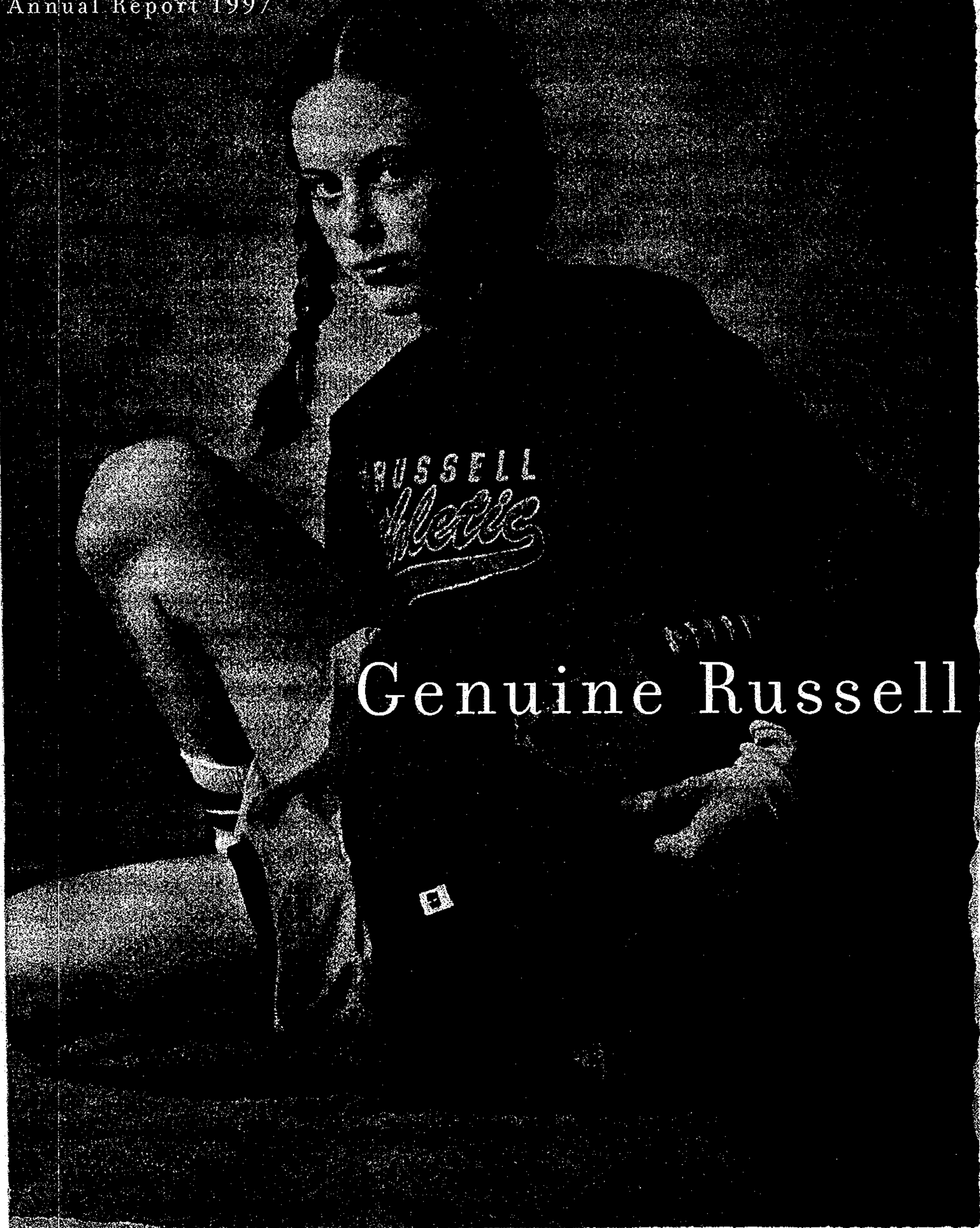
Russell Corporation

Annual Report 1997



Genuine Russell

Cross Creek

Designs, manufactures and markets better apparel including placket shirts, turtlenecks and other golf apparel under the Cross Creek, Country Cottons, Jerzees, and PGA Tour brands. Also manufactures private label apparel for high-end catalogs, department stores and specialty retailers.

Market Position

One of the top suppliers of basic golf shirts and a top-selling national brand of men's turtlenecks at department stores, and has become a leader in the distributor/screen printer market with Jerzees and Country Cottons.

Distribution Channels

Golf pro shops
Department stores
Men's specialty shops
Mail order catalogs
Distributors

Cross Creek®
MADE IN U.S.A.

DeSoto Mills

Manufactures and markets popularly priced sports and casual socks for men, women and children under major brands, including Jerzees and Russell Athletic. Socks also are sold to private label customers.

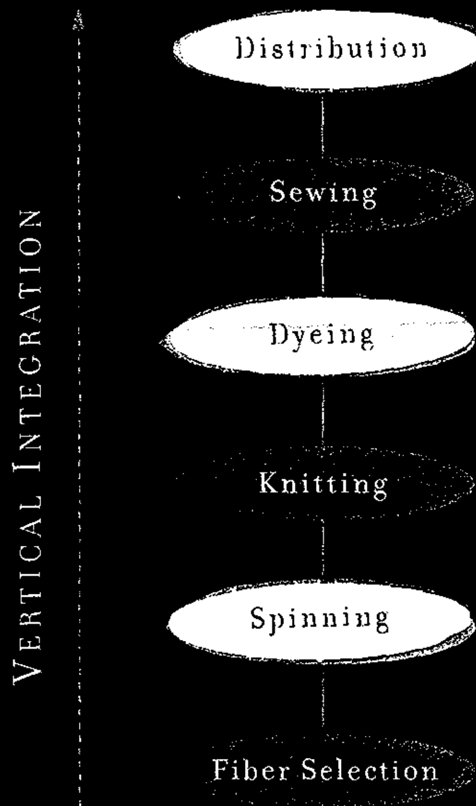
Market Position

Top-ten sock manufacturer and a top-five supplier of men's white athletic socks.

Distribution Channels

Wholesale clubs
Mass merchants
Food and Drug stores
Sporting goods chains
Department stores

The *Steps* that Lead to Genuine Russell



BUSINESS DESCRIPTION Russell Corporation is a vertically integrated international designer, manufacturer and marketer of apparel. Its product lines include activewear, athletic uniforms, better knit shirts, leisure apparel, licensed sports apparel, sports and casual socks, and a line of yarn-dyed woven fabrics. The Company conducts business in 90 countries around the world. Today, Russell is a leading supplier in several categories of activewear and believed to be the largest manufacturer of athletic uniforms in the United States.

Founded in 1902, the Company is headquartered in Alexander City, Alabama, and employs over 17,000 people. Russell Corporation is traded on the New York Stock Exchange and other regional exchanges under the symbol: RML.

Russell *at-a-glance*

Jerzees

Designs, manufactures and markets a wide variety of popularly priced fleece (sweatshirts and sweatpants) and lightweight activewear (T-shirts, tank tops and shorts) for children and adults under the Jerzees brand. Also supplies private label activewear to certain segments of its customer base.

Market Position

Number one supplier of men's and boys' fleecewear to mass merchant retailers and the distributor/screen printer market. Among the top three brands of men's T-shirts to mass merchant retailers and to the distributor/screen printer market.

Distribution Channels

Mass merchants
Distributors
Screen printers
Craft chains
Specialty retail

Russell Athletic

Produces and markets high-quality teamwear and activewear (sweatshirts, sweatpant T-shirts, and tank tops) to consumers of all ages. Dominant supplier of team practic wear and game uniforms for amateur participants of nearly every major sport.

Market Position

Leading men's fleecewear supplier to department stores. Largest provider of athletic team uniforms in the United States.

Distribution Channels

Department stores
Specialty stores
Sporting goods chains
Sporting goods dealers
Mail order catalogs

Genuine.

An original. Authentic.

No other like it. A classic.

How could a simple, common everyday sweatshirt or T-shirt inspire such description? After all, this is clothing that is practically the uniform of a generation. We play in it. We work in it. We relax in it. We exercise in it. We live in it. What's so special? Trendy? No, too popular for too long. The logo? Hardly. The design? Pretty basic. But, put it on. Wear it all day. Wash it. Wash it again, a hundred times. Feel the fit. Wear it everywhere. Stretch it. Wear it five years from now. Now, you begin to understand. But, how does it happen? How do we make genuine Russell genuine? Turn the page and let us explain.

CONTENTS

Genuine Russell 1
To our Shareholders 9
Financial Highlights 11
Manufacturing and Marketing Highlights 14
Directors and Officers 16
Financial Review 17
Shareholder Information 33

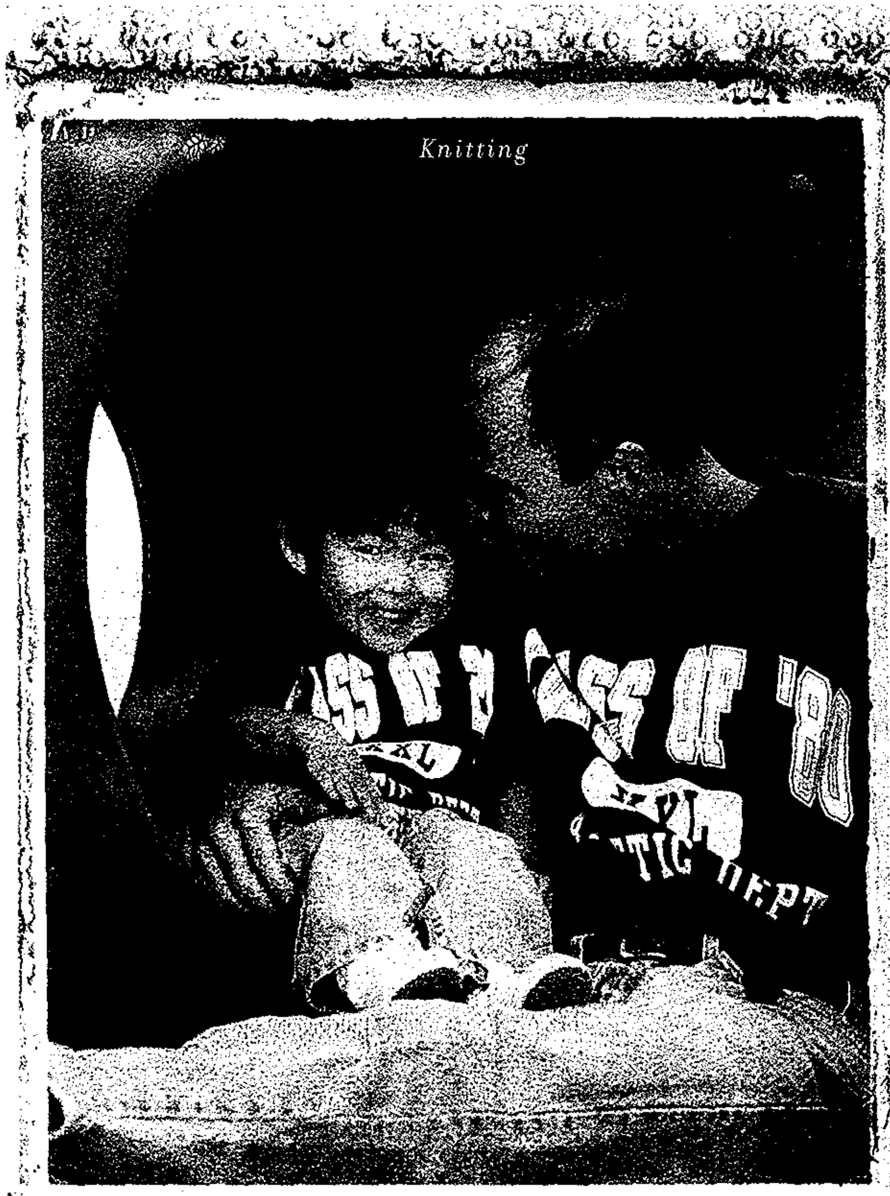
Fibers

It starts by hand-selecting the best *fibers* for built-in fit and comfort.

The textile end of Russell's manufacturing process makes good sense for our customers and our shareholders. By controlling these first steps, we control the quality of the finished garment. And, due to the sheer volume of yarn that we produce each week (enough to make more than 50 trips to the moon and back), we control costs by controlling our own supply.

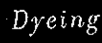
We *spin* our own yarn
to assure long-lasting durability
and strength.

Fabrics *knit* to last a lifetime.



Knitting

Russell's intensive research and development program has led to ongoing breakthroughs and innovation. As a result, we believe our apparel manufacturing chain is among the most technologically advanced and efficient on earth and our products represent some of the longest-lasting clothes in everyone's closet.



And, colors *dyed* to never

run.

Sewing

Apparel

cut and *sewn*

with precision.

In today's cutthroat apparel market, there's one thing that is increasingly rare: the ability to make a promise and keep it. By controlling every step in the supply chain, we can make commitments with confidence and keep our word. As a result, doing business with Russell means not only getting a quality product but also getting quality service, and that's what true value is all about.

Product *distributed* where it should be,

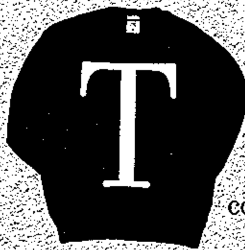
when it should be.

Genuine Russell,

Genuine *Quality.*

There are *no short cuts.*

To our Shareholders:



T O RUN A SUCCESSFUL BUSINESS IN A HYPER-COMPETITIVE INDUSTRY such as ours means you frequently must manage to work around many things beyond your control. In doing so, you learn to capitalize on the things you can control. I believe this is central to understanding Russell's passionate commitment to quality.

QUALITY HAS BEEN, AND WILL CONTINUE TO BE, THE DEFINING DIFFERENCE between Russell and its competitors. Others may choose to stake their success on price, but they leave themselves open to constant marketplace shifts between demand and supply of product and raw material. Style is certainly important, but it is very difficult to build a long-lasting brand solely by anticipating consumer tastes over the course of a century. Similarly, a business plan based purely on marketing carries with it the same perils over the long haul. While all three – pricing, style and marketing – are important, only quality comes close to assuring you of being in control of your own destiny.

FOR RUSSELL, A STRATEGY OF VERTICAL INTEGRATION – making, in large part, what we sell from start to finish – continues to be the best way to control quality. At times, many have questioned our seemingly unwavering commitment to this strategy. And, quite frankly, it's not necessarily the best strategy for every apparel company, but it does work for Russell. Let me explain.

SUCCESSFUL VERTICAL INTEGRATION REQUIRES TOTAL COMMITMENT. If you take out one step or cut corners on another, then you begin to lose the accrual of benefits – both product quality and cost efficiencies – inherent in the process. Optimal execution is required as well. We constantly invest time and resources in finding ways to improve our operations.

VOLUME IS KEY. Our core business revolves around producing and selling massive quantities of basic products like sweatshirts and T-shirts. Indeed, we are one of the largest producers in the industry. When manufacturing millions of dozens, the economies of scale insist upon, and indeed demand, proprietary resources. Hence, our textile operations: quite simply, we can make yarn at a lower cost than we can buy it. Accordingly, we don't leave ourselves open to market pricing or short-term fluctuations in supply and demand.

THE IMPORTANCE OF ADVANCED TECHNOLOGY TO VERTICAL INTEGRATION is most compelling in the textile end of our manufacturing operation. We are beginning to place new generation technology in our newest spinning plant at our Coosa River Complex. Compared with a typical spinning facility of just 15 years ago, we will produce nearly seven times the weekly output with half as many employees. This $65 million investment not only employs a new spinning technology at the forefront of textile manufacturing, it also symbolizes our ongoing investment in capital expenditures and research and development to keep all our factories on the leading edge of efficiency.

JOHN C. ADAMS
Chairman, President and Chief Executive Officer

THE END RESULT OF ALL OF THESE FACTORS – commitment, execution, volume and technology – is a highly engineered supply chain that we believe represents the most advanced apparel manufacturing process in the world today. Quite simply, no one else can make Russell's core product as well or as efficiently as Russell itself.

LET ME EMPHASIZE, HOWEVER, THAT OUR DEVOTION TO VERTICAL INTEGRATION is not a narrow-minded strategy. Indeed, a competitive marketplace demands that we always consider a variety of ways to execute our strategy. Nowhere is this more apparent than in the apparel production end of our operations.

AS THE MOST LABOR-INTENSIVE PART OF OUR BUSINESS, sewing attracts the most scrutiny during tough business cycles. Indeed, market conditions during the first half of 1997 were a major factor in making the tough decision to close two domestic sewing plants in June. But thanks to legislation of recent years, particularly the North American Free Trade Agreement (NAFTA), we have more cost-efficient, offshore options available to us than in the past. Unfortunately, legislation that would have extended NAFTA-type benefits to Caribbean Basin countries and provided us with even more options failed to pass in 1997. We remain optimistic, however, regarding the future of legislation aimed toward more favorable trade agreements.

HISTORICALLY, RUSSELL HAS BEEN EXTREMELY CAUTIOUS about moving sewing operations offshore. Our reasons, once again, go back to issues of quality. We were not willing to sacrifice our long-term reputation for quality product and superior customer service for short-term cost efficiencies. We believe, however, that the same thoughtfulness, scrutiny and care that we have always applied to our domestic manufacturing can be brought to bear with the same results elsewhere. We believe that balance is key. As we add new apparel capacity in foreign countries, we will constantly balance that capacity with domestic operations so that customer service will not be compromised. We also will seek a careful balance between Russell owned and operated plants, such as the one we recently began constructing in Mexico, and those operated by an extremely select slate of proven, quality contractors. As we expand our offshore operations, we do not want to be overly dependent on any single economy, labor market or contractor. Rather, we seek a prudent balance that will not compromise our commitments to quality, cost efficiencies and customer service.

OUR ABILITY TO PARTNER WITH THIRD-PARTY CONTRACTORS is most important when we decide to outsource a full product. Although less than 30 percent of Russell apparel is manufactured by third-party vendors, such products can have important strategic marketing benefits. For example, part of the merchandising mix in a Cross Creek concept shop is a line of premium seasonal patterns that changes several times a year. This rotating stock is an important way to attract repeat shoppers and to spur sales of the more basic elements of the collection. Due to the seasonal nature of the stock,

FINANCIAL HIGHLIGHTS

RUSSELL CORPORATION AND SUBSIDIARIES
(In thousands, except share data)

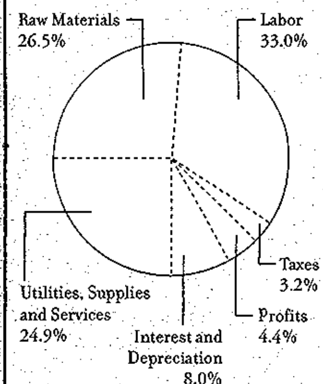
THE YEAR-AT-A-GLANCE	1997	1996	% Change
Net sales	$ 1,228,198	$ 1,244,204	(1)
Income before income taxes	88,352	129,545	(32)
Income taxes	33,904	47,969	(29)
Net income	54,448	81,576	(33)
Net income per common share – basic	1.48	2.12	(30)
Net income per common share – diluted	1.47	2.11	(30)
Average common shares outstanding – basic	36,879,901	38,469,009	(4)
Average common shares outstanding – diluted	37,047,433	38,652,958	(4)
AT YEAR-END			
Total assets	1,247,962	1,195,180	4
Long-term debt	360,607	255,935	41
Stockholders' equity	665,602	679,823	(2)
Stockholders' equity per common share	18.25	17.87	2
Number of employees	17,759	17,843	(1)
Number of shareholders	10,100	12,300	(18)

however, the quantities tend to be smaller. As such, it does not always make economic sense to devote our own manufacturing capacity to produce them. For this type of merchandise, as well as for other non-core products, outsourcing makes sense and will continue as a viable option for Russell.

I KNOW OF NO BETTER EVIDENCE OF THE VALUE OF PRODUCING A QUALITY PRODUCT than to see its performance in the marketplace. Our brands' dominant market shares endure year in and year out. Despite significant new competition from "designer" labels, Russell Athletic continues to be the top seller of fleece activewear for men at the department store level by a wide margin. Further, Russell Athletic increased its market share in chain stores by some ten percentage points in 1997. Similarly, Jerzees sells more boys' and men's fleece activewear through mass merchants than any other apparel maker. Jerzees also is among the top three suppliers to both the retail and distributor markets for T-shirts.

SUCCESS IN TODAY'S APPAREL MARKET means that quality must extend beyond the product. Service must be nothing short of excellent. Our customers want to do business with suppliers who can provide them with what they want, when and where they want it, virtually 100 percent of the time. I'm proud to report that throughout the Company we continue to make our best even better. Russell Athletic, for instance, boasts one of the top quick-response programs in the industry, averaging a better than 95 percent on-time and complete record in season. This type of service not only spurs top-line growth through increased sales, but also improves bottom-line results by reducing returns and allowances.

COMPONENTS OF THE SALES DOLLAR



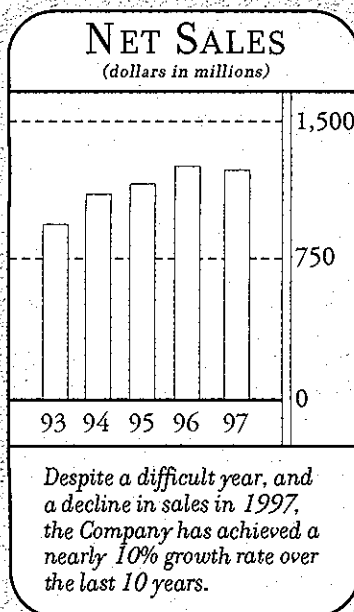
We continue to address the issue of labor cost control and have substantially reduced its percent of the total over the last 10 years.

THE BEST PROOF OF OUR DEDICATION to quality customer service, however, comes from our customers. Sears, for instance, bestowed the Chairman's Award for Source of the Year on Russell for the previous year. This special award goes to the top four Sears suppliers for superior vendor performance.

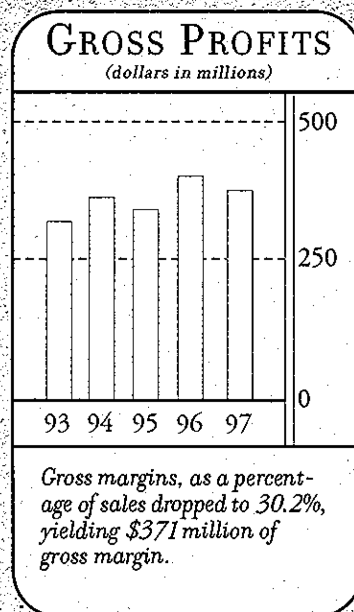
OUR FINANCIAL PERFORMANCE IN 1997 is a good illustration of how quality can serve a company well in good times and bad. In spite of pricing wars by many suppliers willing to sell product at almost any cost, our customers remained loyal, prizing the quality and value Russell has always delivered. Sales for the year declined only slightly to $1.23 billion as solid volume gains at Cross Creek and Russell Athletic partially offset the softness experienced in other areas. Net income declined 33 percent to $54.4 million or $1.47 per share primarily due to sluggish sales. Margins continued to remain strained due to the fierce erosion in pricing in the screen printer/distributor market. Lower prices for raw materials and continuing improvements in manufacturing efficiencies did help, however, to mitigate the price deterioration.

THE SAME TRENDS THAT HAVE BEEN DRIVING A ROBUST ECONOMIC ENVIRONMENT in the U.S. – among them low inflation and unemployment and healthy GDP growth – are expected by many to continue into 1998. Overall, we expect these trends to favor consumer goods spending on such items as apparel.

MY OUTLOOK FOR 1998 AND BEYOND, however, is not based upon macroeconomic indicators but upon a number of opportunities that lie ahead of us. Consider the women's market. Today, women's activewear is a huge and growing business, yet Russell has just begun to tap this market. Although this market is intensely competitive, it is so large that even small gains represent a significant source of growth for us. Women's lines are and will continue to be a priority for every division. The results already are encouraging. In fact, our Russell Athletic women's business, though on a small base, grew more than 50 percent last year.



Despite a difficult year, and a decline in sales in 1997, the Company has achieved a nearly 10% growth rate over the last 10 years.



Gross margins, as a percentage of sales dropped to 30.2%, yielding $371 million of gross margin.

THE INTERNATIONAL MARKET'S STORY reads like that of the women's category. With more than 90 percent of the world's population living outside the U.S., we have tremendous activewear opportunities in the International Division. Currently, International and export sales are more than 10 percent of Company sales. Since 1992, we have made a great deal of progress building our International Division, despite a stronger dollar, and capacity and pricing issues similar to those in the U.S. market. We spent much of 1997 restructuring our operations to match our sales opportunities more

closely, as well as refining our marketing strategies further for each brand. As a result, we are optimistic that this division can return to solid double-digit growth in 1998 and beyond.

IN SURVEYING RUSSELL'S OPPORTUNITIES, I find that perhaps the most promising path does not lead through any given market, but rather through our own manufacturing operations. As a vertically integrated company, our business equation consists of two parts: manufacturing and marketing. As previously discussed, we believe our manufacturing prowess is second to none. Our goal is to be just as good on the marketing side, and I firmly believe we are making significant strides. Our ability to hold, and in some instances increase, market share in the face of staggering competition speaks for itself.

(left to right) Thomas R. Johnson, Jr. (EVP, Manufacturing) JT Taunton, Jr. (EVP, Sales and Marketing) James D. Nabors (EVP and CFO)

BUT WE ALWAYS CAN AND WILL DO BETTER. The marketing programs that have been put in place in each division over the past 18 months are living up to their expectations. We are seeing some very tangible results and have numerous initiatives in the pipeline. Overall, our sales and marketing strategies are more proactive, focused, targeted, and efficient than at any time in the Company's history.

ON A FINAL NOTE, a recent article noted that the average Fortune 500 company today can expect a 40-to-50-year lifespan. Few companies beat these odds, but those with longevity of a century or more share a common characteristic: our focus extends beyond solely short-term economic activity. The key to longevity appears to lie in a company's ability to build a community around itself with qualities that can thrive beyond any given generation. When I look at Russell's 17,000-plus employees and their passionate commitment to quality, value and customer service, the 95-year heritage that stands behind "Genuine Russell" is apparent today and easy to foresee lasting another 95 years.

JOHN C. ADAMS
Chairman, President and
Chief Executive Officer

March 10, 1998

Manufacturing and *Marketing Highlight*

New product and fabric introductions

Russell Athletic has launched several new products and fabrics for 1998. Tweed Fleece™ is the new fabric for Fall that uses dyed yarn in a knitted texture similar to last year's hit fabric, Unique Pique™. Indeed, Unique Pique™ fabric was so popular that it has been expanded into several ladies styles for the coming year. Russell has also introduced new 100 percent polyester fashions that feature Malden Mills' much-loved Polar Fleece® fabric.

Jerzees creates new styles for 1998

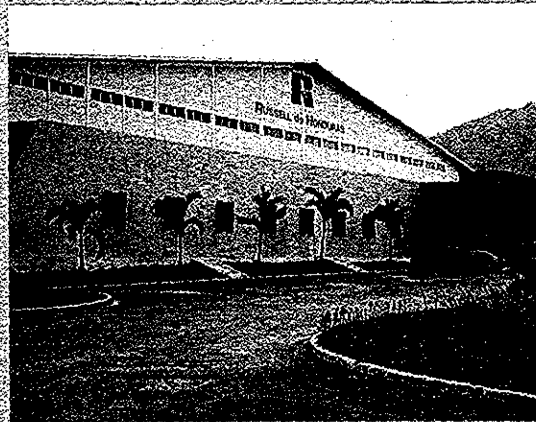
In addition to the youth and ladies' apparel being introduced in '98, Jerzees has further differentiated its basic line with Cross-Cut Pique,™ a heavyweight 65% cotton/35% polyester garment with a new texture and dressy striped trims. As for lighter weight texture, Jerzees has created Mini-Waffle™—a preshrunk 100% cotton shirt with long sleeves and Lycra® spandex ribbed cuffs and collar. And on the 100% polyester front, Jerzees is featuring a brand new World Class Fleece²™ half-zip pullover.

Cross Creek continues to expand in the imprintable market

Cross Creek benefited in 1997 from the attention it garnered in the distributor/imprintables market. Cross Creek coupled its reputation and manufacturing expertise with the Jerzees and Country Cottons brands and the results have been great. As that market continues to "trade up" with quality embroidery for specialty businesses, the Company stands ready with basics and fancies to meet the demand.

Russell increases sewing *capacity offshore*

Already doing business in some 90 countries around the world, Russell is now producing a meaningful share of its apparel outside the United States. In fact, virtually all of the Company's International sales are produced elsewhere. Moreover, a growing percentage of products for sale inside the U.S. are being produced offshore under a balanced program that includes package-sourced products, contractors and Russell owned and operated facilities.



Directors and Officers

Directors

John C. Adams[2]
Chairman of the Board
Chairman of the Executive Committee

Herschel M. Bloom[1][3][5]
Partner, King & Spalding
Atlanta, Georgia
Chairman of the Nominating Committee

Ronald G. Bruno[1][3][4]
President,
Bruno Capital Management Corporation
Birmingham, Alabama
Chairman of the Finance Committee

Tim Lewis[1][4]
T. A. Lewis & Associates, Inc.
Birmingham, Alabama

James D. Nabors[2][4]
Executive Vice President and
Chief Financial Officer

C.V. "Jim" Nalley III[1][3]
President and Chief Executive Officer,
The Nalley Companies
Atlanta, Georgia
Chairman of the Executive
Compensation Committee

Margaret M. Porter[1][5]
Civic Volunteer
Birmingham, Alabama

Benjamin Russell[1][5]
Chairman and Chief Executive Officer,
Russell Lands, Incorporated
Alexander City, Alabama

John R. Thomas[1][4][5]
Chairman, President and Chief Executive
Officer, Aliant National Corporation
Alexander City, Alabama

John A. White, Ph.D., P.E.[1][5]
Chancellor, University of Arkansas
Fayetteville, Arkansas
Chairman of the Audit Committee

Committees of the Board of Directors
[1] Audit Committee
[2] Executive Committee
[3] Executive Compensation Committee
[4] Finance Committee
[5] Nominating Committee

Corporate Officers

Administrative

John C. Adams
Chairman, President and
Chief Executive Officer

James D. Nabors
Executive Vice President and
Chief Financial Officer

Fletcher D. Adamson
Corporate Vice President, Research

William P. Dickson, Jr.
Corporate Vice President, Human
Resources

Larry E. Workman
Controller

Steve R. Forehand
Secretary

Fred O. Braswell III
Corporate Vice President,
External Affairs

K. Roger Holliday
Treasurer

Steven S. Williams
Assistant Treasurer
Assistant Controller

Manufacturing

Thomas R. Johnson, Jr.
Executive Vice President, Manufacturing

J. Franklin Foy
Corporate Vice President, Dyeing and
Finishing

Marketing

JT Taunton, Jr.
Executive Vice President,
Sales and Marketing

Joseph P. Irwin
President, Jerzees Division

D.W. Wachtel
President, Russell Athletic Division

W.J. Spires, Jr.
President, Cross Creek Apparel, Inc.

John E. Frechette
Corporate Vice President, International

Vice Presidents

Jerzees

Anita M. Cotney
Retail Product Development

Frank A. Iannuzzi
Imprintable Sales

Mark K. Tate
Retail Sales

Ted Wilson
Marketing

Russell Athletic

David M. Commander
Marketing

Michael L. Dodge
Sales

Robert E. Howard
Operations

Fabrics

James H. Knight
Operations

Charles W. Bogle
Sales and Marketing

Manufacturing

David P. Major
Greige Manufacturing

M. Larry Tuggle
Environmental and
Engineering Services

Finance and Administration

David M. Booth
Distribution, Traffic
and Transportation

Thomas J. Spraggins
Information Services

David T. Young
Corporate Credit

Marketing Services

Michael L. Coggin

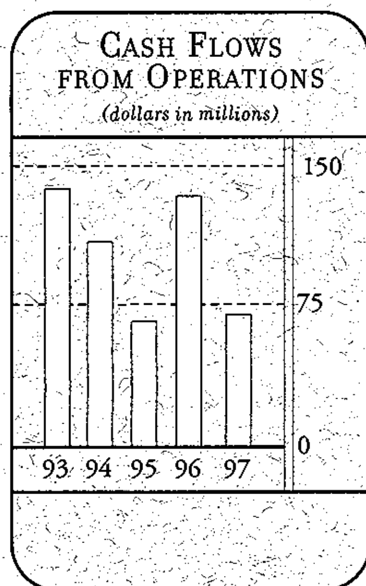
Subsidiaries

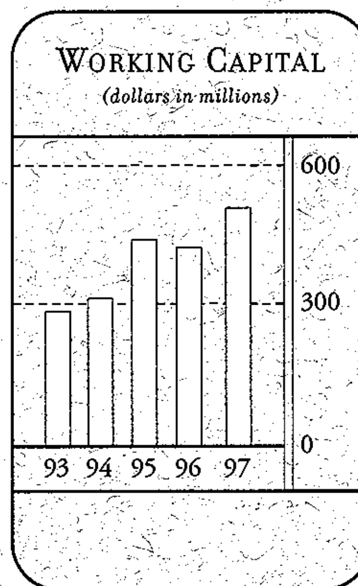
Robert H. Yoe III
President, DeSoto Mills, Inc.

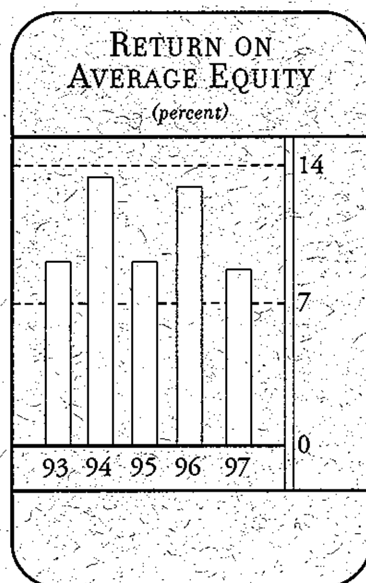
FINANCIAL REVIEW

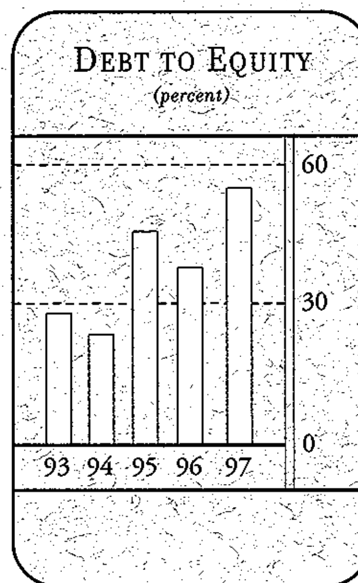
CONTENTS

Ten-Year Selected Financial Data 18
Management's Discussion and Analysis of Financial Condition and Results of Operations 20
Consolidated Balance Sheets 22
Consolidated Statements of Income 23
Consolidated Statements of Cash Flows 24
Consolidated Statements of Stockholders' Equity 25
Notes to Consolidated Financial Statements 26
Report of Independent Auditors 32









TEN-YEAR SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)	1997	1996	1995
OPERATIONS			
Net sales	$1,228,198	$1,244,204	$1,152,633
Cost of goods sold	857,531	846,166	816,834
Interest expense	28,165	25,738	21,698
Income before income taxes[b]	88,352	129,545	87,733
Income taxes[b]	33,904	47,969	33,616
Net income applicable to common shares[b]	54,448	81,576	54,117
FINANCIAL DATA			
Depreciation and amortization	$ 74,421	$ 72,226	$ 68,010
Net income plus depreciation and amortization	128,869	153,802	122,127
Capital expenditures	72,926	114,031	86,556
Working capital	501,431	412,591	438,070
Long-term debt and redeemable preferred stock	360,607	255,935	287,878
Stockholders' equity	665,602	679,823	632,558
Capital employed	1,026,209	935,758	920,436
Total assets	1,247,962	1,195,180	1,118,164
COMMON STOCK DATA			
Net income-assuming dilution[b]	$ 1.47	$ 2.11	$ 1.38
Dividends	.53	.50	.48
Book value	18.25	17.87	16.34
Price Range:			
High	38.38	33.75	31.25
Low	25.00	23.13	22.00
FINANCIAL STATISTICS			
Net sales times:			
Receivables[a]	5.3	5.5	5.3
Inventories[a]	3.4	3.7	3.8
Capital employed[a]	1.3	1.3	1.4
Interest coverage[b]	4.1	6.0	5.0
Income before income taxes as a percent of sales[b]	7.2%	10.4%	7.6%
Net income as a percent of sales[b]	4.4%	6.6%	4.7%
Net income as a percent of stockholders' equity[a][b]	8.2%	12.4%	8.6%
OTHER DATA			
Net common shares outstanding (000s omitted)	36,463	38,049	38,715
Approximate number of common shareholders	10,100	12,300	12,300

[a] Average of amounts at beginning and end of each fiscal year.
[b] Fiscal 1993 includes a noncash, pre-tax charge of $34,583,080 associated with the write-down of certain fixed assets and goodwill. The after-tax impact of this write-down on 1993 earnings was $.56 per common share.

1994	1993	1992	1991	1990	1989	1988
$1,098,259	$ 930,787	$899,136	$804,585	$713,812	$687,954	$531,136
739,700	613,325	592,837	553,160	461,281	457,875	344,109
19,434	16,948	15,841	18,097	18,885	15,643	8,788
127,585	80,717	129,507	90,866	109,672	102,728	85,793
48,759	31,619	47,269	34,027	41,725	37,994	32,028
78,826	49,080	81,945	56,279	67,378	64,163	53,728
$ 67,042	$ 66,226	$ 60,444	$ 56,594	$ 52,539	$ 45,633	$ 33,368
145,868	115,306	142,389	112,873	119,917	109,796	87,096
38,562	83,979	109,161	89,532	113,617	87,410	118,476
310,330	277,993	285,469	255,392	249,683	267,178	124,263
144,163	163,334	186,122	185,923	196,857	210,470	90,023
628,662	587,651	570,003	502,501	456,352	402,216	345,086
772,825	750,985	756,125	688,424	653,209	612,686	435,109
1,046,577	1,017,044	964,933	818,220	794,521	720,806	560,969
$ 1.96	$ 1.19	$ 1.99	$ 1.38	$ 1.65	$ 1.57	$ 1.36
.42	.39	.34	.32	.32	.28	.23
15.84	14.54	13.97	12.39	11.29	9.95	8.55
32.63	36.87	40.37	36.25	31.00	26.50	17.75
24.00	26.00	27.75	19.75	16.00	15.62	11.37
5.6	5.3	5.8	5.9	5.3	5.9	5.6
3.9	3.7	4.6	4.8	5.1	6.8	6.4
1.4	1.2	1.2	1.2	1.1	1.3	1.3
7.6	5.8	9.2	6.0	6.8	7.6	10.8
11.6%	8.7%	14.4%	11.3%	15.4%	14.9%	16.2%
7.2%	5.3%	9.1%	7.0%	9.4%	9.3%	10.1%
13.0%	8.5%	15.3%	11.7%	15.7%	17.2%	17.2%
39,689	40,405	40,810	40,569	40,407	40,427	40,360
13,000	13,000	13,000	18,000	18,000	18,000	18,000

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1997 VS 1996

Net sales for the year decreased 1.3% to $1,228,198,000. The most dramatic decreases were experienced in Licensed Products and in the Jerzees Division.

The deterioration in Licensed Products was consistent throughout the year and resulted in the reorganization or elimination of parts of that division during 1997. Costs associated with those efforts should be non-recurring and are intended to improve the profitability of the licensed business in the future.

The Jerzees Division experienced sales declines in the distributor/screenprint market where price cutting, led by major competitors, was severe. These pricing pressures not only had the effect of lowering sales, but also resulted in turmoil and sluggish purchase patterns in that market as well. Jerzees sales, direct to retail, were up slightly for the year, but did not meet expectations in the second half, due to overall softness in apparel sales at retail.

Cross Creek Apparel, Inc. experienced good growth for the year as the Jerzees brand of placket shirts was expanded in the distributor market. Russell Athletic had moderate sales increases, generally in line with expectations, while International and export sales increases slowed and represented 11.0% of the Company's total sales.

Stable cotton prices, improved manufacturing efficiencies, and ongoing programs to reduce cost mitigated the impact of lower selling prices on margins. Margins declined to 30.2% versus the 32.0% experienced in 1996.

The Company utilizes cotton futures contracts to set sales prices which are generally set six months to a year in advance of selling seasons. Depending upon market conditions, these contracts may be purchased at the time prices are set. Purchasing futures contracts not only limits the risk of price increases, but also limits the Company's ability to benefit from price decreases. At January 3, 1998, the Company had outstanding futures contracts that, when combined with other contracts and inventory, represented approximately 100% of the Company's anticipated cotton requirements for 1998.

Selling, general and administrative expenses increased 3.5% during the year, to 20.5% of sales, versus 19.6% the previous year. Certain costs associated with the reorganization and elimination of some aspects of the Licensed Products and International divisions contributed to the increase. Additional expenses included advertising, particularly in the Jerzees Division, and a continued emphasis on marketing and customer service, both domestically and internationally.

The Company utilizes two rate swap agreements in the management of its interest rate exposure. These agreements effectively convert a portion of the Company's interest rate exposure from a fixed to a floating rate basis and from a floating rate to a fixed basis. The effect of these agreements was to lower the effective interest rate on the Company's long-term debt from 6.83% to 6.64% and from 6.95% to 6.77% in 1997 and 1996, respectively. Interest expense increased in 1997 due to increased short-term borrowing, generally, until August when the Company issued an additional $125 million of long-term debt with a weighted-average life of seven years at a rate of 6.65%. Proceeds were then used to reduce short-term debt.

The balance sheet continues to reflect the conservative financial nature of the Company and its strong financial condition. At the end of 1997, long-term debt to total capitalization increased with new long-term debt, to 35.1% versus 27.4% at the end of 1996. Inventory growth was held to less than 7%, despite a fourth quarter sales decline of almost 8%. There was also an 8% increase in accounts receivable attributable primarily to slow payments from certain customers. There are no collection problems from those accounts. Current ratios were 4.4 and 3.2 in 1997 and 1996, respectively, reflecting the impact of the reduction of short-term debt.

Net income plus non-cash charges of approximately $135 million and the increase in long-term debt provided the majority of the cash requirements in 1997. This cash was used for capital expenditures, treasury stock repurchases, payments on long-term debt, payments on short-term debt, working capital, and dividends. Capital expenditures of $73 million in 1997 bring the five year total to more than $396 million reflecting the Company's ongoing commitment to research and development and the modernization of manufacturing, distribution and customer service systems.

The Company anticipates that 1998 capital expenditures will be approximately $100 million. The majority of the expenditures will be for further enhancement primarily of the Company's manufacturing capabilities.

The Company maintains $286 million of informal lines of credit and does not anticipate issuing any additional long-term debt or equity securities in 1998.

There were no material acquisitions in 1997 or 1996. In 1997 as it did in 1996, the Board of Directors adjusted the

stock repurchase authorization upward to two million shares. Purchases of the Company's Common Stock totaled $51,638,000 in 1997, representing 1,821,201 shares, compared to $26,049,000 representing 932,783 shares in 1996.

The Company has conducted an extensive review of its computer systems, manufacturing equipment and electronic links with third parties to determine the extent of modifications required to prevent system date problems associated with the year 2000. The necessary modifications are well underway and it is anticipated that all of them will be complete in ample time to avoid any problems. The cost of these modifications is considered to be immaterial to the financial statements.

1996 VS 1995

Net sales increased 8% in 1996 to a record $1,244,204,000. The most significant increases in sales were experienced in DeSoto Mills, Inc., Licensed Products Division and Cross Creek Apparel, Inc. Growth in core products increased to solid levels in the fourth quarter. International and export sales growth slowed in 1996, due to a difficult retail environment in Europe, and represented 10.5% of sales.

Cotton prices stabilized and returned to more traditional levels during 1996. As a result, gross margins increased to 32.0% from 29.1% in 1995. Most divisions of the Company experienced much improved gross margins for the year due to lower raw material prices and ongoing cost reduction programs.

At January 4, 1997, the Company had outstanding cotton futures contracts that, when combined with other contracts and inventory, represented approximately 86% of the Company's anticipated cotton requirements for 1997.

Selling, general and administrative expenses increased 6.3%, but declined to 19.6% of sales from 19.9% the year before. The Company continued to emphasize marketing and customer service in order to gain market share, domestically and internationally.

The effect of the previously mentioned interest rate swap agreements was to lower the effective interest rate on the Company's long-term debt from 6.95% to 6.77% and from 7.34% to 7.07% in 1996 and 1995, respectively. Interest expense increased in 1996 due to increased short-term borrowings, generally offsetting principal payments of long-term debt.

The balance sheet continued to reflect the conservative financial nature of the Company and its strong financial condition. At the end of 1996, long-term debt to total capitalization was 27.4% versus 31.3% at the end of 1995. Inventory increased 8%, in line with sales increases. There was a slight reduction in accounts receivable, year-end 1996 versus 1995. Current ratios were 3.2 and 4.5, respectively, reflecting increased temporary borrowing for 1996.

Net income plus non-cash charges of approximately $149 million and an increase of short-term borrowings of $55 million provided the majority of the cash requirements for 1996. This cash was used for capital expenditures, payments on long-term debt, treasury stock repurchases, working capital and dividends. Capital expenditures of $114 million in 1996 brings the five-year total to more than $432 million reflecting the Company's ongoing commitment to research and development and modernization of manufacturing facilities and customer services systems.

The Company maintained $238 million of informal lines of credit at year-end 1996.

There were no material acquisitions in 1996 or 1995. In 1996, as it did in 1995, the Board of Directors adjusted the stock repurchase authorization upward to two million shares. Purchases of the Company's Common Stock totaled $26,049,000 in 1996, representing 932,783 shares, compared to $30,138,000 representing 1,071,435 shares in 1995.

FORWARD LOOKING INFORMATION

This annual report, including management's discussion and analysis, contains certain statements which describe the Company's beliefs concerning future business conditions and the outlook for the Company based upon currently available information. Wherever possible, the Company has identified these "forward looking" statements (as defined in Section 21E of the Securities and Exchange Act of 1934) by words such as "anticipate," "believes," "estimates," "expects" and similar phrases. These forward looking statements are based upon current assumptions and expectations the Company believes are reasonable, however, such statements are subject to risks and uncertainties which could cause the Company's actual results, performance and achievements to differ materially from those expressed in, or implied by, these statements. These risks and uncertainties include, but are not limited to, the matters discussed under the caption "Forward Looking Information" in the Company's Annual Report on Form 10-K for the year ended January 3, 1998, which will be filed by April 3, 1998, and other risks and uncertainties detailed from time to time in the Company's SEC filings. Some forward looking statements concern anticipated sales levels, cost estimates and resulting earnings that are not necessarily indicative of subsequent periods due to the mix of future orders, at once orders and product mix changes, which may vary significantly from year to year or quarter to quarter. The Company assumes no obligation to update publicly any forward looking statements whether as a result of new information, future events or otherwise.

Russell Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS

January 3, 1998 and January 4, 1997

(In thousands, except share data)	1997	1996
Assets		
CURRENT ASSETS:		
Cash	$ 8,609	$ 7,355
Trade accounts receivable, less allowances of $10,533 in 1997 and $10,210 in 1996	242,988	224,155
Inventories	369,923	346,782
Prepaid expenses and other current assets	20,517	13,334
Future income tax benefits	5,006	8,399
TOTAL CURRENT ASSETS	647,043	600,025
PROPERTY, PLANT AND EQUIPMENT:		
Land	10,563	10,683
Buildings	310,053	305,765
Machinery and equipment	833,318	784,081
Construction-in-progress	24,014	22,192
	1,177,948	1,122,721
Less allowances for depreciation and amortization	(651,835)	(595,935)
	526,113	526,786
OTHER ASSETS	74,806	68,369
	$ 1,247,962	$ 1,195,180
Liabilities and Stockholders' equity		
CURRENT LIABILITIES:		
Short-term debt	$ 39,256	$ 63,256
Accounts payable and accrued expenses:		
Trade accounts	41,425	40,941
Employee compensation	22,885	22,741
Other	20,568	18,515
	84,878	82,197
Income taxes	–	10,038
Current maturities of long-term debt and capital lease obligations	21,478	31,943
TOTAL CURRENT LIABILITIES	145,612	187,434
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, LESS CURRENT MATURITIES	360,607	255,935
DEFERRED LIABILITIES:		
Income taxes	49,810	46,218
Pension and other	26,331	25,770
	76,141	71,988
COMMITMENTS AND CONTINGENCIES	–	–
STOCKHOLDERS' EQUITY:		
Common Stock, par value $.01 per share; authorized 150,000,000 shares, issued 41,419,958 shares	414	414
Paid-in capital	48,654	50,200
Retained earnings	761,428	726,492
Treasury stock (1997 – 4,957,336 and 1996 – 3,370,885 shares)	(140,170)	(95,057)
Currency translation adjustment	(4,724)	(2,226)
	665,602	679,823
	$ 1,247,962	$ 1,195,180

See notes to consolidated financial statements.

Russell Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

Years ended January 3, 1998, January 4, 1997 and December 30, 1995

(In thousands, except per share data)	1997	1996	1995
NET SALES	$1,228,198	$1,244,204	$1,152,633
Cost of goods sold	857,531	846,166	816,834
	370,667	398,038	335,799
Selling, general and administrative expenses	252,387	243,759	229,347
	118,280	154,279	106,452
OTHER DEDUCTIONS (INCOME):			
Interest expense	28,165	25,738	21,698
Other—net	1,763	(1,004)	(2,979)
	29,928	24,734	18,719
INCOME BEFORE INCOME TAXES	88,352	129,545	87,733
PROVISION FOR INCOME TAXES:			
Currently payable	27,688	53,259	35,416
Deferred	6,216	(5,290)	(1,800)
	33,904	47,969	33,616
NET INCOME	$ 54,448	$ 81,576	$ 54,117
NET INCOME PER COMMON SHARE:			
Basic	$ 1.48	$ 2.12	$ 1.38
Diluted	$ 1.47	$ 2.11	$ 1.38
AVERAGE SHARES OUTSTANDING:			
Basic	36,879,901	38,469,009	39,097,574
Diluted	37,047,433	38,652,958	39,306,555

See notes to consolidated financial statements.

Russell Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended January 3, 1998, January 4, 1997 and December 30, 1995

(In thousands)	1997	1996	1995
Operating activities			
Net income	$ 54,448	$ 81,576	$ 54,117
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	74,421	72,226	68,010
Deferred income taxes	6,216	(5,290)	(1,800)
(Gain) loss on sale of property, plant and equipment	(438)	200	560
Changes in assets and liabilities:			
Trade accounts receivable	(19,532)	2,237	(13,604)
Inventories	(25,087)	(22,458)	(43,414)
Prepaid expenses and other current assets	1,705	(6,045)	175
Other assets	(9,918)	175	(4,872)
Accounts payable and accrued expenses	3,942	208	6,027
Income taxes	(20,113)	3,240	(31)
Pension and other deferred liabilities	2,050	6,019	(1,103)
NET CASH PROVIDED BY OPERATING ACTIVITIES	67,694	132,088	64,065
Investing activities			
Purchase of property, plant and equipment	(72,926)	(114,031)	(86,556)
Proceeds from sale of property, plant and equipment	2,380	1,280	5,984
NET CASH USED IN INVESTING ACTIVITIES	(70,546)	(112,751)	(80,572)
Financing activities			
Short-term borrowings	–	54,846	–
Payments on short-term debt	(23,736)	–	(90,493)
Payments on long-term debt	(30,793)	(31,282)	(19,475)
Long-term borrowings	125,000	–	175,000
Dividends on common stock	(19,512)	(19,247)	(18,790)
Distribution of treasury stock	4,979	5,165	1,252
Cost of common stock for treasury	(51,638)	(26,049)	(30,138)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	4,300	(16,567)	17,356
Effect of exchange rate changes on cash	(194)	100	(505)
Net increase in cash	1,254	2,870	344
Cash balance at beginning of year	7,355	4,485	4,141
CASH BALANCE AT END OF YEAR	$ 8,609	$ 7,355	$ 4,485

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended January 3, 1998, January 4, 1997 and December 30, 1995

(In thousands, except share data)	1997	1996	1995
Common stock			
BALANCE AT BEGINNING AND END OF YEAR	$ 414	$ 414	$ 414
Paid-in capital			
Balance at beginning of year	$ 50,200	$ 52,405	$ 53,511
Exercise of stock options	(1,546)	(2,205)	(1,106)
BALANCE AT END OF YEAR	$ 48,654	$ 50,200	$ 52,405
Retained earnings			
Balance at beginning of year	$726,492	$664,163	$628,836
Net income for the year	54,448	81,576	54,117
Cash dividends – Common Stock (1997 – $.53; 1996 – $.50; 1995 – $.48)	(19,512)	(19,247)	(18,790)
BALANCE AT END OF YEAR	$761,428	$726,492	$664,163
Treasury stock			
Balance at beginning of year	$ 95,057	$ 76,378	$ 48,598
Cost of shares acquired (1997 – 1,821,201; 1996 – 932,783; 1995 – 1,071,435)	51,638	26,049	30,138
Shares distributed (1997 – 234,750; 1996 – 266,435; 1995 – 97,787)	(6,525)	(7,370)	(2,358)
BALANCE AT END OF YEAR	$140,170	$ 95,057	$ 76,378
Currency translation adjustment			
Balance at beginning of year	$ (2,226)	$ (8,046)	$ (5,501)
Translation (loss) gain	(2,498)	5,820	(2,545)
BALANCE AT END OF YEAR	$ (4,724)	$ (2,226)	$ (8,046)

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended January 3, 1998, January 4, 1997 and December 30, 1995

Note One

Description of Business and Significant Accounting Policies

Russell Corporation is a vertically integrated international designer, manufacturer and marketer of activewear, athletic uniforms, better knit shirts, leisure apparel, licensed sports apparel, sports and casual socks, and a line of yarn-dyed woven fabrics. Apparel products are marketed to sporting goods dealers, department and specialty stores, mass merchants, wholesale clubs, golf pro shops, college bookstores, screen printers, distributors, mail order catalogs and other apparel manufacturers.

Principles of Consolidation

The consolidated financial statements include the accounts of Russell Corporation and its subsidiaries after the elimination of intercompany accounts and transactions.

Use of Estimates

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

Inventories

Inventories of finished goods, work-in-process and raw materials are carried at the lower of cost or market, with cost for a substantial portion of inventories determined under the Last-In, First-Out (LIFO) method. Certain inventories are carried under the First-In, First-Out (FIFO) method, or the average cost method, and were valued at approximately $79,000,000 in 1997 and $69,000,000 in 1996. Inventories are summarized as follows:

(In thousands)	1997	1996
Finished goods	$286,254	$280,368
Work-in-process	52,498	45,562
Raw materials and supplies	65,476	53,885
	404,228	379,815
Less LIFO reserve	34,305	33,033
	$369,923	$346,782

Property, Plant and Equipment

Provision for depreciation of the principal items of property, plant and equipment (recorded at cost), including those items held under capital lease agreements, has been computed generally on the straight-line method at rates based upon their estimated useful lives.

Other Assets

Included in other assets is goodwill of approximately $33,100,000 and $35,000,000, which is net of accumulated amortization of $10,500,000 and $8,600,000 at January 3, 1998 and January 4, 1997, respectively. Goodwill is being amortized over fifteen to twenty-five years on a straight-line basis. The carrying value of goodwill is reviewed if the facts and circumstances suggest that it may be impaired. If this review indicates that goodwill will not be recoverable based upon the undiscounted expected future cash flows over the remaining amortization period, the Company's carrying value of the goodwill is reduced by the excess of the carrying value over the fair value of the entity acquired.

Long-Lived Assets

The Company records impairment losses on long-lived assets under the provisions of Financial Accounting Standards Board (FASB) Statement 121. When events and circumstances indicate that assets may be impaired, and the undiscounted cash flows estimated to be generated from those assets are less than the carrying value of such assets, the Company records an impairment loss equal to the excess of the carrying value over the asset's fair value. There were no material impairment losses recorded in 1997, 1996 or 1995.

Income Taxes

The Company accounts for income taxes under the provisions of FASB Statement 109, "Accounting for Income Taxes." Under Statement 109, deferred tax assets and liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities and are measured at the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Advertising, Marketing and Promotions Expense

The cost of advertising, marketing and promotions is expensed as incurred. The Company incurred $41,099,000, $36,454,000 and $40,281,000 in such costs during 1997, 1996 and 1995, respectively.

Postretirement Benefits Other Than Pensions

Postretirement benefits are recorded under the provisions of FASB Statement 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The cost of such benefits is accrued over the service lives of the employees expected to be eligible to receive such benefits.

Stock-Based Compensation

The Company issues awards under its incentive compensation plans as described in Note 7. These stock options and awards are accounted for in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees."

Concentrations of Credit Risk and Financial Instruments

Financial instruments which subject the Company to credit risk are primarily trade accounts receivable. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number and diversity of customers comprising the Company's customer base. Management believes that any risk associated with trade accounts receivable is adequately provided for in the allowance for doubtful accounts.

Sales to a major customer, and its affiliates, represented 18.8%, 17.1% and 15.1% of the Company's net sales for the years ended January 3, 1998, January 4, 1997 and December 30, 1995, respectively. Accounts receivable from this customer represented 27.9% and 23.7% of the Company's net accounts receivable at January 3, 1998 and January 4, 1997, respectively.

The Company periodically enters into futures contracts as hedges for its purchases of cotton inventory. Gains and losses on these hedges are deferred and reflected in cost of sales as such inventory is sold. The Company also periodically utilizes forward purchase contracts in its international operations to limit the currency risks associated with purchase obligations. The effects of movements in currency exchange rates on these instruments are recognized in the period in which the purchase obligations are satisfied. There were no forward purchase contracts outstanding at January 3, 1998 (Note 4).

The Company utilizes two interest rate swap agreements in the management of interest rate exposure on long-term debt. The differential to be received, or paid, under the agreements is accrued as interest rates change and recorded as an adjustment to interest expense. The related amount payable to, or receivable from, the counterparties to the agreements is included in other liabilities or assets. The Company believes that the possibility of credit losses associated with these agreements, resulting from third-party non-performance, is remote (Note 4).

Earnings Per Common Share

At January 3, 1998, the Company adopted FASB Statement No. 128, "Earnings Per Share." In accordance with Statement 128, basic earnings per share is computed by using the average number of common shares outstanding during the period without consideration of common stock equivalents. Diluted earnings per share is computed by using the average number of common shares outstanding plus common stock equivalents (employee stock options). Prior period earnings per share has been restated in accordance with Statement 128.

Fiscal Year

The Company's fiscal year ends on the Saturday nearest to January 1, which periodically results in a fiscal year of 53 weeks, as was the case for 1996. Fiscal years 1997, 1996 and 1995 ended on January 3, 1998, January 4, 1997 and December 30, 1995, respectively.

New Accounting Pronouncement

During 1997, the FASB issued Statement No. 130, "Reporting Comprehensive Income," effective for fiscal years beginning after December 15, 1997. Statement No. 130 requires the reporting of all items to be recognized as comprehensive income in a format of equal prominence with current financial statement presentation. The Company will comply with the requirements of the statement for financial information presented for fiscal year 1998.

Note Two

Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations include the following:

(In thousands)	1997	1996
Notes payable to financial institutions:		
6.72% notes due annually through 2002	$ 53,571	$ 64,286
8.83% notes due annually through 1999	21,500	32,200
8.01% notes	–	9,000
6.95% notes due through 1998	64	142
6.65% notes due annually 2001 through 2007	125,000	–
6.78% notes due annually 2003 through 2008	100,000	100,000
Variable rate (6.20% at January 3, 1998) note due semi-annually 1999 through 2005	75,000	75,000
Capital lease obligations (variable rate, 4.3% at year-end) due 2017	6,950	7,250
	382,085	287,878
Less current maturities	21,478	31,943
	$360,607	$255,935

The notes are unsecured and contain restrictions on the payment of dividends; incurrence of indebtedness, liens or leases; acquisition of investments; retirement of capital stock; and the maintenance of working capital. At January 3, 1998, $80,364,472 of retained earnings was unrestricted for payment of dividends.

The capital lease obligations relate to land, buildings and machinery and equipment financed primarily by industrial revenue bonds. The property collateralized under the capital lease obligations is included in property, plant and equipment with a net carrying value of $5,484,000 and $5,903,000 at January 3, 1998 and January 4, 1997, respectively.

The following summarizes the maturities of long-term debt and capital lease obligations: 1998 – $21,478,000; 1999 – $32,214,000; 2000 – $21,414,000; 2001 – $39,271,000; 2002 – $39,272,000; and thereafter $228,436,000.

Note Three

SHORT-TERM DEBT

The Company may borrow up to approximately $286 million under informal line of credit arrangements with six banks, on such terms as the Company and the banks may mutually agree. Generally, the arrangements may be canceled by either party at any time. At January 3, 1998, amounts outstanding under the line of credit arrangements totaled $39.3 million. The average interest rates of bank borrowings during 1997, 1996 and 1995 were 6.0%, 5.8% and 6.3%, respectively. The weighted-average interest rates of bank borrowings outstanding at January 3, 1998, January 4, 1997 and December 30, 1995 were 6.8%, 5.9% and 7.3%, respectively.

Note Four

FINANCIAL INSTRUMENTS

COTTON FUTURES

The Company utilizes commodity futures contracts in connection with estimating product sales prices in advance of the selling seasons. These transactions effectively limit the Company's risk associated with future cotton price increases as well as the benefits of future price decreases. At January 3, 1998, the Company had outstanding futures contracts that, when combined with other contracts and inventories, represented approximately 100% of its anticipated 1998 cotton requirements.

INTEREST RATE SWAP AGREEMENTS

The Company utilizes two interest rate swap agreements in the management of interest rate exposure on long-term debt. The Company entered into a fixed to floating rate swap agreement in 1992. Under this agreement, which expires August 31, 2002, the Company receives a fixed rate payment of 6.14% on approximately $54 million and pays a floating rate based upon LIBOR, as determined at six-month intervals.

In 1995, the Company entered into a floating to fixed rate swap agreement. Under this agreement, which expires June 30, 2005, the Company receives a variable rate based upon LIBOR plus .29%, as determined quarterly, and pays a fixed rate of 6.67% on $75 million.

These agreements, when combined, effectively lowered the weighted-average interest rate on the Company's long-term debt from 6.83% to 6.64% and from 6.95% to 6.77% in 1997 and 1996, respectively. The Company believes that future changes in interest rates will not have a material impact on the Company's consolidated financial position or results of operations. The fair value of the swap agreements, as indicated below, is the estimated termination value of the agreements at the balance sheet date and may not be indicative of the current termination values. Any gain or loss on the agreements will be recognized when realized.

OTHER FINANCIAL INSTRUMENTS

At January 3, 1998 and January 4, 1997, the carrying value of financial instruments such as cash, trade accounts receivable and payables approximated their fair values, based upon the short-term maturities of these instruments. The fair value of the Company's long-term debt is estimated using discounted cash flow analyses, based upon the Company's current incremental borrowing rates for similar types of borrowing arrangements. The following table summarizes fair value information for the Company's long-term debt and interest rate swap agreements:

	1997		1996	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$382,085	$392,780	$287,878	$284,074
Interest-rate swap agreement terminating August 31, 2002	3,388	4,958	2,216	3,013
Interest-rate swap agreement terminating June 30, 2005	–	(852)	–	445

Note Five

EMPLOYEE RETIREMENT BENEFITS

The Company has a qualified noncontributory pension plan (Retirement Plan) covering substantially all of its United States employees and a savings plan that is qualified under Section 401(k) of the Internal Revenue Code (Savings Plan).

Benefits for the Retirement Plan are based upon years of service and the employee's highest consecutive five years of compensation during the last ten years of employment. The Company's funding policy for the Retirement Plan is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service

to date, but also for those expected to be earned in the future. Net pension cost for the Retirement Plan included the following components:

(In thousands)	1997	1996	1995
Service cost	$ 5,916	$ 5,838	$ 5,134
Interest cost	7,800	7,408	7,106
Actual return on plan assets	(16,086)	(10,705)	(10,496)
Net amortization and deferral	6,542	1,416	1,846
Net pension cost	$ 4,172	$ 3,957	$ 3,590

The Retirement Plan's funded status is as follows:

(In thousands)	1997	1996
Actuarial present value of benefit obligations:		
Accumulated benefit obligation including vested benefits of $86,563 and $81,432, respectively	$ (91,093)	$ (85,753)
Projected benefit obligation	$(114,966)	$(112,359)
Plan assets at fair value	118,063	103,609
Overfunded (underfunded) status	3,097	(8,750)
Unrecognized net gain	(19,882)	(7,166)
Unrecognized prior service cost	3,758	4,121
Unrecognized net transition asset	(4,378)	(5,056)
Accrued pension expense	$ (17,405)	$ (16,851)

Plan assets at January 3, 1998, are invested primarily in U.S. government securities and listed corporate bonds and stocks, including 600,960 shares of the Company's Common Stock having a market value of $16,376,000. Dividends paid to the plan by the Company were $319,000 and $300,000 for 1997 and 1996, respectively. The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation was 7.25% in 1997, 1996 and 1995. The rates of increase in future compensation levels were 3.75% in 1997 and 4.00% in 1996 and 1995. The expected long-term rate of return on plan assets was 9.00% in 1997, 1996 and 1995.

During 1995, the Company implemented the Savings Plan which allows substantially all of the Company's United States employees to defer portions of their annual compensation. The Company provides additional matching and discretionary contributions. Compensation expense associated with this plan was $1,417,000, $1,322,000 and $1,456,000 for 1997, 1996 and 1995, respectively.

Note Six

Income Taxes

Foreign operations contributed approximately $(1,989,000), $900,000 and $8,000,000 to the Company's income before income taxes in 1997, 1996 and 1995, respectively. Significant components of the provision for income taxes are as follows:

	1997		1996		1995	
(In thousands)	Currently Payable	Deferred	Currently Payable	Deferred	Currently Payable	Deferred
Federal	$24,136	$6,160	$47,860	$(4,994)	$29,580	$(1,596)
State	3,233	825	5,709	(596)	3,788	(204)
Foreign	319	(769)	(310)	300	2,048	–
Totals	$27,688	$6,216	$53,259	$(5,290)	$35,416	$(1,800)

The reconciliation of income tax computed by applying the statutory federal income tax rate of 35% to income before income taxes to total income tax expense is as follows:

(In thousands)	1997	1996	1995
Taxes at statutory rate on income before income taxes	$30,923	$45,341	$30,707
State income taxes, net of federal income tax benefit	2,637	3,324	2,329
Goodwill	425	425	425
Other–net	(81)	(1,121)	155
	$33,904	$47,969	$33,616

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of January 3, 1998 and January 4, 1997, are as follows:

(In thousands)	1997	1996
Deferred tax liabilities:		
Property, plant and equipment	$57,266	$53,434
Accounts receivable	1,594	–
Other	1,548	965
Total deferred tax liabilities	60,408	54,399
Deferred tax assets:		
Pension and postemployment obligations	8,555	8,340
Inventory	5,416	4,024
Accounts receivable	–	2,883
Employee benefits	1,633	1,333
Capital loss and credit carryforwards	233	282
Total deferred tax assets	15,837	16,862
Valuation allowance for deferred tax assets	(233)	(282)
Net deferred tax assets	15,604	16,580
Net deferred tax liabilities	$44,804	$37,819

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended January 3, 1998, January 4, 1997 and December 30, 1995

Note Seven

STOCK RIGHTS PLAN AND EXECUTIVE LONG-TERM INCENTIVE PLAN

On October 25, 1989, the Board of Directors declared a dividend of one Right for each share of Common Stock outstanding, which, when exercisable, entitles the holder to purchase a unit of one one-hundredth share of Series A Junior Participating Preferred Stock, par value $.01, at a purchase price of $85. Upon certain events relating to the acquisition of, or right to acquire, beneficial ownership of 20% or more of the Company's outstanding Common Stock by a third-party, or a change in control of the Company, the Rights entitle the holder to acquire, after the Rights are no longer redeemable by the Company, shares of Common Stock for each Right held at a significant discount to market. The Rights will expire on October 25, 1999, unless redeemed earlier by the Company at $.01 per Right under certain circumstances.

During 1993, the Company's shareholders approved the 1993 Executive Long-Term Incentive Plan (1993 Plan). Persons eligible to participate in the 1993 Plan include all officers and key employees of the Company and its subsidiaries. The 1993 Plan permits the issuance of awards in several forms including restricted stock, incentive stock options, non-qualified stock options, stock appreciation rights (SARs) and performance shares and performance unit awards.

Under the 1993 Plan and predecessor stock option plans, a total of 2,276,410 shares of Common Stock are reserved for issuance. The options are granted at a price equal to the stock's fair market value at the date of grant. The options are exercisable two years after the date of grant and expire ten years after the date of grant. The following table summarizes the status of options under the 1993 Plan and predecessor plans:

	1997		1996		1995	
	Number of Shares	Weighted-Average Price	Number of Shares	Weighted-Average Price	Number of Shares	Weighted-Average Price
Outstanding	1,414,950	$28.21	1,452,550	$26.55	1,425,730	$24.93
Exercisable	891,250	$27.71	887,350	$25.28	934,730	$22.88
Granted	277,700	$30.88	299,600	$27.25	278,600	$30.00
Exercised	237,650	$21.20	266,280	$18.92	97,787	$16.35
Canceled	77,650	$28.20	6,500	$16.81	89,510	$27.15
Available for future grants	861,460		1,061,510		1,354,610	

At January 3, 1998, options outstanding were exercisable at prices which ranged from $22.06 to $30.00 per share and had a weighted-average remaining contractual life of seven years. SARs which have been awarded to officers and management of the Company amount to 2,552,100 shares at January 3, 1998. SARs permit the optionee to surrender an exercisable option for a cash or Company stock award equal to the difference between the market price and option price when the right is exercised, provided certain performance measures are achieved. No compensation expense with respect to these rights was earned during 1997, 1996 or 1995.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," provides an alternative to APB Opinion No. 25 in accounting for stock-based compensation issued to employees. The Statement allows for a fair value based method of accounting for employee stock options and similar equity instruments. However, for companies that continue to follow the accounting provisions of APB Opinion No. 25, Statement No. 123 requires disclosure of the pro forma effect on net income and earnings per share as if the accounting provisions of the fair value method of the Statement had been employed. For the purposes of this disclosure, the fair value of the Company's employee stock options was estimated at the date of grant using an option pricing model. The fair values derived for options granted during 1997, 1996 and 1995 were $9.69, $9.32 and $10.27, respectively, using the following weighted-average assumptions:

	1997	1996	1995
Risk-free interest rate	5.4%	6.5%	6.5%
Dividend yield	1.8%	1.7%	1.7%
Volatility factor	.186	.159	.159
Weighted-average expected life of options	10 years	10 years	10 years

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

(In thousands, except per share data)	1997	1996	1995
Pro forma net income	$52,790	$78,816	$52,753
Pro forma earnings per share:			
Basic	$ 1.43	$ 2.05	$ 1.35
Diluted	$ 1.42	$ 2.04	$ 1.35

Note Eight

SUPPLEMENTAL CASH FLOW INFORMATION

Net cash provided by operating activities in the consolidated statements of cash flows reflects cash payments for interest and income taxes as follows:

(In thousands)	1997	1996	1995
Interest	$29,114	$26,192	$21,849
Income taxes	49,699	47,564	35,001

Note Nine

Commitments and Contingencies

At January 3, 1998, the Company had commitments for the acquisition of property and equipment totaling $44,887,000 and was committed under noncancelable operating leases with initial or remaining terms of one year or more to minimum rental payments aggregating $10,625,000, summarized by fiscal year periods as follows: 1998 – $4,170,000; 1999 – $2,823,000; 2000 – $1,834,000; 2001 – $1,481,000; and 2002 – $317,000.

The Company had $21,852,000 and $24,100,000 outstanding under letters of credit for the purchase of inventories at January 3, 1998 and January 4, 1997, respectively.

Lease and rental expense for fiscal years 1997, 1996 and 1995 was $10,740,000, $11,558,000 and $11,273,000, respectively.

The Company is a party to licensing contracts that generally include minimum royalty provisions. The length of these contracts, when signed, ranges from one to seven years with the longest ending in January 2003. The Company's ability to exceed the minimum royalties on these contracts is contingent upon meeting certain sales levels over the next several years.

Note Ten

Segment Information

The Company operates in a single business segment. Foreign and export sales were approximately 11.0%, 10.5% and 9.8% in 1997, 1996 and 1995, respectively. All revenues and expenses are allocated to geographical areas in determining income from operations. Assets are specifically identified to the geographical area for which they provide benefit.

(In thousands)	1997	1996	1995
Net sales			
United States	$1,092,582	$1,112,963	$1,040,084
Foreign	118,086	110,371	95,873
Export	17,530	20,870	16,676
Interarea transfers	5,923	7,787	4,678
Eliminations	(5,923)	(7,787)	(4,678)
Total	$1,228,198	$1,244,204	$1,152,633
Income from operations			
United States	$ 115,576	$ 150,220	$ 98,919
Foreign	2,704	4,059	7,533
Total	$ 118,280	$ 154,279	$ 106,452
Identifiable assets			
United States	$1,113,297	$1,068,808	$1,015,420
Foreign	134,665	126,372	102,744
Total	$1,247,962	$1,195,180	$1,118,164

FASB Statement No. 131, "Financial Reporting for Segments of a Business Enterprise," requires that financial information be reported at the same level of segmentation that is used internally by the "chief operating decision maker." The Statement is effective for fiscal years beginning after December 15, 1997. The Company is in the process of evaluating the requirements of Statement No. 131 and has not determined what effect, if any, it will have on future presentation of financial information.

Note Eleven

Summary of Quarterly Results of Operations (Unaudited)

The following is a summary of unaudited quarterly results of operations:

Year ended January 3, 1998:

	Quarter ended			
	April 6	July 6	October 5	January 3
	(In thousands, except per share data)			
Net sales	$258,159	$270,273	$368,274	$331,492
Gross profit	82,011	78,067	115,118	95,471
Net income	11,303	8,113	23,234	11,798
Net income per common share:				
Basic	$ .30	$ .22	$ .64	$ .32
Diluted	$ .30	$ .22	$ .64	$ .32

Year ended January 4, 1997:

	Quarter ended			
	March 31	June 30	September 29	January 4
	(In thousands, except per share data)			
Net sales	$257,854	$290,55	$336,679	$359,113
Gross profit	81,215	90,499	109,192	117,132
Net income	11,652	16,310	24,453	29,161
Net income per common share:				
Basic	$ .30	$ .42	$ .64	$ .76
Diluted	$ .30	$ .42	$ .63	$ .76

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

BOARD OF DIRECTORS AND SHAREHOLDERS

RUSSELL CORPORATION

We have audited the accompanying consolidated balance sheets of Russell Corporation and Subsidiaries as of January 3, 1998 and January 4, 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three fiscal 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 consolidated financial position of Russell Corporation and Subsidiaries at January 3, 1998 and January 4, 1997, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 3, 1998, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Birmingham, Alabama
January 30, 1998

Shareholder Information

CORPORATE HEADQUARTERS
755 Lee Street
P.O. Box 272
Alexander City, Alabama 35011
(256) 500-4000

PRINCIPAL SUBSIDIARIES
Cross Creek Apparel, Inc.
P.O. Box 1107
Mt. Airy, North Carolina 27030

Russell Corp. UK Limited
1 Dunlop Square
Deans Industrial Estate
Livingston
West Lothian
EH54 8SB
Scotland, U.K.

DeSoto Mills, Inc.
P.O. Box 720
Fort Payne, Alabama 35967

TRANSFER AGENT AND REGISTRAR
SunTrust Bank, Atlanta
P.O. Box 4625
Atlanta, Georgia 30302

DIVIDEND DISBURSING AGENT
Russell Corporation
755 Lee Street
P.O. Box 272
Alexander City, Alabama 35011

AUDITORS
Ernst & Young LLP
1900 AmSouth/Harbert Plaza
Birmingham, Alabama 35203

FORM 10-K
Copies of Form 10-K as filed with the Securities and Exchange Commission are available without cost to shareholders of the Company by writing to:

Corporate Secretary
Russell Corporation
755 Lee Street
P.O. Box 272
Alexander City, Alabama 35011

ANNUAL MEETING
The annual meeting of shareholders of the Corporation will be at 10:30 a.m. CDT on April 22, 1998, at the general offices of the Company in Alexander City, Alabama.

For information contact:
K. Roger Holliday
Treasurer
(256) 500-4832

DIVIDEND REINVESTMENT PLAN
For information contact:

Russell Corporation
755 Lee Street
P.O. Box 272
Alexander City, Alabama 35011

For information about accounts or issuance of certificates contact:

SunTrust Bank, Atlanta
P.O. Box 4625
Atlanta, Georgia 30302

DIVIDEND AND MARKET INFORMATION
Russell Corporation stock trades on the New York Stock Exchange and various other regional exchanges under the ticker symbol: RML. The range of high and low prices of the Common Stock and the dividends per share paid during each calendar quarter of the last two years are presented below:

		Market Price		
1997	Dividend	High	Low	Close
First	$.13	$38.50	$29.25	
Second	.13	36.00	25.00	
Third	.13	30.69	28.00	
Fourth	.14	32.18	26.06	
	$.53			$26.56

		Market Price		
1996	Dividend	High	Low	Close
First	$.12	$29.25	$25.00	
Second	.12	28.50	23.13	
Third	.13	33.75	27.13	
Fourth	.13	32.38	28.00	
	$.50			$29.75

The following are registered trademarks of Russell Corporation and/or its subsidiaries:
Russell Athletic®
Jerzees®
The Game®
Chalk Line®
Cross Creek®
Country Cottons®

Genuine Russell

Russell Corporation
Alexander City, Alabama 35011