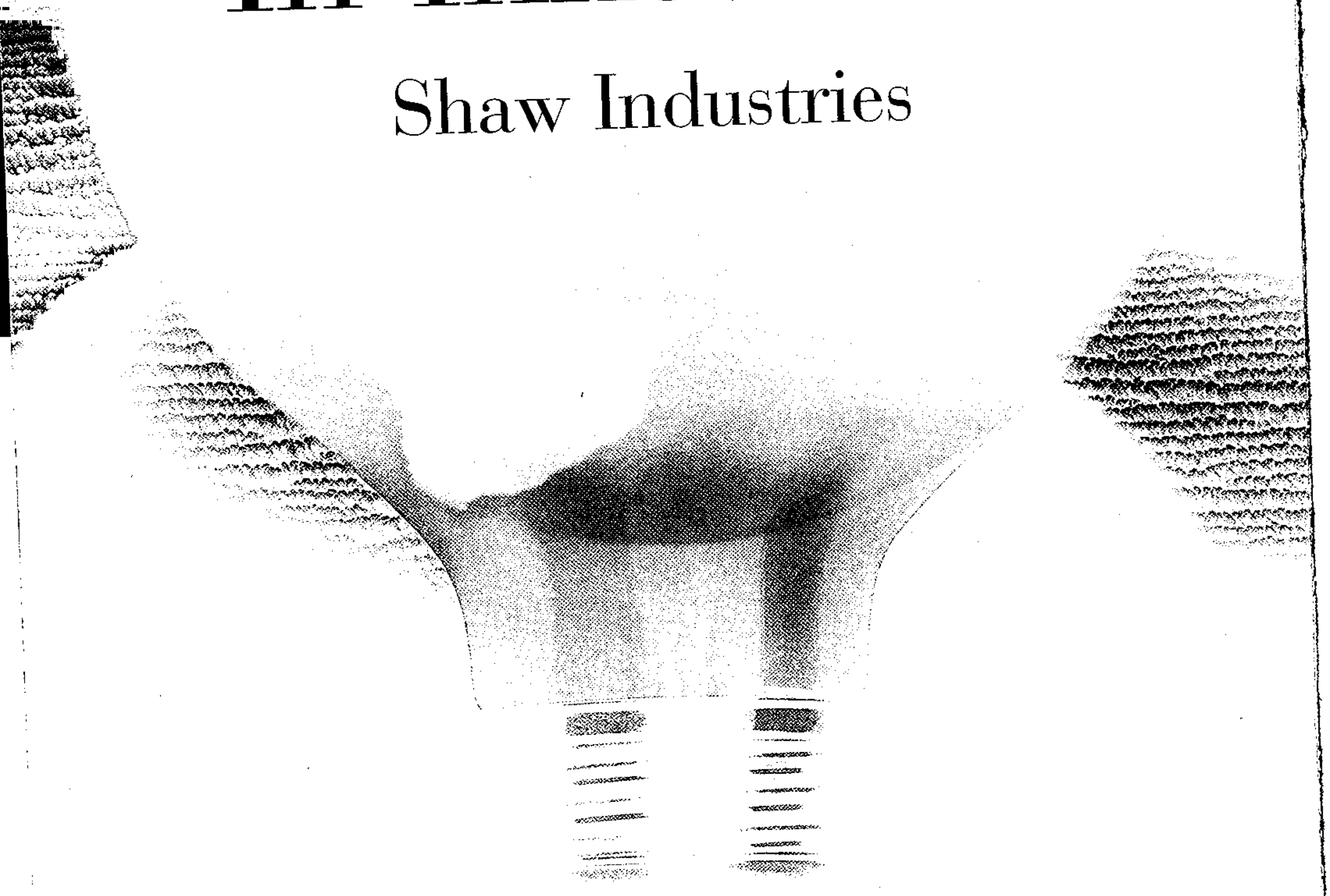
A Giant
In Innovation

Shaw Industries



Shaw Industries, Inc. Annual Report 1997

Letter To Our Shareholders

We described 1996 as a year of change at Shaw Industries. 1997 can best be described as a year of transition and implementation. As we began 1997, we discussed our plans to concentrate on improving profitability in each area of our business, improving our cash flow, and evaluating our under performing assets. As the year progressed, we did just that. During the year, we made several significant decisions that we expect will improve the Company's profitability and cash flow going forward.

In December, we announced the closing of approximately 100 retail stores. These included duplicate stores in various markets where, because of acquisitions, we had more locations than we could operate profitably. Also included were stores that simply did not meet our standards for profitability. These redundant and unprofitable stores negatively affected the profitability of our Company last year. With these stores closed, we expect our retail profitability to improve in 1998.

In late 1997, we entered into an agreement in principle to dispose of our U.K. subsidiary, Carpets International, Plc, to Cravey, Green & Wahlen, an Atlanta venture capital firm. While we were pleased with the recent progress we have achieved in the U.K., we believe this move will allow us to improve our cash flow and reduce our debt.

In the Fall of 1997, we engaged the consulting firm of Stern Stewart to assist us in implementing E.V.A.™ within our Company. We feel this decision will positively affect our Company and our shareholders in 1998 and beyond.

In 1997 our total sales increased 11.6% to nearly $3.6 billion. Our manufacturing sales, not including intercompany sales, totaled $2.3 billion. During the year, we transitioned a great deal of Shaw products into our own retail stores. In 1996, our acquired retail stores purchased only 30% of their carpet from Shaw. As we ended 1997, that level reached over 80%. This increase in business, along with the continued support from our aligned dealers and independent retailers, allowed us to increase our manufactured sales by approximately 4%... slightly higher than the industry average.

Our retail sales totaled $950 million, up from approximately $500 million last year. Most of this increase came as a result of acquisitions made late in 1996 and additional retail acquisitions in 1997. Our retail profitability is not yet where we want it to be, but we are making progress and we feel that it will be much improved in 1998.

Our international sales totaled $328 million. After several years of disappointing earnings, I am glad to report that we made significant progress in improving our profitability in both the U.K. and Australia. In fact, both operations were profitable in the 4th quarter. Our J.V. in Mexico, Terza, also contributed positively to our earnings once again this year.

Our operating earnings for the year, before one time charges for store closings and the sale of our U.K. operations, totaled $.54 per share. After these charges, our net earnings were $.22 vs. $.25 last year. We feel confident that we have taken the necessary steps that should improve our profitability going forward.

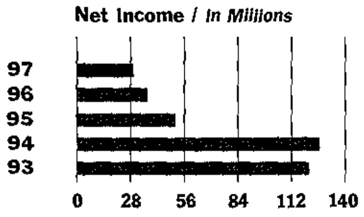
In summary, we are excited about 1998. Economic conditions are encouraging, as new housing starts and existing home sales forecasts are favorable. As you read this annual report, you will see that we have recently introduced a lot of innovative new products. These innovative products should provide us with good growth and profits in 1998 and for many years to come.

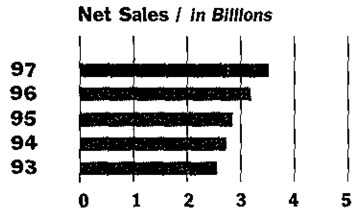
I would like to thank our shareholders, our customers, our employees, and our suppliers for your continued support.

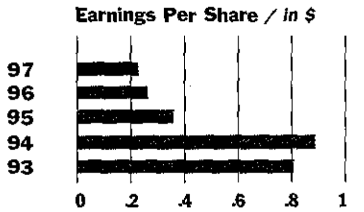
Chairman and Chief Executive Officer

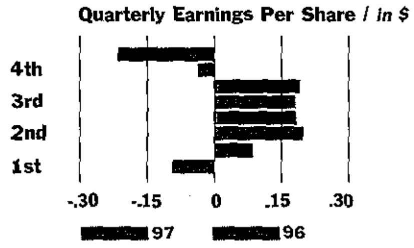
Financial Highlights

	1997	1996	1995
Net Sales	*$3,575,774,000*	$3,201,554,000	$2,869,828,000
Net Income	*28,959,000*	34,023,000	52,304,000
Earnings Per Share:			
Basic and Diluted	*0.22*	0.25	0.38
Return on Average Shareholders' Investment	*4.4%*	4.9%	7.4%
Current Ratio	*3.3*	2.6	3.5
Shareholders' Investment:			
At Year-End	*637,534,000*	671,711,000	710,189,000
Per Share	*4.86*	5.06	5.22
Cash Dividends Paid Per Share	*0.30*	0.30	0.30
Depreciation and Amortization	*94,954,000*	90,906,000	91,083,000
Property Additions, net (including acquisitions)	*106,728,000*	177,062,000	93,805,000









Mission
We will exceed our customers' expectations in quality, service and value; continually increase shareholder value; and provide growth opportunities for our people.

Vision
To be a world-class company, as defined by the customers we serve.

Values
Honesty, integrity and hard work.

The Company
Shaw Industries, Inc. is headquartered in Dalton, Georgia. The Company manufactures and sells carpeting and rugs throughout the United States, United Kingdom, Australia and Mexico and exports to Canada and many other countries. Through its retail stores and commercial dealers, the Company also sells other flooring products and provides installation and other services.

A Talk With Our Shareholders

Bob Shaw, Chairman and CEO of Shaw Industries, has long recognized the importance of innovation. In fact, Shaw Industries has grown to be a leader in the industry because of continued innovation. With innovation, comes change. With change, comes transition. And with transition, come questions as to where Shaw Industries stands today, and its plans for the future. The following is a discussion with the leader of this change, Bob Shaw, as he addresses an exciting period of innovation at Shaw Industries, a year of transition, and a future filled with promise and opportunity.

Q::A

Q :: What would you say have been the biggest challenges over the past two years, since the Company announced it was going into the retail business?

A :: We have had two major challenges since our decision to enter the retail arena. The first was earning the continued support of our independent retailers. Our independent retailers and aligned dealers have been, and will remain, the backbone of Shaw Industries. Their support and well-being is vital to the growth and profitability of Shaw Industries. We recognize that our success is dependent on their success. In 1997, over 90% of our manufacturing production went to meet the needs of our independent retailers. We feel that our innovative new products and programs, along with our long recognized reputation for quality, service, and value, will enable us to grow our business with this important group of customers in 1998 and beyond.

Our second challenge was to create a profitable retail division. To date, this has remained our greatest challenge, but we are making progress. Our decision in December to close 100 unprofitable stores was a big step, but we now must bring our remaining stores to the level of profitability that is acceptable. That is our biggest challenge, and we are dedicated to making this happen.

Q :: You mentioned closing 100 retail stores. What was the reasoning behind this decision?

A :: During the past two years we acquired or built over 450 retail and commercial contract locations, with 1997 sales of

nearly $950 million. During this acquisition process certain locations were acquired that overlapped with previously acquired locations. Also, during the period we acquired and built several stores that were not profitable. These redundant and under-performing stores negatively affected our profitability in 1997. Closing these stores will allow us to enter 1998 in a much better position.

Q :: How many retail stores do you have remaining?

A :: We currently have approximately 300 retail locations and 50 commercial contract locations.

Q :: The decision to move into retail in late 1995 concerned many of your existing customers. What is their attitude now, and how did this affect your manufacturing business in 1997?

A :: Dealers, in general, seem somewhat less concerned this year. In fact, many dealers that had put us on hold or moved away, began doing business with us once again. Furthermore, we now have nearly 1500 aligned accounts, and our business with this group grew in 1997.

Our total manufacturing business, including intercompany sales, increased approximately 4% in 1997. Our units (square yards) increased nearly 6% for the year. We feel that we regained, and in fact may have picked up some market share during the year, especially during the second half. The Carpet and Rug Institute reported industry increases of 3.5% in dollars and 1% in square yards for the year.

Q :: The Company took significant steps in the second half of 1997 in an effort to create substantial "free cash flow." How does the Company measure free cash flow and what are your future plans for creating free cash flow?

A :: We measure "free cash flow" simply as our net income, plus noncash expenses, such as depreciation and amortization, minus our capital expenditures, and then adjust for the changes in working capital. For example, in the fourth quarter of 1997, we made a strategic decision to reduce the level of our inventories which produced a plus item to our free cash flow of almost $72 million for the quarter. In the fourth quarter of 1997, our Company generated approximately $95 million of free cash flow before the payment of approximately $10 million in dividends and the repurchase of over $46 million of our own stock. In the future, we plan to continue our focus on creating free cash flow and prudently managing our balance sheet.

Q :: In 1996, the Company bought back 7.7 million shares. Did the Company buy back any shares in 1997?

A :: Yes. We continued to buy back our stock in 1997. During the year, we bought back 3.8 million shares.

Q :: In January 1998, the Company announced a "Dutch Auction" tender offer for up to 8 million shares. What is a "Dutch Auction" and what is its purpose?

A :: A "Dutch Auction" is a form of a self-tender offer in which the Company specifies in advance the number of shares it would be willing to repurchase from existing shareholders. The actual repurchase price is determined by the shareholders tendering within a price range that is established by the Company. In our case, we announced an offer to purchase 8 million shares at a price in the range of $11 to $14 per share. The actual purchase price and the number of shares repurchased will be determined by the tendering shareholders.

In our view, the "Dutch Auction" represents an increase in and an acceleration of what has been a continuing share repurchase program, intended to enhance shareholder value, both in the near and long-term future. The Company believes that share repurchase will continue to be an important method of delivering value to our shareholders.

Q :: In January 1998, the Company declared a $.075 dividend for the first quarter of 1998. The Company advised that no further dividends would be paid in fiscal '98. What does this mean?

A :: This means that we have looked at paying dividends and determined that there are better ways of returning value to our shareholders, particularly in light of recent changes in tax legislation that reduced the capital gains tax rate to essentially half the rate paid on dividends by some shareholders.

Q :: The Company made a substantial investment in what is the largest carpet tile manufacturing facility in the world in 1997. Where is this area of your business going in the future?

A :: Our carpet tile business grew over 25% last year. We are excited about this area of our business. This new facility should provide us the capacity, quality, and efficiencies to continue to grow our tile sales and profits at a strong rate in the future.

Q :: One of your goals last year was to increase the percentage of Shaw manufactured products sold through your Company-owned retail stores. Have you met that goal?

A :: We have actually exceeded it. As we began 1997, we supplied only 30% of the carpet ordered by our acquired stores. As we finished the year, we were supplying over 80%, versus our goal of 75%. This represented over $225 million in intercompany sales to our retail and commercial contract stores.

Q :: Your retail division currently operates under several different names and formats. Will this continue in the future?

A :: Our first priority is to get our stores to their profit potential. We will then get to the task of putting these stores under possibly one or two formats. We hope to begin this process sometime during the next year.

Q :: How many retail or commercial contract companies did Shaw acquire in 1997?

A :: As mentioned last year, we planned to slow down our acquisition rate from the 1996 levels. During 1997, we acquired ten companies – five retailers and five commercial contractors. Most of these acquisitions were made during the

first half of the year. We expect our acquisition rate to continue to slow during 1998, as we concentrate on integrating our retail operations into our Company and improving the profitability of our retail division.

Q :: In January of 1998, Shaw announced that it had signed an agreement in principle to dispose of Carpets International, Plc (the Company's U.K. subsidiary) to Cravey, Green & Wahlen, an Atlanta venture capital firm. What led to this decision?

A :: Since our initial entry into the U.K., we have not produced an adequate return on our investment and incurred several substantial write-offs. During 1997, under new management, our U.K. operation began showing improvements. In fact, we were profitable in the 4th quarter. However, we were still unable to forecast a return on our investment that adequately covered our cost of capital. In addition, we felt the U.K. operation was not strategic to our long-term plans, as we did not foresee expanding into Europe from the U.K. This transaction, when completed, will produce approximately $50 million in free cash flow and reduce our debt by over $80 million. This also allows us to focus our attention on the domestic marketplace and our remaining international operations.

Q :: As a follow up question, does this decision affect your Australian operation?

A :: Not at all. Our Australian operation is a completely independent operation. We made significant progress in Australia in 1997. In fact, we made a profit in Australia last year and expect continuing improvements in 1998.

Q :: What were your international sales last year?

A :: U.K. sales were approximately $210 million, and our Australian sales totaled around $115 million.

Q :: A lot of people talk about conservation and being environmentally responsible. Can you spend a minute on what Shaw Industries is doing in these areas?

A :: We have long been committed to recycling and environmental issues, even before it became a popular trend. As the leader of the industry, we practice established recycling guidelines, and more importantly, we develop new and innovative ones. We are using recycled carpet fiber to make new carpet and carpet pad. We are also using post-consumer carpet in such projects as fiber-reinforced concrete and road reinforcement.

We create only 71 pounds of waste for every 4,000 pounds of carpet manufactured, and we recycle approximately 53 of those 71 pounds. This past year, we also started working toward a goal of recycling 40 million pounds annually of one of the industry's biggest challenges – post-consumer carpet. Our recycling efforts recently led to Shaw Industries being named the first-place winner in the business/industry recycling category of Georgia's Clean and Beautiful awards. We are proud of our results and are committed to improving upon them in years ahead.

Q :: What are your thoughts on the carpet industry's "Carpet. It just feels better." national advertising campaign?

A :: In November of 1997, the Carpet and Rug Institute kicked off a four-year, $100 million national advertising campaign. We were excited about this program from its earliest stages because it is absolutely necessary for this industry to make consumers aware of the benefits and value of carpet. After the actual campaign was introduced, though, we felt even more confident in our efforts to support it.

The slogan, the commercials, the ads, and the ideas for their use are all excellent. It's too early to see actual results, but we are confident that the program will generate positive results for Shaw and the industry.

Q :: Recently the Company announced it had engaged Stern Stewart to assist in the adoption of E.V.A.™ What does this mean?

A :: E.V.A. simply stands for "Economic Value Added." What it means is that economic value is added by an operation to the extent that it produces a profit above the cost of the capital used in the operation. Capital comes from both our shareholders as well as in the form of debt financing. E.V.A. provides an excellent approach to recognizing this minimum required return. We plan to adopt E.V.A. as a management tool to assist us in managing our business and as an engine to help drive shareholder value by linking E.V.A. to our incentive compensation plans.

Q :: One last question. What excites you the most about the future of Shaw Industries?

A :: A lot of things. First of all, during this past year we made several strategic decisions that we expect will improve our performance as we move forward.

Secondly, we are very excited about our recent round of new product introductions. Several of these introductions, such as Softbac, DurasSD, and EcoSolution Q are truly innovative and industry "firsts." These introductions represent the most exciting and innovative collection of new products that we have seen in years.

As we move forward, we will continue to be innovative. Innovation, however, should not be limited to new products only. To be successful, you must constantly reengineer yourself and reevaluate what you are doing. It is a basic philosophy for us that applies to everything we do. We will continue to develop new technology, new products, new processes, new ideas, and, in general, new ways to do business.

Last, but certainly not least, I am excited about our people. Over the years, we have assembled a group of dedicated, creative, resourceful, and hard working employees. I am proud of our employees, and I am confident in their abilities to get the job done–both now and in the future.

We are excited about the future. We appreciate the support of our shareholders, customers, employees, and suppliers. With their continued support, we will reach our goal of exceeding our customers' expectations, increasing shareholder value, and providing growth opportunities for our employees.

A Giant
In Innovation

R E S I D E N T I A L

"One of the things I've experienced, especially in the last couple of years, is that Shaw is very interested in helping us facilitate our growth...That is how I define a partnership, a company that really cares not only about their own company's growth, but the people that they service."
Jim Edgett
Floor Space, San Francisco, CA

"If I have a question, they have an answer. Whether related to technical, sample, customer service, or distribution needs, there's someone to call and you have an answer in minutes."
Paul W. Royal
Spenard Builders Supply, Anchorage, AK

At Shaw Industries, we look at new products and creative marketing as the seeds from which our profits grow. And nowhere are these innovations more evident than in Shaw's residential business.

Over the years, Shaw innovations have shown up in millions of homes across the country. And they will continue to do so, for Shaw innovations in 1997 will have dramatic effects in the residential carpet industry for many years to come.

SoftBac™: *A Revolution Underfoot.*
SoftBac, Shaw's revolutionary new carpet backing system, is potentially one of the most significant innovations ever in the carpet industry. SoftBac addresses one of the industry's most challenging concerns: installation.

Carpet installers name hard, abrasive backing as the number one problem facing residential carpet installation. Stiff backing makes carpet difficult to maneuver around corners, up stairs, and into small rooms. It often scratches and damages walls and baseboards, and causes painful abrasions to installers' hands and arms.

SoftBac is a soft, flexible carpet backing that eliminates these common problems. Because it's so flexible, SoftBac is easy to handle, and thus saves time during installation. SoftBac carpets may also require fewer seams due to their ability to bend and fold in and around tight corners, passageways, and closets. SoftBac also provides stronger seams and improved resistance to seam peaking.

Installers who have used SoftBac products have praised its flexibility, softness, and elasticity. In general, it allows for easier installation and improved performance. SoftBac is clearly a "revolution underfoot."

Duras™SD: *An Innovation In Polyester Fiber.*
One of Shaw Industries' most exciting innovations of 1997 has been DurasSD, a technologically enhanced filament polyester fiber that has the distinct advantage of being solution dyed. DurasSD represents a significant breakthrough in the development of polyester fiber. Solution dyed means the color is in the yarn, not on it. Therefore, it will not fade and can be cleaned more aggressively.

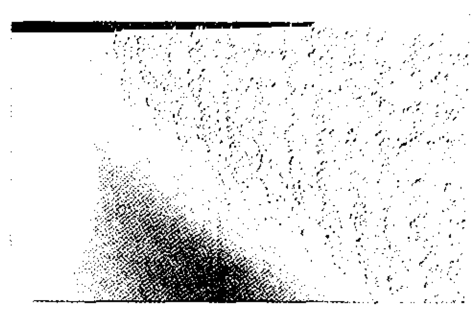
"I aligned with Shaw because I respect Shaw for being the top-notch supplier they are, and I feel it's very important today that all dealers should be in a partnership with somebody because teamwork is survival." *Tom Garvey, Garvey's Carpet, Harrisburg, PA*

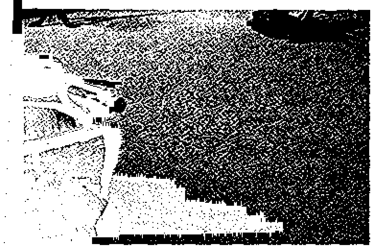
Couture by Sutton's innovative styling will enhance the industry's perception of Shaw as a high-end fashion leader.

With Couture by Sutton, Shaw is taking the designer-oriented approach used in the apparel industry to bring fashion to floor covering. Creative merchandising techniques will differentiate Shaw and Couture by Sutton from traditional approaches and competitors.

Shaw carpets are "walk tested" to assure performance. Shaw was the first carpet manufacturer to utilize the "contract walker traffic" test, in which people actually walk on carpet samples in a laboratory setting to simulate years of wear.

SoftBac is an enhancement of, not a break from, traditional backing. The innovative new product combines the technology that has been used successfully for over 25 years with a new patent-pending process that makes the backing flexible and soft.





DurasSD's stain resistance and resiliency make it ideal for a variety of uses. Initially, we are targeting these products toward the challenging property management market with the slogan "Introducing a carpet that won't need replacing the next time your tenants do." DurasSD is already creating significant interest, and in the coming year, we expect to expand DurasSD products into residential replacement and builder markets with equal success.

Reggie Resistant™: *Mud, Chocolate And Rave Reviews.*
The Reggie Resistant Collection is a unique grouping of styles aimed at the family — especially those families with lots of "Reggies," children who are tough on floor covering.

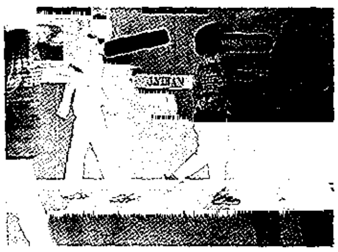
The collection is backed by one of the most creative marketing campaigns in the Company's history. With mud on his clothes and chocolate on his hands, young Reggie illustrates the potential carpet stain disasters that lurk in households across the country. Store displays announce: "He's the love of your life...but let's face it...he can be a real mess!"

The Reggie Resistant Collection can handle the stains that the Reggies of the world create, plus deliver the styling many of today's consumers seek. The collection offers 24 distinctive products, including patterned loops, Berbers, textures and saxonies. The styles carry such imaginative names as Billy's Best, Casey's Pride and Hannah's House.

The campaign is generating overwhelmingly positive response from consumers. Reggie Resistant has the potential to be one of Shaw's most successful product franchises ever.

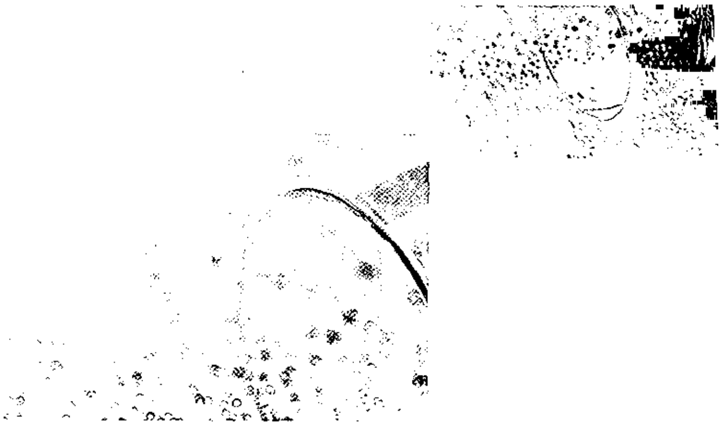
Couture By Sutton™: *Our World Of High Fashion.*
When people think of Shaw, they think of the industry's most reliable, most consistent supplier. They think service. They think value. They think quality. They also think style, and with the introduction of Couture by Sutton, we're elevating style to a whole new level.

Couture by Sutton is a new concept for Shaw that will enhance the industry's perception of Shaw as a high-end fashion leader.

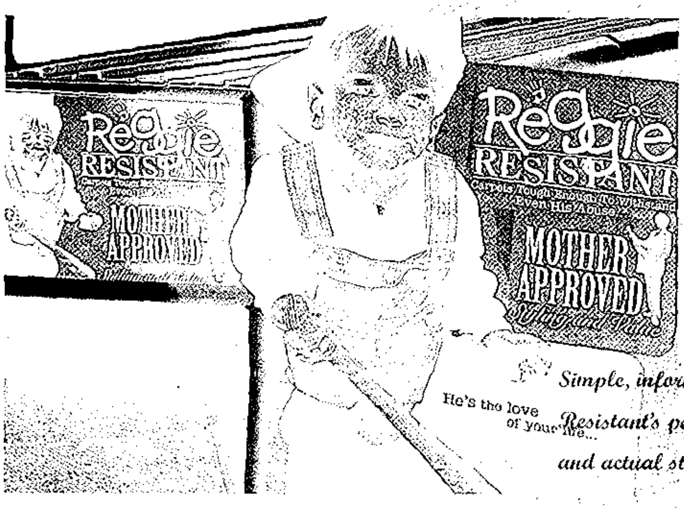


The current selection of leading-edge styles is fragmented, with several different manufacturers offering only a handful of products that are often scattered throughout a showroom. Couture by Sutton not only offers exciting carpet styles, but the broadest selection of high-end products available — on one compact, eye-catching display unit. Set to launch in 1998, Couture by Sutton is a consolidation of 40 of the most fashionably styled products in the industry.

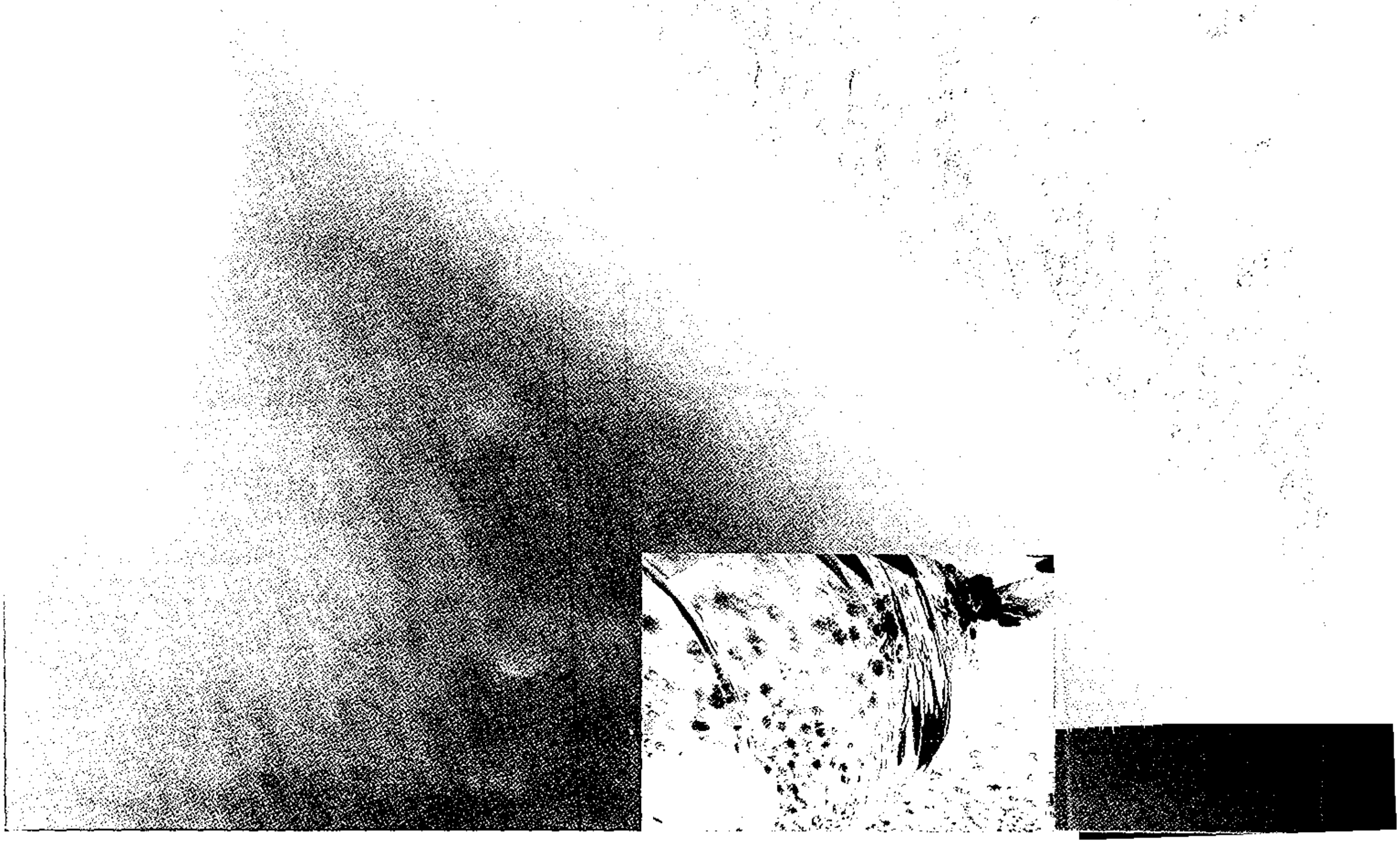
With Couture by Sutton, Shaw is preparing for the next century. Shaw will continue to lead the industry in service, quality and value, and will lead in style and fashion as well.



ReNew carpets are permanently stain resistant, including stains that may ruin many other carpets, such as mustard, coffee and wine stains.



Simple, informative displays with warm, fun graphics explain Reggie Resistant's permanent stain resistance, with full color photography and actual stained and cleaned swatches.



"I thought to myself, who might really win this game, and my answer was Shaw."
Karen Rose
Classic Carpet, St. Louis, MO

"Shaw Industries is our favorite supplier. From customer service, to the distribution center in Orlando, to the young man named Billy who calls on my store, it is a pleasure to work with the organization...Shaw has the finest sales force in the business, and the customer service people personify the attitude that your call to them is the most important thing in their day."
Steve Kasey
Prestige Carpet of Daytona, South Daytona, FL

ReNew™: *Recycled, Resistant, Remarkable.*

Shaw's emphasis on introducing environmentally responsible polyester products represented another innovation in 1997. We label these products ReNew because they are made with virtually 100% recycled materials.

ReNew Carpet fibers are heat-set yarns that offer outstanding quality and reflect the inherent advantages of polyester — value, stain resistance, and optimum performance.

ReNew carpets are permanently stain resistant, including resistance to stains that may ruin many other carpets. ReNew Carpets are treated with Scotchguard™ to resist soil and make it easier to vacuum surface dirt.

ReNew Carpets are made with virtually 100% recycled P.E.T. materials, such as soft drink, milk and other plastic containers. This helps keep more than one billion plastic containers out of America's landfills yearly.

As our marketing campaign states, ReNew products are "for the good of your home and the future of the Earth."

Leading The Industry To Protect Our Environment.

Shaw appreciates its role as leader — both in the carpet industry and in the communities in which we operate. As the leader, we know that we have an added responsibility to not only follow established recycling practices, but to commit resources toward the development of new and innovative ones.

Shaw Industries' quest to send zero waste to landfills by the new millennium has guided our efforts for years. In 1997, Shaw set a new goal — one that is even more significant, more difficult, and more far reaching in its implications. By the new millennium, Shaw has committed to a goal of recycling 40 million pounds of post-consumer carpet annually — forty million pounds of a product which forever has been destined for the landfill.

As the largest and most influential manufacturer in the industry, Shaw Industries is proud to lead the way with aggressive goals and unique recycling solutions.

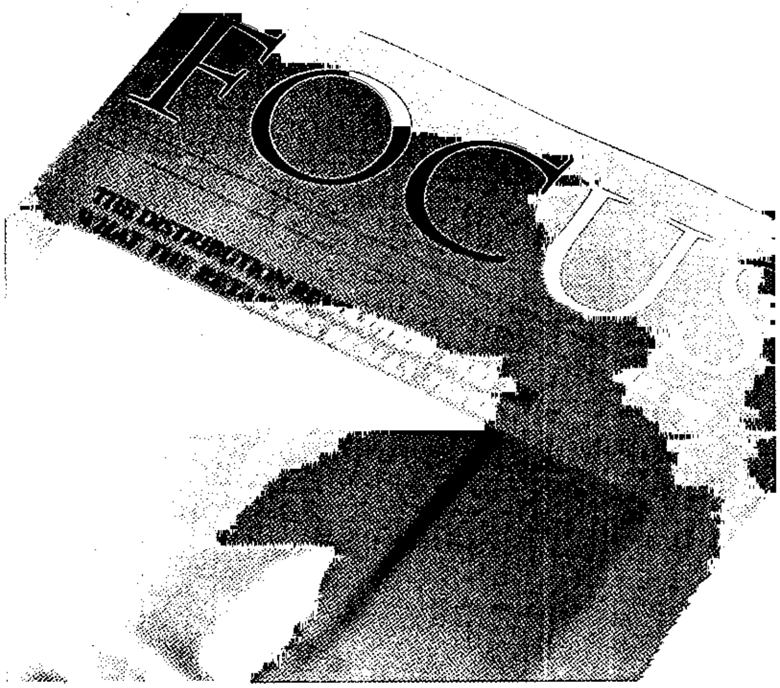
"I'm amazed at the amount of time and effort they do put in to being responsive to the independent retailer...We picked up the Berber Wall and it's been amazing since we put that in. Our Berber sales have increased dramatically. When the customers walk in our store now, it's like a magnet. The first thing they do is walk over to that Berber Wall."

Mark Weaver

Carpet Weavers, Bloomington, IL

← Select and Ultimate Performers, mini versions of Shaw's innovative Color Wall, allow retailers with smaller stores to take advantage of this important industry innovation.

In 1997, Shaw launched its Shaw Installation Training Program, enabling retail and wholesale customers to raise the quality level of their installations through formal training of their installers.



Shaw was rated #1 in quality and service among carpet manufacturers in Floor Focus magazine's dealer survey.

Shaw Rugs: ***Innovation In A Rapidly Growing Segment.***

Innovation played a key role in the growing Shaw Rugs business in 1997. Shaw Rugs began the year by contracting with artists Phillip Crowe, Tracy Porter and more than 30 other artists to create cutting-edge designs — a category that before had not existed in the rug industry.

Also in 1997, Shaw Rugs entered a licensing arrangement with Nourison, the world's largest importer of hand-woven and hand-tufted rugs. Nourison will supply rug designs for Shaw's new Patrician Collection of machine-woven rugs. Nourison has won numerous awards for its rug design and is considered a leader in coloration and styling.

Shaw Rugs also entered into a multiyear marketing alliance with Crown Crafts Inc., the industry leader in such home furnishings as bedding, throws, and infant room accessories. By coordinating rugs with these items, Shaw Rugs will be selling in some of the country's best department and home furnishing stores.

In 1997, Shaw Rugs purchased or converted nine looms to 8-color, representing the latest in technology and a much richer design. Shaw Rugs will be converting new lines to 8-color, such as its Patrician Collection, as well as the entire Phillip Crowe collection, renamed the Wild Kingdom Collection.

Shaw Rugs continually applies innovative thinking to this very popular and growing segment of our industry.

Shaw Style2000: ***Fashioning Carpet's Image.***

Last year, in an effort to promote a more fashionable image for carpet, Shaw launched a newsletter for industry professionals called Shaw Style2000.

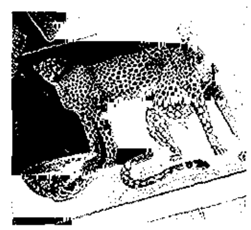
The quarterly publication — targeted to store owners, interior designers, and wholesale and retail sales and marketing personnel — offers insight on color trends, home fashion concepts, new residential product directions, and regional market tendencies. The newsletter covers all facets of floor covering, including articles from other industries, such as paint, furniture, fabrics and fixtures, helping readers to understand how carpet works in the overall design scheme.

Mini Color Wall: ***Huge Breakthrough, Smaller Version.***

Shaw's ground breaking Color Wall was designed in 1996 for Shaw's retail environment. A winner of the point-of-purchase industry's "Design of the Times" Award, the Color Wall strikingly displays 120 different shades and colors of carpet. Behind each panel of color are carpet samples, which are convenient for consumers to take home.

In 1997, a new variation of the display was created, one that was smaller and more economical for dealers. These mini Color Walls, called Select and Ultimate Performers, have allowed many more retailers, especially those with smaller stores, to take advantage of this important industry innovation.

In January 1997, Shaw Rugs' Phillip Crowe collection, with its exotic rendering of two cheetahs, took first place in the machine-made, $100 and under category at the America's Magnificent Carpet Awards at the Atlanta International Area Rug Market, one of the premier rug shows in the world.



Shaw Style2000, a newsletter for industry professionals, is designed to help elevate carpet to its rightful place as a leading fashion influence in interior design.

"When Shaw got into retail, it made us all a little nervous, but their support and service have been there all along, and are stronger than ever."
Tim Hyland
Floor Covering Brokers, Traverse City, MI

"Our relationship with Shaw started early in our business and their service has always been tremendous...They were already an important part of our business, so deciding to become aligned was a natural progression. Now, we're actually working together. We have a collaboration of effort that makes us both stronger."
Kathy and Bob Wexler
Sunn Carpet and Interiors, San Antonio, TX

Berber Wall: ***Expanding A Growing Market.***
What our Color Wall has done for traditional carpet styles, our Berber Wall is doing for Berber. Berber products have experienced phenomenal growth during the past decade. We've taken this growing category and organized and simplified it for the retail salesperson and the consumer.

Shaw's Berber Wall offers a large selection of products in three price categories, known as "neighborhoods." Instead of 30 products with 30 prices, every product in each neighborhood carries the same retail price.

It's simple, more understandable, and it sells Berber.

Square-Foot Pricing: ***A More Level Playing Field.***
The industry standard for carpet pricing has always been square-yard pricing. This practice is now in the process of changing, thanks in part to the Carpet and Rug Institute and Shaw Industries.

Among many benefits, square feet are easier to understand and more accurately reflect the value of carpet versus other floorcovering. Wood, laminates, and ceramic tile, for example, have always been priced by the square foot. Using the same method of pricing, carpet will be put on a more level playing field.

Shaw Credit Card: ***A Credit To Increasing Sales.***
While such industries as furniture and electronics have benefited through the years from a high percentage of credit sales, the carpet industry has been slow to offer similar options. Shaw Industries hopes to correct this situation with the introduction of its own credit card.

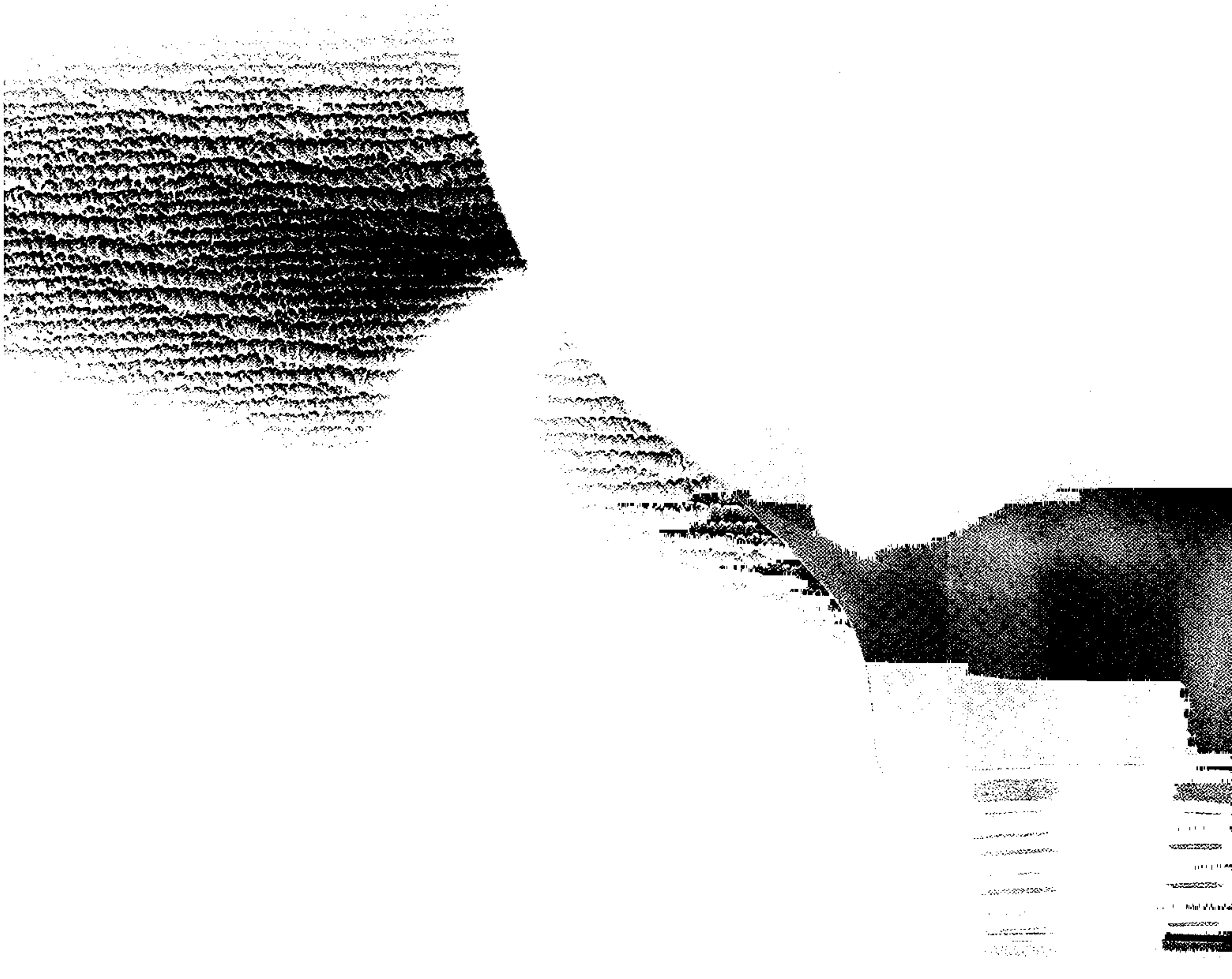
The Shaw credit card is being offered in all Shaw retail stores and in hundreds of Shaw-aligned stores nationwide. Statistics show that people tend to make larger, more expensive purchases when given credit options.

The Shaw credit card should improve the percentage of credit card purchases within our own stores, and ultimately, throughout the entire industry.

Shaw's Berber Wall dramatically simplifies the buying process by organizing Berbers into three "neighborhoods," with every product within a neighborhood carrying the same retail price.

A Giant In Innovation

C O M M E R C I A L



"Shaw has grasped the solution on how to implement true vertical alignment to the benefit of the end user by fully integrating our company vision with theirs."
Michael Richmond
Carpet Resource Center, Inc.,
Portland, OR

"Our partnership with Shaw has been excellent. Consistent communication, trust, and friendship have enabled us to benefit tremendously, particularly in the bottom line. We are looking forward to many more successful years."
Ed Magi
BKM FloorCovering,
Hartford, CT

Shaw Contract Group is the specified commercial carpet business of Shaw Industries. We are committed to nothing less than providing our customers the finest commercial products and services in the carpet industry.

We've been able to accomplish this by always pushing for new and better ways to serve our customers. Our leadership in the commercial marketplace is a result of continually offering innovative products and services, year after year.

And 1997 was no different.

EcoSolution Q™: ***An Important First In Recycled Fiber.***
In the Spring of 1997, Shaw Contract Group launched EcoSolution Q, a revolutionary new solution-dyed nylon fiber from Shaw Industries. EcoSolution Q is a tremendous breakthrough, the industry's first nylon containing recycled content.

EcoSolution Q is a continuous filament fiber designed to meet the exacting criteria of the commercial market. But beyond its performance, EcoSolution Q is environmentally responsible, containing reclaimed fiber from post-industrial and/or post-consumer waste.

The development of EcoSolution Q represents a two-fold milestone for Shaw Industries. First, it punctuates our extensive reclamation efforts which have successfully removed more than 80 percent of our production waste at Shaw. And equally important, we are now able to pass on the cost savings of reclaimed content to our commercial customers.

The response from customers has been outstanding, making EcoSolution Q the most successful product launch in the history of the Shaw Contract Group.

ERGOFLEX™: ***Providing Shaw A Comfortable Advantage.***
An important element of carpet is comfort, and a big part of that comfort comes from what's underneath.

ERGOFLEX is an innovative cushioned modular carpet from Shaw Networx® Modular carpets. ERGOFLEX's unique integrated cushion enhances the carpet's comfortable surface and provides a resilient support that can reduce leg and muscle fatigue.

A University of Pittsburgh study confirmed that very firm carpet cushion helps to relieve muscle discomfort. Using a technique called electromyography, University researchers measured the effects of various carpet and cushion combinations on the electrical activity of leg muscles during walking.

Based on this research, we developed ERGOFLEX and its one-of-a-kind integrated cushioned backing.

Plant X: ***The Largest, Most Modern Facility Of Its Kind.***
In 1997, Shaw Industries opened a new modular carpet manufacturing complex in Cartersville, Georgia. The 650,000 square-foot Plant X, as it is known, incorporates manufacturing, yarn storage, and warehousing under one roof, making it the single largest modular carpet production facility in the world. An anticipated second phase would further expand the complex to more than 1.1 million square feet.

A key to Shaw's commercial success will be our ability to offer customers integrated flooring products, including conventional commercial broadloom, carpet tile, and high-performance modular roll products.

Our state-of-the-art Plant X will more than double our current capacity in these increasingly important specialty products.

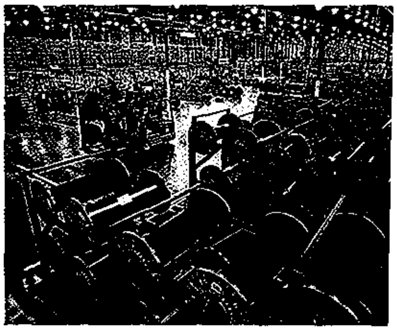
Shaw Contract Flooring:
Innovative Commercial Retail Service.
Shaw Contract is committed to providing innovative service to end-users, the A & D community, and general contractors. In 1997, our Shaw-owned distribution channel grew 107 percent, as we acquired five additional flooring contractor operations and expanded our major market coverage with eleven new operational locations.

In the meantime, we added Product Care, a floor maintenance program, to each of our operations in order to support our total customer satisfaction program. We also launched our Vertical Installation Technology Program, a system used to facilitate modular carpet installation underneath open-space office systems.

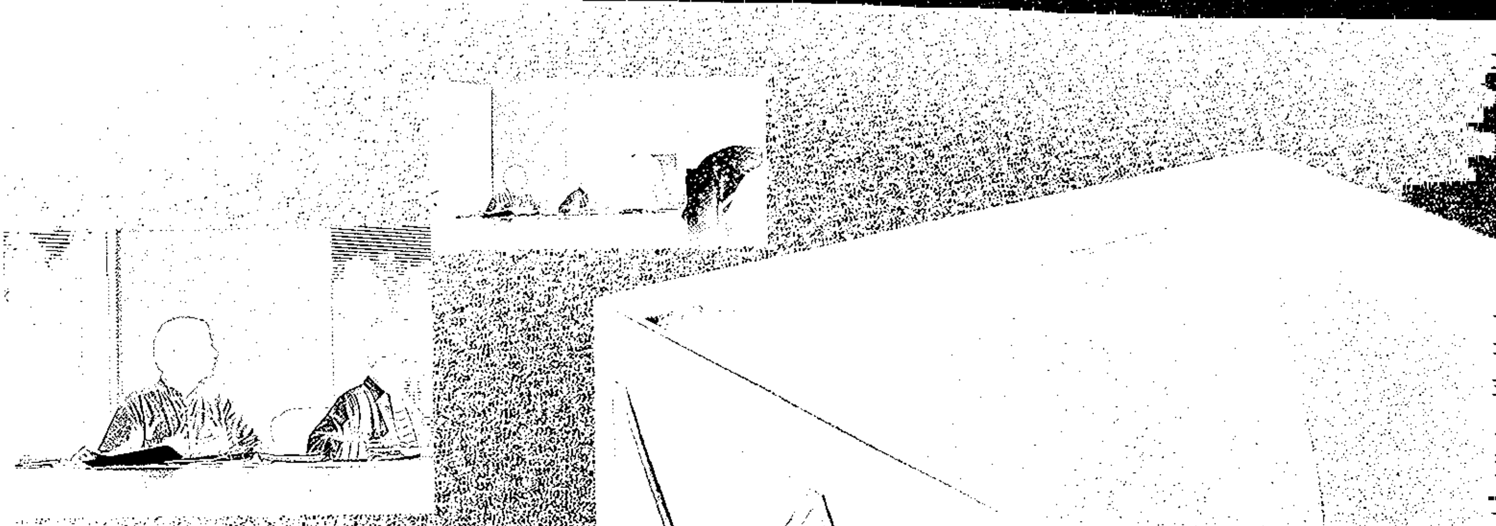
Shaw Contract Flooring also began the development of an integrated computer network to service the complex operational requirements of our distribution system. Called WINBID, the system is projected for completion in 1998.

The $20 million, ultramodern Plant X was built to exclusively serve Shaw's commercial customers' needs.

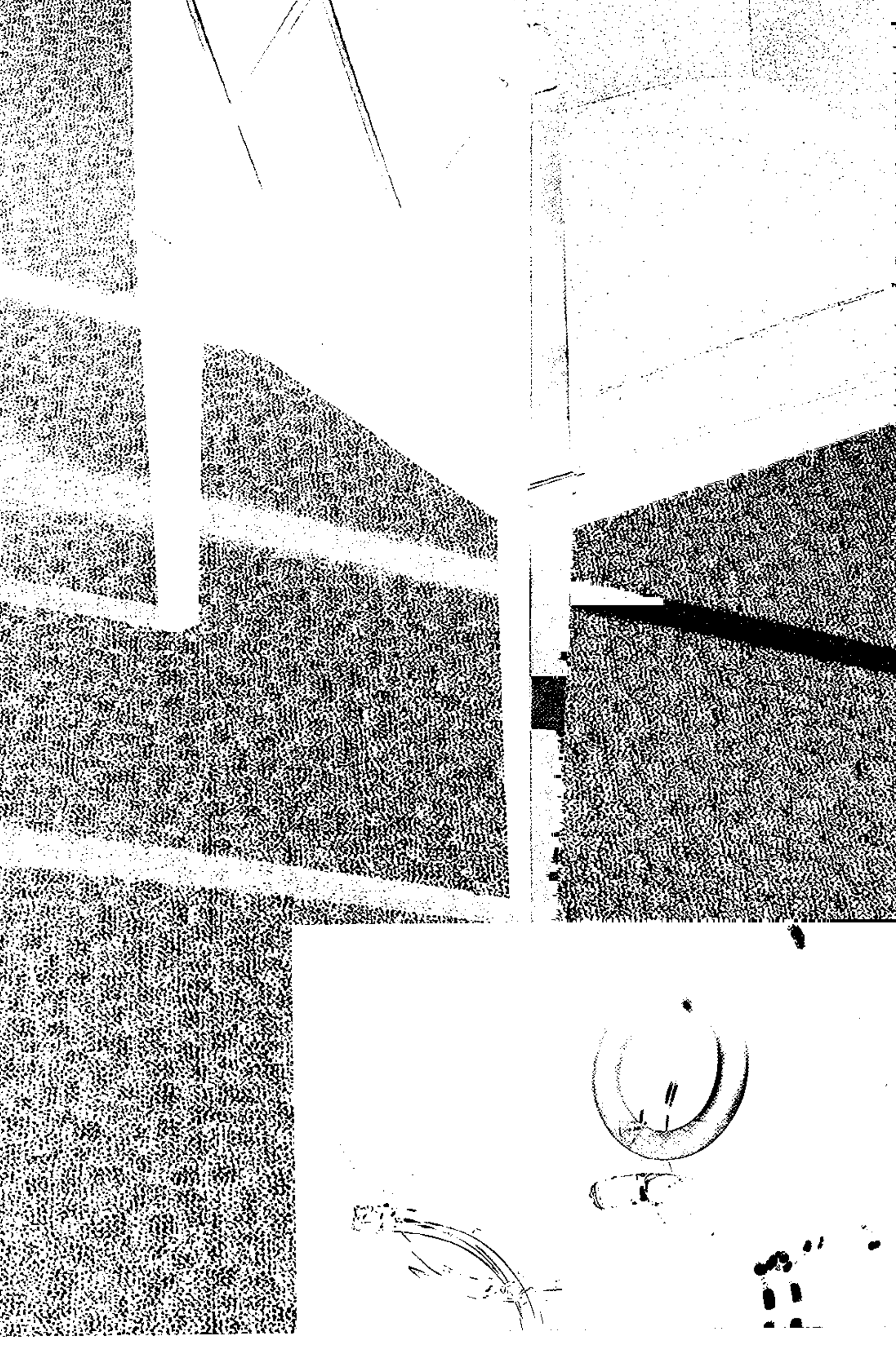
In keeping with Shaw's stringent environmental initiative, a key objective in the construction of Shaw's Plant X was the sustainable use of resources. A unique concrete substrate developed by Shaw Industries contains recycled carpet. In addition, the 100-acre site preserves and enhances certain wet lands and other natural habitats. Xeroscaping, the choice of native grasses, trees, and shrubbery which require little supplemental water further enhances the facility's environmental responsibility.

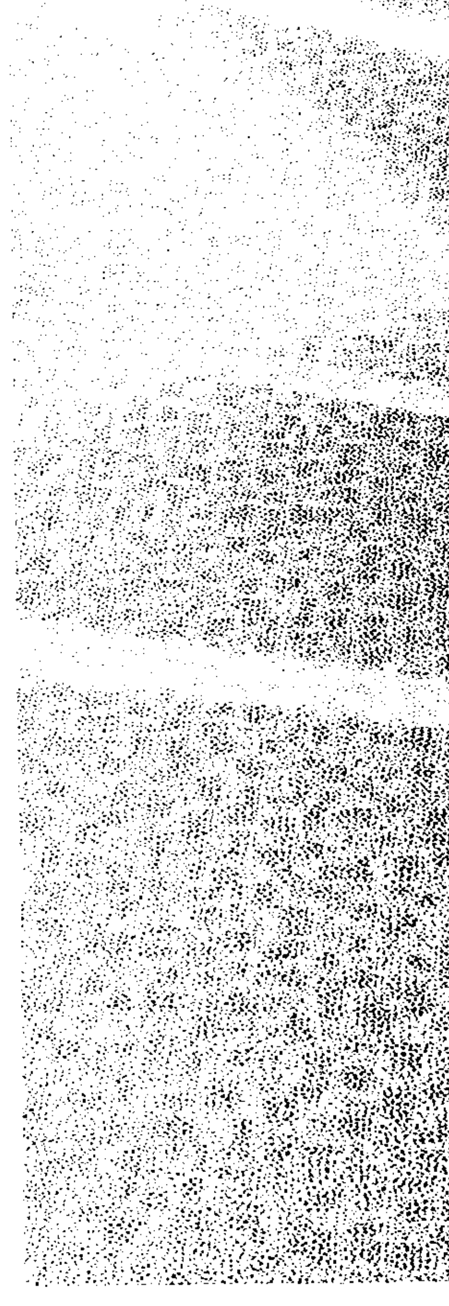


EcoSolution Q, Shaw's revolutionary new solution-dyed nylon fiber containing recycled content is the most successful product launch in the history of the Shaw Contract Group.



All five of Shaw's contract plants in Cartersville, Georgia are in the process of converting to High Performance Organization structure, allowing Shaw employees to be more involved and more responsible in all facets of our company's operations..





"...Winners never make excuses, instead they find solutions. Stephens/Shaw is our solution for complete customer service, for now and in the future."
Rick Emas
Stephens Floor Covering Co.
Des Peres, MO

In 1997, Shaw received three Solutia DOC Awards, recognizing product innovation and style, for its FreeForm, Stratus and DanceHall products.

HPO: *As In High Performance.*
High Performance Organization (HPO) management is yet another innovation being applied by the Shaw Contract Group.

HPO is team-based management, allowing Shaw employees to be more involved and more responsible in all facets of our Company's operations.

HPO makes for higher quality, better service, lower costs, and improved safety. One, because everyone in the organization is trained and made more capable of making decisions. And two, because they're given the freedom to make them.

HPO releases a lot of creativity and energy that traditional management practices tend to bottle up. Its effects are evident on the faces of our employees and on the bottom lines of our plants.

Shaw Quality System (SQS):
A New Standard In Carpet Manufacturing.
The exacting standards of the ISO 9000 Quality Control System are recognized for manufacturing excellence around the world. With the Shaw Quality System, known as SQS, Shaw Industries brings this same level of excellence to our carpet operations.

Like ISO 9000, SQS is an extensively documented system with rigorous guidelines. Certification on the system requires passing an audit performed by trained auditors from outside of the plant. Making the system even more meaningful, SQS is specifically designed for Shaw's carpet manufacturing environment.

After several years of effort, Shaw Contract Group realized in 1997 their goal of full compliance and certification to the Shaw Quality System in each of their plants. Certification will ensure high quality levels in every facet of the division's manufacturing efforts.

Tate Access Floors and United Technical Products:

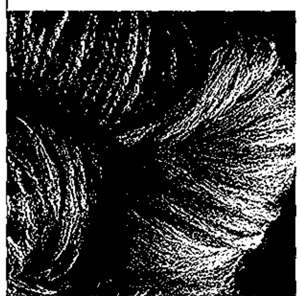
Innovative Relationships, Innovative Solutions.

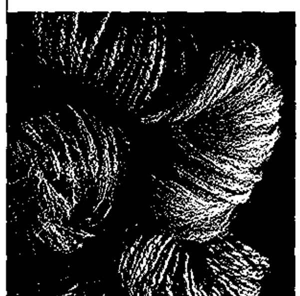
Tate Access Floors is the largest access floor manufacturer in the world with 130 dealers across the country. Shaw has now joined with Tate, combining Shaw's tile products with Tate's access flooring products to offer the widest variety of solutions in the market — from cleanrooms to cable management systems.

Shaw has built a similar relationship with United Technical Products, a niche carpet manufacturer dealing with advance static control. No other static control product performs to the level of UTP.

Three experts, the three leading companies in their respective industries, have come together in an innovative relationship to better serve their customers.

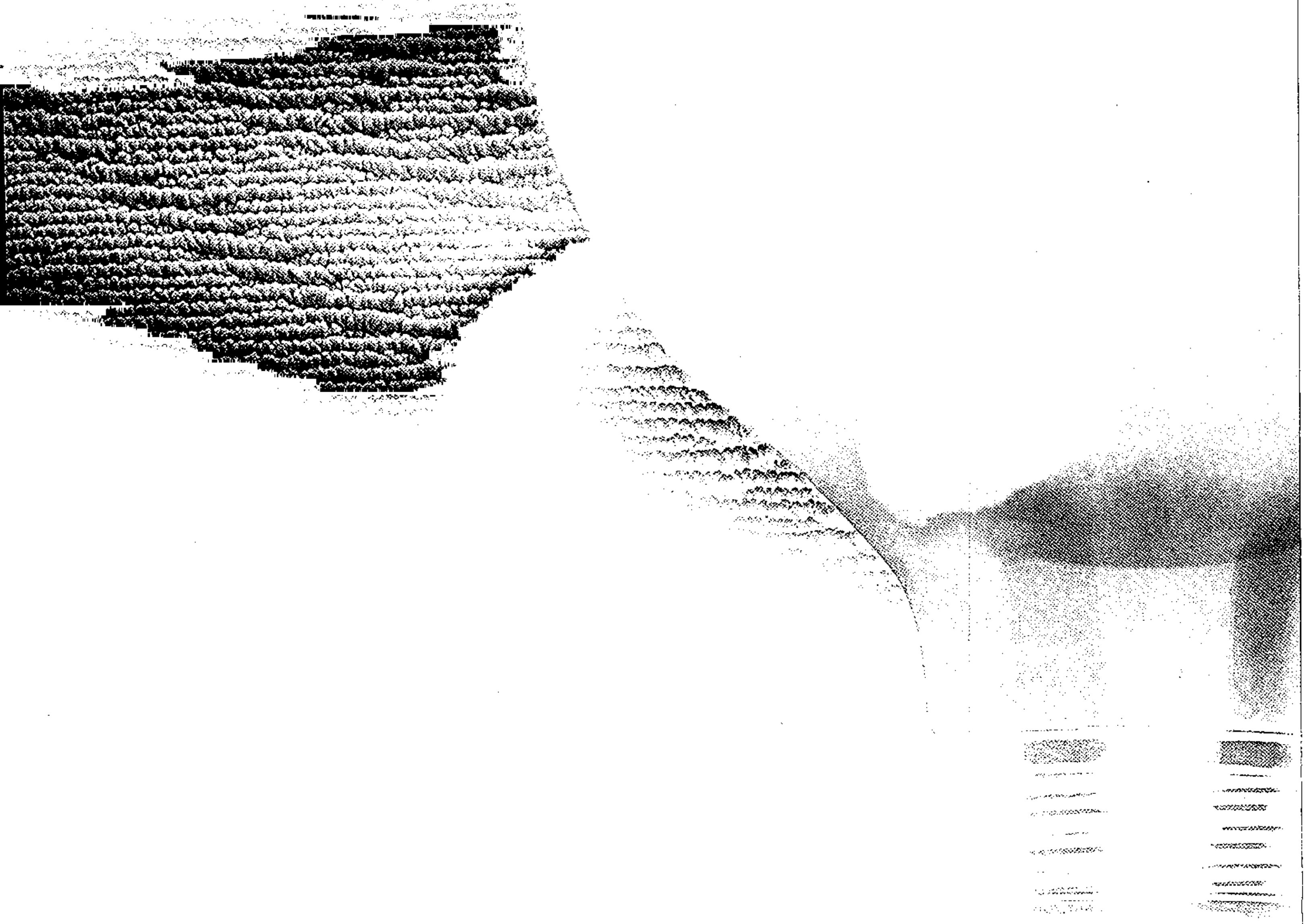
"With the commitment Shaw Industries has to produce quality products with more innovation in design at competitive pricing, our company is able to provide effective solutions for our clients."
Bill Imhoff
Intertech Flooring, Austor, TX



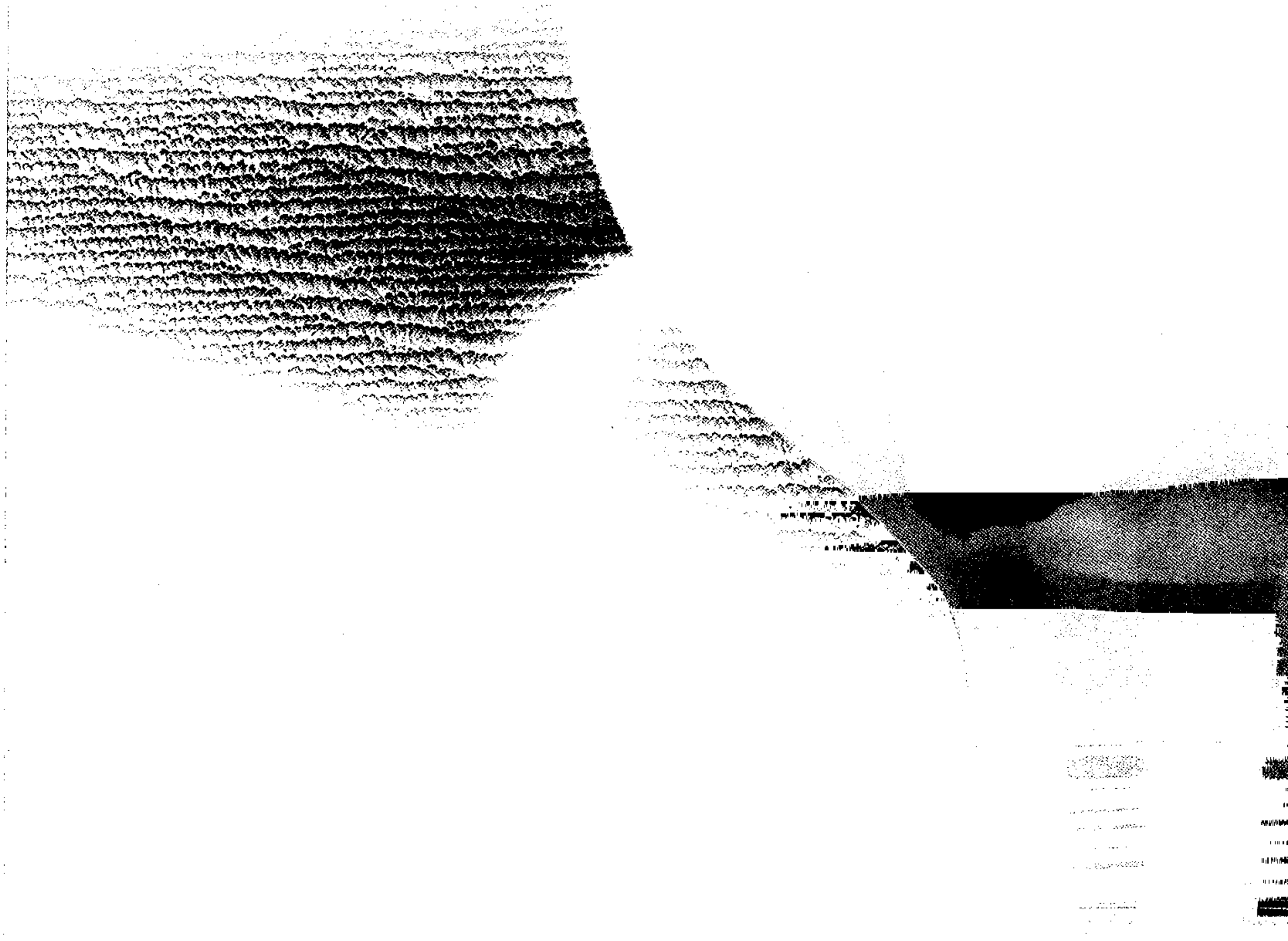


In Spring of 1997, Shaw Contract Group launched EcoSolution Q, the industry's first nylon containing recycled content. Based on percentages since its introduction in the marketplace, EcoSolution Q will use approximately 2.5 million pounds of reclaimed fiber from post-industrial and post-consumer waste annually.

A Giant In Innovation



I N T E R N A T I O N A L



SHAW AUSTRALIA

While Shaw's reputation for innovation is well established at home, it is certainly not confined to the U.S. market. Innovative products and marketing approaches have played a key role in Shaw's operations in Australia, and these innovations continue to raise standards in the Australian market for quality and service.

Shaw Australia has introduced a variety of innovative products through its well recognized brands, Redbook, Minster, and Invicta. All new product innovations were introduced with a comprehensive marketing program to support each specific product group, ensuring that these innovative products hit the targeted market segments.

Invicta Commercial: ***The Designer's Collection.***

The Designer's Collection is the industry's first coordinated collection of carpet textures and colors. The collection recognizes Invicta Commercial's ability to create styles that are unique, while at the same time listening to the professionals, the designers and architects to ensure the inspiration of color and textures meet today's market demands.

Invicta Commercial: ***The Endurance Collection.***

The Australian commercial market is dominated by wool products. With the recent introduction of The Endurance Collection, for the first time the designers and architects now have access to the most comprehensive product offering of solution-dyed nylon products. The Endurance Collection's product range offers specific features and benefits that are not characteristic of wool, such as soil and stain protection, abrasive wear warranties, lifetime antistatic and colorfastness — again, an industry first.

Invicta Domestic: ***The Naturals.***

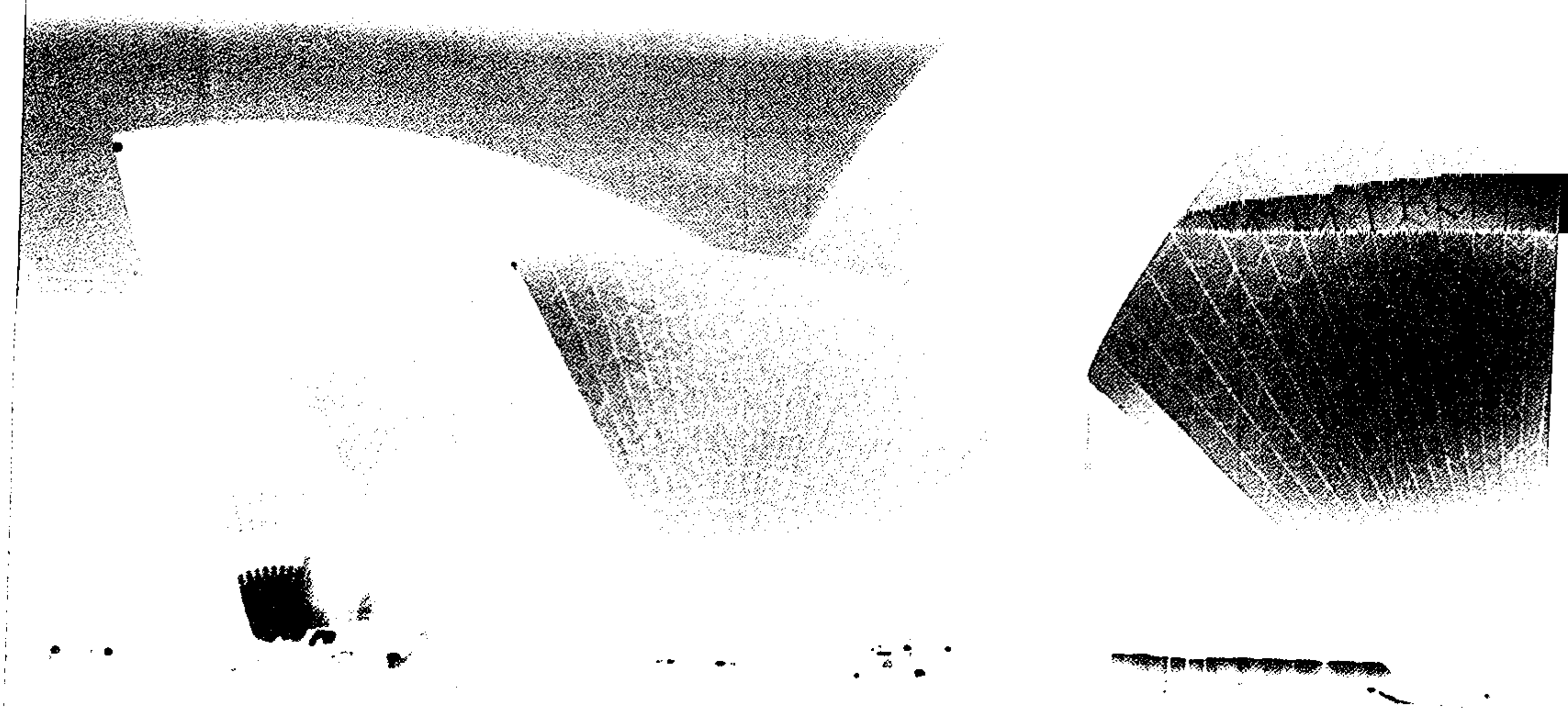
Using the natural integrity of wool, Invicta Domestic has developed a group of products that offer the richness of the Australian landscape — colors of our wildflowers, the subtle blues and textures of the forest floor — that invite the colors and textures of nature into the consumer's home.

The Naturals — "Carpet inspired by nature, created by Invicta" — offers variety for the residential consumer that is unparalleled in style, color and texture, ensuring that the full natural attributes of wool and the spirit of nature come together to enhance the consumer's home.

Redbook: ***Family Advantage.***

Family Advantage is an innovative product offering targeted for the active areas in a house. Redbook, one of the market's most respected brands, understands that families place extra demands on their floor coverings. That is why it is important to match your carpet to your lifestyle.

All Family Advantage products are built with performance in mind, while offering styling and color to hide soiling and staining in these high traffic areas. This collection is the only one of its kind, a special group of products "for homes like yours."



Minster: ***Performance Plus.***

The highly successful, innovative brand Performance Plus launched in October 1996 and grew to 17 products in 1997. Performance Plus offers refreshing new styles and designs in addition to performance. In the new 1997 introductions, spun nylon was introduced to Australia, offering the consumer the performance of nylon and a value for money product that is exclusive to Shaw Australia.

This durable line offers a number of comprehensive warranties and is promoted as being able to "outperform in any kind of traffic, or we'll replace it." The program has been a great success and has won the distinction of the dealer brand of choice.

Minster: ***Market Street Commercial***

As in all markets throughout the world where downsizing has occurred, more and more businesses are relying on the independent retailer for their commercial needs, versus the cost and complexity of dealing with a designer or architect.

The Market Street Commercial products range is specifically targeted to those retailers and end-users, and is recognized as the only program of its kind in Australia. The comprehensive product offering encompasses specially designed polypropylene commercial products made with recently installed high-tech computerized tufting equipment and the recognized EcoSolution Q solution-dyed nylon fiber purchased from Shaw in the U.S.

Market Street Commercial is recognized as the value and performance brand for the changing commercial market. The comprehensive commercial program has exceeded the retailers' expectations and created a new value stream in the retailers' arsenal to meet customers' requirements.

SHAW IN THE U.K.

In December of 1997, the Company entered into an agreement in principle to dispose of Carpets International, Plc (the Company's wholly owned U.K. subsidiary) to Cravey Green & Wahlen, an Atlanta, Georgia venture capital firm. The Company recorded a net after-tax charge of $20.3 million, or $.15 per share in 1997, which it announced in January 1998, to reduce certain assets to estimated fair value related to this transaction.

During the last four years, the Company experienced losses in the U.K. operations. Substantial improvements, however, were made during 1997. While we were pleased with the recent progress we achieved in the U.K., this transaction will enable us to increase our liquidity and reduce our debt. Closing is expected to occur by the end of the first quarter of 1998.

William C. Lusk, Jr.

A Tribute

After 31 years of dedicated service, Bill Lusk retired in 1997 as one of the Company's Senior Vice Presidents and a member of the internal executive operating committee.

During his career, Bill provided strong financial leadership and guidance during the Company's many years of growth and expansion by exemplifying his ability to focus on the important issues and the necessity of keeping things simple. Bill will continue to bring his substantial business and financial skills to the Company as he continues to serve on the Company's Board of Directors.

Financial Review

Ten-Year Financial Review

(Dollars in 000s except share data)

	1997	1996	1995	199
Net Sales	*$ 3,575,774*	$ 3,201,554	$ 2,869,828	$ 2,788,52
Cost of Sales	*2,680,472*	2,485,068	2,319,894	2,187,43
Selling, General and Administrative Expenses	*722,590*	541,338	393,868	366,18
Pre-opening Expenses, Retail Operations	*3,953*	13,595	—	—
Charge to Record Store Closing Costs	*36,787*	—	—	—
Nonrecurring Charges	—	29,139	6,967	—
Write-down of U.K. Assets	*47,952*	—	—	—
Restructuring Costs	—	19,963	—	—
Interest, Net	*60,769*	42,442	41,901	30,02
Other (Income) Expense, Net	*(7,032)*	(3,609)	443	(4,922
Income Before Income Taxes, Equity in Income of Joint Venture, Extraordinary Item and Accounting Change	*30,283*	73,618	106,755	209,79
As a Percentage of Net Sales	*0.8%*	2.3%	3.7%	7.
Effective Tax Rate	*18.4%*	59.0%	40.8%	37.
Income Before Equity in Income of Joint Venture, Extraordinary Item and Accounting Change	*24,697*	30,155	63,152	130,38
Equity in Income of Joint Venture	*4,262*	3,868	1,229	—
Extraordinary Item	—	—	—	(3,36
Accounting Change	—	—	(12,077)	—
Net Income	*28,959*	34,023	52,304	127,02
As a Percentage of Net Sales	*0.8%*	1.1%	1.8%	4.
As a Percentage of Average Total Assets	*1.5%*	1.9%	3.1%	8.
As a Percentage of Average Invested Capital	*1.9%*	2.4%	3.9%	10.
As a Percentage of Average Shareholders' Investment	*4.4%*	4.9%	7.4%	17.
Earnings Per Share:				
Basic	*0.22*	0.25	0.38	0.9
Diluted	*0.22*	0.25	0.38	0.8
Cash Dividends Per Share	*0.30*	0.30	0.30	0.2
Property Additions (including acquisitions)	*106,728*	177,062	93,805	187,04
Depreciation and Amortization	*94,954*	90,906	91,083	84,89
Weighted Average Shares Outstanding:				
Basic	*133,523,380*	135,731,360	135,872,432	141,431,60
Diluted	*133,714,496*	135,915,308	136,378,159	142,483,06
At Year-End:				
Working Capital	*740,959*	670,344	641,445	617,33
Current Ratio	*3.3*	2.6	3.5	3.
Property, Plant and Equipment, Net	*624,379*	655,141	631,990	656,17
Total Assets	*1,967,614*	1,984,398	1,662,783	1,697,37
Total Long-Term Debt	*930,424*	825,280	627,130	612,06
Shareholders' Investment	*637,534*	671,711	710,189	713,02
Total Invested Capital*	*1,567,958*	1,496,991	1,337,319	1,325,08
Shareholders' Investment Per Share	*$ 4.86*	$ 5.06	$ 5.22	$ 5.2

*The sum of shareholders' investment and long-term debt.

NOTE: All share data have been adjusted for two-for-one stock splits effected in the form of stock dividends in December 1993, March 1992 and May 1989.

1993	1992	1991	1990	1989	1988
$ 2,476,282	$ 2,035,962	$ 1,618,923	$ 1,658,771	$ 1,266,142	$ 1,120,163
1,963,206	1,641,404	1,341,312	1,348,808	1,017,084	905,305
301,790	240,192	188,363	179,381	138,708	126,500
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
24,107	26,083	30,973	35,026	20,828	23,776
(2,530)	324	(74)	(483)	(640)	(145)
189,709	127,959	58,349	96,039	90,162	64,727
7.7%	6.3%	3.6%	5.8%	7.1%	5.8%
38.0%	38.5%	38.3%	38.0%	38.4%	37.8%
117,636	78,695	35,985	59,515	55,567	40,285
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
117,636	78,695	35,985	59,515	55,567	40,285
4.8%	3.9%	2.2%	3.6%	4.4%	3.6%
8.8%	7.7%	4.5%	8.0%	9.4%	8.1%
12.1%	10.5%	6.2%	11.1%	12.7%	10.7%
17.5%	16.1%	12.8%	29.1%	29.4%	25.4%
0.82	0.61	0.32	0.51	0.46	0.33
0.81	0.59	0.31	0.49	0.45	0.32
0.18	0.15	0.125	0.125	0.10	0.083
174,635	191,830	48,230	116,739	144,308	30,362
82,416	67,414	62,075	60,734	38,600	41,866
142,946,223	129,742,222	111,850,981	117,330,116	120,084,604	123,377,560
144,922,741	132,422,292	115,260,162	120,616,219	122,533,553	123,983,538
437,445	448,089	290,305	260,644	224,443	199,458
2.2	2.6	2.5	2.4	2.3	3.0
551,873	453,276	344,182	341,266	293,030	192,194
1,454,266	1,223,439	816,874	790,935	690,202	496,374
317,914	281,742	235,424	376,499	292,763	205,775
723,830	619,977	358,643	201,667	207,434	170,309
1,041,744	901,719	594,067	578,166	500,197	376,084
$ 5.04	$ 4.38	$ 2.89	$ 1.87	$ 1.73	$ 1.39

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Company's business, as well as the U.S. carpet industry in general, is cyclical in nature and is significantly affected by general economic conditions. The level of domestic carpet sales tends to reflect fluctuations in consumer spending for durable goods and, to a lesser extent, fluctuations in interest rates and new housing starts. The Company's international operations are also impacted by the economic climates in the markets in which they operate (primarily the United Kingdom, Australia and Mexico).

During 1997, the Company acquired additional residential retailers and commercial contractors including The Carpet Exchange, Baker Brothers, Carpet Factory Outlet, Vulcan Floors, Inc., Morton Floors, Inc. and others for cash and common stock totaling $53.9 million and resulting in goodwill of $38.8 million which is being amortized over 20 years.

In addition, the Company opened 28 residential retail stores in 1997 and incurred pre-opening expenses of $3,953,000. In the fourth quarter of 1997, the Company announced a plan to close approximately 100 residential retail store locations which had combined net sales of $90 million but contributed negatively to the Company's profitability. Net sales for the Company's retail and commercial contract business totaled $949.1 million in 1997 compared to $499.2 million in 1996. At January 3, 1998, the Company had approximately 450 retail and commercial contract locations throughout the United States, including the residential retail stores scheduled to close.

The Company believes that by combining the resources of the manufacturer and retailer and developing a commercial contract distribution network, it can provide a full range of products and services to more effectively meet the needs of the end user of both residential and commercial carpet products at significantly improved margins. As part of this strategy, the Company continues its efforts to develop an alignment program with dealers of both residential and commercial carpet products to provide a collection of services, benefits and programs that will encourage dealers to increase their purchases from the Company. At January 3, 1998, the Company had approximately 1,500 aligned dealers.

Liquidity and Capital Resources

At January 3, 1998, the Company had working capital of $741.0 million, an increase of $70.7 million over working capital of $670.3 million at December 28, 1996. Cash and cash equivalents decreased $6.0 million to $43.6 million at January 3, 1998 from $49.6 million at December 28, 1996. The Company's operations generated cash flow of $139.3 million in 1997, principally from net income of $29.0 million adjusted for depreciation and amortization of $95.0 million, a charge to record store closing costs of $36.8 million, a write-down of U.K. assets of $48.0 million and decreases in accounts receivable and inventories of $74.3 million, offset in part by decreases in accounts payable and accrued liabilities of $95.7 million. The Company's operations provided cash flow in 1996 of $166.3 million, principally from net income of $34.0 million adjusted for depreciation and amortization of $90.9 million and nonrecurring charges of $29.1 million and restructuring costs of $20.0 million. In 1997, the Company invested cash in additions to property, plant and equipment of $78.0 million, net of retirements of $31.9 million and acquisitions of business assets of $28.7 million compared to additions of $106.8 million, net of retirements of $2.6 million, and acquisitions of $70.2 million in 1996. The Company expended cash in financing activities during 1997 for payments on notes payable of $39.4 million, cash dividends of $40.0 million and repurchases of 3,820,000 shares of common stock for $46.1 million, funded in part by an increase in long-term debt of $330.0 million, offset by payments of debt of $243.6 million. In 1996, financing activities provided cash flow through an increase in long-term debt of $231.6 million, offset by payments on debt of $75.0 million, cash dividends of $40.8 million and repurchases of 7,676,800 shares of common stock for $87.8 million.

The Company has continued to maintain a strong working capital position. Effective use of capital and the Company's ability to generate cash flow from operations have enabled it to invest in technologies which reduce production costs, generate operating margins that have historically exceeded industry averages, implement its retail strategy and fund repurchases of common stock.

Capital expenditures for property, plant and equipment necessary to upgrade and maintain the Company's facilities in a modern state-of-the-art condition were $109.9 million. Management anticipates total capital expenditures and capitalized lease obligations of approximately $50 million in 1998 to expand and upgrade its manufacturing and distribution equipment to meet anticipated increases in sales volume, to improve efficiency and to upgrade its current retail operations.

In January 1998, the Company announced no further cash dividends would be paid in fiscal 1998 subsequent to the quarterly dividend on February 27, 1998 to shareholders of record on February 16, 1998.

On February 9, 1998, the Company commenced a "dutch auction" tender offer to acquire up to approximately 10,600,000 shares of its common stock, representing approximately 8.1 percent of its currently outstanding shares. Under the terms of the offer, the Company's shareholders may tender their shares at a price within a range of $11.00 to $14.00 per share for a period of 20 business days.

The Company's primary source of financing is an unsecured revolving credit facility with a banking syndicate, which provides for borrowings of up to $950.0 million and expires in March 2002. Interest on borrowings under this facility is currently based on LIBOR and was 6.41 percent at January 3, 1998. At January 3, 1998, borrowings outstanding under this credit facility were $774.0 million. During 1997, the Company amended its interest rate swap agreements with notional amounts totaling $300.0 million whereby the Company agreed to pay interest at a fixed rate of 5.95 percent. As a result, the interest on approximately one-third of the Company's unsecured revolving credit facility has been fixed. The interest rate swap agreements expire in 2000. The Company does not use interest rate swap agreements or any other derivatives for speculative trading purposes.

In February 1998, the Company received commitments from a group of financial institutions for a new $1.0 billion unsecured revolving credit facility which will replace the facility outstanding at January 3, 1998 and provide for borrowings to fund stock repurchases under the "dutch auction" tender offer. The terms and interest rates of the new facility are expected to be comparable to the current facility.

The Company has a multicurrency credit facility in the United Kingdom with a banking syndicate which provides for borrowings up to $131.3 million and expires in 2001. Interest on borrowings under this facility is based on LIBOR and approximated 8.28 percent at January 3, 1998. Borrowings outstanding under this credit facility were $80.0 million at January 3, 1998. The Company expects to terminate this facility upon consummation of the disposal of the U.K. operations discussed below. In addition, the Company maintains a revolving credit facility in Australia of $57.9 million with $46.2 million outstanding and $11.7 million available at January 3, 1998.

The Company believes that available borrowings under its existing and committed credit agreements, available cash and internally generated funds will be sufficient to support its working capital, capital expenditures, stock repurchases and debt service requirements for the foreseeable future. In addition, the Company believes it could further expand its revolving credit and long-term bank facilities, if necessary.

Inflation

The Company's manufacturing costs and operating expenses are affected by price changes. The costs of fiber and other raw materials decreased approximately 3 percent in 1997 after having increased slightly in 1996 and 1995. The Company has historically mitigated inflationary effects by passing price changes along to its customers and by continually developing and implementing more cost effective manufacturing and other operational procedures. The Company's ongoing ability to mitigate the effect of price changes will depend on market factors.

Year 2000 Compliance

The Company has assessed the impact of the year 2000 on its reporting systems and operations. The Company believes its plans, which are expected to be fully implemented by the end of 1998, will adequately resolve year 2000 compliance issues and will result in an immaterial impact on the Company's results of operations.

Results of Operations

1997 Compared to 1996

Net sales increased $374.2 million, or 11.7 percent, to $3,575.8 million in 1997. The increase was primarily attributable to incremental net sales of $449.9 million related to the residential retail and commercial contract business, offset by slight declines in net sales prices and volumes for the Company's wholesale manufacturing operations in both the domestic and international markets. Gross margin as a percent of net sales increased 2.6 percent to 25.0 percent for 1997, compared to 22.4 percent for 1996, primarily due to the incremental impact of the Company's residential retail and commercial contract business and higher margins for the wholesale manufacturing operations in both the domestic and international markets. Domestic and international wholesale manufacturing margins improved .8 percent and 11.1 percent, respectively, in 1997 compared to 1996 primarily due to improved sales product mix and lower raw material costs.

Selling, general and administrative expenses for 1997 were $722.6 million, or 20.2 percent of net sales, compared to $541.3 million, or 16.9 percent of net sales, in 1996. The increase of $181.3 million, or 3.3 percent of net sales, was primarily due to increased advertising and other selling and administrative expenses associated with the Company's continued expansion into the residential retail and commercial contract business. Pre-opening expenses related to the retail operations totaled $4.0 million in 1997 compared to $13.6 million in 1996. Interest expense, net, increased to $60.8 million in 1997 from $42.4 million in 1996 as a result of higher borrowings and an overall increase in interest rates.

Results for 1997 include a charge to record residential retail store closing costs of $36.8 million ($23.3 million, net of tax benefit, or $.17 per share) and a reduction in the carrying value of the assets of Carpets International, Plc (U.K.) of $48.0 million ($20.3 million, net of tax benefit, or $.15 per share). Net income before these charges was $72.1 million, or $.54 per share, compared to 1996 net income of $84.7 million, or $.62 per share, before nonrecurring charges of $29.1 million ($26.5 million, net of tax benefit, or $.19 per share) and restructuring costs of $36.1 million ($24.2 million, net of tax benefit, or $.18 per share). Net income after the charge to record store closing costs and reduction in the carrying value of the assets in the U.K. was $29.0 million, or $.22 per share, in 1997 compared to net income of $34.0 million, or $.25 per share, after nonrecurring charges and restructuring costs in 1996.

The effective income tax rate for 1997 was 18.4 percent, compared to 59.0 percent in 1996, as a result of lower taxable income created by the tax benefit related to the reduction in the carrying value of the U.K. assets.

1996 Compared to 1995

Net sales increased $331.8 million, or 11.5 percent, to $3,201.6 million in 1996. The increase was primarily attributable to incremental net sales of $498.6 million related to the residential retail and commercial contract business, offset by declines in net sales prices and volumes for the Company's wholesale manufacturing operations in both the domestic and international markets. Gross margin as a percent of net sales increased 3.2 percent to 22.4 percent for 1996, compared to 19.2 percent for 1995, primarily due to higher margins for retail sales, offset in part hy slightly higher raw material costs. Domestic and international wholesale manufacturing margins improved 1.5 percent and 1.9 percent, respectively, in 1996 compared to 1995 primarily due to improved sales product mix and increases in the efficiency relationships of volume and fixed costs which outweighed slightly higher raw material costs.

Selling, general and administrative expenses for 1996 were $541.3 million, or 16.9 percent of net sales, compared to $393.9 million, or 13.7 percent of net sales, in 1995. The increase of $147.4 million, or 3.2 percent of net sales, was primarily due to increased advertising and other selling and administrative expenses associated with the Company's entrance into the residential retail and commercial contract business. Pre-opening expenses related to the retail operations totaled $13.6 million in 1996. Interest expense, net, increased to $42.4 million in 1996 from $41.9 million in 1995 as a result of higher borrowings, offset in part by an overall reduction in interest rates.

Results for 1996 included nonrecurring charges of $29.1 million ($26.5 million net of tax benefit, or $.19 per share) for the reduction in the carrying value of certain goodwill, property, plant and equipment at its international operations and a provision for the disposal of certain other assets, and restructuring costs of $36.1 million ($24.2 million net of tax benefit, or $.18 per share) related to woolen and Axminster production in the United Kingdom, of which $16.1 million was charged to cost of sales. Net income before nonrecurring charges and restructuring costs was $84.7 million, or $.62 per share, compared to $68.7 million, or $.50 per share, in 1995. Net income after nonrecurring charges and restructuring costs was $34.0 million, or $.25 per share, in 1996 compared to net income of $52.3 million, or $.38 per share, in 1995, after recording a change in accounting for samples and plant shutdown costs of $16.4 million, or $.12 per share in 1995.

The effective income tax rate for 1996 was 59.0 percent, compared to 40.8 percent in 1995, as a result of lower taxable income and increases in permanent tax differences primarily as a result of nondeductible goodwill included in the nonrecurring charges.

Charge to Record Store Closing Costs and Write-Down of U.K. Assets

In December 1997, the Company announced a plan to close approximately 100 residential retail stores which resulted in a charge of $36.4 million ($22.8 million, net of tax benefit, or $.17 per share) consisting primarily of reductions in the carrying value of long-lived assets of approximately $13,430,000 and reserves for exit costs and employee termination benefits of approximately $17,440,000 and $5,530,000, respectively. Prior to this charge, the Company recorded store closing costs of $.4 million ($.3 million, net of tax benefit) in 1997 which had no effect on earnings per share..

In December 1997, the Company entered into an agreement in principle to dispose of Carpets International, Plc (the Company's wholly owned U.K. subsidiary) and as a result of this agreement, recorded a reduction in the carrying value of certain U.K. assets of $48.0 million ($20.3 million, net of tax benefit, or $.15 per share) in 1997.

Foreign Operations

The Company's primary foreign operations are conducted through its United Kingdom and Australian subsidiaries, where the functional currencies are British pounds and Australian dollars, respectively. Fluctuations in the value of foreign currencies create exposures which can impact the Company's operating results. The Company may employ foreign currency forward exchange contracts when, in the normal course of business, they are determined to effectively manage and reduce such exposure. The Company does not enter into foreign currency forward exchange contracts for speculative trading purposes.

Consolidated Statements of Income

For Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

	1997	1996	1995
Net Sales	$ 3,575,774,000	$3,201,554,000	$2,869,828,000
Costs and Expenses:			
Cost of sales	2,680,472,000	2,485,068,000	2,319,894,000
Selling, general and administrative	722,590,000	541,338,000	393,868,000
Pre-opening expenses	3,953,000	13,595,000	—
Charge to record store closing costs	36,787,000	—	—
Restructuring costs	—	19,963,000	—
Write-down of U.K. assets	47,952,000	—	—
Nonrecurring charges	—	29,139,000	6,967,000
Interest, net	60,769,000	42,442,000	41,901,000
Other (income) expense, net	(7,032,000)	(3,609,000)	443,000
Income Before Income Taxes	30,283,000	73,618,000	106,755,000
Provision for Income Taxes	5,586,000	43,463,000	43,603,000
Income Before Equity in Income of Joint Venture, and Accounting Change	24,697,000	30,155,000	63,152,000
Equity in Income of Joint Venture	4,262,000	3,868,000	1,229,000
Income Before Accounting Change	28,959,000	34,023,000	64,381,000
Cumulative Effect of Accounting Change, net of tax benefit	—	—	(12,077,000)
Net Income	$ 28,959,000	$ 34,023,000	$ 52,304,000
Earnings Per Common Share (Basic and Diluted):			
Before Accounting Change	$ 0.22	$ 0.25	$ 0.47
Cumulative Effect of Accounting Change	—	—	(0.09)
Net Income	$ 0.22	$ 0.25	$ 0.38
Weighted Average Shares Outstanding:			
Basic	133,523,380	135,731,360	135,872,432
Diluted	133,714,496	135,915,308	136,378,159

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheets

January 3, 1998 and December 28, 1996

	1997	1996
Assets		
Current Assets:		
Cash and cash equivalents	$ 43,571,000	$ 49,581,000
Accounts receivable, less allowance for doubtful accounts and discounts of $16,283,000 in 1997 and $16,667,000 in 1996	374,516,000	393,983,000
Inventories–		
Raw materials	235,820,000	251,262,000
Work-in-process	23,584,000	26,070,000
Finished goods	270,655,000	279,453,000
	530,059,000	556,785,000
Other current assets	118,267,000	81,056,000
Total current assets	1,066,413,000	1,081,405,000
Property, Plant and Equipment, at cost:		
Land and land improvements	27,827,000	29,584,000
Buildings and leasehold improvements	299,090,000	293,072,000
Machinery and equipment	987,561,000	969,601,000
Construction in progress	69,345,000	45,289,000
	1,383,823,000	1,337,546,000
Less–Accumulated depreciation and amortization	759,444,000	682,405,000
	624,379,000	655,141,000
Goodwill, net of amortization	236,209,000	212,398,000
Investment in Joint Venture	21,269,000	18,302,000
Other Assets	19,344,000	17,152,000
Total Assets	$1,967,614,000	$1,984,398,000

	1997	1996
Liabilities and Shareholders' Investment		
Current Liabilities:		
Notes payable	$ 10,000	$ 35,084,000
Current maturities of long-term debt	2,752,000	17,431,000
Accounts payable	161,964,000	195,347,000
Accrued liabilities	160,728,000	163,199,000
Total current liabilities	325,454,000	411,061,000
Long-Term Debt, less current maturities	930,424,000	825,280,000
Deferred Income Taxes	61,689,000	63,453,000
Other Liabilities	12,513,000	12,893,000
Commitments and Contingencies		
Shareholders' Investment:		
Preferred stock, 250,000 shares authorized, no shares issued	—	—
Common stock, no par, $1.11 stated value, authorized 500,000,000 shares; issued and outstanding: 131,118,065 shares at January 3, 1998 and 132,772,548 shares at December 28, 1996	145,542,000	147,379,000
Paid-in capital	54,745,000	72,335,000
Cumulative translation adjustment	(620,000)	3,058,000
Retained earnings	437,867,000	448,939,000
Total shareholders' investment	637,534,000	671,711,000
Total Liabilities and Shareholders' Investment	$1,967,614,000	$1,984,398,000

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Shareholders' Investment

For Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Cumulative Translation Adjustment	Retained Earnings
Balance, December 31, 1994	137,017,402	$152,090,000	$118,635,000	$(1,815,000)	$444,115,000
Net income	—	—	—	—	52,304,000
Purchase and retirement of common stock	(1,384,200)	(1,537,000)	(19,053,000)	—	—
Exercise of stock options	323,400	360,000	2,136,000	—	—
Cumulative translation adjustment	—	—	—	3,710,000	—
Cash dividends paid ($.30 per share)	—	—	—	—	(40,756,000)
Balance, December 30, 1995	135,956,602	150,913,000	101,718,000	1,895,000	455,663,000
Net income	—	—	—	—	34,023,000
Issuance of stock in acquisitions	4,379,646	4,862,000	49,207,000	—	—
Purchase and retirement of common stock	(7,676,800)	(8,521,000)	(79,275,000)	—	—
Exercise of stock options	113,100	125,000	685,000	—	—
Cumulative translation adjustment	—	—	—	1,163,000	—
Cash dividends paid ($.30 per share)	—	—	—	—	(40,747,000)
Balance, December 28, 1996	132,772,548	147,379,000	72,335,000	3,058,000	448,939,000
Net income	—	—	—	—	*28,959,000*
Issuance of stock in acquisitions	*2,112,517*	*2,344,000*	*23,336,000*	—	—
Issuance of stock to directors	*7,000*	*8,000*	*83,000*	—	—
Purchase and retirement of common stock	*(3,820,000)*	*(4,240,000)*	*(41,822,000)*	—	—
Exercise of stock options	*46,000*	*51,000*	*504,000*	—	—
Tax benefit on disposition of stock options	—	—	*309,000*	—	—
Cumulative translation adjustment	—	—	—	*(3,678,000)*	—
Cash dividends paid ($.30 per share)	—	—	—	—	*(40,031,000)*
Balance, January 3, 1998	*131,118,065*	*$145,542,000*	*$ 54,745,000*	*$ (620,000)*	*$437,867,000*

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flow

For Years Ended January 3, 1998, December 28, 1996 and December 30, 1995

	1997	1996	1995
Operating Activities:			
Net Income	$ 28,959,000	$ 34,023,000	$ 52,304,000
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	94,954,000	90,906,000	91,083,000
Provision for doubtful accounts	9,318,000	10,777,000	8,629,000
Deferred income taxes	(1,841,000)	12,120,000	5,028,000
Charge to record store closing costs	36,787,000	—	—
Nonrecurring charges	—	29,139,000	—
Write-down of U.K. assets	47,952,000	—	—
Restructuring costs	—	19,963,000	—
Cumulative effect of accounting change	—	—	12,077,000
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	35,166,000	1,937,000	(21,137,000)
Inventories	39,111,000	2,250,000	2,456,000
Accounts payable	(60,360,000)	22,427,000	(32,899,000)
Accrued liabilities	(35,371,000)	(16,703,000)	28,277,000
Other, net	(55,397,000)	(40,560,000)	15,429,000
Total Adjustments	110,319,000	132,256,000	108,943,000
Net Cash Provided by Operating Activities	139,278,000	166,279,000	161,247,000
Investing Activities:			
Additions to property, plant and equipment	(109,883,000)	(109,454,000)	(73,851,000)
Retirements from property, plant and equipment, net	31,882,000	2,606,000	6,594,000
Acquisitions of business assets	(28,727,000)	(70,214,000)	(29,503,000)
Investment in joint venture	—	—	(3,500,000)
Deconsolidation of joint venture	—	—	(3,828,000)
Net Cash Used in Investing Activities	(106,728,000)	(177,062,000)	(104,088,000)
Financing Activities:			
Borrowings under revolving credit agreements	330,000,000	155,000,000	30,000,000
Repayment of revolving credit agreements	(220,702,000)	(75,000,000)	(35,000,000)
Borrowings on other long-term debt	—	76,644,000	3,779,000
Repayment of long-term debt	(22,937,000)	—	—
Net payments on short-term debt	(39,383,000)	—	—
Purchase and retirement of common stock	(46,062,000)	(87,796,000)	(20,590,000)
Payment of cash dividends	(40,031,000)	(40,747,000)	(40,756,000)
Proceeds from exercise of stock options	555,000	810,000	2,496,000
Net Cash (Used in) Provided by Financing Activities	(38,560,000)	28,911,000	(60,071,000)
Cash and Cash Equivalents:			
Net change	(6,010,000)	18,128,000	(2,912,000)
Beginning of period	49,581,000	31,453,000	34,365,000
End of period	$ 43,571,000	$ 49,581,000	$ 31,453,000
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for–			
Interest	$ 66,223,000	$ 39,997,000	$ 41,751,000
Income taxes	$ 51,619,000	$ 63,696,000	$ 36,874,000
Noncash capital lease obligations	$ —	$ 1,540,000	$ 3,450,000
Acquisition of business assets by assuming liabilities	$ 40,328,000	$ 121,670,000	$ —

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Shaw Industries, Inc. and subsidiaries (the "Company"). All significant intercompany balances and transactions are eliminated in consolidation.

Nature of Business

The Company manufactures and distributes carpet in a broad range of prices, patterns, colors and textures for residential and commercial use. The Company markets its products through wholesale distribution channels to floor covering retailers, distributors and contractors throughout the United States, Canada, Australia, Mexico and the United Kingdom and through residential retail and commercial contract distribution channels to various residential and commercial end users in the United States. The Company also distributes hard surface floor covering products through its retail distribution channels.

Fiscal Period

The Company's fiscal year-end is the Saturday closest to December 31. Fiscal 1997 consisted of 53 weeks while fiscal years 1996 and 1995 consisted of 52 weeks.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenues are recognized when goods are shipped for wholesale sales and generally as installed for residential retail and commercial contract sales.

Cash and Cash Equivalents

The Company considers all investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

The Company accounts for receivables sold to a financial institution under its private label credit card financing program in accordance with Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Approximately $43,296,000 of accounts receivable sold under this program was outstanding at January 3, 1998. The Company has recorded approximately $3,816,000 of liability for recourse provisions under the financing program.

Inventory Valuation

Inventories are stated at the lower of cost or market. Cost includes materials, direct and indirect labor and factory overhead. Market with respect to raw materials is replacement cost and for work-in-process and finished goods is net realizable value. The Company uses the last-in, first-out (LIFO) method of valuing certain of its domestic inventories to more properly match current costs against current revenues, thereby reducing the effects of price changes on earnings. If LIFO inventories were valued at current costs, the inventory amounts would have been $11,707,000 and $1,643,000 lower than those reported at January 3, 1998 and December 28, 1996, respectively. Although current replacement cost for inventories was less than LIFO carrying value at January 3, 1998, the Company's management believes that the carrying value will be recovered through profit margins on future sales. The Company's foreign and certain of its finished goods inventories, representing approximately 28 percent of total inventories, are valued at the lower of first-in, first-out (FIFO) cost or market for 1997 and 1996.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Renewals and betterments are capitalized; maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of property retired or otherwise disposed of are removed from the accounts, and any gains or losses thereon are included in income. For financial reporting purposes, depreciation is computed using the straight-line method over the estimated useful lives of the assets, 15 to 39 years for buildings and 5 to 14 years for machinery and equipment. Leasehold improvements are amortized over the terms of the related leases.

Goodwill

Costs in excess of the fair value of net assets of businesses acquired are recorded as goodwill and are amortized using the straight-line method over a period not to exceed 40 years for acquisitions of domestic and foreign manufacturing operations and 20 years for acquisitions of residential retail and commercial contract operations. The recoverability of goodwill is periodically reviewed by management based on current and anticipated conditions. The amount of goodwill considered realizable, however, could be reduced in the near term if changes occur in anticipated conditions. Accumulated amortization was $17,858,000, $11,485,000 and $6,210,000 at January 3, 1998, December 28, 1996 and December 30, 1995, respectively.

Accrued Liabilities

Accrued liabilities include $33,597,000 and $30,599,000 for workers' compensation claims and $25,446,000 and $32,918,000 for returns and allowances at January 3, 1998 and December 28, 1996, respectively.

Employee Benefits

The Company's Retirement Savings Plan provides, among other things, for voluntary contributions by domestic employees not to exceed 15 percent of their gross salaries and wages. The Company provides matching contributions of 25 to 50 percent based on the employee's contribution percentage. At January 3, 1998, $5,241,000, or 2.0% of the Plan's assets consisted of shares of the Company's common stock as elected by plan participants. During 1997, 1996 and 1995, the Company contributed $11,987,000, $9,960,000 and $9,356,000, respectively, under the plan.

The Company has a Deferred Compensation Plan for key personnel. The plan provides, among other things, for certain deferred compensation to become payable on the employee's death, retirement or total disability as set forth in the plan. During 1997, 1996 and 1995, the Company provided $1,546,000, $2,008,000 and $1,425,000, respectively, under the plan. The actuarial present value of obligations of the plan has been recorded as other liabilities in the accompanying balance sheets.

The Company has a defined benefit plan covering certain employees of its United Kingdom operations which provides for the payment of specific periodic payments upon retirement based on years of service. The projected benefit obligation was $80,400,000 and $64,800,000 as of January 3, 1998 and December 28, 1996, respectively, and the fair value of plan assets was $73,500,000 and $65,900,000 as of January 3, 1998 and December 28, 1996, respectively. Net pension cost recognized by the Company during 1997, 1996 and 1995 was $3,518,000, $3,800,000 and $3,595,000, respectively.

Earnings Per Share

The Company adopted SFAS No. 128, "Earnings per Share," effective January 3, 1998. Earnings per share have been computed based upon the weighted average shares and dilutive potential common shares outstanding during the year. All prior period earnings per share amounts have been restated to comply with SFAS No. 128.

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries are translated into United States currency in accordance with SFAS No. 52, "Foreign Currency Translation." Assets and liabilities are translated into United States dollars at period-end exchange rates. Income and expense items are translated at average rates of exchange prevailing during the period. Translation adjustments are accumulated as a separate component of shareholders' investment. Gains and losses which result from foreign currency transactions are included in the accompanying statements of income.

Derivative Financial Instruments

The Company uses interest rate swaps to fix interest rates on current and anticipated borrowings to reduce exposure to interest rate fluctuations. Under existing accounting literature, these interest rate swaps are accounted for as hedging activities. The net cash paid or received on interest rate hedges is included in interest expense. The Company may also employ foreign currency exchange contracts when, in the normal course of business, they are determined to effectively manage and reduce foreign currency exchange fluctuation risk. At January 3, 1998, the Company had no foreign currency exchange contracts outstanding. The Company does not enter into financial derivatives for speculative or trading purposes.

Accounting Change

Effective January 1, 1995, the Company changed its method of accounting for sample costs from expensing sample costs that exceed estimated net realizable value when shipped to expensing that portion of sample costs as they are produced. This change was made in recognition of an increasing number of samples placed with customers that do not result in future sales. The cumulative effect of the change was to decrease net income for the year ended December 30, 1995 by $12,077,000, or $.09 per share, net of tax benefit of $7,885,000.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 1997 presentation.

Note 2 Long-Term Debt

Long-term debt presented in the accompanying consolidated balance sheets at January 3, 1998 and December 28, 1996 consisted of the following (000s omitted):

	1997	1996
Revolving credit facility, United States, at LIBOR-based rate, due in fiscal 2002	*$774,000*	$ 599,000
Revolving multi-currency credit facility,		
United Kingdom, at LIBOR-based rate, due in fiscal 2001	*80,033*	128,294
Revolving loan facility, Australia, at LIBOR-based rate, due in fiscal 1999	*46,207*	63,648
Other	*25,281*	40,029
Capitalized leases	*7,655*	11,740
	933,176	842,711
Less: current maturities	*(2,752)*	(17,431)
	$930,424	$ 825,280

The domestic revolving credit facility which was amended in March 1997 provides for borrowings of up to $950,000,000. Borrowings bear interest at variable rates equal to the London Interbank Offered Rate (LIBOR) plus margins ranging from 0.150 percent to 0.475 percent, depending on the Company's consolidated funded debt to earnings ratio, as defined. The LIBOR-based rate at January 3, 1998 was 6.41 percent. Fees associated with the domestic revolving credit agreement include a facility fee on the committed amount ranging from 0.10 percent to 0.15 percent. The LIBOR-based variable interest rate on a total of $300,000,000 of the domestic revolving credit facility has been fixed through December 29, 2000 at 5.95 percent using interest rate swap agreements. The counterparty to these interest rate swap agreements has the right but not the obligation to terminate the agreements on December 31, 1999. The Company also has revolving loan facilities through which its foreign subsidiaries obtain funds necessary for operations including a multicurrency revolving credit facility in the United Kingdom which provides for borrowings up to $131.3 million. The borrowings bear interest at a LIBOR-based rate which was 8.28 percent at January 3, 1998. The repayment of these revolving loan facilities for its foreign subsidiaries is guaranteed by the Company.

The amended domestic revolving credit agreement contains covenants which, among other provisions, (i) limit the Company's ability to incur indebtedness or assume liens, (ii) limit the payment of cash dividends and repurchases of common stock, (iii) limit new indebtedness and lease obligations and (iv) require the Company to satisfy certain ratios related to net worth, debt-to-equity and interest coverage. The foreign revolving loan facilities have covenants that are no more restrictive than those of the domestic revolving credit agreement. At January 3, 1998, the Company was out of compliance with certain of the financial ratios of these agreements for which it has obtained appropriate waivers.

The aggregate annual maturities of long-term debt, including capitalized lease obligations, as of January 3, 1998 are as follows: 1998 - $2,752,000; 1999 - $73,213,000; 2000 - $1,796,000; 2001 - $80,691,000; 2002 - $774,139,000; thereafter - $585,000.

The following is presented with respect to the revolving credit facilities for 1997 and 1996 (000s omitted):

	1997	1996
Revolving Credit:		
Available at year-end	*$1,132,850*	$ 819,102
Unused at year-end	*232,610*	28,160

Note 3 Shareholders' Investment

Under the Company's 1987 and 1992 Incentive Stock Option Plans, 8 million and 6 million shares of common stock, respectively, are reserved for issuance at a price no less than the market value on the date granted. These options are exercisable over five to ten years.

The following is a summary of stock option information for the 1987 and 1992 Incentive Stock Option Plans:

	1997	1996
Options outstanding, beginning of year	*5,465,200*	4,300,100
Options granted	*2,930,300*	1,510,800
Options exercised	*(46,000)*	(113,100)
Options canceled	*(296,000)*	(232,600)
Options outstanding, end of year	*8,053,500*	5,465,200
Option price per share range	*$10.625–$17.02*	$11.975–$17.02
Options exercisable, end of year	*4,543,900*	2,456,800
Options available for grant	*508,700*	3,143,000

The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation was recognized in 1997, 1996 and 1995 for its incentive stock option plans. The Company applies SFAS No. 123, "Accounting for Stock-Based Compensation," as required for disclosure purposes. For SFAS No. 123 purposes, the fair value of each incentive stock option grant for 1997, 1996 and 1995 has been estimated as of the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions for 1997, 1996 and 1995, respectively: risk-free interest rates of 6.04 percent, 6.64 percent and 6.21 percent; dividend yields of 2.70 percent, 2.29 percent and 1.80 percent; expected volatilities of 34 percent, 35 percent and 35 percent; and expected life of five years for all years. Using these assumptions, the fair value of the stock option grants for 1997, 1996 and 1995 was $9.3 million, or $3.63 per option granted, $8.9 million, or $4.82 per option granted, and $13.7 million, or $7.07 per option granted, respectively. Had compensation cost been determined under SFAS No. 123 utilizing the assumptions detailed above, the Company's net income and net income per common share would have been reduced to the following pro forma amounts:

	1997	1996	1995
Net income (in thousands):			
As reported	*$ 28,959*	$ 34,023	$ 52,304
Pro forma	*23,382*	30,080	51,694
Net income per common share (basic and diluted):			
As reported	*$ .22*	$ .25	$ .38
Pro forma	*.18*	.22	.38

During March 1989, the Company adopted a Shareholder Rights Plan and pursuant thereto declared a dividend of one Right for each outstanding share of common stock. When exercisable, each Right will entitle its holder to buy one one-hundredth of a share of Series A Participating Preferred Stock at a price of $12.50 per share (the "Purchase Price"). If a person or group acquires or makes a tender or exchange offer to acquire 20% or more of the Company's common stock without the consent of the Company (an "Acquiring Shareholder"), the Rights will become exercisable and each Right will entitle the holder, other than the Acquiring Shareholder, to receive, upon payment of the Purchase Price, in lieu of preferred stock, a number of shares of common stock of the Company having a market value equal to twice the Purchase Price. The Rights may be redeemed by the Company under certain circumstances at a price of $.01 per Right. The Rights have no voting power and, until exercised, no dilutive effect on net income per common share. If not previously redeemed, the Rights will expire in April 1999. The Company has designated 200,000 shares, of the 250,000 shares of preferred stock authorized, as Series A Participating Preferred Stock for issuance upon exercise of the Rights.

Note 3 Shareholders' Investment (continued)

The Company's board of directors approved a stock repurchase plan in 1996 whereby the Company's management is authorized to repurchase additional shares of the Company's common stock. For the year ended January 3, 1998, a total of 3,820,000 shares of the Company's common stock had been purchased and retired at a cost of $46,062,000. During the year ended December 28, 1996, a total of 7,676,800 shares were repurchased and retired at a cost of $87,796,000. At January 3, 1998, the Company has authority to repurchase up to 3,916,000 shares of the Company's common stock under the stock repurchase plan.

In 1995, the Company's board of directors approved a dividend reinvestment plan whereby all holders of record of the Company's common stock are eligible to participate. The plan provides a method of investing cash dividends and optional cash payments in shares of the Company's common stock. All costs associated with administering the plan are paid by the Company.

Note 4 Income Taxes

The provision for income taxes consisted of the following (000s omitted):

	1997	1996	1995
Current:			
Federal	*$(8,568)*	$ 51,429	$ 45,579
State	*(1,918)*	7,824	6,907
	(10,486)	59,253	52,486
Foreign operating loss carryforwards	*17,860*	(8,268)	(10,688)
Deferred	*(1,788)*	(7,522)	1,805
	$ 5,586	$ 43,463	$ 43,603

The differences between the federal statutory income tax rate and the Company's effective tax rate were as follows:

	1997	1996	1995
Federal statutory rate	*35.0%*	35.0%	35.0%
State income taxes, net of federal tax benefit	*4.9*	4.6	4.4
Abandonment of stock of U.K. subsidiary	*(28.1)*	—	—
Nondeductible goodwill	*7.2*	13.2	.8
Difference in foreign tax rates versus U.S. statutory rates	*1.0*	5.2	1.6
Other, net	*(1.6)*	1.0	(1.0)
	18.4%	59.0%	40.8%

Components of the net deferred income tax liability at January 3, 1998 and December 28, 1996 are shown below (000s omitted):

	1997	1996
Deferred income tax assets:		
Accrued advertising expenses not currently deductible	*$ 2,705*	$ 2,253
Reserve for cash discounts and bad debts	*5,793*	5,179
Employee benefit accruals not currently deductible	*21,455*	19,672
Reserve for returns and allowances	*9,976*	12,082
Foreign net operating loss carryforwards	*4,938*	24,491
Reorganization provision	*7,180*	10,950
Other	*2,885*	2,586
	54,932	77,213
Deferred income tax liabilities:		
Book basis of inventory over tax basis	*(13,896)*	(10,708)
Sample costs	*(1,884)*	—
Book basis of property, plant and equipment over tax basis	*(58,619)*	(69,307)
Other	*(2,214)*	(1,114)
	(76,613)	(81,129)
	$(21,681)	$ (3,916)

Income tax carryforwards of $17,860,000 were reversed at January 3, 1998 related to the abandonment of the stock of Carpets International, Plc in the United Kingdom and $1,693,000 was utilized in 1997. Realization of the remaining deferred tax benefit of $4,938,000 at January 3, 1998 is dependent on generating sufficient future taxable income at the related foreign operations. Although realization is not assured, management believes it is more likely than not that all of the remaining deferred tax asset is realizable; however, it could be reduced in the near term if estimates of future taxable income decreased.

Note 5 Commitments and Contingencies

The Company is a party to several lawsuits incidental to its various activities and incurred in the ordinary course of business. The Company believes that it has meritorious claims and defenses in each case. After consultation with counsel, it is the opinion of management that, although there can be no assurance given, none of the associated claims, when resolved, will have a material adverse effect upon the Company.

From time to time, the Company is subject to claims and suits arising in the course of its business. The Company is a defendant in certain litigation alleging personal injury resulting from personal exposure to volatile organic compounds found in carpet produced by the Company. The complaints seek injunctive relief and unspecified money damages on all claims. The Company has denied any liability. The Company believes that it has meritorious defenses and that the litigation will not have a material adverse effect on the Company's financial condition or results of operations.

In June 1994, the Company and several other carpet manufacturers received a grand jury subpoena from the Antitrust Division of the United States Department of Justice relating to an investigation of the industry. In October, 1997, the Company received formal notification from the Department of Justice that the investigation has been closed. In December 1995, the Company learned that it was one of six carpet companies named as additional defendants in a pending antitrust suit filed in the United States District Court of Rome, Georgia. The amended complaint alleges price-fixing regarding certain types of carpet products in violation of Section 1 of the Sherman Act. The amount of damages sought is not specified. If any damages were to be awarded, they may be trebled under the applicable statute. The Company has filed an answer to the complaint that denies plantiffs' allegations and sets forth several defenses. In September 1997, the Court issued an order certifying a nationwide plaintiff class of persons and entities who purchase "mass production" polypropylene carpet directly from any of the defendants from June 1, 1991 through June 30, 1995, excluding, among others, any persons or entities whose only purchases were from any of the Company's retail establishments. Discovery began in November 1997. The Company is also a party to two consolidated lawsuits pending in the Superior Court of the State of California, City and County of San Francisco, both of

Note 5 Commitments and Contingencies (continued)

which were brought on behalf of a purported class of indirect purchasers of carpet in the State of California and which seek damages for alleged violations of California antitrust and fair competition laws. The Company believes that it has meritorious defenses to plaintiffs' claims in the lawsuits described in this paragraph and intends to defend these actions vigorously. After consultation with counsel, it is the opinion of management that, although there can be no assurance given, none of the claims described in this paragraph, when resolved, will have a material adverse effect upon the Company.

In February 1996, a jury in Greensboro, North Carolina, returned a verdict against the Company in litigation brought by four former employees of Salem Carpet Mills, acquired by the Company in 1992, alleging age discrimination and sex discrimination in employment decisions made with regard to such employees. The judgment is being appealed by both parties. The Company believes that the litigation will not have a material adverse effect on the Company's financial condition or results of operations.

The Company is subject to a variety of environmental regulations relating to the use, storage, discharge and disposal of hazardous materials used in its manufacturing processes. Failure by the Company to comply with present and future regulations could subject it to future liabilities. In addition, such regulations could require the Company to acquire costly equipment or to incur other significant expenses to comply with environmental regulations. The Company is not involved in any material environmental proceedings.

The Company has entered into several capitalized leases for machinery and equipment, including computer equipment, at a cost of $55,734,000 at January 3, 1998 and $61,746,000 at December 28, 1996. These assets are amortized on a straight-line basis over the lease terms and amortization is included in depreciation expense. Accumulated amortization of capital lease cost was $49,760,000 and $52,389,000 at January 3, 1998 and December 28, 1996, respectively. The related obligations are included in long-term debt (Note 2). The Company also leases warehouses and showroom space, customer service centers and certain equipment under operating leases.

At January 3, 1998, future minimum lease payments for all capital and operating leases exceeding one year were as follows (000s omitted):

	Capital Leases	Operating Leases	Total Future Payments
1998	$ 3,124	$ 65,391	$ 68,515
1999	2,704	57,762	60,466
2000	1,863	51,689	53,552
2001	639	42,691	43,330
2002	73	23,170	23,243
2003 and thereafter	160	54,449	54,609
Total Payments	8,563	$295,152	$303,715
Less: amount representing interest	908		
Present value of capitalized lease payments with a weighted average interest rate of 11.9%	$ 7,655		

Rental payments under noncancelable operating leases were $74,718,000, $44,667,000 and $32,187,000 in 1997, 1996 and 1995, respectively.

At January 3, 1998, the Company had commitments to purchase certain capital assets of approximately $30,400,000.

Note 6 Earnings Per Share

Income before accounting change, cumulative effect of accounting change and net income amounts presented in the accompanying consolidated statements of income represent amounts available or related to shareholders.

The following table reconciles the denominator of the basic and diluted earnings per share computations:

	1997	1996	1995
Weighted average common shares	*133,523,380*	135,731,360	135,872,432
Incremental shares from assumed conversions of options under 1987 and 1992 incentive stock option plans	*191,116*	183,948	505,727
Weighted average common shares and dilutive potential common shares	*133,714,496*	135,915,308	136,378,159

Note 7 Derivative Financial Instruments and Fair Value of Financial Instruments

The Company has entered into two interest rate swap agreements with a total notional amount of $300,000,000 to fix the interest rate paid on a portion of the domestic revolving credit facility. The fixed interest rate paid on the two interest rate swap agreements was 5.99 percent while the floating rate received in 1997 averaged 5.62 percent.

The carrying amount and fair value of the Company's financial instruments are as follows (000s omitted):

	January 3, 1998		December 28, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt:				
Revolving credit facilities	*$900,240*	*$900,240*	$790,942	$790,942
Other obligations	*32,936*	*32,936*	51,769	51,769
Interest rate swap agreements	—	*2,207*	—	814

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Revolving Credit Facilities

The carrying values of the revolving credit facilities approximate their fair values due to the floating market interest rates charged on those facilities.

Other Obligations

The carrying values of other obligations approximate their fair values due to the interest rates charged on those agreements: either floating market rates or fixed rates which approximated market rates available at January 3, 1998 and December 28, 1996.

Interest Rate Swap Agreements

The fair values of the interest rate swap agreements were estimated by obtaining quotes from brokers.

Note 8 - Acquisitions and Agreement in Principle to Dispose of Carpets International, Plc

Acquisitions

In January 1995, the Company increased its operations in the United Kingdom by acquiring substantially all of the operating assets of the Carpets Division of Coats Viyella Plc for approximately $29,503,000.

During 1996, the Company acquired certain residential retail and commercial contractors in order to develop and expand its presence in the retail distribution channel. To complete the acquisitions, the Company paid $70,214,000 in cash and issued 4,379,646 shares of common stock at an aggregate value of $54,069,000, notes payable of $35,000,000 due January 15, 1997, and notes payable of $24,000,000 due June 1999 convertible to 1,500,000 shares of the Company's common stock at the option of the note holders. As a result of these acquisitions, the Company recorded goodwill of $132,756,000.

During 1997, the Company further expanded its retail distribution channel by acquiring certain residential retail and commercial contractors. To complete the acquisitions, the Company paid $28,727,000 in cash, net of cash acquired, and issued 2,112,517 shares of common stock at an aggregate value of $25,680,000. As a result of these acquisitions, the Company recorded goodwill of $38,773,000.

Agreement in Principle to Dispose of Carpets International, Plc

In December 1997, the Company entered into an agreement in principle to dispose of Carpets International, Plc (the Company's wholly owned U.K. subsidiary) and as a result of this agreement, recorded a reduction in the carrying value of certain U.K. assets of $47,952,000 ($20,300,000, net of tax benefit, or $.15 per share) in 1997.

Note 9 - Nonrecurring Charges, Restructuring Costs and Charge to Record Store Closing Costs

Nonrecurring Plant Shutdown Costs

During 1995, the Company closed two of its domestic yarn spinning mills and one yarn spinning mill in Australia. As a result, the Company recorded a charge of $4,360,000 related to the domestic plant closings and $2,607,000 related to the foreign plant closing. These charges related primarily to termination benefits and to recording affected property, plant and equipment at net realizable value.

Long-Lived Asset and Goodwill Impairment

In March 1996, the Company recorded nonrecurring charges of $29,139,000 ($26,519,000, net of tax benefit, or $.19 per share) for the reduction of the carrying value of certain goodwill and property, plant and equipment at its international operations as required under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and a provision for the disposal of other assets.

Restructuring Costs

In December 1996, the Company recorded $36,078,000 ($24,172,000 net of tax benefit, or $.18 per share), of restructuring costs related to woolen yarn operations and the discontinuance of Axminster carpet production in the United Kingdom. The restructuring costs include $16,115,000 of markdowns of inventory to estimated realizable value which have been recorded as a charge to cost of sales.

Charge to Record Store Closing Costs

In December 1997, the Company announced a plan to close approximately 100 residential retail stores which resulted in a charge to operations of $36,349,000 ($22,817,000, net of tax benefit, or $.17 per share) consisting primarily of reductions in the carrying value of long-lived assets of approximately $13,430,000 and reserves for exit costs and employee termination benefits of approximately $17,440,000 and $5,530,000, respectively. The stores to be closed had combined net sales of approximately $90,000,000 in 1997, but contributed negatively to the Company's profitability. Prior to this charge, the Company recorded store closing costs of $438,000 ($263,000, net of tax benefit) which had no effect on earnings per share.

Note 10 Foreign Operations

The following information is presented regarding the Company's consolidated foreign operations for the years ended January 3, 1998, December 28, 1996 and December 30, 1995 (000s omitted):

1997

	Domestic	Foreign	Adjustments and Eliminations	Consolidated
Sales to unaffiliated customers	*$3,248,014*	*$327,760*	*$ —*	*$3,575,774*
Operating profit (loss)	*$ 122,986*	*$ (38,966)*	*$ —*	*$ 84,020*
Interest expense, net				*(60,769)*
Miscellaneous income, net				*7,032*
Income before income taxes				*$ 30,283*
Identifiable assets	*$1,876,788*	*$223,990*	*$ (133,164)*	*$1,967,614*

1996

	Domestic	Foreign	Adjustments and Eliminations	Consolidated
Sales to unaffiliated customers	$2,865,737	$335,817	$ —	$3,201,554
Operating profit (loss)	$ 170,734	$ (58,283)	$ —	$ 112,451
Interest expense, net				(42,442)
Miscellaneous income, net				3,609
Income before income taxes				$ 73,618
Identifiable assets	$1,725,668	$310,732	$ (52,002)	$1,984,398

1995

	Domestic	Foreign	Adjustments and Eliminations	Consolidated
Sales to unaffiliated customers	$2,509,443	$360,385	$ —	$2,869,828
Operating profit (loss)	$ 168,500	$ (19,401)	$ —	$ 149,099
Interest expense, net				(41,901)
Miscellaneous expense, net				(443)
Income before income taxes				$ 106,755
Identifiable assets	$1,440,153	$357,453	$(134,823)	$1,662,783

Sales and transfers between geographic areas and export sales are not material. Operating profit is total revenue less operating expenses. In computing operating profit, none of the following items have been added or deducted: net interest expense, net miscellaneous income, income taxes, equity in income of joint venture or the cumulative effect of an accounting change.

Identifiable assets are those assets of the Company that are identified with the operations in each geographic area, including goodwill.

Note 11 Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1997, 1996 and 1995 is as follows (000s except per share amounts):

1997 Quarters	*First*	*Second*	*Third*	*Fourth**
Net Sales	*$808,653*	*$915,232*	*$922,997*	*$928,892*
Gross Profit	*200,090*	*236,992*	*236,235*	*221,985*
Net Income (Loss)	*10,748*	*25,231*	*25,335*	*(32,355)*
Earnings (Loss) Per Share–				
Basic and Diluted	*0.08*	*0.19*	*0.19*	*(0.24)*

1996 Quarters	First**	Second	Third	Fourth***
Net Sales	$657,856	$785,957	$881,760	$875,981
Gross Profit	129,920	171,965	208,158	206,443
Net Income (Loss)	(15,584)	28,099	24,179	(2,671)
Earnings (Loss) Per Share–				
Basic and Diluted*****	(0.11)	0.21	0.18	(0.02)

1995 Quarters	First****	Second	Third	Fourth
Net Sales	$676,550	$738,326	$748,364	$706,588
Gross Profit	117,081	144,516	142,716	145,621
Net Income (Loss)	(7,600)	18,673	21,905	19,326
Earnings (Loss) Per Share–				
Basic and Diluted	(0.06)	0.14	0.16	0.14

* The fourth quarter net income and per share amounts for 1997 include store closing costs of $22,817,000, or $.17 per share, and a write-down of certain U.K. assets of $20,300,000, or $.15 per share.

** The first quarter net income and per share amount for 1996 include nonrecurring charges of $26,519,000, or $.19 per share, net of tax benefit, for the reduction in the carrying value of certain goodwill and property, plant and equipment at its international operations and a provision for the disposal of certain other assets.

*** The fourth quarter net income and per share amounts for 1996 included restructuring costs of $24,172,000, or $.18 per share, net of tax benefit, related to woolen and Axminster production in the United Kingdom.

**** The first quarter net income and per share amounts for 1995 include a charge of $12,077,000, or $.09 per share, net of tax benefit, from the cumulative effect of a change in the method of accounting for sample costs.

***** The sum of the 1996 quarterly earnings per share amounts is different from the annual earnings per share amounts because of differences in the weighted average number of common shares outstanding used in the quarterly and annual computations.

Note 12 Subsequent Event

On February 9, 1998, the Company commenced a "dutch auction" tender offer to acquire up to approximately 10,600,000 shares of its common stock, representing approximately 8.1 percent of its currently outstanding shares. Under the terms of the offer, the Company's shareholders may tender their shares at a price within a range of $11.00 to $14.00 per share for a period of 20 business days. In addition, the Company announced no further cash dividends would be paid in fiscal 1998 subsequent to the quarterly dividend on February 27, 1998 to shareholders of record on February 16, 1998.

Management's Report

The management of Shaw Industries, Inc. has prepared and is responsible for the consolidated financial statements and related financial data contained in this report. The consolidated financial statements were prepared in accordance with generally accepted accounting principles and necessarily include certain amounts based upon management's best estimates and judgments.

In meeting its responsibility for the reliability of the financial statements, the Company depends on its system of internal accounting controls. This system is designed to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded properly to permit the financial statements to be prepared in accordance with generally accepted accounting principles.

The Company believes that its accounting controls provide adequate assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned functions.

The Board of Directors, through its Audit Committee, composed exclusively of outside directors, is responsible for reviewing and monitoring the financial statements and accounting practices. The Audit Committee meets periodically with management, the internal auditors and the independent public accountants to ensure that each is properly discharging its duties. The independent public accountants and internal auditors have full and free access to, and meet with, the Audit Committee, with or without the presence of management.

Kenneth G. Jackson
Vice President and Chief Financial Officer

Report of Independent Public Accountants

To The Shareholders of Shaw Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Shaw Industries, Inc. (a Georgia corporation) and subsidiaries as of January 3, 1998 and December 28, 1996 and the related consolidated statements of income, shareholders' investment and cash flow for each of the three years in the period ended January 3, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shaw Industries, Inc. and subsidiaries as of January 3, 1998 and December 28, 1996 and the results of their operations and their cash flows for each of the three years in the period ended January 3, 1998 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Atlanta, Georgia
February 20, 1998

Shareholder Information

Number of Shareholders
As of March 9, 1998, there were 4065 holders of record of the Company's common stock.

Stock Exchanges (SHX)
The New York Stock Exchange
The Pacific Stock Exchange

Transfer Agent and Registrar
Wachovia Bank of North Carolina, N.A.
310 North Church Street
Winston-Salem, North Carolina 27101

Dividend Policy
Dividends on Shaw Industries, Inc.'s common stock are paid as declared by the Board of Directors. A dividend for 1998 was paid in February. No further dividends are expected to be declared for 1998.

Dividend Reinvestment Plan
Shaw Industries, Inc. offers a dividend reinvestment plan whereby common shareholders may invest cash dividends and optional cash payments in additional shares of the Company's common stock. All costs associated with administering the dividend reinvestment plan are paid by the Company.

Annual Meeting
Shaw Industries, Inc.'s Annual Meeting of Shareholders will be held at 11:00 a.m. on April 30, 1998 at the headquarters administrative office building, 616 East Walnut Avenue, Dalton, Georgia.

Form 10-K Report
Shaw Industries, Inc.'s Annual Report, as filed with the Securities and Exchange Commission on Form 10-K, is available on request at no charge. Please send requests to Shaw Industries, Inc., Mail Drop 061-21, P.O. Drawer 2128, Dalton, Georgia 30722-2128

Internet address
http://www.shawinds.com/

Common Stock Performance
Shaw Industries' Comparison to Standard & Poor's (S&P) 500

Annual Closing Stock Prices — Dec 1971–Dec 1997

Year	S&P 500	S&P index	Shaw Industries	Shaw Industries Index
	$	%	$	%
1971	101.95	108.4	0.4853	117.4
1972	118.05	125.5	0.7560	182.9
1973	97.55	103.7	0.2760	66.8
1974	68.56	72.9	0.1410	34.1
1975	90.19	95.9	0.2950	71.4
1976	107.46	114.2	0.4050	98.0
1977	95.10	101.1	0.3690	89.3
1978	96.11	102.1	0.2400	58.1
1979	107.94	114.7	0.2050	49.6
1980	135.76	144.3	0.2230	54.0
1981	122.55	130.2	0.2700	65.3
1982	140.64	149.5	0.6040	146.1
1983	164.93	175.3	1.3440	325.2
1984	167.24	177.7	1.1640	281.6
1985	211.28	224.6	1.6480	398.7
1986	242.17	257.4	2.5630	620.1
1987	247.08	262.6	2.0310	491.4
1988	277.72	295.2	2.9380	710.8
1989	353.40	375.6	7.7500	1875.0
1990	330.22	351.0	5.0630	1224.9
1991	417.09	443.3	8.7500	2116.9
1992	435.71	463.1	16.5000	3991.9
1993	466.45	495.7	25.5000	6169.4
1994	459.27	488.1	14.8750	3598.8
1995	615.93	654.6	14.7500	3568.5
1996	740.74	787.6	11.7500	2841.6
1997	970.43	1031.8	11.6875	2827.4

Stock Information

High and low stock prices and cash dividends paid by fiscal quarter

	1997		1996		1995		Dividends Paid		
	High	Low	High	Low	High	Low	1997	1996	1995
1st Quarter	$14\frac{1}{8}$	$11\frac{7}{8}$	$14\frac{7}{8}$	$10\frac{3}{4}$	$17\frac{1}{8}$	12	7.50¢	7.50¢	7.50¢
2nd Quarter	13	$10\frac{1}{2}$	$13\frac{3}{4}$	$11\frac{1}{8}$	$17\frac{3}{8}$	$12\frac{1}{4}$	7.50¢	7.50¢	7.50¢
3rd Quarter	$12\frac{7}{8}$	$10\frac{1}{2}$	$15\frac{3}{8}$	$11\frac{1}{2}$	$17\frac{1}{4}$	$14\frac{1}{4}$	7.50¢	7.50¢	7.50¢
4th Quarter	$13\frac{7}{16}$	$10\frac{7}{8}$	$13\frac{3}{8}$	11	$16\frac{3}{8}$	$12\frac{5}{8}$	7.50¢	7.50¢	7.50¢
Total							30.00¢	30.00¢	30.00¢

Directors and Officers

BOARD OF DIRECTORS

J.C. Shaw*
Chairman Emeritus

Robert E. Shaw*
Chairman, Chief Executive Officer and Chairman of the Executive Committee of the Company

W. Norris Little*
President and Chief Operating Officer of the Company

William C. Lusk, Jr.
Retired, former Senior Vice President and Treasurer of the Company

Thomas G. Cousins^◊
Chairman of the Compensation and Stock Option Committees and President, Cousins Properties Incorporated

S. Tucker Grigg^◊
Manufacturer of Advertising and Marketing Displays, Furniture and Bedding

Robert R. Harlin*~
Partner, Powell, Goldstein, Frazer & Murphy

Robert J. Lunn^◊
Managing Director of Lunn Partners, LLC

J. Hicks Lanier*~
Chairman of the Audit Committee and Chairman and Chief Executive Officer of Oxford Industries, Inc.

R. Julian McCamy~
Real Estate Developer

** Denotes member of Executive Committee*
~ Denotes member of Audit Committee
^ Denotes member of Compensation Committee
◊ Denotes member of Stock Option Committee

OFFICERS

Robert E. Shaw
Chairman and Chief Executive Officer

W. Norris Little
President and Chief Operating Officer

Vance D. Bell
Vice President, Marketing

Kenneth G. Jackson
Vice President and Chief Financial Officer

Carl P. Rollins
Vice President, Administration

Bennie M. Laughter
Vice President, Secretary and General Counsel

Douglas H. Hoskins
Controller

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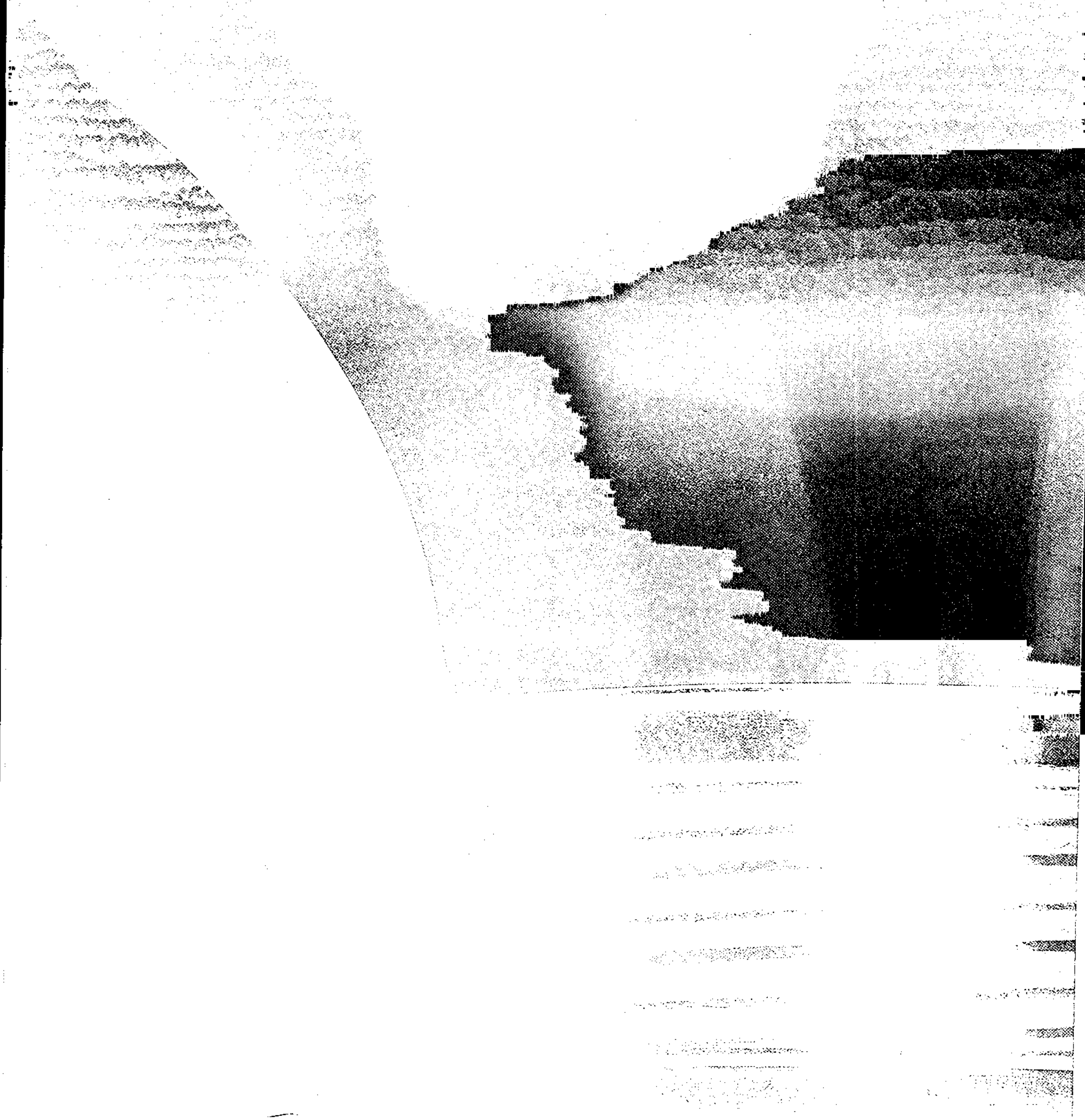

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