7.3 million of the total joint venture capital expenditures, with the balance expended for plant upgrades in the Far East and at North Sea plants.

Goodwill of $1.7 million was recorded in respect to the Markel acquisition and $57.0 million was recorded in respect to the amendment of the joint venture agreement with Dresser Industries, which became effective August 1, 1997. Shaw Industries will amortise the total amount of the joint venture related goodwill over the term of the joint venture agreement to the year 2030 and, in respect to the Markel acquisition, over a five year period. Total goodwill amortization in 1997 was $1.1 million.

Funds were also used to pay dividends of $3.5 million compared with $3.2 million in 1996. In 1997, the company acquired shares under a Normal Course Issuer Bid, which permits the purchase of up to 5% of the company's issued and outstanding Class A Subordinated Voting Shares and Class B Multiple Voting Shares. A total of 5,450 Class B shares were purchased for cancellation under the Normal Course Issuer Bid at a total cost of $0.2 million. Management considers the use of available funds to purchase shares, at acceptable prices, to be a prudent means to enhance longer term shareholder value.

Bank indebtedness decreased to $12.6 million from $17.1 million in the prior year. All of the current year bank indebtedness related to the company's share of joint venture indebtedness. Long-term debt of $46.6 million (1996 – nil), payable in four equal instalments on July 31st of each year commencing in 1998, was established in respect of a promissory note due to Dresser Industries in consideration of the implementation of amendments to the joint venture agreement.

The cumulative translation account decreased by $15.7 million during the year. Significant decreases resulted from the translation of joint venture entities in the Far East, which reflected the weakening of local currencies during the last half of the year and also from the impact of a foreign exchange option for hedging the company's investment in the joint venture. Partially offsetting these items were increases resulting from the translation of joint venture and non-joint venture entities, in the United States and the United Kingdom, reflecting strengthening of these currencies against the Canadian dollar.

Shareholders' equity increased 19.6% to $248.5 million, reflecting the net income for the year, the decrease in the cumulative translation account, dividends declared and paid during the year and the reduction on the cancellation of Class B shares purchased under the Normal Course Issuer Bid.

OUTLOOK AND UNCERTAINTIES

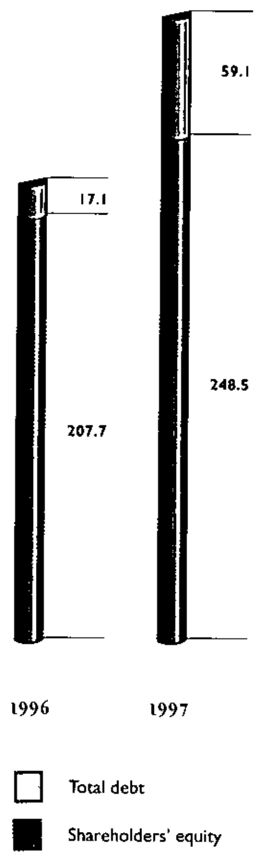
In 1997, the company undertook a detailed review of all computer systems used for management information processing and in-plant manufacturing control and processing with respect to Year 2000 computer issues. An internal evaluation of the time and cost to upgrade all computer-based accounting and information systems, to be compliant with Year 2000 requirements was reviewed by a specialist consulting group. All remediation and testing, required to ensure that each of these systems he fully Year 2000 compliant, will be carried out expeditiously, at a cost estimated at less than $1.0 million.

Uncertainties facing the company include a deterioration in political and monetary stability in Asia that may defer or, in a worst case scenario, precipitate cancellation of major energy spending. Other uncertainties include domestic and foreign government policies and regulations, policy changes initiated within the OPEC framework, the level of world oil and gas prices and foreign exchange rates.

In 1998, the company expects to meet its ongoing cash requirements and undertake a wide range of capital programs including capacity expansions and product line improvements through cash on hand, cash provided from operations, dividends from the joint venture and access to operating lines of credit. The company foresees that the joint venture will operate as a self-sustaining entity with funds required to meet ongoing capital and operating commitments provided by a positive operating cash flow and through bank financing secured by joint venture assets.

Despite announced increases in Middle East oil flows and the 1998 first quarter decline in oil and natural gas prices, the global outlook for the energy industry in 1998 and beyond is favorable. Industry experts forecast an annual hydrocarbon demand growth rate exceeding 2% for the next several years which will require an additional 1.5 million barrels of oil equivalent per day. The energy industry business fundamentals remain strong and demand forecasts augur well for the company's business units in the exploration and production sector. As well, industry estimates on infrastructure spending to transport the oil and gas to market are significant, which will benefit the pipeline sector business units. Major gas transmission companies and producers have announced significant large diameter pipeline projects, with construction scheduled to commence in the 1998-1999 period, in the Far East, North America and the North Sea.

CAPITALIZATION
$ millions



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Shaw Industries Ltd. included in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has selected those it deems to be most appropriate in the circumstances. The financial statements include estimates based on the experience and judgement of management in order to ensure that the financial statements are presented fairly, in all material respects. Financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

The management of the company and its subsidiaries developed and continues to maintain systems of internal accounting controls and management practices designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors exercises its responsibilities for ensuring that management fulfils its responsibilities for financial reporting and internal control with the assistance of its Audit Committee.

The Audit Committee is appointed by the Board and all of its members are Directors who are not officers or employees of Shaw Industries Ltd. or any of its subsidiaries. The Committee meets periodically to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the company's annual consolidated financial statements and recommends their approval to the Board of Directors.

These financial statements have been audited by Ernst & Young, the external auditors, on behalf of the shareholders. Ernst & Young has full and free access to the Audit Committee.

February 20, 1998

Geoffrey Hyland

Geoffrey F. Hyland
President and Chief
Executive Officer

Brian Conroy

Brian J. Conroy
Vice-President, Finance

AUDITORS' REPORT

To the Shareholders of Shaw Industries Ltd.

We have audited the consolidated balance sheets of Shaw Industries Ltd. as at December 31, 1997 and 1996 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended, in accordance with generally accepted accounting principles.

Ernst & Young

Toronto, Canada
February 20, 1998

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

December 31 (In thousands)	1997	1996
ASSETS		
Current assets		
Cash and short-term deposits	$ 60,057	$ 40,720
Accounts receivable	132,260	130,211
Inventories (note 2)	64,688	60,113
Prepaid expenses	3,848	3,477
	260,853	234,521
Fixed assets (note 3)	103,624	93,910
Other assets (note 4)	67,792	8,707
	$ 432,269	$ 337,138
LIABILITIES		
Current liabilities		
Bank indebtedness (note 5)	$ 12,565	$ 17,082
Accounts payable and accrued liabilities	103,980	92,797
Taxes payable	15,798	15,708
Current portion of long-term debt (note 7)	11,993	—
	144,336	125,587
Long-term debt (note 7)	34,570	—
Deferred income taxes	3,182	1,118
Minority interest (note 1(a))	1,654	2,689
	183,742	129,394
SHAREHOLDERS' EQUITY		
Capital stock (note 8)	5,978	4,490
Retained earnings	250,598	195,623
Cumulative translation account (note 9)	(8,049)	7,631
	248,527	207,744
	$ 432,269	$ 337,138

See accompanying notes.

On behalf of the Board

Geoffrey Hyland

Director

Leslie Shaw

Director

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31 (In thousands except per share information)	1997	1996
Revenue	$ 590,701	$ 457,548
Operating expenses	479,688	384,458
Depreciation and amortization	16,357	12,674
Research and development	3,618	2,766
	499,663	399,898
Income from operations	91,038	57,650
Other income (note 11)	4,099	1,964
Interest on bank indebtedness	1,947	1,000
Interest on long-term debt	1,969	—
Income before income taxes and minority interest	91,221	58,614
Income taxes (note 12)	33,223	22,580
Income before minority interest	57,998	36,034
Minority interest	664	551
Net income for the year	$ 58,662	$ 36,585
Net income per share (Class A and Class B)		
Basic	$ 2.94	$ 1.85
Fully diluted	$ 2.86	$ 1.80

See accompanying notes.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years Ended December 31 (In thousands)	1997	1996
Balance at beginning of year	$ 195,623	$ 164,098
Net income for the year	58,662	36,585
	254,285	200,683
Excess of purchase price paid over stated value of Class A and Class B shares	159	1,891
Dividends paid	3,528	3,169
Balance at end of year	$ 250,598	$ 195,623

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOW

Years Ended December 31 (In thousands)	1997	1996
Operating activities:		
Net income for the year	$ 58,662	$ 36,585
Items not requiring an outlay of cash:		
Depreciation and amortization	16,357	12,674
Deferred income taxes	2,064	(922)
Minority interest	(664)	(551)
Equity in (earnings) loss of associated company (note 11)	(648)	576
Change in non-cash working capital	(599)	(1,322)
Cash provided by operating activities	75,172	47,040
Investing activities:		
Additions to fixed assets	(32,971)	(26,470)
Proceeds on disposal of fixed assets	1,726	1,267
Acquisitions (note 14)	(7,040)	—
Purchase of additional interest in joint venture (note 15 (b))	(57,397)	—
Investment in associated company (note 15(c))	—	(2,449)
Net decrease in cash position on formation of joint venture (note 15(a))	—	(5,670)
Cash used in investing activities	(95,682)	(33,322)
Financing activities:		
Increase in long-term debt on purchase of additional interest in joint venture (note 7)	46,563	—
Repayment of long-term debt	—	(281)
Dividends paid	(3,528)	(3,169)
Issue of Class A and Class B shares on exercise of stock options	1,490	—
Purchase of Class A and Class B shares for cancellation (note 8(d))	(161)	(1,923)
Cash provided by (used in) financing activities	44,364	(5,373)
Net increase in cash position during the year	23,854	8,345
Cash position at beginning of year	23,638	15,293
Cash position at end of year	$ 47,492	$ 23,638

Cash position includes cash and short-term deposits, net of bank indebtedness.

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

The consolidated financial statements include the accounts of Shaw Industries Ltd., its wholly owned subsidiaries, and its joint venture interest [collectively, the "company"]. The company accounts for its joint venture interest by the proportionate consolidation method. The Dresser – Shaw joint venture includes an associated company accounted for on the equity basis, and certain non-wholly owned subsidiaries accounted for on the consolidated basis giving rise to a minority interest in the net assets and net results.

b) Use of Estimates

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and assumptions available as of the date of the financial statements.

c) Revenue Recognition

Revenue from the sale of products is recognized upon shipment to customers. Revenue from inspection, repair and other services provided in respect of customer-owned property is recognized as services are performed under specific contracts and other arrangements.

d) Deferred Project Costs

Costs related to the preparation of production facilities for fixed term projects are deferred and amortized on a basis to match the costs with the revenue from production on the specific projects.

e) Foreign Currency Translation

Foreign operations which are financially and operationally independent are classified as self-sustaining. Foreign operations which are dependent upon other operations within the company are classified as integrated.

Assets and liabilities of self-sustaining foreign operations are translated at year-end exchange rates. Income and expense items are translated at average exchange rates for the year. The foreign exchange impact of these translations is included in the cumulative translation account on the consolidated balance sheets.

Monetary assets and liabilities of the company and its integrated foreign operations denominated in foreign currencies are translated at year-end exchange rates. All other assets and liabilities, along with depreciation expense denominated in foreign currencies are translated at historical exchange rates. Income and expense items other than depreciation are translated at average exchange rates for the year. Foreign exchange gains or losses resulting from the translation of long-term debt are deferred and amortized over the remaining term of the debt, all other foreign exchange gains or losses are included in the determination of net income for the year.

f) Derivative Financial Instruments

The company manages foreign exchange risk through the use of forward contracts and option contracts. Gains, losses or premiums on such instruments entered into for the purposes of hedging this foreign exchange exposure are deferred and amortized over the life of the hedged asset or liability, or are included as a component of the hedged transactions.

g) Inventories

Inventories are valued at the lower of cost on a first-in, first-out basis and net realizable value.

h) Fixed Assets

Fixed assets are recorded at cost and are depreciated over their useful lives on the straight-line basis at annual rates of 4% to 5% on buildings and 10% to 20% on machinery and equipment.

i) Goodwill

Goodwill is stated at cost less accumulated amortization and is amortized on a straight-line basis over its useful life to a maximum of 33 years. The company periodically assesses whether there has been a permanent impairment in the carrying value of goodwill by determining whether the unamortized goodwill balance can be recovered based on the fair value of the operation.

2. INVENTORIES

(In thousands)	1997	1996
Raw materials and supplies	$ 46,572	$ 42,104
Work in process	7,884	9,353
Finished goods	10,232	8,656
	$ 64,688	$ 60,113

3. FIXED ASSETS

(In thousands)	1997	1996
Cost		
Land and land improvements	$ 17,671	$ 17,288
Buildings	40,603	41,038
Machinery and equipment	177,114	163,712
Capital projects in progress	12,005	5,570
	247,393	227,608
Accumulated depreciation		
Land improvements	4,994	5,429
Buildings	25,094	26,603
Machinery and equipment	113,681	101,666
	143,769	133,698
	$ 103,624	$ 93,910

4. OTHER ASSETS

(In thousands)	1997	1996
Goodwill (net of accumulated amortization of $1,135, 1996 – nil) (notes 14 and 15)	$ 57,712	$ —
Deferred project costs	8,260	7,723
Investment in associated company	1,820	984
	$ 67,792	$ 8,707

5. BANK INDEBTEDNESS

Bank indebtedness is unsecured and is at current market rates. The company's share of credit facilities available to the joint venture is U.S.$33.3 million.

6. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments include foreign exchange options and forward exchange contracts and are only used to hedge foreign exchange exposures related to commercial activities. They are not used by the company for speculative purposes. At December 31, 1997, the company had the notional amounts of $25.4 million of forward contracts outstanding. The notional amounts are used to express the volume of the transactions and do not represent exposure to loss. The difference between the carrying values and fair values of these contracts was not significant.

7. LONG-TERM DEBT

(In thousands)	1997	1996
Promissory note due to Dresser Industries, Inc. (U.S.$33.3 million) unsecured and bearing interest at 10% per annum	$ 47,973	—
Deferred exchange losses	(1,410)	—
	46,563	—
Less current portion	11,993	—
	$ 34,570	—

Principal on the long-term debt is repayable in four equal annual instalments of U.S.$8.3 million in each of 1998, 1999, 2000 and 2001.

8. CAPITAL STOCK

a) As at December 31, the following shares were outstanding:

(In thousands except share information)	1997	1996
14,298,593 (1996 – 13,779,066) Class A Subordinate Voting Shares	$ 4,641	$ 3,105
5,806,650 (1996 – 6,018,858) Class B Multiple Voting Shares	1,337	1,385
	$ 5,978	$ 4,490

b) Class A shares are entitled to one vote per share and receive a non-cumulative dividend premium of 10% of the dividends paid to holders of Class B shares. Class B shares are entitled to ten votes per share and are convertible at anytime into Class A shares on a one-for-one basis. During 1997, 206,758 (1996 – 58,727) Class B shares were converted into 206,758 (1996 – 58,727) Class A shares.

c) Under the company's 1989 employee stock option plan, options are granted to senior officers and employees to acquire Class A shares at a nominal price. The number of shares which may be received under this plan varies with the growth in the market value of the shares. During 1997, options were granted under the 1989 plan which could result in the issue of up to 32,625 (1996 – 100,500) Class A shares, and no options were cancelled. In 1996, options which could have resulted in the issue of up to 110,850 Class A shares were cancelled. As a result of the exercise of options granted in previous years, 156,769 (1996 – 95,462) Class A shares were issued during 1997.

Under the company's 1992 employee stock option plan, options for 300,000 Class A shares were granted during 1992 at a price of $9.375 per share, being the fair market value at the date of the grant. During 1997, 150,000 (1996 – nil) options were exercised and 150,000 (1996 – nil) shares were issued under this plan.

Under the company's 1996 director stock option plan, options for 17,000 Class A shares were granted during 1996 at a price of $13.50 being the fair market value at the date of the grant. During 1997, 6,000 (1996 – nil) options were exercised and 6,000 (1996 – nil) shares were issued under this plan.

Under the company's 1997 employee stock option plan, options for 100,000 Class A shares were granted during 1997 at a price of $42.00 being the fair market value at the date of the grant. During 1997, no options were exercised and no shares issued under this plan.

At December 31, 1997, options issued and outstanding under the 1989, 1992, 1996 and 1997 plans could result in the issue of a maximum of 503,175 (1996 – 694,300) Class A shares up to August 7, 2003.

At December 31, 1997, 1,588,198 (1996 – 1,609,842) Class A shares were reserved with respect to options available for future grant under existing plans.

d) During the year, under a normal course issuer bid program, the company purchased 5,450 (1996 – 121,100) Class B shares and no (1996 – 20,000) Class A shares for cancellation.

9. CUMULATIVE TRANSLATION ACCOUNT

(In thousands)	1997	1996
Balance at beginning of year	$ 7,631	$ 4,119
Translation of self-sustaining foreign operations	(7,029)	3,512
Impact of foreign exchange option hedging investment in joint venture	(8,651)	—
Balance at end of year	$ (8,049)	$ 7,631

10. PENSION OBLIGATIONS

The company's pension obligations under various defined benefit plans for employees' service up to December 31, 1997 are estimated to be $13.0 million (1996 – $11.0 million). The pension plans have assets with a market value of $13.0 million (1996 – $10.2 million) available to meet these obligations.

11. OTHER INCOME

(In thousands)	1997	1996
Interest on deposits	$ 3,451	$ 2,540
Equity in earnings (loss) of associated company	648	(576)
	$ 4,099	$ 1,964

12. INCOME TAXES

The company's effective income tax rate is composed of the following:

	1997	1996
Combined basic Canadian federal and provincial income tax rate	44.6 %	44.6 %
Canadian manufacturing and processing profits deductions	(9.0)	(9.0)
Expected rate	35.6	35.6
Tax rate differential on earnings of foreign subsidiaries	(2.0)	(2.6)
Unrecognized tax losses of foreign subsidiaries	1.0	1.6
Other	1.8	3.9
	36.4 %	38.5 %

The company has income tax losses carried forward of $28.1 million, the benefits of which have not been recognized in the financial statements. These tax losses may be utilized to offset taxable income from certain jurisdictions in future years. Tax losses of $14.0 million carry forward indefinitely, the remainder will expire as follows, to the extent that they are not used: 1999 – $0.7 million; 2000 – $0.8 million; 2001 – $7.6 million; and 2002 – $5.0 million.

13. RELATED PARTY TRANSACTIONS

Related party transactions and balances which have not been eliminated in the consolidated financial statements are as follows:

(In thousands)	1997	1996
Sales to proportionately consolidated joint venture and associated company	$ 2,780	$ 249
Amounts receivable from proportionately consolidated joint venture and associated company	$ 236	$ 1,989

14. ACQUISITIONS

Effective January 31, 1997, the company purchased the assets of Markel Corporation, a Pennsylvania based manufacturer of heat-shrink tubing. Effective June 1, 1997, the company purchased the assets and business of Quality Examination & Developing Services (Europe) Limited, based in England, and of its subsidiaries: QED Services Pte. Ltd., QED International S.A. and QED (Australia) Pty Limited. These assets are used to perform radiographic inspection services for pipeline girth welds and other forms of radiography and non-destructive testing. Details of these acquisitions are as follows:

(In thousands)	Markel	QED	Total
Net assets acquired at assigned values			
Fixed assets	$ 1,758	$ 2,059	$ 3,817
Goodwill	1,670	—	1,670
Working capital	1,120	433	1,553
	$ 4,548	$ 2,492	$ 7,040
Consideration given			
Cash	$ 4,548	$ 2,492	$ 7,040

These transactions have been accounted for by the purchase method with the results of operations included in the Financial Statements from the dates of acquisition.

15. JOINT VENTURE OPERATIONS

a) Formation of Dresser – Shaw Joint Venture

Effective February 29, 1996, Dresser Industries, Inc. and the company contributed their respective worldwide pipecoating operations, Bredero Price and Shaw Pipe Protection into an incorporated joint venture, Dresser – Shaw, owned 50.1% by Dresser and 49.9% by the company. Joint control of the operations was to be exercised by a board of directors consisting of three appointees from each of the shareholders.

The formation of the joint venture represented an exchange of productive assets for an equivalent interest in similar productive assets and therefore has been accounted for by the company at the carrying value of the net assets given up with no gain or loss being recognized on the transaction. The book value of the net assets contributed to the joint venture by the company was $54.4 million.

For the first three years of the joint venture, Canadian profits were to be attributed to the company, North Sea profits attributed to Dresser Industries and the balance to be shared on the basis of ownership. After the third year, all profits were to be shared on the basis of ownership.

The initial term of the joint venture was for four years from February 29, 1996, with provision for both early termination after two years and renewal beyond four years. The company had the option to sell, and Dresser Industries had the option to acquire the company's interest in the joint venture on February 28, 1998 or February 29, 2000 for an amount determined in accordance with an earnings formula, subject, however to a minimum price of U.S.$175 million.

b) Amendment to Joint Venture Agreement

Effective August 1, 1997 the joint venture agreement between Dresser Industries, Inc. and the company was amended to provide each party with a 50% ownership position and equal entitlement to worldwide earnings, with no change to the joint control of operations. In addition, the term of the agreement was extended to October 31, 2030 with a buy-sell arrangement in place after August 1, 2002. Under the terms of the buy-sell arrangement, either party could provide notice of termination including a buy-sell price to the other party. The party receiving the notice of termination would, within a certain timeframe, be obligated to buy the other party's interest in the joint venture or sell its own interest, at the stated price.

As consideration for entering into these long-term arrangements, the company agreed to pay Dresser Industries an inducement in the amount of U.S.$41.7 million payable in five equal annual instalments plus interest calculated at 10% per annum on the outstanding balance. The excess of this inducement payment over the additional 0.1% share of the joint venture's net assets acquired by the company has been recorded as Goodwill and is being amortized over the extended term of the joint venture agreement.

c) Proportionately Consolidated Financial Information

The company's joint venture operations included the Dresser – Shaw joint venture and Arabian Shaw Pipecoaters (Thailand) Ltd. which was 65% owned by the company from its formation in 1994 until being contributed to the Dresser – Shaw joint venture on February 29, 1996. In December 1996, the remaining 35% interest in Arabian Shaw Pipecoaters was acquired for consideration of $2.4 million.

The company's share of joint venture assets and liabilities, accounted for on the basis of ownership, and of revenue, expenses, net income and cash flow, accounted for on the basis of entitlement under the relevant shareholders' agreements, is summarized below:

(In thousands)	1997	1996
Current assets	$ 111,531	$ 118,234
Fixed assets, net	41,520	46,085
Other assets	10,080	8,707
Current liabilities	89,518	102,543
Deferred income taxes	1,097	270
Minority interest	1,654	2,689
Revenue	$ 312,538	$ 200,431
Operating and other expenses	275,706	182,127
Minority interest	664	551
Net income for the year	37,496	18,855
Cash provided by (used in):		
Operating activities	$ 50,012	$ 37,679
Investing activities	(13,729)	(23,434)
Financing activities	—	(17)

During the year, the company received dividends of $24.2 million (1996 – $12.9 million) from the Dresser – Shaw joint venture.

16. SEGMENTED INFORMATION

The company is primarily engaged in providing products and services to the energy industry. The company manufactures equipment used for seismic exploration, and drill string components used in oil and gas drilling, as well as wire, cable and heat shrink products. Activities also include the provision of pipe inspection, testing and repair services and, through the Dresser – Shaw joint venture, the application of corrosion and other coatings, linings and insulation systems to customer-owned pipe.

Operating results and identifiable assets by geographic segment are as follows (in thousands of dollars), with the "other" geographic segment including operations in Mexico, Colombia, Africa and the Middle East:

		Revenue				
		Customers	Intersegment	Total	Income (loss) from operations	Total assets
Canada	1997	$175,452	$ 29,340	$204,792	$48,297	$124,959
	1996	$ 146,981	$ 33,559	$ 180,540	$ 34,248	$ 87,715
United States	1997	209,823	7,687	217,510	23,427	80,252
	1996	164,119	10,604	174,723	12,310	82,535
Europe (note)	1997	122,404	2,238	124,642	6,932	178,421
	1996	61,816	1,288	63,104	106	109,194
Far East and Pacific	1997	67,183	—	67,183	12,635	27,038
	1996	58,142	—	58,142	9,099	39,498
Other	1997	15,839	—	15,839	25	23,863
	1996	26,490	—	26,490	2,872	20,397
Eliminations	1997	—	(39,265)	(39,265)	(278)	(2,264)
	1996	—	(45,451)	(45,451)	(985)	(2,201)
Total	1997	$590,701	$ —	$590,701	$91,038	$432,269
	1996	$ 457,548	$ —	$ 457,548	$ 57,650	$ 337,138

Note: As explained in note 15, prior to August 1, 1997, the company did not share in the North Sea earnings of the Dresser – Shaw joint venture.

SIX YEAR REVIEW

Years Ended December 31 (In thousands except per share information)	1997	1996	1995	1994	1993	1992
OPERATING RESULTS						
Revenue	$ 590,701	$ 457,548	$ 341,756	$ 344,204	$ 227,738	$ 203,588
EBITDA (note)	108,707	70,299	47,326	57,503	38,153	33,027
Net income for the year	58,662	36,585	20,361	30,452	14,056	9,862
CASH FLOW						
Cash from operating activities	$ 75,172	$ 47,040	$ 36,590	$ 3,526	$ 24,811	$ 17,155
Additions to fixed assets	32,971	26,470	13,611	25,067	5,349	10,658
FINANCIAL POSITION						
Working capital	$ 116,517	$ 108,934	$ 93,541	$ 76,089	$ 71,483	$ 53,133
Long-term debt	46,563	—	—	274	742	1,073
Shareholders' equity	248,527	207,744	172,739	158,802	134,834	121,814
Total assets	432,269	337,138	242,484	258,288	178,895	161,644
PER SHARE INFORMATION (CLASS A AND CLASS B)						
Net income						
Basic	$ 2.94	$ 1.85	$ 1.02	$ 1.50	$ 0.68	$ 0.48
Fully diluted	$ 2.86	$ 1.80	$ 0.99	$ 1.45	$ 0.67	$ 0.47
Dividends						
Class A	$ 0.1815	$ 0.165	$ 0.15	$ 0.141	$ 0.121	$ 0.121
Class B	$ 0.165	$ 0.15	$ 0.1364	$ 0.128	$ 0.11	$ 0.11
Shareholders' equity	$ 12.36	$ 10.49	$ 8.71	$ 7.91	$ 6.55	$ 5.93

Note: Earnings Before Interest, Taxes, Depreciation and Amortization.

DIRECTORS AND OFFICERS

DIRECTORS

W.J. Deyell
Nanoose Bay
Consultant

G.M. Farquharson (1)(2)
Toronto
Partner
Lang Michener

A.F. Griffiths (1)
Toronto
Independent Consultant
and Corporate Director

J.E. Hood
Gananoque
Director

G.F. Hyland (3)
Toronto
President and Chief
Executive Officer
Shaw Industries Ltd.

R.J. Ritchie
Calgary
President and Chief
Executive Officer
Canadian Pacific Railway
Company

J.F. Robinson, FCA (2)
London
President
Xylan Inc.

JR Shaw (3)
Calgary
Chairman and
Chief Executive Officer
Shaw Communications Inc.

L.E. Shaw (3)
Barbados
Chairman of the Board
Shaw Industries Ltd.

V.L. Shaw
Toronto
Assistant to the Chairman
Shaw Industries Ltd.

Z.D. Simo (1)(2)(3)
Oakville
Corporate Director

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Executive Committee

CORPORATE OFFICERS

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Chairman of the Board

G.F. Hyland
President and
Chief Executive Officer

W.P. Buckley
Executive Vice-President

B.J. Conroy
Vice-President, Finance

P.H. Langdon
Vice-President,
Human Resources
and Assistant Secretary

R.E. Steele
Vice-President, Technology

G.M. Farquharson
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Ernst & Young

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The Toronto Stock Exchange

Class "A"
Subordinate Voting Shares
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Multiple Voting Shares
Trading Symbol: SHL.B

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Annual Meeting
Tuesday, May 12, 1998
11:00 a.m.
The Royal York Hotel
Toronto, Ontario, Canada

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