Russell Athletic Jerzees Cross Creek

RUSSELL ATHLETIC

JERZEES ACTIVEWEAR

CrossCreek

A BRAND NEW RUSSELL

Russell Corporation 1998 Annual Report

OVERVIEW

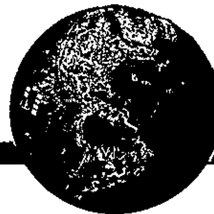
Russell Yarn

Russell's Yarn unit supplies yarn for use in the production of Russell textiles and apparel. Its operations encompass fiber selection and spinning. Russell's yarn facilities include seven manufacturing operations which produce open end, air jet and ring spun yarns from cotton or cotton/polyester blends.

Cross Creek

Cross Creek is a manufacturer and marketer of placket shirts, turtlenecks and other casualwear. It is one of the leading "authentic" golf brands in the industry. The *Cross Creek®* brand's distribution at retail includes department stores and golf pro shops. The Company's primary distribution is through the decorated/screenprint market, where the Company is the largest supplier of placket shirts.

CrossCreek



International

The International Division is responsible for marketing all Russell branded products outside the United States and Canada. Currently, Russell International conducts business in 50 countries, including Australia, France, Germany, Great Britain, Japan, and Mexico.

RUSSELL

As part of a restructuring plan announced in 1998, Russell is transforming the Company from a manufacturing-driven organization to a consumer-oriented marketing company. Russell's consumer marketing strategy involves the development of a portfolio of brands and the reorganization of the company into six strategic business units. These units span the activewear and casualwear markets along different price points and distribution channels. Each is a self-contained organization that includes functional areas such as manufacturing, sales, marketing, finance, information systems, and human resources.

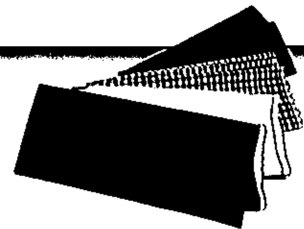
Russell Athletic

As the Company's founding brand, *Russell Athletic*® is a leading supplier of high-quality activewear and athletic apparel to men, women and children, and is the largest provider of athletic team uniforms in the country. Russell Athletic distributes its products primarily through specialty stores, sporting goods stores and department stores, where it holds the leading market share position in men's fleecewear.

RUSSELL ATHLETIC

Fabrics and Services

The primary business in this unit is Russell Fabrics, which designs, manufactures and markets quality woven fabrics of cotton, polyester and cotton/polyester blends in a variety of patterns, colors and constructions to manufacturers of school and industrial uniforms. The Fabrics and Services Business unit also is responsible for certain central service functions which offer their capabilities to other strategic business units.



Jerzees

This unit manufactures and markets a wide variety of popularly priced fleece and lightweight activewear apparel for adults and children under the *Jerzees*® brand. The majority of its retail distribution is through mass merchants, where it is the top brand of men's and boys' fleecewear and among the top brands of jersey products, such as T-shirts and tank tops. Jerzees holds similar market share positions in the decorated/screenprint wholesale market. This unit also includes DeSoto Mills, a manufacturer of moderately priced sports and casual socks for men, women and children.

JERZEES ACTIVEWEAR

Financial Highlights

Russell Corporation and Subsidiaries

(Dollars in thousands, except share data)

The Year-At-A-Glance	1998	1997
Net sales	**$ 1,180,118**	$ 1,228,198
Income (loss) before income taxes	**(10,265)**	88,352
Income taxes	**114**	33,904
Net income (loss)	**(10,379)**	54,448
Net income (loss) per common share – basic	**(.29)**	1.48
Net income (loss) per common share – diluted	**(.29)**	1.47
Average common shares outstanding – basic	**36,216,571**	36,879,901
Average common shares outstanding – diluted	**36,216,571**	37,047,433

At Year-End		
Total assets	**$ 1,153,564**	$ 1,247,962
Long-term debt	**323,043**	360,607
Stockholders' equity	**614,771**	665,602
Stockholders' equity per common share	**17.31**	18.25
Number of employees	**15,737**	17,759
Number of shareholders	**8,000**	10,100

Business Description

Russell Corporation is an international apparel company specializing in activewear, casualwear and athletic uniforms. Its major brands include Russell Athletic, Jerzees *and* Cross Creek. *Founded in 1902, the Company is headquartered in Alexander City, Alabama and established a dual headquarters location in Atlanta, Georgia. Its shares trade on the New York Stock Exchange and other regional exchanges under the symbol: RML*

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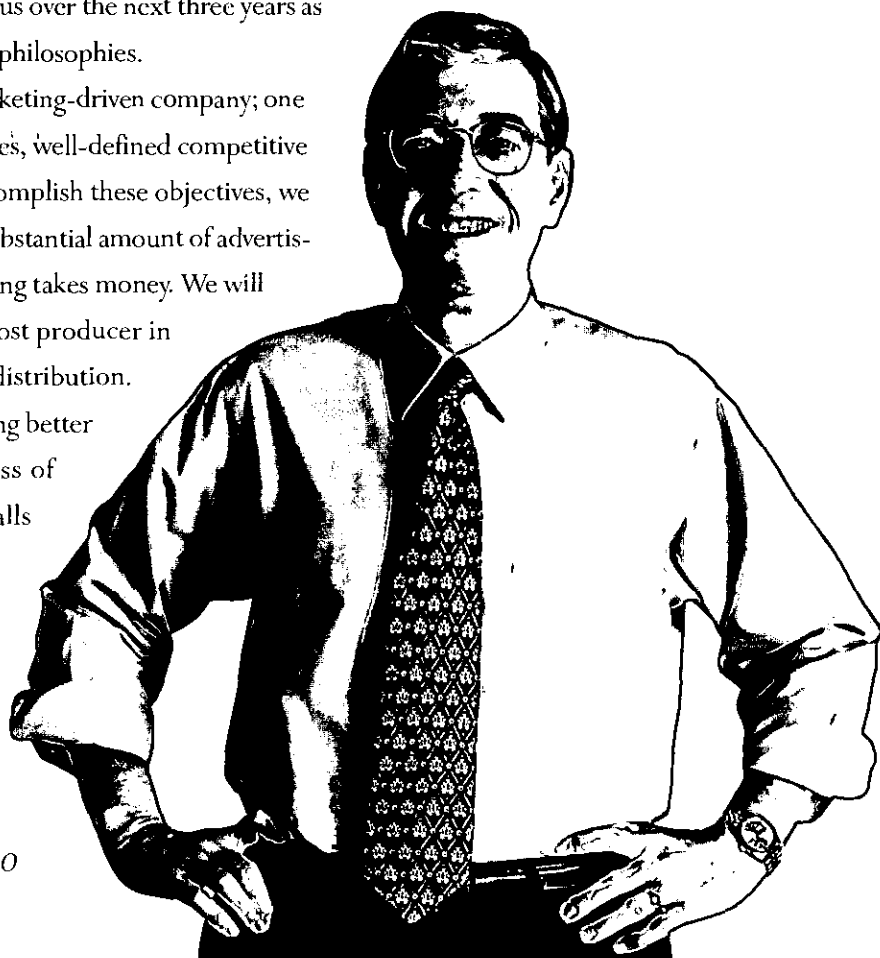
Dear Shareholders,

We are building a brand new Company. Russell's future is about transforming a manufacturing-driven organization into a world-class consumer marketing Company that will compete successfully on a global basis. Everything we do is about fulfilling this goal. And over the past year, we've done a lot. I think it's fair to say that 1998 will surely go down as one of the most intense periods of activity in Russell's history. Every change that has been made to date and every change that will be made going forward is to ensure Russell's future – a future focused on accelerated revenue growth, increased profitability and long-term market leadership.

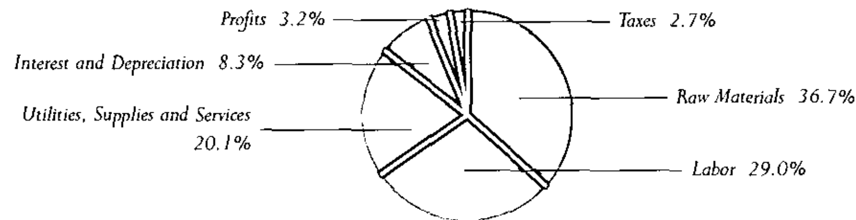
To achieve this goal, we announced a major restructuring plan in July. This seven-point strategic plan is serving as a blueprint for us over the next three years as we reinvent Russell. It embraces several fundamental philosophies.

First, it calls for Russell to become a consumer marketing-driven company; one that has complete understanding of its target audiences, well-defined competitive positions and distinct branded images. Once we accomplish these objectives, we must convey them to the consumer. This requires a substantial amount of advertising that is well-executed and well-targeted. Advertising takes money. We will fund our marketing initiatives by becoming a low-cost producer in everything we do, in particular, manufacturing and distribution. Between expanding offshore production and adopting better distribution practices, we expect savings in excess of $80 million annually. Finally, our strategic plan calls for us to more aggressively manage our assets. We can be more efficient, deliver better customer service and increase our rate of return by becoming a more disciplined and accountable organization. *continued*



Jack Ward
Chairman, President and CEO

Components of the Sales Dollar



Expansion of offshore production should lead to further decreases in labor costs, which were down slightly in 1998 from 1997 levels (note: all percentages exclude restructuring and other unusual costs).

I am very pleased to announce to you that as this report goes to press, the implementation of this plan is on schedule. While much remains to be done, real progress has been made in the last eight months:

- We have invested close to $2 million in market research and strategic development to better understand our customers. The knowledge gained is now being applied to the development of new advertising and marketing initiatives. It is fair to say that we know more at this point about our consumers, ourselves and our competitors than at any other time in the Company's history.
- The Company has increased offshore production from 17 percent of total capacity at the beginning of 1998 to more than 40 percent by year-end. Over the next 12 months we expect to increase this level to more than 60 percent.
- More than $20 million of distribution savings has been identified. Major implementation of new practices has already begun, with productivity increases of as much as 500 percent in certain areas.
- An in-depth study of our manufacturing supply chain was completed and implementation of these findings has begun. These changes should create more efficient, cost-effective operations.
- New asset utilization policies are in place. Accounts receivable have been lowered more than 25 percent and plans are being implemented to increase inventory turns.
- The Company has reorganized into strategic business units and recruited 14 new members of senior management in the past 12 months.
- The dual headquarters office in the metro Atlanta area has opened and we expect to be fully operational by the second quarter of this year.

These are just the highlights of Russell's transformation. In the remainder of this report, we have outlined these and other changes in more detail, and provided an overview of our priorities for the next 12 months.

Let me re-emphasize my first point – we are building a brand new Russell. This is a new organization at every level. It will be more accountable – performance measurement will become a part of every manufacturing and marketing function. It will become more empowered – people will have the appropriate authority to make decisions that impact their respective lines of business. It will be more disciplined – decision making will be based on research and a thorough exploration of all options.

People are key to the emerging new Russell. New managers join a team of Russell veterans who are enthusiastic about the opportunities before them. Our combined team is seasoned, and consists of players with successful experience in their respective fields. They understand what needs to be done and how to get it done. Our recruiting efforts continue. Establishment of the dual headquarters in Atlanta has significantly enhanced these efforts. With corporate and marketing operations in Atlanta, textile and support operations in and around Alexander City, and many new sewing operations offshore, Russell will be in a position to capitalize on the attributes of each location.

Dramatic change is rarely without some costs. Currently, we estimate as much as $125 million in after-tax charges associated with the restructuring over three years. Our 1998 results reflect $48 million of this charge. We regret that the restructuring has had an adverse effect on some of our employees, requiring the eventual elimination of about 4,000 domestic positions over three years. At year-end, approximately 50 percent of these were complete. Through normal attrition, internal transfer opportunities, retraining programs and generous severance packages, our goal is to turn the loss of any position into a new opportunity for employees affected by these changes.

Our Seven-Point Strategic Plan

In July, we announced our multi-year strategic plan for transforming Russell into a more competitive organization that would ultimately post more consistent and predictable financial results. Following are the major initiatives of that plan.

1. *Transform Russell into a consumer marketing company to build long-term sales and profits.*
2. *Expand offshore manufacturing with a goal of saving $60 million annually within three years.*
3. *Streamline distribution to achieve $20 million per year in savings over the three-year period.*
4. *Restructure manufacturing and textile facilities to improve production flow.*
5. *Significantly improve asset utilization with specific goals in inventory, receivables and fixed-asset turnover.*
6. *Reorganize into Strategic Business Units with full responsibility and accountability for results.*
7. *Establish a dual headquarters in the Atlanta area for more convenient travel and broader recruitment possibilities.*

Implementing this restructuring amid difficult industry conditions has been our biggest challenge. Retail softness and significant pricing pressures remained throughout the year and continue today in the screenprint market. These conditions are reflected in our 1998 financial results. Revenue growth was also hampered by unseasonably warm temperatures across most of the U.S. through our major fleecewear selling season.

Before concluding this letter, I want to personally extend my gratitude to Russell employees for their cooperation and hard work during 1998. While it was not an easy year, I believe we all are excited about Russell's future and the opportunities it can create for each of us. To our shareholders, I appreciate your support. Everything we do is about building value for you.

I look forward to next year's letter to you. I believe you will find an organization more energized and focused on its future than at any time in the Company's history. It will be a brand new Russell.

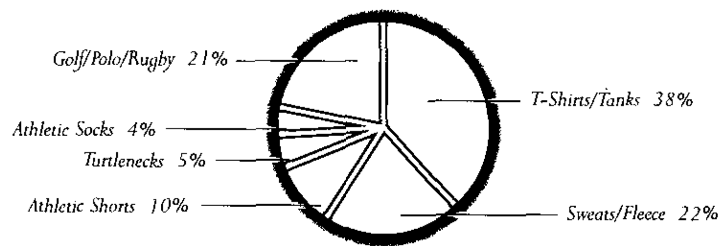
Sincerely,

Jack Ward

Chairman, President and CEO
March 10, 1999

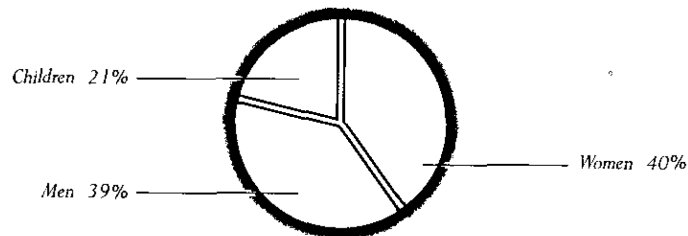
A BRAND NEW RUSSELL

Activewear Market by Product



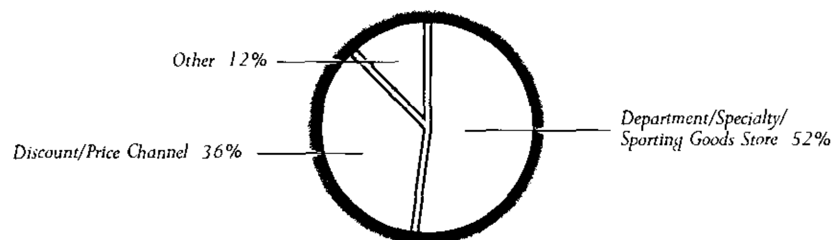
Source: NPD Diary Panel

Activewear Market by Gender



Source: NPD Diary Panel

Activewear Market by Distribution Channel

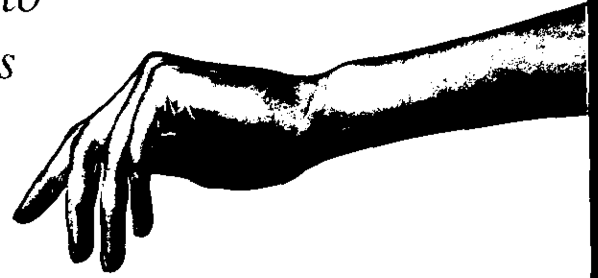


Source: NPD Diary Panel

Russell's strategic transformation is taking place against the backdrop of a more than $30 billion domestic activewear market. This business of T-shirts, sweatshirts and socks is one of the largest segments of the apparel industry due to its universal appeal. Activewear is worn by men and women equally and sold through every major retail channel. Its timeless and classic appeal also makes it less sensitive to the fashion cycles that accompany other segments of the apparel industry.

A BRAND NEW MARKETING FOCUS

Russell's priority going forward is to build and market consumer brands in order to drive top-line growth on a long-term basis.



The process of building brands at Russell does not start from scratch. Today, each of the Company's three brands has a solid foundation. The challenge is to create a distinct consumer image from this core and then leverage this image into new growth opportunities.

Russell Brands Today

Russell Athletic has a rich history of tradition grounded in sports. As the largest supplier of team uniforms in the country, the brand has literally built "sweat equity" with multiple generations who have grown up wearing *Russell Athletic* teamwear on the playing field. Today, at retail, nearly two-thirds of distribution is through

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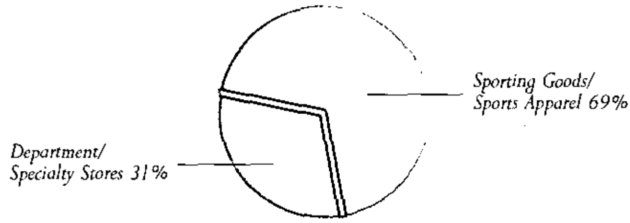
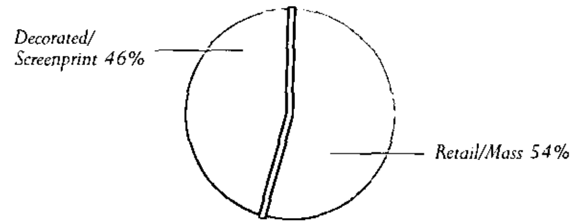
Much of Russell's marketing strategy – including advertising campaigns and product development initiatives – will be focused on women, who account for nearly half of all activewear usage and 80 percent of all activewear purchases.

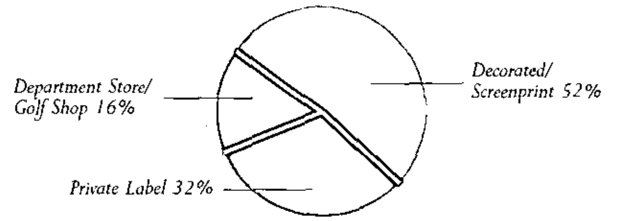
Russell Athletic Revenue by Distribution Channel



Jerzees Revenue by Distribution Channel



Cross Creek Revenue by Distribution Channel

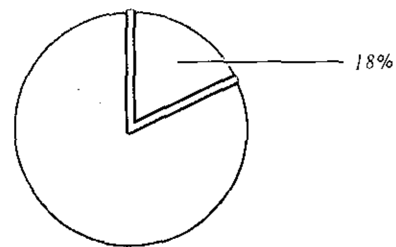


sporting goods stores, reflecting the brand's strong athletic roots. Its second largest distribution channel is department stores, where it commands the leading market share for men's fleece. In the past two years, *Russell Athletic* also has expanded into chain stores, where its men's fleece products have quickly garnered 11 percent of the market.

While *Russell Athletic* is the Company's founding brand, *Jerzees* represents its largest brand in terms of sales. The *Jerzees* brand, including sportshirts and socks, accounts for approximately $1 billion of sales at retail annually, a benchmark that very few brands in today's apparel market ever achieve. Nearly half of this business is through consumer retail channels, in particular, mass merchandisers. The balance of sales is through the decorated market – customers who buy blank apparel to decorate for resale. Jerzees is the leading men's fleecewear supplier to each of these markets – mass merchandisers and decorated/screenprint wholesalers.

Cross Creek manufactures and markets placket shirts, turtlenecks and other casualwear. Its heritage lies in the golfing arena, with distribution in nearly 4,000 golf pro shops and resorts, and where it is recognized as one of the top-five "authentic" golf brands. Other distribution channels include department stores and the decorated/screenprint wholesale market. Private label manufacturing is also a significant part of Cross Creek's business.

Russell Athletic Market Share/Men's Fleece at Traditional Department Stores



Source: NPD IPOSTS

Russell Athletic remains the top-selling men's fleece brand in department stores despite increased competition in recent years.

The Process of Brand Positioning

Successful consumer marketing begins with extensive market research. A complete and total understanding of the consumer is critical. *Who is our target market? What type of product does he/she want? Why does he/she choose our brand versus the competition? How much is he/she willing to pay?* Once these and other questions are answered, then a brand position and image can begin to develop.

To this end, Russell has invested close to $2 million in market research and strategy development over the past year. The work has included qualitative and quantitative research for both our customers and the consumer, as well as brand

Russell Athletic is developing new advertising based on extensive market research conducted during 1998.

positioning and segmentation studies. The research in 1998 included all three of the major Russell brands – *Russell Athletic*, *Jerzees* and *Cross Creek*. This research is allowing us to better position our brands against competitors as we continually strive to better meet the needs of our target customers.

Supporting the Brand

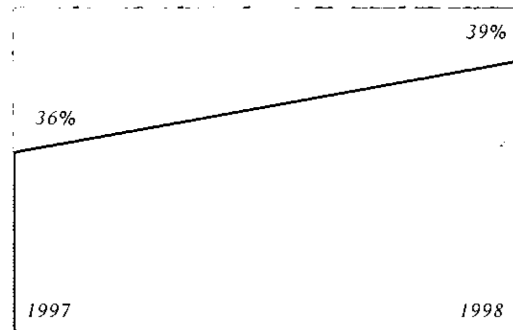
In order to generate sales, a well-crafted consumer message must be heard. In today's competitive environment, this requires a significant amount of advertising. For this reason, Russell's strategic plan calls for the level of media spending to triple over the next three years, to as much as $30 million annually. Simple spending, however, is not enough. Execution is critical. In the past year, several veteran consumer marketing professionals have joined the Company, including a new marketing vice president for Russell Athletic. Russell Athletic also has selected a new advertising agency, with a charge to develop a new ad campaign to debut this spring. The campaign will reflect the market research and new brand positioning developed over the past nine months.

Developing Value-Added Products

Sweatshirts, T-shirts and socks have been, and will continue to be, Russell Corporation's core business, but the development of new value-added products represents a significant growth opportunity for each of the Company's brands. These initiatives, combined with Russell's manufacturing heritage and expertise in textiles and fabrics, represents a true competitive advantage.

Russell Athletic, for instance, introduced a Cool-Max™ T-shirt last season. This shirt's fabrication features wicking characteristics that make it warmer in the winter and cooler in the summer. Similarly, the brand leveraged its strong position in fleece to introduce a Polarfleece™ line of products. At Jerzees, a camouflage pattern transformed a basic fleece sweatshirt into outdoor wear targeted to the hunting market. Value-added initiatives at Cross Creek are literally underscoring the value that already exists in its upscale product

Jerzees Market Share/Men's Fleece at Mass Merchants



Source: NPD IPOSTS

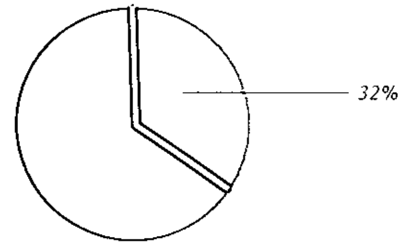
Increasing brand awareness has helped Jerzees grow its number-one market share position in the mass merchant channel over the past two years.

Nearly one-fourth of activewear is worn by children. This market segment represents an attractive expansion opportunity for Russell Athletic and Jerzees.

line. These products feature fine-count, pima lisle cotton yarns with uniformity of colors and superior strength. Such attributes are the basis of a new marketing campaign centered around the theme of "The Exceptional Shirt®"

In each of these examples, Russell and its customers have been able to improve margins with value-added products. Going forward, product innovation will more closely reflect consumer preferences and the needs of specific markets. As a result, research and development efforts are shifting from machine technology to flexible process technologies that support the development of value-added products.

Jerzees Market Share/Men's Fleece in Decorated/Screenprint



Source: Market Decisions

An improved cost structure will better position Jerzees to increase its number-one position in the decorated/screenprint market.

Expanding the Brand

The highest level of success in apparel today is achieved by those businesses that sell multiple products under a single brand. Russell is in an ideal position to leverage its core product strengths into other lines of products. Historically, Russell has been a leader in fleece products, both in market share and product innovation. Going forward, the Company will focus on replicating its fleece position in other product areas.

Product line extensions are an important part of the Company's overall sales strategy.

New categories also represent growth opportunities. Women account for nearly 40 percent of activewear usage and approximately 80 percent of activewear purchases. They buy approximately 60 percent of men's activewear, approximately 90 percent of children's activewear and nearly all of their own. Although Russell Athletic markets a women's line, distribution to date has been limited. As brand-building efforts in its core business are fully underway, distribution expansion for its women's lines will be a priority at Russell Athletic.

Brand Agendas for 1999

Throughout this next year, the process of transforming Russell's brands into more consumer-driven businesses will continue. The priorities and focus for each business unit will differ depending on the brand-development phase and the market environment in which each competes.

With most of the market research and brand positioning completed by the end of 1998, Russell Athletic will move into the execution stage during the first half of 1999. The brand will be developing ways to actually drive demand for product, not simply drive sales of product.

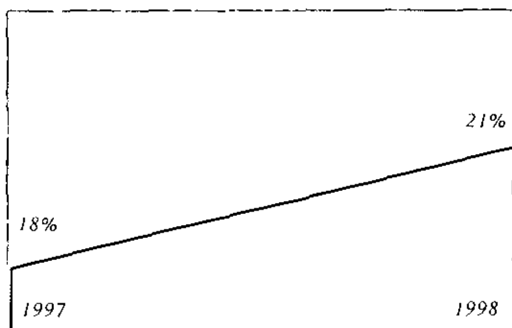
Product pricing and the accompanying cost structure are a major focus for the *Jerzees* brand

since its primary distribution channels – mass merchants and wholesalers – are volume driven. Given the pricing pressure that continues in these markets, Jerzees already has taken actions that are intended to drive market share. As a larger percentage of sewing operations move offshore over the coming year, its cost structure will become more closely aligned with the pricing trends in its core distribution bases. Customer service issues are equally important given the high volume requirements of these customer bases.

From a marketing perspective, Jerzees will devote the first half of 1999 to conduct further research to refine its current consumer positioning with the goal of developing new advertising campaigns. The division also will be working on ways to differentiate its product through new fabrications and to introduce more value-added products.

Cross Creek's priority is to leverage its strong position as a golf brand into expanded distribution in department stores and specialty stores. The recent consolidation of its product line is a big step toward this goal. In the past, Cross Creek had separate lines for each of its markets. With 87 percent of golf shirts purchased for general casualwear, Cross Creek intends to broaden the brand's appeal. Under a new product banner "The Exceptional Shirt,®" Cross Creek is positioning its golf shirt line as a classic at an exceptional value. Print media is expanding beyond golf publications to upscale, general interest media outlets.

Cross Creek Apparel, Inc. in Decorated/Screenprint



Source: Market Decisions

Cross Creek is growing market share in the decorated/ screenprint market – a rapidly growing category.

With women now accounting for approximately 40 percent of high school athletes, Russell Athletic team uniforms are an excellent way to build brand equity with this key market segment.

A Portfolio of Brands

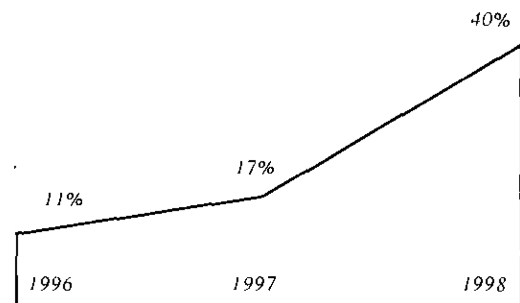
Russell's consumer marketing strategy involves the development of a true portfolio of brands spanning the activewear and casualwear markets along different price points and distribution channels. In doing so, the Company will build market share and sales growth through diversity. Russell's diverse products and target markets, however, will be united in a common set of consumer marketing principles based on research, well-executed advertising and innovative growth initiatives.

A Brand New
Manufactur

A lower cost structure will increase margins and strengthen Russell's competitive position.

Russell's restructuring program calls for three major manufacturing cost-reduction initiatives: expansion of offshore production, reduction of distribution costs and improved product flows resulting in lower costs and inventory levels.

Offshore Sewing Percentage of Total Capacity



The dramatic acceleration of offshore production during 1998 is a reflection of the experience level of Russell's new offshore management team.

Combined, these measures are projected to result in more than $80 million in annual pre-tax savings. There are two basic fundamentals driving the need for cost reduction. First, a portion of the cost savings realized will be reinvested in consumer marketing and brand-building efforts. This, in turn, will fuel long-term sales growth. The second reason reflects the current industry environment in which Russell competes. Many apparel products simply cannot be assembled at a reasonable return in the United States, due to product pricing pressures and tight labor markets. In this regard, offshore expansion is mandatory to retain and build many product categories.

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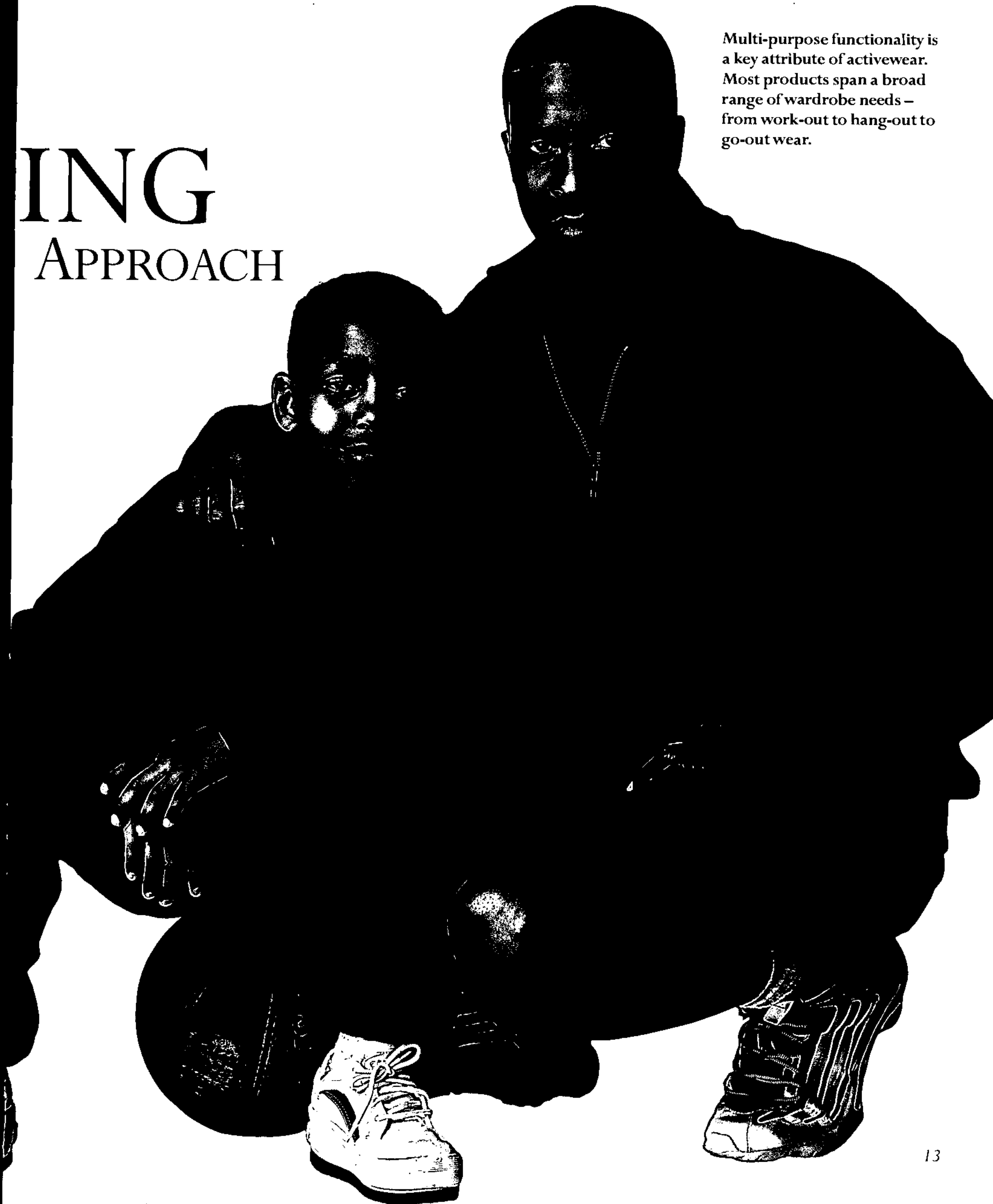
APPROACH



Multi-purpose functionality is a key attribute of activewear. Most products span a broad range of wardrobe needs – from work-out to hang-out to go-out wear.

Jerzees is a leading supplier to the decorated/screenprint market, which accounts for nearly half of the brand's total sales.

Offshore Experience is Key

Although the savings can be dramatic, experienced management is critical. As a result, Russell's first priority has been to assemble a team of veteran offshore experts. A vice president of offshore production with over 20 years of experience started last April. Since that time, more than 14 experienced offshore professionals have joined Russell at a senior level, including human resource specialists, production supervisors and plant managers.

Russell's offshore activity is focused in Mexico and Central America. These and other Caribbean Basin countries also offer favorable trade treaties with the United States.

Offshore Expansion to Date

At the start of 1998, less than 20 percent of Russell's product was sewn overseas. By year-end, offshore production represented 40 percent of total capacity. This increase was achieved in several ways. The existing owned and operated plant in Honduras was completely restructured and now includes new management at nearly every level. Three additional plants were started and site selection was completed for two additional plants. These plants are scheduled to become operational by mid-1999. At the same time, the Company reduced the number of contractor operations significantly and restructured many of these into more meaningful strategic partnerships. Going forward, Russell's offshore operations will be a combination of company-owned plants and contract arrangements with large contractors.

The experience of Russell's offshore team becomes even more evident when one considers that production goals have been met with no significant interruption of customer deliveries. The Company's offshore expansion efforts will continue, resulting in 60 percent of sewing production expected to be offshore by the end of 1999.

Distribution Savings

Improved customer service and distribution processes represent another area for significant cost savings. Under a new vice president of distribution for Jerzees, more than $20 million in annual savings has been identified to be achieved within the next 18 months. Past distribution

practices were centered around large distribution centers, geared toward the needs of smaller customers. As such, Russell's distribution costs, in many cases, have been nearly twice industry standards. These same practices led to increased inventory, as well as customer service and on-time delivery issues.

Solving many of these issues and realizing the associated savings is a function of instituting best industry practices. The objective is to establish an order fulfillment process that begins with order placement and extends through the entire production chain. As a result, fulfillment needs will be more aligned with customer needs. For instance, the way in which Russell services large, high-volume customers varies significantly from the way in which it services smaller chains of specialty sporting goods stores. The key is implementing the most efficient fulfillment system for each distribution channel based on manufacturing and inventory specifications.

The results of initiatives implemented to date already are apparent. In some areas where changes already have been made, productivity levels have increased as much as 500 percent. More importantly, distribution is – first and foremost – a customer service function. Improved systems translate into better service through on-time delivery and shipments to exact customer specifications. In addition, efficient distribution benefits the balance sheet, leading to lower finished goods inventories, increased asset turns and reduced costs.

Supply Chain Improvements

Vertical integration has been, and will continue to be, one of the hallmarks of Russell's manufacturing operation. The implementation of a completed supply chain assessment study will result in the Company taking full advantage of its integration and leveraging its size and scale. Historically, Russell has run small and large orders through a single manufacturing system, managing by process rather than product.

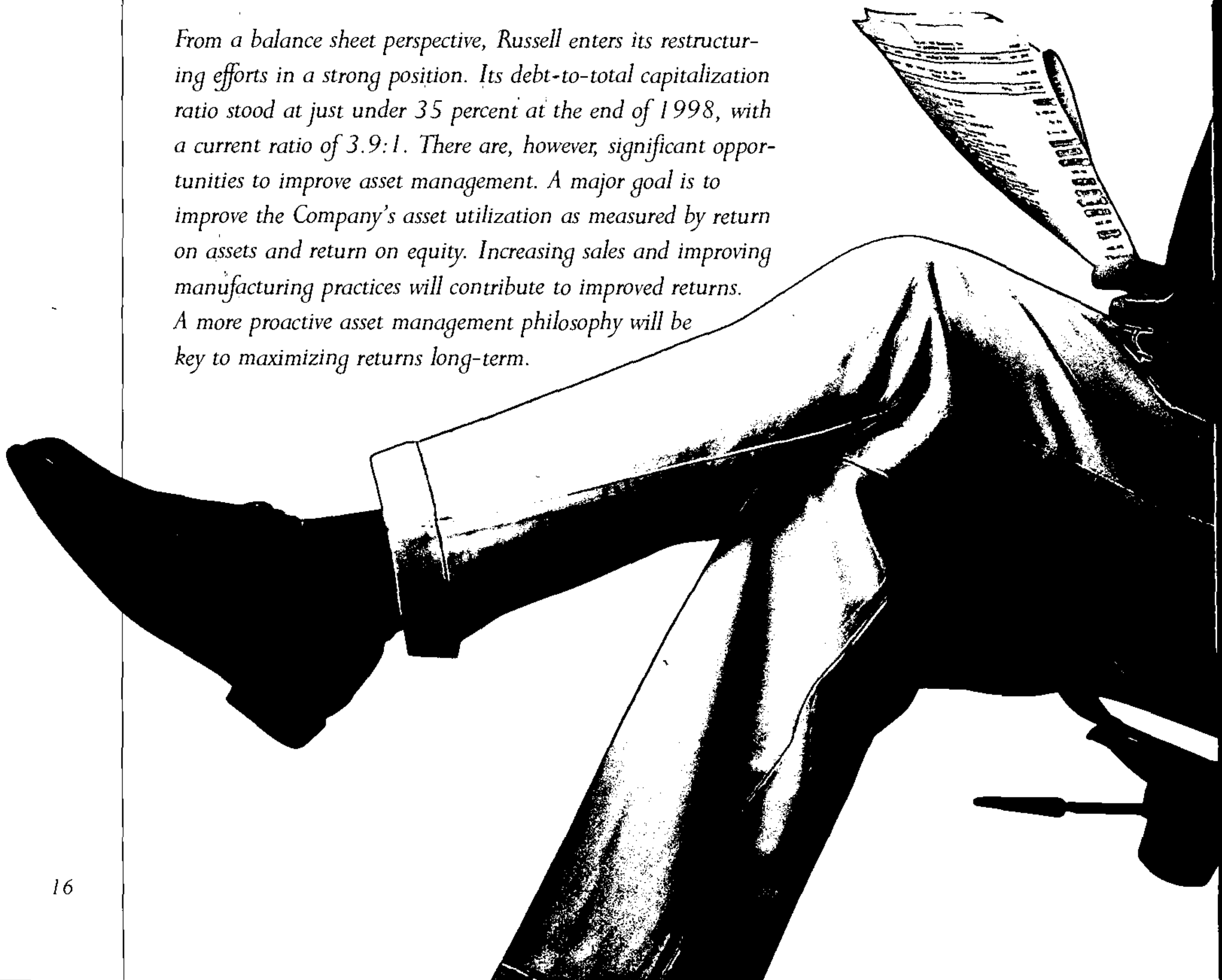
The new supply chain organization is product-oriented and aligns the Company's manufacturing operations and resources with the new strategic business units. A simplified structure will lead to improved cost management, while reducing production lead times and in-process inventory. More importantly, the new approach addresses accountability as a key focus and includes extensive performance measurement at every step.

Cross Creek's new marketing campaign, "The Exceptional Shirt," highlights the inherent value found in its classic line of golf shirts.

A Brand New Asset Management Philosophy

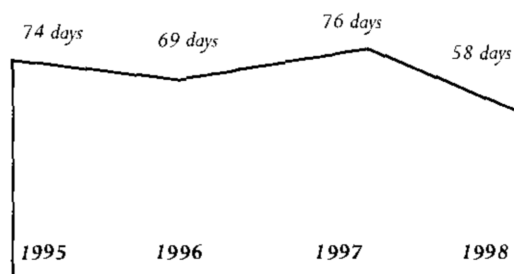
Aggressive balance sheet management will maximize Russell's return on assets.

From a balance sheet perspective, Russell enters its restructuring efforts in a strong position. Its debt-to-total capitalization ratio stood at just under 35 percent at the end of 1998, with a current ratio of 3.9:1. There are, however, significant opportunities to improve asset management. A major goal is to improve the Company's asset utilization as measured by return on assets and return on equity. Increasing sales and improving manufacturing practices will contribute to improved returns. A more proactive asset management philosophy will be key to maximizing returns long-term.



Already a leading golf brand, Cross Creek is expanding its market focus to include casual-wear, which continues to be a major trend in business attire.

Receivable Days at Year End



During 1998, total receivables were reduced by more than 25 percent, in part due to new collection policies.

Accounts Receivable

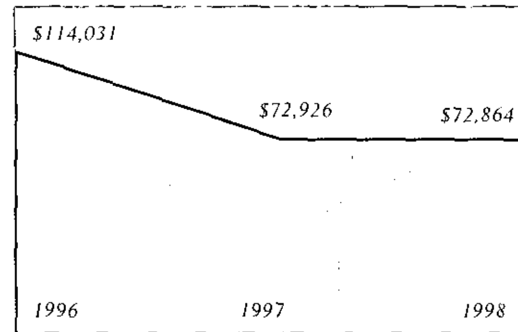
Historically, Russell maintained more liberal trade and credit terms than industry standards, resulting in higher than industry standard days in receivables. Going forward, the Company's strategic plan calls for significant reductions by the year 2001. This effort began immediately with some business units notifying customers of new terms that were more in line with industry norms. Divisions also instituted more aggressive collection practices. By year-end 1998, measurable progress had been made. Total receivables were reduced by more than 25 percent, to 58 days outstanding at year end versus 76 days the year before.

Inventory Management

The production process changes that will result from the Company's new supply chain management initiative will directly benefit inventory management efforts.

Additionally, better distribution practices should improve deliveries, while further reducing inventory requirements. Russell's goal is to increase inventory turns by more than 10 percent over the next three years. Historically, inventory levels have been too high. The warm fall weather and resulting sluggish sales in the fourth quarter prevented improvement for 1998. It is anticipated that over the next 12 months, inventory levels are targeted to be reduced as much as $20 million or more as supply chain management initiatives reduce in-process inventories and improved distribution practices diminish requirement for finished goods.

Capital Spending
(in thousands)



Capital spending has averaged approximately ten percent of the sales over the past decade, a level that will decrease as part of the restructuring plan.

Capital Spending

Over the past ten years, Russell's capital spending has averaged just over $91 million annually, approximating ten percent of sales. With the announcement of restructuring plans, new capital spending guidelines were instituted. The new capital expenditure process includes a complete and disciplined justification of all projects, as well as specific hurdle rates for return on investment. The goal for 1999 and beyond will be to maintain capital spending near depreciation levels.

With women accounting for 80 percent of activewear purchases, product development and marketing decisions must encompass an understanding of this key consumer.

Value-added products are an excellent way for Russell and its customers to increase margins.

Fixed Asset Utilization

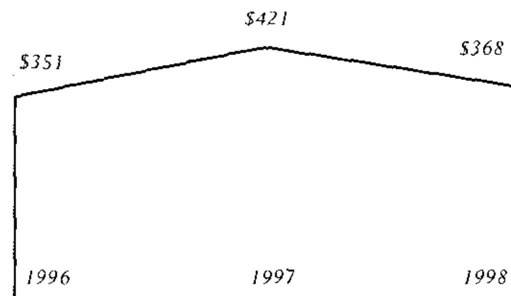
Improved productivity of total assets is the ultimate goal of Russell's overall new asset management plan. Because the Company's asset base consists of more than 40 percent fixed assets, improvement in total asset turnover will be a longer term objective than other initiatives. The restructuring is expected to reduce fixed assets by as much as 15 percent over the next three to five years. This reduction will be the result of restructuring charges, increased production sourcing and contracting, as well as new capital expenditure policies. The single largest contributor to improved asset utilization, however, will be sales growth. Increased asset productivity levels should result as sales growth exceeds the rate of additions to the asset base. The specific goal is to increase asset turns from current levels of less than one turn to 1.5 turns within the next five years.

Toward Increased Returns

One of the key goals of Russell's restructuring plan is to increase operating margins through cost reductions from offshore manufacturing initiatives and improved distribution practices. Higher operating margins, combined with improved asset utilization are designed to increase total return significantly. The resulting cash flows can be redeployed in a variety of ways including strategic initiatives such as mergers and acquisitions or direct shareholder benefit applications such as debt reduction and share repurchase programs.

Total Debt

(in thousands)



With debt-to-total capitalization at 35 percent, Russell's balance sheet remains one of the Company's major strengths.

Officers and Directors

Russell Corporation and Subsidiaries

DIRECTORS

John F. Ward[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]
President
T. A. Lewis & Associates, Inc.
Birmingham, Alabama

Eric N. Hoyle[2][4]
Executive Vice President and
Chief Financial Officer

C.V. "Jim" Nalley III[1][4]
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 Financial 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

John F. Ward
Chairman, President and
Chief Executive Officer

Eric N. Hoyle
Executive Vice President and
Chief Financial Officer

Michael W. Hager
Senior Vice President,
Human Resources

Floyd G. Hoffman
Senior Vice President,
General Counsel and Secretary

Thomas R. Johnson, Jr.
Senior Vice President and
Chief Executive Officer, Yarn

Jonathan R. Letzler
Senior Vice President and
Chief Executive Officer, Jerzees

JT Taunton, Jr.
Senior Vice President and
Chief Executive Officer,
Fabrics and Services

D.W. Wachtel
Senior Vice President and
Chief Executive Officer,
Russell Athletic

W.J. Spires, Jr.
Vice President and
Chief Executive Officer,
Cross Creek Apparel

Steve R. Forehand
Assistant General Counsel and
Assistant Secretary

K. Roger Holliday
Vice President, Investor Relations
and Treasurer

Larry E. Workman
Controller

Nancy N. Young
Vice President, Communications
and Community Relations

FINANCIAL REVIEW

RUSSELL CORPORATION AND SUBSIDIARIES

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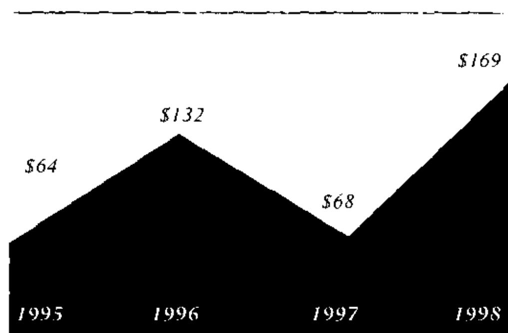
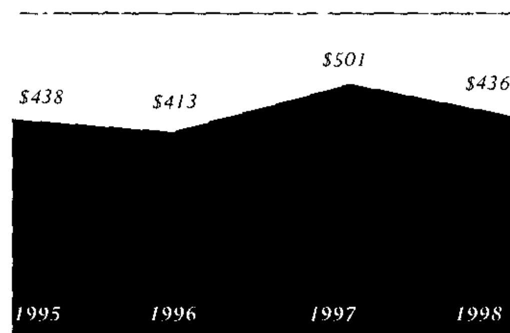
Cash Flows from Operations

(in millions)



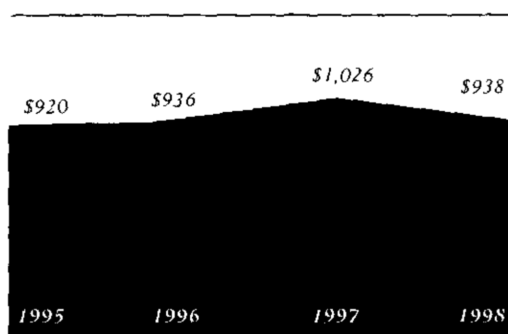
Working Capital

(in millions)

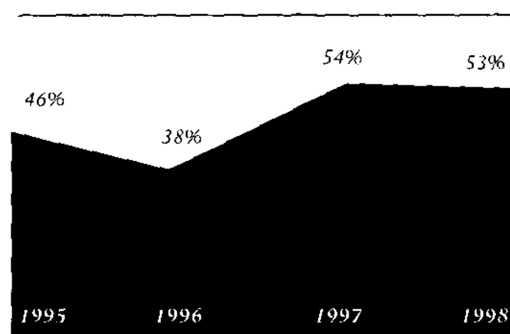


Total Capital Employed

(in millions)



Long-Term Debt to Equity



Ten-Year Selected Financial Highlights

Russell Corporation and Subsidiaries

(Dollars in thousands, except share data)	1998	1997	1996
Operations			
Net sales	**$1,180,118**	$1,228,198	$1,244,204
Cost of goods sold	**878,106**	857,531	846,166
Interest expense	**27,824**	28,165	25,738
Income (loss) before income taxes[a]	**(10,265)**	88,352	129,545
Income taxes[a]	**114**	33,904	47,969
Net income (loss) applicable to common shares[a]	**(10,379)**	54,448	81,576
Financial Data			
Depreciation and amortization	**$ 74,368**	$ 74,421	$ 72,226
Net income plus depreciation and amortization	**63,989**	128,869	153,802
Capital expenditures	**72,864**	72,926	114,031
Working capital	**435,819**	501,431	412,591
Long-term debt and redeemable preferred stock	**323,043**	360,607	255,935
Stockholders' equity	**614,771**	665,602	679,823
Capital employed	**937,814**	1,026,209	935,758
Total assets	**1,153,564**	1,247,962	1,195,180
Common Stock Data			
Net income (loss) assuming dilution[a]	**$ (.29)**	$ 1.47	$ 2.11
Dividends	**.56**	.53	.50
Book value	**17.31**	18.25	17.87
Price Range:			
High	**33.88**	38.38	33.75
Low	**18.00**	25.00	23.13
Financial Statistics			
Net sales times:			
Receivables[b]	**5.6**	5.3	5.5
Inventories[b]	**3.2**	3.4	3.7
Capital employed[b]	**1.2**	1.3	1.3
Interest coverage[a]	**.6**	4.1	6.0
Income (loss) before income taxes as a percent of sales[a]	**(.9%)**	7.2%	10.4%
Net income (loss) as a percent of sales[a]	**(.9%)**	4.4%	6.6%
Net income (loss) as a percent of stockholders' equity[a][b]	**(1.6%)**	8.2%	12.4%
Other Data			
Net common shares outstanding (000s omitted)	**35,519**	36,463	38,049
Approximate number of common shareholders	**8,000**	10,100	12,300

[a] 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. Fiscal 1998 includes a pre-tax charge of $75,007,000 associated with the write-down of certain fixed assets, severance and goodwill. The after-tax impact of this write-down on 1998 earnings was ($1.35) per common share.

[b] Average of amounts at beginning and end of each fiscal year.

1995	1994	1993	1992	1991	1990	1989
$1,152,633	$1,098,259	$ 930,787	$899,136	$804,585	$713,812	$687,954
816,834	739,700	613,325	592,837	553,160	461,281	457,875
21,698	19,434	16,948	15,841	18,097	18,885	15,643
87,733	127,585	80,717	129,507	90,866	109,672	102,728
33,616	48,759	31,619	47,269	34,027	41,725	37,994
54,117	78,826	49,080	81,945	56,279	67,378	64,163
$ 68,010	$ 67,042	$ 66,226	$ 60,444	$ 56,594	$ 52,539	$ 45,633
122,127	145,868	115,306	142,389	112,873	119,917	109,796
86,556	38,562	83,979	109,161	89,532	113,617	87,410
438,070	310,330	277,993	285,469	255,392	249,683	267,178
287,878	144,163	163,334	186,122	185,923	196,857	210,470
632,558	628,662	587,651	570,003	502,501	456,352	402,216
920,436	772,825	750,985	756,125	688,424	653,209	612,686
1,118,164	1,046,577	1,017,044	964,933	818,220	794,521	720,806
$ 1.38	$ 1.96	$ 1.19	$ 1.99	$ 1.38	$ 1.65	$ 1.57
.48	.42	.39	.34	.32	.32	.28
16.34	15.84	14.54	13.97	12.39	11.29	9.95
31.25	32.63	36.87	40.37	36.25	31.00	26.50
22.00	24.00	26.00	27.75	19.75	16.00	15.62
5.3	5.6	5.3	5.8	5.9	5.3	5.9
3.8	3.9	3.7	4.6	4.8	5.1	6.8
1.4	1.4	1.2	1.2	1.2	1.1	1.3
5.0	7.6	5.8	9.2	6.0	6.8	7.6
7.6%	11.6%	8.7%	14.4%	11.3%	15.4%	14.9%
4.7%	7.2%	5.3%	9.1%	7.0%	9.4%	9.3%
8.6%	13.0%	8.5%	15.3%	11.7%	15.7%	17.2%
38,715	39,689	40,405	40,810	40,569	40,407	40,427
12,300	13,000	13,000	13,000	18,000	18,000	18,000

1998 vs 1997

Net sales for the year decreased 3.9% on unit declines of less than one percent of domestic apparel. The decrease in sales was primarily attributable to weak sales in the Company's activewear segment during the fourth quarter of the year. Sales in the final 13-week period were down 17% in dollars and 36% in domestic apparel unit sales. Domestic sales were significantly impacted by unseasonably warm weather, softness in retail apparel sales and further industry-wide price reductions in activewear, particularly in decorated and screenprint markets.

The Company's *Jerzees* brand of activewear was the most significantly impacted by these factors. The *Russell Athletic* brand of activewear had slight decreases in sales for the year, generally in line with expectations, while Cross Creek Apparel, Inc. experienced moderate growth for the year despite declines in the fourth quarter. International sales were down 1.1% for the year, due to overall softness in apparel sales at retail locations.

Restructuring and Other Items

On July 22, 1998, the Company announced its intention to undertake a major restructuring and reorganization to improve the Company's global competitiveness. Elements of the multi-year strategic plan that were announced include: the closing of approximately 25 of the Company's 90 worldwide facilities over the next three years, including selected manufacturing plants, distribution centers and offices; expanding production outside the United States; consolidating and downsizing the licensed products businesses; disposing of owned shopping center real estate; reorganizing the corporate structure; establishing a dual headquarters in the metropolitan Atlanta area; and other cost savings activities. It is anticipated that the three-year plan will ultimately reduce costs by approximately $80 million pre-tax annually and result in the elimination of 4,000 domestic positions.

As discussed in Note 10 of the financial statements, management expects that the Company will record restructuring, asset impairment and other associated unusual charges in the range of $100 to $125 million on an after-tax basis. These charges relate to the closing of facilities, including plants, distribution centers and offices; consolidation and/or exiting certain product lines and brands and disposing of owned shopping center real estate and will be reflected in the Company's consolidated financial statements over the three-year period beginning in the third quarter of 1998. The recognition of these charges will depend, in large part, on expansion of production capabilities outside the United States. For the year ended January 2, 1999, charges of $75,007,000, $47,997,000 after-tax, or $1.35 on a per share basis, were recorded for restructuring, asset impairment and other unusual costs.

During 1998, the Company exited the business of certain licensing markets of various professional sport leagues and teams, and certain other licensing agreements as part of the Company's licensed products operation. The Company remains active in the collegiate licensing business and continues to be a major supplier to certain outlets of licensed products, such as college bookstores and sports shops. The discontinued businesses include headwear, or logoed caps; a business which was sold in the fourth quarter of 1998.

Also during 1998, as part of the multi-year strategic plan, the Company moved substantial sewing operations to both company owned and contractor locations in Central America and Mexico. At year-end 1998, approximately 40 % of the Company's sewing capacity for domestic consumption was domiciled outside the U.S. The Company closed four domestic sewing facilities and reconfigured two others. The Company has realigned the remaining operations in order to accommodate a more orderly and efficient product flow of goods throughout the Company's manufacturing processes. Management also reassessed its decoration and distribution capabilities' system and facilities resulting in the closure of 34 company operated retail or outlet stores in 13 states during 1998.

In total, approximately 2,000 employees have been notified of their termination and separation and have received the details of their individual severance packages as of year-end.

For 1998, gross margins declined to 25.6% of sales versus 30.2% of sales in 1997. Gross margins were impacted by the previously mentioned activities which involved a reduction in selling prices and write-downs of certain inventories. For the year, $14.6 million of other unusual charges was reflected in cost of goods sold and related to the write-down of certain inventories associated with the exiting of certain businesses and licensing arrangements and severance accruals associated with the closure of certain facilities. Excluding the impact of the inventory write-downs and severance accruals, gross margins would have been 27.5% which is below prior year levels due primarily to reductions in selling prices.

In 1998, selling, general and administrative expense includes approximately $8 million related to the retirement, and subsequent replacement, of the Chairman, President and Chief Executive Officer of the Company, approximately $11 million related to the disposition of certain accounts receivable and $2 million of severance costs related to the elimination of administrative job positions and expenses related to the consolidation of certain warehousing operations. During 1998, management revised the Company's selling terms and credit policies in order to reduce its credit risk and improve cash flows by reducing days sales outstanding in accounts receivable. These changes combined with a continuing decline in the financial condition of some customers contributed to the significant disposition of accounts receivable during the year. Selling,

general and administrative expenses decreased 2.3% for the year despite the aforementioned inclusion of those charges as a result of changes in Chairman, President and CEO.

In 1998, $39.5 million is reflected as a loss in other income and expense and consists of a write-down of assets (machinery, equipment and facilities) to fair value, the reduction of the carrying value of goodwill to the discounted expected future cash flows of the associated entities and the recognition of termination costs under certain licensing agreements associated with business in which the Company will no longer participate. The impairment was caused by the Company's decision to exit certain products and brands primarily related to licensed products.

In 1998, the Company's effective income tax rate was significantly impacted by certain impairment charges related to goodwill which were not deductible for tax purposes. The impact of such non-deductible charges was also magnified by the level of operating results. Additionally, profitable operations in different tax jurisdictions combined with certain tax assessments also adversely impacted the Company's effective tax rate during the current year.

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 Jerzees within the activewear segment. The deterioration in licensed products was consistent throughout the year and resulted in the reorganization or elimination of parts of that division during 1997.

Jerzees products experienced sales declines in the distributor/screenprint market where price cutting, led by major competitors, was severe. These price 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 1997 year as the Jerzees brand of placket shirts was expanded in the distributor market. Russell Athletic products had moderate sales increases, generally in line with expectations, while International sales increases slowed and represented 11% 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.

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 increased advertising, particularly for Jerzees products, and a continued emphasis on marketing and customer service, both domestically and internationally.

LIQUIDITY AND CAPITAL RESOURCES

During the third quarter of 1998, charges associated with the Company's restructuring and reorganization plan caused the Company's interest coverage ratio to fall below the ratio required in agreements related to the Company's long-term debt. The Company has reached agreements with all primary lenders and financial covenants have been amended to exclude the impact of the aforementioned charges of up to $125 million after-tax. The Company's restructuring plan is intended to improve asset utilization and should not have a negative impact on the Company's ability to perform under these agreements.

In the fourth quarter of 1998, a Jefferson County, Alabama, jury returned a verdict in Sullivan, et al. v. Russell Corporation, et al. Five plaintiff families were awarded a total of $155,200 in compensatory damages for property damage and $52,398,000 in punitive damages from the three defendants, Russell Corporation, Avondale Mills and Alabama Power Company. Allegations in the case were that textile discharges of two of the defendants, including Russell Corporation, into the Alexander City wastewater treatment plant, the subsequent treatment by the City of Alexander City and discharge into Lake Martin constituted a nuisance and indirect trespass. Alabama Power Company, the third defendant, was alleged to have allowed the nuisance and trespass to continue as the owner of the land under the lake. The plaintiffs alleged mental anguish but no damages were granted for this claim. No allegation of personal injury was made in the case.

The evidence was uncontroverted that Russell Corporation is in compliance with its permit issued by the Alabama Department of Environmental Management (ADEM) for the indirect discharge of its wastewater to the Alexander City wastewater treatment plant. Therefore, the Company believes the verdict is contrary to the evidence and under the applicable law, no damages should have been awarded. The Company has initiated post-trial motions and appellate proceedings and is vigorously pursuing such actions. If such actions prove to be unsuccessful, damages associated with this matter could have a significant adverse effect on the Company's future results from operations and its ability to comply with certain debt covenant requirements.

The balance sheet continues to reflect the conservative financial nature of the Company and its strong financial condition. At the end of 1998, long-term debt to total capitalization decreased to 34.4% versus 35.1% at the end of 1997. Inventories at year-end 1998, were held to less than a 1% increase despite the significant fourth quarter sales decline. There was a 26% decrease in receivables, attributed primarily to the disposition of certain accounts, lower sales in the fourth quarter of the year, and improved policies and procedures in the Company's credit area. Current ratios were 3.9 and 4.4, respectively, for year-end 1998 and 1997.

At the end of 1997, long-term debt to total capitalization increased with the new long-term debt, to 35.1% versus 27.4% at the end of 1996. Inventories were held to less than a 7% increase, despite a fourth quarter sales decline of almost 8%. There was also

an 8% increase in receivables, attributed primarily to International and slow payments from certain customers. Current ratios were 4.4 and 3.2, respectively, reflecting the impact of the additional long-term debt.

Operations provided the majority of the cash requirements in 1998. This cash was used for capital expenditures, payments on long-term and short-term debt, dividends and treasury stock repurchases. Capital expenditures of $73 million in 1998 brings the five-year total to more than $385 million.

Operations 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 and short-term debt, working capital and dividends. Capital expenditures for the year were $73 million in 1997.

The Company anticipates that 1999 capital expenditures will approximate depreciation or approximately $70 million. The majority of the 1999 capital expenditures will be for further enhancements of the Company's manufacturing and distribution capabilities. At January 2, 1999, the Company had accrued liabilities of approximately $6.3 million related to employee severance and costs to exit certain facilities, licenses and contracts. The Company anticipates that it could incur additional cash charges of $16,000,000 and $6,000,000 in 1999 and 2000, respectively, related to the continued execution of its restructuring and reorganization plan.

The Company maintains $287 million of informal lines of credit and does not anticipate issuing any additional long-term debt or equity securities in 1999.

In 1998, the Board of Directors adjusted the stock repurchase authorization upward to three million shares. Purchases of the Company's Common Stock totaled $22,355,000 in 1998, representing 1,041,800 shares, compared to $51,638,000 representing 1,821,201 shares in 1997.

The Company utilizes cotton futures contracts to set sales prices which are generally set six months to a year in advance of the 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 2, 1999, and January 3, 1998, the Company had outstanding futures contracts that, when combined with other contracts and inventory, represented all of the Company's anticipated cotton requirements for 1999 and 1998, respectively.

The Company utilizes two interest 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 6.74% to 6.47%, from 6.83% to 6.64% and from 6.95% to 6.77% in 1998, 1997 and 1996, respectively. Interest expense decreased in 1998 due to lower rates and decreased borrowing. Interest expense increased in 1997 due to increased short-term borrowing, generally, until August when the Company secured 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.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the FASB issued Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which is required to be adopted in years beginning after June 15, 1999. The Statement permits early adoption as of the beginning of any fiscal quarter after its issuance. The Company will adopt the new Statement effective January 1, 2000. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet completed its analysis of the impact, if any, that Statement 133 may have on its financial statements.

YEAR 2000 DISCLOSURE STATEMENT

The Company has been involved in an organized program to assure that the Company's information technology systems and related infrastructure will be Year 2000 compliant. These efforts began in July of 1996 with the assignment of a full-time coordinator of the Year 2000 Compliance. The project initially involved the computer applications which support the parent company.

The initial phase of the corporate project involved the inventory and analysis of existing information systems. From this analysis a plan for remediation was formulated and put into action in January of 1997. This plan is now 95% complete in bringing these systems into Year 2000 compliance with 20,413 actual hours expended against a planned 21,543 hours. The planned completion date for testing and implementation of this phase is March 31, 1999.

The second phase of the corporate project was to inventory, analyze and test the infrastructure that involves imbedded microchips. This phase began in January of 1998 and has identified 3,856 unique products (hardware and models, software and releases) that are being certified through vendor certification and

testing where possible. To date, 2,465 or 64% of these products have been certified. The planned completion date for this phase is June of 1999.

The Year 2000 corporate project was expanded into a third phase to include the Cross Creek and DeSoto Mills subsidiaries under the same project format and phases as the parent company. DeSoto Mills is 100% complete in remediation of business and manufacturing systems and has certified 64% of infrastructure products. The Cross Creek subsidiary is 71% complete on remediation of information systems and has certified 65% of infrastructure products.

The fourth phase of the Year 2000 project involves the identification, analysis and certification of suppliers of materials and services to the Company. There have been 2,555 suppliers identified and individually contacted by questionnaires, letters and telephone to determine their compliance status and ability to service the Company in the Year 2000. If it is determined that a supplier will be in noncompliance or of questionable compliance, contingency plans will be developed to address the need, including the selection and introduction of new suppliers.

The fifth phase of the Year 2000 project involves an assessment of the major customers of the Company and their Year 2000 readiness. A questionnaire was mailed in November 1998 to 200 customers to begin the assessment of their Year 2000 status and their potential as a viable customer in the Year 2000. Response has been positive in this area with most customers having compliance in place or planned by June 1999.

The Year 2000 efforts in the Russell UK subsidiary involve the replacement of purchased application software. The first phase of this project was to identify and select an information systems software solution that would meet the business needs of the subsidiary and resolve the Year 2000 issue. The progress to date has been to select a software solution and to conduct a pilot project for acceptance. This has been completed and the implementation project is scheduled to be completed by the end of June 1999. The second phase of the Russell UK project was the identification of infrastructure products. To date, 456 products were identified with 384 being certified as compliant.

Management has determined that the costs for correction of the Year 2000 issues are expected to total approximately $1,895,000 with $1,470,000 being expended through the end of 1998. The Year 2000 project is being funded out of normal operating funds.

Senior management receives monthly updates on the progress of this project by each individual phase. The Year 2000 compliance project is a priority project for the Company and especially the IT department. Other IT projects, including upgrade of certain existing systems and implementation of new systems, continue while the Year 2000 project is being accomplished.

Management of the Company believes it has an effective program in place to resolve the Year 2000 issue in a timely manner. As previously noted, the Company has not yet completed all necessary phases of the Year 2000 program. In the event that the Company does not complete any additional phases, the Company may be unable to take customer orders, manufacture and ship products, invoice customers or collect payments. In addition, disruptions in the economy generally resulting from Year 2000 issues could also materially adversely affect the Company. The Company could be subject to litigation for computer systems product failure, for example, equipment shutdown or failure to properly date business records. The amount of potential liability and lost revenue cannot be reasonably estimated at this time.

At the present time the Company does not have a contingency plan to operate in the event that its business systems are not Year 2000 compliant. If further systems testing and supplier analysis were to indicate that there is a substantial risk to the Company's ability to operate effectively, a contingency plan will be developed in those areas affected.

This document contains Year 2000 Readiness Disclosures as defined in the Year 2000 Information and Readiness Disclosure Act, P.L.105-271 (Oct. 19, 1998). Accordingly, this disclosure, in whole or in part, is not, to the extent provided in the act, admissible in any state or federal civil action to prove the accuracy or truth of any Year 2000 statements contained herein.

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 "anticipates," "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 2, 1999, which will be filed by April 2, 1999, 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 and the effects of the Company's restructuring and reorganization plan. The Company assumes no obligation to update publicly any forward looking statements whether as a result of new information, future events or otherwise.

CONSOLIDATED BALANCE SHEETS

RUSSELL CORPORATION AND SUBSIDIARIES

January 2, 1999 and January 3, 1998

(In thousands, except share data)	1998	1997
Assets		
CURRENT ASSETS:		
Cash	$ 13,852	$ 8,609
Trade accounts receivable, less allowances of $8,562 in 1998 and $10,533 in 1997	179,307	242,988
Inventories	371,579	369,923
Prepaid expenses and other current assets	11,091	20,517
Future income tax benefits	8,885	5,006
TOTAL CURRENT ASSETS	584,714	647,043
PROPERTY, PLANT AND EQUIPMENT:		
Land	10,405	10,563
Buildings	331,663	310,053
Machinery and equipment	876,597	833,318
Construction-in-progress	5,577	24,014
	1,224,242	1,177,948
Less allowances for depreciation and amortization	(704,255)	(651,835)
	519,987	526,113
OTHER ASSETS	48,863	74,806
	$1,153,564	$1,247,962
Liabilities and Stockholders' equity		
CURRENT LIABILITIES:		
Short-term debt	$ 12,908	$ 39,256
Accounts payable and accrued expenses:		
Trade accounts	49,688	41,425
Employee compensation	31,590	22,885
Other	20,506	20,568
	101,784	84,878
Income taxes	1,989	–
Current maturities of long-term debt and capital lease obligations	32,214	21,478
TOTAL CURRENT LIABILITIES	148,895	145,612
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, LESS CURRENT MATURITIES	323,043	360,607
DEFERRED LIABILITIES:		
Income taxes	34,121	49,810
Pension and other	32,734	26,331
	66,855	76,141
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	48,294	48,654
Retained earnings	730,723	761,428
Treasury stock (1998 – 5,900,564 and 1997 – 4,957,336 shares)	(160,093)	(140,170)
Accumulated other comprehensive (loss) income	(4,567)	(4,724)
	614,771	665,602
	$1,153,564	$1,247,962

See notes to consolidated financial statements.

Consolidated Statements of Operations

Russell Corporation and Subsidiaries

Years ended January 2, 1999, January 3, 1998 and January 4, 1997

(In thousands, except share data)	1998	1997	1996
Net sales	**$1,180,118**	$1,228,198	$1,244,204
Cost and expenses:			
Cost of goods sold	**878,106**	857,531	846,166
Selling, general and administrative expenses	**246,518**	252,387	243,759
Other – net	**37,935**	1,763	(1,004)
Interest expense	**27,824**	28,165	25,738
	1,190,383	1,139,846	1,114,659
(Loss) income before income taxes	**(10,265)**	88,352	129,545
Provision for income taxes:			
Currently payable	**19,682**	27,688	53,259
Deferred	**(19,568)**	6,216	(5,290)
	114	33,904	47,969
Net (loss) income	**$ (10,379)**	$ 54,448	$ 81,576
Net (loss) income per common share:			
Basic	**$ (.29)**	$ 1.48	$ 2.12
Diluted	**$ (.29)**	$ 1.47	$ 2.11
Average shares outstanding:			
Basic	**36,216,571**	36,879,901	38,469,009
Diluted	**36,216,571**	37,047,433	38,652,958

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

RUSSELL CORPORATION AND SUBSIDIARIES

Years ended January 2, 1999, January 3, 1998 and January 4, 1997

(In thousands)	1998	1997	1996
Operating activities			
Net (loss) income	**$ (10,379)**	$ 54,448	$ 81,576
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	**74,368**	74,421	72,226
Deferred income taxes	**(19,568)**	6,216	(5,290)
(Gain) loss on sale of property, plant and equipment	**(111)**	(438)	200
Non-cash restructuring charges	**55,742**	–	–
Changes in operating assets and liabilities:			
Trade accounts receivable	**52,038**	(19,532)	2,237
Inventories	**(18,192)**	(25,087)	(22,458)
Prepaid expenses and other current assets	**(583)**	1,705	(6,045)
Other assets	**1,189**	(9,918)	175
Accounts payable and accrued expenses	**16,299**	3,942	208
Income taxes	**12,372**	(20,113)	3,240
Pension and other deferred liabilities	**6,216**	2,050	6,019
NET CASH PROVIDED BY OPERATING ACTIVITIES	**169,391**	67,694	132,088
Investing activities			
Purchase of property, plant and equipment	**(72,864)**	(72,926)	(114,031)
Proceeds from sale of property, plant and equipment	**2,224**	2,380	1,280
NET CASH USED IN INVESTING ACTIVITIES	**(70,640)**	(70,546)	(112,751)
Financing activities			
Short-term borrowings	**–**	–	54,846
Payments on short-term debt	**(26,416)**	(23,736)	–
Payments on long-term debt	**(26,828)**	(30,793)	(31,282)
Long-term borrowings	**–**	125,000	–
Dividends on common stock	**(20,326)**	(19,512)	(19,247)
Distribution of treasury stock	**2,072**	4,979	5,165
Cost of common stock for treasury	**(22,355)**	(51,638)	(26,049)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**(93,853)**	4,300	(16,567)
Effect of exchange rate changes on cash	**345**	(194)	100
Net increase in cash	**5,243**	1,254	2,870
Cash balance at beginning of year	**8,609**	7,355	4,485
CASH BALANCE AT END OF YEAR	**$ 13,852**	$ 8,609	$ 7,355

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Russell Corporation and Subsidiaries

Years ended January 2, 1999, January 3, 1998 and January 4, 1997

(In thousands, except share data)	Common Stock	Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 30, 1995	$414	$52,405	$(76,378)	$664,163	$(8,046)	$632,558
Comprehensive income:						
Net income	–	–	–	81,576	–	81,576
Foreign currency translation adjustments	–	–	–	–	5,820	5,820
Comprehensive income						87,396
Exercise of stock options	–	(2,205)	–	–	–	(2,205)
Treasury stock acquired (932,783 shares)	–	–	(26,049)	–	–	(26,049)
Treasury stock distributed (266,435 shares)	–	–	7,370	–	–	7,370
Cash dividends ($.50 per share)	–	–	–	(19,247)	–	(19,247)
Balance at January 4, 1997	414	50,200	(95,057)	726,492	(2,226)	679,823
Comprehensive income:						
Net income	–	–	–	54,448	–	54,448
Foreign currency translation adjustments	–	–	–	–	(2,498)	(2,498)
Comprehensive income						51,950
Exercise of stock options	–	(1,546)	–	–	–	(1,546)
Treasury stock acquired (1,821,201 shares)	–	–	(51,638)	–	–	(51,638)
Treasury stock distributed (234,750 shares)	–	–	6,525	–	–	6,525
Cash dividends ($.53 per share)	–	–	–	(19,512)	–	(19,512)
Balance at January 3, 1998	414	48,654	(140,170)	761,428	(4,724)	665,602
Comprehensive (loss) income:						
Net loss	–	–	–	(10,379)	–	(10,379)
Foreign currency translation adjustments	–	–	–	–	157	157
Comprehensive loss						(10,222)
Exercise of stock options	–	(360)	–	–	–	(360)
Treasury stock acquired (1,041,800 shares)	–	–	(22,355)	–	–	(22,355)
Treasury stock distributed (98,572 shares)	–	–	2,432	–	–	2,432
Cash dividends ($.56 per share)	–	–	–	(20,326)	–	(20,326)
Balance at January 2, 1999	**$414**	**$48,294**	**$(160,093)**	**$730,723**	**$(4,567)**	**$614,771**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSSELL CORPORATION AND SUBSIDIARIES

Years ended January 2, 1999, January 3, 1998 and January 4, 1997

NOTE 1 DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Russell Corporation is a vertically integrated international designer, manufacturer and marketer of activewear (including athletic uniforms, better knit shirts, leisure apparel, licensed sports apparel) and also produces sports and casual socks and a line of lightweight, yarn-dyed woven fabrics. The Company's products are marketed to sporting goods dealers, department and specialty stores, mass merchandisers, golf pro shops, college bookstores, screen printers, distributors, mail order houses, and other apparel manufacturers.

REVENUE RECOGNITION

The Company records revenues when products are shipped to customers.

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 $59,000,000 in 1998 and $79,000,000 in 1997. Inventories are summarized as follows:

(In thousands)	**1998**	1997
Finished goods	**$288,465**	$286,254
Work-in-process	**58,182**	52,498
Raw materials and supplies	**54,943**	65,476
	401,590	404,228
Less LIFO reserve	**(30,011)**	(34,305)
	$371,579	$369,923

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. Estimated useful lives range from 25 to 37 years for buildings and from five to 11 years for machinery and equipment.

OTHER ASSETS

Included in other assets is goodwill of approximately $12,600,000 and $33,100,000, which is net of accumulated amortization of $6,985,000 and $10,500,000 at January 2, 1999 and January 3, 1998, respectively. Goodwill is being amortized over 15 to 25 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 cash flows of the entity acquired 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. During 1998, the Company recorded impairment charges of $22,240,000 related to goodwill and other intangible assets (Note 10).

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. Asset impairment charges related to the closing of certain facilities and retail store locations and for the anticipated sale of the Company's interest in shopping center real estate are described in Note 10. There were no material impairment losses recorded in 1997 or 1996.

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 $37,236,000, $41,099,000 and $36,454,000 in such costs during 1998, 1997 and 1996, respectively.

Postretirement Benefits Other Than Pensions

Postemployment 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.

Accounts receivable from Wal-Mart represented 25.8% and 27.9% of the Company's net accounts receivable at January 2, 1999 and January 3, 1998, 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 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 (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

The Company reports earnings per share in accordance with FASB Statement No. 128, "Earnings Per Share." 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).

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 1998, 1997, and 1996 ended on January 2, 1999, January 3, 1998 and January 4, 1997, respectively.

New Accounting Pronouncement

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be adopted in years beginning after June 15, 1999. The Statement permits early adoption as of the beginning of any fiscal quarter after its issuance. The Company expects to adopt the new Statement effective January 1, 2000. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative

will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet completed its analysis of the impact, if any, that Statement 133 may have on its financial statements.

NOTE 2 LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

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

(In thousands)	1998	1997
Notes payable to financial institutions:		
6.72% notes due annually through 2002	$ 42,857	$ 53,571
8.83% notes due annually through 1999	10,800	21,500
6.95% notes due through 1998	–	64
6.65% notes due annually 2001 through 2007	125,000	125,000
6.78% notes due annually 2003 through 2008	100,000	100,000
Variable rate (5.57% at January 2, 1999) note due semi-annually through 2005	69,650	75,000
Capital lease obligations (variable rate of 3.60% at January 2, 1999) due 2017	6,950	6,950
	355,257	382,085
Less current maturities	(32,214)	(21,478)
	$323,043	$360,607

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 2, 1999, $58,565,000 of retained earnings was unrestricted for payment of dividends.

Recording the charges associated with the Company's restructuring and reorganization plan has caused the Company's interest coverage ratio to fall below the ratio required in agreements related to the Company's long-term debt. The Company and all primary lenders amended the covenants to exclude the impact of these charges. There exists no violations of loan covenants; therefore, the debt has been classified as short-term or long-term according to its terms.

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 $5,231,000 and $5,484,000 at January 2, 1999 and January 3, 1998, respectively.

The following summarizes the maturities of long-term debt and capital lease obligations: 1999 – $32,214,000; 2000 – $21,414,000; 2001 – $39,272,000; 2002 – $39,272,000; 2003 – $45,224,000 and thereafter $177,861,000.

NOTE 3 SHORT-TERM DEBT

The Company may borrow up to approximately $287 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 2, 1999 and January 3, 1998, amounts outstanding under the line of credit arrangements totaled $12.9 million and $39.3 million, respectively. The weighted-average interest rates of bank borrowings during 1998, 1997 and 1996 were 6.3%, 6.0% and 5.8%, respectively. The weighted-average interest rates of bank borrowings outstanding at January 2, 1999, January 3, 1998 and January 4, 1997 were 6.8%, 6.8% and 5.9%, respectively.

NOTE 4 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 2, 1999, the Company had outstanding futures contracts that, when combined with other contracts and inventories, represented all of its anticipated 1999 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 $43 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 $70 million.

These agreements, when combined, effectively lowered the weighted-average interest rate on the Company's long-term debt from 6.74% to 6.47%, 6.83% to 6.64% and 6.95% to 6.77% in 1998, 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 2, 1999 and January 3, 1998, the carrying value of financial instruments such as cash, trade accounts receivable and payables, approximated their fair values, based on 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:

	1998		1997	
(In thousands)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Long-term debt	**$355,257**	**$354,503**	$382,085	$392,780
Interest rate swap agreement terminating August 31, 2002	**4,407**	**7,084**	3,388	4,958
Interest rate swap agreement terminating June 30, 2005	–	**(2,478)**	–	(852)

Note 5 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:

	1998	1997
Change in benefit obligation		
Benefit obligation at beginning of year	**$114,965,715**	$112,359,286
Service cost	**5,807,255**	5,916,303
Interest cost	**8,141,800**	7,800,160
Actuarial loss (gain)	**16,165,102**	(5,299,398)
Benefits paid	**(6,111,922)**	(5,810,636)
Benefit obligation at end of year	**138,967,950**	114,965,715
Change in plan assets		
Fair value of plan assets at beginning of year	**118,063,298**	103,608,821
Actual return on plan assets	**12,028,088**	16,646,298
Company contributions	**1,742,290**	3,618,815
Benefits paid	**(6,111,922)**	(5,810,636)
Fair value of plan assets at end of year	**125,721,754**	118,063,298
Funded status of the plan (underfunded) overfunded	**(13,246,196)**	3,097,583
Unrecognized prior service cost	**3,394,573**	3,757,889
Unrecognized net actuarial gain	**(5,780,333)**	(19,882,428)
Unrecognized transition asset	**(3,699,502)**	(4,377,762)
Accrued benefit cost	**$(19,331,458)**	$(17,404,718)
Weighted-average assumptions as of December 31		
Discount rate	**6.75%**	7.25%
Expected return on plan assets	**9.00%**	9.00%
Rate of compensation increase	**3.75%**	3.75%

(In thousands)	**1998**	1997	1996
Components of net periodic benefit cost			
Service cost	**$ 5,807**	$ 5,916	$ 5,838
Interest cost	**8,142**	7,800	7,408
Expected return on plan assets	**(9,851)**	(9,229)	(8,974)
Net amortization and deferral	**(429)**	(315)	1,416
Net pension cost	**$ 3,669**	$4,172	$ 5,688

The primary impact on benefit obligations, the actuarial loss, was effected by a change in assumptions in the discount rate (from 7.25% to 6.75% in 1998) resulting in an

increased benefit obligation of approximately $10.2 million. Other changes (mortality, retirement and withdrawal assumptions) were all updated to better reflect anticipated experience resulting in increased obligations of $6.1 million.

Plan assets at January 2, 1999 include 600,960 shares of the Company's Common Stock having a market value of $12,207,000. Dividends paid to the plan by the Company were $337,000 and $319,000 for 1998 and 1997, respectively.

The Company has a 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 $1,426,000, $1,286,000 and $1,322,000 for 1998, 1997 and 1996, respectively.

NOTE 6 INCOME TAXES

Foreign operations contributed approximately $(7,060,000), $(1,989,000) and $900,000 to the Company's income (loss) before income taxes in 1998, 1997 and 1996, respectively. Significant components of the provision for income taxes are as follows:

	1998		1997		1996	
(In thousands)	Currently Payable	Deferred	Currently Payable	Deferred	Currently Payable	Deferred
Federal	**$16,142**	**$(15,105)**	$24,136	$6,160	$47,860	$(4,994)
State	**3,391**	**(2,210)**	3,233	825	5,709	(596)
Foreign	**149**	**(2,253)**	319	(769)	(310)	300
Totals	**$19,682**	**$(19,568)**	$27,688	$6,216	$53,259	$(5,290)

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)	1998	1997	1996
Taxes (benefit) at statutory rate on income before income taxes	**$(3,593)**	$30,923	$45,341
State income taxes, net of federal income tax benefit	**1,174**	2,637	3,324
Goodwill	**1,622**	425	425
Other – net	**911**	(81)	(1,121)
	$ 114	$33,904	$47,969

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 2, 1999 and January 3, 1998, are as follows:

(In thousands)	1998	1997
Deferred tax liabilities:		
Property, plant and equipment	**$52,366**	$57,266
Inventories	**2,691**	1,747
Accounts receivable	**429**	1,594
Other	**–**	1,782
Total deferred tax liabilities	**55,486**	62,389
Deferred tax assets:		
Pension and postemployment obligations	**10,176**	8,555
Inventories	**6,849**	5,416
Net operating losses	**5,843**	1,981
Employee benefits	**3,809**	1,633
Capital loss and credit carryforwards	**233**	233
Other	**3,573**	–
Total deferred tax assets	**30,483**	17,818
Valuation allowance for deferred tax assets	**(233)**	(233)
Net deferred tax assets	**30,250**	17,585
Net deferred tax liabilities	**$25,236**	$44,804

Net operating losses (NOLs) pertain primarily to the Company's United Kingdom operations. NOLs can be carried forward indefinitely in the United Kingdom.

NOTE 7 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 4,257,710 and 2,276,410 shares of Common Stock were reserved for issuance at January 2, 1999 and January 3, 1998, respectively. 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 10 years after the date of grant. The following table summarizes the status of options under the 1993 Plan and predecessor plans:

	1998		1997		1996	
	Number of Shares	**Weighted-Average Price**	Number of Shares	Weighted-Average Price	Number of Shares	Weighted-Average Price
Outstanding	**2,394,416**	**$19.68**	1,414,950	$28.21	1,452,550	$26.55
Exercisable	**1,133,350**	**$27.60**	891,250	$27.71	887,350	$25.28
Granted	**998,166**	**$25.34**	277,700	$30.88	299,600	$27.25
Exercised	**20,300**	**$27.74**	237,650	$21.20	266,280	$18.92
Canceled	–		77,650	$28.20	6,500	$16.81
Available for future grants	**1,863,294**		861,460		1,061,510	

At January 2, 1999, options outstanding were exercisable at prices which ranged from $21.59 to $31.34 per share and had a weighted-average remaining contractual life of six years. Performance units which have been awarded to officers and management of the Company amount to 2,454,500 shares at January 2, 1999. No compensation expense with respect to these units was earned during 1998, 1997 or 1996. SARs are also available for grants to officers and management. To date, none have been granted. SARs carry an award of $1 each and 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.

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 1998 and 1997 were $7.40 and $9.69, respectively, using the following weighted-average assumptions:

	1998	1997
Risk-free interest rate	**5.2%**	5.4%
Dividend yield	**2.2%**	1.8%
Volatility factor	**.198**	.186
Weighted-average expected life of options	**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)	**1998**	1997
Pro forma net income (loss)	**$(12,798)**	$52,790
Pro forma earnings per share:		
Basic	**$ (.35)**	$ 1.43
Diluted	**$ (.35)**	$ 1.42

Under the Russell Corporation 1997 Non-Employee Directors' Stock Grant, Stock Option and Deferred Compensation Plan (the "Directors' Plan"), which was adopted by the Board of Directors on July 23, 1997, each non-employee director of the Company (an "Eligible Director") receives annually (i) shares of Common Stock having a value of $5,000, based on the market value of the Common Stock on the date of grant and (ii) an option to purchase shares of Common Stock, exercisable for ten years at a price equal to the market value of the Common Stock on the date of grant, having, based on the number of shares subject thereto, an economic value of $5,000. Under the Directors' Plan, 1,368 and 1,456 shares were issued in 1998 and 1997, respectively, and options to purchase an aggregate of 2,824 shares of Common Stock at a price of $28.84 per share were granted. Options to purchase an aggregate of 2,824 shares of Common Stock at a price of $28.84 per share are presently outstanding under the Directors' Plan. 197,176 shares of the 200,000 shares of Common Stock originally authorized to be issued under the Directors' Plan remain available for issuance under the Directors' Plan.

NOTE 8 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)	1998	1997	1996
Interest	**$28,929**	$29,114	$26,192
Income taxes	**9,177**	49,699	47,564

NOTE 9 COMMITMENTS AND CONTINGENCIES

At January 2, 1999, the Company had commitments for the acquisition of property and equipment totaling $10,596,000 and was committed under noncancelable operating leases with initial or remaining terms of one year or more to minimum rental payments aggregating $6,470,000, summarized by fiscal year periods as follows: 1999 – $2,064,000; 2000 – $1,428,000; 2001 – $1,208,000; 2002 – $474,000; 2003 – $278,000 and thereafter $1,018,000.

The Company had $26,738,000 and $21,852,000 outstanding under letters of credit for the purchase of inventories at January 2, 1999 and January 3, 1998, respectively.

Lease and rental expense for fiscal years 1998, 1997 and 1996 was $9,943,000, $10,740,000 and $11,558,000, respectively.

In the fourth quarter of 1998, a Jefferson County, Alabama, jury returned a verdict in Sullivan, et al. v. Russell Corporation, et al. Five plaintiff families were awarded a total of $155,200 in compensatory damages for property damage and $52,398,000 in punitive damages from the three defendants, Russell Corporation, Avondale Mills and Alabama Power Company. Allegations in the case were that textile discharges of two of the defendants, including Russell Corporation, into the Alexander City wastewater treatment plant, the subsequent treatment by the City of Alexander City and discharge into Lake Martin constituted a nuisance and indirect trespass. Alabama Power Company, the third defendant, was alleged to have allowed the nuisance and trespass to continue as the owner of the land under the lake. The plaintiffs alleged mental anguish but no damages were granted for this claim. No allegation of personal injury was made in the case.

The evidence was uncontroverted that Russell Corporation is in compliance with its permit issued by the Alabama Department of Environmental Management (ADEM) for the indirect discharge of its wastewater to the Alexander City wastewater treatment plant. Therefore, the Company believes the verdict is contrary to the evidence and under the applicable law, no damages should have been awarded. The Company has initiated post-trial motions and appellate proceedings and is vigorously pursuing such actions. If such actions prove to be unsuccessful, damages associated with this matter could have a significant adverse effect on the Company's future results from operations and its ability to comply with certain debt covenant requirements.

NOTE 10 RESTRUCTURING, ASSET IMPAIRMENT AND OTHER UNUSUAL CHARGES

On July 22, 1998, the Company announced the Board of Directors had approved a three-year restructuring and reorganization plan to improve the Company's global competitiveness. The Company expects to incur total charges in the range of $100 million to $125 million after-tax over three years for restructuring, asset impairment and other associated unusual charges as a result of the restructuring and reorganization plan. For the year ended January 2, 1999, the Company recorded expenses of approximately $75 million ($48 million after-tax) representing restructuring charges of $19.8 million, asset impairment charges of $27.4 million and other associated unusual charges of $27.8 million.

The charges have been classified in the statement of operations as follows (in thousands):

	Cost of Goods sold	Selling, General and Administrative Expenses	Other Expense
RESTRUCTURING CHARGES:			
Employee termination charges	$ 7,588	$ 335	$ 164
Exit costs related to facilities	–	–	4,480
Termination of certain licenses and contracts	–	–	7,258
	$ 7,588	$ 335	$11,902
ASSET IMPAIRMENT CHARGES:			
Asset impairment related to facilities used in operations	$ –	$ –	$ 1,553
Asset impairment related to facilities held for disposal	–	–	3,628
Asset impairment charges related to intangible assets	–	–	22,240
	$ –	$ –	$27,421
OTHER UNUSUAL CHARGES:			
Inventory losses including shipping and warehousing costs	$14,639	$ 1,470	$ –
Disposition of receivables	–	11,120	–
Other	–	393	139
	$14,639	$12,983	$ 139

The Company did not reflect restructuring, asset impairment or other unusual charges in the results of operating segments, but rather recorded the charges at the corporate level. If the charges had been allocated to the segments, operating results for each segment would have been impacted as follows:

	Restructuring Charges	Asset Impairment Charges	Other Unusual Charges
Activewear	$19,311	$25,755	$24,860
International	514	622	2,901
All Other	–	1,044	–
	$19,825	$27,421	$27,761

A summary of the activity related to the restructuring and asset impairment charges is as follows:

	Expense Incurred	Amount Paid	Adjustments	Liability at January 2, 1999
CASH RELATED:				
Exit costs related to facilities	$ 1,816	$ 1,282	$–	$ 534
Employee termination charges	8,088	3,521	–	4,567
Future minimum royalties on certain licenses and contracts	7,258	6,035	–	1,223
	$ 17,162	$10,838	$–	$6,324
NON-CASH RELATED:				
Exit costs related to facilities	$ 2,664			
Asset impairment charges related to facilities	5,180			
Asset impairment charges related to intangible assets	22,240			
	$30,084			

Revenues and operating losses for 1998 related to exited activities with separately identifiable operations totaled $46,366,000 and $(21,032,000). The Company expects to incur cash charges of $16,000,000 and $6,000,000 related to the remaining elements of the restructuring and reorganization plan during 1999 and 2000, respectively.

RESTRUCTURING CHARGES

During 1998, the Company moved substantial sewing operations to a combination of owned and contractor locations in Central America and Mexico as part of its restructuring and reorganization plan to improve global competitiveness by reducing costs. The Company closed four domestic sewing facilities and reconfigured two others in 1998. In order to further control costs, the plan realigned and consolidated certain manufacturing and distribution functions and facilities to accommodate a more orderly and efficient product flow of goods throughout the manufacturing and distribution processes. The restructuring and reorganization plan concluded that the Company should exit 34 company operated retail or outlet stores in 13 states. In total, approximately 2,000 employees of the facilities closed during 1998 have been notified of their termination and received detailed information on their individual severance packages when the related facility closings were announced. Restructuring charges were recorded as a result of the plan to reduce the domestic production capacity and increase the offshore assembly capacity. The facilities closed included manufacturing plants, distribution centers and offices and retail stores. Also, as part of the plan, the Company discontinued certain licensed products in 1998 and recorded charges for the termination of the related agreements.

ASSET IMPAIRMENT CHARGES

The Company recorded asset impairment charges of approximately $1.6 million related to assets currently being used in operations primarily related to the Company's interests in shopping center real estate which are anticipated to be sold during 1999. The carrying value of certain of these assets exceeded the fair value of the assets. The carrying amount of the assets used in operations were reduced to their estimated fair values. Fair values were determined utilizing cash flow projections and estimated disposal proceeds primarily derived from negotiated offers to buy facilities.

Assets held for disposal at January 2, 1999, are carried at $29 million and are expected to be disposed of during fiscal 1999. Charges for impairment of assets held for disposal of $3.6 million were recorded when the facility or equipment was removed from operations. These assets have been written down to their fair values less the cost to sell those assets and depreciation is suspended on the assets. Fair values used in recording asset impairment charges were determined utilizing cash flow projections and estimated disposal proceeds primarily derived from appraisals or prices of comparable facilities. The effect of suspending depreciation on these assets during 1998 reduced depreciation expense by $0.3 million.

Asset impairment charges of $22.2 million were also recorded for intangible assets related to the discontinued use of previously purchased trademarks and goodwill recorded as a result of business combinations. All facilities and products acquired in these business combinations were sold, closed or held for disposal at January 2, 1999. For goodwill associated with property and equipment the projected future cash flow from the sale of the facilities indicated that the goodwill had no value. For other intangibles such as trademarks related to certain products, the projected cash flow was substantially reduced as a result of the restructuring and reorganization plan eliminating those products from operations thus reducing the fair value of such intangibles to a nominal amount.

Other Unusual Charges

As a result of exiting certain products, brands and trademarks, the Company recorded charges in the third and fourth quarters related to valuing discontinued inventory at the lower of cost or market. The inventory consisted primarily of headwear products under a discontinued brand, items held at retail locations and inventory produced to satisfy the terms of certain licensing agreements which the Company terminated.

During 1998, management implemented more stringent credit and collection policies that significantly restrict shipments to slow paying customers and intensify and accelerate collection efforts through agencies and other means. In connection with implementation of the new policies, the Company recorded a charge of $11.1 million to write off certain accounts receivable in the third and fourth quarters.

The Company recorded charges of approximately $8 million during 1998 related to the retirement and subsequent replacement of the Chairman, President and Chief Executive Officer of the Company which was not an element of the restructuring and reorganization plan previously described. These charges are included in selling, general and administrative expenses.

Note 11 Segment Information

Description of the Types of Products from Which Each Reportable Segment Derives its Revenues

Russell Corporation has three reportable segments: activewear, international operations and "all other." The Company's activewear segment consists of three strategic business units that sell the following products to sporting goods dealers, department and specialty stores, mass merchants, wholesale clubs, college bookstores, screen printers, distributors, golf pro shops, and mail order catalogs: T-shirts, fleece products, such as sweatshirts and pants, athletic uniforms, and knit shirts. The international strategic business unit manufactures and distributes activewear products to international locations in approximately 50 countries. Other segments that do not meet the quantitative thresholds for determining reportable segments sell fabrics to other apparel manufacturers and manufactures and sells socks to mass merchants.

Measurement of Segment Profit or Loss and Segment Assets

The Company evaluates performance and allocates resources based on profit or loss from operations before interest and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies except that the Company recognizes and measures all of its segments based on earnings before interest and taxes (EBIT) and accounts for inventory on a First-In, First-Out (FIFO) basis at the segment level compared to a Last-In, First-Out (LIFO) basis at the consolidated level. Intersegment transfers are recorded at the Company's cost; there is no intercompany profit or loss on

intersegment transfers. During fiscal 1998, 1997 and 1996, the Company did not allocate assets to segments but did allocate depreciation for the purpose of determining each segment's earnings before interest and income taxes.

Factors Management Used to Identify the Enterprise's Reportable Segments

The Company's reportable segments offer various similar products and/or operate in various locations. The reportable segments are each managed separately because they manufacture and distribute different types of products.

Segment Financial Information for the Year Ended January 2, 1999

	Activewear	International	All Other	Total
Revenues from external customers	**$908,826**	**$126,332**	**$144,960**	**$1,180,118**
Depreciation and amortization expense	**66,445**	**3,199**	**4,724**	**74,368**
EBIT (loss)	**101,518**	**(4,603)**	**19,640**	**116,555**

Segment Financial Information for the Year Ended January 3, 1998

	Activewear	International	All Other	Total
Revenues from external customers	$969,292	$127,752	$131,154	$1,228,198
Depreciation and amortization expense	66,377	3,199	4,845	74,421
EBIT (loss)	99,880	(1,665)	16,700	114,915

Segment Financial Information for the Year Ended January 4, 1997

	Activewear	International	All Other	Total
Revenues from external customers	$990,985	$120,949	$132,270	$1,244,204
Depreciation and amortization expense	64,110	3,199	4,917	72,226
EBIT	133,258	1,712	18,138	153,108

Profit or Loss

(In thousands)	1998	1997	1996
Total profit or loss for reportable segments	**$116,555**	$114,915	$153,108
Restructuring and impairment charges	**(47,246)**	–	–
Other charges	**(27,761)**	–	–
Other profit or loss	**(204)**	(1,056)	(694)
Unallocated amounts:			
Corporate expenses	**(24,401)**	–	–
LIFO reserves	**616**	2,658	2,869
Interest expense	**(27,824)**	(28,165)	(25,738)
Income (loss) before income taxes	**$ (10,265)**	$ 88,352	$129,545

Geographic Information

Revenues	1998	1997	1996
United States	**$1,053,786**	$1,100,446	$1,124,255
Europe	**104,341**	97,355	92,950
Other foreign countries	**21,991**	30,397	26,999
Consolidated total	**$1,180,118**	$1,228,198	$1,244,204

Long-lived Assets	1998	1997
United States	**$496,393**	$505,469
Europe	**18,339**	20,187
Other foreign countries	**5,255**	457
Consolidated total	**$519,987**	$526,113

Revenues are attributed to countries based on the location of customers.

Major Customer

Revenues from Wal-Mart represent approximately 19.0%, 18.8% and 17.1% of the Company's consolidated revenue for the years ended January 2, 1999, January 3, 1998 and January 4, 1997, respectively.

Note 12 Summary of Quarterly Results of Operations (Unaudited)

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

Year ended January 2, 1999:

	Quarter ended			
	April 5	**July 5**	**October 4**	**January 2**
	(In thousands, except per share data)			
Net sales	**$256,229**	**$271,824**	**$377,208**	**$274,857**
Gross profit	**72,430**	**73,236**	**96,351**	**59,995**
Net income (loss)	**1,849**	**6,560**	**(14,156)**	**(4,632)**
Net income (loss) per common share:				
Basic	**$ .05**	**$ .18**	**$ (.39)**	**$ (.13)**
Diluted	**$ .05**	**$ .18**	**$ (.39)**	**$ (.13)**

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

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 2, 1999 and January 3, 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended January 2, 1999. 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 2, 1999 and January 3, 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 2, 1999, in conformity with generally accepted accounting principles.

Ernst + Young LLP

January 29, 1999
Birmingham, Alabama

Shareholder Information

Russell Corporation and Subsidiaries

Principal Offices
Hewitt Building – Suite 1600
3350 Riverwood Parkway
Atlanta, Georgia 30339
(678) 742-8000

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
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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
Hewitt Building – Suite 1600
3350 Riverwood Parkway
Atlanta, Georgia 30339
(678) 742-8000

Annual Meeting
The annual meeting of shareholders of the Corporation will be at 11:00 a.m. CDT on April 21, 1999, at the offices of the Company in Alexander City, Alabama.
For information contact:
Investor Relations
(256) 500-4000
(678) 742-8000

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:

The following are registered trademarks of Russell Corporation and/or its subsidiaries:

Russell Athletic®
Jerzees®
Cross Creek®
Country Cottons®
The Exceptional Shirt®

Market Price

1998	Dividend	High	Low	Close
First	$.14	$27.63	$23.50	
Second	.14	30.38	25.81	
Third	.14	33.88	26.25	
Fourth	.14	27.25	18.00	
	$.56			$20.31

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

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