

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NO. 1-10410

HARRAH'S ENTERTAINMENT, INC.
(Exact name of registrant as specified in its charter)

DELAWARE

I.R.S. NO. 62-1411755

(State of Incorporation)

(I.R.S. Employer Identification No.)

1023 CHERRY ROAD
MEMPHIS, TENNESSEE 38117
(Address of principal executive offices) (zip code)
REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (901) 762-8600

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
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Common Capital Stock, Par Value \$0.10 per share*	NEW YORK STOCK EXCHANGE CHICAGO STOCK EXCHANGE PACIFIC EXCHANGE PHILADELPHIA STOCK EXCHANGE
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* Common Capital Stock also has special stock purchase rights listed on each of
the same exchanges

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
None

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes ☒ No ☐

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

The aggregate market value of the voting stock held by non-affiliates of the
registrant as of January 30, 1998, based upon the closing price of \$22.0625 for
the Common Stock on the New York Stock Exchange on that date, was
\$2,201,684,188.

As of January 30, 1998, the Registrant had 101,053,752 shares of Common
Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 1998 Annual Meeting of
Stockholders, which will be filed within 120 days after the end of the fiscal
year, are incorporated by reference into Part III hereof and portions of the
Company's Annual Report to Stockholders for the year ended December 31, 1997 are
incorporated by reference into Parts I and II hereof.

PART I

ITEMS 1 AND 2. BUSINESS AND PROPERTIES.

Harrah's Entertainment, Inc. (referred to herein, together with its subsidiaries where the context requires, as the "Company" or "Harrah's") is one of the leading casino entertainment companies in the United States. Harrah's, formerly named The Promus Companies Incorporated ("Promus"), was incorporated on November 2, 1989 under Delaware law. On June 30, 1995, Promus changed its name to Harrah's Entertainment, Inc., following the spin-off of its hotel business into a separate public corporation.

Harrah's conducts its business through its wholly-owned subsidiary, Harrah's Operating Company, Inc. ("HOC") (formerly named Embassy Suites, Inc. ("Embassy")), and through HOC's subsidiaries. The principal asset of Harrah's is the stock of HOC, which holds, directly or indirectly through subsidiaries, substantially all of the assets of the Company's businesses. The principal executive offices of Harrah's are located at 1023 Cherry Road, Memphis, Tennessee 38117, telephone (901) 762-8600.

On December 18, 1997, the Company entered into an agreement whereby Harrah's agreed to acquire Showboat, Inc. ("Showboat"), subject to various conditions, including regulatory approvals and approval by the stockholders of Showboat. Showboat owns and operates casinos in Atlantic City, New Jersey and Las Vegas, Nevada. It manages and is the largest single shareholder, currently owning approximately 24.6%, of the Star City casino in Sydney, New South Wales, Australia. Showboat also owns 55% of a subsidiary which owns and manages the Showboat Mardi Gras Casino in East Chicago, Indiana. It is anticipated that the acquisition of Showboat will be completed in second quarter 1998.

Operating data for the three most recent fiscal years, together with corporate expense, interest expense and other income, is set forth on page 35 of the Annual Report, which page is incorporated herein by reference.

For information on operating results and a discussion of those results, see "Management's Discussion and Analysis--Results of Operations" on pages 25 through 33 of the Annual Report, which pages are incorporated herein by reference.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward looking statements. Certain information included in this Annual Report on Form 10-K and other materials filed or to be filed by the Company with the Securities and Exchange Commission ("SEC") (as well as information included in oral statements or other written statements made or to be made by the Company) contains statements that are forward looking. These include statements relating to the following activities, among others: (A) operations and expansions of existing properties, including future performance, anticipated scope and opening dates of expansions; (B) planned development of casinos that would be owned or managed by the Company; (C) the proposed plan of reorganization and its various facets for New Orleans; (D) planned capital expenditures for 1998 and beyond; (E) the impact of the WINet and Total Gold Card Programs; and (F) completion of the acquisition of Showboat. These activities involve important factors that could cause actual results to differ materially from those expressed in any forward looking statements made by or on behalf of the Company. These include, but are not limited to, the following factors as well as other factors described from time to time in the Company's reports filed with the SEC: construction factors, including zoning issues, environmental restrictions, soil and water conditions, weather and other hazards, site access matters and building permit issues; access to available and feasible financing; regulatory, licensing and other governmental approvals, third party consents and approvals, and relations with partners, owners and other third parties; conditions of credit markets and other business and economic conditions; litigation, judicial actions and political uncertainties, including gaming legislative action and taxation; and effects of competition, including locations of competitors and operating and marketing competition. Any forward looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

GENERAL

Harrah's casino business commenced operations more than 60 years ago and is unique among casino entertainment companies in its broad geographic diversification. At year end, Harrah's operated casino hotels in the five traditional U.S. gaming markets of Reno, Lake Tahoe, Las Vegas and Laughlin, Nevada and Atlantic City, New Jersey. It also operated riverboat casinos in Joliet, Illinois; dockside casinos in Vicksburg and Tunica, Mississippi, Shreveport, Louisiana, and St. Louis and North Kansas City, Missouri; casinos on three Indian reservations, one near Phoenix, Arizona, one north of Seattle, Washington and one in Cherokee, North Carolina; and a land-based casino in Auckland, New Zealand. On January 13, 1998, the Company commenced management of a casino on an Indian reservation near Topeka, Kansas.

As of December 31, 1997, Harrah's operated a total of approximately 774,500 square feet of casino space, 19,835 slot machines, 934 table games, 8,197 hotel rooms or suites, approximately 158,200 square feet of convention space, 61 restaurants, 21 snack bars, seven showrooms and four cabarets.

In September 1997, Harrah's introduced its new Total Gold (U.S. Patent Pending) program, a fully integrated national player recognition and rewards program that connects player activity and provides rewards across all of its properties. It is the first and only program in the casino industry that rewards and recognizes casino customers on the level of a national brand--coast to coast. Underpinning Harrah's Total Gold is a database management system exclusive to Harrah's, The Winners Information Network system, or WINet (U.S. Patent Pending), which maximizes Harrah's distribution and links all of its domestic locations.

Harrah's marketing strategy is currently designed to appeal primarily to the broad middle-market gaming customer segment, with special emphasis on the rapidly growing segment of multi-market gamers. Harrah's strategic direction is focused on establishing a well-defined brand identity that communicates a consistent message of high quality and excellent service.

LAND-BASED CASINOS

ATLANTIC CITY

The Harrah's Atlantic City casino hotel is situated on 24.17 acres in the Marina area of Atlantic City and at year end had approximately 80,800 square feet of casino space with 2,529 slot machines and 97 table games. It consists of three 16-story hotel towers with 278 suites and 896 rooms and adjoining low rise buildings which house the casino space and the 26,100 square foot convention center. The facilities include eight restaurants, an 820-seat showroom, a health club with swimming pool and parking for 2,862 cars, including a substantial portion in a parking garage. The property also has a 75-slip marina.

In 1997, the Company completed an \$83.7 million expansion of the property which commenced in 1995. In 1996, construction was completed on a casino expansion as well as enhancement of the facility's restaurant offerings. The final portion of the expansion, construction of a new 416-room, 16-story hotel tower, was completed in June 1997.

The Company has announced a possible additional expansion to its Atlantic City property, pending suitable economic analysis as well as substantive progress on development of new casino hotel projects in the Marina area by other companies, appropriate regulatory approvals and adequate resolution of road and access improvements that have been the subject of discussions among the state, city and developers. This additional expansion, if completed as currently envisioned, would include significant additional guest rooms and casino space, as well as enhancements in convention facilities, restaurant offerings, parking facilities and other nongaming amenities. At present, because of the uncertainties relating to this project, there is no assurance this further expansion will proceed.

The Company also owns approximately 8.45 acres of land adjacent to Harrah's Atlantic City and 170 acres of wetlands in the Marina area.

Most of the casino's customers arrive by car from within a 150-mile radius which includes Philadelphia, New York and northern New Jersey, Harrah's Atlantic City's primary feeder markets.

LAS VEGAS

Harrah's Las Vegas is located on approximately 17.7 acres on the Las Vegas Strip and at year end, consisted of a 15-floor hotel tower, a 23-floor hotel tower, two 35-story hotel towers, and adjacent low-rise buildings which house the 15,000 square foot convention center and the casino. The hotel has 2,587 regular rooms and 90 suites. The Harrah's Las Vegas complex has approximately 86,700 square feet of casino space, with 1,963 slot machines and 97 table games. Also included are six restaurants, four snack bars, the 525-seat Commander's Theatre, a 367-seat cabaret, an arcade, a health club and a heated pool. There are 2,500 parking spaces available, including a substantial portion in a self-park garage.

The Company completed a \$200 million expansion of Harrah's Las Vegas in fourth quarter 1997. The expansion, which commenced in 1996, included a new 35-story hotel tower, additional casino space, new restaurant facilities, a complete renovation of the facade of the casino located on the Strip, as well as significant additions and improvements to nongaming amenities.

The casino's primary feeder markets are the Midwest, California and Canada.

LAKE TAHOE

Harrah's Lake Tahoe is situated on 22.9 acres near Lake Tahoe and consists of an 18-story tower and adjoining low-rise building which house a 16,500 square foot convention center and approximately 63,200 square feet of casino space, with 1,711 slot machines and 107 table games. The casino hotel, with 79 suites and 453 luxury rooms, has seven restaurants, two snack bars, the 688-seat South Shore Showroom, a 197-seat cabaret, a health club, retail shops, a heated pool and an arcade. The facility has customer parking for 854 cars in a garage and 1,098 additional spaces in an adjoining lot.

Harrah's also operates Bill's Lake Tahoe Casino which is located on a 2.1 acre site adjacent to Harrah's Lake Tahoe. The casino includes approximately 18,000 square feet of casino space, with 547 slot machines and 20 table games, and one restaurant.

The primary feeder markets for both casinos are California and the Pacific Northwest.

RENO

Harrah's Reno, situated on approximately 3.7 acres, consists of a casino hotel complex with a 24-story structure, an approximate 15,450 square foot convention center and 55,450 square feet of casino space, with 1,581 slot machines and 65 table games. The facilities include a Harrah's hotel, with 557 rooms and eight suites, the 420-seat Sammy's Showroom, a pool, a health club and an arcade. The property has six restaurants, including a Planet Hollywood restaurant and lounge operated by a non-affiliated restaurant company. The complex can accommodate guest parking for 1,739 cars, including a valet parking garage, a self-park garage and off-site valet parking.

The Company owns a 408-room, 26-story Hampton Inn hotel adjacent to Harrah's Reno. The hotel, which is operated by Harrah's pursuant to a license agreement from Promus Hotels, Inc., provides high-quality, moderately-priced guest rooms to accommodate Harrah's guests.

The primary feeder markets for Harrah's Reno are northern California, the Pacific Northwest and Canada.

LAUGHLIN

Harrah's Laughlin is located in Laughlin, Nevada on a 44.9 acre site in a natural cove on the Colorado River and features a hotel with 1,632 standard rooms and 58 suites, a 378-seat showroom, a 3,164-seat outdoor amphitheater, five restaurants and two snack bars, including a McDonald's and a Baskin Robbins

which are operated by non-affiliated companies. Harrah's Laughlin has approximately 47,000 square feet of casino space, with 1,291 slot machines and 42 table games, and approximately 7,000 square feet of convention center space. The facility has customer parking for 2,604 cars, including a covered parking garage, and a park for recreational vehicles. Other amenities include a health club, swimming pools, an arcade and retail shops. It is the only property in Laughlin with a developed beachfront on the River.

The casino's primary feeder markets are the Los Angeles and Phoenix metropolitan areas where a combined total of more than 17 million people reside.

NEW ZEALAND

Sky City, a casino entertainment facility in Auckland, New Zealand, is owned by Sky City Limited, a publicly-traded New Zealand corporation in which 12.5% was owned by the Company until third quarter 1997 when Harrah's sold its interest in the corporation. Harrah's currently manages the facility for a fee under a management contract. Harrah's was notified in 1997 that Sky City Limited would buy out the management contract for a price based upon an agreed upon formula set forth in the management contract. Harrah's will continue to manage the Sky City complex until June 30, 1998, at which time the management contract is expected to terminate.

The facility is located on 3.1 acres of land and has approximately 59,700 square feet of casino space, 1,121 slot machines and 111 table games. It also features four restaurants, a 100-seat cabaret, several lounges, two snack bars, retail shops, a health club and a swimming pool. The complex also includes a hotel with 306 rooms and 38 suites, a 700-seat theater/showroom and approximately 15,000 square feet of conference space. The facilities also include customer parking for 2,552 cars, a portion of which is in an underground parking garage. Valet parking is also available. A special attraction of the facility is a 1,066-foot Sky Tower, which opened in August 1997. The Sky Tower, the tallest structure in the southern hemisphere, features two enclosed and one open-air observation decks and a revolving bar and restaurant.

NEW ORLEANS

A Harrah's subsidiary owns an approximate 47% interest in Harrah's Jazz Company ("Harrah's Jazz"), a partnership formed for purposes of developing, owning and operating the exclusive land-based casino entertainment facility (the "Rivergate Casino") in New Orleans, Louisiana, on the site of the former Rivergate Convention Center. In November 1995, Harrah's Jazz and its wholly-owned subsidiary, Harrah's Jazz Finance Corp., filed petitions for relief under Chapter 11 of the Bankruptcy Code. Harrah's Jazz filed a plan of reorganization with the Bankruptcy Court in April 1996 and filed several subsequent amendments to the plan (the "Plan"). In April 1997, the Bankruptcy Court confirmed and approved the Plan.

The confirmed Plan contemplated, among other things, that a newly formed corporation, Jazz Casino Corporation, would be responsible for completing construction of the Rivergate Casino, a subsidiary of the Company would receive approximately 40% of the equity in the project, and Harrah's would make a \$75 million equity investment in the project (less any debtor-in-possession financing provided to the project), guarantee \$120 million of a \$180 million bank credit facility, guarantee timely completion and opening of the Rivergate Casino and make an additional \$20 million subordinated loan to the project to finance the Rivergate Casino. However, since the Louisiana State Legislature did not approve a component of the confirmed Plan--a modified casino operating contract with Louisiana's gaming board--the confirmed Plan was not consummated. Subsequently, Harrah's Jazz filed a modified plan with the Bankruptcy Court which contemplated, among other things, the assumption of the existing casino operating contract and relief from payment of any gaming taxes under the casino operating contract. This modified plan was withdrawn by Harrah's Jazz.

In November 1997 and again in January 1998, Harrah's Jazz modified the confirmed Plan. This most recent plan, which is supported by, among others, the Governor of Louisiana and the Mayor of New Orleans, contemplates that a newly formed limited liability company, Jazz Casino Company, L.L.C.

("JCC"), would be responsible for completing construction of the Rivergate Casino, a subsidiary of the Company would receive approximately 40% of the equity in JCC's parent, and Harrah's would make a \$75 million equity investment in the project (less any debtor-in-possession financing provided to the project), guarantee JCC's \$100 million annual payment under the casino operating contract to the State of Louisiana gaming board (the "State Guarantee"), guarantee up to \$154 million of a bank credit facility of up to \$224 million, guarantee timely completion and opening of the Rivergate Casino and make an additional \$10 million subordinated loan to JCC to finance the construction of the Rivergate Casino. With respect to the State Guarantee, Harrah's would be obligated to guarantee the first year of JCC's operations and, if certain cash flow tests and other conditions are satisfied each year, to renew the guarantee each year for a maximum term of approximately five years. Harrah's obligations under the State Guarantee would be limited to a guarantee of the \$100 million payment obligation of JCC for the period in which the State Guarantee is in effect and would be secured by a first priority lien on JCC's assets. JCC's payment obligation would be \$100 million at the commencement of each 12-month period under the casino operating contract and would decline on a daily basis by 1/365 of \$100 million as payments are made each day by JCC to Louisiana's gaming board.

Final consummation of the plan is subject to numerous approvals, including approval from the Company's Board of Directors, the Louisiana State Legislature, the City of New Orleans City Council and others. The plan was confirmed by the Bankruptcy Court on January 29, 1998 and it is anticipated that the casino operating contract will be considered by the Louisiana State Legislature in a special session commencing in late March 1998. There can be no assurance that these approvals will be obtained and that such plan will be consummated.

During the course of the bankruptcy of Harrah's Jazz, a subsidiary of the Company has made debtor-in-possession loans to Harrah's Jazz, totaling approximately \$32.2 million as of December 31, 1997, to fund certain payments to the City of New Orleans and other cash requirements of Harrah's Jazz. Harrah's has committed to provide up to \$40 million in debtor-in-possession loans to Harrah's Jazz, conditioned upon Harrah's Jazz meeting certain monthly milestones in the bankruptcy. There can be no assurance that such committed debtor-in-possession financing will be sufficient for Harrah's Jazz to consummate the Plan. Should additional debtor-in-possession funding be necessary for the consummation of the Plan, the approval of the Company's Board of Directors would be necessary for Harrah's to provide any debtor-in-possession financing in excess of \$40 million.

See "Legal Proceedings" herein for a discussion of legal actions filed in connection with the New Orleans project.

RIVERBOAT CASINOS

JOLIET

Harrah's Joliet is located in downtown Joliet, Illinois, on the Des Plaines River. The two riverboat casinos, the Harrah's Northern Star, a modern 210-foot mega-yacht, and the 210-foot Southern Star II, a re-creation of a Mississippi riverboat, offer a combined total of 37,000 square feet of casino space with 56 table games and 988 slot machines. Each riverboat has the capacity to accommodate approximately 825 guests per cruise. Harrah's Joliet offers a total of 18 cruises per day.

The dockside facilities, which are situated on 6.8 acres, include a pavilion with three restaurants, two snack bars, a lounge, approximately 3,700 square feet of meeting space and a retail shop. Parking is available for 943 cars, including a portion in a 4-story parking garage.

A partnership, in which an indirect subsidiary of the Company is the 80 percent general partner, owns the dockside facilities and underlying real property, the Harrah's Northern Star and the Southern Star II vessels, and the riverboat businesses. The businesses are operated by Harrah's, as general partner in the partnership. The partnership also holds long-term rights to the boat basin/berth.

The Company is evaluating a proposed expansion project in Joliet to add a hotel and additional meeting room facilities.

The Chicago metropolitan area is the primary feeder market for Harrah's Joliet, with Joliet being only 30 miles from downtown Chicago.

TUNICA

Harrah's Tunica is a riverboat casino complex located in Tunica, Mississippi, approximately 30 miles south of downtown Memphis, Tennessee. The facilities include a casino constructed on a floating stationary barge with approximately 50,000 square feet of casino space, 857 slot machines and 44 table games. Shoreside facilities, which are situated on 88 acres of land, include a Harrah's hotel, which features 181 rooms, 18 suites and exercise facilities, three restaurants, a child care facility, an arcade, retail shop, approximately 13,500 square feet of convention area/meeting room space and customer parking for approximately 2,600 cars.

The riverboat casino facilities are owned by a partnership in which an indirect subsidiary of the Company is the 83% general partner. In April 1997, a separate indirect subsidiary of the Company acquired the remaining interest in the partnership not owned by the Company and accordingly, the Company owns 100% of the casino and related facilities. The underlying land is held under a long-term lease to the partnership.

The partnership which owns Harrah's Tunica has entered into agreements with two nearby competitors for the development of a golf course and related facilities adjacent to Harrah's Tunica. Construction on the project commenced in November 1996 with completion expected in fourth quarter 1998. The Company's investment in the golf course development is not expected to exceed \$2 million.

The primary feeder market for Harrah's Tunica is the Memphis metropolitan area.

The Company also operated another dockside casino in Tunica which closed in May 1997. The Company is continuing to explore its options with respect to this property.

VICKSBURG

Harrah's Vicksburg is the Company's dockside casino entertainment complex on approximately 10.3 acres in Vicksburg, Mississippi. The complex, which is located in downtown Vicksburg on the Yazoo Diversion Canal of the Mississippi River, includes a 297-foot stationary riverboat casino designed in the spirit of a traditional 1800's riverboat with approximately 18,000 square feet of casino space, 573 slot machines and 31 table games. The casino is docked next to the Company's shoreside complex which features three restaurants, child care facilities, an arcade, a retail outlet and an approximate 8,500 square foot meeting room/convention area. Adjacent to the riverboat is a Harrah's hotel, with 109 rooms and eight suites, which is owned and operated by the Company. Two covered parking garages are across the street with combined parking for 996 cars and additional parking is available for 429 cars. The Company owns the riverboat and hotel and owns or holds long-term rights to all real property pertaining to the project.

The casino's primary feeder markets are western and central Mississippi and eastern Louisiana.

SHREVEPORT

Harrah's Shreveport is the Company's dockside riverboat casino in downtown Shreveport, Louisiana, which includes a 254-foot 19th-century design paddlewheeler riverboat, the ShreveStar, with 22,550 square feet of gaming space with 1,069 slot machines and 40 table games. A pavilion, on 11.2 acres of land, adjoins the casino on the banks of the Red River and includes two restaurants and a 5,000 square foot area for private parties and group functions. Parking is available for 880 cars, including 750 spaces in a parking garage.

The Company plans to commence construction during second quarter 1998 on expanded parking facilities at Harrah's Shreveport, and is evaluating a possible further expansion of the facilities to include a hotel as well as additional restaurant and meeting facilities.

The casino and related facilities are owned by a partnership which is 100% owned by the Company. The underlying land is held by the partnership under a long-term lease from the City of Shreveport.

The primary feeder markets for the casino are northwestern Louisiana and east Texas, including the Dallas/Fort Worth metropolitan area.

NORTH KANSAS CITY

The Company owns and operates riverboat casino facilities in North Kansas City, Missouri, which include two riverboat casinos, the North Star, a 295-foot classic sternwheeler-designed stationary riverboat, and the other, the Mardi Gras, which is constructed on a floating stationary barge. The facilities offer a combined total of approximately 62,100 square feet of casino space, 2,029 slot machines and 82 table games.

Shoreside facilities, which are situated on 55 acres of land that is under a long-term lease, include a Harrah's hotel which features 181 rooms and 19 suites, a pavilion that houses three restaurants and 10,000 square feet of meeting space. Additional property amenities include four snack bars, an arcade, swimming pool and exercise room. The property also has a three-story 1,048-car parking garage as well as surface parking. Total on-site parking, including valet parking, is available for 2,942 cars.

The casino's primary feeder market is the Kansas City metropolitan area.

ST. LOUIS-RIVERPORT

On March 11, 1997, the Company opened a riverboat casino complex with Players International, Inc. ("Players") in Maryland Heights, Missouri, in northwest St. Louis County, 16 miles from downtown St. Louis. The partnership formed by Harrah's and Players leases space to both Harrah's and Players in which to operate their separately branded casinos and specialty restaurants. Each company operates two riverboat casinos. Harrah's two riverboats offer a combined total of approximately 60,000 square feet of gaming space, with a total of approximately 1,300 slot machines and 60 table games.

A shoreside pavilion includes four restaurants (one of which is owned and managed by Players), a snack bar, an arcade, an entertainment lounge and retail space. Additional amenities include a 10,000 square foot convention/special events center and child care facilities. Also included in the shoreside facilities are an 8-story Harrah's hotel with 275 rooms and 16 suites. Parking is available for 4,071 cars, including a portion in a parking garage. Harrah's manages the shoreside pavilion, hotel and parking areas for the partnership for a fee.

The complex is located on a site comprised of approximately 74 acres which is owned by the Company and leased to the partnership and approximately 140 acres of additional land which is owned by the partnership. The Company's total investment in this development was \$180 million.

The primary feeder market for Harrah's St. Louis Riverport is the St. Louis metropolitan area.

INDIAN GAMING

AK-CHIN

Harrah's Phoenix Ak-Chin casino is owned by the Ak-Chin Indian Community and is located on approximately 20 acres of land on the Community's reservation, approximately 25 miles south of Phoenix, Arizona. The casino includes 38,000 square feet of casino space with 475 slot machines, 25 poker tables, bingo, keno, two restaurants, two snack bars, an entertainment lounge, 11,050 square feet of meeting room space and a retail shop. The complex has customer parking for approximately 1,200 cars and has valet parking available. Harrah's manages the casino for a fee under a management contract expiring in

December 1999. Renewal of the contract would require mutual agreement between Harrah's and the Ak-Chin Community and approval by the National Indian Gaming Commission ("NIGC").

The primary feeder markets for the casino are Phoenix and Tucson.

SKAGIT VALLEY

Harrah's Skagit Valley casino is located on approximately ten acres of land on the Upper Skagit Indian Reservation, approximately 70 miles north of Seattle, Washington. The casino includes 26,000 square feet of casino space with a 600-seat bingo hall, 50 gaming tables, seven poker tables, keno and pulltabs. Nongaming amenities include a 68-seat lounge, two restaurants, a snack bar, as well as an arcade and gift shop. The complex has customer parking for approximately 1,000 cars with valet service provided. Harrah's manages the casino for a fee under a management contract expiring in December 2002. Renewal of the contract would require mutual agreement between Harrah's and the Upper Skagit Indian Tribe and approval by the NIGC.

The Company has guaranteed the Tribe's repayment of a bank loan, the proceeds of which were used to construct the Upper Skagit facility. At year end 1997, \$16.3 million of the loan was outstanding. In addition, the Company has made loans to the tribe. At year end 1997, the total amount outstanding under these loans was \$9.2 million.

The primary feeder markets for the casino are northwestern Washington state, including the Seattle and Bellingham, Washington areas and southwestern Canada, including the Vancouver, British Columbia metropolitan area.

CHEROKEE

On November 13, 1997, Harrah's Cherokee Smoky Mountains Casino opened. Harrah's developed the casino for the Eastern Band of Cherokee Indians on 37 acres of land on their reservation in Cherokee, North Carolina. The casino includes 50,000 square feet of casino space with 1,801 video gaming machines. Additional facilities consist of a multi-purpose entertainment room with 1,500 theater-style seats, two restaurants, as well as a snack bar, a gift shop and child care facilities. Parking is available for approximately 1,800 cars. Harrah's manages the casino for a fee under a management contract expiring in November 2002. Renewal of the contract would require mutual agreement between Harrah's and the Cherokee Indian Tribe and approval by the NIGC.

The Company has guaranteed the Tribe's repayment of an \$82 million bank loan, the proceeds of which were used to construct the Cherokee facility. At year end 1997, \$75.5 million of the loan had been drawn and was outstanding.

The casino's primary feeder markets are eastern Tennessee, western North Carolina, as well as northern Georgia and South Carolina.

PRAIRIE BAND

Harrah's Prairie Band Casino-Topeka, located approximately 17 miles north of Topeka, Kansas, opened on January 13, 1998. The Company developed the casino for the Prairie Band of Potawatomi Indians on approximately 80 acres of land owned by the tribe. The casino facilities include 26,000 square feet of casino space with 500 slot machines, 40 table games and a 420-seat bingo hall. The complex also includes a 100-room hotel, a restaurant, two snack bars, an entertainment lounge, a gift shop and parking for approximately 850 vehicles. The facilities are managed by the Company for a fee under a management contract expiring in January 2003. Renewal of the contract would require mutual agreement between Harrah's and the Prairie Band and approval by the NIGC.

Topeka and Wichita are the primary feeder markets for the casino.

The Company has guaranteed the Tribe's repayment of a \$37 million bank loan, the proceeds of which were used to construct the Prairie facility. At year end 1997, \$19.3 million of the loan had been drawn and was outstanding.

OTHER

The Company has entered into preliminary management and development agreements with other Indian communities in connection with the proposed development of casino entertainment facilities on lands owned by the respective tribes. These agreements are subject to various conditions including approval by the NIGC and other governmental approvals. Development of the casino facilities, which would be managed by the Company for a fee, will not commence until NIGC approval and other required approvals are received. The Company expects the proposed projects will be financed by bank loans that would be guaranteed by the Company.

OTHER

SODAK GAMING, INC.

The Company owns approximately 14% of Sodak Gaming, Inc. ("Sodak"), a publicly-owned corporation. Sodak is a leading distributor of electronic gaming machines and gaming-related products and systems. Under terms of an agreement with International Game Technology ("IGT") expiring in May 2001, Sodak is the exclusive distributor for IGT of its gaming equipment in the states of North Dakota, South Dakota and Wyoming, and on Native American Reservations in the United States (except Nevada, New Jersey and Hawaii). This distribution agreement provides for 2-year renewals after May 2001, until it is cancelled. Sodak also has an IGT software distribution and license agreement for IGT product software.

In addition, Sodak also is in the business of financing, developing and managing Native American and commercial casino businesses in the United States and abroad. Sodak has announced that it intends to develop, through a joint venture with other companies, a riverboat casino, hotel and retail complex in Shreveport, Louisiana.

INTERACTIVE ENTERTAINMENT LIMITED

The Company owns approximately 35.5% of Interactive Entertainment Limited ("IEL"), a publicly-owned corporation. IEL has pioneered development of sophisticated remote control gaming entertainment software for use in the international long-haul airline industry. IEL has a multi-year contract with Singapore Airlines for planned use of the software.

In addition to the above, the Company is actively pursuing a variety of casino entertainment opportunities in various jurisdictions both domestically and abroad, including land-based, riverboat casino and Indian gaming projects in the United States. A number of these projects, if they go forward, could require significant capital investments by the Company.

TRADEMARKS

The following trademarks used herein are owned by the Company: Harrah's-Registered Trademark-; Bill's-Registered Trademark-; Total Gold-Registered Trademark-; WINet(sm); Harrah's Northern Star(sm); North Star(sm); Harrah's Southern Star II(sm); ShreveStar(sm); Mardi Gras(sm), Sammy's Showroom(sm) and South Shore Showroom(sm). The name "Harrah's" is registered as a service mark in the United States and in certain foreign countries, including New Zealand. The Company considers all of these marks, and the associated name recognition, to be valuable to its business.

COMPETITION

Harrah's, which operates land-based, dockside, riverboat and Indian casino facilities in all of the traditional, and most of the new, U.S. casino entertainment jurisdictions, and manages a land-based casino in New Zealand, competes with numerous casinos and casino hotels of varying quality and size in the market areas where its properties are located, with other non-gaming resorts and vacation areas, and with various other casino and other entertainment businesses. The casino entertainment business is characterized by competitors which vary considerably by their size, quality of facilities, number of operations, brand identities, marketing and growth strategies, financial strength and capabilities, level of amenities, management talent and geographic diversity. In certain areas such as Las Vegas, Harrah's competes with a wide range of casinos, some of which are significantly larger and offer substantially more non-gaming activities to attract customers.

In most markets, Harrah's competes directly with other casino facilities operating in the immediate and surrounding market areas. In major casino destinations, such as Las Vegas and Atlantic City, Harrah's faces competition from other markets in addition to direct competition in its market areas.

In recent years, with fewer new markets open for development, competition in existing markets has intensified. Many casino operators, including Harrah's, have invested in expanding existing facilities or in the development of new facilities in existing markets, such as Las Vegas. This expansion of existing casino entertainment properties, the increase in the number of properties and the aggressive marketing strategies of many of the Company's competitors has increased competition in many markets in which the Company competes and this intense competition can be expected to continue. These competitive pressures have adversely affected the financial performance of the Company in certain markets and, the Company believes, has also adversely affected the financial performance of certain competitors operating in these markets.

Harrah's believes it is well positioned to take advantage of any further legalization of casino gaming, the continued positive consumer acceptance of casino gaming as an entertainment activity, and increased visitation to casino facilities. However, the expansion of casino entertainment into new markets also presents competitive issues for Harrah's. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Effects of Current Economic and Political Conditions" on pages 31 and 32 and portions of "Management's Discussion and Analysis--Division Operating Results and Development Plans" on pages 26 and 28 of the Annual Report, which pages are incorporated herein by reference.

GOVERNMENTAL REGULATION

GAMING-NEW JERSEY

As a holding company of Marina Associates ("Marina"), which holds a license to operate Harrah's Atlantic City in New Jersey, Harrah's is subject to the provisions of the New Jersey Casino Control Act (the "New Jersey Act"). The ownership and operation of casino hotel facilities in Atlantic City, New Jersey are the subject of pervasive state regulation under the New Jersey Act and the regulations adopted thereunder by the New Jersey Casino Control Commission (the "New Jersey Commission"). The New Jersey Commission is empowered to regulate a wide spectrum of gaming and non-gaming related activities and to approve the form of ownership and financial structure of not only the casino licensee, Marina, but also its intermediary and ultimate holding companies, including Harrah's and HOC. In addition to taxes imposed by the State of New Jersey on all businesses, the New Jersey Act imposes certain fees and taxes on casino licensees, including an 8% gross gaming revenue tax, an investment alternative obligation of 1.25% (or an investment alternative tax of 2.5%) of gross gaming revenue (generally defined as gross receipts less payments to customers as winnings) and various license fees.

No casino hotel facility may operate unless the appropriate licenses and approvals are obtained from the New Jersey Commission, which has broad discretion with regard to the issuance, renewal and revocation or suspension of the non-transferable casino license (which licenses are issued initially for a one-year period and renewable for one-year periods for the first two renewals and four-year periods thereafter), including the power to impose conditions which are necessary to effectuate the purposes of the New Jersey Act. Each applicant for a casino license must demonstrate, among other things, its financial stability (including establishing ability to maintain adequate casino bankroll, meet ongoing operating expenses, pay all local, state and federal taxes, make necessary capital improvements and pay, exchange, refinance, or extend all long and short term debt due and payable during the license term), its financial integrity and responsibility, its reputation for good character, honesty and integrity, the suitability of the casino and related facilities and that it has sufficient business ability and casino experience to establish the likelihood of creation or maintenance of a successful, efficient casino operation. With the exception of licensed lending institutions and certain "institutional investors" waived from the qualification requirements under the New Jersey Act, each applicant is also required to establish the reputation of its financial sources including, but not limited to, its financial backers, investors, mortgagees and bond holders.

The New Jersey Act requires that all officers, directors and principal employees of the casino licensee be licensed. In addition, each person who directly or indirectly holds any beneficial interest or ownership of the casino licensee and any person who in the opinion of the New Jersey Commission has the ability to control the casino licensee must obtain qualification approval. Each holding and intermediary company having an interest in the casino licensee must also obtain qualification approval by meeting essentially the same standards as that required of the casino licensee. All directors, officers and persons who directly or indirectly hold any beneficial interest, ownership or control in any of the intermediary or ultimate holding companies of the casino licensee may have to seek qualification from the New Jersey Commission. Lenders, underwriters, agents, employees and security holders of both equity and debt of the intermediary and holding companies of the casino licensee and any other person whom the New Jersey Commission deems appropriate may also have to seek qualification from the New Jersey Commission. Since Harrah's and HOC are publicly-traded holding companies (as defined by the New Jersey Act), however, the persons described in the two previous sentences may be waived from compliance with the qualification process if the New Jersey Commission, with the concurrence of the Director of the New Jersey Division of Gaming Enforcement, determines that they are not significantly involved in the activities of Marina and, in the case of security holders, that they do not have the ability to control Harrah's (or its subsidiaries) or elect one or more of its directors. Any person holding 5% or more of a security in an intermediary or ultimate holding company, or having the ability to elect one or more of the directors of a company, is presumed to have the ability to control the company and thus may be required to seek qualification unless the presumption is rebutted. Notwithstanding this presumption of control, the New Jersey Act permits the waiver of the qualification requirements for passive "institutional investors" (as defined by the New Jersey Act), when such institutional holdings are for investment purposes only and where such securities represent less than 10% of the equity securities of a casino licensee's holding or intermediary companies or debt securities of a casino licensee's holding or intermediary companies not exceeding 20% of a company's total outstanding debt or 50% of an individual debt issue. The waiver, which is subject to certain specified conditions including, upon request, the filing of a certified statement that the investor has no intention of influencing the affairs of the issuer, may be granted to an "institutional investor" holding a higher percentage of such securities upon a showing of good cause. If an "institutional investor" is granted a waiver of the qualification requirements and subsequently changes its investment intent, the New Jersey Act provides that no action other than divestiture may be taken by the investor without compliance with the Interim Casino Authorization Act (the "Interim Act") described below.

In the event a security holder of either equity or debt is required to qualify under the New Jersey Act, the provisions of the Interim Act may be triggered requiring, among other things, either: (i) the filing of a completed application for qualification within 30 days after being ordered to do so, which application must

include an approved Trust Agreement pursuant to which all securities of Harrah's (or its respective subsidiaries) held by the security holder must be placed in trust with a trustee who has been approved by the New Jersey Commission; or (ii) the divestiture of all securities of Harrah's (or its respective subsidiaries) within 120 days after the New Jersey Commission determines that qualification is required or declines to waive qualification, provided the security holder files a notice of intent to divest within 30 days after the determination of qualification. If a security holder files an application under the Interim Act, during the period the Trust Agreement remains in place, such holder may, through the approved trustee, continue to exercise all rights incident to the ownership of the securities with the exception that: (i) the security holder may only receive a return on its investment in an amount not to exceed the actual cost of the investment (as defined by the New Jersey Act) until the New Jersey Commission finds such holder qualified; and (ii) in the event the New Jersey Commission finds there is reasonable cause to believe that the security holder may be found unqualified, the Trust Agreement will become fully operative vesting the trustee with all rights incident to ownership of the securities pending a determination on such holder's qualifications; provided, however, that during the period the securities remain in trust, the security holder may petition the New Jersey Commission to: (a) direct the trustee to dispose of the trust property; and (b) direct the trustee to distribute proceeds thereof to the security holder in an amount not to exceed the lower of the actual cost of the investment or the value of the securities on the date the Trust became operative. If the security holder is ultimately not found to be qualified, the trustee is required to sell the securities and to distribute the proceeds of the sale to the applicant in an amount not exceeding the lower of the actual cost of the investment or the value of the securities on the date the Trust became operative (if not already sold and distributed at the direction of the security holder) and to distribute the remaining proceeds to the Casino Revenue Fund. If the security holder is found qualified, the Trust Agreement will be terminated.

The New Jersey Commission can find that any holder of the equity or debt securities issued by Harrah's or its subsidiaries is not qualified to own such securities. If a security holder of Harrah's or its subsidiaries is found disqualified, the New Jersey Act provides that it is unlawful for the security holder to: (i) receive any dividends or interest payment on such securities; (ii) exercise, directly or indirectly, any rights conferred by the securities; or (iii) receive any remuneration from the company in which the security holder holds an interest. To implement these provisions, the New Jersey Act requires, among other things, casino licensees and their holding companies to adopt provisions in their certificate of incorporation providing for certain remedial action in the event that a holder of any security of such company is found disqualified. The required certificate of incorporation provisions vary depending on whether such company is a publicly or privately traded company as defined by the New Jersey Act. The Certificates of Incorporation of Harrah's and HOC (both "publicly-traded companies" as defined by the New Jersey Act) contain provisions which provide Harrah's and HOC, respectively, with the right to redeem the securities of disqualified holders, if necessary, to avoid any regulatory sanctions, to prevent the loss or to secure the reinstatement of any license or franchise held by Harrah's or HOC or their affiliates, or if such holder is determined by any gaming regulatory agency to be unsuitable, has an application for a license or permit rejected, or has a previously issued license or permit rescinded, suspended, revoked or not renewed. The Certificates of Incorporation of Harrah's and HOC also contain provisions defining the redemption price and the rights of a disqualified security holder. In the event a security holder is disqualified, the New Jersey Commission is empowered to propose any necessary action to protect the public interest, including the suspension or revocation of the casino license of Marina. The New Jersey Act provides, however, that the New Jersey Commission shall not take action against a casino licensee or its parent companies with respect to the continued ownership of the security interest by the disqualified holder, if the New Jersey Commission finds that: (i) such company has a certificate of incorporation provision providing for the disposition of such securities as discussed above; (ii) such company has made a good faith effort to comply with any order requiring the divestiture of the security interest held by the disqualified holder; and (iii) the disqualified holder does not have the ability to control the casino licensee or its parent companies or to elect one or more members to the board of directors of such company. The Certificate of Incorporation of

HOC further provides that debt securities issued by HOC are held subject to the condition that if a holder is found unsuitable by any governmental agency the corporation shall have the right to redeem the securities.

If, at any time, it is determined that Marina or its holding companies have violated the New Jersey Act or regulations promulgated thereunder or that such companies cannot meet the qualification requirements of the New Jersey Act, Marina could be subject to fines or its license could be suspended or revoked. If Marina's license is suspended or revoked, the New Jersey Commission could appoint a Conservator to operate and dispose of the casino hotel facilities of Marina. A Conservator would be vested with title to the assets of Marina, subject to valid liens, claims and encumbrances. The Conservator would be required to act under the general supervision of the New Jersey Commission and would be charged with the duty of conserving, preserving and, if permitted, continuing the operation of the casino hotel. During the period of any such conservatorship, the Conservator may not make any distributions of net earnings without the prior approval of the New Jersey Commission. The New Jersey Commission may direct that all or part of such net earnings be paid to the Casino Revenue Fund, provided, however, that a suspended or former licensee is entitled to a fair rate of return.

The New Jersey Commission granted Marina a plenary casino license in connection with Harrah's Atlantic City in November 1981, and it has been renewed since then. In April 1996, the New Jersey Commission renewed the license for a four-year period and also found Harrah's and HOC to be qualified as holding companies of Marina.

The Company is currently in material compliance with all applicable gaming laws, rules and regulations promulgated by the State of New Jersey.

GAMING-NEVADA

The ownership and operation of casino gaming facilities in Nevada are subject to: (i) the Nevada Gaming Control Act and the regulations promulgated thereunder (collectively, "Nevada Act"); and (ii) various local ordinances and regulations. Harrah's gaming operations are subject to the licensing and regulatory control of the Nevada Gaming Commission ("Nevada Commission"), the Nevada State Gaming Control Board ("Nevada Board"), the Clark County Liquor and Gaming Licensing Board ("CCLGLB"), the City of Reno ("Reno"), and the Douglas County Sheriff's Department ("Douglas"). The Nevada Commission, the Nevada State Gaming Control Board, the CCLGLB, Reno, and Douglas are collectively referred to as the "Nevada Gaming Authorities."

The laws, regulations and supervisory procedures of the Nevada Gaming Authorities are based upon declarations of public policy which are concerned with, among other things: (i) the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity; (ii) the establishment and maintenance of responsible accounting practices and procedures; (iii) the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing reliable record keeping and requiring the filing of periodic reports with the Nevada Gaming Authorities; (iv) the prevention of cheating and fraudulent practices; and (v) providing a source of state and local revenues through taxation and licensing fees. Changes in such laws, regulations and procedures could have an adverse effect on Harrah's Nevada gaming operations.

HOC, a direct subsidiary of Harrah's, and Harrah's Las Vegas, Inc. and Harrah's Laughlin, Inc., each an indirect subsidiary of Harrah's (hereinafter collectively referred to as the "Gaming Subsidiaries"), are required to be licensed by the Nevada Gaming Authorities to enable Harrah's to operate casinos at Harrah's Lake Tahoe, Bill's Lake Tahoe Casino, Harrah's Reno, Harrah's Las Vegas, and Harrah's Laughlin. The gaming licenses require the periodic payment of fees and taxes and are not transferable.

Harrah's is registered with the Nevada Commission as a publicly-traded corporation ("Registered Corporation"), and as such, it is required periodically to submit detailed financial and operating reports to the Nevada Commission and furnish any other information which the Nevada Commission may require. No person may become a stockholder of, or receive any percentage of profits from, the Gaming Subsidiaries without first obtaining licenses and approvals from the Nevada Gaming Authorities. Harrah's and the Gaming Subsidiaries have obtained from the Nevada Gaming Authorities the various registrations, approvals, permits and licenses required in order to engage in gaming activities in Nevada.

Harrah's has been found suitable to be the sole shareholder of HOC, which, in addition to being a gaming licensee, is a Registered Corporation (by virtue of being the obligor on certain outstanding debt securities) and has been found suitable to be the sole shareholder of Harrah's Las Vegas, Inc. and Harrah's Laughlin, Inc. HOC is also licensed as a manufacturer and distributor of gaming devices. Harrah's may not sell or transfer beneficial ownership of any of HOC's voting securities without prior approval of the Nevada Commission.

The Nevada Gaming Authorities may investigate any individual who has a material relationship to, or material involvement with, Harrah's or the Gaming Subsidiaries in order to determine whether such individual is suitable or should be licensed as a business associate of a gaming licensee. Officers, directors and certain key employees of the Gaming Subsidiaries (except HOC) must file applications with the Nevada Gaming Authorities and may be required to be licensed or found suitable by the Nevada Gaming Authorities. Officers, directors and key employees of Harrah's and HOC who are actively and directly involved in gaming activities of the Gaming Subsidiaries may be required to be licensed or found suitable by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an application for licensing for any cause which they deem reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation. The applicant for licensing or a finding of suitability must pay all the costs of the investigation. Changes in licensed positions must be reported to the Nevada Gaming Authorities and in addition to their authority to deny an application for a finding of suitability or licensure, the Nevada Gaming Authorities have jurisdiction to disapprove a change in a corporate position.

If the Nevada Gaming Authorities were to find an officer, director or key employee unsuitable for licensing or unsuitable to continue having a relationship with Harrah's or the Gaming Subsidiaries, the companies involved would have to sever all relationships with such person. In addition, the Nevada Commission may require Harrah's or the Gaming Subsidiaries to terminate the employment of any person who refuses to file appropriate applications. According to the Nevada Act, determinations of suitability or of questions pertaining to licensing are not subject to judicial review in Nevada.

Harrah's and the Gaming Subsidiaries are required to submit detailed financial and operating reports to the Nevada Commission. Substantially all material loans, leases, sales of securities and similar financing transactions by the Gaming Subsidiaries must be reported to, or approved by, the Nevada Commission.

If it were determined that the Nevada Act was violated by the Gaming Subsidiaries, the gaming licenses they hold could be limited, conditioned, suspended or revoked, subject to compliance with certain statutory and regulatory procedures. In addition, the Gaming Subsidiaries, Harrah's and the persons involved could be subject to substantial fines for each separate violation of the Nevada Act at the discretion of the Nevada Commission. Further, a supervisor could be appointed by the Nevada Commission to operate Harrah's gaming properties and, under certain circumstances, earnings generated during the supervisor's appointment (except for the reasonable rental value of the Company's gaming properties) could be forfeited to the State of Nevada. Limitation, conditioning or suspension of any gaming license or the appointment of a supervisor could (and revocation of any gaming license would) materially adversely affect Harrah's gaming operations.

Any beneficial holder of Harrah's voting securities, regardless of the number of shares owned, may be required to file an application, be investigated, and have his suitability as a beneficial holder of Harrah's voting securities determined if the Nevada Commission has reason to believe that such ownership would otherwise be inconsistent with the declared policies of the state of Nevada. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting any such investigation.

The Nevada Act requires any person who acquires more than 5% of Harrah's voting securities to report the acquisition to the Nevada Commission. The Nevada Act requires that beneficial owners of more than 10% of Harrah's voting securities apply to the Nevada Commission for a finding of suitability within thirty days after the Chairman of the Nevada Board mails the written notice requiring such filing. Under certain circumstances, an "institutional investor," as defined in the Nevada Act, which acquires more than 10%, but not more than 15%, of Harrah's voting securities may apply to the Nevada Commission for a waiver of such finding of suitability if such institutional investor holds the voting securities for investment purposes only. An institutional investor shall not be deemed to hold voting securities for investment purposes unless the voting securities were acquired and are held in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly, the election of a majority of the members of the board of directors of Harrah's, any change in Harrah's corporate charter, bylaws, management, policies or operations of Harrah's, or any of its gaming affiliates, or any other action which the Nevada Commission finds to be inconsistent with holding Harrah's voting securities for investment purposes only. Activities which are not deemed to be inconsistent with holding voting securities for investment purposes only include: (i) voting on all matters voted on by stockholders; (ii) making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in its management, policies or operations; and (iii) such other activities as the Nevada Commission may determine to be consistent with such investment intent. If the beneficial holder of voting securities who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within thirty days after being ordered to do so by the Nevada Commission or the Chairman of the Nevada Board may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the beneficial owner. Any stockholder found unsuitable and who holds, directly or indirectly, any beneficial ownership of the common stock of a Registered Corporation beyond such period of time as may be prescribed by the Nevada Commission may be guilty of a criminal offense. Harrah's is subject to disciplinary action if, after it receives notice that a person is unsuitable to be a stockholder or to have any other relationship with Harrah's or the Gaming Subsidiaries, it: (i) pays that person any dividend or interest upon voting securities of Harrah's; (ii) allows that person to exercise, directly or indirectly, any voting right conferred through securities held by that person; (iii) pays remuneration in any form to that person for services rendered or otherwise; or (iv) fails to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities for cash at fair market value. Additionally, the CCLGLB requires that any person who is required to be licensed or found suitable by the Nevada Commission must file a license application with the CCLGLB.

The Nevada Commission may, in its discretion, require the holder of any debt security of a Registered Corporation to file applications, be investigated and be found suitable to own the debt security of a Registered Corporation. If the Nevada Commission determines that a person is unsuitable to own such security, then pursuant to the Nevada Act, the Registered Corporation can be sanctioned, including the loss of its approvals, if without the prior approval of the Nevada Commission, it: (i) pays to the unsuitable person any dividend, interest, or any distribution whatsoever; (ii) recognizes any voting right by such unsuitable person in connection with such securities; (iii) pays the unsuitable person remuneration in any form; or (iv) makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation, or similar transaction.

Harrah's would normally be required to maintain a current stock ledger in Nevada which may be examined by the Nevada Gaming Authorities at any time, but instead, it has been required by the Nevada Commission to maintain its stock ledgers in its executive offices in Memphis, Tennessee which may be examined by the Nevada Board at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Nevada Gaming Authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. Harrah's also is required to render maximum assistance in determining the identity of the beneficial owner. The Nevada Commission has the power to require the Company's stock certificates to bear a legend indicating that the securities are subject to the Nevada Act. However, to date, the Nevada Commission has not imposed such a requirement on Harrah's.

Harrah's and HOC may not make a public offering of their securities without the prior approval of the Nevada Commission if the securities or the proceeds therefrom are intended to be used to construct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations incurred for such purposes. On April 23, 1997, the Nevada Commission granted Harrah's and HOC prior approval to make offerings for a period of two years, subject to certain conditions ("Shelf Approval"). The Shelf Approval does not constitute a finding, recommendation or approval by the Nevada Commission or the Nevada Board as to the accuracy or adequacy of the prospectus or the investment merits of the securities offered. Any representation to the contrary is unlawful.

Changes in control of Harrah's through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or any act or conduct by a person whereby he obtains control, may not occur without the prior approval of the Nevada Commission. Entities seeking to acquire control of a Registered Corporation must satisfy the Nevada Board and Nevada Commission in a variety of stringent standards prior to assuming control of such Registered Corporation. The Nevada Commission may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and corporate defense tactics affecting Nevada gaming licensees, and Registered Corporations that are affiliated with those operations, may be injurious to stable and productive corporate gaming. The Nevada Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to: (i) assure the financial stability of corporate gaming operators and their affiliates; (ii) preserve the beneficial aspects of conducting business in the corporate form; and (iii) promote a neutral environment for the orderly governance of corporate affairs. Approvals are, in certain circumstances, required from the Nevada Commission before the Registered Corporation can make exceptional repurchases of voting securities above the current market price thereof and before a corporate acquisition opposed by management can be consummated. The Nevada Act also requires prior approval of a plan of recapitalization proposed by the Registered Corporation's Board of Directors in response to a tender offer made directly to the Registered Corporation's stockholders for the purposes of acquiring control of the Registered Corporation.

License fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Nevada and to the counties and cities in which the Gaming Subsidiaries' respective operations are conducted. Depending upon the particular fee or tax involved, these fees and taxes are payable either monthly, quarterly or annually and are based upon either: (i) a percentage of the gross revenues received; (ii) the number of gaming devices operated; or (iii) the number of table games operated. A casino entertainment tax is also paid by casino operations where entertainment is furnished in connection with the selling of food or refreshments. Nevada licensees that hold a license as an operator of a slot route, or a manufacturer's or distributor's license, also pay certain fees and taxes to the State of Nevada.

Any person who is licensed, required to be licensed, registered, required to be registered, or is under common control with such persons (collectively, "Licensees") and who proposes to become involved in a gaming venture outside of Nevada is required to deposit with the Nevada Board, and thereafter maintain, a revolving fund in the amount of \$10,000 to pay the expenses of investigation of the Nevada Board of their participation in such foreign gaming. The revolving fund is subject to increase or decrease in the discretion of the Nevada Commission. Thereafter, Licensees are required to comply with certain reporting requirements imposed by the Nevada Act. Licensees are also subject to disciplinary action by the Nevada Commission if they knowingly violate any laws of the foreign jurisdiction pertaining to the foreign gaming operation, fail to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations, engage in activities that are harmful to the State of Nevada or its ability to collect gaming taxes and fees, or employ a person in the foreign operation who has been denied a license or finding of suitability in Nevada on the ground of personal unsuitability.

The Company is currently in material compliance with all applicable gaming laws, rules and regulations promulgated by the State of Nevada.

GAMING-NEW ZEALAND

The ownership and operation of casino gaming facilities in New Zealand are subject to the Casino Control Act of 1990 ("Casino Act") and the regulations promulgated thereunder. The gaming operations of the Sky City Casino are subject to the licensing and regulatory control of the Casino Control Authority ("Authority").

Pursuant to the Casino Act: (1) the predecessor of Sky City Limited applied for and was granted a Casino Premises License by the Authority; (2) Harrah's New Zealand, Inc., an indirect subsidiary of the Company, applied for and was granted a Casino Operator's License by the Authority; and (3) Sky City Limited entered into a Casino Agreement ("Management Agreement") with Harrah's New Zealand, Inc., which was approved by the Authority. Prior to granting the Licenses and approving the Management Agreement, the Authority conducted the relevant inquiries required by the Casino Act, including a thorough investigation into the honesty, financial stability, business skills and management structure of Sky City Limited, Harrah's New Zealand, Inc. and their respective associated persons and entities, and found both companies suitable for licensure.

The Casino Premises License has a term of 25 years from the commencement of casino operations and is renewable. The Casino Operator's License has no stated term, but it can be used only in a facility with a Casino Premises License and pursuant to an approved Management Agreement. No additional casino premises licenses can be granted by the Authority for sites on the North Island of New Zealand (where Auckland is located) for a period of two years after the opening of the Sky City Casino. In addition, no further casino premises licenses can be granted within a radius of 100 kilometers of the site of the Sky City Casino for a period of five years from the commencement of casino operations. Neither the Casino Premises License, the Casino Operator's License nor the Management Agreement may be amended, mortgaged, assigned or transferred without the prior approval of the Authority.

The Casino Act requires that all persons and/or entities which: (1) own a share of, and are entitled to receive income from, the casino business; (2) occupy the position of director, manager or other executive position and secretary of the casino business; or (3) exercise directorial, managerial or executive power over the casino business (all "Associated Persons"), must be found suitable by the Authority. No person can become an Associated Person without prior approval of the Authority. In addition all employees who are to be employed in a casino in any capacity related to the conduct of gaming, the movement of money or chips, cashiering, the operation, maintenance, construction or repair of gaming equipment and the supervision or management of any such activities must obtain a Certificate of Approval from the Authority prior to employment.

Under the Casino Act, the day-to-day regulatory oversight at a casino is performed by persons designated as inspectors, who may be members of the police, and who report to the Authority. The inspectors have broad authority to supervise gaming activities, inspect gaming equipment, supervise casino counts and investigate customer complaints regarding the conduct of gaming. In the exercise of their authority, inspectors have the power to enter and remain in any part of a casino and require the production of documents, information and gaming equipment or chips to ensure compliance with the Casino Act.

The Casino Act gives the Authority the power to cancel, suspend or vary or add conditions to a Casino Premises License, a Casino Operator's License or a Certificate of Approval after appropriate notice and hearing, which actions are appealable to New Zealand's judicial system. The Authority also can levy fines for various gaming-related offenses, allowing minors (under 20 years of age) in the casino, obstructing inspectors and other specified offenses. The costs of the Authority and the costs of administering and enforcing the Casino Act are borne by the holders of casino premises licenses.

The Company is currently in material compliance with the Casino Act and all regulations promulgated thereunder.

GAMING-LOUISIANA (NEW ORLEANS)

On November 22, 1995, Harrah's Jazz Company (referred to in this section as the "Casino Operator" or "HJC"), the partnership in which an indirect subsidiary of Harrah's owns an approximate 47% interest, and which has the contract (the "Casino Operating Contract") with the Louisiana Gaming Control Board ("LGCB") and previously with the Louisiana Economic Development and Gaming Corporation ("LEDGC") to operate the sole land-based casino (the "Gaming Facilities") in New Orleans, Louisiana, filed for protection under Chapter 11 of the Bankruptcy Code and ceased operation of the Basin Street Casino.

See "New Orleans" and "Legal Proceedings" herein for further discussions of the New Orleans project and the legal proceedings filed in connection with the New Orleans project.

Under the Casino Operating Contract, the Casino Operator has the authority to engage a separate indirect subsidiary of Harrah's, Harrah's New Orleans Management Company (the "Casino Manager" or "HNOMC"), to manage the Gaming Facilities. The ownership and operation of the Rivergate Casino are subject to pervasive governmental regulation, including regulation by the LEDGC and now by the LGCB in accordance with the terms of the Louisiana Economic Development and Gaming Act (the "Gaming Act"), the rules and regulations promulgated thereunder from time to time (the "Rules and Regulations"), and the Casino Operating Contract. The LGCB is empowered to regulate a wide spectrum of gaming and non-gaming related activities.

The Gaming Act authorized the LEDGC and now the LGCB, among other things, to enter into a casino operating contract with a casino operator for the conduct of casino gaming operations at a single land-based gaming establishment, having at least 100,000 square feet of useable space, to be located at the Rivergate site. The term of the contract is not to exceed a total of 20 years with one ten-year renewal option. Under the Plan filed in the bankruptcy proceedings, the minimum compensation payable to the LGCB from gaming operations at the Rivergate Casino will be 18 1/2% of gross gaming revenues, or \$100 million annually, whichever is greater.

The Gaming Act and the Rules and Regulations establish significant regulatory requirements with respect to gaming activities and the casino operator, including, without limitation, requirements with respect to minimum accounting and financial practices, standards for gaming devices and surveillance, licensure requirements for vendors and employees, standards for credit extension and collection, and permissible food services. Failure to comply with the Gaming Act and the Rules and Regulations could result in disciplinary action, including fines and suspension or revocation of a license or suitability. Certain regulatory violations could also constitute an event of default under the Casino Operating Contract.

Under the Gaming Act, no person is eligible to receive a license or enter into a contract to conduct casino gaming operations unless, among other things, the LGCB is satisfied the applicant is suitable. The Gaming Act and the Rules and Regulations also require suitability findings for, among others, the casino manager, anyone with a direct ownership interest or the ability to control the casino operator or casino manager (as well as their intermediary and holding companies), certain officers and directors of such companies, and certain vendors and employees of the casino operator. Suitability requires a demonstration by each applicant, by clear and convincing evidence, that, among other things, (i) he is a person of good character, honesty and integrity, (ii) his prior activities, criminal record, if any, reputation, habits and associations do not pose a threat to the public interest of the State or the regulation and control of casino gaming or create or enhance the dangers of unsuitable, unfair or illegal practices, methods and activities in the conduct of gaming or the carrying on of the business and financial arrangements incidental thereto, and (iii) he is capable of and is likely to conduct the activities for which a license or contract is sought. In addition, to be found suitable for purposes of the Casino Operating Contract, the casino operator must demonstrate by clear and convincing evidence that: (i) it has or guarantees acquisition of adequate business competence and experience in the operation of casino gaming operations; (ii) the proposed financing is adequate for the proposed operation and is from suitable sources; and (iii) it has or is capable of and guarantees the obtaining of a bond or satisfactory financial guarantee of sufficient amount, as determined by the LGCB, to guarantee successful completion of and compliance with the Casino Operating Contract or such other projects that are regulated by the LGCB.

Under the Gaming Act and Rules and Regulations, the LGCB can also require that the holder of debt securities issued by the casino operator or its affiliated companies and the holders of equity interests in holding companies of the casino operator be found suitable. Any person holding or controlling a five percent or more equity interest in a non-publicly traded, direct or indirect, holding company of the casino operator or casino manager or ten percent or more equity interest in a publicly traded direct or indirect holding company of the casino operator or casino manager, is presumed to have the ability to control the casino operator or casino manager, as the case may be, requiring a finding of suitability, unless, among other things: (i) the presumption is rebutted by clear and convincing evidence; or (ii) the holder is one of several specified types of passive institutional investors holding a stated minimum amount of assets and, upon request, such institution files a certification stating that they do not have an intention to influence the affairs of the casino operator or casino manager.

Under the Gaming Act and Rules and Regulations, the LGCB has the authority to deny, revoke, suspend, limit, condition, or restrict any finding of suitability. Under the Rules and Regulations, the LGCB also has the authority to take further action on the grounds that the person found suitable is associated with, or controls, or is controlled by, or is under common control with, an unsuitable or disqualified person. Under the Rules and Regulations and the Casino Operating Contract, if at any time the LGCB finds that any person required to be and remain suitable has failed to demonstrate suitability, the LGCB may, consistent with the Gaming Act and the Casino Operating Contract, take any action that the LGCB deems necessary to protect the public interest. Under the Rules and Regulations, however, if a person associated with the casino operator or an affiliate, intermediary, or holding company thereof has failed to be found or remain suitable, the LGCB shall not declare the casino operator or its affiliate, intermediary, or holding company, as the case may be, unsuitable if such companies comply with the conditional licensing provisions, take immediate good faith action and comply with any order of the LGCB to cause such person to dispose of its interest, and, before such disposition, ensure that the disqualified person does not receive any ownership benefits. The above safe harbor protections do not apply if: (i) the casino manager has failed to remain suitable, (ii) the casino operator is engaged in a relationship with the unsuitable person and had actual or constructive knowledge of the wrongdoing causing the LGCB's action, (iii) the casino operator is so tainted by such person that it affects the suitability of the casino operator under the standards of the Gaming Act, or (iv) the casino operator cannot meet the suitability standard contained in the Gaming Act and the Rules and Regulations.

On July 15, 1994, the LEDGC entered into the Casino Operating Contract with HJC, which sets forth the general parameters of, among other things, the location and design and construction requirements of the Rivergate Casino, the agreed upon compensation requirements due to the LEDGC from gaming operations, the requirements for financing the Rivergate Casino, and other contractual and regulatory requirements. In connection with the execution of the Casino Operating Contract, the LEDGC found HJC, HNOMC and certain related intermediary and holding companies and certain of their officers and directors to be suitable. Since the bankruptcy filing by HJC, neither the LEDGC nor the LGCB has informed HJC or any other person required to be found suitable that it is taking action to revoke any finding of suitability in accordance with the Gaming Act or Rules and Regulations, nor has the LEDGC or the LGCB given any notice of default under the Casino Operating Contract.

Under the Gaming Act, the LGCB has the right to set aside or renegotiate the provisions of the Casino Operating Contract if the casino operator is voluntarily or involuntarily placed in bankruptcy, receivership, conservatorship or similar status. It is believed that certain provisions of this statute may be unenforceable pursuant to Sections 365(e)(1) and 525 of the Bankruptcy Code. Nevertheless, the LGCB maintains it has the right to negotiate the Casino Operating Contract in connection with the Plan. In addition, a law enacted as a result of the special session of the State legislature purports to provide authority to the Governor, subject to legislative approval, or to the State legislature, to set aside or order renegotiation or revocation of the Casino Operating Contract when the casino operator is placed in bankruptcy.

Under the Plan and subject to certain approvals from the LGCB, the Casino Operating Contract requirements would be amended in certain respects, including the elimination of temporary casino operations, alterations of the size and scope of the Rivergate Casino and permission for a revised opening schedule for the Rivergate Casino. In addition, in connection with the Plan, certain rulings, approvals and findings of suitability will be required, including findings of suitability with respect to any directors of the JCC entities and any persons having the ability to significantly affect the affairs thereof and certain other approvals relating to the modified design of the Rivergate Casino and the revised opening schedule.

GAMING-ILLINOIS

The ownership and operation of a gaming riverboat in Illinois is subject to extensive regulation under the Illinois Riverboat Gambling Act and the rules and regulations promulgated thereunder. A five-member Illinois Gaming Board is charged with such regulatory authority, including the issuance of riverboat gaming licenses not to exceed 10 in number. The granting of an owner's license involves a preliminary approval procedure in which the Illinois Gaming Board issues a finding of preliminary suitability to a license applicant and effectively reserves a gaming license for such applicant. The Board has issued all 10 licenses. Des Plaines Development Limited Partnership, of which 80% is owned by Harrah's Illinois Corporation, an indirect subsidiary of Harrah's, received an owner's license in 1993.

To obtain an owner's license (and a finding of preliminary suitability), applicants must submit comprehensive application forms, be fingerprinted and undergo an extensive background investigation by the Illinois Gaming Board.

Each license granted entitles a licensee to own and operate up to two riverboats (with a combined maximum of 1,200 gaming positions) and equipment thereon from a specific location. The duration of the license initially runs for a period of three years (with a fee of \$25,000 for the first year and \$5,000 for the following two years). Thereafter, the license is subject to renewal on an annual basis upon payments of a fee of \$5,000 and a determination by the Illinois Gaming Board that the licensee continues to be eligible for an owner's license pursuant to the Illinois legislation and the Illinois Gaming Board's rules.

An applicant is ineligible to receive an owner's license if the applicant, any of its officers, directors or managerial employees or any person who participates in the management or operation of gaming operations: (i) has been convicted of a felony; (ii) has been convicted of any violation under Article 28 of

the Illinois Criminal Code or any similar statutes in any other jurisdiction; (iii) has submitted an application which contains false information; or (iv) is a member of the Illinois Gaming Board. In addition, an applicant is ineligible to receive an owners' license if the applicant owns more than a 10% ownership interest in an entity holding another Illinois owner's license, or if a license of the applicant issued under the Illinois legislation or a license to own or operate gaming facilities in any other jurisdiction has been revoked.

In determining whether to grant a license, the Illinois Gaming Board considers: (i) the character, reputation, experience and financial integrity of the applicants; (ii) the type of facilities (including riverboat and docking facilities) proposed by the applicant; (iii) the highest prospective total revenue to be derived by the state from the conduct of riverboat gaming; (iv) affirmative action plans of the applicant, including minority training and employment; and (v) the financial ability of the applicant to purchase and maintain adequate liability and casualty insurance. Municipal (or county, if an operation is located outside of a municipality) approval of a proposed applicant is required, and all documents, resolutions, and letters of support must be submitted with the initial application.

A holder of a license is subject to the imposition of fines, suspension or revocation of its license for any act that is injurious to the public health, safety, morals, good order, and general welfare of the people of the state of Illinois, or that would discredit or tend to discredit the Illinois gaming industry or the state of Illinois, including without limitation: (i) failing to comply with or make provision for compliance with the legislation, the rules promulgated thereunder or any federal, state or local law or regulation; (ii) failing to comply with any rule, order or ruling of the Illinois Gaming Board or its agents pertaining to gaming; (iii) receiving goods or services from a person or business entity who does not hold a supplier's license but who is required to hold such license by the rules; (iv) being suspended or ruled ineligible or having a license revoked or suspended in any state or gaming jurisdiction; (v) associating with, either socially or in business affairs, or employing persons of, notorious or unsavory reputation or who have extensive police records, or who have failed to cooperate with any official constituted investigatory or administrative body and would adversely affect public confidence and trust in gaming; and (vi) employing in any Illinois riverboat's gaming operation any person known to have been found guilty of cheating or using any improper device in connection with any game. Fines may be made of up to \$5,000 against individuals and up to the greater of \$10,000 or an amount equal to the daily gross receipts against licensees for each violation.

An ownership interest in a license or in a business entity, other than a publicly held business entity which holds an owner's license, may not be transferred without approval of the Illinois Gaming Board. In addition, an ownership interest in a license or in a business entity, other than a publicly held business entity, which holds either directly or indirectly an owner's license, may not be pledged as collateral without approval of the Illinois Gaming Board.

A person employed at a riverboat gaming operation must hold an occupational license which permits the holder to perform only activities included within such holder's level of occupation license or any lower level of occupation license. In addition, the Illinois Gaming Board issues suppliers licenses which authorize the supplier licensee to sell or lease gaming equipment and supplies to any licensee involved in the ownership and management of gaming operations.

Riverboat cruises are limited to a duration of four hours, and no gaming may be conducted while the boat is docked, with the exceptions: (i) of 30-minute time periods at the beginning of and at the end of a cruise while the passengers are embarking and debarking (total gaming time is limited to four hours, however, including the pre- and post-docking periods); and (ii) when weather or mechanical problems prevent the boat from cruising. Minimum and maximum wagers on games are set by the licensee and wagering may be conducted only with a cashless wagering system, whereby money is converted to tokens, electronic cards or chips which can only be used for wagering. No person under the age of 21 is permitted

to wager, and wagers may only be taken from a person present on a licensed riverboat. With respect to electronic gaming devices, the payout percentage may not be less than 80% nor more than 100%.

The Illinois legislature recently amended the legislation to impose an annual graduated wagering tax on adjusted receipts (generally defined as gross receipts less payments to customers as winnings) from gambling games, effective January 1, 1998. The graduated tax rate is as follows: up to \$25 million-15%; \$25 to \$50 million-20%; \$50 to \$75 million-25%; \$75 to \$100 million-30%; in excess of \$100 million-35%. The tax imposed is to be paid by the licensed owner to the Illinois Gaming Board on the day after the day when the wagers were made. Of the proceeds of that tax, 25% goes to the local government where the home dock is located, a small portion goes to the Illinois Gaming Board for administration and enforcement expenses, and the remainder goes to the state education assistance fund.

The legislation also requires that licensees pay a \$2.00 admission tax for each person admitted to a gaming cruise. Of this admission tax, the host municipality or county receives \$1.00. The licensed owner is required to maintain public books and records clearly showing amounts received from admission fees, the total amount of gross receipts and the total amount of adjusted gross receipts.

All use, occupancy and excise taxes which apply to food and beverages and all taxes imposed on the sale or use of tangible property apply to sales aboard riverboats.

The Company is currently in material compliance with all applicable gaming laws, rules and regulations promulgated by the State of Illinois.

There have been discussions regarding increasing the number of riverboat gaming licenses. There can be no assurance that legislation increasing the number of licenses or other legislation will not be introduced in the future, any of which could have a material adverse effect on the operating results of the Company's riverboats.

GAMING-MISSISSIPPI

The ownership and operation of a gaming business in the State of Mississippi is subject to extensive laws and regulations, including the Mississippi Gaming Control Act (the "Mississippi Act") and the regulations (the "Mississippi Regulations") promulgated thereunder by the Mississippi Gaming Commission (the "Mississippi Commission"), which is empowered to oversee and enforce the Mississippi Act. Gaming in Mississippi can be legally conducted only on vessels of a certain minimum size in navigable waters within any county bordering the Mississippi River or in waters of the State of Mississippi which lie adjacent and to the south (principally in the Gulf of Mexico) of the Counties of Hancock, Harrison and Jackson, provided that the county in question has not voted by referendum not to permit gaming in that county. The underlying policy of the Mississippi Act is to ensure that gaming operations in Mississippi are conducted: (i) honestly and competitively; (ii) free of criminal and corruptive influences; and (iii) in a manner which protects the rights of the creditors of gaming operations.

The Mississippi Act requires that a person (including any corporation or other entity) be licensed to conduct gaming activities in the State of Mississippi. A license will be issued only for a specified location which has been approved in advance as a gaming site by the Mississippi Commission. Harrah's Vicksburg Corporation, an indirect subsidiary of Harrah's, is licensed to operate a riverboat casino in Vicksburg, Mississippi. Harrah's Tunica Corporation, another indirect subsidiary, is the general partner of Tunica Partners L.P. and Tunica Partners II L.P., each of which is the licensed operator of a riverboat casino in Tunica, Mississippi. (Harrah's Vicksburg Corporation is the limited partner of both partnerships.) As stated above, the casino operated by Tunica Partners L.P. closed in May 1997. In addition, a parent company of a company holding a license must register under the Mississippi Act. Harrah's and HOC are registered with the Mississippi Commission.

The Mississippi Act also requires that each officer or director of a gaming licensee, or other person who exercises a material degree of control over the licensee, either directly or indirectly, be found suitable

by the Mississippi Commission. In addition, any employee of a licensee who is directly involved in gaming must obtain a work permit from the Mississippi Commission. The Mississippi Commission will not issue a license or make a finding of suitability unless it is satisfied, after an investigation paid for by the applicant, that the persons associated with the gaming licensee or applicant for a license are of good character, honesty and integrity, with no relevant or material criminal record. In addition, the Mississippi Commission will not issue a license unless it is satisfied that the licensee is adequately financed or has a reasonable plan to finance its proposed operations from acceptable sources, and that persons associated with the applicant have sufficient business probity, competence and experience to engage in the proposed gaming enterprise. The Mississippi Commission may refuse to issue a work permit to a gaming employee: (i) if the employee has committed larceny, embezzlement or any crime of moral turpitude, or has knowingly violated the Mississippi Act or Mississippi Regulations; or (ii) for any other reasonable cause.

There can be no assurance that such persons will be found suitable by the Mississippi Commission. An application for licensing, finding of suitability or registration may be denied for any cause deemed reasonable by the issuing agency. Changes in licensed positions must be reported to the issuing agency. In addition to its authority to deny an application for a license, finding of suitability or registration, the Mississippi Commission has jurisdiction to disapprove a change in corporate position. If the Mississippi Commission were to find a director, officer or key employee unsuitable for licensing or unsuitable to continue having a relationship with the licensee, such entity would be required to suspend, dismiss and sever all relationships with such person. The licensee would have similar obligations with regard to any person who refuses to file appropriate applications. Each gaming employee must obtain a work permit which may be revoked upon the occurrence of certain specified events.

Any individual who is found to have a material relationship to, or material involvement with, Harrah's may be required to submit to an investigation in order to be found suitable or be licensed as a business associate of any subsidiary holding a gaming license. Key employees, controlling persons or others who exercise significant influence upon the management or affairs of Harrah's may be deemed to have such a relationship or involvement.

The Mississippi Commission has the power to deny, limit, condition, revoke and suspend any license, finding of suitability or registration, or to fine any person, as it deems reasonable and in the public interest, subject to an opportunity for a hearing. The Mississippi Commission may fine any licensee or person who was found suitable up to \$100,000 for each violation of the Mississippi Act or the Mississippi Regulations which is the subject of an initial complaint, and up to \$250,000 for each such violation which is the subject of any subsequent complaint. The Mississippi Act provides for judicial review of any final decision of the Mississippi Commission by petition to a Mississippi Circuit Court, but the filing of such petition does not necessarily stay any action taken by the Mississippi Commission pending a decision by the Circuit Court.

Each gaming licensee must pay a license fee to the State of Mississippi based upon "gaming receipts" (generally defined as gross receipts less payouts to customers as winnings). The license fee equals four percent of gaming receipts of \$50,000 or less per month, six percent of gaming receipts over \$50,000 and up to \$134,000 per month, and eight percent of gaming receipts over \$134,000. The foregoing license fees are allowed as a credit against Mississippi state income tax liability for the year paid. An additional license fee, based upon the number of games conducted or planned to be conducted on the gaming premises, is payable to the State of Mississippi annually in advance. Also, up to a four percent additional tax on gaming revenues may be imposed at the local level of government.

The Company also is subject to certain audit and record-keeping requirements, primarily intended to ensure compliance with the Mississippi Act, including compliance with the provisions relating to the payment of license fees.

Under the Mississippi Regulations, a person is prohibited from acquiring control of Harrah's without prior approval of the Mississippi Commission. Harrah's also is prohibited from consummating a plan of recapitalization proposed by management in opposition to an attempted acquisition of control of Harrah's

and which involves the issuance of a significant dividend to Common Stock holders, where such dividend is financed by borrowings from financial institutions or the issuance of debt securities. In addition, Harrah's is prohibited from repurchasing any of its voting securities under circumstances (subject to certain exemptions) where the repurchase involves more than one percent of Harrah's outstanding Common Stock at a price in excess of 110 percent of the then-current market value of Harrah's Common Stock from a person who owns and has for less than one year owned more than three percent of Harrah's outstanding Common Stock, unless the repurchase has been approved by a majority of Harrah's shareholders voting on the issue (excluding the person from whom the repurchase is being made) or the offer is made to all other shareholders of Harrah's.

Under the Mississippi Regulations, a gaming license may not be held by a publicly held corporation, although an affiliated corporation, such as Harrah's, may be publicly held so long as Harrah's registers with and gets the approval of the Mississippi Commission. Harrah's must obtain prior approval from the Mississippi Commission for any subsequent public offering of the securities of Harrah's if any part of the proceeds from that offering are intended to be used to pay for or reduce debt used to pay for the construction, acquisition or operation of any gaming facility in Mississippi. In addition, in order to register with the Mississippi Commission as a publicly held holding corporation, Harrah's must provide further documentation which is satisfactory to the Mississippi Commission, which includes all documents filed with the Securities and Exchange Commission.

Any person who, directly or indirectly, or in association with others, acquires beneficial ownership of more than five percent of the Common Stock of Harrah's must notify the Mississippi Commission of this acquisition. Regardless of the amount of securities owned, any person who has any beneficial ownership in the Common Stock of Harrah's may be required to be found suitable if the Mississippi Commission has reason to believe that such ownership would be inconsistent with the declared policies of the State of Mississippi. Any person who is required to be found suitable must apply for a finding of suitability from the Mississippi Commission within 30 days after being requested to do so, and must deposit a sum of money which is adequate to pay the anticipated investigatory costs associated with such finding. Any person who is found not to be suitable by the Mississippi Commission shall not be permitted to have any direct or indirect ownership in Harrah's Common Stock. Any person who is required to apply for a finding of suitability and fails to do so, or who fails to dispose of his or her interest in Harrah's Common Stock if found unsuitable, is guilty of a misdemeanor. If a finding of suitability with respect to any person is not applied for where required, or if it is denied or revoked by the Mississippi Commission, Harrah's is not permitted to pay such person for services rendered, or to employ or enter into any contract with such person.

Harrah's is required to maintain current stock ledgers in the State of Mississippi which may be examined by a representative of the Mississippi Commission at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Mississippi Commission. A failure to make such disclosure may be grounds for finding the record holder unsuitable. Harrah's also is required to render maximum assistance in determining the identity of the beneficial owner.

Because Harrah's is licensed to conduct gaming in the State of Mississippi, neither Harrah's nor any subsidiary may engage in gaming activities in Mississippi while also conducting gaming operations outside of Mississippi without approval of the Mississippi Commission. The Mississippi Commission has approved the conduct of gaming in all jurisdictions in which Harrah's has ongoing operations or approved projects. There can be no assurance that any future approvals will be obtained. The failure to obtain such approvals could have a materially adverse effect on Harrah's.

The Company is currently in material compliance with all applicable gaming laws, rules and regulations promulgated by the State of Mississippi.

GAMING-LOUISIANA (RIVERBOAT)

The ownership and operation of a gaming riverboat in Louisiana is subject to extensive regulation under Louisiana Riverboat Economic Development and Gaming Control Act and the rules and regulations promulgated thereunder. A seven-member Louisiana Gaming Control Board ("LGCB") and the Riverboat Gaming Enforcement Division ("Division"), a part of the Louisiana State Police, are charged with such regulatory authority, including the issuance of riverboat gaming licenses. The number of licenses to conduct gaming on a riverboat is limited by statute to 15. No more than six licenses may be granted for the operation of gaming activities on riverboats in any one parish (county). In general, riverboat gaming in Louisiana can be conducted legally only on approved riverboats that cruise with certain exceptions including exceptions for certain portions of the Red River where riverboats can be continuously docked. Harrah's Shreveport Investment Company, Inc. an indirect subsidiary of Harrah's, is the general partner of, and owns 99% of, Red River Entertainment of Shreveport Partnership in Commendam, a Louisiana partnership which was granted a gaming license in April 1994, to operate a continuously docked gaming riverboat. Harrah's Shreveport Management Company, Inc., another subsidiary, owns the remaining one percent of the Partnership and manages the riverboat, pursuant to an agreement with the Partnership.

To obtain a gaming license, applicants must obtain certain Certificates of Approval from the LGCB and submit comprehensive application forms, be fingerprinted and undergo an extensive background investigation by the Division. An applicant is ineligible to receive a gaming license if the applicant has not established good character, honesty and integrity. Each license granted entitles a licensee to operate a riverboat and equipment thereon from a specific location. The duration of the license initially runs for five years; renewals are for one year terms. In determining whether to grant a license, the Division considers: (i) the good character, honesty and integrity of the applicant; (ii) the applicant's ability to conduct gaming operations; (iii) the adequacy and source of the applicant's financing; (iv) the adequacy of the design documents submitted; (v) the docking facilities to be used; (vi) applicant's plan to recruit, train, and upgrade minorities in employment and to provide for minority-owned business participation.

A holder of a license is subject to the imposition of penalties, suspension or revocation of its license for any act that is injurious to the public health, safety, morals, good order, and general welfare of the people of the state of Louisiana, or that violates the gaming laws and regulations.

The transfer of a license or an interest in a license is prohibited. In addition, an ownership interest of five percent or more in a business entity which holds a gaming license may not be sold, assigned, transferred or pledged without the Division's approval.

No person may be employed as a gaming employee unless such person holds a gaming employee permit issued by the Division. In addition, the Division issues suppliers licenses which authorize the supplier licensee to sell or lease gaming equipment and supplies to any licensee.

Minimum and maximum wagers on games are set by the licensee and wagering may be conducted only with a cashless wagering system, whereby all money is converted to tokens, electronic cards, or chips used only for wagering in the gaming establishment. No person under the age of 21 is permitted to wager, and wagers may only be taken from a person present on a licensed riverboat.

The legislation imposes a franchise fee for the right to operate on Louisiana waterways of 15% of net gaming proceeds and a license fee of \$50,000 (first year) and \$100,000 (subsequent years) plus three and one-half percent of net gaming proceeds. All fees are paid to the Division. In addition, the legislation authorizes local governing authorities the power to levy an admission fee for each person boarding the riverboat. Currently that amount is paid by the license holder. The Company's operation is currently paying an admission fee of \$3.00 per person, but in the future the Company expects to make a payment in lieu of such admission fee of 4.75% of net gaming proceeds.

The Company is currently in material compliance with all applicable gaming laws, rules and regulations promulgated by the State of Louisiana with respect to riverboat casinos.

The ownership and operation of a gaming riverboat in Missouri is subject to extensive regulation under the Missouri Riverboat Gambling Act and the rules and regulations promulgated thereunder. A five-member Missouri Gaming Commission ("Commission") is charged with such regulatory authority, including the issuance of riverboat gaming licenses. Harrah's-North Kansas City Corporation, an indirect subsidiary of Harrah's, has been issued two licenses by the Commission to conduct riverboat gaming at its North Kansas City location. Harrah's Maryland Heights LLC, also an indirect subsidiary of the Company, has been issued two licenses by the Commission to conduct riverboat gaming at its Maryland Heights location. Gaming in Missouri can be conducted legally only on either excursion gambling boats or floating facilities approved by the Commission on the Mississippi and Missouri Rivers. Unless permitted to be continuously docked by the Commission for certain stated reasons, including safety, excursion gambling boats must cruise. The Commission has approved dockside gaming for the Company's riverboats in North Kansas City and Maryland Heights.

To obtain a gaming license, applicants must submit comprehensive application forms, be fingerprinted and undergo an extensive background investigation by the Commission. An applicant is ineligible to receive an owner's license if the applicant has not established good reputation and moral character or if the applicant, any of its officers, directors or managerial employees or any person who participates in the management or operation of gaming operations has been convicted of a felony. There are separate licenses for owners and operators of riverboat gambling operations, which can be applied for and held concurrently. Each license granted entitles a licensee to own and/or operate an excursion gambling boat and equipment thereon from a specific location. The duration of the license initially runs for two one-year terms followed by two-year terms. The Commission also licenses the serving of alcoholic beverages on riverboats and adjacent facilities. All local income, earnings, use, property and sales taxes are applicable to licensees.

In determining whether to grant a license, the Commission considers: (i) the integrity of the applicants; (ii) the types and variety of games to be offered; (iii) the quality of the physical facility, together with improvements and equipment, and how soon the project will be completed; (iv) the financial ability of the applicant to develop and operate the facility successfully; (v) the status of governmental actions required for the facility; (vi) management ability of the applicant; (vii) compliance with applicable laws, rules, charters, and ordinances; (viii) the economic, ecological and social impact of the facility as well as the cost of public improvements; (ix) the extent of public support or opposition; (x) the plan adopted by the home dock city or county; and (xi) effects on competition.

A holder of a license is subject to the imposition of penalties, suspension or revocation of its license for any act that is injurious to the public health, safety, morals, good order, and general welfare of the people of the state of Missouri, or that would discredit or tend to discredit the Missouri gaming industry or the state of Missouri, including without limitation: (i) failing to comply with or make provision for compliance with the legislation, the rules promulgated thereunder or any federal, state or local law or regulation; (ii) failing to comply with any rules, order or ruling of the Commission or its agents pertaining to gaming; (iii) receiving goods or services from a person or business entity who does not hold a supplier's license but who is required to hold such license by the legislation or the rules; (iv) being suspended or ruled ineligible or having a license revoked or suspended in any state or gaming jurisdiction; (v) associating with, either socially or in business affairs, or employing persons of notorious or unsavory reputation or who have extensive police records, or who have failed to cooperate with any official constituted investigatory or administrative body and would adversely affect public confidence and trust in gaming; (vi) employing in any Missouri gaming operation any person known to have been found guilty of cheating or using any improper device in connection with any game; (vii) use of fraud, deception, misrepresentation or bribery in securing any license or permit issued pursuant to the legislation; (viii) obtaining any fee, charge, or other

compensation by fraud, deception or misrepresentation; and (ix) incompetence, misconduct, gross negligence, fraud, misrepresentation or dishonesty in the performance of the functions or duties regulated by the legislation.

An ownership interest in a license or in a business entity, other than a publicly held business entity which holds an owner's license, may not be transferred without the approval of the Commission. In addition, an ownership interest in a license or in a business entity, other than a publicly held business entity, which holds either directly or indirectly an owner's license, may not be pledged as collateral to other than a regulated bank or saving and loan association without the Commission's approval.

Every employee participating in a riverboat gaming operation must hold an occupational license which permits the holder to perform only activities included within such holder's level of occupation license or any lower level of occupation license. In addition, the Commission will issue suppliers licenses which authorize the supplier licensee to sell or lease gaming equipment and supplies to any licensee involved in the ownership and management of gaming operations.

Even if continuously docked, licensed riverboats must establish and abide by a cruise schedule. Riverboat cruises are required to be a minimum of two hours and a maximum of four hours. For the Company's riverboats in North Kansas City and Maryland Heights, which are continuously docked, passengers may board the riverboats for a 45-minute period at the beginning of a cruise. They may disembark at any time. There is a maximum loss per person per cruise of \$500. Minimum and maximum wagers on games are set by the licensee and wagering may be conducted only with a cashless wagering system, whereby money is converted to tokens, electronic cards or chips which can only be used for wagering. No person under the age of 21 is permitted to wager, and wagers may only be taken from a person present on a licensed excursion gambling boat.

The legislation imposes a 20% wagering tax on adjusted gross receipts (generally defined as gross receipts less payments to customers as winnings) from gambling games. The tax imposed is to be paid by the licensed owner to the Commission on the day after the day when the wagers were made. Of the proceeds of that tax, 10% goes to the local government where the home dock is located, and the remainder goes to the state education assistance fund.

The legislation also requires that licensees pay a \$2.00 admission tax for each person admitted to a gaming cruise. The licensed owner is required to maintain public books and records clearly showing amounts received from admission fees, the total amount of gross receipts and the total amount of adjusted gross receipts.

It is the Company's opinion that it is currently in material compliance with all applicable gaming laws, rules and regulations promulgated by the State of Missouri. For a discussion of the Missouri Supreme Court's decision in AKIN V. MISSOURI GAMING COMMISSION and matters related thereto, see "Legal Proceedings" herein.

INDIAN GAMING

The terms and conditions of management contracts and the operation of casinos and all gaming on Indian land in the United States are subject to the Indian Gaming Regulatory Act of 1988 ("IGRA"), which is administered by the NIGC. IGRA is subject to interpretation by the Secretary of the Interior (the "Secretary") and NIGC and may be subject to judicial and legislative clarification or amendment.

IGRA requires NIGC approval of management contracts for Class II and Class III gaming as well as the review of all agreements collateral to the management contracts. All contracts relating to Harrah's Phoenix Ak-Chin, Harrah's Skagit Valley, Harrah's Cherokee and Harrah's Prairie Band casinos were approved by the NIGC. The NIGC will not approve a management contract if a director or a 10% shareholder of the management company: (i) is an elected member of the Indian tribal government which owns the facility purchasing or leasing the games; (ii) has been or is convicted of a felony gaming offense;

(iii) has knowingly and willfully provided materially false information to the NIGC or the tribe; (iv) has refused to respond to questions from the NIGC; or (v) is a person whose prior history, reputation and associations pose a threat to the public interest or to effective gaming regulation and control, or create or enhance the chance of unsuitable activities in gaming or the business and financial arrangements incidental thereto. In addition, the NIGC will not approve a management contract if the management company or any of its agents have attempted to unduly influence any decision or process of tribal government relating to gaming, or if the management company has materially breached the terms of the management contract or the tribe's gaming ordinance, or a trustee, exercising due diligence, would not approve such management contract. A management contract can be approved only after NIGC determines that the contract provides, among other things, for: (i) adequate accounting procedures and verifiable financial reports, which must be furnished to the tribe; (ii) tribal access to the daily operations of the gaming enterprise, including the right to verify daily gross revenues and income; (iii) minimum guaranteed payments to the tribe, which must have priority over the retirement of development and construction costs; (iv) a ceiling on the repayment of such development and construction costs and (v) a contract term not exceeding five years and a management fee not exceeding 30% of net revenues (as determined by the NIGC); provided that the NIGC may approve up to a seven year term and a management fee not to exceed 40% of net revenues if NIGC is satisfied that the capital investment required, and the income projections for the particular gaming activity require the larger fee and longer term. There is no periodic or ongoing review of approved contracts by the NIGC. The only post-approval action which could result in possible modification or cancellation of a contract would be as the result of an enforcement action taken by the NIGC based on a violation of the law or an issue affecting suitability.

IGRA established three separate classes of tribal gaming--Class I, Class II and Class III. Class I includes all traditional or social games solely for prizes of minimal value played by a tribe in connection with celebrations or ceremonies. Class II gaming includes games such as bingo, pulltabs, punchboards, instant bingo and non-banked card games (those that are not played against the house), such as poker. Class III gaming is casino-style gaming and includes banked table games such as blackjack, craps and roulette, and gaming machines such as slots, video poker, lotteries and parimutuel wagering. Harrah's Phoenix Ak-Chin, Harrah's Skagit Valley, Harrah's Cherokee and Harrah's Prairie Band provide Class II gaming and, as limited by the tribal-state compact, Class III gaming.

IGRA prohibits all forms of Class III gaming unless the tribe has entered into a written agreement with the state that specifically authorizes the types of Class III gaming the tribe may offer (a "tribal-state compact"). IGRA requires states to negotiate in good faith with tribes that seek tribal-state compacts and grants Indian tribes the right to seek a federal court order to compel such negotiations. Some states have refused to enter into such negotiations. Tribes in several states sought federal court orders to compel such negotiations. The U. S. Supreme Court in the case of SEMINOLE V. STATE OF FLORIDA AND LAWTON CHILES, determined that this provision of IGRA is unconstitutional as a violation of the Eleventh Amendment to the United States Constitution which immunizes states from suit without the state's consent. The Court did not address, however, the possibility that IGRA allows the Secretary of the Department of the Interior to prescribe Class III gaming procedures where states refuse to enter into compacts with Indian tribes. Subsequent to this decision, the Secretary of the Interior issued proposed rules related to Class III gaming which are out for public comment until April 1998. The issue of whether the Secretary has the authority to issue such regulations either generally or under IGRA can be expected to be litigated.

These compacts provide among other things the manner and extent to which each state will conduct background investigations and certify the suitability of the manager, its officers, directors, and key employees to conduct gaming on tribal lands. The Company received temporary certification pending completion of its background check from the Arizona gaming authorities prior to opening the Phoenix Ak-Chin casino (and since has received its permanent certification) and certification from the Washington and Kansas gaming authorities prior to the opening of the Skagit Valley and Prairie Band casinos, respectively. The certification for Cherokee was provided by the Tribal Gaming Commission.

Title 25, Section 81 of the United States Code states that "no agreement shall be made by any person with any tribe of Indians, or individual Indians not citizens of the United States, for the payment or delivery of any money or other thing of value . . . in consideration of services for said Indians relative to their lands . . . unless such contract or agreement be executed and approved" by the Secretary or his or her designee. An agreement or contract for services relative to Indian lands which fails to conform with the requirements of Section 81 is void and unenforceable. All money or other thing of value paid to any person by any Indian or tribe for or on his or their behalf, on account of such services, in excess of any amount approved by the Secretary or his or her authorized representative will be subject to forfeiture. The Company believes that it has complied with the requirements of section 81 with respect to its management contracts for Harrah's Phoenix Ak-Chin, Harrah's Skagit Valley, Harrah's Cherokee and Harrah's Prairie Band and intends to comply with Section 81 with respect to any other contract to manage casinos located on Indian land in the United States.

Indian tribes are sovereign with their own governmental systems, which have primary regulatory authority over gaming on land within the tribes' jurisdiction. Therefore, persons engaged in gaming activities, including the Company, are subject to the provisions of tribal ordinances and regulations on gaming. These ordinances are subject to review by the NIGC under certain standards established by IGRA. The NIGC may determine that some or all of the ordinances require amendment, and that additional requirements, including additional licensing requirements, may be imposed on the Company. The Company has received no such notification regarding the Ak-Chin, Skagit Valley, Cherokee and/or Prairie Band casinos. The possession of valid licenses from the Ak-Chin Indian Community, the Upper Skagit Indian Tribe, the Eastern Band of Cherokee Indians and the Prairie Band of Potawatomi Nation are ongoing conditions of the Company's agreements with these tribes.

The Company is in present material compliance with IGRA and all applicable rules and regulations promulgated by the NIGC and all tribal and state regulations.

OTHER REGULATIONS

The Company's businesses are subject to various federal, state and local laws and regulations in addition to gaming laws. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, environmental matters, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. Material changes, new laws or regulations, or material differences in interpretations by courts or governmental authorities could adversely affect the operating results of the Company.

FUEL SHORTAGES AND COSTS; WEATHER

Although gasoline supplies are now in relative abundance, gasoline shortages and price increases may have adverse effects on the casino business of Harrah's. Access to several Harrah's casino entertainment facilities, including the Lake Tahoe and Reno areas of northern Nevada and Atlantic City, New Jersey, may be restricted from time to time during the winter months by bad weather which can cause road closures. Such closures have at times adversely affected operating results at Harrah's Lake Tahoe, Harrah's Reno, Bill's Lake Tahoe Casino and Harrah's Atlantic City.

EMPLOYEE RELATIONS

Harrah's, through its subsidiaries, has approximately 23,400 employees. Labor relations with employees are good.

Harrah's subsidiaries have collective bargaining agreements covering approximately 3,100 employees. These agreements relate to certain casino, hotel and restaurant employees at Harrah's Atlantic City and Harrah's Las Vegas. Approximately 1,800 of these 3,100 employees are covered by a collective bargaining

agreement which expired but which remains in effect while negotiations for a successor agreement continue.

ITEM 3. LEGAL PROCEEDINGS.

NEW ORLEANS

On September 26, 1995, Harrah's New Orleans Investment Company ("HNOIC"), an indirect subsidiary of the Company, filed in the United States District Court for the Eastern District of Louisiana a suit styled HARRAH'S NEW ORLEANS INVESTMENT COMPANY V. NEW ORLEANS LOUISIANA DEVELOPMENT CORPORATION, Civil No. 95-3166. At issue in the suit is the percentage of ownership that New Orleans/Louisiana Development Corporation ("NOLDC") holds in Harrah's Jazz Company ("HJC"), a Louisiana partnership whose general partners are HNOIC, NOLDC and Grand Palais Casino, Inc. This declaratory judgment action seeks to confirm that, as of September 26, 1995, NOLDC's percentage interest in the Harrah's Jazz Company partnership was only 13.73% and, therefore, NOLDC is not a "Material Partner" in HJC. This case was put on "administrative hold" after the filing by NOLDC of a Chapter 11 bankruptcy petition on November 21, 1995. Should it be put back on the active list, HNOIC or the appropriate post-bankruptcy entity would vigorously prosecute it. At the time the case was put on "administrative hold," no discovery on the merits had been taken and no answer had been filed by NOLDC.

On September 28, 1995, NOLDC filed suit against the Company and various of its corporate affiliates in NEW ORLEANS LOUISIANA DEVELOPMENT CORPORATION V. HARRAH'S ENTERTAINMENT, FORMERLY D/B/A THE PROMUS COMPANIES, HARRAH'S NEW ORLEANS INVESTMENT COMPANY, HARRAH'S NEW ORLEANS MANAGEMENT COMPANY, HARRAH'S JAZZ COMPANY, AND PROMUS HOTELS, FORMERLY D/B/A EMBASSY SUITES, INC., Civil No. 95-14653, filed in the Civil District Court for the Parish of Orleans. The case was subsequently removed by defendants to the United States District Court for the Eastern District of Louisiana. In this suit, NOLDC seeks to realign ownership interests in HJC among HNOIC and NOLDC. NOLDC also seeks an unspecified dollar amount of damages sufficient to compensate it for the losses it alleges it has suffered as a result of actions of defendants. NOLDC has indicated that it intends to seek to remand the suit to the Civil District Court. The case was also put on "administrative hold" by the District Court Judge as a result of NOLDC's bankruptcy filing. The Company and other defendants intend to vigorously defend the action should it be put back on the active case list. At the time it was put on "administrative hold," no answer had been filed by any defendant and no discovery had been taken.

Beginning on November 28, 1995, eight separate class action suits were filed against the Company and various of its corporate affiliates, officers and directors in the United States District Court for the Eastern District of Louisiana. They are BEN F. D'ANGELO, TRUSTEE FOR BEN F. D'ANGELO REVOCABLE TRUST V. HARRAH'S ENTERTAINMENT CORP., MICHAEL D. ROSE, PHILIP G. SATRE AND RON LENCZYCKI; MAX FENSTER V. HARRAH'S ENTERTAINMENT, INC., HARRAH'S NEW ORLEANS INVESTMENT COMPANY, GRAND PALAIS CASINO, INC., PHILIP G. SATRE, COLIN V. REED, MICHAEL N. REGAN, CHRISTOPHER B. HEMMETER, DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION, SALOMON BROTHERS, INC., AND BT SECURITIES CORP.; GOLDIE ROSENBLUM V. HARRAH'S ENTERTAINMENT CORP., MICHAEL D. ROSE, PHILIP G. SATRE AND RON LENCZYCKI; BARRY ROSS V. HARRAH'S NEW ORLEANS INVESTMENT COMPANY, PHILIP G. SATRE, COLIN V. REED, LAWRENCE L. FOWLER, MICHAEL N. REGAN, CEZAR M. FROELICH, ULRIC HAYNES, JR., WENDELL GAUTHIER, T. GEORGE SOLOMON, JR., DUPLAIN W. RHODES, III, HARRAH'S ENTERTAINMENT, INC., DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION, SALOMON BROTHERS INC., AND BT SECURITIES CORP.; LOUIS SILVERMAN V. HARRAH'S ENTERTAINMENT, INC., HARRAH'S NEW ORLEANS INVESTMENT COMPANY, GRAND PALAIS CASINO, INC., PHILIP G. SATRE, COLIN V. REED, MICHAEL N. REGAN, CHRISTOPHER B. HEMMETER, AND DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION; FLORENCE KESSLER V. PHILIP G. SATRE, COLIN V. REED, CHARLES A. LEDSINGER, JR., MICHAEL N. REGAN, LAWRENCE L. FOWLER, CHRISTOPHER B. HEMMETER, CEZAR M. FROELICH, ULRIC HAYNES, JR., WENDELL H. GAUTHIER, T. GEORGE SOLOMON, JR., DUPLAIN W. RHODES, III, DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION, SALOMON BROTHERS INC., AND BT SECURITIES CORPORATION; WARREN ZEILLER AND JUDITH M.R. ZEILLER V. HARRAH'S ENTERTAINMENT CORP., MICHAEL D. ROSE, PHILIP G. SATRE, AND RON LENCZYCKI; AND CHARLES ZWERVING AND HELENE ZWERVING V. HARRAH'S ENTERTAINMENT CORP., PHILIP G. SATRE, COLIN V. REED, CHRISTOPHER B.

HEMMETER, AND DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION. Per Court Order of January 26, 1996, the above plaintiffs filed a consolidated complaint in the action numbered 95-3925 IN RE HARRAH'S ENTERTAINMENT, INC. SECURITIES LITIGATION. The consolidated complaint alleges that various misstatements and omissions were made in connection with the sale of Harrah's Jazz Company 14.25% First Mortgage Notes and thereafter, and seeks unspecified damages, as well as costs of legal proceedings. On April 25, 1997, the United States District Court preliminarily approved a settlement of this matter, which settlement is contingent upon the consummation of a Plan of Reorganization for HJC. A final fairness hearing was held on June 26, 1997. On July 31, 1997, the Court ruled that the settlement was fair to class members.

On December 6, 1995 Centex Landis, the general contractor for the permanent casino being developed by HJC, filed suit against the Company, among others, in the Civil District Court for The Parish of Orleans in CENTEX LANDIS CONSTRUCTION CO., INC. V. HARRAH'S ENTERTAINMENT, INC. FORMALLY D/B/A THE PROMUS COMPANIES, INC.; AND RONALD A. LENCZYCKI, Civil No. 95-18101. Defendants removed the case to the United States District Court for the Eastern District of Louisiana and it was subsequently transferred to the Bankruptcy Court handling the HJC bankruptcy. A motion for remand is pending. This suit seeks to collect more than \$40 million allegedly owed to Centex Landis by HJC from the Company under guarantee, fraud, fraudulent advertising and unfair trade practice theories. The Company and the other defendant intend to vigorously defend the action and have filed an answer denying all of plaintiff's allegations. No discovery has been taken in the action.

RUSSELL M. SWODY, ET AL. V. HARRAH'S NEW ORLEANS MANAGEMENT COMPANY AND HARRAH'S ENTERTAINMENT, INC., Civil No. 95-4118, was filed against the Company on December 13, 1995 in the United States District Court for the Eastern District of Louisiana, and subsequently amended. SWODY is a class action lawsuit under the Worker Adjustment and Retraining Notification Act ("WARN Act") and seeks damages for alleged failure to timely notify workers terminated by Harrah's New Orleans Management Company at the time of the HJC bankruptcy. Plaintiffs seek unspecified damages, as well as costs of legal proceedings, for themselves and all members of the class. An answer has been filed denying all of plaintiffs' allegations.

SWODY was consolidated with SUSAN N. POIRIER, DARLENE A. MOSS, ET AL. V. HARRAH'S ENTERTAINMENT, INC., HARRAH'S NEW ORLEANS MANAGEMENT COMPANY, AND HARRAH'S OPERATING COMPANY, Civil No. 96-0215, which was filed in the United States District Court for the Eastern District of Louisiana on January 17, 1996, and subsequently amended. POIRIER seeks not only damages under the WARN Act, but also under the Employee Retirement Income Security Act ("ERISA") for the alleged wrongful failure to provide severance to those terminated. Similar proofs of claims were filed by Ms. Poirier in the Bankruptcy Court for the Eastern District of Louisiana in the HJC, HNOIC and Harrah's Jazz Finance Corp. bankruptcy cases.

A settlement has been reached with the SWODY and POIRIER plaintiffs, which calls for a payment to be made by HJC in exchange for the dismissal of all actions, which settlement is contingent on the consummation of the Plan of Reorganization for HJC. That settlement has already been determined to be fair to all class members by the Bankruptcy Court.

On December 29, 1995 in the Civil District Court for The Parish of Orleans, the City of New Orleans filed suit against the Company and others in CITY OF NEW ORLEANS AND RIVERGATE DEVELOPMENT CORPORATION V. HARRAH'S ENTERTAINMENT, INC. (F/K/A THE PROMUS COMPANIES, INC.), GRAND PALAIS CASINO, INC., EMBASSY SUITES, INC., FIRST NATIONAL BANK OF COMMERCE AND RONALD A. LENCZYCKI, Civil No. 95-19285. This suit seeks to require the Company, among others, to complete construction of the permanent casino being developed by HJC under theories of breach of completion guarantee contract, breach of implied duty of good faith, detrimental reliance, misrepresentation, and false advertising. Plaintiff seeks unspecified damages, as well as costs of legal proceedings. Defendants have removed the suit to the United States District Court for the Eastern District of Louisiana and it was then transferred to the Bankruptcy Court handling the HJC bankruptcy. A motion for remand is pending. The Company and the other defendants have filed an answer denying all of plaintiffs' allegations and intend to vigorously defend the action.

LOUISIANA ECONOMIC DEVELOPMENT AND GAMING CORPORATION V. HARRAH'S ENTERTAINMENT, INC. AND HARRAH'S OPERATING COMPANY, INC., Civil No. 424328, was filed on January 23, 1996 in the Nineteenth Judicial Court of the State of Louisiana, Parish of East Baton Rouge. On February 21, 1996, the Company and the other defendants removed the case to the Federal District Court for the Middle District of Louisiana and asked that it be transferred to the Bankruptcy Court handling the HJC bankruptcy. The case has been transferred. A motion for reconsideration has been filed by LEDGC. In this suit LEDGC seeks to require the Company and Harrah's Operating Company to complete construction of the permanent casino being developed by HJC under theories of breach of completion guarantee contract, breach of implied duty of good faith, detrimental reliance, misrepresentation and, in the alternative, seeks damages. The Company has filed an answer and counterclaim against LEDGC. LEDGC has moved to have that counterclaim dismissed and/or for summary judgment. No ruling has yet been made by the court. The defendants intend to vigorously defend the action and prosecute their counterclaim.

On November 21, 1997 in the IN RE HARRAH'S JAZZ COMPANY bankruptcy proceeding, HJC filed an adversary proceeding styled HARRAH'S JAZZ COMPANY V. A&D MAINTENANCE SERVICES, ET AL., 97-1174, which names the Company and various of its subsidiaries as defendants. As HJC noted at the time of the filing, the action was filed "against numerous defendants, including the principal parties in interest in the bankruptcy case, to preserve various causes of action." HJC has not effected service on any defendant therein. This adversary proceeding purports to state claims against the Company and its subsidiaries for preferential transfers, insider preferential transfers, avoidance transfers, violations of La. Civil Code Arts. 1978 ET SEQ., violations of La. Civil Code Arts. 2315, 1953 as well as Arts., 1983, 1989, 1994, 1995, 1996, 1997 and 2000, violations of La. Civil Code Arts. 1953, 1997, 2315, damage to its creditors as a result of the projections in the 1994 offering of HJC bonds, and breach of fiduciary duty and fair dealing. If the action is ever served on the Company, the Company intends to defend the action vigorously.

On November 21, 1997 IN RE NEW ORLEANS LOUISIANA DEVELOPMENT CORPORATION matter, NOLDC filed an adversary proceeding styled NEW ORLEANS LOUISIANA DEVELOPMENT CORPORATION V. BANKERS TRUST COMPANY, 97-1176. et al., which names the Company and several of its subsidiaries as defendants. NOLDC has not effected service on any defendant therein. This adversary proceeding purported to state claims for breach of fiduciary duty, negligent and fraudulent misrepresentation, Stipulation Pour Autrui and violations of La. Civil Code Art. 1953 ET SEQ. If the action is ever served on the Company, the Company intends to defend the action vigorously.

On November 21, 1997, Eddie Sapir and Eddie Sapir Inter Vivos Trust No. 1 filed suit against certain individuals and entities, including the Company. The action is styled EDDIE SAPIR V. BANKER'S TRUST COMPANY, ET AL. and was filed in the Civil District Court for the Parish of Orleans, No. 97-20643. The complaint has not yet been served on the Company. Nonetheless, the Company removed the action and asked that it be transferred to the Bankruptcy Court for the Eastern District of Louisiana for consolidation with the IN RE HARRAH'S JAZZ COMPANY bankruptcy proceeding. The complaint purports to state claims for detrimental reliance, civil law equity, negotiorum gestio, unjust enrichment, breach of covenant, quantum meruit, anticipatory breach of contract, abuse of right, intentional interference with contract and negligent misrepresentation. If the action is ever served on the Company, the Company intends to defend the action vigorously.

MISSOURI

On November 25, 1997, the Missouri Supreme Court issued a ruling in AKIN V. MISSOURI GAMING COMMISSION that defined the state constitutional requirements for floating casino facilities in artificial basins. Subsequently, the Missouri Gaming Commission (the "Commission") attempted to issue disciplinary resolutions that effectively would have amended the gaming licenses of the Company's Missouri casinos, and numerous other floating casino facilities in the Commission's jurisdiction, to preclude games of chance, subject to evidentiary hearings that were to be held if the licensees filed appeals to prove compliance with the Supreme Court's ruling. Prior to the Commission's action, Harrah's and other

licensees filed petitions in the Circuit Court of Cole County, Missouri, and succeeded in having the Court issue an order restraining the Commission from taking any such disciplinary action. The Commission has appealed to the Missouri Supreme Court to permit it to proceed with its intended actions. The Supreme Court will hear the appeal in May 1998, but the Circuit Court order restraining the Commission remains in effect pending the Supreme Court's decision on the appeal. Harrah's has also filed suit seeking declaratory judgment that its gaming facilities meet the state constitutional mandates as established by the Missouri Supreme Court.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

NAME AND AGE	POSITIONS AND OFFICES HELD AND PRINCIPAL OCCUPATIONS OR EMPLOYMENT DURING PAST 5 YEARS
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Philip G. Satre (48).....	Director since 1989, Chairman of the Board since January 1997, President since April 1991 and Chief Executive Officer since April 1994 of Harrah's. Chief Operating Officer of Harrah's (1991-1994). President (1984-1995) of Harrah's Gaming Group. He is a member of the Executive Committee of Harrah's Jazz Company and a director and President of Harrah's Jazz Finance Corp., both of which filed petitions under Chapter 11 of the United States Bankruptcy Code in November 1995. He is also a director and President of Harrah's New Orleans Investment Company which filed a petition under Chapter 11 of the United States Bankruptcy Code in December 1995.
Colin V. Reed (50).....	Executive Vice President of Harrah's since September 1995. Chief Financial Officer of Harrah's since April 1997. Senior Vice President, Corporate Development of Harrah's from May 1992 to September 1995. He is also a director of Sodak Gaming, Inc. He is a member of the Executive Committee of Harrah's Jazz Company and a director and a Senior Vice President of Harrah's Jazz Finance Corp., both of which filed petitions under Chapter 11 of the United States Bankruptcy Code in November 1995. He is a director and Senior Vice President of Harrah's New Orleans Investment Company which filed a petition under Chapter 11 of the United States Bankruptcy Code in December 1995.
John M. Boushy (43).....	Senior Vice President, Information Technology and Marketing Services of Harrah's since June 1993. Vice President, Strategic Marketing of Harrah's from April 1989 to June 1993. He is a director of Interactive Entertainment Limited.
Thomas J. Carr, Jr. (55).....	Senior Vice President, Brand Operations of Harrah's since July 1997. Gaming Division Senior Vice President, Brand Strategy from February 1997 to July 1997. Senior Vice President and Managing Director, Harrah's Sky City Casino from November 1994 to February 1997. Division Senior Vice President, Indian Gaming from October 1992 to November 1994.
Ben C. Peterzell (52).....	Senior Vice President, Corporate Human Resources and Communications of Harrah's since November 1989.
E. O. Robinson, Jr. (58).....	Senior Vice President and General Counsel of Harrah's since April 1993 and Secretary of Harrah's from November 1989 to October 1995. Vice President and Associate General Counsel of Harrah's from November 1989 to April 1993.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock is listed on the New York Stock Exchange and traded under the ticker symbol "HET". The stock is also listed on the Chicago Stock Exchange, the Pacific Exchange and the Philadelphia Stock Exchange.

The following table sets forth the high and low price per share of the Company's Common Stock for the last two years:

	HIGH -----	LOW -----
1996		
First Quarter.....	30 1/4	24
Second Quarter.....	38 7/8	27
Third Quarter.....	28 3/8	17 1/4
Fourth Quarter.....	21 3/4	16 3/8
1997		
First Quarter.....	20 3/4	17
Second Quarter.....	20 1/4	15 1/2
Third Quarter.....	22 15/16	17 5/16
Fourth Quarter.....	22 7/16	16 15/16

The approximate number of holders of record of the Company's Common Stock as of January 30, 1998, is as follows:

TITLE OF CLASS -----	APPROXIMATE NUMBER OF HOLDERS OF RECORD
Common Stock, Par Value \$0.10 per share.....	12,530

The Company does not presently intend to declare cash dividends. The terms of the Company's bank facility substantially limit the Company's ability to pay cash dividends on Common Stock and limitations are also contained in agreements covering other debt of the Company. See "Management's Discussion and Analysis-Intercompany Dividend Restriction" on page 33 of the Annual Report, which page is incorporated herein by reference. When permitted under the terms of the bank facility and the other debt, the declaration and payment of dividends is at the discretion of the Board of Directors of the Company. In October 1996, the Board of Directors of the Company approved a stock repurchase plan which authorized the purchase of up to ten percent of the Company's outstanding common stock. The repurchase of stock under this plan, which expired December 31, 1997, was treated as a dividend for purposes of the Company's debt agreements. The Board of Directors of the Company intends to reevaluate its dividend policy in the future in light of the Company's results of operations, financial condition, cash requirements, future prospects and other factors deemed relevant by the Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA.

See the information for the years 1993 through 1997 set forth under "Financial and Statistical Highlights" on pages 4 and 5 of the Annual Report, which pages are incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

See the information set forth on pages 25 through 33 of the Annual Report, which pages are incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

Not Applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See the information set forth on pages 34 through 50 of the Annual Report, which pages are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS.

DIRECTORS

See the information regarding the names, ages, positions and prior business experience of the directors of the Company set forth in the section entitled "Board of Directors" of the Proxy Statement, which information is incorporated herein by reference.

EXECUTIVE OFFICERS

See "Executive Officers of the Registrant" on page in Part I hereof.

ITEM 11. EXECUTIVE COMPENSATION.

See the information set forth in the sections of the Proxy Statement entitled "Compensation of Directors," "Summary Compensation Table," "Option Grants in the Last Fiscal Year," "Aggregated Option Exercises in 1997 and December 31, 1997 Option Values" and "Certain Employment Arrangements" which sections are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

See the information set forth in the sections of the Proxy Statement entitled "Ownership of Harrah's Entertainment Securities" and "Certain Stockholders," which sections are incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

See the information set forth in the section of the Proxy Statement entitled "Certain Transactions," which section is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) 1. Financial statements (including related notes to consolidated financial statements)* filed as part of this report are listed below:

Report of Independent Public Accountants.

Consolidated Balance Sheets as of December 31, 1997 and 1996.

Consolidated Statements of Income for the Years Ended December 31, 1997, 1996 and 1995.

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 1997, 1996 and 1995.

Consolidated Statements of Cash Flows for the Years Ended December 31, 1997, 1996 and 1995.

2. Schedules for the years ended December 31, 1997, 1996 and 1995, are as follows:

NO.

I -Condensed financial information of registrant

II-Consolidated valuation and qualifying accounts

Schedules III, IV, and V are not applicable and have therefore been omitted.

3. Exhibits (footnotes appear on pages 43 through 45)

NO.

2(1)- Agreement and Plan of Merger, dated as of December 18, 1997, by and among Harrah's Entertainment, Inc., HEI Acquisition Corp., and Showboat, Inc. (19)

3(1)- Certificate of Incorporation of The Promus Companies Incorporated; Certificate of Amendment of Certificate of Incorporation of The Promus Companies Incorporated dated April 29, 1994; Certificate of Amendment of Certificate of Incorporation of The Promus Companies Incorporated dated May 26, 1995; and Certificate of Amendment of Certificate of Incorporation of The Promus Companies Incorporated dated June 30, 1995, changing its name to Harrah's Entertainment, Inc. (25)

**3(2)- Bylaws of the Company, as amended December 12, 1997.

4(1)- Rights Agreement dated as of October 5, 1996, between Harrah's Entertainment, Inc. and The Bank of New York, which includes the form of Certificate of Designations of Series A Special Stock of Harrah's Entertainment, Inc. as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Special Shares as Exhibit C. (3)

4(2)- First Amendment, dated as of February 21, 1997, to Rights Agreement between Harrah's Entertainment, Inc. and The Bank of New York. (27)

4(3)- Second Amendment, dated as of April 25, 1997, to Rights Agreement, dated as of October 25, 1996, between Harrah's Entertainment, Inc. and The Bank of New York. (5)

* Incorporated by reference from pages 34 through 49 of the Annual Report.

** Filed herewith.

- 4(4)- Letter to Stockholders dated July 23, 1997 regarding Summary of Rights To Purchase Special Shares As Amended Through April 25, 1997. (18)
- 4(5)- Certificate of Elimination of Series B Special Stock of Harrah's Entertainment, Inc., dated February 21, 1997. (27)
- 4(6)- Certificate of Designations of Series A Special Stock of Harrah's Entertainment, Inc., dated February 21, 1997. (27)
- 4(7)- Indenture dated as of August 1, 1993, with respect to the 8 3/4% Senior Subordinated Notes due 2000, among The Bank of New York, as trustee, The Promus Companies Incorporated, as guarantor, and Embassy Suites, Inc., as issuer; Form of Note for 8 3/4% Senior Subordinated Notes due 2000. (6)
- 4(8)- First Supplemental Indenture dated as of June 2, 1995, with respect to the 8 3/4% Senior Subordinated Notes due 2000, among Embassy Suites, Inc., as issuer, The Promus Companies Incorporated, as guarantor, and The Bank of New York, as trustee. (2)
- 4(9)- Interest Swap Agreement between Bank of America National Trust and Savings Association and Embassy Suites, Inc. dated May 14, 1993. (6)
- 4(10)- Interest Swap Agreement between NationsBank of North Carolina, N. A. and Embassy Suites, Inc. dated May 18, 1993. (6)
- 4(11)- Interest Swap Agreement between Bank of America National Trust and Savings Association and Harrah's Operating Company, Inc. dated December 21, 1995. (25)
- 4(12)- Interest Swap Agreement between NationsBank, N. A. (Carolinas) and Harrah's Entertainment, Inc. dated December 21, 1995. (25)
- 4(13)- Interest Swap Agreement between The Bank of Nova Scotia and Embassy Suites, Inc. dated January 25, 1995 and amended February 2, 1995. (7)
- 4(14)- Interest Swap Agreement between Bankers Trust Company and Embassy Suites, Inc. dated May 16, 1995. (10)
- 4(15)- Interest Swap Agreement between The Sumitomo Bank, Limited and Embassy Suites, Inc. dated June 5, 1995. (10)
- 4(16)- Interest Swap Agreement between Bankers Trust Company and Embassy Suites, Inc. dated June 6, 1995. (10)
- 4(17)- Consent to Credit Agreements dated as of April 11, 1997, among Harrah's Entertainment, Inc., Harrah's Operating Company, Inc., Marina Associates, various lending institutions, and Bankers Trust Company, The Bank of New York, CIBC Inc., Credit Lyonnais, Atlanta Agency, Wells Fargo Bank, N.A., The Long-Term Credit Bank of Japan, Limited, New York Branch, NationsBank, N.A. (South), Societe Generale, The Sumitomo Bank, Limited, New York Branch, as Agents, and Bankers Trust Company, as Administrative Agent. (18)
- 4(18)- Consent dated April 10, 1997 to Credit Agreement dated June 9, 1995, among Harrah's Entertainment, Inc., Harrah's Operating Company, Inc., Marina Associates, various lenders, and Bankers Trust Company, The Bank of New York, CIBC Inc., Credit Lyonnais, Atlanta Agency, Wells Fargo Bank, N.A., The Long-Term Credit Bank of Japan, Limited, New York Branch, NationsBank, N.A. (South), Societe Generale, The Sumitomo Bank, Limited, New York Branch, as Agents, and Bankers Trust Company, as Administrative Agent. (18)

- 10(1)- Credit Agreement, dated as of July 22, 1993 and amended and restated as of June 9, 1995, among The Promus Companies Incorporated, Embassy Suites, Inc., certain subsidiaries of Embassy Suites, Inc., various banks, Bankers Trust Company, The Bank of New York, CIBC, Inc., Credit Lyonnais, Atlanta Agency, First Interstate Bank of California, The Long-Term Credit Bank of Japan, Limited, New York Branch, NationsBank of Georgia, N.A., Societe Generale and Sumitomo Bank, Limited, New York Branch, as Agents, and Bankers Trust Company, as Administrative Agent. (2)
- 10(2)- Credit Agreement, dated as of June 9, 1995, among The Promus Companies Incorporated, Embassy Suites, Inc., certain subsidiaries of Embassy Suites, Inc., various banks, Bankers Trust Company, The Bank of New York, CIBC, Inc., Credit Lyonnais, Atlanta Agency, First Interstate Bank of California, The Long-Term Credit Bank of Japan, Limited, New York Branch, NationsBank of Georgia, N.A., Societe Generale and The Sumitomo Bank, Limited, New York Branch, as Agents, and Bankers Trust Company, as Administrative Agent. (2)
- 10(3)- Second Amendment to Credit Agreement, dated as of October 15, 1996, among Harrah's Entertainment, Inc., Harrah's Operating Company, Inc., Marina Associates, various lending institutions, Bankers Trust Company, The Bank of New York, CIBC, Inc., Credit Lyonnais, Atlanta Agency, First Interstate Bank of Nevada, N.A., The Long-Term Credit Bank of Japan, Limited, New York Branch, NationsBank of Georgia, N.A., Societe Generale and The Sumitomo Bank, Limited, New York Branch, as Agents, and Bankers Trust Company, as Administrative Agent. (27)
- 10(4)- Consent dated as of April 17, 1996 to Credit Agreement, dated as of June 9, 1995, among Harrah's Entertainment, Inc., Harrah's Operating Company, Inc., Marina Associates, various banks, Bankers Trust Company, The Bank of New York, CIBC, Inc., Credit Lyonnais, Atlanta Agency, First Interstate Bank of Nevada, N.A., The Long-Term Credit Bank of Japan, Limited, New York Branch, NationsBank of Georgia, N.A., Societe Generale and The Sumitomo Bank, Limited, New York Branch, as Agents, and Bankers Trust Company, as Administrative Agent. (11)
- 10(5)- Plan of Reorganization and Distribution Agreement, dated June 30, 1995, between The Promus Companies Incorporated and Promus Hotel Corporation. (10)
- 10(6)- Risk Management Allocation Agreement, dated June 30, 1995, between The Promus Companies Incorporated and Promus Hotel Corporation. (10)
- 10(7)- Tax Sharing Agreement, dated June 30, 1995, between The Promus Companies Incorporated and Promus Hotel Corporation. (10)
- +10(8)- Form of Indemnification Agreement entered into by The Promus Companies Incorporated and each of its directors and executive officers. (1)
- +10(9)- Financial Counseling Plan of Harrah's Entertainment, Inc. as amended January 1996. (25)
- +10(10)- The Promus Companies Incorporated 1996 Non-Management Director's Stock Incentive Plan dated April 5, 1995. (9)
- +10(11)- Amendment dated February 20, 1997 to 1996 Non-Management Director's Stock Incentive Plan. (5)
- **+10(12)- Trust Agreement dated November 7, 1997 between Harrah's Entertainment, Inc. and NationsBank concerning the Non-Management Director's Stock Incentive Plan.

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** Filed herewith.

+ Management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to Item 14(c) of Form 10-K.

- +10(13)- The Promus Companies Incorporated Key Executive Officer Annual Incentive Plan dated February 24, 1995. (10)
- +10(14)- Summary Plan Description of Executive Term Life Insurance Plan. (27)
- +10(15)- Form of Harrah's Entertainment, Inc.'s Annual Management Bonus Plan, as amended 1995. (25)
- **+10(16)- Amendment dated as of December 12, 1997 to Harrah's Entertainment, Inc.'s Annual Management Bonus Plan.
- **+10(17)- Amended and Restated Severance Agreement dated as of October 31, 1997 entered into with Philip G. Satre.
- **+10(18)- Form of Amended and Restated Severance Agreement dated as of October 31, 1997 entered into with John M. Boushy, Thomas J. Carr, Jr., Ben C. Peterzell, Colin V. Reed and E. O. Robinson, Jr.
- +10(19)- Employment Agreement dated as of February 25, 1994, and effective April 29, 1994, between The Promus Companies Incorporated and Philip G. Satre including exhibits thereto. (17)
- +10(20)- Amendment, dated May 5, 1997, to Employment Agreement of Philip G. Satre dated as of February 25, 1994. (5)
- +10(21)- The Promus Companies Incorporated 1990 Stock Option Plan. (12)
- +10(22)- The Promus Companies Incorporated 1990 Stock Option Plan (as amended as of April 30, 1993). (20)
- +10(23)- The Promus Companies Incorporated 1990 Stock Option Plan, as amended April 29, 1994. (8)
- +10(24)- The Promus Companies Incorporated 1990 Stock Option Plan, as amended July 29, 1994. (21)
- +10(25)- Amendment, dated April 5, 1995, to The Promus Companies Incorporated 1990 Stock Option Plan as adjusted on December 12, 1996. (27)
- +10(26)- Revised Form of Stock Option (1990 Stock Option Plan). (25)
- +10(27)- Revised Form of Stock Option with attachments (1990 Stock Option Plan). (27)
- +10(28)- Form of memorandum agreement dated July 2, 1991, eliminating stock appreciation rights under stock options held by Ben C. Peterzell and Philip G. Satre. (14)
- +10(29)- The Promus Companies Incorporated 1990 Restricted Stock Plan. (12)
- +10(30)- Amendment, dated April 5, 1995, to The Promus Companies Incorporated 1990 Restricted Stock Plan. (9)
- +10(31)- Revised Forms of Restricted Stock Award (1990 Restricted Stock Plan). (25)
- +10(32)- Revised Form of Restricted Stock Award (1990 Restricted Stock Plan). (27)
- +10(33)- Administrative Regulations, Long Term Compensation Plan (Restricted Stock Plan and Stock Option Plan) dated October 27, 1995. (25)
- +10(34)- Amendment to Administrative Regulations, Long Term Compensation Plan (Restricted Stock Plan and Stock Option Plan) dated December 12, 1996. (27)
- +10(35)- Deferred Compensation Plan dated October 16, 1991. (15)

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** Filed herewith.

+ Management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to Item 14(c) of Form 10-K.

- +10(36)- Amendment, dated May 26, 1995, to The Promus Companies Incorporated Deferred Compensation Plan. (2)
- +10(37)- Forms of Deferred Compensation Agreement. (25)
- +10(38)- Amended and Restated Executive Deferred Compensation Plan dated as of October 27, 1995. (25)
- +10(39)- Amendment dated April 24, 1997 to Harrah's Entertainment, Inc.'s Executive Deferred Compensation Plan. (18)
- +10(40)- Description of Amendments to Executive Deferred Compensation Plan. (22)
- +10(41)- Restated Amendment, dated July 18, 1996, to Harrah's Entertainment, Inc. Executive Deferred Compensation Plan. (27)
- +10(42)- Forms of Executive Deferred Compensation Agreement. (25)
- +10(43)- Amendment dated April 24, 1997, to Harrah's Entertainment, Inc.'s Deferred Compensation Plan. (18)
- +10(44)- Escrow Agreement dated February 6, 1990 between The Promus Companies Incorporated, certain subsidiaries thereof, and Sovran Bank, as escrow agent. (12)
- +10(45)- First Amendment to Escrow Agreement dated January 31, 1990 among Holiday Corporation, certain subsidiaries thereof and Sovran Bank, as escrow agent. (12)
- +10(46)- Amendment to Escrow Agreement dated as of October 29, 1993 among The Promus Companies Incorporated, certain subsidiaries thereof, and NationsBank, formerly Sovran Bank. (24)
- +10(47)- Amendment, dated as of June 7, 1995, to Escrow Agreement among The Promus Companies Incorporated, certain subsidiaries thereof and NationsBank. (2)
- +10(48)- Amendment, dated as of July 18, 1996, to Escrow Agreement between Harrah's Entertainment, Inc. and NationsBank. (26)
- +10(49)- Time Accelerated Restricted Stock Award Plan ("TARSAP") program dated December 12, 1996. (27)
- +10(50)- Form of TARSAP Award. (27)
- +10(51)- Form of Agreement, dated October 30, 1996, regarding cancellation and reissue of stock options, entered into with Philip G. Satre, Colin V. Reed, Ben C. Peterzell, E.O. Robinson, Jr. and John M. Boushy; and Form of Reissued Stock Option. (27)
- 10(52)- Amended and Restated Partnership Agreement of Harrah's Jazz Company, dated as of March 15, 1994, among Harrah's New Orleans Investment Company, New Orleans/Louisiana Development Corporation and Grand Palais Casino, Inc.; First Amendment to the Amended and Restated Partnership Agreement of Harrah's Jazz Company, effective as of March 15, 1994. (24)
- 10(53)- Second Amendment dated March 31, 1994 to the Amended and Restated Partnership Agreement of Harrah's Jazz Company. (8)
- 10(54)- Amended and Restated Third Amendment to the Amended and Restated Partnership Agreement of Harrah's Jazz Company. (16)

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- + Management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to Item 14(c) of Form 10-K.

- 10(55)- Fourth Amendment to the Amended and Restated Partnership Agreement of Harrah's Jazz Company. (16)
- 10(56)- Indenture dated as of November 15, 1994 between Harrah's Jazz Company, Harrah's Jazz Finance Corp. and First National Bank of Commerce as Trustee for the First Mortgage Notes including form of First Mortgage Note. (16)
- 10(57)- Cash Collateral and Disbursement Agreement among First National Bank of Commerce as Trustee, First National Bank of Commerce as Collateral Agent, Harrah's Jazz Company and Harrah's Jazz Finance Corp., dated November 16, 1994. (16)
- 10(58)- Collateral Mortgage Note by Harrah's Jazz Company dated November 15, 1994. (16)
- 10(59)- Act of Collateral Mortgage and Collateral Assignment of Proceeds by Harrah's Jazz Company dated November 15, 1994. (16)
- 10(60)- Act of Collateral Assignment of Leases and Rents between Harrah's Jazz Company and First National Bank of Commerce as Collateral Agent dated November 15, 1994. (16)
- 10(61)- Act of Security Agreement and Pledge between Harrah's Jazz Company and First National Bank of Commerce as Collateral Agent dated November 15, 1994. (16)
- 10(62)- Pledge Agreement between Harrah's Jazz Company, Harrah's Jazz Finance Corp. and First National Bank of Commerce as Collateral Agent dated as of November 16, 1994. (16)
- 10(63)- Security Agreement among Harrah's Jazz Company, Harrah's Jazz Finance Corp. and First National Bank of Commerce as Collateral Agent dated as of November 16, 1994. (16)
- 10(64)- Security Agreement (Cash Collateral) among Harrah's Jazz Company, Harrah's Jazz Finance Corp. and First National Bank of Commerce as Trustee dated November 16, 1994. (16)
- 10(65)- Manager Subordination Agreement (First Mortgage Notes) among Harrah's Jazz Company, Harrah's New Orleans Management Company and First National Bank of Commerce as Trustee dated as of November 16, 1994. (16)
- 10(66)- Amended Lease Agreement between the Rivergate Development Corporation, as Landlord and Harrah's Jazz Company, as Tenant and City of New Orleans, as Intervenor dated March 15, 1994. (13)
- 10(67)- Amended General Development Agreement between Rivergate Development Corporation and Harrah's Jazz Company and City of New Orleans, as Intervenor dated March 15, 1994. (4)
- 10(68)- Amendment to Amended Lease Agreement between Rivergate Development Corporation, as Landlord and Harrah's Jazz Company, as Tenant and City of New Orleans, as Intervenor dated October 5, 1994. (13)
- 10(69)- Agreement among the Rivergate Development Corporation, the City of New Orleans and Embassy Suites, Inc. and Harrah's Jazz Company, as intervenor, dated October 5, 1994 (the "Embassy Access Agreement"). (13)
- 10(70)- Casino Operating Contract between the Louisiana Economic Development and Gaming Corporation and Harrah's Jazz Company dated July 15, 1994. (4)
- 10(71)- First Amendment to Casino Operating Contract between the Louisiana Economic Development and Gaming Corporation and Harrah's Jazz Company dated August 31, 1994. (13)
- 10(72)- Amended and Restated Management Agreement between Harrah's New Orleans Management Company and Harrah's Jazz Company dated March 14, 1994. (4)

- 10(73)- Construction Agreement between Harrah's Jazz Company and Centex Landis Construction Co., Inc. dated October 10, 1994, for the construction of the Permanent Casino. (13)
- 10(74)- Design and Construction Agreement between Harrah's Jazz Company and Broadmoor dated October 10, 1994, for the construction of the parking structure. (13)
- 10(75)- Owner's Policy issued March 16, 1994 by First American Title Insurance Company to Harrah's Jazz Company with attachments. (16)
- 10(76)- Lender's Title Insurance Policy issued November 16, 1994 by First American Title Insurance Company together with reinsurance agreements. (16)
- 10(77)- Construction Lien Indemnity Obligation Agreement between Harrah's Jazz Company and Embassy Suites, Inc. dated October 12, 1994. (23)
- 10(78)- First Amendment to the Construction Lien Indemnity Obligation Agreement. (16)
- 10(79)- Specimen form of 14 1/4% First Mortgage Note Due 2001 of Harrah's Jazz Company and Harrah's Jazz Finance Corp. (16)
- 10(80)- Limited Partnership Agreement of Des Plaines Limited Partnership between Harrah's Illinois Corporation and John Q. Hammons, dated February 28, 1992; First Amendment to Limited Partnership Agreement of Des Plaines Limited Partnership dated as of October 5, 1992. (24)
- **10(81)- Fifth Amendment to Limited Partnership Agreement of Des Plaines Limited Partnership dated as of April 1, 1997.
- **+10(82)- Amendment, dated as of October 30, 1997, to Escrow Agreement between Harrah's Entertainment, Inc., Harrah's Operating Company, Inc. and NationsBank.
- **10(83)- Third Amendment to Credit Agreements dated as of November 22, 1997, among Harrah's Entertainment, Inc., Harrah's Operating Company, Inc., Marina Associates, various lending institutions, Bankers Trust Company, The Bank of New York, CIBC, Inc., Credit Lyonnais, Atlanta Agency, Wells Fargo Bank, N.A., The Long-Term Credit Bank of Japan, Limited, New York Branch, NationsBank, N.A. (South), Societe Generale and The Sumitomo Bank, Limited, New York Branch, as Agents, and Bankers Trust Company, as Administrative Agent.
- **11- Computations of per share earnings.
- **12- Computations of ratios.
- **13- Portions of Annual Report to Stockholders for the year ended December 31, 1997. (28)
- **21- List of subsidiaries of Harrah's Entertainment, Inc.
- **27- Financial Data Schedule.

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** Filed herewith.

+ Management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to Item 14(c) of Form 10-K.

FOOTNOTES

- (1) Incorporated by reference from the Company's Registration Statement on Form 10, File No. 1-10410, filed on December 13, 1989.
- (2) Incorporated by reference from the Company's Current Report on Form 8-K, filed June 15, 1995, File No. 1-10410.

- (3) Incorporated by reference from the Company's Current Report on Form 8-K, filed August 9, 1996, File No. 1-10410.
- (4) Incorporated by reference from Amendment No. 3 to Form S-1 Registration Statement of Harrah's Jazz Company and Harrah's Jazz Finance Corp., File No. 33-73370, filed August 4, 1994.
- (5) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997, filed May 13, 1997, File No. 1-10410.
- (6) Incorporated by reference from the Company's and Embassy Suites, Inc.'s Amendment No. 2 to Form S-4 Registration Statement, File No. 33-49509-01, filed July 16, 1993.
- (7) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994, filed March 21, 1995, File No. 1-10410.
- (8) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994, filed May 12, 1994, File No. 1-10410.
- (9) Incorporated by reference from the Company's Proxy Statement for the May 26, 1995 Annual Meeting of Stockholders, filed April 25, 1995.
- (10) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, filed August 14, 1995, File No. 1-10410.
- (11) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, filed August 13, 1996, File No. 1-10410.
- (12) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 1989, filed March 28, 1990, File No. 1-10410.
- (13) Incorporated by reference from Amendment No. 4 to Form S-1 Registration Statement of Harrah's Jazz Company and Harrah's Jazz Finance Corp., File No. 33-73370, filed October 12, 1994.
- (14) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 1991, filed November 8, 1991, File No. 1-10410.
- (15) Incorporated by reference from Amendment No. 2 to the Company's and Embassy's Registration Statement on Form S-1, File No. 33-43748, filed March 18, 1992.
- (16) Incorporated by reference from Harrah's Jazz Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994, filed December 21, 1994, File No. .
- (17) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994, filed November 14, 1994, File No. 1-10410.
- (18) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, filed August 13, 1997, File No. 1-10410.
- (19) Incorporated by reference from the Company's Current Report on Form 8-K filed December 24, 1997, File No. 1-10410.
- (20) Incorporated by reference from Post-Effective Amendment No. 1 to the Company's Form S-8 Registration Statement, File No. 33-32864-01, filed July 22, 1993.
- (21) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, filed August 11, 1994, File No. 1-10410.
- (22) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, filed November 13, 1997, File No. 1-10410.

- (23) Incorporated by reference from Amendment No. 5 to Form S-1 Registration Statement of Harrah's Jazz Company and Harrah's Jazz Finance Corp., File No. 33-73370, filed October 26, 1994.
- (24) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993, filed March 28, 1994, File No. 1-10410.
- (25) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, filed March 6, 1996, File No. 1-10410.
- (26) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, filed November 12, 1996, File No. 1-10410.
- (27) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, filed March 11, 1997, File No. 1-10410.
- (28) Filed herewith to the extent portions of such report are specifically included herein by reference.
- (b) The following reports on Form 8-K were filed by the Company during the fourth quarter of 1997 and thereafter through March 1, 1998: December 24, 1997-Reports the proposed acquisition of Showboat, Inc.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

HARRAH'S ENTERTAINMENT, INC.

BY: /S/ PHILIP G. SATRE

(Philip G. Satre, Chairman, President
and Chief Executive Officer)

DATED: MARCH 10, 1998

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
/s/ SUSAN CLARK-JOHNSON ----- (Susan Clark-Johnson)	Director	March 10, 1998
/s/ JAMES B. FARLEY ----- (James B. Farley)	Director	March 10, 1998
/s/ JOE M. HENSON ----- (Joe M. Henson)	Director	March 10, 1998
/s/ RALPH HORN ----- (Ralph Horn)	Director	March 10, 1998
/s/ R. BRAD MARTIN ----- (R. Brad Martin)	Director	March 10, 1998
/s/ WALTER J. SALMON ----- (Walter J. Salmon)	Director	March 10, 1998
/s/ PHILIP G. SATRE ----- (Philip G. Satre)	Director, Chairman, President and Chief Executive Officer	March 10, 1998
/s/ BOAKE A. SELLS ----- (Boake A. Sells)	Director	March 10, 1998
/s/ EDDIE N. WILLIAMS ----- (Eddie N. Williams)	Director	March 10, 1998
/s/ COLIN V. REED ----- (Colin V. Reed)	Chief Financial Officer	March 10, 1998
/s/ JUDY T. WORMSER ----- (Judy T. Wormser)	Controller and Principal Accounting Officer	March 10, 1998

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Harrah's Entertainment, Inc.:

We have audited in accordance with generally accepted auditing standards, the financial statements included in the Harrah's Entertainment, Inc. 1997 annual report to stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 3, 1998. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedules listed under Item 14(a)2 are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Memphis, Tennessee,
February 3, 1998.

SCHEDULE I

HARRAH'S ENTERTAINMENT, INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEETS

(IN THOUSANDS)

	DECEMBER 31,	
	1997	1996
ASSETS		
Cash.....	\$ -	\$ -
Investments in and advances to subsidiaries (eliminated in consolidation).....	735,491	719,821
	<u>\$ 735,491</u>	<u>\$ 719,821</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accrued taxes, including federal income taxes.....	\$ (12)	\$ 75
Commitments and contingencies (Notes 2, 3, 6 and 7)		
Stockholders' equity (Note 4)		
Common stock, \$0.10 par value, authorized-360,000,000 shares, outstanding-101,035,898		
and 102,969,699 shares (net of 3,001,568 and 771,571 held in treasury).....	10,104	10,297
Capital surplus.....	388,925	385,941
Retained earnings.....	349,386	290,797
Unrealized gain on marketable equity securities held by a subsidiary.....	2,884	51,394
Deferred compensation related to restricted stock.....	(15,796)	(18,683)
	<u>735,503</u>	<u>719,746</u>
	<u>\$ 735,491</u>	<u>\$ 719,821</u>

The accompanying Notes to Financial Statements
are an integral part of these balance sheets.

SCHEDULE I (CONTINUED)

HARRAH'S ENTERTAINMENT, INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF INCOME

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Revenues.....	\$ -	\$ -	\$ -
Costs and expenses.....	144	150	182
Loss before income taxes and equity in subsidiaries' continuing earnings.....	(144)	(150)	(182)
Income tax benefit.....	50	57	64
Loss before equity in subsidiaries' continuing earnings.....	(94)	(93)	(118)
Equity in subsidiaries' continuing earnings.....	107,616	98,990	78,928
Income from continuing operations.....	107,522	98,897	78,810
Discontinued operations (Note 1)			
Equity in subsidiaries' income from discontinued operations.....	-	-	21,230
Spin-off transaction expenses, net of tax benefit of \$5,134.....	-	-	(21,194)
Income before extraordinary loss.....	107,522	98,897	78,846
Extraordinary loss, net of tax benefit of \$4,477 (Note 3).....	(8,134)	-	-
Net income.....	\$ 99,388	\$ 98,897	\$ 78,846

The accompanying Notes to Financial Statements
are an integral part of these statements.

SCHEDULE I (CONTINUED)

HARRAH'S ENTERTAINMENT, INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Cash flows from operating activities			
Net income.....	\$ 99,388	\$ 98,897	\$ 78,846
Adjustment to reconcile net income to cash flows from operating activities			
Equity in undistributed continuing earnings of subsidiaries.....	(107,616)	(98,990)	(78,928)
Extraordinary loss.....	12,611	-	-
Amortization.....	-	-	31
Discontinued operations			
Equity in subsidiaries' income from discontinued operations.....	-	-	(21,230)
Spin-off transaction expenses, before income taxes.....	-	-	26,328
Other noncash activity.....	(4,383)	93	(5,047)
Cash flows from operating activities.....	-	-	-
Cash flows from financing activities			
Distributions from subsidiary.....	41,022	13,014	-
Treasury stock purchases.....	(41,022)	(13,014)	-
Cash flows from financing activities.....	-	-	-
Net change in cash.....	-	-	-
Cash, beginning of period.....	-	-	-
Cash, end of period.....	\$ -	\$ -	\$ -

The accompanying Notes to Financial Statements
are an integral part of these statements.

HARRAH'S ENTERTAINMENT, INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

NOTES TO FINANCIAL STATEMENTS

NOTE 1--BASIS OF ORGANIZATION

Harrah's Entertainment, Inc. ("Harrah's" or the "Company"), a Delaware corporation, is a holding company, the principal assets of which are the capital stock of two subsidiaries, Harrah's Operating Company, Inc. ("HOC") and Aster Insurance Ltd. ("Aster"). These condensed financial statements should be read in conjunction with the consolidated financial statements of Harrah's and subsidiaries.

On June 30, 1995, the Company completed a spin-off of its hotel business (the "PHC Spin-off") with the distribution to its stockholders on a one-for-two basis of the stock of a new entity, Promus Hotel Corporation ("PHC"). The Company had transferred its hotel operations to PHC prior to the PHC Spin-off. Through its subsidiaries, Harrah's, formerly The Promus Companies Incorporated, retained ownership of the casino entertainment business. As a result of the PHC Spin-off, Harrah's statements of income and cash flows for periods prior to the PHC Spin-off reflect the hotel business as discontinued operations.

NOTE 2--INVESTMENT IN ASTER

The value of Harrah's investment in Aster has been reduced below zero. Harrah's negative investment in Aster at December 31, 1997 and 1996 was \$8.1 million and \$10.4 million, respectively, and is included in investments in and advances to subsidiaries on the balance sheet. In addition, Harrah's has guaranteed the future payment by Aster of certain insurance-related liabilities.

NOTE 3--LONG-TERM DEBT

Harrah's has no long-term debt obligations. Harrah's has guaranteed certain long-term debt obligations of HOC. During second quarter 1997, HOC redeemed its \$200 million 10 7/8% Senior Subordinated Notes due 2002 (the "Notes"). As a result of the early extinguishment of the Notes, an \$8.1 million extraordinary loss, net of tax benefit, was recorded.

NOTE 4--STOCKHOLDERS' EQUITY

In addition to its common stock, Harrah's has the following classes of stock authorized but unissued:

Preferred stock, \$100 par value, 150,000 shares authorized

Special stock, \$1.125 par value, 5,000,000 shares authorized

Series A Special Stock, 2,000,000 shares designated

Harrah's Board of Directors has authorized that one special stock purchase right (a "Right") be attached to each outstanding share of common stock. These Rights are exercisable only if a person or group acquires 15% or more of the Company's common stock or announces a tender offer for 15% or more of the common stock. Each Right entitles stockholders to buy one two-hundredth of a share of Series A Special Stock of the Company at an initial price of \$130 per Right. If a person acquires 15% or more of the Company's outstanding common stock, each Right entitles its holder to purchase common stock of the Company having a market value at that time of twice the Right's exercise price. Under certain conditions, each Right entitles its holder to purchase stock of an acquiring company at a discount. Rights held by the 15% holder will become void. The Rights will expire on October 5, 2006, unless earlier redeemed by the Board at one cent per Right.

HARRAH'S ENTERTAINMENT, INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

NOTES TO FINANCIAL STATEMENTS

NOTE 4--STOCKHOLDERS' EQUITY (CONTINUED)

Pursuant to a plan approved by Harrah's Board of Directors in October 1996 and which expired on December 31, 1997, the Company repurchased 2,993,700 shares of its common stock at an average price of \$18.05 per share. The repurchased shares are held in treasury.

On June 30, 1995, the PHC Spin-off was completed and the Company distributed to its stockholders the stock of PHC as a dividend on a one-for-two basis. To reflect this distribution, the \$139.6 million value of the net assets of discontinued operations as of the PHC Spin-off date was charged against the Company's retained earnings.

NOTE 5--INCOME TAXES

Harrah's files a consolidated tax return with its subsidiaries.

NOTE 6--COMMITMENTS AND CONTINGENCIES

A Harrah's subsidiary owns an approximate 47% interest in a partnership named Harrah's Jazz Company ("Harrah's Jazz"). In November 1995, Harrah's Jazz and its wholly-owned subsidiary, Harrah's Jazz Finance Corp., filed petitions for relief under Chapter 11 of the Bankruptcy Code. Harrah's Jazz filed a plan of reorganization with the Bankruptcy Court in April 1996 and has filed several subsequent amendments to the plan (the Plan). In April 1997, the Bankruptcy Court confirmed and approved the Plan. However, since the Louisiana State Legislature did not approve a component of the confirmed Plan - a modified casino operating contract with Louisiana's gaming board - the confirmed Plan was not consummated.

In November 1997 and again in January 1998, Harrah's Jazz modified the confirmed Plan. This most recent plan, which is supported by, among others, the Governor of Louisiana and the Mayor of New Orleans, contemplates that a newly formed limited liability company, Jazz Casino Company, L.L.C. ("JCC"), would be responsible for completing construction of the exclusive New Orleans land-based casino entertainment facility (the "Rivergate Casino"), a subsidiary of the Company would receive approximately 40% of the equity in JCC's parent, and Harrah's would make a \$75 million equity investment in the project (less any debtor-in-possession financing provided to the project), guarantee JCC's \$100 million annual payment under the casino operating contract to the State of Louisiana gaming board (the "State Guarantee"), guarantee up to \$154 million of a bank credit facility of up to \$224 million, guarantee timely completion and opening of the Rivergate Casino and make an additional \$10 million subordinated loan to JCC to finance the Rivergate Casino. With respect to the State Guarantee, Harrah's would be obligated to guarantee the first year of JCC's operations and, if certain cash flow tests and other conditions are satisfied each year, to renew the guarantee each year for a maximum term of approximately five years. Harrah's obligations under the guarantee would be limited to a guarantee of the \$100 million payment obligation of JCC for the period in which the guarantee is in effect and would be secured by a first priority lien on JCC's assets. JCC's payment obligation would be \$100 million at the commencement of each twelve month period under the casino operating contract and would decline on a daily basis by 1/365 of \$100 million as payments are made each day by JCC to Louisiana's gaming board.

Consummation of the plan is subject to numerous approvals, including approval from the Company's Board of Directors, the Louisiana State Legislature, the City of New Orleans City Council and others. The plan was confirmed by the Bankruptcy Court on January 29, 1998, and it is anticipated that the casino

HARRAH'S ENTERTAINMENT, INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

NOTES TO FINANCIAL STATEMENTS

NOTE 6--COMMITMENTS AND CONTINGENCIES (CONTINUED)

operating contract will be considered by the Louisiana State Legislature in a special session commencing in late March 1998. There can be no assurance that these approvals will be obtained and that such plan will be consummated.

During the course of the bankruptcy of Harrah's Jazz, a subsidiary of the Company has made debtor-in-possession loans to Harrah's Jazz, totaling approximately \$32.2 million as of December 31, 1997, to fund certain payments to the City of New Orleans and other cash requirements of Harrah's Jazz. Harrah's has committed to provide up to \$40 million in debtor-in-possession loans to Harrah's Jazz, conditioned upon Harrah's Jazz meeting certain monthly milestones in the bankruptcy. There can be no assurance that such committed debtor-in-possession financing will be sufficient for Harrah's Jazz to consummate the plan. Should additional debtor-in-possession funding be necessary for the consummation of the plan, the approval of the Company's Board of Directors would be necessary for Harrah's to provide any debtor-in-possession financing in excess of \$40 million.

NOTE 7--LITIGATION

Harrah's and certain of its subsidiaries have been named as defendants in a number of lawsuits arising from the suspension of development of a land-based casino, and the closing of the temporary gaming facility, in New Orleans, Louisiana, by Harrah's Jazz. The ultimate outcomes of these lawsuits cannot be predicted at this time, and no provisions for the claims are included in the accompanying consolidated financial statements. The Company intends to defend these actions vigorously. In the event a bankruptcy reorganization plan is not consummated, the Company anticipates that such lawsuits, which are presently inactive, would become active, and additional lawsuits would be filed.

In November 1997, the Missouri Supreme Court issued a ruling that defined the state constitutional requirements for floating casino facilities in artificial basins. Subsequently, the Missouri Gaming Commission (the "Commission") attempted to issue disciplinary resolutions that effectively would have amended the gaming licenses of the Company's Missouri casinos, and numerous other floating casino facilities in the Commission's jurisdiction, to preclude games of chance, subject to evidentiary hearings that were to be held if the licensees filed appeals to prove compliance with the Supreme Court's ruling. Prior to the Commission's action, Harrah's Missouri casinos and other licensees filed petitions in the Circuit Court of Cole County, Missouri, and succeeded in having the Court issue an order restraining the Commission from taking any such disciplinary action. The Commission has appealed to the Missouri Supreme Court to permit it to proceed with its intended actions. The Supreme Court has not indicated when it will hear the appeal. Harrah's Missouri casinos have also filed suit seeking declaratory judgment that its gaming facilities meet the state constitutional mandates as established by the Missouri Supreme Court. Management is unable to predict at this time the final outcome of this matter or whether that outcome could materially affect the Company's results of operations, cash flows or financial position of its Missouri casinos.

NOTE 8--AGREEMENT TO ACQUIRE SHOWBOAT, INC.

During December 1997, Harrah's and Showboat, Inc. ("Showboat") entered into a definitive agreement whereby Harrah's agreed to acquire Showboat for \$30.75 per share in an all-cash transaction valued at \$519 million (net of options proceeds), and assume \$635 million in Showboat debt. The transaction is expected to be completed during second quarter 1998, subject to various conditions including regulatory approvals, Showboat stockholder approval and other third party approvals.

SCHEDULE II

HARRAH'S ENTERTAINMENT, INC.

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

(IN THOUSANDS)

COLUMN A DESCRIPTION	COLUMN B BALANCE AT BEGINNING OF PERIOD	COLUMN C		COLUMN D DEDUCTIONS FROM RESERVES	COLUMN E BALANCE AT CLOSE OF PERIOD
		ADDITIONS			
		CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS		
YEAR ENDED DECEMBER 31, 1997					
Allowance for doubtful accounts					
Current.....	\$14,064	\$ 5,332	\$ 27	\$ (7,961)(A)	\$11,462
Long-term.....	\$ 4,628	\$ 1,118	\$ -	\$ 4,675	\$10,421
Reserve for debtor-in-possession loans to nonconsolidated subsidiary.....	\$ -	\$ 13,000	-	-	\$13,000
Reserve for impairment of long-lived assets.....	\$33,369	\$ -	\$ -	\$ -	\$33,369
Reserve for contingent liability exposure.....	\$ 9,481	\$ -	\$ -	\$ (4,675)	\$ 4,806
Insurance allowances and reserves.....	\$49,590	\$ 54,198	\$ -	\$(56,918)	\$46,870
YEAR ENDED DECEMBER 31, 1996					
Allowance for doubtful accounts					
Current.....	\$10,910	\$ 7,814	\$ -	\$ (4,660)(A)	\$14,064
Long-term.....	\$ 75	\$ -	\$ -	\$ 4,553	\$ 4,628
Reserve for impairment of long-lived assets.....	\$ -	\$ 33,369	\$ -	\$ -	\$33,369
Reserve for contingent liability exposure.....	\$ -	\$ 14,034	\$ -	\$ (4,553)	\$ 9,481
Insurance allowances and reserves.....	\$49,821	\$ 39,829	\$ -	\$(40,060)	\$49,590
YEAR ENDED DECEMBER 31, 1995					
Allowance for doubtful accounts					
Current.....	\$ 9,551	\$ 5,910	\$ -	\$ (4,551)(A)	\$10,910
Long-term.....	\$ 75	\$ -	\$ -	\$ -	\$ 75
Allowance for losses on property dispositions.....	\$11,231	\$ -	\$ -	\$(11,231)(B)	\$ -
Insurance allowances and reserves.....	\$49,448	\$ 40,412	\$ -	\$(40,039)	\$49,821

(A) Uncollectible accounts written off, net of amounts recovered.

(B) Reduction of reserve due to disposition of subject property.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated February 3, 1998, included in this Form 10-K for the year ended December 31, 1997, into the Company's previously filed Registration Statements File Nos. 33-32863, 33-32864, 33-32865, 33-59991, 33-59969, 33-59975 and 33-59971.

ARTHUR ANDERSEN LLP

Memphis, Tennessee,
March 9, 1998.

BYLAWS
OF
HARRAH'S ENTERTAINMENT, INC.
(Amended December 12, 1997)

ARTICLE I

OFFICES

SECTION 1. Registered Office. The registered office of Harrah's Entertainment, Inc. (the "Corporation") shall be at 1013 Centre Road, in the City of Wilmington, County of New Castle, State of Delaware.

SECTION 2. Other Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors of the Corporation (the "Board of Directors") may from time to time determine.

ARTICLE II

MEETINGS OF STOCKHOLDERS

SECTION 1. Place of Meetings. Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place, either within or without the State of Delaware as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

SECTION 2. Annual Meetings. The annual meeting of stockholders shall be held on the first Friday in May in each year or on such other date and at such time as may be fixed by the Board of Directors and stated in the notice of the meeting, for the purpose of electing directors and for the transaction of only such other business as is properly brought before the meeting in accordance with these Bylaws.

Written notice of an annual meeting stating the place, date and hour of the meeting, shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

To be properly brought before the annual meeting, business must be either (i) specified in the notice of annual meeting (or any supplement or amendment thereto) given by or at the direction of the Board of Directors, (ii) otherwise brought before the annual meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the annual meeting by a stockholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than sixty (60) days nor more than ninety (90) days prior to the meeting, provided, however, that in the event that less than seventy (70) days notice or prior public disclosure of the date of the annual meeting is given or made to stockholders, notice by a stockholder, to be timely, must be received no later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made, whichever first occurs. A stockholder's notice to the Secretary shall set forth (a) as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, and (ii) any material interest of the stockholder in such business, and (b) as to the stockholder giving the notice (i) the name and record address of the stockholder and (ii) the class, series and number of shares of capital stock of the Corporation which are beneficially owned by the stockholder. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Article II, Section 2. The officer of the Corporation presiding at an annual meeting shall, if the facts warrant, determine and declare to the annual meeting that business was not properly brought before the annual meeting in accordance with the provisions of this Article II, Section 2, and if such officer should so determine, such officer shall so declare to the annual meeting and any such business not properly brought before the meeting shall not be transacted.

SECTION 3. Special Meetings. Unless otherwise prescribed by law or by the Certificate of Incorporation, special meetings of stockholders, for any purpose or purposes, may only be called by a majority of the entire Board of Directors or by the Chairman or the President.

Written notice of a special meeting stating the place, date and hour of the meeting, shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

SECTION 4. Quorum. Except as otherwise provided by law or by the Certificate of Incorporation, the holders of a majority of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the holders of a majority of the votes entitled to be cast by the stockholders entitled to vote thereat, present in person or represented by proxy may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented by proxy. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder entitled to vote at the meeting.

SECTION 5. Voting. Unless otherwise required by law, the Certificate of Incorporation or these Bylaws, any question brought before any meeting of stockholders shall be decided by the vote of the holders of a majority of the stock represented and entitled to vote thereat, excluding any shares that are voted "Abstain" on such question, so that abstentions shall not be counted in the decision. Each stockholder represented at a meeting of stockholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such stockholder, unless otherwise provided by the Certificate of Incorporation. Such votes may be cast in person or by proxy but no proxy shall be voted after three years from its date, unless such proxy provides for a longer period. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in his discretion, may require that any votes cast at such meeting shall be cast by written ballot.

SECTION 6. List of Stockholders Entitled to Vote. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Corporation who is present.

SECTION 7. Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 6 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

ARTICLE III

DIRECTORS

SECTION 1. Nomination of Directors. Nominations of persons for election to the Board of Directors of the Corporation at the annual meeting may be made at such meeting by or at the direction of the Board of Directors, by any committee or persons appointed by the Board of Directors or by any stockholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Article III, Section 1. Such nominations by any stockholder shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than sixty (60) days nor more than ninety (90) days prior to the meeting; provided, however, that in the event that less than seventy (70) days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder, to be timely, must be received no later than the close of business on the tenth (10th) day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made, whichever first occurs. Such stockholder's notice to the Secretary shall set forth (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director, (a) the name, age, business address and residence address of the person, (b) the principal occupation or employment of the person, (c) the class and number of shares of capital stock of the Corporation which are beneficially owned by the person, and (d) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to the Rules and Regulations of the Securities and Exchange Commission under Section 14 of the Securities Exchange Act of 1934, as amended; and (ii) as to the stockholder giving the notice (a) the name and record address of the stockholder and (b) the class and number of shares of capital stock of the Corporation which are beneficially owned by the stockholder. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as a director of the Corporation. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth herein. The officer of the Corporation presiding at an annual meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the

meeting and the defective nomination shall be disregarded. The directors shall be elected at the annual meeting of the stockholders, except as provided in the Certificate of Incorporation, and each director elected shall hold office until his successor is elected and qualified; provided, however, that unless otherwise restricted by the Certificate of Incorporation or by law, any director or the entire Board of Directors may be removed, either with or without cause, from the Board of Directors at any meeting of stockholders by a majority of the stock represented and entitled to vote thereat.

SECTION 2. Meetings. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of the Board of Directors may be held without notice at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called by the Chairman of the Board or the President or a majority of the entire Board of Directors. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by mail not less than forty-eight (48) hours before the date of the meeting, by telephone or telegram on twenty-four (24) hours' notice, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances.

SECTION 3. Quorum. Except as may be otherwise specifically provided by law, the Certificate of Incorporation or these Bylaws, at all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, a majority of the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

SECTION 4. Actions of Board of Directors. Unless otherwise provided by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

SECTION 5. Meetings by Means of Conference Telephone. Unless otherwise provided by the Certificate of Incorporation or these Bylaws, members of the Board of Directors of the Corporation, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 5 of Article III shall constitute presence in person at such meeting.

SECTION 6. Committees. The Board of Directors may, by resolution passed by a majority of the entire Board of Directors, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. Any committee, to the extent allowed by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation. Each committee shall keep regular minutes and report to the Board of Directors when required.

SECTION 7. Compensation. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

SECTION 8. Interested Directors. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose if (i) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the shareholder entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the shareholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the shareholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

ARTICLE IV

OFFICERS

SECTION 1. General. The officers of the Corporation shall be chosen by the Board of Directors and shall be a President, a Secretary and a Treasurer. The Board of Directors, in its discretion, may also choose a Chairman of the Board of Directors (who must be a director) and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers. Any number of offices may be held by the same person, unless otherwise prohibited by law, the Certificate of Incorporation or these Bylaws. The officers of the Corporation need not be stockholders of the Corporation nor, except in the case of the Chairman of the Board of Directors, need such officers be directors of the Corporation.

SECTION 2. Election. The Board of Directors at its first meeting held after each annual meeting of stockholders shall elect the officers of the Corporation who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier resignation or removal. Any officer elected by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors. The salaries of all officers who are directors of the Corporation shall be fixed by the Board of Directors.

SECTION 3. Voting Securities Owned by the Corporation. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the President or any Vice President and any such officer may, in the name and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and power incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

SECTION 4. Chairman of the Board of Directors. The Chairman of the Board of Directors, if there be one, shall preside at all meetings of the stockholders and of the Board of Directors. Except where by law the signature of the President is required, the Chairman of the Board of Directors shall possess the same power as the President to sign all contracts, certificates and other instruments of the Corporation which may be authorized by the Board of Directors. During the absence or disability of the President,

the Chairman of the Board of Directors shall exercise all the powers and discharge all the duties of the President. The Chairman of the Board of Directors shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by these Bylaws or by the Board of Directors.

SECTION 5. President. The President shall, subject to the control of the Board of Directors and, if there be one, the Chairman of the Board of Directors, have general supervision of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. He shall execute all bonds, mortgages, contracts and other instruments of the Corporation requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except that the other officers of the Corporation may sign and execute documents when so authorized by these Bylaws, the Board of Directors or the President. In the absence or disability of the Chairman of the Board of Directors, or if there be none, the President shall preside at all meetings of the stockholders and the Board of Directors. The President shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by these Bylaws or by the Board of Directors.

SECTION 6. Vice Presidents. At the request of the President or in his absence or in the event of his inability or refusal to act (and if there be no Chairman of the Board of Directors), the Vice President or the Vice Presidents if there is more than one (in the order designated by the Board of Directors) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Each Vice President shall perform such other duties and have such other powers as the Board of Directors from time to time may prescribe. If there be no Chairman of the Board of Directors and no Vice President, the Board of Directors shall designate the officer of the Corporation who, in the absence of the President or in the event of the inability or refusal of the President to act, shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President.

SECTION 7. Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all the proceedings thereat in a book or books to be kept for that purpose; the Secretary shall also perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or President, under whose supervision he shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the Board of Directors or the President may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary

or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

SECTION 8. Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

SECTION 9. Assistant Secretaries. Except as may be otherwise provided in these Bylaws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Secretary, and in the absence of the Secretary or in the event of his disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

SECTION 10. Assistant Treasurers. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Treasurer, and in the absence of the Treasurer or in the event of his disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer. If required by the Board of Directors, an Assistant Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

SECTION 11. Controller. The Controller shall establish and maintain the accounting records of the Corporation in accordance with generally accepted accounting principles applied on a consistent basis, maintain proper internal control of the assets of the Corporation and shall perform such other duties as the Board of Directors, the President or any Vice President of the Corporation may prescribe.

SECTION 12. Other Officers. Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

ARTICLE V

STOCK

SECTION 1. Form of Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate signed, in the name of the Corporation (i) by the Chairman of the Board of Directors, the President or a Vice President and (ii) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation.

SECTION 2. Signatures. Any or all of the signatures on the certificate may be a facsimile, including, but not limited to, signatures of officers of the Corporation and countersignatures of a transfer agent or registrar. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

SECTION 3. Lost Certificates. The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

SECTION 4. Transfers. Stock of the Corporation shall be transferable in the manner prescribed by law and in these Bylaws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by his attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be cancelled before a new certificate shall be issued.

SECTION 5. Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty days nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 6. Beneficial Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE VI

NOTICES

SECTION 1. Notices. Whenever written notice is required by law, the Certificate of Incorporation or these Bylaws, to be given to any director, member of a committee or stockholder, such notice may be given by mail, addressed to such director, member of a committee or stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Written notice may also be given personally or by telegram, telex or cable.

SECTION 2. Waivers of Notice. Whenever any notice is required by law, the Certificate of Incorporation or these Bylaws, to be given to any director, member of a committee or stockholder, a waiver thereof in writing, signed, by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE VII

GENERAL PROVISIONS

SECTION 1. Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property, or in shares of the capital stock. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

SECTION 2. Disbursements. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

SECTION 3. Fiscal Year. The fiscal year of the Corporation shall end on December 31 and the following fiscal year shall commence on January 1, unless the fiscal year is otherwise fixed by affirmative resolution of the entire Board of Directors.

SECTION 4. Corporate Seal. The corporate seal shall have inscribed thereon the name of the Corporation and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

TRUST AGREEMENT

This Agreement made this 7th day of November, 1997 by and between Harrah's Entertainment, Inc., 1023 Cherry Road, Memphis, TN, 38117 (the "Company") and NationsBank, 1 NationsBank Plaza, Nashville, TN 37239-1697 (the "Trustee");

RECITALS

(a) WHEREAS, the Company has adopted the Non-Management Directors Stock Incentive Plan (the "Plan") attached hereto as Exhibit A.

(b) WHEREAS, the Company has incurred or expects to incur liability under the terms of the Plan with respect to the individuals and their beneficiaries covered by the Plan ("Participants");

(c) WHEREAS, the Company wishes to establish a trust pursuant to this Agreement (the "Trust") and to contribute assets to the Trust that will be held in the Trust, subject to the claims of the Company's creditors in the event of the Company's Insolvency, as herein defined, until either paid to Participants or returned to the Company in such manner and at such times as specified in this Agreement;

(d) WHEREAS, it is the intention of the parties that the Trust shall not affect the status of the deferred provisions of the Plan as an unfunded arrangement;

(e) WHEREAS, it is the intention of the Company to make contributions to the Trust to provide a source of funds to assist meeting its liabilities under the Plan; and

(f) WHEREAS, references to the "Company" herein include Harrah's Entertainment, Inc., and any successor to its obligations under the Plan.

NOW, THEREFORE, the parties do hereby establish the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

Section 1. ESTABLISHMENT OF TRUST

(a) The Company hereby deposits, with the Trustee in trust, 26,164 shares of the Company's Common Stock, which shall become the initial principal of the Trust to be held, administered and disposed of by the Trustee as provided in this Agreement. The Trust will become effective upon the Trustee's receipt of this deposit.

(b) The Trust hereby established shall be irrevocable except as provided herein.

(c) The Trust is intended to be a grantor trust, of which the Company is the grantor, within the meaning of Subpart E, Part I, Subchapter J, Chapter 1, Subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) The principal of the Trust, and any earnings thereon, shall be held separate and apart from other funds of the Company and shall be used exclusively for the uses and purposes of Participants and general creditors as herein set forth except when this Agreement permits or requires such funds to be returned to the Company. Participants shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plan and this Agreement shall be mere unsecured contractual rights of Participants against the Company. Any assets held by the Trust will be subject to the claims of the Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 3(a) herein.

(e) Within ninety (90) days following the end of each plan quarter starting the quarter ending September 30, 1997, the Company shall be required to irrevocably deposit additional cash or other property into the Trust (which may include the Company's Common Stock or other securities) so that the Trust has an amount sufficient to distribute to each Participant the benefits payable pursuant to the terms of the Plan as of the close of such quarter assuming such benefits were then payable in full.

Section 2. PAYMENTS TO PLAN PARTICIPANTS AND THEIR BENEFICIARIES.

(a) Within 60 days following the execution of this Agreement, the Company shall deliver to the Trustee a schedule (the "Payment Schedule") that indicates the amounts payable in respect of each Participant or that provides a formula or other instructions acceptable to the Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plan), and the time of commencement for payment of such amounts. The Payment Schedule will be updated periodically as necessary, but not less than annually, by the Company.

(b) If the Company does not make payment or deliver stock or securities sufficient to satisfy any distribution obligation under the Plan to a Participant when due, the Participant will be entitled to deliver to the Trustee a written notice (the "Participant's Notice") setting forth instructions for the distribution obligation the Participant believes is due under the Plan. The Trustee will deliver a copy of the Participant's Notice to the Company within ten (10) business days of receipt thereof. If the Company does not, within ten (10) business days after receiving a copy of the Participant's Notice, deliver written notice to the Trustee objecting to the payment instructions contained in the Participant's Notice on the grounds that such distribution is not due under the Plan, the

Trustee shall make the distribution referred to in the Participant's Notice. Such distribution shall be such amount of Company stock or other securities or trust assets as the Trustee deems reasonably appropriate to satisfy the instructions in the Participant's Notice. The Trustee will use its best efforts to deliver Company stock or successor securities in satisfaction of the Plan's obligations. If it is necessary to liquidate or sell any securities in Trust for this purpose, the Trustee may undertake such liquidation or sale as soon as possible in order to obtain the necessary assets for the distribution.

(c) If the Company delivers timely written notice to the Trustee objecting to the distribution to the Participant on the grounds that such distribution is not due under the Plan, the Trustee shall deliver a copy of such notice to the Participant within five (5) business days of the Trustee's receipt thereof. The Trustee shall then make the distribution to cover the obligation set forth in the Participant's Notice (unless the Company objects on the grounds that the distribution has already been made or has already been fully satisfied in which event the procedures at the end of this section 2(c) shall apply) within five (5) business days after receipt from the Participant of a written undertaking, in the form attached hereto as Exhibit B, to indemnify and hold harmless the Escrow Agent and the Company from and against all losses or claims which may result from any incorrect distribution which is made to the Participant pursuant to the Participant's Notice.

If the Company gives written notice to the Trustee objecting on the grounds that the requested distribution has already been made or has been fully satisfied, the Trustee shall not make the distribution from the Trust upon confirming such fact. If the Trustee does not, within ten (10) business days after receipt of such notice from the Company, confirm that such distribution has been made or has been fully satisfied by the Company, then the Trustee shall make the required distribution to the Participant sufficient to satisfy, as reasonably determined by the Trustee, the obligation described in the Participant's Notice after receiving from the Participant the written undertaking in the form attached as Exhibit B.

(d) It is understood that the Plan requires distributions to Participants in the form of the Company's Common Stock or successor securities. The Trustee will value such benefit obligations based on the market value (as defined herein) of the Company's Common Stock (or the successor security) as of the business day preceding the date the Trustee prepares the distribution which will be delivered to the Participant. It is the intention of this Agreement that the Company's obligation to issue stock or securities under the Plan will be satisfied by an equivalent distribution by the Trustee if the Company (or its successor) does not issue the required stock or securities when due to a Participant or Participants.

(e) It is understood the Company is required to distribute benefits directly to Participants as they become due under the terms of the Plan. To the extent the Company from time to time makes distributions under the Plan which the Trust is intended to protect, the Trustee shall, upon written request of the Company's Controller, promptly reimburse the Company for any such distribution by returning Trust assets to the Company equal in value to the distribution or equal to the amount of securities that were distributed to Participants. Such reimbursement shall be made within ten (10) days after a written notice is delivered by the Company's Controller to the Trustee setting forth the specific distribution made by the Company, who received the distribution and the date thereof, and the form and amount of assets to be returned to the Company (cash and/or securities).

(f) The entitlement of a Participant to benefits under the Plan shall be determined in accordance with the terms of the Plan, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plan.

(g) If at the end of any quarter the principal of the Trust, and any earnings thereon, will not be sufficient to make payments of Plan benefits as if they were then payable in full as determined by the Trustee or by the Company, the Company shall within ninety (90) days after the end of the quarter deposit additional cash or other assets or securities (which may include Company stock) into the Trust to the extent

necessary to keep the Trust fully funded so it will have the capability of distributing to all Participants their benefits valued at the end of such quarter. The Trustee shall exercise its best efforts to notify the Company when the principal and earnings are not sufficient and of the additional amount that must be deposited to keep the Trust fully funded. The failure of the Trustee to give this notice will not result in any liability to the Trustee and will not excuse the Company from insuring the Trust is fully funded. The Trustee is under no duty to compel contributions to the Trust.

Section 3. TRUSTEE RESPONSIBILITY REGARDING PAYMENTS TO TRUST
BENEFICIARY WHEN COMPANY IS INSOLVENT.

(a) The Trustee shall cease distributions to Participants if the Company is Insolvent. The Company shall be considered "Insolvent" for purposes of this Agreement if (i) the Company is unable to pay its debts as they become due, or (ii) the Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section 1 hereof, the principal and income of the Trust shall be subject to claims of general creditors of the Company under federal and state law as set forth below:

(1) The Board of Directors of the Company or the Chief Executive Officer of the Company will have the duty to notify the Trustee in writing of the Company's Insolvency. If such a writing is given to the Trustee, the determination of Insolvency shall be deemed made on the date the Trustee receives such written notice. In addition, if three or more persons claiming to be creditors of the Company allege in writing to the Trustee that the Company has become Insolvent, the Trustee shall, within a reasonable time, determine whether the Company is Insolvent and, pending such determination, the Trustee shall discontinue payment of benefits to Participants. If the Trustee does not determine that the Company is Insolvent within thirty (30) business days after receiving written notice from three persons claiming to be creditors of the Company alleging such Insolvency, then the Company will be deemed solvent on the 30th day after the receipt of such notice unless and until a determination is subsequently made by the Trustee that the Company is Insolvent.

(2) Unless the Trustee has actual knowledge of the Company's Insolvency, or has received written notice from the Chief Executive Officer of the Company or from the Company's Board of Directors or from three persons claiming to be creditors stating or alleging that the Company is Insolvent, the Trustee shall have no duty to inquire whether the Company is Insolvent. The Trustee may in all events rely on such evidence concerning the Company's solvency as may be furnished to the Trustee and that provides the Trustee with a reasonable basis for making a determination concerning the Company's solvency.

(3) If at any time the Trustee has determined that the Company is Insolvent, the Trustee shall discontinue distributions to Participants, shall notify the Company in writing of such determination, and shall hold the assets of the Trust for the benefit of the Company's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Participants to pursue their rights as general creditors of the Company with respect to benefits due under the Plan or otherwise.

(4) If the Trustee determines the Company is Insolvent, the Trustee shall resume the distribution of benefits to Participants in accordance with Section 2 of this Agreement only after the Trustee has determined that the Company is not Insolvent (or is no longer Insolvent). If the Trustee receives written notice from the Company's Chief Executive Officer or Board of Directors that the Company is not Insolvent (or is no longer Insolvent), then the Trustee will make reasonable inquiry as to the Company's solvency. If the Trustee does not determine the Company is Insolvent within thirty (30) days after receiving such written notice, then the Trustee's determination of solvency shall be deemed made as of the 30th day following receipt of such notice.

(c) Provided that there are sufficient assets in the Trust, if the Trustee discontinues the distribution of benefits from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments, the first distribution to any Participant following such discontinuance shall include the aggregate amount of all distributions

due to the Participant under the terms of the Plan for the period of such discontinuance less the aggregate amount of any distributions made to the Participant by the Company under the Plan during any such period of discontinuance.

Section 4. PAYMENTS TO THE COMPANY.

Except as provided in this Agreement, the Company shall have no right or power to direct the Trustee to return to the Company or to divert to others any of the Trust assets before all payment of benefits have been made to Participants pursuant to the terms of the Plan.

Section 5. INVESTMENT AUTHORITY.

(a) The Trustee may, and is expressly authorized to, invest in securities (including stock or rights to acquire stock) or obligations issued by the Company. All rights associated with assets of the Trust shall be exercised by the Trustee or the person designated by the Trustee, and shall in no event be exercisable by or rest with Participants, except that all voting and decisional rights including but not limited to rights to decide whether to tender such shares in a tender offer with respect to trust assets including the Company's Common Stock will be exercised by the Company. The Trustee will follow the Company's instructions in this regard. The Company shall have

the right at anytime, and from time to time in its sole discretion, to substitute assets of equal fair market value for any asset held by the Trust. This right is exercisable by the Company in a nonfiduciary capacity without the approval or consent of any person in a fiduciary capacity.

(b) Since distributions from the Trust to Participants will be in the form of the Company's Common Stock or successor securities or will be directly based on the value of the Company's Common Stock (or successor securities), the Company hereby requests the Trustee to invest all cash deposits (or other non-Company stock deposits) in Common Stock of the Company as soon as possible after such deposits are made by the Company into the Trust. The Trustee may also invest in (without having any liability to Participants or the Company for doing so or not doing so): (1) direct obligations of the United States or its agencies (or obligations unconditionally and fully guaranteed as to principal and interest by the United States or its agencies) in each case maturing within one year from date of acquisition; (2) negotiable certificates of deposit issued by any commercial bank (including NationsBank) organized and existing under U.S. Laws or the laws of any state having combined capital and surplus of at least \$500 million; (3) money market funds including, but not limited to, any money market fund maintained by NationsBank. No investments other than those described in Section 5(a) or 5(b) herein will be made by the Trustee unless otherwise agreed in writing by the Company and the Trustee.

(c) The Trustee will not be liable for any failure to maximize the income earned on funds in the Trust nor for any losses due to liquidation of any investment which the Trustee, in its sole discretion, believes necessary to make any distribution under the terms of the Trust. The Trustee will have no liability if Trust assets are insufficient to satisfy any obligation to Participants unless such insufficiency is directly caused by a breach of this Agreement by the Trustee.

Section 6. CERTAIN FUNDING PROVISIONS

(a) All interest, income and appreciation in value of investments shall constitute part of the Trust assets. Any dividends, interest or income shall be reinvested and the Company requests that such reinvestments be in the Company's Common Stock (or successor securities). All losses of income or principal including any expenses of the Trustee charged against the Trust will be the responsibility of the Company and in the event of such losses the Company shall, upon written request of the Trustee, promptly deposit sufficient assets into the Trust to insure it is fully funded. The Trustee has no duty to compel contributions to the Trust.

(b) The Trust shall be fully funded if the market value of the Trust assets is equal to or greater than the value of the stock rights of Participants in the Plan as measured by the market value of the Company's Common Stock (or successor securities) on the day the assets are valued.

(c) The market value of the Company's Common Stock shall be based on the average of the high and low of such stock on the New York Stock Exchange on the relevant business day. If the Company's Common Stock is converted or changed to a different security or securities (or a combination of cash or securities), the market value shall be based on the average of the high and low trading price for such security or securities (together with securities purchased using any such cash) on the New York Stock Exchange on that day. If a stock or security is not traded on the New York Stock Exchange, then the market value will be based on the average of the high and low prices on the principal exchange where the stock or security is traded that day. If not traded on a principal exchange, the Trustee will determine such market value in such manner as it deems appropriate in its sole discretion.

Section 7. ACCOUNTING BY TRUSTEE.

The Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such

specific records as shall be agreed upon in writing between the Company and the Trustee. Within 90 days following the close of each calendar year and within 30 days after the removal or resignation of the Trustee, the Trustee shall deliver to the Company a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be.

Section 8. RESPONSIBILITY OF TRUSTEE.

(a) The Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however, that the Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by the Company which is contemplated by, and in conformity with, the terms of the Plan or this Trust and

is given in writing by the Company. In the event of a dispute between the Company and a party, the Trustee may apply to a court of competent jurisdiction to resolve the dispute.

(b) If the Trustee undertakes or defends any litigation arising in connection with this Trust, the Company agrees to indemnify the Trustee against the Trustee's costs, expenses and liabilities (including, without limitation, reasonable attorneys' fees and expenses) relating thereto and to be primarily liable for such payments. If the Company does not pay such costs, expenses and liabilities in a reasonably timely manner, the Trustee may obtain payment from the Trust.

(c) The Trustee may consult with legal counsel (who may also be counsel for the Company or the Trustee generally) with respect to any of its duties or obligations hereunder.

(d) The Trustee may hire agents, accountants, attorneys, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder.

(e) The Trustee shall have, without exclusion, all powers conferred on the Trustees by applicable law, unless expressly provided otherwise herein.

(f) Notwithstanding any powers granted to the Trustee pursuant to this Agreement or under applicable law, the Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

Section 9. COMPENSATION AND EXPENSES OF THE TRUSTEE.

The Company shall pay all administrative and Trustee's fees and expenses as well as the expenses of any third parties hired by the Trustee to assist it in performing any of its duties or obligations hereunder. If not so paid, the fees and expenses shall be paid from the Trust. The fees payable to the Trustee are described in Exhibit C.

Section 10. RESIGNATION AND REMOVAL OF THE TRUSTEE.

(a) The Trustee may resign at any time by written notice to the Company, which shall be effective 90 days after receipt of such notice unless the Company and the Trustee agree otherwise in writing.

(b) The Trustee may be removed and replaced by the Company on 90 days notice or upon shorter notice accepted by the Trustee.

(c) If the Trustee resigns or is removed, and if a successor trustee has not been appointed, the Trustee shall select a successor trustee pursuant to the procedures of section 11(b) hereof prior to the effective date of the Trustee's resignation or removal.

(d) Upon resignation or removal of the Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within 30 days after the resignation or removal unless the Company extends the time limit.

(e) If the Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 11 hereof, by the effective date of resignation or removal. If no such appointment has been made, the Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of the Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust and shall be payable by the Company..

Section 11. APPOINTMENT OF SUCCESSOR.

(a) If the Trustee resigns or is removed in accordance with section 10 hereof, the Company shall appoint a third party, such as a bank trust department or other party

that may be granted corporate trustee powers under state law, as a successor to replace the Trustee upon such resignation or removal. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee under this Agreement, including ownership rights in the trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by the Company or the successor Trustee to evidence the transfer.

(b) If the Trustee resigns or is removed pursuant to the provisions of section 10 hereof and the Company fails to appoint a successor trustee, the Trustee shall then select a successor Trustee. The Trustee may, in selecting a successor Trustee, appoint any third party such as a bank trust department or other party that may be granted corporate trustee powers under state law. The appointment of a successor trustee shall be effective when accepted in writing by the new Trustee. The new Trustee shall have all the rights and powers of the former Trustee under this agreement, including ownership rights in trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by the successor Trustee to evidence the transfer.

(c) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing trust assets, subject to this Agreement.

The successor Trustee shall not be responsible for, and the Company shall indemnify and defend the successor Trustee from, any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event or any condition existing at the time it becomes successor Trustee.

Section 12. AMENDMENT OR TERMINATION.

(a) This Trust Agreement may be amended by a written instrument executed by the Trustee and the Company. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Plan, shall make the Trust revocable without the written consent of all Participants, nor shall materially and adversely affect the substantive rights of Participants without the written consent of all Participants.

(b) The Trust shall not terminate until the date on which Participants are no longer entitled to benefits pursuant to the terms of the Plan unless sooner revoked in accordance with section 12(a) hereof. The Trustee may rely on instructions from the Company that all benefits have been paid pursuant to the Plan. However, upon written consent of all Participants who are entitled to benefits at any time pursuant to the terms of the Plan, the Company may terminate this Trust prior to the time all benefit payments under the Plan have been made. All assets in the Trust at termination shall be returned to the Company.

Section 13. MISCELLANEOUS.

(a) Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) Benefits payable to Participants under this Trust Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process, except upon death. In the event of a Participant's death, the Participant's estate or legal beneficiary shall be entitled to Participant's rights. Counsel for Trustee shall make this determination after reviewing appropriate documentation relating to the Participant's death, estate and/or legal beneficiary.

(c) This Trust Agreement shall be governed by and construed in accordance with the laws of Tennessee.

(d) Any notice, demand, waiver or other communication required or permitted under this Agreement will be in writing and will be given personally, by Fax, certified mail, or by Federal Express or other overnight courier service, will be deemed given when received, and will be addressed as follows:

If to the Company: Harrah's Entertainment, Inc.
1023 Cherry Road
Memphis, TN 38117
Attn: Secretary
Fax: (901) 762-8735

If to the Trustee: NationsBank
Private Client Group
1 NationsBank Plaza
Nashville, TN 38239-1697
Fax: (615) 749-3637

Any notice to a Participant will be sent by certified mail or by Federal Express or other overnight courier service to the Participant's last known address.

(e) Each Participant will be a third party beneficiary of this Agreement and will be entitled to enforce the Agreement as it applies to such Participant as if the Participant were a party hereto.

(f) This Agreement is the complete agreement of the parties with respect to the subject matter hereof and supersedes any prior agreements or understandings relating thereto.

(g) This Agreement is binding on the parties hereto and their respective successors and legal representatives.

(h) The Company and the Trustee will, at any time and from time to time, upon the reasonable request of the other party, execute and deliver such further instruments and do such further acts as may be necessary or proper to effectuate the purposes of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed as of the date written above.

HARRAH'S ENTERTAINMENT, INC.

By: /s/ Neil F. Barnhart

Title: Vice President

NATIONSBANK

By: /s/ R. Otis Goodin

Title: Vice President

THE PROMUS COMPANIES INCORPORATED
1996 NON-MANAGEMENT DIRECTORS STOCK INCENTIVE PLAN

1. Purpose. The purpose of The Promus Companies Incorporated 1996 Non-Management Directors Stock Incentive Plan (the "Plan") is to attract, retain and compensate highly-qualified individuals who are not employees of The Promus Companies Incorporated, a Delaware corporation (the "Company") or any of its subsidiaries or affiliates for service as members of the Board of Directors ("Non-Management Directors") by providing them with an ownership interest in the common stock of the Company ("Common Stock"). The Company intends that the Plan will benefit the Company and its stockholders by allowing Non-Management Directors to have a personal financial stake in the Company through an ownership interest in the Common Stock and will closely associate the interest of Non-Management Directors with that of Promus's stockholders.

2. Administration. The Plan shall be administered by a committee appointed by the Board of Directors of the Company and consisting of Directors who are not eligible to participate in the Plan (the "Committee"). Subject to the provisions of the Plan, the Committee shall be authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make all other determinations necessary or advisable for the administration of the Plan; provided, however, that the Committee shall have no discretion with respect to the eligibility or selection of Non-Management Directors to receive awards under the Plan, the number of shares of stock subject to any such awards or the time at which any such awards are to be granted; and provided further, that the Committee shall not have the authority to take any action or make any determination that would materially increase the benefits accruing to participants under the Plan. The Committee's interpretation of the Plan, and all actions taken and determinations made by the Committee pursuant to the powers vested in it hereunder, shall be conclusive and binding upon all parties concerned including the Company, its stockholders and persons granted awards under the Plan.

3. Shares Subject to Plan. The shares issued under the Plan shall not exceed in the aggregate 150,000 shares of Common Stock. Such shares may be authorized and unissued shares or treasury shares.

4. Participants. All active members of the Company's Board of Directors who are not as of the date of any award employees of the Company or any of its subsidiaries or affiliates shall be eligible to participate in the Plan.

5. Awards.

(a) Grant Dates and Formula for Automatic Grants. Shares of Common Stock shall be automatically granted on May 1, August 1, November 1 and February 1 of each plan year (each such date is hereinafter referred to as a "Grant Date") to each eligible Non-Management Director commencing with the August 1, 1996 Grant Date. The total number of shares included in each grant under this Section 5(a) shall be determined by dividing Fifty Percent (50%) of the amount of meeting and retainer fees (the "50% of Fees") earned by the Non-Management Director during the three-month period immediately preceding the Grant Date (the "Grant Period") by the fair market value per share of the Common Stock on the Grant Date (or the immediately preceding trading day if the Grant Date is not a trading day). The fair market value per share shall be the average of the high and low price of the Common Stock based upon its consolidated trading as generally reported for the principal securities exchange on which the Common Stock is listed. Fractions will be rounded to the next highest share. The shares or rights to which a participant is entitled under this Section 5(a) shall be in lieu of the payment in cash of the 50% of Fees.

(b) Grant Dates and Requirements for Elective Grants. Commencing with the August 1, 1996 Grant Date, shares of Common Stock shall be automatically granted on each Grant Date to each eligible Non-Management Director who elects to receive shares under this Plan in lieu of the portion of the amount of meeting and retainer fees earned by the Non-Management for any period which is in excess of the 50% of Fees (the "Additional 50% of Fees"). Such election must be made prior to the commencement of the first Grant Period to which such election applies and such election shall be irrevocable with respect to all future Grant Periods. Individuals who are nominated to become Non-Management Directors may make such election after such nomination but prior to the time that they are elected to the Board. The total number of shares included in each grant under this Section 5(b) shall be determined by dividing the Additional 50% of Fees earned by the Non-Management Director during the Grant Period by the fair market value per share of the Common Stock on the Grant Date (or the immediately preceding trading day if the Grant Date is not a trading day). The fair market value per share shall be the average of the high and low price of the Common Stock based upon its consolidated trading as generally reported for the principal securities exchange on which the Common Stock is listed. Fractions will be rounded to the next highest share. The shares or rights to which a participant is entitled under this Section 5(b) shall be in lieu of the payment in cash of the Additional 50% of Fees.

(c) Restrictions Upon Transfer. Shares awarded, and the right to vote such shares and to receive dividends thereon, may not be sold, assigned, transferred, exchanged, pledged, hypothecated, or otherwise encumbered until at least six months after the date of the grant (the "Restriction Period"). During the Restriction Period the participant shall have all other rights of a stockholder, including, but not limited to, the right to vote and to receive dividends on such shares. If as a result of a stock dividend (whether in securities of the Company or of any other company), stock split, spin-off, recapitalization, other adjustment in the stated capital of the Company, or as the result of a merger, consolidation, reclassification or other reorganization, or any other corporate transaction, Common Stock is increased, reduced, or otherwise changed, and by virtue thereof the participant shall be entitled to new or additional or different shares or if the participant receives new or additional or different shares pursuant to any action by the Committee pursuant to Section 10, such shares shall be subject to the same terms, conditions and restrictions as the original shares.

(d) Certificates. Each stock certificate issued in respect of shares awarded to a participant may bear an appropriate legend disclosing the restrictions on transferability imposed on such shares by the Plan or by law.

(e) Termination of Service During Grant Period. In the event of termination of service on the Board by any participant during a Grant Period, such participant's award for the Grant Period shall be determined in accordance with Sections 5(a) and 5(b) of the Plan based upon the amount of meeting and retainer fees earned during such Grant Period as of the date of termination of service, provided, that the grant date shall be the date of termination of service unless the grant has been deferred.

6. Withholding. Whenever the Company issues shares of Common Stock under the Plan, the Company shall have the right to withhold from sums due the recipient, or to require the recipient to remit to the Company, any amount sufficient to satisfy any federal, state and/or local withholding tax requirements prior to the delivery of any certificate for such shares.

7. Deferral. Each participant will have the right to elect, pursuant to a written election form delivered to the Company prior to the commencement of each plan year (i.e., each May 1 through April 30), to defer until after the participant's termination of service the grant of the shares that would otherwise be granted to the participant during the next ensuing plan year. Pursuant to this election form, the participant will elect whether all of the deferred grant will be (a) granted within 30 days after termination of service or (b) granted in approximately equal annual installments of shares over a period of two to ten years (as the participant may elect) after the termination of service, each such annual grant to be made within 30 days after the anniversary of the

termination of service. The deferral election form signed by the executive prior to the plan year will be irrevocable except in case of hardship (as defined in Section 8) as determined in good faith by the Committee pursuant to Section 8. No shares of stock will be issued until the grant date as so deferred (the "Deferred Grant Date") at which time the Company agrees to issue the shares to the participant. The participant will have no rights as a stockholder with respect to the deferred rights to shares and the rights to such shares will be unsecured.

If any dividends or other rights or distributions of any kind ("Distributions") are distributed to holders of Common Stock during the period from the applicable Grant Date until the applicable Deferred Grant Date (the "Deferral Period") but prior to the participant's termination of service, an amount equal to the cash value of such Distributions on their distribution date, as such value is determined by the Committee, will be credited to a deferred dividend account for the participant as follows: the account will be credited with the right to shares of Common Stock equal in value to the cash value of the Distribution with such values determined by the Committee as of the date of the Distribution. The Company will issue shares of stock equal to the cumulative total of rights to the shares in such account within 30 days after the participant's termination of service. If a Distribution is distributed to holders of Common Stock after the participant's termination of service but during the Deferral Period, an amount equal to the cash value of such dividends or other rights or distributions pertaining to any share rights still deferred shall be converted into shares of Common Stock equivalent in value to the Distribution (with such values measured as of the date of Distribution) and such shares will be issued to the participant as soon as practical after the date of the Distribution. No right or interest in the deferred dividend account shall be subject to liability for the debts, contracts or engagements of the participant or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect; provided, however, that nothing in this Section 7 shall prevent transfers by will or by the applicable laws of descent and distribution. The Committee will have the right to adopt other regulations and procedures to govern deferral of grants.

8. Hardship. The Committee may accelerate the distribution of all or a portion of a participant's deferred grants on account of his Hardship, subject to the following requirements: (i) the value of such accelerated distribution shall not exceed the amount which is necessary to satisfy the Hardship, less the amount which can be satisfied from other resources which are reasonably available to the participant, (ii) the denial of the participant's request for a Hardship acceleration would result in severe financial hardship to the participant, and (iii) the participant has not received an accelerated distribution on account of Hardship within the 12-month period preceding the acceleration.

For purposes of this Plan, "Hardship" of a participant, as determined by the Committee in its discretion on the basis of all relevant facts and circumstances and in accordance with the following nondiscriminatory and objective standards uniformly interpreted and consistently applied, shall mean a severe financial hardship to the participant resulting from a sudden and unexpected illness or accident of the participant or of his dependent, loss of the participant's property due to casualty, or other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant. A financial need shall not constitute a Hardship unless it is for at least \$1,000.00 or the entire value of the principal amount of the participant's deferred grants.

9. Section 83(b) Election. Participants shall have the right to make an election under Section 83(b) of the Internal Revenue Code, if applicable, with regard to taxation of grants under the Plan.

10. Adjustments.

(a) Subject to Section 10(c) but notwithstanding any other term of this Plan, in the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property, recapitalization, reclassification, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event, in the Committee's sole discretion, affects the Common Stock such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to an award or awards, then the Committee shall, in such manner as it may deem equitable, adjust the number and type of shares of Common Stock (or other securities or property) which may be granted under the Plan (including, but not limited to, adjustments of the maximum number and kind of shares which may be issued).

(b) Subject to Section 10(c) but notwithstanding any other term of this Plan, in the event of any corporate transaction or event described in paragraph (a) which results in shares of Common Stock being exchanged for or converted into cash, securities or other property (including securities of another corporation), the Committee will have the right to terminate this Plan as of the date of the transaction or event, in which case all stock grants deferred under Section 7 shall become the right to receive such cash, securities or other property.

(c) No adjustment or action under this Section 10 or any other provision of this Plan shall be authorized to the extent such adjustment or action would violate Section 16 or Rule 16b-3. The number of shares finally granted under this Plan shall always be rounded to the next whole number.

(d) Any decision of the Committee pursuant to the terms of this Section 10 shall be final, binding and conclusive upon the participants, the Company and all other interested parties.

11. Amendment. The Committee may terminate, modify or amend the Plan in such respect as it shall deem advisable, without obtaining approval from the Company's stockholders except as such approval may be required pursuant to Rule 16b-3 under the Securities Exchange Act of 1934, as amended, or Section 16 of such act, provided that the provisions of Sections 4 and 5 of the Plan may not be amended more than once every six months, other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act of 1974, as amended from time to time, or rules thereunder. No termination, modification or amendment of the Plan may, without the consent of a participant, adversely affect a participant's rights under an award granted prior thereto.

12. Indemnification. Each person who is or has been a member of the Committee or who otherwise participates in the administration or operation of this Plan shall be indemnified by the Company against, and held harmless from, any loss, cost, liability, or expense that may be imposed upon or incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding in which such person may be involved by reason of any action taken or failure to act under the Plan and shall be fully reimbursed by the Company for any and all amounts paid by such person in satisfaction of judgment against him or her in any such action, suit, or proceeding, provided he or she will give the Company an opportunity, by written notice to the Committee, to defend the same at the Company's own expense before he or she undertakes to defend it on his or her own behalf. This right of indemnification shall not be exclusive of any other rights of indemnification.

The Committee and the Board may rely upon any information furnished by the Company, its public accountants and other experts. No individual will have personal liability by reason of anything done or omitted to be done by the Company, the Committee or the Board in connection with the Plan.

13. Duration of the Plan. The Plan shall remain in effect for a period of five (5) years from the Effective Date.

14. Expenses of the Plan. The expenses of administering the Plan shall be borne by the Company.

15. Effective Date. The Plan was originally adopted by Promus's Board of Directors on April 5, 1995 and by the stockholders of Promus on May 26, 1995. The Plan will become effective as of the date of the 1996 annual stockholders meeting (the "Effective Date").

THE PROMUS COMPANIES INCORPORATED

By: /s/ Neil F. Barnhart

Neil F. Barnhart
Vice President

Amendment (this "Amendment") to the
Harrah's Entertainment, Inc.
1996 Non-Management Directors Stock Incentive Plan
(the "Plan")

This Amendment is effective February 20, 1997, pursuant to approval by the Committee under the Plan and by the Human Resources Committee of the Board of Directors of Harrah's Entertainment, Inc. ("Company").

1. Section 2 of the Plan is hereby amended to add the following sentence to the end of such section:

Notwithstanding the foregoing, the Human Resources Committee of the Board of Directors of the Company (the "HRC") shall exercise any and all rights, duties and powers of the Committee under the Plan to the extent required by the applicable exemptive conditions of Rule 16b-3 under the Securities Exchange Act of 1934, as amended ("Rule 16b-3"), as determined by the HRC in its sole discretion.

2. The third sentence of the first paragraph of Section 7 of the Plan is hereby amended to read in its entirety:

The deferral election form signed by the participant prior to the plan year will be irrevocable except in case of hardship (as defined in Section 8) as determined in good faith by the HRC pursuant to Section 8, provided, however, that a participant may, prior to January 1 of the year preceding the year that the participant's termination of service occurs, submit an amended election form to the HRC for HRC approval indicating a requested change in the participant's elected method for the grant of the deferred shares upon termination of service (i.e., as to either a lump sum of shares within 30 days after termination of service or approximately equal annual installments over a period of two to ten years), and upon the HRC's approval of the requested change within 90 days after submission of the requested change, such change shall be effective. If the HRC does not approve the change, the participant's original election will remain in effect.

3. Section 8 is hereby amended to add the following sentence to the end of such section:

For purposes of this Section 8, the Committee shall be the HRC.

4. Section 10(a) of the Plan is hereby amended to add the following proviso to the end of such section:

; provided, however, that to the extent required by the applicable exemptive conditions of Rule 16b-3, any such adjustment shall be subject to approval by the HRC.

5. Section 10(b) of the Plan is hereby amended to add the following proviso to the end of such section:

; provided, however, that to the extent required by the applicable exemptive conditions of Rule 16b-3, any such termination shall be subject to approval by the HRC.

6. Section 10(c) of the Plan is hereby amended to provide in its entirety as follows:

(c) No adjustment or action under this Section 10 or any other provision of this Plan shall be authorized to the extent such adjustment or action would violate Section 16 of the Securities Exchange Act of 1934, as amended, or the applicable exemptive conditions of Rule 16b-3. The number of shares finally granted under this Plan shall always be rounded to the next whole number.

7. Section 10(d) of the Plan is hereby amended to add the following proviso to the end of such section:

; provided, however, that to the extent required by the applicable exemptive conditions of Rule 16b-3, any such decision shall be subject to approval by the HRC.

8. Section 11 of the Plan is hereby amended to read in its entirety as follows:

Amendment. The Committee may terminate, modify or amend the Plan in such respect as it shall deem advisable, without obtaining approval from the Company's stockholders or the HRC except as such approval may be required pursuant to the applicable exemptive conditions of Rule 16b-3 or Section 16 of the Securities Exchange Act of 1934, as amended. No

termination, modification or amendment of the Plan may, without the consent of a participant, adversely affect a participant's rights under an award granted prior thereto.

* * * *

Executed and approved this 20th day of February, 1997.

/s/ Philip G. Satre

Philip G. Satre, Chairman, President and
Chief Executive Officer and Sole Member of the Committee
under the Plan

Indemnity Agreement

The undersigned, [], in consideration of receiving certain disputed benefit payments pursuant to an Escrow Agreement dated November 7, 1997, between Harrah's Entertainment, Inc. (the "Company") and NationsBank ("Escrow Agent"), hereby agrees to indemnify and hold harmless the Company and the Escrow Agent from and against any and all losses, damages, expenses, or claims which may result from any incorrect payment or incorrect benefit which is made to the undersigned pursuant to a notice delivered by the undersigned to the Escrow Agent.

Dated:

Participant

Private Client Group
1 NationsBank Plaza
Nashville, TN 37239-1697

NationsBank

November 24, 1997

Mr. Vince DeYoung
General Counsel
Harrah's Entertainment
1023 Cherry Road
Memphis, TN 38117-5423

Re: Harrah's Entertainment Rabbi Trust

Dear Vince:

In consideration of the limitation on our duties as Trustee of the proposed Harrah's Entertainment Rabbi Trust, we agree to modify the enclosed fee schedule by applying a 30% discount to the overall fee. This discount will remain in effect until such time as we are called upon to perform additional duties such as calculation of distributions to beneficiaries. At that time we will charge such additional fees as are mutually agreed upon between Harrah's and NationsBank, but at no time will our fees exceed those contained in the attached fee schedule.

We thank you for this opportunity to be of service to Harrah's, and please feel free to contact me if you have any questions.

Sincerely,

/s/ R. Otis Goodin

R. Otis Goodin
Vice President
615/749-4406

Trust Services
Schedule of Fees

As your trustee, NationsBank will provide trust management services in addition to portfolio management, safekeeping of securities, collection and distribution of interest and dividends, execution of the purchase or sale of securities, daily cash investment, and periodic investment reports and transaction statements. These services will be provided to you by one of our professional advisors in your local office.

Annual Fees on Market Value of Financial Assets

Rate -----	Current Market Value -----
1.20% on the first.....	\$1,000,000
.90% on the next.....	2,000,000
.70% on the next.....	2,000,000
.50% on the next.....	5,000,000
.40% on the balance over.....	10,000,000

The minimum annual market value fee for all assets included in these trust services is \$5,000.

Additional fees, in accordance with published schedules, will apply for tax return preparation, management and valuation of closely-held business interests, oil and gas services, note and mortgage services, real estate property management and distributions. Charges for asset distributions and terminations will reflect the time, effort and costs involved.

When special or unusual services are required, outside of the published fee schedules, our fee will include reasonable additional compensation and/or out-of-pocket expenses based upon the nature of service and the extent of the duties and responsibility assumed.

Fees are subject to change and are computed and charged monthly.

Amendment dated December 12, 1997 to the
Harrah's Entertainment, Inc.
Annual Management Bonus Plan ("Plan")

Pursuant to approval by the Human Resources Committee of the Harrah's Entertainment, Inc. Board of Directors, the following paragraph is added to the Plan at the end of the section entitled "Prorations/Transfers":

"Notwithstanding the above, effective as of January 1, 1997, for transfers of a bonus eligible employee after March 31 and before October 1 during any Plan year, the bonus will be pro rated as provided above but will not be less than the bonus that would have been earned if the employee had stayed at the first Operating Unit. For transfers during the last three months of a Plan year, the bonus will be equal to the bonus that would have been earned if the employee had stayed at the first Operating Unit. The Chief Executive Officer will have authority to interpret and make exceptions to the bonus provisions concerning transferred and new employees."

IN WITNESS WHEREOF, this Amendment has been executed as of the date written above.

Harrah's Entertainment, Inc.

By: /s/ Neil F. Barnhart

Title: Vice President

HARRAH'S ENTERTAINMENT, INC.

October 31, 1997

Mr. Philip G. Satre
c/o Harrah's Entertainment, Inc.
1023 Cherry Road
Memphis, Tennessee 38117

Re: Amended and Restated Severance Agreement

Dear Mr. Satre:

Harrah's Entertainment, Inc. (the "Company") considers it essential to the best interest of its stockholders to foster the continuous employment of key management personnel. In this connection, the Board of Directors of the Company (the "Board") recognizes that, as is the case with many publicly held corporations, the possibility of a change in control may exist and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders.

The Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including yourself, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the Company, although no such change is now contemplated.

In order to induce you to remain in the employ of the Company or its subsidiaries and in consideration of your agreements set forth in Subsection 2(b) hereof, the Company agrees that you shall receive the severance benefits set forth in this letter agreement ("this Agreement") in the event your employment with the Company or its subsidiaries terminates subsequent to a "Change in Control of the Company" (as defined in Section 2 hereof) under the circumstances described below.

1. Term of Agreement. This Agreement shall commence on November 1, 1997 and shall continue in effect through December 31, 1998; provided, however, that commencing on January 1, 1999 and each January 1 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than September 30 of the preceding year, the Company shall have given notice that it does not wish to extend this Agreement; provided, further, if a Change in Control of the Company shall have occurred during the original or extended term of this Agreement, this Agreement shall automatically continue in effect for a period of twenty-four months beyond the month in which such Change in Control occurred.

2. Change in Control.

(a) No benefit shall be payable to you hereunder unless there shall have been a Change in Control of the Company, as set forth below. For purposes of this Agreement, a "Change in Control of the Company" shall be deemed to have occurred, subject to subparagraph (iv) hereof, if any of the events in subparagraphs (i), (ii) or (iii) occur:

(i) Any "person" (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than an employee benefit plan of the Company, or a trustee or other fiduciary holding securities under an employee benefit plan of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 25% or more of the Company's then outstanding voting securities carrying the right to vote in elections of persons to the Board, regardless of comparative voting power of such voting securities, and regardless of whether or not the Board shall have approved the acquisition of such securities by the acquiring person; or

(ii) During any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board together with any new director(s) (other than a director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in clauses (i) or (iii) of this Subsection) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(iii) The holders of securities of the Company entitled to vote thereon approve the following:

(A) A merger or consolidation of the Company with any other corporation regardless of which entity is the surviving company, other than a merger or consolidation which would result in the voting securities of the Company carrying the right to vote in elections of persons to the Board outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of (a) the Company's then outstanding voting securities carrying the right to vote in elections of persons to the Board, or (b) the voting securities of such surviving entity outstanding immediately after such merger or consolidation, or

(B) A plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

(iv) Notwithstanding the definition of a "Change in Control" of the Company as set forth in this Section 2(a), the Human Resources Committee of the Board (the "Committee") shall have full and final authority, which shall be exercised in its discretion, to determine conclusively whether a Change in Control of the Company has occurred, and the date of the occurrence of such Change in Control and any incidental matters relating thereto, with respect to a transaction or series of transactions which have resulted or will result in a substantial portion of the assets or business of the Company (as determined, prior to the transaction or series of transactions, by the Committee in its sole discretion which determination as to whether a substantial portion is involved shall be final and conclusive) being held by a corporation at least 80% of whose voting securities are held, immediately following such transaction or series of transactions, by holders of the voting securities of the Company (as determined by the Committee in its sole discretion prior to such transaction or series of transactions which determination as to whether the 80% amount will be satisfied shall be final and conclusive). The Committee may exercise any such discretionary authority without regard to whether one or more of the transactions in such series of transactions would otherwise constitute a Change in Control of the Company under the definition set forth in this Section 2(a).

(b) For purposes of this Agreement, a "Potential Change in Control of the Company" shall be deemed to have occurred if the following occur:

(i) The Company enters into a written agreement or letter of intent, the consummation of which would result in the occurrence of a Change in Control of the Company;

(ii) Any person (including the Company) publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control of the Company;

(iii) Any person (other than an employee benefit plan of the Company, or a trustee or other fiduciary holding securities under an employee benefit plan of the Company) who is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 9.5% or more of the Company's then outstanding voting securities carrying the right to vote in elections of persons to the Board increases such beneficial ownership of such securities by an additional five percentage points or more thereby beneficially owning 14.5% or more of such securities; or

(iv) The Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control of the Company has occurred.

You agree that, subject to the terms and conditions of this Agreement, in the event of a Potential Change in Control of the Company, you will remain in the employ of the Company (or the subsidiary thereof by which you are employed at the date such Potential Change in Control occurs) until the earliest of (x) a date which is six months from the occurrence of such Potential Change in Control of the Company, (y) the termination by you of your employment by reasons of Disability or Retirement (at your normal retirement age), as defined in Subsection 3(a), or (z) the occurrence of a Change in Control of the Company.

3. Termination Following Change in Control. If any of the events described in Subsection 2(a) hereof constituting a Change in Control of the Company shall have occurred, you shall be entitled to the benefits provided in Subsection 4(c) hereof upon the subsequent termination of your employment (whether or not such termination is voluntary) during the term of this Agreement unless such termination is (y) because of your death or (z) by the Company for Cause.

(a) Disability; Retirement. If, as a result of your incapacity due to physical or mental illness, you shall have been absent from the full-time performance of your duties with the Company for six consecutive months, and within thirty days after written notice of termination is given you shall not have returned to the full-time performance of your duties, your employment may be terminated for "Disability". Termination by the Company or you of your employment based on "Retirement" shall mean termination at age 65 (or later) with ten years of service or retirement in accordance with any retirement contract between the Company and you.

(b) Cause. Termination by the Company of your employment for "Cause" shall mean termination upon your engaging in willful and continued misconduct, or your willful and continued failure to substantially perform your duties with the Company (other than due to physical or mental illness), if such failure or misconduct is materially damaging or materially detrimental to the business and operations of the Company, provided that you shall have received written notice of such failure or misconduct and shall have continued to engage in such failure or misconduct after 30 days following receipt of such notice from the Board, which notice specifically identifies the manner in which the Board believes that you have engaged in such failure or misconduct. For purposes of this Subsection, no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done, by you not in good faith and without your reasonable belief that your action or omission was in the best interest of the Company. Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of failure to substantially perform your duties or of misconduct in accordance with the first sentence of this Subsection, and of continuing such failure to substantially perform your duties or misconduct as aforesaid after notice from the Board, and specifying the particulars thereof in detail.

(c) Voluntary Resignation. After a Change in Control of the Company and for purposes of receiving the benefits provided in Subsection 4(c) hereof, you shall be entitled to terminate your employment by voluntary resignation given at any time during the two years following the occurrence of a Change in Control of the Company hereunder. Such resignation shall not be deemed a breach of any employment contract between you and the Company.

(d) Notice of Termination. Any purported termination of your employment by the Company or by you shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 6 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.

(e) Date of Termination, Etc. "Date of Termination" shall mean:

(i) If your employment is terminated for Disability, thirty days after Notice of Termination is given (provided that you shall not have returned to the full-time performance of your duties during such thirty day period), and

(ii) If your employment is terminated pursuant to Subsection (b) or (c) above or for any other reason (other than Disability), the date specified in the Notice of Termination (which, in the case of a termination pursuant to Subsection (b) above shall not be less than thirty days, and in the case of a termination pursuant to Subsection (c) above shall not be less than fifteen nor more than sixty days, respectively, from the date such Notice of Termination is given);

provided that if within fifteen days after any Notice of Termination is given, or, if later, prior to the Date of Termination (as determined without regard to this provision), the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding arbitration award, or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided further that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. Notwithstanding the pendency of any such dispute, the Company will continue to pay you your full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue you as a participant in all compensation, bonus, benefit and insurance plans in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Subsection. Amounts paid under this Subsection are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

4. Compensation Upon Termination Following a Change of Control. Following a Change in Control of the Company, as defined in Subsection 2(a), upon termination of your employment, you shall be entitled to the following benefits:

(a) Deleted.

(b) If your employment shall be terminated by the Company for Cause, the Company shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus the Company shall pay all other amounts and honor all rights to which you are entitled under any compensation plan of the Company at the time such payments are due, and the Company shall have no other obligations to you under this Agreement.

(c) If your employment by the Company shall be terminated (y) by the Company other than for Cause or (z) by you by voluntary Resignation, then you shall be entitled to the benefits provided below:

(i) The Company shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation or benefit plan of the Company, at the time such payments are due;

(ii) In lieu of any further salary payments to you for periods subsequent to the Date of Termination, the Company shall pay as severance pay to you a lump sum severance payment (the "Severance Payment") equal to 3.0 times the average of the Annual Compensation (as defined below) payable to you by the Company or any corporation affiliated with the Company within the meaning of Section 1504 of the Internal Revenue Code of 1986, as amended (the "Code"). Annual Compensation is defined to consist of two components: (a) Your annual salary in effect immediately prior to the Change in Control or in effect as of the Date of Termination, whichever annual salary is higher. Your annual salary for this purpose will be determined without any reduction for deferrals of such salary under any deferred compensation plan (qualified or unqualified) and without any reduction for any salary reductions used for making contributions to any group insurance plan of the Company or its affiliates and also without reduction for any other deductions from salary for any reason; plus (b) The average of your annual bonuses under the Company's Annual Management Bonus Plan, or any substitute or successor plan including the Key Executive Officer Annual Incentive Plan, for the three highest calendar years, in terms of annual bonus paid to you in such years, during the five calendar years preceding the calendar year in which the Change in Control occurred. Your annual bonuses for this purpose will be determined without any reduction for deferrals under any deferred compensation plan (qualified or unqualified) and without any reduction for salary reductions used for making contributions to any group insurance plan of the Company or its affiliates and also without reduction for any other deductions from bonus for any reason. If you were not employed by the Company or its affiliates for a sufficient period of time to receive annual bonuses during each of the five calendar years before the Change in Control occurred, then the average bonus will be measured using the three highest calendar years, in terms of annual bonus paid to you, in all the consecutive calendar years immediately preceding the date the Change in Control occurred. If you were not eligible for three years of bonuses paid during the calendar years immediately preceding the date the Change in Control occurred, then the average bonus will be the average of the annual bonuses that were paid to you during such time under such Plan. If you were not eligible for any bonus during such time because of not being employed by the Company for a sufficient period of time to qualify for a previous bonus payment, then Annual Compensation will only consist of the salary component as provided above and will not include a bonus component.

(iii) The Company shall also pay to you a pro rata amount of your target bonus (the bonus amount for your grade level assuming 100 bonus points are earned) as shown on the matrix for the Annual Management Bonus Plan (or any substitute or successor plan) attributable to the bonus plan year which contains your Date of Termination, regardless of whether or not any bonus is determined to be actually earned for such year, provided that the target bonus for calculating this pro rata payment will not be less than the target bonus under such Plan for the Plan year that contains the day immediately prior to the Change in Control (which target bonus will be the one that applies to your grade level at that time) regardless of whether or not any bonus was payable for such year. The pro-rata amount will be based on the percentage of days of your employment in the calendar year of the Date of Termination. For example, if the Date of Termination is October 1 in a year with 365 days, with October 1 counted as the last day of employment for a total of 274 days of employment that year, then the pro-rata amount will be 75.06849% of target bonus (274 days ÷ 365 days).

In addition, the Company shall pay to you the amounts of any compensation or awards payable to you or due to you under any incentive compensation plan of the Company including, without limitation, the Company's Restricted Stock Plan, Stock Option Plan (the "Option Plan") and Annual Management Bonus Plan (or any substitute or successor plan including the Key Executive Officer Annual Incentive Plan) and under any agreements with you in connection therewith, and shall make any other payments and take any other actions and honor such rights you may have accrued under such plans and agreements including any rights you may have to payments after the Date of Termination, which will include the payment to you of any bonus earned during the bonus year fully completed prior to the Date of Termination if such Date of Termination occurs prior to the payment date for such bonus, it being understood, however, that the pro-rata payment provided for in the first sentence of this paragraph 4(c)(iii) is in lieu of any bonus earned for the bonus plan year during which occurred the Date of Termination.

(iv) In lieu of shares of common stock of the Company or any securities of a successor company which shall have replaced such common stock ("Company Shares") issuable upon exercise of outstanding and unexercised options (whether or not they are fully exercisable or "vested"), if any, granted to you under the Option Plan including options granted under the plan of any successor company that replaced or assumed the options under said Option Plan ("Options") (which Options shall be cancelled upon the making of the payment referred to below), you shall receive an amount in cash equal to the product of (y) the excess of the higher of the closing price of Company Shares as reported on the New York Stock Exchange on or nearest the Date of Termination (or, if not listed on such exchange, on a nationally recognized exchange or quotation system on which trading volume in Company Shares is highest) or the

highest per share price (including cash, securities and any other consideration) for Company Shares actually paid in connection with any change in control of the Company, over the per share exercise price of each Option held by you (whether or not then fully exercisable or "vested"), times (z) the number of Company Shares covered by each such option.

(v) The Company shall also pay to you all legal fees and expenses incurred by you as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code to any payment or benefit provided hereunder).

(vi) In the event that you become entitled to the payments (the "Severance Payments") provided under paragraphs (ii), (iii), and (iv), above (and Subsections (d) and (e), below), and if any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code, the Company shall pay to you at the time specified in paragraph (vii), below, an additional amount (the "Gross-Up Payment") such that the net amount retained by you (such net amount to be the amount remaining after deducting any Excise Tax on the Severance Payments and any federal, state and local income tax and Excise Tax payable on the payment provided for by this paragraph), shall be equal to the amount of the Severance Payments after deducting normal and ordinary taxes but not deducting (a) the Excise Tax and (b) any federal, state and local income tax and Excise tax payable on the payment provided for by this paragraph. For example, if the Severance Payments are \$1,000,000 and if you are subject to the Excise Tax, then the Gross-Up Payment will be such that you will retain an amount of \$1,000,000 less only any normal and ordinary taxes on such amount. (The Excise Tax and federal, state and local taxes and any Excise Tax on the payment provided by this paragraph will not be deemed normal and ordinary taxes). For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, the following will apply:

(A) Any other payments or benefits received or to be received by you in connection with a Change in Control of the Company or your termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a Change in Control of the Company or any person affiliated with the Company or such person) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the

meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the Company's independent auditors and acceptable to you such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;

(B) The amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (y) the total amount of the Severance Payments or (z) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying clause (A), above); and

(C) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with proposed, temporary or final regulations under Sections 280G(d)(3) and (4) of the Code or, in the absence of such regulations, in accordance with the principles of Section 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, you shall be deemed to pay Federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of your residence on the Date of Termination, net of the maximum reduction in Federal income taxes which could be obtained from deduction of such state and local taxes. In the event that the amount of Excise Tax attributable to Severance Payments is subsequently determined to be less than the amount taken into account hereunder at the time of termination of your employment, you shall repay to the Company, at the time that the amount of such reduction in Excise Tax is finally determined, the portion of the Gross-Up Payment attributable to such reduction (plus the portion of the Gross-Up Payment attributable to the Excise Tax and Federal (and state and local) income tax imposed on the Gross-Up Payment being repaid by you if such repayment results in a reduction in Excise Tax and/or a Federal (and state and local) income tax deduction) plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. In the event that the Excise Tax attributable to Severance Payments is determined to exceed the amount taken into account hereunder at the time of the termination of your employment (including by reason of any payment the existence or amount of which cannot be

determined at the time of the Gross-Up Payment), the Company shall make an additional gross-up payment to you in respect of such excess (plus any interest payable with respect to such excess) at the time that the amount of such excess is finally determined.

(vii) The payments provided for in paragraphs (ii), (iii), (iv) and (vi) above, shall be made not later than the fifth day following the Date of Termination, provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company shall pay to you on such day an estimate, as determined in good faith by the Company, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to you payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

(d) If your employment shall be terminated (y) by the Company other than for Cause, or (z) by you voluntarily, then for a twenty-four month period after such termination, the Company shall arrange to provide you with life, disability, accident and health insurance benefits substantially similar to those which you are receiving immediately prior to the Notice of Termination. Benefits otherwise receivable by you pursuant to this Subsection 4(d) shall be reduced to the extent comparable benefits are actually received by you during the twenty-four month period following your termination, and any such benefits actually received by you shall be reported to the Company.

(e) In the event a Change in Control of the Company occurs while you are employed with the Company or its affiliates but after you and the Company have executed an agreement that expressly provides for your subsequent retirement including an agreement that expressly provides for your early retirement, then the present value, computed using a discount rate of 8% per annum, of (i) the total amount of all unpaid deferred payments as payable to you in accordance with the payment schedule that you elected when the deferral was agreed to and using the plan interest rate applicable to your situation, including, without limitation, any unpaid deferred payments to be paid to you under the Company's Executive Deferred Compensation Plan and the Company's other deferred compensation plans, and (ii) the total amount of all other payments payable or to become payable to you or your estate or beneficiary under such retirement agreement (other than payments payable pursuant to a plan qualified under Section 401(a) of the Internal Revenue Code) shall be accelerated and paid to you (or your estate or beneficiary if applicable) in a lump sum cash payment within five business days after the occurrence of the Change in Control of the

Company. In addition, if you and the Company or its affiliates have executed such a retirement agreement and if the Change in Control of the Company occurs before the effective date of your retirement, then you shall receive the Severance Payment payable under Subsection 4(c)(ii) herein in addition to the lump sum cash payment of the present value of your total unpaid deferred payments and other payments under the retirement agreement as aforesaid. All benefits (other than the payments accelerated and paid out to you in a lump sum as provided above) to which you or your estate or any beneficiary are entitled under such retirement agreement shall continue in effect notwithstanding the Change in Control of the Company. This Subsection 4(e) shall survive your retirement.

(f) Notwithstanding that a Change in Control shall not have yet occurred, if you so elect, by written notice to the Company given at any time after the date hereof and prior to the time such amounts are otherwise payable to you:

(i) The Company shall deposit with an escrow agent, pursuant to an escrow agreement between the Company and such escrow agent, a sum of money, or other property permitted by such escrow agreement, which are substantially sufficient in the opinion of the Company's management to fund payment of the following amounts to you, as such amounts become payable (provided such deposit will not be necessary to the extent the escrow already contains funds or other assets which are substantially sufficient in the opinion of the Company's management to fund such payments):

(A) Amounts payable, or to become payable, to you or to your beneficiaries or your estate under the Company's Executive Deferred Compensation Plan and under any agreements related thereto in existence at the time of your election to make the deposit into escrow.

(B) Amounts payable, or to become payable, to you or to your beneficiaries or your estate by reason of your deferral of payments payable to you prior to the date of your election to make the deposit into escrow under any other deferred compensation agreements between you and the Company in existence at the time of your election to make the deposit into escrow, including but not limited to deferred compensation agreements relating to the deferral of salary or bonuses.

(C) Amounts payable, or to become payable, to you or to your beneficiaries or your estate under any executed agreement that expressly provides for your retirement from the Company (including payments described under Subsection 4(e) above) which agreement is in existence at the time of your election to make the deposit into escrow, other than amounts payable by a plan qualified under Section 401(a) of the Code.

(D) Subject to the approval of the Committee, amounts then due and payable to you, but not yet paid, under any other benefit plan or incentive compensation plan of the Company (whether such amounts are stock or cash) other than amounts payable to you under a plan qualified under Section 401(a) of the Code.

(ii) Within 5 days after the occurrence of a Potential Change of Control, the Company shall deposit with an escrow agent (which shall be the same escrow agent, if one exists, acting pursuant to clause (i) of this Subsection 4(f)), pursuant to an escrow agreement between the Company and such escrow agent, a sum of money, or other property permitted by such escrow agreement, substantially sufficient in the opinion of Company management to fund the payment to you of the amounts specified in Subsection 4(c) of this Agreement.

(iii) It is intended that any amounts deposited in escrow pursuant to the provisions of clause (i) or (ii) of this Subsection 4(f), shall be subject to the claims of the Company's creditors, as set forth in the form of such escrow agreement.

(g) You shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 4 be reduced by any compensation earned by you as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by you to the Company, or otherwise (except as specifically provided in this Section 4).

(h) In addition to all other amounts payable to you under this Section 4, you shall be entitled to receive all benefits payable to you under any benefit plan of the Company in which you participate to the extent such benefits are not paid under this Agreement.

5. Successors; Binding Agreement.

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle you to compensation from the Company in the same amount and on the same terms as you would be entitled to hereunder if you terminate your employment voluntarily following a Change in Control of the Company, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of

Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

(b) This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there is no such designee, to your estate.

6. Notices. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered or certified mail, return receipt requested, postage prepaid, by FAX if available, or by overnight courier service, addressed as follows:

To the Company:

Secretary
Harrah's Entertainment, Inc.
1023 Cherry Road
Memphis, TN 38117
FAX: 901-762-8735

To you:

Addressed to your name at your office address (or FAX number) with the Company or its affiliates (or any successor thereto) at the time the notice is sent and your home address at that time; and if you are not employed by the Company at the time of the notice, your home address as shown on the records of the Company or its affiliates (or any successor thereto) on the date of the notice.

To such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

7. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or

compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Delaware. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Company under Section 4 shall survive the expiration of the term of this Agreement.

8. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

9. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

10. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Memphis, Tennessee in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that you shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

11. Similar Provisions in Other Agreement. The Severance Payment under this Agreement supersedes and replaces any previous severance agreement and any other severance payment to which you may be entitled under any previous agreement between you and the Company or its affiliates.

If this letter sets forth our agreement on the subject matter hereof,
kindly sign and return to the Company the enclosed copy of this letter which
will then constitute our binding agreement on this subject.

Very truly yours,

HARRAH'S ENTERTAINMENT, INC.

By: /s/ E.O. Robinson, Jr.

E. O. Robinson, Jr.
Senior Vice President

Agreed:

/s/ Philip G. Satre

Philip G. Satre

HARRAH'S ENTERTAINMENT, INC

October 31, 1997

[Name of Executive Officer]
c/o Harrah's Entertainment, Inc.
1023 Cherry Road
Memphis, Tennessee 38117

Re: Amended and Restated Severance Agreement

Dear Mr. []:

Harrah's Entertainment, Inc. (the "Company") considers it essential to the best interest of its stockholders to foster the continuous employment of key management personnel. In this connection, the Board of Directors of the Company (the "Board") recognizes that, as is the case with many publicly held corporations, the possibility of a change in control may exist and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders.

The Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including yourself, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the Company, although no such change is now contemplated.

In order to induce you to remain in the employ of the Company or its subsidiaries and in consideration of your agreements set forth in Subsection 2(b) hereof, the Company agrees that you shall receive the severance benefits set forth in this letter agreement ("this Agreement") in the event your employment with the Company or its subsidiaries terminates subsequent to a "Change in Control of the Company" (as defined in Section 2 hereof) under the circumstances described below.

1. Term of Agreement. This Agreement shall commence on November 1, 1997 and shall continue in effect through December 31, 1998; provided, however, that commencing on January 1, 1999 and each January 1 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than September 30 of the preceding year, the Company shall have given notice that it does not wish to extend this Agreement; provided, further, if a Change in Control of the Company shall have occurred during the original or extended term of this Agreement, this Agreement shall automatically continue in effect for a period of twenty-four months beyond the month in which such Change in Control occurred.

2. Change in Control.

(a) No benefit shall be payable to you hereunder unless there shall have been a Change in Control of the Company, as set forth below. For purposes of this Agreement, a "Change in Control of the Company" shall be deemed to have occurred, subject to subparagraph (iv) hereof, if any of the events in subparagraphs (i), (ii) or (iii) occur:

(i) Any "person" (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than an employee benefit plan of the Company, or a trustee or other fiduciary holding securities under an employee benefit plan of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 25% or more of the Company's then outstanding voting securities carrying the right to vote in elections of persons to the Board, regardless of comparative voting power of such voting securities, and regardless of whether or not the Board shall have approved the acquisition of such securities by the acquiring person; or

(ii) During any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board together with any new director(s) (other than a director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in clauses (i) or (iii) of this Subsection) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(iii) The holders of securities of the Company entitled to vote thereon approve the following:

(A) A merger or consolidation of the Company with any other corporation regardless of which entity is the surviving company, other than a merger or consolidation which would result in the voting securities of the Company carrying the right to vote in elections of persons to the Board outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of (a) the Company's then outstanding voting securities carrying the right to vote in elections of persons to the Board, or (b) the voting securities of such surviving entity outstanding immediately after such merger or consolidation, or

(B) A plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

(iv) Notwithstanding the definition of a "Change in Control" of the Company as set forth in this Section 2(a), the Human Resources Committee of the Board (the "Committee") shall have full and final authority, which shall be exercised in its discretion, to determine conclusively whether a Change in Control of the Company has occurred, and the date of the occurrence of such Change in Control and any incidental matters relating thereto, with respect to a transaction or series of transactions which have resulted or will result in a substantial portion of the assets or business of the Company (as determined, prior to the transaction or series of transactions, by the Committee in its sole discretion which determination as to whether a substantial portion is involved shall be final and conclusive) being held by a corporation at least 80% of whose voting securities are held, immediately following such transaction or series of transactions, by holders of the voting securities of the Company (as determined by the Committee in its sole discretion prior to such transaction or series of transactions which determination as to whether the 80% amount will be satisfied shall be final and conclusive). The Committee may exercise any such discretionary authority without regard to whether one or more of the transactions in such series of transactions would otherwise constitute a Change in Control of the Company under the definition set forth in this Section 2(a).

(b) For purposes of this Agreement, a "Potential Change in Control of the Company" shall be deemed to have occurred if the following occur:

(i) The Company enters into a written agreement or letter of intent, the consummation of which would result in the occurrence of a Change in Control of the Company;

(ii) Any person (including the Company) publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control of the Company;

(iii) Any person (other than an employee benefit plan of the Company, or a trustee or other fiduciary holding securities under an employee benefit plan of the Company) who is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 9.5% or more of the Company's then outstanding voting securities carrying the right to vote in elections of persons to the Board increases such beneficial ownership of such securities by an additional five percentage points or more thereby beneficially owning 14.5% or more of such securities; or

(iv) The Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control of the Company has occurred.

You agree that, subject to the terms and conditions of this Agreement, in the event of a Potential Change in Control of the Company, you will remain in the employ of the Company (or the subsidiary thereof by which you are employed at the date such Potential Change in Control occurs) until the earliest of (x) a date which is six months from the occurrence of such Potential Change in Control of the Company, (y) the termination by you of your employment by reasons of Disability or Retirement (at your normal retirement age), as defined in Subsection 3(a), or (z) the occurrence of a Change in Control of the Company.

(c) Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without your express written consent, the occurrence after a Change in Control of the Company, of any of the following circumstances unless, in the case of paragraphs (i), (v), (vi), (vii) or (viii), such circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination, as such terms are defined in Subsections 3(e) and 3(d), respectively, given in respect thereof:

(i) The assignment to you of any duties inconsistent with your status as an executive officer of the Company (or your status in the position held by you immediately prior to the Change in Control) or a substantial adverse alteration in the nature or status of your responsibilities from those in effect immediately prior to the Change in Control of the Company;

(ii) A reduction by the Company in your annual base salary as in effect on the date hereof or as the same may be increased from time to time except for an across-the-board salary reduction of a specific percentage applied to all individuals at grade levels 26 and above and all individuals in similar grade levels of any person in control of the Company;

(iii) The relocation of the Company's principal executive offices where you are working immediately prior to the Change in Control of the Company to a location more than 50 miles from the location of such offices immediately prior to the Change in Control of the Company or the Company's requiring you to be based anywhere other than the location of the Company's principal executive offices where you were working immediately prior to the Change in Control of the Company except for required travel on the Company's business to an extent substantially consistent with your business travel obligations during the year prior to the Change in Control;

(iv) The failure by the Company, without your consent, to pay to you any portion of your current compensation except pursuant to an across-the-board compensation deferral of a specific percentage applied to all individuals in grade levels 26 or above and all individuals in similar grades of any person in control of the Company, or to pay to you any portion of an installment of deferred compensation under any deferred compensation program of the Company, within thirty days of the date such compensation is due;

(v) The failure by the Company to continue in effect any compensation plan in which you are participating immediately prior to the Change in Control of the Company which is material to your total compensation, including but not limited to, the Company's Bonus Plan, Executive Deferred Compensation Plan, Deferred Compensation Plan, Restricted Stock Plan, Stock Option Plan, or any substitute plans adopted prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue your participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of your participation relative to other participants, as existed immediately prior to the Change in Control of the Company;

(vi) The failure by the Company to continue to provide you with benefits substantially similar to those enjoyed by you under any of the Company's pension, savings and retirement plan, life insurance, medical, health and accident, or disability plans in which you were participating at the time of the Change in Control of the Company, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive you of any material fringe benefit enjoyed by you at the time of the Change in Control of the Company, or the failure by the Company to provide you with the number of paid vacation or PTO days to which you are entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy and/or PTO policy in effect at the time of the Change in Control of the Company;

(vii) The failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 5 hereof; or

(viii) Any purported termination of your employment by the Company which is not effected pursuant to a Notice of Termination satisfying the requirements of Subsection 3(d) hereof and the requirements of Subsection 3(b) above; for purposes of this Agreement, no such purported termination shall be effective.

Your right to terminate your employment pursuant to this Agreement for Good Reason shall not be affected by your incapacity due to physical or mental illness. Your continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder.

3. Termination Following Change in Control. If any of the events described in Subsection 2(a) hereof constituting a Change in Control of the Company shall have occurred, you shall be entitled to the benefits provided in Subsection 4(c) hereof upon the subsequent termination of your employment if such termination is (y) by the Company, other than for Cause, within 24 months after the end of the month in which such Change in Control occurred or (z) by you for Good Reason as provided in Subsection 3(c)(i) hereof or by your Voluntary Termination as provided in Subsection 3(c)(ii) hereof.

(a) Disability; Retirement. If, as a result of your incapacity due to physical or mental illness, you shall have been absent from the full-time performance of your duties with the Company for six consecutive months, and within thirty days after written notice of termination is given you shall not have returned to the full-time performance of your duties, your employment may be terminated for "Disability". Termination by the Company or you of your employment based on "Retirement" shall mean termination at age 65 (or later) with ten years of service or retirement in accordance with any retirement contract between the Company and you.

(b) Cause. Termination by the Company of your employment for "Cause" shall mean termination upon your engaging in willful and continued misconduct, or your willful and continued failure to substantially perform your duties with the Company (other than due to physical or mental illness), if such failure or misconduct is materially damaging or materially detrimental to the business and operations of the Company, provided that you shall have received written notice of such failure or misconduct and shall have continued to engage in such failure or misconduct after 30 days following receipt of such notice from the Board, which notice specifically identifies the manner in which the Board believes that you have engaged in such failure or misconduct. For purposes of this Subsection, no act, or failure to act, on your part shall be deemed

"willful" unless done, or omitted to be done, by you not in good faith and without your reasonable belief that your action or omission was in the best interest of the Company. Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of failure to substantially perform your duties or of misconduct in accordance with the first sentence of this Subsection, and of continuing such failure to substantially perform your duties or misconduct as aforesaid after notice from the Board, and specifying the particulars thereof in detail.

(c) Voluntary Resignation. After a Change in Control of the Company and for purposes of receiving the benefits provided in Subsection 4(c) hereof, you shall be entitled to terminate your employment by voluntary resignation given at any time during the two years following the occurrence of a Change in Control of the Company hereunder, provided such resignation is (i) by you for Good Reason or (ii) by you voluntarily without the necessity of asserting or establishing Good Reason and regardless of your age or any disability and regardless of any grounds that may exist for the termination of your employment if such voluntary termination occurs by written notice given by you to the Company during the thirty days immediately following the one year anniversary of the Change in Control (your "Voluntary Termination"), provided, however, for purposes of this Subsection 3(c)(ii) only, the language "25% or more" in Subsection 2(a)(i) hereof is changed to "a majority". Such resignation shall not be deemed a breach of any employment contract between you and the Company.

(d) Notice of Termination. Any purported termination of your employment by the Company or by you shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 6 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.

(e) Date of Termination, Etc. "Date of Termination" shall mean:

(i) If your employment is terminated for Disability, thirty days after Notice of Termination is given (provided that you shall not have returned to the full-time performance of your duties during such thirty day period), and

(ii) If your employment is terminated pursuant to Subsection (b) or (c) above or for any other reason (other than Disability), the date specified in the Notice of Termination (which, in the case of a termination pursuant to Subsection (b) above shall not be less than thirty days, and in the case of a termination pursuant to Subsection (c) above shall not be less than fifteen nor more than sixty days (thirty days in case of your Voluntary Termination), respectively, from the date such Notice of Termination is given);

provided that if within fifteen days after any Notice of Termination is given, or, if later, prior to the Date of Termination (as determined without regard to this provision), the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding arbitration award, or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided further that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence.

Notwithstanding the pendency of any such dispute, the Company will continue to pay you your full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue you as a participant in all compensation, bonus, benefit and insurance plans in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Subsection. Amounts paid under this Subsection are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

4. Compensation Upon Termination Following a Change of Control.

Following a Change in Control of the Company, as defined in Subsection 2(a), upon termination of your employment, you shall be entitled to the following benefits:

(a) Deleted.

(b) If your employment shall be terminated by the Company for Cause, the Company shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus the Company shall pay all other amounts and honor all rights to which you are entitled under any compensation plan of the Company at the time such payments are due, and the Company shall have no other obligations to you under this Agreement.

(c) If your employment by the Company shall be terminated (y) by the Company other than for Cause or (z) by you for Good Reason or by your Voluntary Termination as provided in Subsection 3(c)(ii), then you shall be entitled to the benefits provided below:

(i) The Company shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation or benefit plan of the Company, at the time such payments are due;

(ii) In lieu of any further salary payments to you for periods subsequent to the Date of Termination, the Company shall pay as severance pay to you a lump sum severance payment (the "Severance Payment") equal to 3.0 times the average of the Annual Compensation (as defined below) payable to you by the Company or any corporation affiliated with the Company within the meaning of Section 1504 of the Internal Revenue Code of 1986, as amended (the "Code"). Annual Compensation is defined to consist of two components: (a) Your annual salary in effect immediately prior to the Change in Control or in effect as of the Date of Termination, whichever annual salary is higher. Your annual salary for this purpose will be determined without any reduction for deferrals of such salary under any deferred compensation plan (qualified or unqualified) and without any reduction for any salary reductions used for making contributions to any group insurance plan of the Company or its affiliates and also without reduction for any other deductions from salary for any reason; plus (b) The average of your annual bonuses under the Company's Annual Management Bonus Plan, or any substitute or successor plan including the Key Executive Officer Annual Incentive Plan, for the three highest calendar years, in terms of annual bonus paid to you in such years, during the five calendar years preceding the calendar year in which the Change in Control occurred. Your annual bonuses for this purpose will be determined without any reduction for deferrals under any deferred compensation plan (qualified or unqualified) and without any reduction for salary reductions used for making contributions to any group insurance plan of the Company or its affiliates and also without reduction for any other deductions from bonus for any reason. If you were not employed by the Company or its affiliates for a sufficient period of time to receive annual bonuses during each of the five calendar years before the Change in Control occurred, then the average bonus will be measured using the three highest calendar years, in terms of annual bonus paid to you, in all the consecutive calendar years immediately preceding the date the Change in Control occurred. If you were not eligible for three years of bonuses paid during the calendar years immediately preceding the date the Change in Control occurred, then the average bonus will be the average of the annual bonuses that were paid to you during such time under such Plan. If you were not eligible for any bonus during such time because of not being employed by the Company for a sufficient period of time to qualify for a previous bonus payment, then Annual Compensation will only consist of the salary component as provided above and will not include a bonus component.

(iii) The Company shall also pay to you a pro rata amount of your target bonus (the bonus amount for your grade level assuming 100 bonus points are earned) as shown on the matrix for the Annual Management Bonus Plan (or any substitute or successor plan) attributable to the bonus plan year which contains your Date of Termination, regardless of whether or not any bonus is determined to be actually earned for such year, provided that the target bonus for calculating this pro rata payment will not be less than the target bonus under such Plan for the Plan year that contains the day immediately prior to the Change in Control (which target bonus will be the one that applies to your grade level at that time) regardless of whether or not any bonus was payable for such year. The pro-rata amount will be based on the percentage of days of your employment in the calendar year of the Date of Termination. For example, if the Date of Termination is October 1 in a year with 365 days, with October 1 counted as the last day of employment for a total of 274 days of employment that year, then the pro-rata amount will be 75.06849% of target bonus (274 days ÷ 365 days). In addition, the Company shall pay to you the amounts of any compensation or awards payable to you or due to you under any incentive compensation plan of the Company including, without limitation, the Company's Restricted Stock Plan, Stock Option Plan (the "Option Plan") and Annual Management Bonus Plan (or any substitute or successor plan including the Key Executive Officer Annual Incentive Plan) and under any agreements with you in connection therewith, and shall make any other payments and take any other actions and honor such rights you may have accrued under such plans and agreements including any rights you may have to payments after the Date of Termination, which will include the payment to you of any bonus earned during the bonus year fully completed prior to the Date of Termination if such Date of Termination occurs prior to the payment date for such bonus, it being understood, however, that the pro-rata payment provided for in the first sentence of this paragraph 4(c)(iii) is in lieu of any bonus earned for the bonus plan year during which occurred the Date of Termination.

(iv) In lieu of shares of common stock of the Company or any securities of a successor company which shall have replaced such common stock ("Company Shares") issuable upon exercise of outstanding and unexercised options (whether or not they are fully exercisable or "vested"), if any, granted to you under the Option Plan including options granted under the plan of any successor company that replaced or assumed the options under said Option Plan ("Options") (which Options shall be cancelled upon the making of the payment referred to below), you shall receive an amount in cash equal to the product of (y) the excess of the higher of the closing price of Company Shares as reported on the New York Stock Exchange on or nearest the Date of Termination (or, if not listed on such exchange, on a nationally recognized exchange or quotation system on which trading volume in Company Shares is highest) or the

highest per share price (including cash, securities and any other consideration) for Company Shares actually paid in connection with any change in control of the Company, over the per share exercise price of each Option held by you (whether or not then fully exercisable or "vested"), times (z) the number of Company Shares covered by each such option.

(v) The Company shall also pay to you all legal fees and expenses incurred by you as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code to any payment or benefit provided hereunder).

(vi) In the event that you become entitled to the payments (the "Severance Payments") provided under paragraphs (ii), (iii), and (iv), above (and Subsections (d) and (e), below), and if any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code, the Company shall pay to you at the time specified in paragraph (vii), below, an additional amount (the "Gross-Up Payment") such that the net amount retained by you (such net amount to be the amount remaining after deducting any Excise Tax on the Severance Payments and any federal, state and local income tax and Excise Tax payable on the payment provided for by this paragraph), shall be equal to the amount of the Severance Payments after deducting normal and ordinary taxes but not deducting (a) the Excise Tax and (b) any federal, state and local income tax and Excise tax payable on the payment provided for by this paragraph. For example, if the Severance Payments are \$1,000,000 and if you are subject to the Excise Tax, then the Gross-Up Payment will be such that you will retain an amount of \$1,000,000 less only any normal and ordinary taxes on such amount. (The Excise Tax and federal, state and local taxes and any Excise Tax on the payment provided by this paragraph will not be deemed normal and ordinary taxes). For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, the following will apply:

(A) Any other payments or benefits received or to be received by you in connection with a Change in Control of the Company or your termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a Change in Control of the Company or any person affiliated with the Company or such person) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the

meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the Company's independent auditors and acceptable to you such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;

(B) The amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (y) the total amount of the Severance Payments or (z) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying clause (A), above); and

(C) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with proposed, temporary or final regulations under Sections 280G(d)(3) and (4) of the Code or, in the absence of such regulations, in accordance with the principles of Section 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, you shall be deemed to pay Federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of your residence on the Date of Termination, net of the maximum reduction in Federal income taxes which could be obtained from deduction of such state and local taxes. In the event that the amount of Excise Tax attributable to Severance Payments is subsequently determined to be less than the amount taken into account hereunder at the time of termination of your employment, you shall repay to the Company, at the time that the amount of such reduction in Excise Tax is finally determined, the portion of the Gross-Up Payment attributable to such reduction (plus the portion of the Gross-Up Payment attributable to the Excise Tax and Federal (and state and local) income tax imposed on the Gross-Up Payment being repaid by you if such repayment results in a reduction in Excise Tax and/or a Federal (and state and local) income tax deduction) plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. In the event that the Excise Tax attributable to Severance Payments is determined to exceed the amount taken into account hereunder at the time of the termination of your employment (including by reason of any payment the existence or amount of which cannot be

determined at the time of the Gross-Up Payment), the Company shall make an additional gross-up payment to you in respect of such excess (plus any interest payable with respect to such excess) at the time that the amount of such excess is finally determined.

(vii) The payments provided for in paragraphs (ii), (iii), (iv) and (vi) above, shall be made not later than the fifth day following the Date of Termination, provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company shall pay to you on such day an estimate, as determined in good faith by the Company, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to you payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

(d) If your employment shall be terminated (y) by the Company other than for Cause, or (z) by you voluntarily for Good Reason or by your Voluntary Termination, then for a twenty-four month period after such termination, the Company shall arrange to provide you with life, disability, accident and health insurance benefits substantially similar to those which you are receiving immediately prior to the Notice of Termination. Benefits otherwise receivable by you pursuant to this Subsection 4(d) shall be reduced to the extent comparable benefits are actually received by you during the twenty-four month period following your termination, and any such benefits actually received by you shall be reported to the Company.

(e) In the event a Change in Control of the Company occurs while you are employed with the Company or its affiliates but after you and the Company have executed an agreement that expressly provides for your subsequent retirement including an agreement that expressly provides for your early retirement, then the present value, computed using a discount rate of 8% per annum, of (i) the total amount of all unpaid deferred payments as payable to you in accordance with the payment schedule that you elected when the deferral was agreed to and using the plan interest rate applicable to your situation, including, without limitation, any unpaid deferred payments to be paid to you under the Company's Executive Deferred Compensation Plan and the Company's other deferred compensation plans, and (ii) the total amount of all other payments payable or to become payable to you or your estate or beneficiary under such retirement agreement (other than payments payable pursuant to a plan qualified under Section 401(a) of the Internal Revenue Code) shall be accelerated and paid to you (or your estate or beneficiary if applicable) in a lump sum cash payment

within five business days after the occurrence of the Change in Control of the Company. In addition, if you and the Company or its affiliates have executed such a retirement agreement and if the Change in Control of the Company occurs before the effective date of your retirement, then you shall receive the Severance Payment payable under Subsection 4(c)(ii) herein in addition to the lump sum cash payment of the present value of your total unpaid deferred payments and other payments under the retirement agreement as aforesaid. All benefits (other than the payments accelerated and paid out to you in a lump sum as provided above) to which you or your estate or any beneficiary are entitled under such retirement agreement shall continue in effect notwithstanding the Change in Control of the Company. This Subsection 4(e) shall survive your retirement.

(f) Notwithstanding that a Change in Control shall not have yet occurred, if you so elect, by written notice to the Company given at any time after the date hereof and prior to the time such amounts are otherwise payable to you:

(i) The Company shall deposit with an escrow agent, pursuant to an escrow agreement between the Company and such escrow agent, a sum of money, or other property permitted by such escrow agreement, which are substantially sufficient in the opinion of the Company's management to fund payment of the following amounts to you, as such amounts become payable (provided such deposit will not be necessary to the extent the escrow already contains funds or other assets which are substantially sufficient in the opinion of the Company's management to fund such payments):

(A) Amounts payable, or to become payable, to you or to your beneficiaries or your estate under the Company's Executive Deferred Compensation Plan and under any agreements related thereto in existence at the time of your election to make the deposit into escrow.

(B) Amounts payable, or to become payable, to you or to your beneficiaries or your estate by reason of your deferral of payments payable to you prior to the date of your election to make the deposit into escrow under any other deferred compensation agreements between you and the Company in existence at the time of your election to make the deposit into escrow, including but not limited to deferred compensation agreements relating to the deferral of salary or bonuses.

(C) Amounts payable, or to become payable, to you or to your beneficiaries or your estate under any executed agreement that expressly provides for your retirement from the Company (including payments described under Subsection 4(e) above) which agreement is in existence at the time of your election to make the deposit into escrow, other than amounts payable by a plan qualified under Section 401(a) of the Code.

(D) Subject to the approval of the Committee, amounts then due and payable to you, but not yet paid, under any other benefit plan or incentive compensation plan of the Company (whether such amounts are stock or cash) other than amounts payable to you under a plan qualified under Section 401(a) of the Code.

(ii) Within 5 days after the occurrence of a Potential Change of Control, the Company shall deposit with an escrow agent (which shall be the same escrow agent, if one exists, acting pursuant to clause (i) of this Subsection 4(f)), pursuant to an escrow agreement between the Company and such escrow agent, a sum of money, or other property permitted by such escrow agreement, substantially sufficient in the opinion of Company management to fund the payment to you of the amounts specified in Subsection 4(c) of this Agreement.

(iii) It is intended that any amounts deposited in escrow pursuant to the provisions of clause (i) or (ii) of this Subsection 4(f), shall be subject to the claims of the Company's creditors, as set forth in the form of such escrow agreement.

(g) You shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 4 be reduced by any compensation earned by you as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by you to the Company, or otherwise (except as specifically provided in this Section 4).

(h) In addition to all other amounts payable to you under this Section 4, you shall be entitled to receive all benefits payable to you under any benefit plan of the Company in which you participate to the extent such benefits are not paid under this Agreement.

5. Successors; Binding Agreement.

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle you to compensation from the Company in the same amount and on the same terms as you would be entitled to hereunder if you terminate your employment voluntarily for Good Reason following a Change in Control of the Company, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed

the Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

(b) This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there is no such designee, to your estate.

6. Notices. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered or certified mail, return receipt requested, postage prepaid, by FAX if available, or by overnight courier service, addressed as follows:

To the Company:

Secretary
Harrah's Entertainment, Inc.
1023 Cherry Road
Memphis, TN 38117
FAX: 901-762-8735

To you:

Addressed to your name at your office address (or FAX number) with the Company or its affiliates (or any successor thereto) at the time the notice is sent and your home address at that time; and if you are not employed by the Company at the time of the notice, your home address as shown on the records of the Company or its affiliates (or any successor thereto) on the date of the notice.

To such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

7. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or

compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Delaware. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Company under Section 4 shall survive the expiration of the term of this Agreement.

8. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

9. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

10. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Memphis, Tennessee in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that you shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

11. Similar Provisions in Other Agreement. The Severance Payment under this Agreement supersedes and replaces any previous severance agreement and any other severance payment to which you may be entitled under any previous agreement between you and the Company or its affiliates.

If this letter sets forth our agreement on the subject matter hereof,
kindly sign and return to the Company the enclosed copy of this letter which
will then constitute our binding agreement on this subject.

Very truly yours,

HARRAH'S ENTERTAINMENT, INC.

By: -----

Agreed:

- -----
[Name of Executive Officer]

FIFTH AMENDMENT TO
LIMITED PARTNERSHIP AGREEMENT OF
DES PLAINES DEVELOPMENT LIMITED PARTNERSHIP

This Fifth Amendment (this "Amendment") to Limited Partnership Agreement of Des Plaines Development Limited Partnership is made as of this 1st day of April, 1997 by and between Harrah's Illinois Corporation, a Nevada corporation, and Des Plaines Development Corporation.

Recitals

A. The parties hereto are parties to that certain Limited Partnership Agreement of Des Plaines Development Limited Partnership, dated as of February 28, 1992 (as amended by the First, Third and Fourth Amendments, there being no second amendment, to Limited Partnership Agreement and as amended hereby, the "Partnership Agreement"). Capitalized terms used herein and not defined herein shall have the meaning given to them in the Partnership Agreement.

B. The Illinois Gaming Board has requested that the General Partner terminate its revenue based management fee contained in the Management Agreement between the Partnership and the General Partner.

C. The parties hereto desire to modify Article 4 of the Partnership Agreement in recognition of the General Partner's elimination of its Management Fee as provided in that certain Management Agreement entered into between the Partnership and Harrah's Illinois Corporation dated as of February 28, 1992, (the "Management Agreement").

D. The parties hereto desire to enter into certain other agreements with respect to the Partnership, and to amend certain provisions of the Partnership Agreement, all as more fully set forth herein.

Agreement

NOW, THEREFORE, in consideration of the mutual agreements of the parties hereto and subject to the terms and conditions hereof, the parties hereto agree as follows:

1. Amendment to Definitions. The Partnership Agreement shall be amended as follows:

a. The following definition is hereby added to Article I of the Partnership Agreement:

"Gross Gaming Revenue" means the net win from gaming activities, which is the difference between gaming wins and losses before deducting costs and expenses.

2. Amendment to Section 4.01. Section 4.01 of the Partnership Agreement is hereby deleted in its entirety and the following is hereby substituted therefor:

Section 4.01 Allocations of Taxable Income. Except as provided herein and in Section 4.07 hereof, taxable income of the Partnership shall be allocated among the Partners in accordance with their Percentage Shares:

a. So long as Harrah's is the Manager pursuant to the Management Agreement and receives no other Management Fee pursuant to the Management Agreement, then in any fiscal year in which Partnership Gross Gaming Revenues are \$160 million or greater, taxable income (excluding any gain realized in a Major Capital Event) shall be allocated 83.25 percent to General Partner and 16.75 percent to Limited Partner;

b. So long as Harrah's is the Manager pursuant to the Management Agreement and receives no other Management Fee pursuant to the Management Agreement, then in any fiscal year in which Partnership Gross Gaming Revenues are less than \$160 million, taxable income (excluding any gain realized in a Major Capital Event) shall be allocated 83.5 percent to General Partner and 16.5 percent to Limited Partner.

c. Gain realized in a Major Capital Event shall be allocated among the Partners in accordance with their Percentage Shares.

3. Amendment to Section 4.04. Section 4.04 of the Partnership Agreement is hereby amended to delete the word "and" from the end of subsection (d) and adding the following subsections (e) and (f):

(e) Fifth, to any Partner whose capital account is greater than its Percentage Share of the Partnership's combined capital accounts until that Partner's capital account is equal to its Percentage Share of the Partnership's combined capital accounts; and

(f) Sixth, the balance, if any, to the Partners in accordance with their Percentage Shares.

4. Amendment to Section 4.05. Section 4.05 of the Partnership Agreement is hereby amended to delete the word "and" from the end of subsection (b) and adding the following as subsections (c) and (d):

(c) Third, to any Partner whose capital account is greater than its Percentage Share of the Partnership's combined capital accounts until that Partner's capital account is equal to its Percentage Share of the Partnership's combined capital accounts; and

(d) Fourth, the balance, if any, to and among the Partners in accordance with their Percentage Shares.

5. Amendment to Section 5.05. Section 5.05 of the Partnership Agreement is hereby amended by adding the following text at the end of the Section:

Notwithstanding the foregoing, the terms of the Management Agreement, which is attached hereto as Exhibit A, are incorporated by reference as though set forth herein verbatim. However, Article 10 shall have no application so long as Harrah's continues as Manager pursuant to the Management Agreement and receives the allocation set forth at Section 4.01 a. or b. of the Fifth Amendment to Limited Partnership Agreement.

6. Amendment to Section 11.08. Section 11.08 is hereby amended to change the reference to "The Promus Companies Incorporated" found at two places in the Section, to "Harrah's Entertainment, Inc." and by adding the following text at the end of the Section:

Anything herein to the contrary notwithstanding, the Limited Partner's Percentage Share shall in no way be affected by any change in the ownership of the outstanding stock of the General Partner, including any change in control of the ownership of the common stock of Harrah's Entertainment, Inc.

7. Amendment to Section 12.03. Section 12.03(a) is hereby amended by deleting the reference to "(c)" in the second line of (ii) and replacing it with "(f)" and deleting (iii) in its entirety.

8. Amendment to Section 13.14. Section 13.14 is deleted in its entirety as the Amended and Restated Loan Agreement has been repaid in full.

9. References. All references to the Partnership Agreement contained therein shall be deemed to refer to the Partnership Agreement as previously amended and as amended hereby.

10. Modification. Except as previously modified and as modified hereby, the Partnership Agreement and the First through Fourth Amendments thereto remain in full force and effect. In the case of any inconsistency between this Fifth Amendment and the Partnership Agreement or any of the First through Fourth Amendments, this Amendment shall control.

11. Counterparts. This Amendment may be executed in one or more counterparts, each of which is an original and all of which constitute one agreement.

12. Gaming Approval. The parties hereto confirm that the Partnership Agreement, as amended hereby, is subject to all statutes and regulations regulating gaming in the state of Illinois, including without limitation, any applicable approval of the Illinois Gaming Board.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first written above.

GENERAL PARTNER:

HARRAH'S ILLINOIS CORPORATION,

By: /s/ Patrick Dennehy

Name: Patrick Dennehy

Title: Vice President

LIMITED PARTNER:

DES PLAINES DEVELOPMENT
CORPORATION

By: /s/ John Q. Hammons

Name: John Q. Hammons

Title: President

I hereby consent to the foregoing Amendment, and confirm and ratify my
guarantee contained in the Partnership Agreement in all respects.

/s/ Mrs. Juanita Hammons

Mrs. Juanita Hammons
Guarantor

CONSENT OF SECURED PARTY

The undersigned, First Midwest Bank, National Association, formerly known as First Midwest Bank/Illinois, N.A., as holder of a security interest in the limited partnership interest of Des Plaines Development Corporation in Des Plaines Development Limited Partnership under the Partnership Agreement evidenced by that certain UCC-1 Financing Statement recorded with the Office of the Secretary of State for the State of Illinois on August 18, 1994, as Filing No. 3295940, consents to the foregoing Amendment.

First Midwest Bank, National
Association, f/k/a First Midwest
Bank/Illinois, N.A.

By: Vincent A. Benigni

Its: Vice President

Date: 4/9/97

Amendment to Escrow Agreement

Amendment, dated as of October 30, 1997, to Escrow Agreement, as amended, among Harrah's Entertainment, Inc., Harrah's Operating Company, Inc., and NationsBank ("Escrow Agreement");

Whereas, Section 5.02 of the Escrow Agreement provides that the Escrow Agreement may be amended by written agreement of the parties thereto without obtaining the consent of the Participants if the amendment does not adversely affect the rights of the Participants;

Whereas, the Human Resources Committee of the Board of Directors of Harrah's Entertainment, Inc. approved an amendment to the Escrow Agreement on October 30, 1997, concerning the appointment of an EDCP Investment Committee, and said amendment does not adversely affect the rights of Participants;

Whereas, the parties to the Escrow Agreement desire to amend the Escrow Agreement as authorized by the Human Resources Committee.

NOW THEREFORE, the parties to the Escrow Agreement hereby agree to amend the Escrow Agreement as follows:

1. The following subsection (d) is added following 2.02(c) of the Escrow Agreement:

"(d) The Human Resources Committee of the Company's Board of Directors may appoint an Investment Committee consisting of four corporate officers of the Company (the "EDCP Committee"). Notwithstanding anything herein to the contrary, the EDCP Committee shall, by majority vote which may include action by a majority of such Committee members acting by written consent, have authority to determine investment guidelines and procedures and to select and approve the various investments of any assets held in the Escrow Fund including cash and any assets or investments contained within or held under insurance policies in the Escrow Fund. The Escrow Agent may rely upon a letter from the Secretary or Assistant Secretary of the Company or from Management Compensation Group (MCG) that reports any decision

made by the EDCP Committee, and the Escrow Agent agrees to carry out such decision as soon as reasonably practicable after receipt of any such letter. The Escrow Agent and the Company may designate MCG or the Company's Controller to deal directly with any insurance carriers for purposes of implementing these investment decisions. All such investments shall be held by the Escrow Agent pursuant to this Escrow Agreement and subject to the terms hereof, as amended.

The Escrow Agent shall act only as an administrative agent in carrying out directed investment transactions in accordance with this paragraph and shall not be responsible for any investment decision. If a directed investment transaction violates any duty to diversify, to maintain liquidity or to meet any other investment standard or other requirement under this Escrow Agreement or applicable law, the entire responsibility shall rest upon the Company. The Escrow Agent shall be fully protected in acting upon or complying with any restrictions or directions provided in accordance with this paragraph."

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date written above.

HARRAH'S ENTERTAINMENT, INC.

By: /s/ Neil F. Barnhart

Title:

HARRAH'S OPERATING COMPANY, INC.

By: /s/ Neil F. Barnhart

Title:

NATIONSBANK

By: /s/ R. Otis Goodin

Title: Vice President

Harrah's Entertainment, Inc.

Certified Resolution

I, Assistant Secretary of Harrah's Entertainment, Inc., (the "Company") hereby certify that the attached resolution was adopted by the Human Resources Committee of the Company's Board of Directors on October 30, 1997 and said resolution is still in full force and effect.

February 9, 1998

/s/ Vincent G. DeYoung

Vincent G. DeYoung
Assistant Secretary,
Harrah's Entertainment, Inc.

EDCP -
Appointment of
Investment
Committee

RESOLVED, that an EDCP Investment Committee is hereby established to determine investment guidelines and procedures and to select or approve investments related to the Executive Deferred Compensation Plan including, but not limited to, investments of variable insurance policies and other assets held in escrow under the Escrow Agreement with NationsBank, such committee to have authority to secure professional investment advice, and the committee will further report annually to the Human Resources Committee concerning its decisions and the results of the investments;

RESOLVED, that the EDCP Investment Committee will consist of four corporate officers appointed by the Human Resources Committee, and that Colin V. Reed, Neil F. Barnhart, Ben C. Peterzell, and Charles L. Atwood, be, and they hereby are, appointed as the initial members of such Investment Committee;

RESOLVED, that the EDCP Investment Committee shall, by majority vote of the members, be authorized to establish procedures for its meetings and actions including, but not limited to, voting and quorum requirements;

RESOLVED, that any amendments and other actions related to the Escrow Agreement with NationsBank that may be necessary or appropriate to implement the EDCP Investment Committee be, and such amendments and actions hereby are, approved;

RESOLVED, that each of the officers of the Company (the "Officers"), or their designees appointed in writing be, and each of them hereby is, authorized to take any action to execute and deliver, on behalf of the Company, and to perform the Company's obligations under, any and all documents, agreements, contracts, and other instruments that any one or more of the Officers deem necessary or desirable to evidence or give effect to the action contemplated in the foregoing resolutions, all upon such terms and conditions, not inconsistent with the aforesaid resolutions, as any one or more of the Officers or their designees may approve; and

RESOLVED, that this Committee hereby adopts the form and content of any resolutions that any one or more of the Officers, or their designees, deem necessary to evidence the approval by the Company of, or carry into effect, the actions contemplated by the foregoing resolutions if (1) in the opinion of such Officer, or such Officer's designee, so acting, the adoption of such resolutions is necessary or advisable, and (2) the Secretary of the Company evidences such adoption by filing with the minutes of this meeting copies of such resolutions which shall thereupon be deemed to be adopted by this Committee and incorporated in the minutes as a part of this resolution with the same force and effect as if presented and approved at this meeting.

THIRD AMENDMENT TO CREDIT AGREEMENTS

THIRD AMENDMENT TO CREDIT AGREEMENTS (this "Amendment"), dated as of November 22, 1997, among HARRAH'S ENTERTAINMENT, INC. ("Parent"), HARRAH'S OPERATING COMPANY, INC. (the "Company"), MARINA ASSOCIATES ("Marina"), the various lending institutions party to the Credit Agreements referred to below (the "Banks"), BANKERS TRUST COMPANY, THE BANK OF NEW YORK, CIBC INC., CREDIT LYONNAIS, ATLANTA AGENCY, WELLS FARGO BANK, N.A., THE LONG-TERM CREDIT BANK OF JAPAN, LIMITED, NEW YORK BRANCH, NATIONS BANK, N.A. (SOUTH), SOCIETE GENERALE and THE SUMITOMO BANK, LIMITED, NEW YORK BRANCH, as Agents (the "Agents"), and BANKERS TRUST COMPANY, as Administrative Agent (the "Administrative Agent"). Unless otherwise defined herein, all capitalized terms used herein shall have the respective meanings provided such terms in the 5-Year Credit Agreement or the 364-Day Credit Agreement, as the case may be, referred to below.

W I T N E S S E T H :

- - - - -

WHEREAS, Parent, the Company, Marina, the Banks, the Agents and the Administrative Agent are parties to an Amended and Restated Credit Agreement, dated as of July 22, 1993 and amended and restated as of June 9, 1995 (as amended, modified or supplemented through the date hereof, the "5-Year Credit Agreement");

WHEREAS, Parent, the Company, Marina, the Banks, the Agents and the Administrative Agent are parties to a Credit Agreement, dated as of June 9, 1995 (as amended, modified or supplemented through the date hereof, the "364-Day Credit Agreement," and together with the 5-Year Credit Agreement, the "Credit Agreements"); and

WHEREAS, the parties hereto wish to amend the Credit Agreements as herein provided;

NOW, THEREFORE, it is agreed:

1. Section 9.04(xvi) of the 5-Year Credit Agreement is hereby amended by inserting the text ", the Jazz Casino Minimum Payment Guaranty" immediately after the words "the Jazz Casino Loan Guaranty" appearing therein.

2. Section 8.04(xvi) of the 364-Day Credit Agreement is hereby amended by inserting the text ", the Jazz Casino Minimum Payment Guaranty" immediately after the words "the Jazz Casino Loan Guaranty" appearing therein.

3. Section 9.05(iii) of the 5-Year Credit Agreement is hereby deleted in its entirety and the following new Section 9.05(iii) is inserted in lieu thereof:

"(iii) on and after the Jazz Casino Trigger Date, Parent and/or the Company may enter into (x) the Jazz Casino Completion Guaranties, the Jazz Casino Bank Guaranties, the Jazz Casino Loan Guaranty and the Jazz Casino Indemnity Arrangements and perform their respective obligations thereunder, and make (or deemed to make) Jazz Casino Completion Obligation Loans to Jazz Casino as a result of such performance and (y) the Jazz Casino Minimum Payment Guaranty and perform their respective obligations thereunder so long as their aggregate exposure thereunder (including the amount of any unreimbursed guarantee drawings thereunder) does not exceed \$100,000,000 (plus any applicable interest and attorneys' fees) at any time outstanding; and".

4. Section 8.05(iii) of the 364-Day Credit Agreement is hereby deleted in its entirety and the following new Section 8.05(iii) is inserted in lieu thereof:

"(iii) on and after the Jazz Casino Trigger Date, Parent and/or the Company may enter into (x) the Jazz Casino Completion Guaranties, the Jazz Casino Bank Guaranties, the Jazz Casino Loan Guaranty and the Jazz Casino Indemnity Arrangements and perform their respective obligations thereunder, and make (or deemed to make) Jazz Casino Completion Obligation Loans to Jazz Casino as a result of such performance and (y) the Jazz Casino Minimum Payment Guaranty and perform their respective obligations thereunder so long as their aggregate exposure thereunder (including the amount of any unreimbursed guarantee drawings thereunder) does not exceed \$100,000,000 (plus any applicable interest and attorneys' fees) at any time outstanding; and".

5. Section 11.01 of the 5-Year Credit Agreement is hereby amended by inserting the following new definition in the appropriate alphabetical order:

"Jazz Casino Minimum Payment Guaranty" shall mean the guaranty to be issued by Parent and/or the Company in favor of the Louisiana Gaming Control Board guaranteeing Jazz Casino's minimum payment obligation to the Louisiana Gaming Control Board of \$100,000,000 per year.

6. Section 10.01 of the 364-Day Credit Agreement is hereby amended by inserting the following new definition in the appropriate alphabetical order:

"Jazz Casino Minimum Payment Guaranty" shall mean the guaranty to be issued by Parent and/or the Company in favor of the Louisiana Gaming Control Board guaranteeing Jazz Casino's minimum payment obligation to the Louisiana Gaming Control Board of \$100,000,000 per year.

7. In order to induce the Banks to enter into this Amendment, Parent and each Borrower hereby represent and warrant that:

(x) no Default or Event of Default exists on the Third Amendment Effective Date (as defined below), both before and after giving effect to this Amendment; and

(y) all of the representations and warranties contained in each Credit Agreement shall be true and correct in all material respects on and as of the Third Amendment Effective Date, both before and after giving effect to this Amendment, with the same effect as though such representations and warranties had been made on and as of the Third Amendment Effective Date (it being understood that any representation or warranty made as of a specified date shall be required to be true and correct in all material respects only as of such specific date).

8. This Amendment is limited as specified and shall not constitute a modification, acceptance or waiver of any other provision of the Credit Agreements or any other Credit Document.

9. This Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which counterparts when executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts shall be lodged with Parent, the Company and the Administrative Agent.

10. This Amendment and the rights and obligations of the parties hereunder shall be construed in accordance with and governed by the law of the State of New York.

11. This Amendment shall become effective on the date (the "Third Amendment Effective Date") when Parent, the Borrowers and the Required Banks under, and as defined in, each Credit Agreement shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered (including by way of telecopier) the same to the Administrative Agent at the Notice Office.

12. From and after the Third Amendment Effective Date, all references in the Credit Agreements and the other Credit Documents to each Credit Agreement shall be deemed to be references to each such Credit Agreement as amended hereby.

* * *

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

HARRAH'S ENTERTAINMENT, INC.

By Charles L. Atwood

Title: Vice President

HARRAH'S OPERATING COMPANY, INC.

By Charles L. Atwood

Title: Vice President

MARINA ASSOCIATES

By: HARRAH'S ATLANTIC CITY, INC.,
 a general partner

By Stephen H. Brammell

Title: Assistant Secretary

By: HARRAH'S NEW JERSEY, INC.,
 a general partner

By Stephen H. Brammell

Title: Assistant Secretary

BANKERS TRUST COMPANY,
Individually,
as Administrative Agent
and as an Agent

By /s/ Mary Kay Coyle

Title: Managing Director

THE BANK OF NEW YORK,
Individually and as an
Agent

By /s/ Ann Marie Hughes

Title: ANN MARIE HUGHES
Assistant Vice President

CIBC INC., Individually and
as an Agent

By /s/ Cheryl L. Root

Title: CHERYL ROOT
EXECUTIVE DIRECTOR
CIBC Oppenheimer Corp.,
AS AGENT

CREDIT LYONNAIS, ATLANTA AGENCY,
Individually and as an Agent

By /s/ David M. Caurse

Title:

CREDIT LYONNAIS CAYMAN ISLAND
BRANCH

By /s/ David M. Caurse

Title:

THE LONG-TERM CREDIT BANK OF JAPAN,
LIMITED, NEW YORK BRANCH,
Individually and as an Agent

By /s/ Philip Marsden

Title: SVP

NATIONSBANK, N.A. (SOUTH),
Individually and as an Agent,

By /s/ Mark D. Halmrast

Title: Vice President

SOCIETE GENERALE, Individually and
as an Agent

By /s/ Donald L. Schubert

Title: Donald L. Schubert
 Vice President

THE SUMITOMO BANK, LIMITED,
ATLANTA AGENCY, Individually
and as an Agent

By /s/ Masayuki Fukushima

Title: MASAYUKI FUKUSHIMA
JOINT GENERAL MANAGER

WELLS FARGO BANK, N.A.,
Individually and as Agent

By /s/ Sue Fuller

Title: Vice President

ABN AMRO BANK N.V., SAN FRANCISCO
BRANCH

By: ABN AMRO NORTH AMERICA,
INC., AS ITS AGENT

By /s/ Jeffrey A. French

Title: Jeffrey A. French
Group Vice President &
Director

By /s/ Michael Tolentino

Title: Michael Tolentino
Assistant Vice President
& Credit Analyst

BANK OF AMERICA NATIONAL TRUST
AND SAVING ASSOCIATION

By /s/ Scott Faber

Title: Vice President

THE BANK OF NOVA SCOTIA

By /s/ F. C. H. Ashby

Title: F.C.H. Ashby
Senior Manager
Loan Operations

COMMERZBANK AG, LOS ANGELES BRANCH

By /s/ John Korthuis

Title: John Korthuis, Vice President

By /s/ Karla Wirth

Title: Karla Wirth, Asst. Treasurer

THE DAI-ICHI KANGYO BANK, LTD.

By

Title:

DEPOSIT GUARANTY NATIONAL BANK

By /s/ Larry C. Ratzlaff

Title: SENIOR VICE PRESIDENT

FIRST AMERICAN NATIONAL BANK

By -----
Title:

FIRST NATIONAL BANK OF COMMERCE

By /s/ Louis Ballero

Title: LOUIS BALLERO
SENIOR VICE PRESIDENT

FIRST TENNESSEE BANK NATIONAL
ASSOCIATION

By /s/ James H. Moore, Jr.

Title: Vice President

FLEET BANK, N.A.

By /s/ John F. Cullinan

Title: SVP

HIBERNIA NATIONAL BANK

By _____
Title:

THE INDUSTRIAL BANK OF JAPAN,
LIMITED

By /s/ Kazuo Iida

Title: KAZUO IIDA
General Manager

THE MITSUBISHI TRUST & BANKING
CORP.

By /s/ T. Hayashi

Title: Senior Vice President

PNC BANK, NATIONAL ASSOCIATION
(Successor by merger to Midlantic
Bank, N.A.)

By /s/ Lawrence F. Zema, VP

Title: Lawrence F. Zema
Vice President

THE SANWA BANK, LIMITED,
ATLANTA AGENCY

By _____
Title:

SUNTRUST BANK, NASHVILLE, N.A.

By /s/ Renee D. Drake

Title: Renee D. Drake
Vice President

THE TOKAI BANK, LIMITED,
NEW YORK BRANCH

By _____
Title:

UNITED STATES NATIONAL BANK
OF OREGON

By /s/ Dale Parshall

Title: Vice President

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, NEW YORK BRANCH

By /s/ Alan S. Bookspan

Title: Alan S. Bookspan
 Vice President

By /s/ James C. Veneau

Title: Analyst

FIRST SECURITY BANK OF UTAH

By -----
Title:

ERSTE BANK DER OESTERREICHISCHEN
SPARKASSEN AG (f/k/a/ GIROCREDIT BANK
AG DER SPARKASSEN)

By /s/ John Redding /s/ John Runnion

Title: John Redding John Runnion
 VP FVP

HARRAH'S ENTERTAINMENT, INC.
COMPUTATIONS OF PER SHARE EARNINGS

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Income from continuing operations.....	\$ 107,522,000	\$ 98,897,000	\$ 78,810,000
Discontinued operations			
Earnings from hotel operations, net.....	-	-	21,230,000
Spin-off transaction expenses, net.....	-	-	(21,194,000)
Extraordinary loss, net.....	(8,134,000)	-	-
Net income.....	\$ 99,388,000	\$ 98,897,000	\$ 78,846,000
 BASIC EARNINGS PER SHARE			
Weighted average number of common shares outstanding.....	100,618,139	102,598,281	102,340,763
 BASIC EARNINGS PER COMMON SHARE			
Income from continuing operations.....	\$ 1.07	\$ 0.96	\$ 0.77
Discontinued operations			
Earnings from hotel operations, net.....	-	-	0.21
Spin-off transaction expenses, net.....	-	-	(0.21)
Extraordinary loss, net.....	(0.08)	-	-
Net income.....	\$ 0.99	\$ 0.96	\$ 0.77
 DILUTED EARNINGS PER SHARE			
Weighted average number of common shares outstanding.....	100,618,139	102,598,281	102,340,763
Additional shares based on average market price for period applicable to:			
Restricted stock.....	86,827	88	90,996
Stock options.....	549,101	1,137,792	756,364
Average number of common and common equivalent shares outstanding.....	101,254,067	103,736,161	103,188,123
 DILUTED EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE			
Income from continuing operations.....	\$ 1.06	\$ 0.95	\$ 0.76
Discontinued operations			
Earnings from hotel operations, net.....	-	-	0.21
Spin-off transaction expenses, net.....	-	-	(0.21)
Extraordinary loss, net.....	(0.08)	-	-
Net income.....	\$ 0.98	\$ 0.95	\$ 0.76

HARRAH'S ENTERTAINMENT, INC.
COMPUTATIONS OF RATIOS
(In thousands, except ratio amounts)

	1997(A)	1996(B)	1995(C)	1994(D)	1993
RETURN ON REVENUES-CONTINUING					
Income from continuing operations.....	\$ 107,522	\$ 98,897	\$ 78,810	\$ 49,984	\$ 74,867
Revenues.....	1,619,210	1,586,020	1,578,795	1,349,941	1,020,645
Return.....	6.6%	6.2%	5.0%	3.7%	7.3%
RETURN ON AVERAGE INVESTED CAPITAL					
Income from continuing operations.....	\$ 107,522	\$ 98,897	\$ 78,810	\$ 49,984	\$ 74,867
Add: Interest expense after tax.....	48,233	43,187	56,650	46,993	43,848
	\$ 155,755	\$ 142,084	\$ 135,460	\$ 96,977	\$ 118,715
Average invested capital.....	\$ 1,815,869	\$ 1,619,880	\$ 1,377,354	\$ 1,229,524	\$ 1,060,641
Return.....	8.6%	8.8%	9.8%	7.9%	11.2%
RETURN ON AVERAGE EQUITY(E)					
Income before extraordinary items and cumulative effect of change in accounting policy.....	\$ 107,522	\$ 98,897	\$ 78,846	\$ 86,303	\$ 91,793
Average equity.....	722,298	682,489	618,778	606,009	474,733
Return.....	14.9%	14.5%	12.7%	14.2%	19.3%
CURRENT RATIO					
Current assets.....	\$ 212,310	\$ 201,587	\$ 188,836	\$ 171,835	\$ 139,842
Current liabilities.....	210,950	204,642	201,566	295,083	188,258
Ratio.....	1.0	1.0	0.9	0.6	0.7
RATIO OF BOOK EQUITY TO DEBT(E)					
Book equity as of December 31.....	\$ 735,503	\$ 719,746	\$ 585,549	\$ 623,427	\$ 536,037
Total debt(f).....	926,234	891,379	755,743	919,727	841,964
Ratio.....	0.8	0.8	0.8	0.7	0.6
RATIO OF MARKET EQUITY TO DEBT(E)					
Market equity as of December 31.....	\$ 1,907,053	\$ 2,046,523	\$ 2,489,840	\$ 3,161,681	\$ 4,678,304
Total debt(f).....	926,234	891,379	755,743	919,727	841,964
Ratio.....	2.1	2.3	3.3	3.4	5.6

EXHIBIT 12 (CONTINUED)

HARRAH'S ENTERTAINMENT, INC.
COMPUTATIONS OF RATIOS
(IN THOUSANDS, EXCEPT RATIO AMOUNTS)

	1997(A)	1996(B)	1995(C)	1994(D)	1993
	-----	-----	-----	-----	-----
COMPUTATION OF ADJUSTED EBITDA					
Income from continuing operations.....	\$ 107,522	\$ 98,897	\$ 78,810	\$ 49,984	\$ 74,867
Add/(less):					
Income tax provision.....	68,746	67,316	60,677	75,391	59,394
Interest expense.....	79,071	69,968	73,890	76,363	73,080
Depreciation and amortization.....	122,396	102,338	95,388	86,644	70,207
Deferred finance charge amortization.....	(3,021)	(3,151)	(3,626)	(2,844)	(3,261)
Amortization of debt discounts and premiums.....	(12)	(21)	(53)	(176)	(172)
Earnings before interest, taxes, depreciation and amortization.....	374,702	335,347	305,086	285,362	274,115
Add/(less):					
Write-downs and reserves.....	13,806	52,188	93,348	-	-
Project opening costs.....	19,518	5,907	450	15,313	-
Venture restructuring costs.....	6,944	14,601	-	-	-
Gains on sales of equity interests in New Zealand subsidiary.....	(37,388)	-	(11,773)	-	-
Provision for settlement of litigation and related costs.....	-	-	-	53,449	400
Adjusted EBITDA(g).....	\$ 377,582	\$ 408,043	\$ 387,111	\$ 354,124	\$ 274,515
	-----	-----	-----	-----	-----
COMPUTATION OF ADJUSTED EBITDA TO INTEREST PAID					
Adjusted EBITDA.....	\$ 377,582	\$ 408,043	\$ 387,111	\$ 354,124	\$ 274,515
	-----	-----	-----	-----	-----
Interest expense.....	\$ 79,071	\$ 69,968	\$ 73,890	\$ 76,363	\$ 73,080
Add/(less):					
Deferred finance charge amortization.....	(3,021)	(3,151)	(3,626)	(2,844)	(3,261)
Amortization of debt discounts and premiums.....	(12)	(21)	(53)	(176)	(172)
Capitalized interest.....	6,860	11,025	3,636	3,764	3,107
Interest paid.....	\$ 82,898	\$ 77,821	\$ 73,847	\$ 77,107	\$ 72,754
	-----	-----	-----	-----	-----
Ratio of Adjusted EBITDA to interest paid...	4.6	5.2	5.2	4.6	3.8
	-----	-----	-----	-----	-----
RATIO OF DEBT TO ADJUSTED EBITDA					
Total debt.....	\$ 926,234	\$ 891,379	\$ 755,743	\$ 728,529	\$ 666,161
	-----	-----	-----	-----	-----
Adjusted EBITDA(g).....	\$ 377,582	\$ 408,043	\$ 387,111	\$ 354,124	\$ 274,515
	-----	-----	-----	-----	-----
Ratio of total debt to Adjusted EBITDA.....	2.5	2.2	2.0	2.1	2.4
	-----	-----	-----	-----	-----

EXHIBIT 12 (CONTINUED)

HARRAH'S ENTERTAINMENT, INC.
COMPUTATIONS OF RATIOS
(IN THOUSANDS, EXCEPT RATIO AMOUNTS)

	1997(A)	1996(B)	1995(C)	1994(D)	1993
RATIO OF EARNINGS TO FIXED CHARGES (H)	-----	-----	-----	-----	-----
Income from continuing operations.....	\$ 107,522	\$ 98,897	\$ 78,810	\$ 49,984	\$ 74,867
Add:					
Provision for income taxes.....	68,746	67,316	60,677	75,391	59,394
Interest expense.....	79,071	69,968	73,890	76,363	73,080
Interest included in rental expense.....	7,692	7,663	6,738	5,244	7,207
Amortization of capitalized interest.....	606	763	580	628	892
(Income) or loss from equity investments....	(473)	(473)	-	-	(89)
Adjustment to include 100% of nonconsolidated, majority-owned subsidiary(i).....	-	-	(34,775)	(7,438)	-
Earnings as defined.....	\$ 263,164	\$ 244,134	\$ 185,920	\$ 200,172	\$ 215,351
Fixed charges:					
Interest expense.....	\$ 79,071	\$ 69,968	\$ 73,890	\$ 76,363	\$ 73,080
Capitalized interest.....	6,860	11,025	3,636	3,764	3,107
Interest included in rental expense.....	7,692	7,663	6,738	5,244	7,207
Adjustment to include 100% of nonconsolidated, majority-owned subsidiary(i).....	-	-	56,652	17,069	-
Total fixed charges.....	\$ 93,623	\$ 88,656	\$ 140,916	\$ 102,440	\$ 83,394
Ratio of earnings to fixed charges.....	2.8	2.8	1.3	2.0	2.6

- (a) 1997 includes \$13.8 million in pretax charges for write-downs and reserves and a \$37.4 million gain on the sale of equity in New Zealand subsidiary.
- (b) 1996 includes \$52.2 million in pretax charges for write-downs and reserves.
- (c) 1995 includes \$93.3 million in pretax charges for write-downs.
- (d) 1994 includes a \$53.4 million provision for settlement of all claims and related cost related to the Merger Agreement and Tax sharing Agreement arising from the 1990 spin-off of the Company and acquisition of the Holiday Inn business by Bass PLC.
- (e) Amounts for periods prior to the June 30, 1995, dividend of PHC common stock to the Company's stockholders reflect the impact of the financial position and results of operations for the discontinued hotel business in those periods.
- (f) For purposes of computing these ratios, total debt includes debt allocated to discontinued hotel operations for periods prior to the PHC Spin-off.
- (g) Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) consists of Income from continuing operations before write-downs and reserves, project opening costs, venture restructuring costs, gains on sales of equity interests in New Zealand subsidiary and provision for settlement of litigation and related costs, plus interest expense, taxes, depreciation and amortization. EBITDA is a supplemental financial measurement used by management, as well as by industry analysts, to evaluate Harrah's operations. However, EBITDA should not be construed as an alternative to Income from operations (as an indicator of Harrah's operating performance) or to Cash flows from operating activities (as a measure of liquidity) as determined in accordance with generally accepted accounting principles and presented in the Company's Consolidated Financial Statements.
- (h) As discussed in Note 12 to the Consolidated Financial Statements in the 1997 Harrah's Entertainment Annual Report, the Company has guaranteed certain third party loans in connection with its casino development activities. The above ratio computation excludes estimated fixed charges associated with these guarantees as follows: 1997, \$7.8 million; 1996, \$5.2 million; 1995, \$6.8 million; 1994, \$5.5 million; and 1993, \$3.1 million.
- (i) Prior to November 1995, the Company owned a majority interest in Harrah's Jazz Company. However, voting control was shared equally among three partners. As a result, Harrah's Jazz was not consolidated into the Company's financial statements. As required by Item 503(d)(2), the Company's ratio of earnings to fixed charges ratio computation for 1995 and 1994 has been adjusted to include Harrah's Jazz financial results as if this entity were consolidated.

Financial and Statistical Highlights
(In millions, except stock data and statistical data)
(See Notes 1 and 10)

	1997(a)	1996(b)	1995(c)	1994(d)	1993	COMPOUND GROWTH RATE
<hr/>						
Operating Data						
Continuing operations						
Revenues.....	\$ 1,619.2	\$ 1,586.0	\$ 1,578.8	\$ 1,349.9	\$ 1,020.6	12.2%
Income from operations.....	213.5	236.9	209.4	267.2	210.0	0.4%
Income before income taxes and minority interest.....	183.6	172.1	151.6	139.3	139.0	7.2%
Income from continuing operations.....	107.5	98.9	78.8	50.0	74.9	9.5%
Net income (e).....	99.4	98.9	78.8	78.4	86.3	3.6%
Adjusted EBITDA (f).....	377.6	408.0	387.1	354.1	274.5	8.3%
Common Stock Data						
Earnings per share-basic						
Continuing operations.....	\$ 1.07	\$ 0.96	\$ 0.77	\$ 0.49	\$ 0.74	9.7%
Discontinued hotel operations.....	-	-	-	0.36	0.17	N/M
Net income (e).....	0.99	0.96	0.77	0.77	0.86	3.6%
Earnings per share-diluted						
Net income (e).....	0.98	0.95	0.76	0.76	0.84	3.9%
Market price of common stock at December 31						
(e).....	18.88	19.88	24.25	30.88	45.75	(19.9)%
Common shares outstanding at year-end (in thousands).....						
	101,036	102,970	102,674	102,403	102,258	(0.3)%
Financial Position						
Total assets (e).....	\$ 2,005.5	\$ 1,974.1	\$ 1,636.7	\$ 1,738.0	\$ 1,528.0	7.0%
Total assets of continuing operations.....	2,005.5	1,974.1	1,636.7	1,595.0	1,347.5	10.5%
Current portion of long-term debt.....	1.8	1.8	2.0	1.0	1.0	15.8%
Long-term debt.....	924.4	889.5	753.7	727.5	665.2	8.6%
Stockholders' equity (e).....	735.5	719.7	585.5	623.4	536.0	8.2%

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- (a) 1997 includes \$13.8 million in pretax charges for write-downs and reserves (see Note 8) and a \$37.4 million gain on the sale of equity in New Zealand subsidiary.
- (b) 1996 includes \$52.2 million in pretax charges for write-downs and reserves (see Note 8).
- (c) 1995 includes \$93.3 million in pretax charges for write-downs (see Note 8).
- (d) 1994 includes a \$53.4 million provision for settlement of all claims and related costs related to the Merger Agreement and Tax Sharing Agreement arising from the 1990 spin-off of the Company and acquisition of the Holiday Inn business by Bass PLC.
- (e) Amounts for periods prior to the June 30, 1995, dividend of PHC common stock to the Company's stockholders reflect the impact of the financial position and results of operations for the discontinued hotel business in those periods.
- (f) Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) consists of Income from continuing operations before write-downs and reserves, project opening costs, venture restructuring costs, gains on sales of New Zealand subsidiary equity interests and provision for settlement of litigation and related costs, plus interest expense, taxes, depreciation and amortization. EBITDA is a supplemental financial measurement used by management, as well as by industry

	1997(a)	1996(b)	1995(c)	1994(d)	1993	COMPOUND GROWTH RATE
	-----	-----	-----	-----	-----	-----
Cash Flows						
Provided by (used in)						
Operating activities.....	\$ 255.1	\$ 285.7	\$ 213.7	\$ 227.3	\$ 198.2	6.5%
Investing activities.....	(221.0)	(383.7)	(209.2)	(331.4)	(225.8)	(0.5)%
Financing activities.....	(23.3)	107.2	47.7	69.8	(7.0)	35.1%
Capital expenditures.....	290.5	390.0	231.8	301.8	234.5	5.5%
Financial Percentages and Ratios						
Return on revenues-continuing.....	6.6%	6.2%	5.0%	3.7%	7.3%	
Return on average invested capital (g).....	8.6%	8.8%	9.8%	7.9%	11.2%	
Return on average equity (g).....	14.9%	14.5%	12.7%	14.2%	19.3%	
Ratio of earnings to fixed charges.....	2.8	2.8	1.3	2.0	2.6	
Current ratio.....	1.0	1.0	0.9	0.6	0.7	
Ratio of book equity to total debt (h).....	0.8	0.8	0.8	0.7	0.6	
Ratio of market equity to total debt (h).....	2.1	2.3	3.3	3.4	5.6	
Ratio of Adjusted EBITDA to interest paid.....	4.6	5.2	5.2	4.6	3.8	
Ratio of debt to Adjusted EBITDA.....	2.5	2.2	2.0	2.1	2.4	
Selected Statistical Data as of Year-end (i)						
Casino square footage.....	774,500	701,200	547,200	521,400	436,400	
Number of slot machines.....	19,835	19,011	15,335	14,808	12,504	
Number of table games.....	934	941	801	789	641	
Number of hotel rooms (j).....	8,197	6,478	5,736	5,367	5,348	
Gaming win (in millions).....	\$ 1,609.3	\$ 1,572.0	\$ 1,498.8	\$ 1,145.3	\$ 812.1	

analysts, to evaluate Harrah's operations. However, EBITDA should not be construed as an alternative to Income from operations (as an indicator of Harrah's operating performance) or to Cash flows from operating activities (as a measure of liquidity) as determined in accordance with generally accepted accounting principles and presented in the accompanying Consolidated Financial Statements. EBITDA after write-downs and reserves, project opening costs, venture restructuring costs and provision for settlement of litigation and related costs for the years presented was as follows: 1997, \$374.7 million; 1996, \$335.3 million; 1995, \$305.1 million; 1994, \$285.4 million and 1993, \$274.1 million.

- (g) Ratio computed based on Income before extraordinary items and cumulative effect of change in accounting policy.
- (h) For purposes of computing these ratios, total debt includes debt allocated to discontinued hotel operations for periods prior to the PHC Spin-off.
- (i) Includes both owned and managed properties.
- (j) Excludes rooms operated by the Company's discontinued hotel operations for periods prior to the PHC Spin-off.

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

Harrah's Entertainment, Inc. (referred to in this discussion, together with its subsidiaries where appropriate, as "Harrah's" or the "Company") is the most recognized brand name in the casino entertainment industry. Contributing to this recognition are the Company's longevity, 1997 being its 60th year of operations, and its unparalleled geographic distribution of casino offerings, now totaling 16 facilities in ten states.

By most financial measures, 1997 was a disappointing year for the Company. The continued intensity of industry competition in many markets, the impact of construction disruptions in certain markets as key properties were enhanced, and weather-related business interruptions in other markets all contributed to these financial results. However, the events of 1997 also included numerous strategic actions which are expected to positively impact the Company's operating results in future periods.

The common threads of these strategic actions are a more narrow focus on serving target customers and a better position to build on the foundation of a recognition program, which is already in place. In September 1997, Harrah's introduced Total Gold (U.S. Patent Pending), the casino industry's first national player rewards program. Total Gold allows customers to earn points for slot play and redeem those points for cash, merchandise, food, lodging or show tickets at any Harrah's casino across the country. The ability to redeem points across all properties makes this program uniquely attractive to the multi-market player.

Underpinning the Total Gold program is Harrah's powerful and proprietary database management system, which was also introduced in 1997. The Winner's Information Network, or WINet (U.S. Patent Pending), allows Harrah's to build a national database of its customers. WINet enables the Company to more efficiently communicate with its customers and to better target promotions and offers to the appropriate customer segment.

To further enhance the Company's distribution and access to its target customers, in December 1997 Harrah's announced an agreement to acquire Showboat, Inc. (See Capital Spending and Development-Showboat Acquisition.)

OVERALL RESULTS OF OPERATIONS

(In millions, except earnings per share)	Percentage Increase/ (Decrease)				
	1997	1996	1995	97 Vs 96	96 Vs 95
Revenues.....	\$ 1,619.2	\$ 1,586.0	\$ 1,578.8	2.1 %	0.5 %
Operating profit.....	258.7	284.7	289.0	(9.1)%	(1.5)%
Income from operations.....	213.5	236.9	209.4	(9.9)%	13.1 %
Income from continuing operations.....	107.5	98.9	78.8	8.7 %	25.5 %
Net income.....	99.4	98.9	78.8	0.5 %	25.5 %
Earnings per share-basic					
Continuing operations.....	1.07	0.96	0.77	11.5 %	24.7 %
Net income.....	0.99	0.96	0.77	3.1 %	24.7 %
Operating margin.....	13.2%	14.9%	13.3%	(1.7)pts	1.6 pts

Given the various special charges and credits included in each of the years presented, comparisons of the financial data contained in the table above are difficult. The table below reflects pro forma comparisons of the Company's operating results, adjusted to exclude write-downs and reserves, project opening costs, equity in income (losses) of nonconsolidated affiliates, venture restructuring costs, gains on sales of the Company's ownership interests in a New Zealand subsidiary and discontinued operations. For the amounts and a discussion of these items, please see the Other Factors Affecting Net Income section.

(In millions, except Earnings per share)	Percentage Increase/(Decrease)				
	1997	1996	1995	97 Vs 96	96 Vs 95
Revenues.....	\$ 1,619.2	\$ 1,586.0	\$ 1,578.8	2.1 %	0.5 %
Operating profit.....	290.1	342.8	382.8	(15.4)%	(10.4)%
Income from operations.....	263.0	308.4	352.4	(14.7)%	(12.5)%
Income from continuing operations.....	114.9	141.4	153.0	(18.7)%	(7.6)%
Earnings per share-basic					
Continuing operations.....	1.14	1.38	1.49	(17.4)%	(7.4)%
Operating margin.....	16.2%	19.4%	22.3%	(3.2)pts	(2.9)pts

The trends depicted by these pro forma results reflect the increasingly competitive operating environment faced by Harrah's over this three year period in many of the markets in which it operates and the further impact on 1997 results of construction and weather-related disruptions.

DIVISION OPERATING RESULTS AND
DEVELOPMENT PLANS

Riverboat Division

(In millions)	1997	1996	1995	Percentage Increase/(Decrease)	
				97 VS 96	96 VS 95
Casino revenues.....	\$614.8	\$596.0	\$557.2	3.2 %	7.0 %
Total revenues.....	656.2	629.1	593.5	4.3 %	6.0 %
Operating profit.....	124.2	141.2	172.2	(12.0)%	(18.0)%
Operating margin.....	18.9%	22.4%	29.0%	(3.5)pts	(6.6)pts

Riverboat Division year-over-year revenue increases resulted from new and expanded casino facilities. 1997 included the March opening of Harrah's St. Louis-Riverport. During 1996, a larger Tunica facility opened in April, and both Shreveport and North Kansas City increased gaming capacity. However, Division operating profit and margin declined over this three year period due to new and increased competition in all riverboat markets.

Illinois. Revenues, operating profit and margin at Harrah's Joliet in Illinois declined in 1997 compared to the prior year due to the addition of riverboat casinos in neighboring Indiana beginning in June 1996, continuing the trend noted in the 1996 versus 1995 comparison. Although full year 1997 gaming volume at Harrah's Joliet declined 15.5% from the prior year, gaming volume for the last half of 1997 was down only 0.3% from the last half of 1996. Operating profit and margin at Joliet were further impacted by higher marketing and promotional expenses that resulted from the increased competition. Though management believes that the property's operating results have stabilized, revenues and operating profit at Harrah's Joliet are not expected to return to the levels achieved prior to the entrance of the Indiana riverboats into the regional market.

The Company began construction during fourth quarter 1997 on certain elements of a \$29.5 million expansion at the Joliet property. Construction of a major element of the expansion project, a 204-suite hotel, was delayed for further study after the passage in December 1997 of a gaming tax increase by the Illinois State Legislature. A decision regarding this project will be made after an analysis has been completed of the expected impact of this tax increase on the property's operations.

The Company believes that its overall position in the Chicago market will be enhanced with the addition of Showboat's East Chicago, Indiana, property, located to the southeast of downtown, which will complement Harrah's Joliet's position on the southwest side of the city. (See Capital Spending and Development-Showboat Acquisition.)

Louisiana. Although Harrah's Shreveport's 1997 revenues declined 1.9% as compared to 1996, operating profit increased 2.5%, despite the entrance in third quarter 1996 of a new competitor into the market. This performance follows the approximately 12% increases in revenues and operating profit by Harrah's Shreveport in 1996 versus 1995.

The Company plans to commence construction by second quarter 1998 on expanded parking facilities at Harrah's Shreveport and is evaluating a possible further expansion of the facilities to include a hotel as well as additional restaurant and meeting facilities. Any expansion project is subject to the receipt of necessary regulatory approvals.

Mississippi. During second quarter 1997, Harrah's closed its original Tunica property in order to focus its efforts in the market on the newer Tunica property, which opened in April 1996. Combined Tunica revenues increased 5.9% in 1997 over 1996, while operating income increased \$6.0 million despite construction disruptions at the newer Tunica property during fourth quarter 1997 as a result of a project to further enhance the property's offerings to meet the needs of the Company's target customers. For 1996, the combined Tunica properties had posted an operating loss, despite a 51.2% increase in revenues over 1995 due to the opening of the second Tunica facility.

The Company is continuing to explore its options for the original Tunica property. A reserve for the impairment of the property was recorded in fourth quarter 1996 and the Company believes such reserve remains adequate. However, the Company will continue to periodically review the adequacy of this reserve. During second quarter 1997, the Company acquired its minority partner's interest in both Tunica properties. The cost of this acquisition was not material to Harrah's.

Harrah's Vicksburg reported 1997 revenues and operating profit which were virtually even with the prior year, despite continued intense competition in this market. As a result of this competition, 1996 revenues and operating profit declined 3.6% and 19.9%, respectively, as compared to 1995.

Missouri. Harrah's North Kansas City achieved higher revenues in 1997, due primarily to the Company's addition of a second riverboat casino in May 1996. However, operating profit for 1997 declined 24.9% from 1996, which follows a 17.5% decline in 1996 versus 1995, due to increased marketing and promotional costs as a result of additional competition, including a major

new property that opened in January 1997. Also contributing to the decline for 1997 and 1996 was the decision during first quarter 1996 to discontinue the property's admission charge.

The Company's newest riverboat casino, Harrah's St. Louis-Riverport, reported an operating loss of approximately \$1.4 million for 1997 as the Company slowly builds its market position. The St. Louis-Riverport casino entertainment complex

in Maryland Heights, Missouri, a suburb of St. Louis, opened on March 11, 1997. The facility includes four riverboat casinos, two of which are owned and operated by Harrah's, and shoreside facilities jointly-owned with another casino company. Harrah's pro rata share of the operating losses of the shoreside facilities joint venture is included in Equity in income (losses) of nonconsolidated affiliates, which is reported separately in the Consolidated Statements of Income (see Other Factors Affecting Net Income).

Atlantic City

(In millions)	1997	1996	1995	Percentage Increase/(Decrease)	
				97 Vs 96	96 Vs 95
Casino revenues.....	\$314.9	\$310.1	\$314.7	1.5 %	(1.5)%
Total revenues.....	349.5	338.6	341.5	3.2 %	(0.8)%
Operating profit.....	73.3	75.0	85.6	(2.3)%	(12.4)%
Operating margin.....	21.0%	22.2%	25.1%	(1.2)pts	(2.9)pts

Although Harrah's Atlantic City achieved record revenues in 1997, operating profit and margin decreased from the prior year as continued competition in the market resulted in higher than historical complimentary and promotional expenses. These results continue the trend experienced in 1996, when high complimentary and marketing expenses resulted in disproportionate declines in operating profit and margin, as compared to revenues, versus 1995.

A new 416-room hotel tower was opened in late second quarter 1997. The tower was the final component of an expansion and enhancement project that also added 13,500 square feet of casino space and 500 slot machines in June 1996 and a new marine-themed buffet restaurant in fourth quarter 1996. No decisions regarding a possible second phase of the Atlantic City expansion have been made. Such decisions are dependent, in part, upon substantive progress on development of new casino hotel projects in the Marina area of Atlantic City by other companies.

The Atlantic City Showboat, located on the Boardwalk, will provide a strong additional brand that offers the Company's target customers a second destination in Atlantic City. The Showboat property's location on the Boardwalk and the existing Harrah's Atlantic City location in the Marina district well position the Company in the two strategically critical growth locations in Atlantic City. (See Capital Spending and Development-Showboat Acquisition.)

Southern Nevada Division

(In millions)	1997	1996	1995	Percentage Increase/(Decrease)	
				97 Vs 96	96 Vs 95
Casino revenues.....	\$191.0	\$190.8	\$198.3	0.1 %	(3.8)%
Total revenues.....	288.2	289.8	297.2	(0.6)%	(2.5)%
Operating profit.....	41.9	68.0	72.8	(38.4)%	(6.6)%
Operating margin.....	14.5%	23.5%	24.5%	(9.0)pts	(1.0)pt

1997 results in Southern Nevada were impacted by construction disruptions at Harrah's Las Vegas, where a \$200 million expansion and renovation project was completed in the fourth quarter. The construction activity, which began in mid-1996, often impeded access to the Las Vegas property, and operating profit and margin were further impacted due to the difficulty in adjusting certain operating costs proportionately with the revenue fluctuations, as well as by higher operating costs associated with the construction disruptions. With completion of the renovations, Harrah's Las Vegas now offers 86,700 square feet of casino space and 2,677 hotel rooms. The property's fourth quarter 1997 revenues were at a record high, but were offset by high operating costs associated with completing construction and reopening the renovated areas.

Harrah's Laughlin continues to be affected by competition from neighboring Arizona and California Indian casinos and from high profile new Las Vegas area casino developments. 1997 gaming volume declined 4.9% from the 1996 level, which follows a 5.1% decline in gaming volume in 1996 as compared to 1995. These volume declines resulted in lower revenues, operating profit and margin for the Laughlin property.

No definitive plans have been announced related to Harrah's previously announced interest in the construction or acquisition of an additional Las Vegas property, and there is no assurance the Company will construct or acquire such a property. The Showboat Las Vegas property is a non-strategic asset and will not fulfill the Company's objectives for this additional property.

Northern Nevada Division

Percentage
Increase/(Decrease)

(In millions)	1997	1996	1995	97 vs 96	96 vs 95
Casino revenues.....	\$217.3	\$226.5	\$243.6	(4.1)%	(7.0)%
Total revenues.....	287.8	299.2	315.6	(3.8)%	(5.2)%
Operating profit.....	44.5	59.8	66.4	(25.6)%	(9.9)%
Operating margin.....	15.5%	20.0%	21.0%	(4.5)pts	(1.0)pt

In Northern Nevada, operating results for 1997 were significantly impacted by weather conditions occurring during first quarter 1997, when flooding in the region twice closed the primary access road to Lake Tahoe for a combined total of forty-five days, and closed Harrah's Reno for one day. Additionally, during September and October, 1997, Route 50, the preferred and most direct route from California to Lake Tahoe, was closed for repairs on weekdays.

1996 results of the Division declined from 1995 levels due to a 6% decrease in gaming volume. Although all three properties in the Division experienced declines, the largest decrease occurred in Reno, where a major new competitor opened in July 1995.

Managed Casinos-Indian Lands

Revenues and operating profit contributions resulting from Harrah's management of three casinos on Indian lands increased in 1997, due primarily to higher management fees from Harrah's Phoenix Ak-Chin casino and the addition of fees from Harrah's Cherokee casino, which opened in November 1997 in Cherokee, North Carolina.

On January 13, 1998, a fourth Harrah's managed casino on Indian lands opened near Topeka, Kansas. The casino facility is owned by the Prairie Band of Potawatomi Indians and includes approximately 26,000 square feet of casino space and a 100-room hotel.

Harrah's has also previously announced agreements with other Indian tribes, which are in various stages of negotiation and are subject to certain conditions, including approval from appropriate government agencies. If the necessary approvals for these projects are received, Harrah's would likely guarantee the related bank financing for the projects, which could be significant.

The agreements under which Harrah's manages casinos on Indian lands contain provisions required by law which provide that a minimum monthly payment be made to the tribe. That obligation has priority over scheduled repayments of borrowings for development costs. In the event that insufficient cash flow is generated by the operations to fund this payment, Harrah's must pay the shortfall to the tribe. Such advances, if any, would be repaid to Harrah's in future periods in which operations generate cash flow in excess of the required minimum payment. These commitments will terminate upon the occurrence of certain defined events, including termination of the management contract. The aggregate monthly commitment pursuant to the contracts for the four Indian-owned facilities now open, which extend for periods of up to 60 months from December 31, 1997, is \$1.2 million.

See Debt and Liquidity section for further discussion of Harrah's guarantees of debt related to Indian projects.

Other Gaming Operations

The Company manages for a fee the Sky City casino complex in Auckland, New Zealand. During second quarter 1997, Harrah's announced that Sky City Limited, owner of the Sky City facility, will buy-out Harrah's management contract. Harrah's will continue to manage the facility under its fee agreement until June 1998, when it will receive a termination fee computed in accordance with the terms of the contract. During third quarter 1997, Harrah's sold its remaining 12.5% equity interest in Sky City Limited (see Other Factors Affecting Net Income).

During 1997, the Company received \$2.3 million in nonrecurring income from Interactive Entertainment Limited ("IEL") in consideration for the termination of Harrah's management contract with that entity. The termination of the management contract occurred in conjunction with IEL's reorganization and transformation into a publicly-traded company.

On March 31, 1997, Harrah's discontinued its management of two limited stakes casinos in Colorado. Harrah's also completed the sale of its ownership interest in these non-strategic assets during 1997. These actions did not have a material impact on Harrah's 1997 financial statements.

OTHER FACTORS AFFECTING NET INCOME

(In millions)	1997	1996	1995	Percentage Increase/(Decrease)	
				97 Vs 96	96 Vs 95
Development costs.....	\$10.5	\$12.0	\$17.4	(12.5)%	(31.0)%
Write-downs and reserves.....	13.8	52.2	93.3	N/M	N/M
Project opening costs.....	17.6	5.9	0.5	N/M	N/M
Equity in (income) losses of nonconsolidated affiliates.....	11.1	(1.2)	49.2	N/M	N/M
Corporate expense.....	27.2	34.3	30.3	(20.7)%	13.2 %
Venture restructuring costs.....	6.9	14.6	-	(52.7)%	N/M
Interest expense, net.....	79.1	70.0	73.9	13.0%	(5.3)%
Gains on sales of equity interests in New Zealand subsidiary.....	(37.4)	-	(11.8)	N/M	N/M
Other income.....	(11.8)	(5.2)	(4.3)	126.9%	20.9 %
Effective tax rate.....	37.4%	39.1%	40.0%	(1.7)pts	(0.9)pts
Minority interests.....	\$ 7.4	\$ 5.9	\$ 12.1	25.4%	(51.2)%
Discontinued operations					
Hotel earnings, net of tax.....	-	-	(21.2)	-	N/M
Spin-off transaction costs, net of tax.....	-	-	21.2	-	N/M
Extraordinary loss, net of tax.....	8.1	-	-	N/M	-

Development costs have decreased over the years presented due to the decrease in new casino development opportunities. Write-downs and reserves for 1997 were primarily related to a \$13 million reserve recorded during third quarter 1997 against debtor-in-possession financing provided to the casino project in New Orleans in which Harrah's is a minority partner. 1996 write-downs and reserves included write-downs for the impairment of certain long-lived assets, primarily the Company's original Tunica,

Mississippi, casino property, as well as the accrual of reserves for certain contingent obligations. Write-downs and reserves recorded in 1995 related to Harrah's write-offs of investments in and advances to nonconsolidated affiliates, including Harrah's investment in Harrah's Jazz Company, and the write-down of impaired and abandoned assets.

Project opening costs for 1997 include costs incurred in connection with the first quarter 1997 opening of Harrah's St. Louis-Riverport casino property, costs related to expansions at Harrah's Las Vegas and Harrah's Tunica and the costs incurred in connection with an initiative to develop and implement the strategies and employee training programs designed to better focus the Company on serving its targeted customers. 1996 project opening costs related to the second quarter opening of the newer Tunica property and an expansion at Harrah's North Kansas City. 1995 project opening costs related to the opening of the Hampton Inn hotel tower in Reno.

Equity in (income) losses of nonconsolidated affiliates for 1997 consists primarily of Harrah's pro rata share of the losses incurred by the joint venture portion of the St. Louis development, including its \$1.9 million share of the joint venture's preopening costs, and Harrah's share of losses incurred by the reorganized IEL entity, which is 35.5% owned by the Company. These losses are partially offset by Harrah's share of income from a restaurant affiliate. 1996 included Harrah's pro rata share of income from the restaurant affiliate. 1995 included primarily Harrah's share of losses from the New Orleans joint venture. In prior years, Harrah's reported its share of joint venture pre-interest operating results in Revenues-other, and its share of joint venture interest expense as Interest expense, net, from nonconsolidated affiliates. Prior year amounts have been restated to conform to the current year's presentation.

Corporate expense decreased in 1997 versus 1996 due primarily to cost savings efforts. Corporate expense increased in 1996 over 1995 as a result of higher information technology, legal and corporate relations costs. Venture restructuring costs for 1997 and 1996 represent Harrah's costs, including legal fees, associated with the on-going development of a reorganization plan for the New Orleans casino (see Harrah's Jazz Company). Interest expense increased in 1997 over 1996, primarily as a result of higher debt levels incurred to fund a stock repurchase program (see Equity Transactions) and expansion projects. Other income increased in 1997 due to higher interest income earned by the Company on the cash surrender value of certain life insurance policies, the inclusion in 1997 of dividend income from Harrah's New Zealand subsidiary and gains on sales of nonoperating property.

During third quarter 1997, Harrah's sold its remaining equity interest in Sky City Limited, and recorded a pretax gain on the sale of \$37.4 million. In 1995, Harrah's sold a portion of its interest in Sky City and recognized a pretax gain on the sale of \$11.8 million.

The Company sold its ownership interest in Station Square, an entertainment, business and retail center in Pittsburgh, Pennsylvania, to its partner for cash during fourth quarter 1997. Under the terms of the sale agreement, Harrah's retains certain rights to pursue development of a casino entertainment facility at the Station Square site if casino gaming is legalized in the jurisdiction. No gain or loss was recognized by the Company as a result of this transaction.

The effective tax rates for all years are higher than the federal statutory rate primarily due to state income taxes. Minority interests reflect joint venture partners' shares of income at joint venture riverboat casinos.

Discontinued operations includes the operating results of the Company's hotel operations prior to its June 30, 1995, spin-off date. 1995's results also include the \$21.2 million charge, net of taxes, for the expenses to complete the spin-off. (See Note 10 to the accompanying Consolidated Financial Statements.)

The extraordinary loss reported in second quarter 1997 is due to the early extinguishment of debt and includes the premium paid to holders of the debt retired and the write-off of related unamortized deferred finance charges. (See Debt and Liquidity-Early Extinguishment of Debt.)

Harrah's has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," which defines the computation of, and requires the presentation of, "Basic" and "Diluted" earnings per share. Prior year earnings per share amounts have been restated to conform with the provisions of SFAS No. 128.

HARRAH'S JAZZ COMPANY

Efforts to reorganize Harrah's Jazz Company ("Harrah's Jazz"), which filed a petition for relief under Chapter 11 of the Bankruptcy Code on November 22, 1995, are continuing. If the current reorganization plan, which has been confirmed by the Bankruptcy Court, is consummated, the Company will make an additional \$75 million equity investment in the project (less any debtor-in-possession financing previously provided), guarantee the project's \$100 million annual payment to the State of Louisiana Gaming Board, guarantee up to \$154 million of a bank credit facility of up to \$224 million, guarantee timely completion and opening of the casino and make an additional \$10 million subordinated loan to the project to finance the casino's completion. Harrah's will receive various fees for providing the various

guarantees and will earn a fee for managing the casino after it opens. Final consummation of the plan is subject to numerous approvals, including approval from the Company's Board of Directors, the Louisiana State Legislature, the City of New Orleans City Council and others.

For additional information regarding the status of the efforts to reorganize Harrah's Jazz, see Note 15 to the accompanying Consolidated Financial Statements.

CAPITAL SPENDING AND DEVELOPMENT

Showboat Acquisition

During December 1997, Harrah's announced an agreement to buy Showboat, Inc. ("Showboat"), creating the world's largest gaming company. Under the terms of the agreement, Harrah's will acquire Showboat for \$30.75 per share in an all-cash transaction valued at \$519 million, net of options proceeds, and assume \$635 million in Showboat debt. The Company intends to finance the cash portion of the Showboat acquisition using proceeds from an expanded bank facility of the Company, which is currently being negotiated. Showboat owns and operates casinos in Atlantic City, New Jersey, and Las Vegas, Nevada. It manages and is the largest single shareholder of the Star City casino in Sydney, New South Wales, Australia, and beneficially owns 55% of the Showboat Mardi Gras Casino in East Chicago, Indiana. The acquisition will strengthen the Company's presence in the Atlantic City and Chicago gaming markets. Although not a strategic asset in the context of the Company's target customer, Star City is a world class casino entertainment facility that can benefit from the Company's expertise and systems, and can be a major source of stockholder value creation. The Las Vegas Showboat is a non-strategic asset to Harrah's and the Company is currently evaluating its fit.

The transaction is expected to be completed in second quarter 1998, subject to various conditions including regulatory approvals, Showboat stockholder approval and other third party approvals.

Year 2000

During 1997, Harrah's evaluated its various systems to determine whether or not those systems were year 2000 compliant. Based upon this review, the Company has identified those systems which are not compliant and has implemented a plan to update those systems. The cost to update the affected systems is not expected to be material.

Summary

In addition to the Showboat acquisition and the specific development and expansion projects discussed in the Division Operating Results and Development Plans section, Harrah's performs on-going refurbishment and maintenance at its casino entertainment facilities in order to maintain the Company's quality standards. Harrah's also continues to pursue development and acquisition opportunities for additional casino entertainment facilities that meet its strategic and return on investment criteria. Prior to the receipt of necessary regulatory approvals, the costs of pursuing development projects are expensed as incurred. Construction-related costs incurred after the receipt of necessary approvals are capitalized and depreciated over the estimated useful life of the resulting asset. Project opening costs incurred during the construction period are deferred and expensed at the respective property's opening.

The Company's planned development projects, if they go forward, will require, individually and in the aggregate, significant capital commitments and, if completed, may result in significant additional revenues. The commitment of capital, the timing of completion and the commencement of operations of casino entertainment development projects are contingent upon, among other things, negotiation of final agreements and receipt of approvals from the appropriate political and regulatory bodies. Cash needed to finance projects currently under development as well as additional projects being pursued by Harrah's are expected to be made available from operating cash flows, the Bank Facility (see Debt and Liquidity--Bank Facility), joint venture partners, specific project financing, guarantees by Harrah's of third party debt and, if necessary, additional Harrah's debt and/or equity offerings. Harrah's capital spending for 1997 totaled approximately \$290.5 million. Estimated total capital expenditures for 1998 are expected to be \$180 million to \$200 million, excluding the planned purchase of Showboat, the possible purchase or construction of an additional Las Vegas property and the possible second phase of Harrah's Atlantic City expansion.

DEBT AND LIQUIDITY

Early extinguishment of Debt

On May 27, 1997, Harrah's principal operating subsidiary, Harrah's Operating Company, Inc. ("HOC"), redeemed its \$200 million 10 7/8% Senior Subordinated Notes due 2002 (the "Notes") at a call price of 104.833%, plus accrued and unpaid interest through the redemption date. The Company retired the Notes using proceeds from its revolving credit facility. An extraordinary charge, net of tax, of approximately \$8.1 million was recorded during second quarter 1997 in conjunction with this early extinguishment of debt.

In connection with the early extinguishment of the Notes, the Company terminated certain interest rate swap agreements which had been associated with the debt. The gain realized upon the termination of these swap agreements was not material.

Bank Facility

As of December 31, 1997, \$720.5 million in borrowings, including the funds drawn to retire the Notes, were outstanding under the Company's \$1.1 billion reducing revolving and letter of credit facility (the "Bank Facility"), with an additional \$28.4 million committed to back letters of credit. After consideration of these borrowings, \$351.1 million of additional borrowing capacity was available to the Company as of December 31, 1997. Pursuant to the terms of the Bank Facility, the available capacity is scheduled to be reduced by \$50 million in July 1998.

The Company is currently negotiating certain amendments to the Bank Facility in connection with its planned acquisition of Showboat.

Interest Rate Agreements

To manage the relative mix of its debt between fixed and variable rate instruments, Harrah's has entered into interest rate swap agreements to modify the interest characteristics of its outstanding debt without an exchange of the underlying principal amount. The differences to be paid or received by the Company under the terms of its interest rate swap agreements are accrued as interest rates change and recognized as an adjustment to interest expense for the related debt. Changes in the variable interest rates to be paid or received by Harrah's pursuant to the terms of its interest rate swap agreements will have a corresponding effect on its future cash flows.

These agreements contain a credit risk that the counterparties may be unable to meet the terms of the agreements. Harrah's minimizes that risk by evaluating the creditworthiness of its counterparties, which are limited to major banks and financial institutions, and does not anticipate nonperformance by the counterparties.

For more information regarding the Company's interest rate swap agreements as of December 31, 1997, please see Note 6 to the accompanying Consolidated Financial Statements.

Guarantees of Third Party Debt

As part of a transaction whereby Harrah's has retained an option to a site for a potential casino, Harrah's guaranteed a third party's \$22.9 million variable rate bank loan which matures on February 28, 1998. Harrah's also agreed to fund the monthly interest payments to the lender on behalf of the third party, and is to be repaid from the proceeds from the sale of certain assets of the third party. Discussions with the third party regarding a possible restructuring of the loan and/or the guarantee are currently underway. The guaranty contains an element of risk that, should the borrower be unable to perform, the Company could become responsible for repayment of at least a portion of the obligation. Harrah's has reduced this exposure by obtaining a security interest in certain assets of the third party.

As described in the Division Operating Results and Development Plans-Managed Casinos-Indian Lands section, in connection with its management contracts, Harrah's may guarantee all or part of the debt incurred by Indian tribes to fund development of casinos on the Indian lands. For all existing guarantees of Indian debt, Harrah's has obtained a first lien on certain personal property (tangible and intangible) of the casino enterprise. There can be no assurance, however, the value of such property would satisfy Harrah's obligations in the event these guarantees were enforced. Additionally, Harrah's has received limited waivers from the Indian tribes of their sovereign immunity to allow Harrah's to pursue its rights under the contracts between the parties and to enforce collection efforts as to any assets in which a security interest is taken. The aggregate outstanding balance of such debt as of December 31, 1997, was \$111.1 million.

EQUITY TRANSACTIONS

Pursuant to a plan approved by Harrah's Board of Directors, which expired on December 31, 1997, the Company purchased 2,993,700 shares of its common shares at an aggregate cost of approximately \$54.0 million. The repurchased shares are held in treasury.

EFFECTS OF CURRENT ECONOMIC AND POLITICAL CONDITIONS

Competitive Pressures

As compared to the early 1990s, the number of new markets opening for development in recent years has been much more limited, and existing markets have become much more competitive. The focus of many casino operators has shifted to investing in existing markets, in an effort both to attract new customers and to gain a greater market share of existing customers. As companies have completed these expansion projects, supply has grown at a faster pace than demand in some markets and competition has increased significantly. Furthermore, several operators, including Harrah's, have announced plans for additional developments or expansions in some markets. The impact that these projects will have on Harrah's operations, if they are completed, cannot be determined at this time.

Harrah's properties in the long-established gaming markets of Nevada and New Jersey have generally reacted less significantly to the changing competitive conditions, as the amount of supply change within these markets has represented a smaller percentage change than that experienced in some riverboat markets. In Las Vegas, several major developments have opened within the past few years and numerous new developments and property expansions are underway. Historically, the Las Vegas market has grown sufficiently to absorb these additions to its supply, but there can be no assurance that such growth will continue. In the Atlantic City market, additional casino space and hotel rooms have opened within the past year and several major developments are proposed. This activity has intensified competition during the last year, increasing promotional costs and reducing margins.

In riverboat markets, the recent additions to supply have had a more noticeable impact, due to the fact that competition was limited in the early stages of many of these markets. In Joliet, the opening in late second quarter 1996 of Indiana riverboats more than doubled the Chicago area capacity and has resulted in a significant decline in Harrah's gaming volume from 1996 levels. In Tunica, a major new property opened in June 1996 and several existing properties, including Harrah's, added hotel rooms and other amenities and more are planned. In response to competitive pressures in this market and in order to focus its efforts on Harrah's newer Tunica casino, Harrah's closed its original Tunica property in May 1997 and continues to evaluate its options for the property. In October 1996, a fourth casino entered the Shreveport market, and in January 1998, a competitor completed a major expansion of an existing property. Thus far, these Shreveport developments have not significantly impacted Harrah's operating results. In January 1997, a major new development opened in the Kansas City market. Harrah's North Kansas City's operating profit declined 24.9% in 1997 versus the prior year as a result of the increasing competition in that market.

Over the past several years, there has also been a significant increase in the number of casinos on Indian lands, made possible by the Indian Gaming Regulatory Act of 1988. Harrah's manages four such facilities. The future growth potential from Indian casinos is uncertain, however.

Although the short-term effect of these competitive developments on the Company has been negative, Harrah's is not able to determine the long-term impact, whether favorable or unfavorable, that these trends and events will have on its current or future markets. Management believes that the geographic diversity of Harrah's operations, its multi-market customer base and the Company's continuing efforts to establish Harrah's as a premier brand name have well-positioned Harrah's to face the challenges present within the industry. Harrah's has introduced WINet, a sophisticated nationwide customer database, and its Total Gold Card, a nationwide frequent-player card, both of which it believes provide competitive advantages, particularly with players who visit more than one market.

Industry Consolidation

As evidenced by a number of recent public announcements by casino entertainment companies of plans to acquire or be acquired by other companies, including Harrah's December 1997 announcement of its plans to acquire Showboat, consolidation in the gaming industry is now underway. The Company believes it is well-positioned to pursue additional strategic acquisitions to further enhance its distribution, strengthen its access to target customers and leverage its technological and centralized services infrastructure.

Political Uncertainties

The casino entertainment industry is subject to political and regulatory uncertainty. In 1996, the U.S. government formed a federal commission to study gambling in the United States, including the casino gaming industry. At this time, the role of the commission and the ultimate impact that it will have on the industry is uncertain. From time to time, individual jurisdictions have also considered legislation which could adversely impact Harrah's operations, and the likelihood or outcome of similar legislation in the future is difficult to predict.

The casino entertainment industry represents a significant source of tax revenues to the various jurisdictions in which casinos operate. From time to time, various state and federal legislators and officials have proposed changes in tax laws (such as the recent passage of a gaming tax increase by the Illinois State Legislature) or in the administration of such laws, which would affect the industry. It is not possible to determine with certainty the scope or likelihood of possible future changes in tax laws or in the administration of such laws. If adopted, such changes could have a material adverse effect on Harrah's financial results.

EFFECTS OF INFLATION

Inflation has had little effect on Harrah's historical operations. Generally, Harrah's has not experienced any significant negative impact on gaming volume or on wagering propensity of its customers as a result of inflationary pressures. Further, Harrah's has been successful in increasing the amount of wagers and playing time of its casino customers through effective marketing programs. Casino management has also, from time to time, adjusted its required minimum bets at table games and changed the relative mix of slot machines in favor of machines with higher denominations. These strategies, supplemented by effective cost management programs, have offset the impact of inflation on Harrah's operations. Inflation tends to increase the value of Harrah's casino entertainment properties.

INTERCOMPANY DIVIDEND RESTRICTION

Agreements governing the terms of its debt require Harrah's to abide by covenants which, among other things, limit HOC's ability to pay dividends and make other restricted payments, as defined, to Harrah's. The amount of HOC's restricted net assets, as defined, computed in accordance with the most restrictive of these covenants regarding restricted payments, was approximately \$729.7 million at December 31, 1997. Harrah's principal asset is the stock of HOC, a wholly-owned subsidiary which holds, directly and through subsidiaries, the principal assets of Harrah's businesses. Given this ownership structure, these restrictions should not impair Harrah's ability to conduct its business through its subsidiaries or to pursue its development plans.

RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board ("FASB") has issued SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for the reporting and display of comprehensive income and its components in a company's financial statements. It requires that a company classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately in the balance sheet. SFAS No. 130 is effective for years beginning after December 15, 1997.

The FASB has also issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which is also effective for years beginning after December 15, 1997, and establishes standards by which a company will report information about its reportable operating segments in both its annual and interim financial statements. The Company will adopt these new standards in 1998. However, such adoption will not impact the Company's results of operations or financial position.

PRIVATE SECURITIES LITIGATION REFORM ACT

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward looking statements. Certain information included in Harrah's Annual Report on Form 10-K and other materials filed or to be filed by the Company with the Securities and Exchange Commission ("SEC") (as well as information included in oral statements or other written statements made or to be made by the Company) contains statements that are forward looking. These include statements relating to the following activities, among others: (A) operations and expansions of existing properties, including future performance, anticipated scope and opening dates of expansions; (B) planned development of casinos that would be owned or managed by the Company and the pursuit of strategic acquisitions; (C) the proposed plan of reorganization and its various facets for New Orleans; (D) planned capital expenditures for 1998 and beyond; (E) the possible acquisition or construction of an additional property in Las Vegas; (F) the impact of the WInet and Total Gold Card Programs; and (G) completion of the acquisition of Showboat and any plans or future impact with respect to the Showboat acquisition. These activities involve important factors that could cause actual results to differ materially from those expressed in any forward looking statements made by or on behalf of the Company. These include, but are not limited to, the following factors as well as other factors described from time to time in the Company's reports filed with the SEC: construction factors, including zoning issues, environmental restrictions, soil and water conditions, weather and other hazards, site access matters and building permit issues; access to available and feasible financing; regulatory, licensing and other governmental approvals, third party consents and approvals, and relations with partners, owners and other third parties; conditions of credit markets and other business and economic conditions; litigation, judicial actions and political uncertainties, including gaming legislative action and taxation; and the effects of competition including locations of competitors and operating and marketing competition. Any forward looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

HARRAH'S ENTERTAINMENT, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	December 31,	
	1997	1996
Assets		
Current assets		
Cash and cash equivalents.....	\$ 116,443	\$ 105,594
Receivables, less allowance for doubtful accounts of \$11,462 and \$14,064.....	43,767	41,203
Deferred income taxes (Note 9).....	17,436	25,551
Prepayments and other.....	21,653	18,401
Inventories.....	13,011	10,838
	-----	-----
Total current assets.....	212,310	201,587
	-----	-----
Land, buildings, riverboats and equipment		
Land, and land improvements.....	218,703	232,721
Buildings, riverboats and improvements.....	1,334,279	1,248,792
Furniture, fixtures and equipment.....	600,358	496,447
	-----	-----
	2,153,340	1,977,960
Less: accumulated depreciation.....	(675,286)	(588,066)
	-----	-----
	1,478,054	1,389,894
Investments in and advances to nonconsolidated affiliates (Note 15).....	152,401	215,539
Deferred costs and other (Note 5).....	162,741	167,053
	-----	-----
	\$2,005,506	\$1,974,073
	-----	-----
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable.....	\$ 45,233	\$ 44,934
Construction payables.....	7,186	17,975
Accrued expenses (Note 5).....	156,694	139,892
Current portion of long-term debt (Note 6).....	1,837	1,841
	-----	-----
Total current liabilities.....	210,950	204,642
Long-term debt (Note 6).....	924,397	889,538
Deferred credits and other.....	98,177	97,740
Deferred income taxes (Note 9).....	22,361	45,443
	-----	-----
	1,255,885	1,237,363
	-----	-----
Minority interests.....	14,118	16,964
	-----	-----
Commitments and contingencies (Notes 7 and 12 through 15)		
Stockholders' equity (Notes 4, 14 and 15)		
Common stock, \$0.10 par value, authorized--360,000,000 shares, outstanding--101,035,898 and 102,969,699 shares (net of 3,001,568 and 771,571 shares held in treasury).....	10,104	10,297
Capital surplus.....	388,925	385,941
Retained earnings.....	349,386	290,797
Unrealized gain on marketable equity securities.....	2,884	51,394
Deferred compensation related to restricted stock.....	(15,796)	(18,683)
	-----	-----
	735,503	719,746
	-----	-----
	\$2,005,506	\$1,974,073
	-----	-----

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated balance sheets.

HARRAH'S ENTERTAINMENT, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Year Ended December 31,		
	1997	1996	1995
Revenues			
Casino.....	\$1,338,003	\$1,323,466	\$1,313,910
Food and beverage.....	196,765	188,081	181,312
Rooms.....	128,354	115,456	109,036
Management fees.....	24,566	16,227	12,762
Other.....	78,954	78,729	115,877
Less: casino promotional allowances.....	(147,432)	(135,939)	(154,102)
Total revenues.....	1,619,210	1,586,020	1,578,795
Operating expenses			
Direct			
Casino.....	685,942	649,720	620,438
Food and beverage.....	103,604	95,909	91,495
Rooms.....	39,719	35,460	32,915
Depreciation of buildings, riverboats and equipment.....	103,670	92,130	80,416
Development costs.....	10,524	12,021	17,428
Write-downs and reserves (Note 8).....	13,806	52,188	93,348
Project opening costs.....	17,631	5,907	450
Other.....	385,630	358,000	353,318
Total operating expenses.....	1,360,526	1,301,335	1,289,808
Operating profit.....	258,684	284,685	288,987
Corporate expense.....	(27,155)	(34,348)	(30,347)
Equity in income (losses) of nonconsolidated affiliates (Note 15).....	(11,053)	1,182	(49,245)
Venture restructuring costs.....	(6,944)	(14,601)	-
Income from operations.....	213,532	236,918	209,395
Interest expense, net of interest capitalized (Note 3).....	(79,071)	(69,968)	(73,890)
Gains on sales of equity interests in New Zealand subsidiary (Note 15).....	37,388	-	11,773
Other income, including interest income.....	11,799	5,160	4,305
Income before income taxes and minority interests.....	183,648	172,110	151,583
Provision for income taxes (Note 9).....	(68,746)	(67,316)	(60,677)
Minority interests.....	(7,380)	(5,897)	(12,096)
Income from continuing operations.....	107,522	98,897	78,810
Discontinued operations (Note 10)			
Earnings from hotel operations, net of tax provision of \$15,434.....	-	-	21,230
Spin-off transaction expenses, net of tax benefit of \$5,134.....	-	-	(21,194)
Income before extraordinary loss.....	107,522	98,897	78,846
Extraordinary loss, net of tax benefit of \$4,477 (Note 6).....	(8,134)	-	-
Net income.....	\$ 99,388	\$ 98,897	\$ 78,846
Earnings (loss) per share-basic			
Continuing operations.....	\$ 1.07	\$ 0.96	\$ 0.77
Discontinued operations			
Earnings from hotel operations, net.....	-	-	0.21
Spin-off transaction expenses, net.....	-	-	(0.21)
Extraordinary loss, net.....	(0.08)	-	-
Net income.....	\$ 0.99	\$ 0.96	\$ 0.77
Earnings (loss) per share-diluted			
Continuing operations.....	\$ 1.06	\$ 0.95	\$ 0.76
Discontinued operations			
Earnings from hotel operations, net.....	-	-	0.21
Spin-off transaction expenses, net.....	-	-	(0.21)
Extraordinary loss, net.....	(0.08)	-	-
Net income.....	\$ 0.98	\$ 0.95	\$ 0.76
Weighted average common shares outstanding..	100,618	102,598	102,341

	-----	-----	-----
	-----	-----	-----
Weighted average common and common			
equivalent shares outstanding.....	101,254	103,736	103,188
	-----	-----	-----
	-----	-----	-----

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

HARRAH'S ENTERTAINMENT, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Notes 4, 14 and 15)
(In thousands)

	Common Stock		Capital Surplus	Retained Earnings	Unrealized Gain on Marketable Equity Securities	Deferred Compensation Related to Restricted Stock	Total
	Shares Outstanding	Amount					
Balance-December 31, 1994.....	102,403	\$10,240	\$350,196	\$ 265,574	\$ -	\$ (2,573)	\$ 623,437
Net income.....				78,846			78,846
Spin-off of Promus Hotel Corporation (Notes 1 and 10).....				(139,582)			(139,582)
Unrealized gain on available-for-sale securities, less deferred tax provision of \$6,746.....					10,552		10,552
Net shares issued under incentive compensation plans, including income tax benefit of \$6,616.....	271	27	12,587			(318)	12,296
Balance-December 31, 1995.....	102,674	10,267	362,783	204,838	10,552	(2,891)	585,549
Net income.....				98,897			98,897
Unrealized gain on available-for-sale securities, less deferred tax provision of \$26,112.....					40,842		40,842
Treasury stock purchases.....	(759)	(76)		(12,938)			(13,014)
Net shares issued under incentive compensation plans, including income tax benefit of \$1,576.....	1,055	106	23,158			(15,792)	7,472
Balance-December 31, 1996.....	102,970	10,297	385,941	290,797	51,394	(18,683)	719,746
Net income.....				99,388			99,388
Realization of gain due to sale of equity interest in New Zealand subsidiary, net of deferred taxes of \$14,653.....					(22,735)		(22,735)
Decline in market value of other available-for-sale securities, less deferred tax provision of \$16,362....					(25,775)		(25,775)
Treasury stock purchases.....	(2,234)	(223)		(40,799)			(41,022)
Net shares issued under incentive compensation plans, including income tax benefit of \$702.....	300	30	2,984			2,887	5,901
Balance-December 31, 1997.....	101,036	\$10,104	\$388,925	\$ 349,386	\$ 2,884	\$(15,796)	\$735,503

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

HARRAH'S ENTERTAINMENT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	1997	1996	1995
Cash flows from operating activities			
Net income.....	\$ 99,388	\$ 98,897	\$ 78,846
Adjustments to reconcile net income to cash flows from operating activities			
Extraordinary loss, before income taxes.....	12,611	-	-
Depreciation and amortization.....	122,396	102,338	95,388
Write-downs and reserves.....	13,806	52,188	93,348
Other noncash items.....	27,712	27,985	17,088
Minority interests' share of net income.....	7,380	5,897	12,096
Equity in losses (income) of nonconsolidated affiliates.....	11,053	(1,182)	51,182
Realized gains from sales of equity interests in New Zealand subsidiary.....	(37,388)	-	(11,773)
Net gains from asset sales.....	(4,117)	-	(1,383)
Net change in long-term accounts.....	(1,452)	(375)	(18,144)
Net change in working capital accounts.....	3,713	(14)	(36,576)
Net change in accrued litigation settlement and related costs.....	-	-	(43,438)
Tax indemnification payments to Bass.....	-	-	(28,000)
Discontinued operations			
Earnings from hotel operations.....	-	-	(21,230)
Spin-off transaction expenses, before income taxes.....	-	-	26,328
Cash flows provided by operating activities.....	255,102	285,734	213,732
Cash flows from investing activities			
Land, buildings, riverboats and equipment additions.....	(229,529)	(314,465)	(186,233)
(Decrease) increase in construction payables.....	(10,789)	13,257	(6,161)
Proceeds from sales of equity interests in New Zealand subsidiary.....	53,755	-	20,745
Proceeds from other asset sales.....	26,570	1,355	10,850
Investments in and advances to nonconsolidated affiliates.....	(54,477)	(75,553)	(45,603)
Other.....	(6,483)	(8,255)	(2,844)
Cash flows used in investing activities.....	(220,953)	(383,661)	(209,246)
Cash flows from financing activities			
Net borrowings under Revolving Credit Facilities, net of financing costs of \$982 in 1996 and \$2,322 in 1995.....	239,500	133,518	274,172
Debt retirements.....	(202,115)	(2,488)	(219,614)
Purchases of treasury stock.....	(41,022)	(13,014)	-
Minority interests' distributions, net of contributions.....	(9,952)	(10,840)	(6,360)
Premium paid on early extinguishment of debt.....	(9,666)	-	-
Other.....	(45)	-	(543)
Cash flows (used in) provided by financing activities.....	(23,300)	107,176	47,655
Cash flows from discontinued hotel operations			
Net transfers to discontinued hotel operations.....	-	-	(14,840)
Payment of spin-off transaction expenses.....	-	-	(25,924)
Cash flows used in discontinued operations.....	-	-	(40,764)
Net increase in cash and cash equivalents.....	10,849	9,249	11,377
Cash and cash equivalents, beginning of year.....	105,594	96,345	84,968
Cash and cash equivalents, end of year.....	\$ 106,443	\$ 105,594	\$ 96,345

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated statements

1) BASIS OF PRESENTATION AND ORGANIZATION

Harrah's Entertainment, Inc., ("Harrah's" or the "Company" and including its subsidiaries where the context requires), a Delaware corporation, is one of America's leading casino entertainment companies, operating 15 casinos in nine states under the Harrah's brand name as of December 31, 1997. Harrah's casino entertainment facilities include casino hotels in all five major Nevada and New Jersey gaming markets: Reno, Lake Tahoe, Las Vegas and Laughlin, Nevada; and Atlantic City, New Jersey. Harrah's riverboat and dockside casinos are in Joliet, Illinois; Shreveport, Louisiana; Tunica and Vicksburg, Mississippi; and North Kansas City and St. Louis, Missouri. The Company also manages tribal-owned casinos on Indian lands near Phoenix, Arizona; Cherokee, North Carolina; and Seattle, Washington. On January 13, 1998, the Company opened a fourth managed casino on Indian lands near Topeka, Kansas.

Harrah's also manages a casino in Auckland, New Zealand, under terms of an agreement expected to be terminated in June 1998 (see Note 15). Harrah's discontinued management of two limited stakes casinos in Colorado at the end of first quarter 1997.

During December 1997, Harrah's announced the planned acquisition of Showboat, Inc. (see Note 2).

On June 30, 1995, Harrah's completed a spin-off (the "PHC Spin-off") that split the Company into two independent public corporations. Harrah's retained ownership of the casino entertainment business and the Company's hotel business was transferred to a new entity, Promus Hotel Corporation ("PHC"). For periods prior to the PHC Spin-off, Harrah's financial statements reflect the hotel business as discontinued operations (see Note 10).

2) AGREEMENT TO ACQUIRE SHOWBOAT, INC.

During December 1997, Harrah's and Showboat, Inc. ("Showboat") entered into a definitive agreement whereby Harrah's agreed to acquire Showboat for \$30.75 per share in an all-cash transaction valued at \$519 million (net of options proceeds), and assume \$635 million in Showboat debt. The acquisition will be accounted for as a purchase. Accordingly, the purchase price will be allocated to the underlying assets and liabilities based upon their estimated fair values at the date of acquisition. The transaction is expected to be completed during second quarter 1998, subject to various conditions including regulatory approvals, Showboat stockholder approval and other third party approvals.

Showboat owns and operates casinos in Atlantic City, New Jersey, and Las Vegas, Nevada. It manages and is the largest single shareholder of the Star City casino in Sydney, New South Wales, Australia. Showboat also beneficially owns 55% of the Showboat Mardi Gras Casino in East Chicago, Illinois.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION. The Consolidated Financial Statements include the accounts of Harrah's and its majority-owned subsidiaries after elimination of all significant intercompany accounts and transactions. Investments in 20% to 50% owned companies and joint ventures are accounted for using the equity method (see Note 15).

CASH AND CASH EQUIVALENTS. Cash includes the minimum cash balances required to be maintained by certain state gaming commissions, which totaled approximately \$8.3 million and \$5.6 million at December 31, 1997 and 1996, respectively. Cash equivalents are highly liquid investments with a maturity of less than three months and are stated at the lower of cost or market value.

INVENTORIES. Inventories, which consist primarily of food, beverage and operating supplies, are stated at average cost.

LAND, BUILDINGS, RIVERBOATS AND EQUIPMENT. Land, buildings, riverboats and equipment are stated at cost. Land includes land held for future development or disposition which totaled \$31.2 million and \$32.5 million at December 31, 1997 and 1996, respectively. Improvements and extraordinary repairs that extend the life of the asset are capitalized. Maintenance and repairs are expensed as incurred. Interest expense is capitalized on internally constructed assets at Harrah's overall weighted average borrowing rate of interest. Capitalized interest amounted to \$6.9 million, \$11.0 million, and \$3.6 million in 1997, 1996 and 1995, respectively.

Depreciation of buildings, riverboats and equipment is calculated using the straight-line method over the shorter of the estimated useful life of the asset or the related lease term, as follows:

Buildings and improvements.....	10 to 40 years
Riverboats.....	30 years
Furniture, fixtures and equipment.....	2 to 15 years

TREASURY STOCK. Shares of Harrah's common stock held in treasury are reflected in the Consolidated Balance Sheets and Consolidated Statements of Stockholders' Equity as if they were retired.

REVENUE RECOGNITION. Casino revenues consist of net gaming wins. Food and beverage and rooms revenues include the aggregate amounts generated by those departments at all company-owned casinos and casino hotels.

Casino promotional allowances consist principally of the retail value of complimentary food and beverages, accommodations, admissions and entertainment provided to casino patrons. The estimated costs of providing such complimentary services, classified as casino expenses through interdepartmental allocations, were as follows:

	1997	1996	1995
	-----	-----	-----
Food and beverage.....	\$ 83,491	\$ 81,857	\$ 72,400
Rooms.....	19,290	15,673	15,098
Other.....	3,768	4,491	10,856
	-----	-----	-----
	\$ 106,549	\$ 102,021	\$ 98,354
	-----	-----	-----

AMORTIZATION. The excess of costs over net assets of businesses acquired and other intangibles are amortized on a straight-line basis over periods up to 40 years. Deferred financing charges are amortized using the interest method over the term of the related debt agreement.

PROJECT OPENING COSTS. Project opening costs, representing primarily direct salaries and other operating costs, incurred prior to the opening of new facilities are deferred as incurred and expensed upon the opening of the related facility. Project opening costs incurred in connection with the expansion of existing facilities, as well as those costs incurred in connection with an initiative to develop and implement strategies and employee training programs designed to better focus the Company on serving its targeted customers, are expensed as incurred.

EARNINGS PER SHARE. In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," basic earnings per share is computed by dividing Net income by the number of weighted average common shares outstanding during the year. Diluted earnings per share is computed by dividing Net income by the number of weighted average common shares outstanding during the year, including common stock equivalents, which for each of the three years ended December 31, 1997, consisted solely of net restricted shares and stock options outstanding under the Company's employee stock benefit plans (see Note 14).

RECLASSIFICATIONS. Certain amounts for prior years have been reclassified to conform with the presentation for 1997.

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

4) STOCKHOLDERS' EQUITY

In addition to its common stock, Harrah's has the following classes of stock authorized but unissued:

Preferred stock, \$100 par value, 150,000 shares authorized
 Special stock, \$1.125 par value, 5,000,000 shares authorized
 Series A Special Stock, 2,000,000 shares authorized

Harrah's Board of Directors has authorized that one special stock purchase right (a "Right") be attached to each outstanding share of common stock. These Rights are exercisable only if a person or group acquires 15% or more of the Company's common stock or announces a tender offer for 15% or more of the common stock. Each Right entitles stockholders to buy one two-hundredth of a share of Series A Special Stock of the Company at an initial price of \$130 per Right. If a person acquires 15% or more of the Company's outstanding common stock, each Right entitles its holder to purchase common stock of the Company having a market value at that time of twice the Right's exercise price. Under certain conditions, each Right entitles its holder to purchase stock of an acquiring company at a discount. Rights held by the 15% holder will become void. The Rights will expire on October 5, 2006, unless earlier redeemed by the Board at one cent per Right.

Pursuant to a plan approved by Harrah's Board of Directors in October 1996 and which expired on December 31, 1997, the Company repurchased 2,993,700 shares of its common stock at an average price of \$18.05 per share. The repurchased shares are held in treasury.

On June 30, 1995, the PHC Spin-off was completed and the Company distributed to its stockholders the stock of PHC as a dividend on a one-for-two basis. To reflect this distribution, the \$139.6 million value of the net assets of discontinued operations as of the PHC Spin-off date was charged against the Company's retained earnings (see Note 10).

Under the terms of employee compensation programs previously approved by its stockholders, Harrah's has reserved shares of its common stock for issuance under the Restricted Stock and Stock Option Plans. (See Note 14 for a description of the plans.) The following table summarizes the total number of shares authorized for issuance under each of these plans and the remaining unissued shares as of December 31, 1997:

	RESTRICTED STOCK PLAN	STOCK OPTION PLAN
Total shares authorized for issuance under the plans.....	5,300,000	10,350,000
Shares issued and options granted, net of cancellations.....	(5,277,408)	(9,030,287)
Shares held in reserve for issuance or grant under the plans as of December 31, 1997.....	22,592	1,319,713

5) DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

Deferred costs and other consisted of the following:

	1997	1996
	-----	-----
Cash surrender value of life insurance (Note 14).....	\$ 45,835	\$ 43,613
Excess of cost over net assets of businesses acquired, net of amortization of \$33,580 and \$31,741.....	43,363	45,202
Deposits.....	15,944	15,944
Deferred finance charges, net of amortization of \$11,471 and \$11,775.....	6,056	11,983
Other.....	51,543	50,311
	-----	-----
	\$ 162,741	\$ 167,053
	-----	-----

Accrued expenses consisted of the following:

	1997	1996
	-----	-----
Insurance claims and reserves.....	\$ 46,870	\$ 49,590
Payroll and other compensation.....	45,413	34,243
Accrued interest payable.....	9,287	11,786
Taxes, including income taxes.....	3,106	2,475
Other accruals.....	52,018	41,798
	-----	-----
	\$ 156,694	\$ 139,892
	-----	-----

6) LONG-TERM DEBT

Long-term debt consisted of the following:

	1997	1996
	-----	-----
Revolving Credit Facilities 5.41%--8.50% at December 31, 1997, maturities to 2000.....	\$ 720,500	\$ 481,000
Unsecured Senior Subordinated Notes		
8 3/4%, maturity 2000.....	200,000	200,000
10 7/8%, redeemed in 1997.....	-	200,000
Unsecured Notes Payable.....		
10.00%--12.67%, maturities to 2001.....	5,326	6,864
Capitalized Lease Obligations.....		
4.9%--7.2%, maturities to 2001.....	408	3,515
	-----	-----
	926,234	891,379
	-----	-----
Current portion of long-term debt.....	(1,837)	(1,841)
	-----	-----
	\$ 924,397	\$ 889,538
	-----	-----

Harrah's outstanding corporate debt, comprised primarily of the Revolving Credit Facilities and Unsecured Senior Subordinated Notes, has been issued by its wholly-owned subsidiary, Harrah's Operating Company, Inc. ("HOC").

As of December 31, 1997, aggregate annual principal maturities for the four years subsequent to 1997 were: 1998, \$1.8 million; 1999, \$1.4 million; 2000, \$922.1 million; and 2001, \$0.9 million.

REVOLVING CREDIT FACILITIES. Harrah's bank financing consists of a \$950 million reducing revolving and letter of credit facility maturing July 31, 2000, and a separate \$150 million revolving credit facility which is renewable annually, at the lenders' option, through the July 31, 2000, maturity date (collectively, the "Facility"). Of the \$1.1 billion total borrowing capacity available to the Company under the Facility, there is a sub-limit of \$50 million for letters of credit. Scheduled reductions of the borrowing capacity available under the \$950 million facility are as follows: \$50 million, July 1998; \$75 million, January 1999; \$75 million, July 1999; \$100 million, January 2000; and \$650 million, July 2000. At December 31, 1997, the Facility provided for borrowings at a base rate of either Eurodollar plus 50 basis points or the prime lending rate. The weighted-average annual fees on letters of credit and commitment fees on the unutilized portion under the Facility, at December 31, 1997, were 0.63% and 0.13%, respectively.

The Facility is unsecured. The Facility agreement contains financial covenants requiring Harrah's to maintain a specific tangible net worth and to meet other financial ratios. Its covenants limit Harrah's ability to pay dividends and to repurchase its outstanding shares.

As of December 31, 1997, Harrah's borrowings under the Facility were \$720.5 million and an additional \$28.4 million was committed to back certain letters of credit. After consideration of these borrowings, \$351.1 million of the Facility was available to Harrah's at December 31, 1997.

EARLY EXTINGUISHMENT OF 10 7/8% NOTES. During second quarter 1997, the Company redeemed its \$200 million 10 7/8% Senior Subordinated Notes due 2002 (the "Notes") using proceeds from the Facility. As a result of the early extinguishment of the Notes, the Company recorded an \$8.1 million extraordinary loss, net of tax benefit, which included a premium paid to holders of the Notes and the write-off of related deferred finance charges.

INTEREST RATE AGREEMENTS. To manage the relative mix of its debt between fixed and variable rate instruments, Harrah's enters into interest rate swap agreements to modify the interest characteristics of its outstanding debt without an exchange of the underlying principal amount. At December 31, 1997 and 1996, Harrah's was a party to the interest rate swap agreements set forth below pursuant to which it pays a variable interest rate in exchange for receiving a fixed interest rate. The average variable rate paid by Harrah's was 5.9% and 5.7% at December 31, 1997 and 1996, respectively. The average fixed interest rate received was 5.4%

and 5.9% at December 31, 1997 and 1996, respectively. The impact of these interest rate swap agreements on the effective interest rates of the associated debt was as follows:

ASSOCIATED DEBT	SWAP RATE (LIBOR+)	EFFECTIVE RATE AT DECEMBER 31,		NEXT SEMI- ANNUAL RATE ADJUSTMENT DATE	SWAP MATURITY
		1997	1996		
8 3/4% Notes					
\$50 million	3.42%	9.45%	8.99%	May 15	May 1998
\$50 million	3.22%	9.19%	9.25%	January 15	July 1998

In accordance with the terms of the interest rate swap agreements, the effective interest rate on \$50 million of the 8 3/4% Notes was adjusted on January 15, 1998 to 8.85%.

Harrah's also maintains seven additional interest rate swap agreements to effectively convert a total of \$350 million in variable rate debt to a fixed rate. Pursuant to the terms of these swaps, Harrah's receives variable payments tied to LIBOR in exchange for its payments at a fixed interest rate. The fixed rates to be paid by Harrah's and variable rates to be received by Harrah's are summarized in the following table:

NOTIONAL AMOUNT	SWAP RATE	SWAP RATE	SWAP
	PAID (FIXED)	RECEIVED (VARIABLE) AT DEC. 31, 1997	
-----	-----	-----	-----
\$50 million	7.910%	5.813%	January 1998
\$50 million	6.985%	5.906%	March 2000
\$50 million	6.951%	5.906%	March 2000
\$50 million	6.945%	5.906%	March 2000
\$50 million	6.651%	5.777%	May 2000
\$50 million	5.788%	5.938%	June 2000
\$50 million	5.785%	5.938%	June 2000

The above \$50 million swap which matured in January 1998 was not renewed. In accordance with the terms of the above \$50 million swap which matures in May 2000, the variable interest rate was adjusted on February 10, 1998 to 5.625%.

The differences to be paid or received under the terms of the interest rate swap agreements are accrued as interest rates change and recognized as an adjustment to interest expense for the related debt. Changes in the variable interest rates to be paid or received by Harrah's pursuant to the terms of its interest rate agreements will have a corresponding effect on its future cash flows. These agreements contain a credit risk that the counterparties may be unable to meet the terms of the agreements. Harrah's minimizes that risk by evaluating the creditworthiness of its counterparties, which are limited to major banks and financial institutions, and does not anticipate nonperformance by the counterparties.

FAIR MARKET VALUE. Based on the borrowing rates currently available for debt with similar terms and maturities and market quotes of its publicly traded debt, the fair value of Harrah's long-term debt, including the interest rate swap agreements, at December 31, 1997 and 1996, was as follows:

(In millions)	DECEMBER 31,			
	1997		1996	
	CARRYING VALUE	MARKET VALUE	CARRYING VALUE	MARKET VALUE
Outstanding debt.....	\$ (926.2)	\$ (930.9)	\$ (891.4)	\$ (904.7)
Interest rate swap agreements (used for hedging purposes).....	(0.4)	(4.6)	(0.3)	(4.8)

The amounts reflected as the "Carrying Value" of the interest rate swap agreements represent the accrual balance as of the date reported. The "Market Value" of the interest rate swap agreements represents the estimated amount, considering the prevailing interest rates, that Harrah's would pay to terminate the agreements as of the date reported.

7) LEASES

Harrah's leases both real estate and equipment used in its operations and classifies those leases as either operating or capital leases following the provisions of SFAS No. 13, "Accounting for Leases." The remaining lives of the Company's real estate operating leases range from one to six years with various automatic extensions totaling up to 45 years. The average remaining term for other operating leases, which generally contain renewal options, extends approximately five years.

Rental expense associated with operating leases is charged to expense in the

year incurred and was included in the Consolidated Statements of Income as follows:

	1997	1996	1995
	-----	-----	-----
Noncancelable			
Minimum.....	\$ 16,455	\$ 14,774	\$ 17,097
Contingent.....	2,929	2,032	--
Sublease.....	(294)	(313)	(53)
Other.....	3,584	3,435	2,001
	-----	-----	-----
	\$ 22,674	\$ 19,928	\$ 19,045
	-----	-----	-----

The future minimum rental commitments as of December 31, 1997, were as follows:

	NONCANCELABLE OPERATING LEASES
1998.....	\$ 12,888
1999.....	10,336
2000.....	9,630
2001.....	9,489
2002.....	9,071
Thereafter.....	84,283
Total minimum lease payments.....	\$ 135,697

In addition to these minimum rental commitments, certain of these operating leases provide for contingent rentals based on a percentage of revenues in excess of specified amounts.

8) WRITE-DOWNS AND RESERVES

Harrah's operating results include various pretax charges to record asset impairments, contingent liability reserves and project write-offs. Included in the Company's 1997 results was a reserve against the debtor-in-possession financing provided to Harrah's Jazz Company, reflecting a possible shortfall in the realizable value of the collateral for the loans. During 1996, in recognition of changing economic conditions and competitive environments in which certain long-lived assets are deployed, the Company re-evaluated the recoverability of its original Tunica, Mississippi, casino facility and of an idle riverboat casino and recorded write-downs of the carrying values of those assets in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The original Tunica casino facility was closed during 1997. The Company also recorded a reserve during 1996 pursuant to the provisions of SFAS No. 5, "Accounting for Contingencies," in recognition of its estimated liability arising from the guarantee of third party debt. Management believes that the estimates used to evaluate the amounts of such write-downs and reserves were reasonable. However, actual results could differ from the estimates made for purposes of these evaluations. The 1995 charges related primarily to the Company's New Orleans casino development project. (See Note 15 for additional discussion regarding Harrah's Jazz Company.)

Write-downs and reserves reported by the Company were as follows:

	1997	1996	1995
Harrah's Jazz-related			
Reserve for debtor-in-possession loans.....	\$ 13,000	\$ -	\$ -
Write-off of investment in and advances to affiliate.....	-	-	54,349
Acquisition of partner loan.....	-	-	16,000
Estimated legal and severance costs.....	-	-	5,100
	13,000	-	75,449
Impairment of long-lived assets.....	806	33,369	-
Reserve for contingent liability exposure.....	-	14,034	-
Write-off of investment in and advances to nonconsolidated affiliates.....	-	2,141	9,638
Write-off of abandoned design and other costs.....	-	2,644	8,261
	\$ 13,806	\$ 52,188	\$ 93,348

9) INCOME TAXES

Harrah's federal and state income tax provision (benefit) allocable to identified income statement and balance sheet line items was as follows:

	1997	1996	1995
Income before income taxes and minority interests.....	\$ 68,746	\$ 67,316	\$ 60,677
Extraordinary loss.....	(4,477)	-	-
Stockholders' equity			
Unrealized gain on marketable equity securities.....	(16,362)	26,112	6,746
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes.....	(702)	(1,576)	(6,616)
Other.....	-	1,045	-
Discontinued operations			
Earnings from hotel operations.....	-	-	15,434
Spin-off transaction costs, including \$3,956 of deferred tax benefit.....	-	-	(5,134)
	\$ 47,205	\$ 92,897	\$ 71,107

Income tax expense attributable to Income before income taxes and minority interests consisted of the following:

	1997	1996	1995
	-----	-----	-----
Current			
Federal.....	\$ 78,306	\$ 42,003	\$ 60,850
State.....	5,407	6,622	9,987
Deferred.....	(14,967)	18,691	(10,160)
	-----	-----	-----
	\$ 68,746	\$ 67,316	\$ 60,677
	-----	-----	-----
	-----	-----	-----

The differences between the statutory federal income tax rate and the effective tax rate expressed as a percentage of Income before income taxes and minority interests were as follows:

	1997	1996	1995
Statutory tax rate.....	35.0%	35.0%	35.0%
Increases (decreases) in tax resulting from:			
State taxes, net of federal tax benefit.....	2.2	2.5	4.3
Minority interests in partnership earnings.....	(1.4)	(1.2)	(2.8)
Other.....	1.6	2.8	3.5
	37.4%	39.1%	40.0%

The components of Harrah's net deferred tax balance included in the Consolidated Balance Sheets were as follows:

	1997	1996
Deferred tax assets		
Compensation.....	\$ 10,381	\$ 24,858
Self-insurance reserves.....	5,838	7,562
Bad debt reserve.....	4,281	5,089
Project opening expenses.....	2,400	4,699
Deferred income.....	1,114	1,108
Debt consent costs.....	902	3,237
Other.....	19,865	12,979
	44,781	59,532
Deferred tax liabilities		
Property.....	(45,806)	(53,068)
Investment in nonconsolidated affiliates.....	(3,900)	(26,356)
	(49,706)	(79,424)
Net deferred tax liability.....	\$ (4,925)	\$ (19,892)

10) DISCONTINUED OPERATIONS

As discussed in Note 1, on June 30, 1995, Harrah's, formerly The Promus Companies Incorporated ("Promus"), completed a spin-off of its hotel operations to PHC. Accordingly, results of operations and cash flows of the Company's hotel business have been reported as discontinued operations for the period prior to the PHC Spin-off. Earnings from discontinued operations for the six months ended June 30, 1995, were as follows:

Revenues.....	\$ 132,785
Costs and expenses.....	(79,652)
Operating income.....	53,133
Interest expense.....	(16,742)
Other income.....	273
Income before income taxes.....	36,664
Provision for income taxes.....	(15,434)
Earnings from discontinued hotel operations.....	\$ 21,230

For periods prior to the PHC Spin-off, interest expense was allocated to discontinued hotel operations based on the percentage of Promus' existing corporate debt which was expected to be retired using proceeds from a new PHC Bank Facility. Interest expense of \$9.5 million was allocated to discontinued hotel operations for the six months ended June 30, 1995.

11) SUPPLEMENTAL CASH FLOW INFORMATION

The increase (decrease) in cash and cash equivalents due to the changes in long-term and working capital accounts was as follows:

	1997	1996	1995
Long-term accounts			
Deferred costs and other assets.....	\$ (1,746)	\$ (2,279)	\$ (4,746)

Deferred credits and other long-term liabilities.....	294	1,904	(13,398)
Net change in long-term accounts.....	\$ (1,452)	\$ (375)	\$ (18,144)
Working capital accounts			
Receivables.....	\$ (12,062)	\$ 8,088	\$ (27,616)
Inventories.....	(565)	1,202	(565)
Prepayments and other.....	(3,454)	2,888	(94)
Other current assets.....	27	14	--
Accounts payable.....	5,606	(18,373)	(10,279)
Accrued expenses.....	14,161	6,167	1,978
Net change in working capital accounts.....	\$ 3,713	\$ (14)	\$ (36,576)

SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST AND TAXES. The following table reconciles Harrah's Interest expense, net of interest capitalized, per the Consolidated Statements of Income, to cash paid for interest:

	1997	1996	1995
Interest expense, net of amount capitalized.....	\$ 79,071	\$ 69,968	\$ 73,890
Adjustments to reconcile to cash paid for interest			
Net change in accruals.....	(5,961)	(8,664)	10,739
Amortization of deferred finance charges.....	(3,021)	(3,151)	(3,626)
Net amortization of discounts and premiums.....	(12)	(21)	(53)
Cash paid for interest, net of amount capitalized.....	\$ 70,077	\$ 58,132	\$ 80,950

Cash payments, net of refunds, for income taxes, including amounts paid on behalf of the discontinued hotel operations, amounted to \$36,479, \$34,578 and \$85,001 for 1997, 1996 and 1995, respectively (see Note 9).

12) COMMITMENTS AND CONTINGENCIES

CONTRACTUAL COMMITMENTS. Harrah's is pursuing additional casino development opportunities that may require, individually and in the aggregate, significant commitments of capital, up-front payments to third parties, guarantees by Harrah's of third party debt and development completion guarantees. As of December 31, 1997, Harrah's has guaranteed third party loans and leases of \$136 million, which are secured by certain assets, and has contractual commitments, primarily construction-related, of \$60 million.

The agreements under which Harrah's manages casinos on Indian lands contain provisions required by law which provide that a minimum monthly payment be made to the tribe which payment has priority over the retirement of development costs. In the event that insufficient cash is generated by the operations to fund this payment, Harrah's must pay the shortfall to the tribe. Such advances, if any, will be repaid to Harrah's in a future period or periods in which operations generate cash in excess of the required minimum payment. These commitments will terminate upon the occurrence of certain defined events, including termination of the management contract. The aggregate monthly commitment pursuant to these contracts, which extend for periods of up to 60 months from December 31, 1997, was \$1.2 million, including the commitment for a project which opened subsequent to year-end.

In addition to the amounts described above, as part of a transaction whereby Harrah's effectively secured an option to a site for a potential casino, Harrah's has guaranteed a \$22.9 million third-party variable rate bank loan pursuant to an agreement which expires February 28, 1998. The guaranty contains an element of risk that, should the borrower be unable to perform, the Company could become responsible for repayment of at least a portion of the obligation. Harrah's has reduced this exposure by obtaining a security interest in certain assets of the third party.

See Note 15 for discussion of the completion guarantees issued by Harrah's related to development of the New Orleans casino.

SEVERANCE AGREEMENTS. Harrah's has severance agreements with 38 of its senior executives which provide for payments to the executives in the event of their termination after a change in control, as defined. These agreements provide, among other things, for a compensation payment of 1.5 times or 3.0 times the executive's annual compensation, as defined, as well as for accelerated payment or accelerated vesting of any compensation or awards payable to the executive under any of Harrah's incentive plans.

The estimated amount, computed as of December 31, 1997, that would be payable under the agreements to these executives based on earnings and stock options aggregated approximately \$34.7 million.

GUARANTEE OF INSURANCE CONTRACT. Harrah's has guaranteed the value of a guaranteed investment contract with an insurance company held by Harrah's defined contribution savings plan. Harrah's has also agreed to provide non-interest-bearing loans to the plan to fund, on an interim basis, withdrawals from this contract by retired or terminated employees. Harrah's maximum exposure on this guarantee as of December 31, 1997, was \$6.0 million.

TAX SHARING AGREEMENTS. In connection with the PHC Spin-off, Harrah's entered into a Tax Sharing Agreement with PHC wherein each company is obligated for those taxes associated with their respective businesses. Additionally, Harrah's is obligated for all taxes of Promus for periods prior to the PHC Spin-off date which are not specifically related to PHC operations and/or PHC hotel locations. Harrah's obligations under this agreement are not expected to have a material adverse effect on its consolidated financial position or results of operations.

SELF-INSURANCE. Harrah's is self-insured for various levels of general liability, workers' compensation and employee medical coverage. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of actuarial estimates of incurred but not reported claims.

13) LITIGATION

Harrah's and certain of its subsidiaries have been named as defendants in a number of lawsuits arising from the suspension of development of a land-based casino, and the closing of the temporary gaming facility, in New Orleans, Louisiana, by Harrah's Jazz Company, a partnership in which the Company owns an approximate 47% interest and which has filed for protection under Chapter 11 of the U.S. Bankruptcy Code (see Note 15). The ultimate outcomes of these lawsuits cannot be predicted at this time, and no provisions for the claims are included in the accompanying consolidated financial statements. The Company intends to defend these actions vigorously. In the event a bankruptcy reorganization plan is not consummated, the Company anticipates that such lawsuits, which are presently inactive, would become active, and additional lawsuits would be filed.

On November 25, 1997, the Missouri Supreme Court issued a ruling that defined the state constitutional requirements for floating casino facilities in artificial basins. Subsequently, the Missouri Gaming Commission (the "Commission") attempted to issue disciplinary resolutions that effectively would have amended the gam-

ing licenses of the Company's Missouri casinos, and numerous other floating casino facilities in the Commission's jurisdiction, to preclude games of chance, subject to evidentiary hearings that were to be held if the licensees filed appeals to prove compliance with the Supreme Court's ruling. Prior to the Commission's action, Harrah's and other licensees filed petitions in the Circuit Court of Cole County, Missouri, and succeeded in having the Court issue an order restraining the Commission from taking any such disciplinary action. The Commission has appealed to the Missouri Supreme Court to permit it to proceed with its intended actions. The Supreme Court has not indicated when it will hear the appeal. Harrah's has also filed suit seeking declaratory judgment that its gaming facilities meet the state constitutional mandates as established by the Missouri Supreme Court. Management is unable to predict at this time the final outcome of this matter or whether that outcome could materially affect the Company's results of operations, cash flows or financial position of its Missouri casinos.

In addition to the matters described above, Harrah's is involved in various inquiries, administrative proceedings and litigation relating to contracts, sales of property and other matters arising in the normal course of business. While any proceeding or litigation has an element of uncertainty, management believes that the final outcome of these other matters will not have a material adverse effect upon Harrah's consolidated financial position or its results of operations.

14) EMPLOYEE BENEFIT PLANS

Harrah's has established a number of employee benefit programs for purposes of attracting, retaining and motivating its employees. The following is a description of the basic components of these programs.

STOCK OPTION PLAN. Employees may be granted options to purchase shares of Harrah's common stock under the Harrah's Stock Option Plan ("SOP"). An SOP grant typically vests in equal installments over a four-year period and allows the option holder to purchase stock over specified periods of time, generally ten years from the date of grant, at a fixed price equal to the market value at the date of grant. No options may be granted under the SOP after November 1999.

A summary of SOP activity for 1995, 1996 and 1997 is as follows:

	WEIGHTED AVERAGE EXERCISE PRICE (PER SHARE)	NUMBER OF COMMON SHARES	
		OPTIONS OUTSTANDING	AVAILABLE FOR GRANT
Balance-December 31, 1994.....	\$ 19.80	2,268,294	2,491,965
Granted.....	36.53	1,473,290	(1,473,290)
Exercised.....	10.43	(111,807)	-
Canceled.....	11.21	(843,700)	843,700
Balance-June 30, 1995.....	26.74	2,786,077	1,862,375
Adjustment to reflect PHC Spin-off.....	N/A	1,136,463	(1,136,463)
Adjusted balance-- June 30, 1995.....	19.03	3,922,540	725,912
Additional shares authorized.....	N/A	-	4,500,000
Granted.....	26.05	1,836,563	(1,836,563)
Exercised.....	8.14	(81,752)	-
Canceled.....	26.54	(258,525)	258,525
Balance-December 31, 1995.....	21.21	5,418,826	3,647,874
Granted.....	18.71	3,706,759	(3,706,759)
Exercised.....	9.97	(225,510)	-
Canceled.....	27.59	(2,927,557)	2,927,557
Balance-December 31, 1996.....	16.95	5,972,518	2,868,672
Granted.....	18.93	2,495,903	(2,495,903)
Exercised.....	7.70	(196,905)	-
Canceled.....	19.29	(946,944)	946,944
Balance-December 31, 1997.....	17.57	7,324,572	1,319,713
		1997	1996
		-----	-----
Options exercisable at December 31.....	1,536,964	1,079,125	725,961
Weighted average fair value per share of options granted during year.....	\$ 9.98	\$ 9.13	\$ 10.76

As reflected in the table, the option price and number of shares of all options outstanding on June 30, 1995, were adjusted in connection with the PHC Spin-off to preserve their approximate value to the employee immediately before the PHC Spin-off.

Options granted and canceled during 1996 include the activity resulting from a special program approved by the Company during that year to restore the

intended incentive offered to employees by SOP grants. Given the competitive environment in which Harrah's operates and the need to retain and provide incentives for key management, the Company was concerned by the large number of outstanding options with an exercise price above the current market price of the stock. This special program enabled

option holders to consent to the cancellation of certain outstanding stock options, whether vested or unvested, in exchange for a grant of new unvested stock options with an option price based on the current market price of the Company's stock. For each three options canceled, the consenting option holder received two new stock options. The new options vest in four equal annual installments commencing January 1, 1998. In total, 2,755,291 options with an average exercise price of \$27.71 per share were canceled in exchange for 1,830,951 new options with an exercise price of \$16.875 per share.

The following table summarizes additional information regarding those options outstanding at December 31, 1997:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACT LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$2.80--\$13.34	1,220,053	4.3 years	\$ 8.76	1,089,399	\$ 8.44
15.88--20.50	5,502,378	9.4 years	18.81	145,510	17.27
22.55--29.72	579,756	7.3 years	23.75	281,475	23.60
33.27--35.59	22,385	6.0 years	34.90	20,580	34.87
	7,324,572			1,536,964	

As allowed under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," Harrah's applies the provisions of Accounting Principles Board Opinion No. 25 and related interpretations to account for the SOP and, accordingly, does not recognize compensation expense. Had compensation expense for the SOP been determined in accordance with SFAS No. 123, Harrah's Net income and Earnings per share would have been reduced to the pro forma amounts indicated in the following table:

	1997		1996		1995	
	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA
Net income.....	\$ 99,388	\$ 89,570	\$ 98,897	\$ 93,787	\$ 78,846	\$ 76,247
Earnings per share						
Basic.....	0.99	0.89	0.96	0.91	0.77	0.75
Diluted.....	0.98	0.88	0.95	0.90	0.76	0.74

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1997	1996	1995
Expected dividend yield.....	0.0%	0.0%	0.0%
Expected stock price volatility.....	41.0%	39.0%	31.0%
Risk-free interest rate.....	5.8%	6.2%	5.4%
Expected average life of options (years).....	7	6	6

Because the provisions of SFAS No. 123 have not been applied to options granted prior to January 1, 1995, and due to the issuance in 1996 of a large option grant under the special program discussed above, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

RESTRICTED STOCK PLAN. Employees may be granted shares of common stock under the Harrah's Restricted Stock Plan ("RSP"). Shares granted under the RSP are restricted as to transfer and subject to forfeiture during a specified period or periods prior to vesting. The shares generally vest in equal installments over a period of four years. No awards of RSP shares may be made under the current plan after November 1999. The compensation arising from an RSP grant is based upon the market price at the grant date. Such expense is deferred and amortized to expense over the vesting period.

Harrah's has issued time accelerated restricted stock ("TARSAP") awards to certain key executives which will fully vest on January 1, 2002, if the executive continues in active employment until that date. However, the vesting of some or all of these shares can be accelerated into the years 1999, 2000 and 2001 on the basis of the Company's financial performance. The expense arising from the TARSAP awards is being amortized to expense over the periods in which the restrictions lapse.

The number and weighted-average grant-date fair value of RSP shares granted, and the amortization expense recognized, during 1997, 1996 and 1995, including

the TARSAP awards, were as follows:

	1997	1996	1995
	-----	-----	-----
Number of shares.....	309,833	825,406	140,070
Weighted-average price per share.....	\$ 19.46	\$ 20.52	\$ 24.87
Amortization expense (in millions).....	4.5	0.9	1.2

SAVINGS AND RETIREMENT PLAN. Harrah's maintains a defined contribution savings and retirement plan, which, among other things, allows pretax and after-tax contributions to be made by employees to the plan. Under the plan, participating employees may elect to contribute up to 16 percent of their eligible earnings, the first six percent of which Harrah's will match fully. Amounts contributed to the plan are invested, at the participant's direction, in

a Harrah's company stock fund, a diversified stock fund, an aggressive stock fund, a long-term bond fund, an income fund and/or a treasury fund. Participants become vested in Harrah's matching contribution over seven years of credited service. Harrah's contribution expense for this plan was \$14.6 million, \$14.1 million and \$12.9 million in 1997, 1996 and 1995, respectively.

EMPLOYEE STOCK OWNERSHIP PLAN. Harrah's has an employee stock ownership plan, which is a noncontributory stock bonus plan covering employees of Harrah's and its affiliates. Harrah's contributions to the plan are discretionary and are made only if approved by the Human Resources Committee of Harrah's Board of Directors. A contribution was approved for the 1995 plan year. The expense recognized as a result of this contribution was not material.

DEFERRED COMPENSATION PLANS. Harrah's maintains deferred compensation plans under which certain employees may defer a portion of their compensation. Amounts deposited into these plans are unsecured liabilities of Harrah's and earn interest at rates approved by the Human Resources Committee of the Board of Directors. The total liability included in Deferred credits and other liabilities for these plans at December 31, 1997 and 1996 was \$46.7 million and \$45.2 million, respectively. In connection with the administration of one of these plans, Harrah's has purchased company-owned life insurance policies insuring the lives of certain directors, officers and key employees.

MULTI-EMPLOYER PENSION PLAN. Approximately 3,000 of Harrah's employees are covered by union sponsored, collectively bargained multi-employer pension plans. Harrah's contributed and charged to expense \$2.4 million, \$2.1 million and \$1.9 million in 1997, 1996 and 1995, respectively, for such plans. The plans' administrators do not provide sufficient information to enable Harrah's to determine its share, if any, of unfunded vested benefits.

15) NONCONSOLIDATED AFFILIATES

HARRAH'S JAZZ COMPANY. A Harrah's subsidiary owns an approximate 47% interest in Harrah's Jazz Company ("Harrah's Jazz"), a partnership formed for purposes of developing, owning and operating the exclusive land-based casino entertainment facility (the "Rivergate Casino") in New Orleans, Louisiana, on the site of the former Rivergate Convention Center. In November 1995, Harrah's Jazz and its wholly-owned subsidiary, Harrah's Jazz Finance Corp., filed petitions for relief under Chapter 11 of the Bankruptcy Code. Harrah's Jazz filed a plan of reorganization with the Bankruptcy Court in April 1996 and filed several subsequent amendments to the plan (the "Plan"). In April 1997, the Bankruptcy Court confirmed and approved the Plan.

The confirmed Plan contemplated, among other things, that a newly formed corporation, Jazz Casino Corporation, would be responsible for completing construction of the Rivergate Casino, a subsidiary of the Company would receive approximately 40% of the equity in the project, and Harrah's would make a \$75 million equity investment in the project (less any debtor-in-possession financing provided to the project), guarantee \$120 million of a \$180 million bank credit facility, guarantee timely completion and opening of the Rivergate Casino and make an additional \$20 million subordinated loan to the project to finance the Rivergate Casino. However, since the Louisiana State Legislature did not approve a component of the confirmed Plan--a modified casino operating contract with Louisiana's gaming board--the confirmed Plan was not consummated. Subsequently, Harrah's Jazz filed a modified plan with the Bankruptcy Court which contemplated, among other things, the assumption of the existing casino operating contract and relief from payment of any gaming taxes under the casino operating contract. This modified plan was withdrawn by Harrah's Jazz.

In November 1997 and again in January 1998, Harrah's Jazz modified the confirmed Plan. This most recent plan, which is supported by, among others, the Governor of Louisiana and the Mayor of New Orleans, contemplates that a newly formed limited liability company, Jazz Casino Company, L.L.C. ("JCC"), would be responsible for completing construction of the Rivergate Casino, a subsidiary of the Company would receive approximately 40% of the equity in JCC's parent, and Harrah's would make a \$75 million equity investment in the project (less any debtor-in-possession financing provided to the project), guarantee JCC's \$100 million annual payment under the casino operating contract to the State of Louisiana gaming board (the "State Guarantee"), guarantee up to \$154 million of a bank credit facility of up to \$224 million, guarantee timely completion and opening of the Rivergate Casino and make an additional \$10 million subordinated loan to JCC to finance the Rivergate Casino. With respect to the State Guarantee, Harrah's would be obligated to guarantee the first year of JCC's operations and, if certain cash flow tests and other conditions are satisfied each year, to renew the guarantee each year for a maximum term of approximately five years. Harrah's obligations under the guarantee would be limited to a guarantee of the \$100 million payment obligation of JCC for the period in which the guarantee is in effect and would be secured by a first priority lien on JCC's assets. JCC's payment obligation would be

\$100 million at the commencement of each twelve month period under the casino operating contract and would decline on a daily basis by 1/365 of \$100 million as payments are made each day by JCC to Louisiana's gaming board.

Final consummation of the plan is subject to numerous approvals, including approval from the Company's Board of Directors, the Louisiana State Legislature, the City of New Orleans City Council and others. The plan was confirmed by the Bankruptcy Court on January 29, 1998, and it is anticipated that the casino operating contract will be considered by the Louisiana State Legislature in a special session commencing in late March 1998. There can be no assurance that these approvals will be obtained and that such plan will be consummated.

During the course of the bankruptcy of Harrah's Jazz, a subsidiary of the Company has made debtor-in-possession loans to Harrah's Jazz, totaling approximately \$32.2 million as of December 31, 1997, to fund certain payments to the City of New Orleans and other cash requirements of Harrah's Jazz. Harrah's has committed to provide up to \$40 million in debtor-in-possession loans to Harrah's Jazz, conditioned upon Harrah's Jazz meeting certain monthly milestones in the bankruptcy. There can be no assurance that such committed debtor-in-possession financing will be sufficient for Harrah's Jazz to consummate the plan. Should additional debtor-in-possession funding be necessary for the consummation of the plan, the approval of the Company's Board of Directors would be necessary for Harrah's to provide any debtor-in-possession financing in excess of \$40 million.

SKY CITY LIMITED. During 1995, Harrah's sold a portion of its equity interest in Sky City Limited ("Sky City"), a New Zealand publicly-traded company which owns a casino entertainment facility in Auckland, New Zealand, reducing its ownership percentage from 20% to 12.5% and resulting in a pretax gain of approximately \$11.8 million. During 1997, Harrah's sold its remaining 12.5% ownership interest in Sky City and recorded a pretax gain of \$37.4 million. Harrah's continues to manage the Sky City facility for a fee under a management contract. However, the Company has been notified by Sky City of its intent to buy-out and terminate the management contract on June 30, 1998, for a price based upon an agreed upon formula in the management contract.

COMBINED FINANCIAL INFORMATION. Summarized balance sheet and income statement information of nonconsolidated gaming affiliates, including Harrah's Jazz, which Harrah's accounted for using the equity method, as of December 31, 1997 and 1996, and for the three fiscal years ended December 31, 1997, is included in the following tables:

	1997	1996	1995
	-----	-----	-----
Combined Summarized			
Balance Sheet Information			
Current assets.....	\$ 18,937	\$ 33,516	
Land, buildings and equipment, net.....	379,147	391,133	
Other assets.....	179,976	171,748	
	-----	-----	
Total assets.....	578,060	596,397	
	-----	-----	
Current liabilities.....	108,406	129,114	
Long-term debt.....	467,970	486,740	
	-----	-----	
Total liabilities.....	576,376	615,854	
	-----	-----	
Net assets.....	\$ 1,684	\$ (19,457)	
	-----	-----	
Combined Summarized			
Statements of Operations			
Revenues.....	\$ 23,464	\$ 30,930	\$ 118,798
	-----	-----	-----
Operating loss.....	\$ (44,115)	\$ (18,194)	\$ (30,296)
	-----	-----	-----
Net loss.....	\$ (39,290)	\$ (22,080)	\$ (139,200)
	-----	-----	-----

Condensed financial information relating to a restaurant subsidiary in which the Company has a passive investment has not been presented since its operating results and financial position are not material to Harrah's.

The Company's share of its nonconsolidated affiliates' net income (losses) is reflected in the accompanying Consolidated Statements of Income as Equity in income (losses) of nonconsolidated affiliates. Harrah's previously reported its share of the joint venture pre-interest operating results in Revenues-other, and its share of joint venture interest expense as Interest expense, net, from nonconsolidated affiliates. Prior year results have been restated to conform with the revised presentation.

Harrah's investments in and advances to nonconsolidated affiliates are reflected in the accompanying Consolidated Balance Sheets as follows:

1997	1996
-----	-----

Harrah's investments in and advances to nonconsolidated affiliates		
Accounted for under the equity method.....	\$ 132,049	\$ 98,356
Available-for-sale and recorded at market value.....	20,352	117,183
	-----	-----
	\$ 152,401	\$ 215,539
	-----	-----

In accordance with the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," Harrah's adjusts the carrying value of its available-for-sale equity investments to include unrealized gains or losses. A corresponding adjustment is recorded in the combination of Harrah's stockholders' equity and deferred income tax accounts.

MANAGEMENT'S REPORT ON FINANCIAL STATEMENTS

Harrah's is responsible for preparing the financial statements and related information appearing in this report. Management believes that the financial statements present fairly its financial position, its results of operations and its cash flows in conformity with generally accepted accounting principles. In preparing its financial statements, Harrah's is required to include amounts based on estimates and judgments which it believes are reasonable under the circumstances.

Harrah's maintains accounting and other control systems designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. Compliance with these systems and controls is reviewed through a program of audits by an internal auditing staff. Limitations exist in any internal control system, recognizing that the system's cost should not exceed the benefits derived.

The Board of Directors pursues its responsibility for Harrah's financial statements through its Audit Committee, which is composed solely of directors who are not Harrah's officers or employees. The Audit Committee meets from time to time with the independent public accountants, management and the internal auditors. Harrah's internal auditors report directly to the Audit Committee pursuant to gaming regulations. The independent public accountants have direct access to the Audit Committee, with and without the presence of management representatives.

/s/ Philip G. Satre

Philip G. Satre

Chairman of the Board, President
and Chief Executive Officer

/s/ Judy T. Wormser

Judy T. Wormser
Vice President, Controller
and Chief Accounting Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of Harrah's Entertainment, Inc.:

We have audited the accompanying consolidated balance sheets of Harrah's Entertainment, Inc. (a Delaware corporation) and subsidiaries (Harrah's) as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years ended December 31, 1997. These financial statements are the responsibility of Harrah's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harrah's as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years ended December 31, 1997 in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

Memphis, Tennessee,
February 3, 1998.

Quarterly Results of Operations (Unaudited) (In thousands, except per share amounts)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	YEAR
	-----	-----	-----	-----	-----
1997					
Revenues.....	\$ 374,099	\$ 408,893	\$ 438,248	\$ 397,970	\$ 1,619,210
Income from operations.....	45,291	61,199	67,749(1)	39,293	213,532(1)
Net income.....	17,111	17,239	52,889(1)	12,149	99,388(1)
Earnings per share (3)					
Basic.....	0.17	0.17	0.53(1)	0.12	0.99(1)
Diluted.....	0.17	0.17	0.52(1)	0.12	0.98(1)
1996					
Revenues.....	\$ 382,883	\$ 401,066	\$ 428,726	\$ 373,345	\$ 1,586,020
Income from operations.....	72,430	68,962	89,890	5,636 (2)	236,918(2)
Net income (loss).....	31,410	29,977	42,350	(4,840)(2)	98,897(2)
Earnings (loss) per share (3)					
Basic.....	0.31	0.29	0.41	(0.05)(2)	0.96(2)
Diluted.....	0.30	0.29	0.41	(0.05)(2)	0.95(2)

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- (1) 1997 includes \$37.4 million in pretax income from the third quarter sale of the Company's equity interest in its New Zealand subsidiary (see Note 15), net of \$13.8 million in pretax charges for write-downs and reserves, including \$12.3 million recorded in the third quarter (see Note 8).
- (2) 1996 includes \$52.2 million in pretax charges for project write-downs and reserves, of which \$50.0 million was recorded in the fourth quarter (see Note 8).
- (3) The sum of the quarterly per share amounts may not equal the annual amount reported, as per share amounts are computed independently for each quarter and for the full year.

HARRAH'S ENTERTAINMENT, INC.

SUBSIDIARIES

NAME	JURISDICTION OF INCORPORATION	PERCENTAGE OF OWNERSHIP	DATE OF INCORPORATION
Aster Insurance Ltd.....	Bermuda	100%	02/06/90
Harrah's Operating Company, Inc.....	Delaware	100%	08/08/83
HEI Acquisition Corp.....	Nevada	100%	12/16/97
HPB Corporation.....	Kansas	100%	11/13/97
Harrah South Shore Corporation.....	California	100%	10/02/59
Harrah's--Holiday Inns of New Jersey, Inc.....	New Jersey	100%	09/19/79
Harrah's Alabama Corporation.....	Nevada	100%	09/09/93
Harrah's Alberta Investment Corporation.....	Alberta	100%	04/05/95
Harrah's Arizona Corporation.....	Nevada	100%	01/26/93
Harrah's Asia Development Company.....	Nevada	100%	09/20/96
Harrah's Asia Investment Company.....	Nevada	100%	09/20/96
Harrah's Asia Management Company.....	Nevada	100%	09/20/96
Harrah's Atlantic City, Inc.....	New Jersey	100%	02/13/79
Harrah's Aviation, Inc.....	Tennessee	100%	03/11/63
Harrah's California Corporation.....	Nevada	100%	02/02/94
Harrah's Colorado Investment Corporation.....	Nevada	100%	06/23/93
Harrah's Colorado Management Company.....	Nevada	100%	06/23/93
Harrah's Colorado Standby Corporation.....	Nevada	100%	11/10/93
Harrah's Crescent City Investment Company.....	Nevada	100%	03/28/97
Harrah's Huntington Corporation.....	W. Virginia	100%	03/03/95
Harrah's Illinois Corporation.....	Nevada	100%	12/18/91
Van Buren Leasing Corporation(1).....	Nevada	100%	08/30/96
Harrah's Indiana Casino Corporation.....	Nevada	100%	09/09/93
Harrah's Indiana Management Corporation.....	Nevada	100%	09/09/93
Harrah's Interactive Entertainment Company.....	Nevada	100%	09/21/94
Harrah's Interactive Investment Company.....	Nevada	100%	09/21/94
Harrah's Kansas Casino Corporation.....	Nevada	100%	11/12/93
Harrah's Las Vegas, Inc.....	Nevada	100%	03/21/68
Harrah's Laughlin, Inc.....	Nevada	100%	07/10/87
Harrah's Management Company.....	Nevada	100%	04/07/83
Harrah's Marketing Services Corporation.....	Nevada	100%	08/21/97
Harrah's Maryland Heights Corporation.....	Nevada	100%	07/30/93
Harrah's Maryland Heights LLC(2).....	Delaware	99%	10/16/95
Harrah's Maryland Heights Operating Company.....	Nevada	100%	06/20/95
Harrah's de Mexico, S.A. de C.V.(3).....	Mexico	50%	05/29/95
Harrah's Michigan Corporation.....	Nevada	100%	06/15/93
Harrah's Minnesota Corporation.....	Nevada	100%	10/20/92
Harrah's NC Casino Company, LLC(4).....	North Carolina	99%	04/21/95
Harrah's New Jersey, Inc.....	New Jersey	100%	09/13/78
Harrah's New Orleans Investment Company.....	Nevada	100%	05/21/93
Harrah's New Orleans Management Company.....	Nevada	100%	05/21/93
Harrah's New Zealand Inc.....	Nevada	100%	02/18/92
Harrah's--North Kansas City Corporation.....	Nevada	100%	02/23/93
Harrah's Ontario, Inc.....	Canada	100%	06/23/93
Harrah's Pennsylvania Development Co.....	Nevada	100%	05/18/94
Harrah's Pittsburgh Management Company.....	Nevada	100%	06/08/94

HARRAH'S ENTERTAINMENT, INC.

NAME	JURISDICTION OF INCORPORATION	PERCENTAGE OF OWNERSHIP	DATE OF INCORPORATION
Harrah's Red River Corporation.....	Nevada	100%	08/05/96
Harrah's Reno Holding Company, Inc.....	Nevada	100%	02/23/88
Harrah's Shreveport Investment Company, Inc.....	Nevada	100%	04/23/92
Harrah's Shreveport Management Company, Inc.....	Nevada	100%	04/23/92
Harrah's Skagit Valley Agency Corporation.....	Nevada	100%	11/08/95
Harrah's Southeast Washington Casino Corporation.....	Nevada	100%	11/21/95
Harrah's Southwest Michigan Casino Corporation.....	Nevada	100%	04/06/95
Harrah's Tunica Corporation.....	Nevada	100%	08/10/92
Harrah's Vicksburg Corporation.....	Nevada	100%	07/13/92
Harrah's Washington Corporation.....	Nevada	100%	02/03/94
Harrah's West Virginia Corporation.....	W. Virginia	100%	03/03/95
Harrah's Wheeling Corporation.....	Nevada	100%	04/29/94

- (1) 100% owned by Des Plaines Development Limited Partnership of which Harrah's Illinois Corporation is 80% partner
- (2) 99% Harrah's Operating Company, Inc., 1% Harrah Maryland Heights Operating Company
- (3) 50% Harrah's Operating Company, Inc., 50% Harrah's Mexico Holding Company
- (4) 99% Harrah's Operating Company, Inc., 1% Harrah's Management Company

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12-MOS
DEC-31-1997
DEC-31-1997
116,443
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725,399
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1,360,526
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79,071
183,648
68,746
107,522
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0.98