



MGM GRAND, INC.

Our Mission

MGM Grand consistently provides the premier entertainment experience while maximizing value and opportunity for our guests, cast members, business partners and shareholders.

MGM Grand is a premier owner, developer and operator of entertainment/gaming destination resorts in the United States, Australia and South Africa. The Company owns the MGM Grand's "City of Entertainment," the New York-New York Hotel and Casino on the Las Vegas Strip and other properties in Nevada acquired from Primadonna Resorts. A temporary casino is scheduled to open in Detroit, Michigan, this year, and planning continues on a resort hotel/casino in Atlantic City, New Jersey.





Financial Highlights

(IN THOUSANDS EXCEPT SHARE DATA)

FOR THE YEARS ENDED DECEMBER 31,

	1998	1997	1996	1995	1994
NET REVENUES	\$ 773,863	\$ 827,597	\$ 800,189	\$ 718,781	\$ 739,676
EBITDA(1)	218,547	287,064	258,781	169,837	181,827
OPERATING PROFIT BEFORE NON-RECURRING ITEMS AND CORPORATE EXPENSE	142,263	222,960	196,585	113,905	137,147
OPERATING INCOME	131,574	190,970	129,294	103,823	129,715
INCOME BEFORE INCOME TAXES, DISCONTINUED OPERATIONS AND EXTRAORDINARY ITEM	109,528	180,301	99,151	46,565	73,540
NET INCOME	68,948	111,018	43,706	46,565	74,576

BASIC EARNINGS PER SHARE:

INCOME BEFORE DISCONTINUED OPERATIONS AND EXTRAORDINARY ITEM	\$ 1.24	\$ 2.00	\$ 1.41	\$ 0.97	\$ 1.53
DISCONTINUED OPERATIONS	-	-	-	-	0.02
EXTRAORDINARY ITEM - LOSS ON EARLY EXTINGUISHMENT OF DEBT, NET OF INCOME TAX BENEFIT	-	(0.07)	(0.58)	-	-
NET INCOME PER SHARE	\$ 1.24	\$ 1.93	\$ 0.83	\$ 0.97	\$ 1.55
WEIGHTED AVERAGE NUMBER OF SHARES	55,678,000	57,475,000	52,759,000	48,076,000	48,232,000

DILUTED EARNINGS PER SHARE:

INCOME BEFORE DISCONTINUED OPERATIONS AND EXTRAORDINARY ITEM	\$ 1.22	\$ 1.96	\$ 1.38	\$ 0.96	\$ 1.50
DISCONTINUED OPERATIONS	-	-	-	-	0.02
EXTRAORDINARY ITEM - LOSS ON EARLY EXTINGUISHMENT OF DEBT, NET OF INCOME TAX BENEFIT	-	(0.07)	(0.57)	-	-
NET INCOME PER SHARE	\$ 1.22	\$ 1.89	\$ 0.81	\$ 0.96	\$ 1.52

WEIGHTED AVERAGE NUMBER OF SHARES	56,342,000	58,835,000	54,257,000	48,544,000	48,988,000
AT YEAR END					
TOTAL ASSETS	\$ 1,773,794	\$ 1,398,374	\$ 1,287,689	\$ 1,282,222	\$ 1,153,511
TOTAL DEBT, EXCLUDING CAPITAL LEASES	544,874	57,830	83,391	551,099	473,000
STOCKHOLDERS' EQUITY	964,381	1,101,622	973,382	584,548	529,379
STOCKHOLDERS' EQUITY PER SHARE	\$ 18.53	\$ 19.00	\$ 16.82	\$ 11.98	\$ 11.05
NUMBER OF SHARES AT YEAR END, NET OF TREASURY SHARES	52,033,000	57,985,000	57,884,000	48,775,000	47,925,000

The selected financial data above includes information for New York-New York, which was 50% owned and commenced operations on January 3, 1997, MGM Grand Las Vegas, which commenced operations on December 18, 1993, MGM Grand Australia, which was acquired on September 7, 1995, and MGM Grand Air until December 31, 1994, when the company was sold.

(1) EBITDA consists of net income plus net interest expense, other nonoperating expense, taxes, depreciation & amortization, one-time charges (which consist of Master Plan asset disposition, Preopening, Discontinued Operations and Extraordinary Items) and Corporate expense

To Our Stockholders and Owners

With a commitment to build the world's most successful gaming and entertainment company, MGM Grand, Inc. devoted 1998 to setting the stage for global expansion and growth. Key to this strategy was ensuring that your Company's balance sheet remained the strongest in the gaming industry. * Through concentrated effort over the past two years, we have achieved that goal. We have prudently reduced operating costs, improved profit margins, streamlined systems and raised approximately \$500 million in low-interest, long-term fixed debt. Our debt-to-capital ratio now stands at 36% at a time when our peer group averages 60%. In 1998, we further enhanced shareholder value by buying back 6 million shares of MGM Grand stock at \$35 a share and our Board of Directors has granted us the authority to repurchase an additional 6 million shares in the future.



NET REVENUES
in millions



* With a superior cash flow position and our strong balance sheet, we were able to move aggressively on the \$570- million Master Plan, transforming our flagship property in Las Vegas into "The City of Entertainment." Bringing together the amenities of a four-star hotel experience with an unparalleled panopoly of entertainment choices, we now offer a combination of attractions unavailable anywhere else. In April 1998, we opened a new 380,000 square-foot conference center, which has been operating at near capacity ever since. This state-of-the-art facility has generated group business that has significantly improved our midweek occupancy, traditionally a slower period in the resort hotel industry. Equally beneficial, our conference guests have contributed to increased casino, entertainment and food and beverage revenue and have generated higher room rates.

* Represents the proforma impact
for the twelve months ended
December 31, 1998 of MGM Grand,
Inc.'s merger with Primadonna
Resorts, Inc.

To Our Stockholders and Owners

* We have also taken steps to maintain and improve our leadership in the high-end segment of the market by providing our guests with the finest facilities available in Las Vegas. To this end, the opulent Mansion at the MGM Grand, opening this spring, features 29 palatial villas with private pools, and perfectly manicured European gardens, all contained inside an envelope of romance. Mansion guests will be treated as royalty - which they often are. * The MGM Grand is renowned for its world-class entertainment. In 1998, we oversaw the successful opening of the Studio 54 nightclub, a luxury spa and 6.6-acre pool complex, and new celebrity chef restaurants and retail stores on Studio Walk. An interactive Lion Habitat attraction situated in the middle of our casino will open in the spring. Headliners at our Grand Garden Arena in 1998 included a dazzling



DILUTED E.P.S.



array of entertainment legends, among them Elton John, Janet Jackson and Rod Stewart. * In the first quarter of 1999, we completed the acquisition of Primadonna Resorts, which brings to your Company the remaining 50% of New York-New York and other profitable assets located on the California-Nevada state line, including three hotel-casinos and two championship golf courses. The most spectacular profile on the Las Vegas Strip skyline, New York New York continues to be the most profitable resort in its market segment. The Primadonna transaction gives us a multi-property presence on the Strip, diversifies our revenues and Nevada assets, and enhances our profitability. * In 1998, we made major strides in Detroit as well, after your Company and its Detroit partners were selected as one of three operators to develop a casino-based resort in that city.

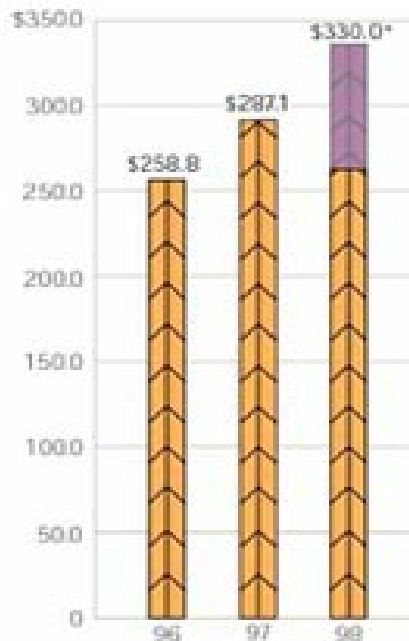
* Represents the proforma impact for the twelve months ended December 31, 1998 of MGM Grand, Inc.'s merger with Primadonna Resorts, Inc.

It takes a razor-sharp team of professionals at the helm to manage these far-flung ventures and stay ahead of our competition

By year-end, we had assembled our senior management team and began construction on a temporary casino facility. In March 1999, we successfully completed a \$230 million bank facility with significant local Michigan bank involvement, and expect to open our casino in the late summer or early fall of this year, subject to licensing approval by the Michigan Gaming Control Board. * It is worthy of note that the Primadonna acquisition and the opening of our new casino in Detroit will approximately double your Company's operating cash flow. * On the international front, we opened the third and the largest of our three South African casinos in Johannesburg in late September. Developed and managed by MGM Grand through a partnership with Tsogo Sun Gaming & Entertainment, these temporary casinos have exceeded our expectations. We have broken



EBITDA +
in millions



ground on and anticipate opening a permanent facility in Johannesburg in late 2000, subject to various approvals and regulatory conditions. At the same time we continue to submit bids for additional casino licenses in other provinces of that country. * It takes a razor-sharp team of professionals at the helm to manage these far-flung ventures and stay ahead of our competition. In 1998, we continued to seek out the best, both inside and outside the gaming and hotel industry. * Over the past year, we promoted four new presidents within our organization. Bill Hornbuckle became President of MGM Grand Hotel-Casino in Las Vegas, three months ahead of schedule, succeeding Danny Wade who was promoted to Executive Vice President of MGM Grand, Inc., the parent company. Lyn Baxter, previously Senior Vice President-Operations of MGM Grand Hotel-Casino in (cont...)

+ EBITDA consists of net income plus net interest expense, other nonoperating expenses, depreciation and amortization, one-time charges (which consists of Master Plan asset disposition, Pre-Opening and Extraordinary Items) and Corporate expense.

* Represents the proforma impact for the twelve months ended December 31, 1998 of MGM Grand, Inc.'s merger with Primadonna Resorts, Inc.

It takes a razor-sharp team
of professionals at the helm to manage
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(..cont) Las Vegas, was named President of the MGM Grand Detroit. We also strengthened our New York-New York team by naming Dave Cacci, another MGM Grand alumnus, as President of that company. John Redmond moves from MGM Grand, Inc. to become President of the newly acquired Primadonna Resorts. Key MGM Grand Las Vegas additions in 1998 include Joe Brunini, Senior Vice President-Casino Operations, Don Welsh, Senior Vice President-Marketing, and Felix Rappaport, Senior Vice President-Hotel Operations. Measured by the increase in intellectual capital, 1998 was your Company's best year ever. * We are also pleased to welcome Gary Primm to the Board of Directors of MGM Grand, Inc. Gary was the former President, Chief Executive Officer, and principal shareholder of Primadonna Resorts, and adds vision and experience to our Board of Directors.



J. Terrence Lanni
Chairman & CEO

Alex Yemenidjian
President & COO

* Entering 1999, your Company is primed to embark on a new phase of growth. Although we expect competition to be intense in Las Vegas and certain high-end Asian business to be negatively affected as a result of that region's economic conundrum, the proactive initiatives that we introduced over the past few years should help us offset these conditions. In addition, our expansion into Detroit affords us the geographic diversification that is so critical in a period of temporary over-capacity in the Las Vegas market. * The fundamentals of MGM Grand remain strong. We have a top-notch management team, motivated cast members dedicated to providing grand-class service, a healthy balance sheet and a brand strategy that has enduring value. We are confident that these strengths will allow us to leverage our franchise worldwide and to create wealth for our shareholders.

MGM Grand, Inc. winning combinations.

In the world of gaming and entertainment, no other company compares to MGM Grand, Inc. What makes us strong and unique is our commitment to designing winning combinations of assets and attributes that will benefit our guests, our shareholders, our employees, our business partners and the communities in which we operate. * MGM Grand's strategy is to create high-end resort properties that offer guests a total entertainment experience, including first-class accommodations, premier gaming facilities, world-class dining and luxury amenities, top-rated shows and concerts, championship sporting events, thrilling amusement rides and exclusive shopping. Our attention to service and quality in every detail has repeatedly earned the MGM Grand Hotel/Casino Las Vegas the coveted Four-Star Award from the *Mobil Travel Guide*. * MGM Grand's winning brand concept is one that we intend to extend to the world as we develop permanent destination resorts in selected gaming markets worldwide. Beginning with our flagship Las Vegas Hotel/Casino, we have honed "The City of Entertainment" model, offering a diverse mix of spectacular attractions that no competitor can match. Through diversification initiatives, we are now drawing customers from a broader base - from high-end gaming enthusiasts, to the business convention crowd, to families looking for the perfect vacation, to casual walk-in day visitors. * In every case, we strive to exceed their expectations, thereby enhancing the MGM Grand brand reputation and creating a demand-driver for future MGM Grand properties in other parts of the United States and the world. Although competition on the Las Vegas Strip is becoming more intense with the opening of several new luxury hotel casinos, none offers the vast selection of entertainment choices available at the MGM Grand. This distinction has allowed us to maintain one of the highest guest occupancy rates on the Strip and actually increase our baccarat business in 1998. The cachet and glamour of the MGM Grand name - combined with a reputation for excellent management - has helped us attract desirable business partners in other geographic locations as well and win coveted gaming licenses in markets



that exhibit immense growth and revenue potential.

* At MGM Grand, the whole is greater than the sum of its parts - and the whole is an unbeatable combination that promises a bright future for the MGM Grand brand franchise around the world and well into the next century.

Evenings and entertainment.



A night on the town in "The City of Entertainment" means a choice of the world's finest entertainment and dining attractions. The MGM Grand has not just one but several live theatres and a concert/sports arena where superstars such as the Rolling Stones, Elton John and Celine Dion have appeared in concert. Our nightly show is the \$45 - million EFX stage extravaganza now featuring the dazzling talents of Tony Award-winner Tommy Tune. The latest draw is the spectacular Studio 54, open for dancing and cocktails. It overlooks our elegant casino, one of the largest in the world. Dining choices are equally grand at our Las Vegas resort, with celebrity-chef and signature restaurants that range from Hollywood's legendary Brown Derby to Emeril Lagasse's New Orleans Fish House. In every way, The City of Entertainment lives up to its name.

Recreation and refreshment.

In creating the ultimate destination resort, the MGM Grand offers something for every age group and interest. Our flagship Las Vegas property pairs some of the world's finest restaurants with retail shops, offering everything from sports apparel to Hollywood memorabilia, along Studio Walk. A new 6.6 acre Grand Pool and Spa complex - part of a \$570-million expansion - features a network of pools linked by a lazy river that flows through waterfalls and fountains and a lushly landscaped garden. Part of this oasis is the Grand Spa, offering the ultimate in pampering. Family fun includes the 250-foot SkyScreamer, the world's tallest skycoaster, and theme streets and city facades. Opening this spring is a dramatic Lion Habitat that will bring MGM Grand's famous trademark to roaring life.



Properties and partnerships.



With a strong cash flow position, MGM Grand is focusing on becoming the premier developer and operator of casino-based resorts worldwide. Recently, we acquired Primadonna Resorts to gain 100% ownership of the popular New York-New York Hotel and Casino and well-situated Nevada properties. In Detroit, we teamed with partners who share our commitment to creating a world-class gaming resort that will bolster the region's economy and job growth. In Australia's Northern Territory, the MGM Grand Darwin has demonstrated rapid earnings and envious profit margins. In South Africa, we have joined with South African Breweries, the nation's second largest public company, to acquire vital gaming licenses and successfully launch the three temporary casinos that we now operate there. Well-chosen partners and prime geographic locations are proving to be the formula for success as we move forward into Atlantic City and beyond.

Business and pleasure.

In 1998, the 5,005-room MGM Grand Las Vegas enjoyed an average 95% occupancy rate with one of the highest revenues per average room on the Strip. Credit is due in part to lodging/travel industry strategies aimed at enhancing revenue and tapping a broader database of prospective customers. Our new 380,000-square-foot conference center has not only raised mid-week occupancy and average daily rates, it is enabling us to project future occupancy levels and room rates more accurately since meeting space is often reserved years in advance. Major corporate alliances - such as one with American Airlines that lets AAdvantage members earn miles by staying and playing at the MGM Grand - have increased cross-marketing opportunities and raised brand visibility among nontraditional gaming audiences. Our latest move is to open the luxurious Mansion for high-end guests.



Our cast members and crew



In 1998, the staff of MGM Grand Las Vegas came together to celebrate the Company's fifth anniversary, and we are proud to say that 60% of the original cast members (employees) were still among us. In an industry known for rapid turnover, this retention level is truly remarkable. To us, it was no surprise. The secret to MGM Grand's success is service, and service begins and ends with the hospitality, friendliness and responsiveness of our cast members. Our hiring program seeks out highly motivated team players, and an ongoing training program helps them develop the skills and knowledge they need to take advantage of career advancement opportunities. More than a corporate culture, we are a corporate family committed to supporting the health and well-being of our cast members through excellent benefits and active community involvement.

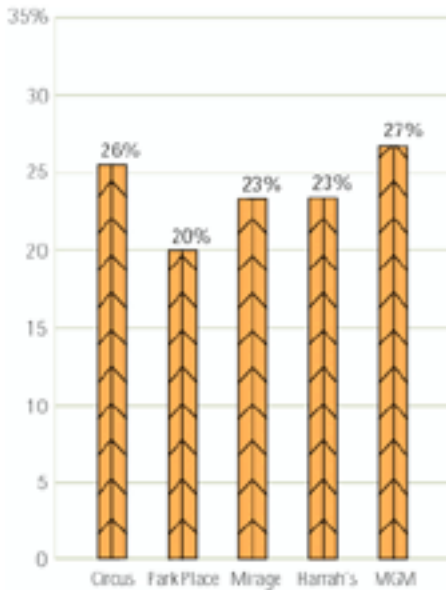


Our Financial Future

Those who follow the gaming industry are aware of its enormous earnings potential as well as its current volatility. So let's discuss some key concerns expressed by the investment community and how MGM Grand, Inc. is addressing them. * In 1998, Asia's economic crisis translated into reduced high-end Asian play in Las Vegas. While MGM Grand was not immune to the "Asian flu," we were better prepared than most of our competitors because of our geographic diversity. Our international sales force went into overdrive, drawing in new customers worldwide to fill the void. As a result, our baccarat business kept pace with 1997 and rose to a record high for your Company in the fourth quarter. Equally important, we maintained a conservative posture on casino receivables, ending the year with 40% reserved. * Another key concern is what appears to be excess room capacity on the Las Vegas Strip - the roots of which can be traced back to 1995 when optimism was high, capital was abundant and gaming companies embarked on ever-more expensive projects. The philosophy at the time was: "If we build it, they will come." Today we are seeing the result - 10,000 new hotel rooms on the Strip, with at least 5,000 more rooms on the way. Can the industry absorb this capacity? Given time, we believe so. In 1989 and again in 1993, observers predicted dire consequences due to oversupply, only to be confounded by surging market demand. We believe the demand is growing stronger with each passing day.

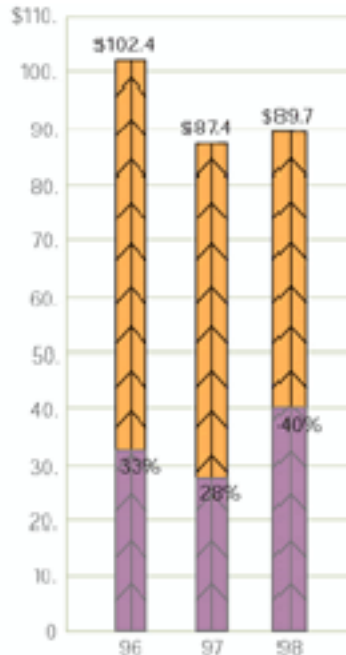
Gaming has gained broad mainstream acceptance as a leisure/entertainment activity - one reason why so many states and countries are now permitting gaming. On the other hand, a wiser and more mature gaming industry knows that while acceptance of gaming is greater, so are expectations. That is why the frontrunners in this industry are committed to a new adage: "If we build creatively, they will come." New York-New York's smashing success is a tribute to this philosophy. * Prudent investors also recognize that each property must be assessed on its own merits and are no longer willing to bid up shares of a company on the eve of each new casino opening. Investors are scrutinizing each property for evidence of performance and ability to endure and succeed. After all, at the end of the day, the success of a gaming company depends less on revenue growth and more on earnings growth. Basic Harvard Business School studies have demonstrated the vast margin superiority of a brand-category market leader, compared with even the close runner-up in share. * To become the brand leader in today's marketplace, a casino/hotel must constantly evolve, diversify and improve its offerings to differentiate itself in what can otherwise easily be a commodity business. MGM Grand's initiative in these areas has resulted in distinctive properties that enjoy some of the highest margins in the industry. These margins have been strengthened by our continuous effort

EBITDA MARGINS

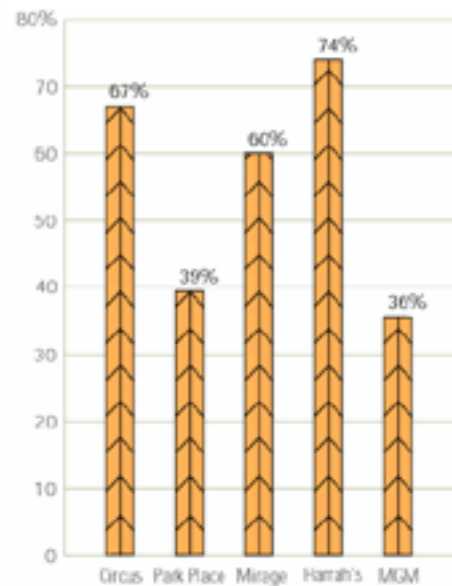


CASINO RECEIVABLES VS RESERVES

\$ in millions



DEBT TO CAPITAL



to reduce costs and gain efficiencies in every way we can. * At the same time, MGM Grand has not lost sight of the fact that capital costs are not measured by one's borrowing rate but on total cost of debt and equity. Our strategies for maximizing returns include our Detroit property with its promising return on investment, lucrative management contracts in South Africa, and accretive acquisitions such as Primadonna Resorts. * Our capital cost advantage stems from the superiority of our balance sheet. For us, bigger is not necessarily better. In pursuit of "bigness," many management teams have leveraged their companies, and perhaps their future. At MGM Grand, we believe a solid balance sheet is the greatest weapon against the shifting sands of competition. Stockholder interest is best served by generating meaningful cash flow with a commitment from management not to squander free cash. Our vision of a perfect company is jewel-like assets on the left side of the balance sheet and low debt on the right side, with our capital hard at work promoting disciplined earnings growth. * Today MGM Grand has the best balance sheet in the gaming industry - a 36% debt-to-capital ratio, a largely untapped \$1.25 billion bank line at attractive rates and \$1.2 billion of equity.

Balance sheet muscle allows us to reinvest in our business, make accretive acquisitions and new investments to grow, and affords us the opportunity to return cash to our shareholders in the form of share repurchases. * In 1998 the pace of gaming acquisitions accelerated as companies took advantage of historic valuations to achieve growth and improve profitability through economies of scale and refinancings while also diversifying cash flows. Recently, MGM Grand executed perhaps the most accretive acquisition to date with Primadonna. This acquisition brings us control of New York-New York, three strong casinos on the California/Nevada state line and two championship golf courses - and was 8.2% accretive to earnings per share on a pro forma basis in 1998. More industry deals are likely and few companies are better prepared to participate than MGM Grand. However, our criteria are tough: acquisitions must be accretive, make strong strategic sense and always be measured against debt reduction, share repurchases and internal growth. By using our management talents, financial wherewithal and imagination, we are confident we can produce sustained and disciplined growth for our stockholders.

-JIM MURREN, CHIEF FINANCIAL OFFICER

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

RESULTS OF OPERATIONS

The Company, through its wholly-owned subsidiaries, owns and operates the MGM Grand Hotel/Casino in Las Vegas, Nevada ("MGM Grand Las Vegas"), which commenced operations on December 18, 1993, and MGM Grand Hotel/Casino in Darwin, Australia ("MGM Grand Australia"), which was acquired on September 7, 1995, and manages three casinos throughout various provinces of the Republic of South Africa (see Note 1). The Company also owns a 50% interest in the New York-New York Hotel and Casino in Las Vegas, Nevada ("NYNY"), which commenced operations on January 3, 1997 (see Notes 1 and 20). Additionally, the Company's wholly-owned subsidiaries, MGM Grand Detroit, Inc. and MGM Grand Atlantic City, Inc. are in the development stage, with plans to construct hotel/casino and entertainment facilities in Detroit, Michigan and Atlantic City, New Jersey, respectively (see Notes 1 and 6).

1998 COMPARED WITH 1997

Net revenues for the year ended December 31, 1998 were \$773.9 million, representing a decrease of \$53.7 million (6.5%) when compared with \$827.6 million during the prior year. The decrease in net revenues was largely due to lower income from the Company's 50% ownership in NYNY and decreased casino revenues largely due to unusually low table game hold percentages, partially offset by higher food and beverage revenues.

Consolidated casino revenues for the year ended December 31, 1998 were \$410.6 million, representing a decrease of \$46.6 million (10.2%) when compared with \$457.2 million during the prior year. MGM Grand Las Vegas casino revenues were \$383.3 million, representing a decrease of \$46.6 million (10.8%) when compared with \$429.9 million during 1997. The reduction in casino revenues at MGM Grand Las Vegas was primarily a result of lower table games and baccarat win percentages. MGM Grand Australia reported casino revenues of \$27.3 million, which were flat when compared with the prior year.

Consolidated room revenues for 1998 were \$171.3 million, which were flat when compared with the prior year. MGM Grand Las Vegas room revenues were \$169.7 million in 1998, representing an increase of \$.4 million (.2%) when compared with \$169.3 million in the prior year. The increase was due to higher occupancy of 95.3% in 1998 when compared with 94.5% in 1997, offset by a slightly lower average daily room rate of \$99 in 1998 versus \$100 in 1997. MGM Grand Australia room revenues were \$1.8 million for the year ended December 31, 1998, representing a decrease of \$.4 million (18.2%) when compared with \$2.2 million for the prior year. The decrease was due to a lower average daily room rate for 1998 of \$61 compared with \$89 for 1997 resulting from a lower average exchange rate in the current year when compared with the prior year, somewhat offset by a higher occupancy of 74.8% for 1998 compared with 60.5% in 1997.

Consolidated food and beverage revenues for 1998 were \$105.9 million, representing an increase of \$13.3 million (14.4%) when compared with \$92.6 million for the prior year. The increase was attributable to MGM Grand Las Vegas which had food and beverage revenues of \$100.3 million during 1998, an increase of \$14.2 million (16.5%) when compared with \$86.1 million in 1997. This increase resulted from additional banquet revenues generated from the MGM Grand Conference Center (the "Conference Center"), which opened on April 16, 1998, and the operation of the Studio 54 nightclub, which opened in late December 1997. MGM Grand Australia reported food and beverage revenues of \$5.7 million, representing a decrease of \$.9

million (13.6%) when compared with \$6.6 million during the prior year as a result of the lower average exchange rate in the current year.

Consolidated entertainment, retail and other revenues decreased \$2.6 million (2.3%) from \$116.5 million in 1997 to \$113.9 million in 1998. The decrease was attributable to MGM Grand Las Vegas which had lower theme park revenues due to management's decision to change the theme park's operational schedule from a year-round park to a seasonal park. The theme park closed on September 8, 1998. These decreases were partially offset by increases in entertainment revenues from MGM Grand Garden Arena and EFX, conference revenue from the opening of the Conference Center and management and development fees from MGM Grand South Africa, Inc. ("MGM Grand South Africa").

Income from unconsolidated affiliate, representing the Company's 50% share of NYNY's operating income, for 1998 was \$38.4 million representing a decrease of \$15.4 million (28.6%) when compared with \$53.8 million during the prior year. The reduction in earnings from NYNY is a result of the unprecedented public response NYNY received during its first year of operations.

Consolidated operating expenses (before Master Plan asset disposition and Corporate expense) for 1998 were \$631.6 million, representing an increase of \$27 million (4.5%) when compared with \$604.6 million for 1997. The increase was attributable to MGM Grand Las Vegas, offset by decreases at MGM Grand Australia. The increases at MGM Grand Las Vegas were due primarily to increased room expenses associated with the higher occupancy and increased food and beverage expenses associated with the addition of the Studio 54 night club and the additional banquet expenses for the Conference Center. Additionally, the provision for doubtful accounts and discounts increased by \$8.6 million at MGM Grand Las Vegas due to possible changes in anticipated collectibility of receivables given uncertain economic conditions in Asia, along with higher depreciation expense due to Master Plan assets placed in service. These increases were partially offset by lower casino expenses due to a reduction in casino taxes and the absence of a championship boxing event in the current year. MGM Grand Australia operating expenses decreased \$4.4 million (14.5%) from \$30.4 million in 1997 to \$26 million in 1998 as a result of continuing cost containment efforts and a lower average exchange rate in the current year.

Corporate expense was \$10.7 million in 1998 compared with \$3.4 million in 1997, representing an increase of \$7.3 million. The increase was due to higher operating expenses in the current year and the \$5.9 million reversal of stock price guarantee amortization that occurred in the prior year (see Note 11).

Master Plan asset disposition relates to the write-off of various assets related to the transformation of MGM Grand Las Vegas into "The City of Entertainment." The prior year charge of \$28.6 million (pre-tax) resulted from the increase in the transformation scope from \$250 million to approximately \$570 million (see Note 16).

Interest income of \$13 million for the year ended December 31, 1998, increased by \$11.7 million from \$1.3 million in 1997. The increase was attributable to higher invested cash balances primarily from the proceeds of the Senior Collateralized Notes (see Note 9).

Interest expense for the year ended December 31, 1998 of \$24.6 million (net of amounts capitalized) increased by \$23.4 million when compared with \$1.2 million in 1997. The increase in 1998 was primarily due to the issuance of the Senior Collateralized Notes (see Note 9). Also, the Company recognized interest expense from its unconsolidated affiliate of \$8.4 million during 1998 compared with \$9.9 million during the same period in 1997. The decrease of \$1.5 million was due to the reduction of debt at New York-New York Hotel and Casino, LLC ("NYNY LLC").

Income tax provision of \$40.6 million has been recorded at a rate of 37% for the year ended December 31, 1998, compared with \$65 million in 1997 at a rate of 36.1%. At December 31, 1998, the Company believes that it is more likely than not that its deferred tax assets are fully realizable because of the future reversal of existing taxable temporary differences and future projected taxable income. Accordingly, there is no valuation allowance at December 31, 1998.

Extraordinary loss of \$4.2 million in 1997, net of income tax benefit, reflects the write-off of unamortized debt costs from the Company's previous \$600 million Senior Reducing Revolving Credit Facility (see Note 9).

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

1997 COMPARED WITH 1996

Net revenues for the year ended December 31, 1997 were \$827.6 million, representing an increase of \$27.4 million (3.4%) when compared with \$800.2 million during the prior year. The increase in net revenues was largely due to income from the Company's 50% ownership in NYNY and higher food and beverage revenues partially offset by decreased casino, room, entertainment, retail and other revenues and increased promotional allowances.

Consolidated casino revenues for the year ended December 31, 1997 were \$457.2 million, representing a decrease of \$19.5 million (4.1%) when compared with \$476.7 million during the prior year. MGM Grand Las Vegas casino revenues were \$429.9 million, representing a decrease of \$15.5 million (3.5%) when compared with \$445.4 million during 1996. The reduction in casino revenues at MGM Grand Las Vegas was a result of lower table games win percentages despite an increase in volume, partially offset by higher slot volume and win. MGM Grand Australia reported casino revenues of \$27.3 million, which decreased \$4 million (12.8%) when compared with \$31.3 million during the prior year, primarily attributable to lower baccarat volume and win, partially offset by an increase in slot volume and win, along with the addition of Northern Territory Keno, a territory-wide Keno game in local pubs, hotels and clubs, which was not operational in the prior year.

Consolidated room revenues for 1997 were \$171.3 million compared with \$174.4 million for 1996, representing a decrease of \$3.1 million (1.8%). MGM Grand Las Vegas room revenues were \$169.3 million in 1997, representing a decrease of \$3.1 million (1.8%) when compared with \$172.4 million in the prior year. The decrease was due to a lower occupancy of 94.5% for 1997 when compared with 94.7% in 1996, as well as a lower average daily room rate for 1997 of \$100 compared with \$101 in 1996. MGM Grand Australia room revenues were \$2.2 million for the year ended December 31, 1997, representing an increase of \$.1 million (4.8%) when compared with \$2.1 million for the prior year.

Consolidated food and beverage revenues for 1997 were \$92.6 million, representing an increase of \$14.2 million (18.1%) when compared with \$78.4 million for the prior year. The increase was attributable to MGM Grand Las Vegas which had food and beverage revenues of \$86.1 million during 1997, representing an increase of \$14.1 million (19.6%) when compared with \$72 million in 1996. This increase reflects the Company's decision to operate the previously leased Studio Cafe coffee shop. MGM Grand Australia reported food and beverage revenues of \$6.6 million, representing an increase of \$.1 million (1.5%) when compared with \$6.5 million during the prior year.

Consolidated entertainment, retail and other revenues decreased \$10.4 million (8.2%) from \$126.9 million in 1996 to \$116.5 million in 1997. The decrease was attributable to MGM Grand Las Vegas which had lower theme park and midway/arcade revenues due to the downsizing of the facilities. These decreases were partially offset by increases in MGM Grand Garden Arena revenues and increased revenues from the Sky-Screamer thrill ride which opened in September 1996.

Income from unconsolidated affiliate was \$53.8 million for the year ended December 31, 1997, representing the Company's 50% share of NYNY's operating income which commenced operations on January 3, 1997.

Consolidated operating expenses (before Master Plan asset disposition, Preopening and Corporate expense) for 1997 were \$604.6 million, which were consistent when compared with \$603.6 million for 1996. The increase was attributable to MGM Grand Las Vegas, offset by

decreases at MGM Grand Australia. The increases at MGM Grand Las Vegas were due primarily to increased casino, food and beverage, advertising and depreciation expenses offset by lower expenses related to EFX and midway/arcade operations. Additionally, the provision for doubtful accounts and discounts increased by \$6.7 million at MGM Grand Las Vegas as a result of reduced casino revenues, changes in anticipated collectibility, and collections made on previously reserved receivable balances. MGM Grand Australia operating expenses decreased \$6.9 million (18.5%) from \$37.3 million in 1996 to \$30.4 million in 1997 as a result of continuing cost containment efforts.

Master Plan asset disposition relates to the write-off of various assets related to the transformation of MGM Grand Las Vegas into "The City of Entertainment." The prior year charge of \$49.4 million (pre-tax) was recognized when the plan was announced, and the current year charge of \$28.6 million (pre-tax) resulted from the increase in the transformation scope from \$250 million to approximately \$570 million (see Note 16).

Corporate expense decreased from \$10 million in 1996 to \$3.4 million in 1997, primarily due to the reversal of \$5.9 million in previously expensed stock price guarantee amortization (see Note 11).

Interest income of \$1.3 million for the year ended December 31, 1997 decreased by \$2.9 million from \$4.2 million in 1996. The decrease was attributable to lower invested cash balances at MGM Grand Las Vegas during 1997.

Interest expense for the year ended December 31, 1997 of \$1.2 million (net of amount capitalized) decreased by \$32.6 million when compared with \$33.8 million in 1996. The decrease in 1997 was primarily due to the defeasance of the MGM Grand Hotel Finance Corp. First Mortgage Notes ("FMN") in the prior year, (see Note 9) along with greater capitalization of interest in the current year from continuing construction and development projects. Also, the Company recognized interest expense from its unconsolidated affiliate of \$9.9 million during 1997, which had been capitalized in the prior year as a result of the NYNY construction project.

Income tax provision of \$65 million has been recorded at a rate of 36.1% for the year ended December 31, 1997, compared with \$24.6 million in 1996 at a rate of 24.8%. The 1996 rate was lower than 1997, reflecting no provision in the first quarter of 1996. During 1996, the Company determined that it was more likely than not that it would fully realize its deferred tax assets.

Extraordinary loss of \$4.2 million, net of income tax benefit, reflects the write-off of unamortized debt costs from the Company's previous \$600 million Senior Reducing Revolving Credit Facility (see Note 9) in 1997. The extraordinary loss of \$30.8 million, net of income tax benefit, in the prior year represented the loss on defeasance of the FMN (see Note 9).

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

IMPACT OF THE YEAR 2000 ISSUE

The Year 2000 Issue is the result of computer programs being written using two digits rather than four digits to define the applicable year, which may result in system failures and disruptions to operations at January 1, 2000. The Company is assessing its Year 2000 readiness through an ongoing Year 2000 Remediation Program that addresses information technology systems, as well as systems outside of the information technology area. The Year 2000 Remediation Program takes into consideration all locations where the Company has operations. The Year 2000 Remediation Program includes continuing assessment of the Company's Year 2000 issues, contacting suppliers of certain systems to determine the timing of applicable upgrades, and implementing applicable Year 2000 upgrades, which are currently available.

The Company has initiated formal communications with its significant suppliers to determine the extent to which the Company is vulnerable to third party failure to remediate their own Year 2000 issues. In conjunction with this effort, the Company is assessing the potential impact of such third party Year 2000 issues. There can be no guarantee that the systems of third parties on which the Company's systems rely will be timely converted, or that a failure to convert by another company or a conversion that is incompatible with the Company's systems, would not have a material adverse effect on the Company.

The Company's Year 2000 Remediation Program may require enhancements to ensure there is no disruption to the Company's operations, however, the financial impact of making such enhancements is not expected to be material to the Company's financial position or results of operations. During the current year, the Company has not incurred material costs to modify existing computer systems, however, it is estimated that approximately \$.7 million will be incurred in 1999.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1998 and 1997, the Company held cash and cash equivalents of \$82 million and \$34.6 million, respectively. Cash provided by operating activities for 1998 was \$171.7 million, compared with \$184 million for 1997.

On May 6, 1996, MGM Grand Las Vegas announced details of a 30-month, \$250 million Master Plan designed to transform the facility into "The City of Entertainment." The Master Plan, which on June 3, 1997 was enhanced and increased to approximately \$570 million, is nearing completion with the "Mansion at the MGM Grand" offering 29 exclusive suites and villas, anticipated to open in April 1999; the lion habitat anticipated to open in May 1999; and expanded parking facilities which will be completed during the second half of 1999. The Company's 380,000 square foot state-of-the-art Conference Center opened in April 1998, and the 50-foot tall polished bronze lion sculpture along with the "Entertainment Casino" (previously known as the Emerald City casino) were completed during the first quarter of 1998 which includes a Studio 54 night club and the Rainforest Cafe. Additionally, the new 6.6-acre pool and spa complex was completed and opened for operations in July 1998 and a new 3,800 space employee parking garage opened in July 1998.

During the year ended December 31, 1998, capital expenditures totaled \$361.9 million, consisting of \$304.8 million related to the Master Plan project and \$32 million related to general

property and equipment improvements at MGM Grand Las Vegas. MGM Grand Australia expended \$1.8 million for general property and equipment improvements. MGM Grand Detroit, LLC expended \$5 million for the construction of its temporary casino facility. MGM Grand Atlantic City continued the development of its planned new destination resort by expending \$5.5 million for land acquisitions and pre-construction activities. The Company also expended \$12.8 million primarily for the purchase of a corporate jet.

The Company made no capital contributions to NYNY LLC during 1998. As a lender requirement for the project financing, both the Company and its joint venture partner, Primadonna Resorts, Inc. ("Primadonna"), were required to enter into a joint and several unlimited Keep-Well Agreement (see Note 9). The Company received \$4.1 million in distributions from NYNY LLC during 1998 to pay taxes on its allocated share of income.

During the year ended December 31, 1997, capital expenditures totaled \$227.8 million, consisting of \$174.1 million related to the Master Plan project and \$35.3 million related to general property and equipment improvements at MGM Grand Las Vegas. MGM Grand Australia expended \$1.9 million for general property and equipment improvements. MGM Grand Atlantic City continued the development of its planned new destination resort by expending \$16.5 million for land acquisitions and pre-construction activities.

Capital expenditures are expected to increase in 1999 to approximately \$510.9 million as the result of the completion of the transformation of the MGM Grand Las Vegas into the "City of Entertainment," as well as the Company's development of premier destination resorts in Detroit and Atlantic City. MGM Grand Las Vegas expenditures for 1999 are expected to be approximately \$225 million, consisting of \$89.5 million related to the Master Plan project and approximately \$135.5 million for general property additions and improvements including room remodeling and a championship golf course. MGM Grand Australia plans to expend approximately \$.1 million for general property improvements. Approximately \$285.8 million is anticipated to be expended for construction, land acquisitions and pre-construction activities relating to the Company's planned development of hotel/casino and entertainment facilities, including \$285.4 million for MGM Grand Detroit, LLC's temporary and permanent facilities and \$.4 million for the MGM Grand Atlantic City project.

On July 1, 1996, the Company secured a \$500 million Senior Reducing Revolving Credit Facility with BA Securities (the "Facility"), an affiliate of Bank of America NT&SA. In August 1996, the Facility was increased to \$600 million. In July 1997, the Facility was amended, extended and increased to \$1.25 billion (the "New Facility"), with provisions to allow an increase of the New Facility to \$1.5 billion as well as to allow additional pari passu debt financing up to \$500 million. As a result of the New Facility, the Company recognized an extraordinary loss of approximately \$4.2 million, net of tax benefits, due to the write-off of unamortized debt costs from the Facility during 1997. The New Facility contains various restrictive covenants on the Company which include the maintenance of certain financial ratios and limitations on additional debt, dividends, capital expenditures and disposition of assets. The New Facility also restricts certain acquisitions and similar transactions. Interest on the New Facility is based on the bank reference rate or Eurodollar rate and as of December 31, 1998, the Company's borrowing rate was approximately 5.8%. The New Facility matures in December 2002, with the opportunity to extend the maturity for successive one-year periods. During 1998, \$31 million was drawn down and repaid against the New Facility and no amounts remained outstanding as of December 31, 1998.

During July 1997, the Company filed a Shelf Registration Statement with the Securities and Exchange Commission which became effective on August 4, 1997, allowing the Company to issue up to \$600 million of debt and/or equity securities. On February 2 and February 6, 1998, the Company completed public offerings totaling \$500 million of Senior Collateralized Notes in tranches of 7 and 10 years. The 7-year tranche of \$300 million carries a coupon of 6.95%, while the 10-year tranche of \$200 million carries a coupon of 6.875% (see Note 9). The Company received net proceeds of approximately \$294.1 million and \$197.1 million on the 7-year and 10-year tranches, respectively, after underwriters discount and issuance costs. The Senior Collateralized Notes are pari passu with the New Facility and contain various restrictive covenants as does the New Facility.

On July 2, 1996, the Company completed a public offering (the "Offering") of 8.6 million

shares of common stock (including an underwriters' over allotment option to purchase 1.1 million shares of common stock). Based upon the Offering price of \$39.50 per share and associated costs incurred, the net proceeds were approximately \$327 million. On July 3, 1996, the Company drew down \$40 million (including loan origination fees) on the Facility (see Note 9), and used the net proceeds of the Offering together with cash on hand of \$161 million to fund the defeasance of the FMN (see Note 9).

On September 15, 1995, NYNY LLC completed its bank financing for up to \$225 million, which was increased to \$285 million during September 1996. The non-revolving construction line of credit converted to a 5-year reducing revolver upon completion of construction and commencement of operations of NYNY on January 3, 1997. The Company and Primadonna (the "Partners") guaranteed completion of the project as a condition to facility availability, and have executed a joint and several unlimited Keep-Well Agreement, which provides that in the event of insufficient cash flow from NYNY to comply with financial covenants, the Partners will make cash infusions which are sufficient to bring NYNY LLC into compliance with the financial covenants. On October 8, 1998, the NYNY LLC's five-year reducing revolver was amended and reduced to \$210 million. During 1998, \$66.6 million in principal repayments were made by NYNY LLC. The first draw down occurred on September 30, 1995, and as of December 31, 1998, \$178.5 million was outstanding under the reducing revolver. On January 21, 1997, NYNY LLC completed an additional \$20 million equipment financing with a financial institution. As of December 31, 1998, \$14.4 million remained outstanding related to the equipment financing.

On September 7, 1995, the Company completed the acquisition of MGM Grand Australia (formerly the Diamond Beach Hotel/Casino) in Darwin, Australia. The acquisition cost was financed by an Australian bank facility which provided a total availability of approximately \$64.4 million (AUD \$105 million) and includes funding for general corporate purposes. During 1998, the facility was reduced by principal payments totaling \$9.7 million (AUD \$15.6 million) made in accordance with the terms of the bank facility, and as of December 31, 1998, \$44.9 million (AUD \$73.2 million) remained outstanding. Interest on the Australian facility is based on the bank bill rate and was approximately 5.3% and 5.8% as of December 31, 1998 and 1997, respectively. The facility matures in December 2002, and the indebtedness has been guaranteed by the Company.

MGM Grand Australia has a \$12.3 million (AUD \$20 million) uncommitted standby line of credit, with a funding period of 91 days for working capital purposes. During the year ended December 31, 1998, no amounts were borrowed under the line of credit and no amounts were outstanding as of December 31, 1998, and 1997, respectively.

On June 23, 1998, the Company announced a \$35.00 per share cash tender offer for up to 6 million shares of Company common stock as part of a 12 million share repurchase program. The offer commenced on July 2, 1998 and expired on July 31, 1998. Based upon the final results, 10.8 million shares of the Company's common stock were tendered, and accordingly, the shares were prorated. The total acquisition cost of the 6 million shares was approximately \$210.6 million. The Company anticipates that, depending on market conditions, the remaining 6 million shares in the repurchase program may be acquired in the open market, in private transactions, through a tender offer, offers or otherwise.

During December 1998, the Company and Primadonna entered into a definitive merger agreement whereby MGM Grand, Inc. would acquire Primadonna in an all stock transaction plus the assumption of debt. On March 1, 1999, Primadonna stockholders received 0.33 shares of the Company's common stock for each share of Primadonna stock held, or a total of approximately 9.5 million shares of the Company's common stock. On March 1, 1999, the outstanding long-term debt of Primadonna was approximately \$315 million which includes Primadonna's 50% share of NYNY LLC's long-term debt (see Notes 9 and 20).

The Company expects to finance capital expenditures, existing debt obligations and future share repurchases through cash flow from operations, cash on hand, the bank lines of credit, and the Shelf Registration Statement (see Note 9).

SAFE HARBOR PROVISIONS

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this Annual Report contains statements that are forward-looking, such as statements relating to plans for future expansion and other business development activities, as well as other capital spending, financing sources, the effects of regulation (including gaming and tax regulations) and competition. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. These risks and uncertainties include, but are not limited to, those relating to development and construction activities, dependence on existing management, leverage and debt service (including sensitivity to fluctuations in interest rates), domestic or global economic conditions (including sensitivity to fluctuations in foreign currencies), changes in federal or state tax laws or the administration of such laws, changes in gaming laws or regulations (including the legalization of gaming in certain jurisdictions) and application for licenses and approvals under applicable jurisdictional laws and regulations (including gaming laws and regulations).



Consolidated Statements of Operations

(IN THOUSANDS, EXCEPT SHARE DATA)

FOR THE YEARS ENDED DECEMBER 31,

	<u>1998</u>	<u>1997</u>	<u>1996</u>
<i>Revenues:</i>			
CASINO	\$ 410,605	\$ 457,206	\$ 476,685
ROOMS	171,292	171,272	174,440
FOOD AND BEVERAGE	105,875	92,594	78,438
ENTERTAINMENT, RETAIL AND OTHER	113,948	116,458	126,875
INCOME FROM UNCONSOLIDATED AFFILIATE	38,362	53,800	-
	<u>840,082</u>	<u>891,330</u>	<u>856,438</u>
LESS: PROMOTIONAL ALLOWANCES	66,219	63,733	56,249
	<u>773,863</u>	<u>827,597</u>	<u>800,189</u>
 <i>Expenses:</i>			
CASINO	221,439	225,896	221,268
ROOMS	47,767	45,848	46,639
FOOD AND BEVERAGE	67,101	55,124	46,590
ENTERTAINMENT, RETAIL AND OTHER	75,192	79,605	88,214
PROVISION FOR DOUBTFUL ACCOUNT AND DISCOUNTS	40,455	31,814	38,635
GENERAL AND ADMINISTRATIVE	103,362	102,246	100,062
DEPRECIATION AND AMORTIZATION	76,284	64,104	62,196
	<u>631,600</u>	<u>604,637</u>	<u>603,604</u>
OPERATING PROFIT BEFORE MASTER PLAN ASSET DISPOSITION, PREOPENING AND CORPORATE EXPENSE	142,263	222,960	196,585
MASTER PLAN ASSET DISPOSITION	-	28,566	49,401
PREOPENING AND OTHER - UNCONSOLIDATED AFFILIATE	-	-	7,868
CORPORATE EXPENSE	10,689	3,424	10,022
	<u>131,574</u>	<u>190,970</u>	<u>129,294</u>
 <i>Nonoperating Income (Expense):</i>			
INTEREST INCOME	12,997	1,268	4,247
INTEREST EXPENSE, NET OF AMOUNTS CAPITALIZED	(24,613)	(1,242)	(33,778)
INTEREST EXPENSE FROM UNCONSOLIDATED AFFILIATE	(8,376)	(9,891)	-

OTHER, NET	(2,054)	(804)	(612)
	<u>(22,046)</u>	<u>(10,669)</u>	<u>(30,143)</u>
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	109,528	180,301	99,151
PROVISION FOR INCOME TAXES	(40,580)	(65,045)	(24,634)
INCOME BEFORE EXTRAORDINARY ITEM	<u>68,948</u>	<u>115,256</u>	<u>74,517</u>

Extraordinary Item:

LOSS ON EARLY EXTINGUISHMENT OF DEBT, NET OF INCOME TAX BENEFITS OF \$2,333 AND \$17,710	-	(4,238)	(30,811)
NET INCOME	<u>\$ 68,948</u>	<u>\$ 111,018</u>	<u>\$ 43,706</u>

Basic Income Per Share of Common Stock:

INCOME BEFORE EXTRAORDINARY ITEM	\$ 1.24	\$ 2.00	\$ 1.41
EXTRAORDINARY ITEM - LOSS ON EARLY EXTINGUISHMENT OF DEBT, NET OF INCOME TAX BENEFIT	<u>-</u>	<u>(0.07)</u>	<u>(0.58)</u>
NET INCOME PER SHARE	<u>\$ 1.24</u>	<u>\$ 1.93</u>	<u>\$ 0.83</u>

Weighted Average Shares Outstanding

55,678,000	57,475,000	52,759,000
<u>55,678,000</u>	<u>57,475,000</u>	<u>52,759,000</u>

Diluted Income Per Share of Common Stock:

INCOME BEFORE EXTRAORDINARY ITEM	\$ 1.22	\$ 1.96	\$ 1.38
EXTRAORDINARY ITEM - LOSS ON EARLY EXTINGUISHMENT OF DEBT, NET OF INCOME TAX BENEFIT	<u>-</u>	<u>(0.07)</u>	<u>(0.57)</u>
NET INCOME PER SHARE	<u>\$ 1.22</u>	<u>\$ 1.89</u>	<u>\$ 0.81</u>

Weighted Average Shares Outstanding

56,342,000	58,835,000	54,257,000
<u>56,342,000</u>	<u>58,835,000</u>	<u>54,257,000</u>

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



Consolidated Balance Sheets

(IN THOUSANDS, EXCEPT SHARE DATA)
AS OF DECEMBER 31,

	<u>1998</u>	<u>1997</u>
ASSETS		
<i>Current Assets:</i>		
CASH AND CASH EQUIVALENTS	\$ 81,956	\$ 34,606
ACCOUNTS RECEIVABLE, NET	69,116	78,977
PREPAID EXPENSES	11,829	10,452
INVENTORIES	11,081	16,462
DEFERRED TAX ASSET	34,098	30,294
 TOTAL CURRENT ASSETS	 <u>208,080</u>	 <u>170,791</u>
 <i>Property and Equipment, net</i>	 1,327,722	 1,032,708
 <i>Other Assets:</i>		
INVESTMENT IN UNCONSOLIDATED AFFILIATES	134,025	108,121
EXCESS OF PURCHASE PRICE OVER FAIR MARKET VALUE OF NET ASSETS ACQUIRED, NET	37,574	38,598
DEPOSITS AND OTHER ASSETS, NET	66,393	48,156
 TOTAL OTHER ASSETS	 <u>237,992</u>	 <u>194,875</u>
	<u>\$ 1,773,794</u>	<u>\$ 1,398,374</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
<i>Current Liabilities:</i>		
ACCOUNTS PAYABLE	\$ 23,931	\$ 20,484
CONSTRUCTION PAYABLE	17,403	33,376
INCOME TAXES PAYABLE	2,457	-
CURRENT OBLIGATION, CAPITAL LEASES	5,086	6,088
CURRENT OBLIGATION, LONG TERM DEBT	10,077	10,589
ACCRUED INTEREST	14,630	-
OTHER ACCRUED LIABILITIES	115,781	110,953
 TOTAL CURRENT LIABILITIES	 <u>189,365</u>	 <u>181,490</u>

<i>Deferred Revenues</i>	5,219	4,743
<i>Deferred Income Taxes</i>	77,165	58,831
<i>Long Term Obligation, Capital Leases</i>	2,867	4,447
<i>Long Term Debt</i>	534,797	47,241
<i>Commitments and Contingencies</i>		
 <i>Stockholders' Equity:</i>		
COMMON STOCK (\$.01 PAR VALUE, 75,000,000 SHARES AUTHORIZED, 58,033,094 AND 57,984,873 SHARES ISSUED AND OUTSTANDING)	580	580
CAPITAL IN EXCESS OF PAR VALUE	968,199	966,487
TREASURY STOCK, AT COST (6,000,000) SHARES	(210,589)	-
RETAINED EARNINGS	193,187	124,239
OTHER COMPREHENSIVE INCOME	13,004	10,316
	<hr/>	<hr/>
TOTAL STOCKHOLDERS' EQUITY	964,381	1,101,622
	<hr/>	<hr/>
	\$ 1,773,794	\$ 1,398,374
	<hr/>	<hr/>

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

Consolidated Statements of Cash Flows

(IN THOUSANDS)

FOR THE YEARS ENDED DECEMBER 31,

	<u>1998</u>	<u>1997</u>	<u>1996</u>
<i>Cash Flows from Operating Activities:</i>			
NET INCOME	\$ 68,948	\$ 111,018	\$ 43,706
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH FROM OPERATING ACTIVITIES:			
LOSS ON EARLY EXTINGUISHMENT OF DEBT	-	6,571	48,521
MASTER PLAN ASSET DISPOSITION	-	28,566	49,401
AMORTIZATION OF DEBT OFFERING COSTS	1,849	1,127	2,191
DEPRECIATION AND AMORTIZATION	76,712	64,244	62,323
PROVISION FOR DOUBTFUL ACCOUNTS AND DISCOUNTS	40,455	31,814	38,635
PREOPENING AND OTHER - UNCONSOLIDATED AFFILIATE	-	-	7,868
DEFERRED INCOME TAXES	14,530	48,100	(27,696)
UNCONSOLIDATED AFFILIATE, EARNINGS IN EXCESS OF DISTRIBUTIONS	(25,866)	(28,749)	-
CHANGE IN ASSETS AND LIABILITIES:			
ACCOUNTS RECEIVABLE	(30,594)	(30,262)	(40,605)
PREPAID EXPENSES	(1,377)	2,756	(551)
INVENTORIES	4,314	(4,035)	(3,283)
INCOME TAXES PAYABLE	2,457	(23,653)	21,302
ACCOUNTS PAYABLE, ACCRUED LIABILITIES, AND OTHER	20,799	(24,185)	43,209
CURRENCY TRANSLATION ADJUSTMENT	(547)	700	130
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>171,680</u>	<u>184,012</u>	<u>245,151</u>
<i>Cash Flows From Investing Activities:</i>			
PURCHASES OF PROPERTIES AND EQUIPMENT	(361,942)	(227,756)	(84,775)
DISPOSITIONS OF PROPERTY AND EQUIPMENT, NET	599	202	322
CHANGE IN CONSTRUCTION PAYABLES	(15,973)	32,418	(809)
INVESTMENT IN UNCONSOLIDATED AFFILIATES	(800)	(7,190)	(27,153)
DEPOSITS AND OTHER ASSETS	(27,617)	548	(8,400)
NET CASH USED IN INVESTING ACTIVITIES	<u>(405,733)</u>	<u>(201,778)</u>	<u>(120,815)</u>

Cash Flows From Financing Activities:

DEFEASANCE OF FIRST MORTGAGE NOTES	-	-	(523,231)
ISSUANCE OF LONG TERM DEBT	500,000	-	-
REPAYMENTS TO BANKS AND OTHERS	(9,720)	(11,839)	-
BORROWINGS UNDER LINES OF CREDIT	31,000	25,500	65,262
REPAYMENTS OF LINES OF CREDIT	(31,000)	(25,500)	(65,262)
PURCHASE OF TREASURY STOCK	(210,589)	-	-
ISSUANCE OF COMMON STOCK	1,712	2,799	350,290
	<u>281,403</u>	<u>(9,040)</u>	<u>(172,9412)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	281,403	(9,040)	(172,9412)
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	47,350	(26,806)	(48,605)
<i>Cash and Cash Equivalents at Beginning of Year</i>	34,606	61,412	110,017
<i>Cash and Cash Equivalents at End of Year</i>	\$ 81,956	\$ 34,606	\$ 61,412
	<u> </u>	<u> </u>	<u> </u>

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

Consolidated Statements of Stockholders' Equity

(DOLLAR AMOUNTS IN THOUSANDS)

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996	COMMON STOCK OUTSTANDING	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	TREASURY STOCK	RETAINED EARNINGS (DEFICIT)	OTHER	TOTAL STOCKHOLDERS' EQUITY
<i>Balance at December 31, 1995</i>	48,774,856	\$ 488	\$ 623,489	-	\$ (30,485)	\$ (8,994)	\$ 584,548
PAYMENT RECEIVED FROM NOTE RECEIVABLE	-	-	-	-	-	10,000	10,000
ISSUANCE OF COMMON STOCK PURSUANT TO EMPLOYEE STOCK OPTIONS	413,670	4	4,929	-	-	-	4,933
ISSUANCE OF COMMON STOCK	8,625,000	86	326,735	-	-	-	326,821
EMPLOYEE STOCK INCENTIVE ACCRUAL	70,240	1	2,817	-	-	-	2,818
TAX BENEFIT FROM STOCK OPTION EXERCISES	-	-	5,718	-	-	-	5,718
NET INCOME	-	-	-	-	43,706	-	43,706
CURRENCY TRANSLATION ADJUSTMENT	-	-	-	-	-	(5,162)	(5,162)
<i>Balance at December 31, 1996</i>	57,883,766	579	963,688	-	13,221	(4,106)	973,382
ISSUANCE OF COMMON STOCK PURSUANT TO EMPLOYEE STOCK OPTIONS	72,302	1	1,093	-	-	-	1,094
EMPLOYEE STOCK INCENTIVE ISSUANCE	28,805	-	1,142	-	-	-	1,142
TAX BENEFIT FROM STOCK OPTION EXERCISES	-	-	564	-	-	-	564
NET INCOME	-	-	-	-	111,018	-	111,018
CURRENCY TRANSLATION ADJUSTMENT	-	-	-	-	-	14,422	14,422
<i>Balance at December 31, 1997</i>	57,984,873	580	966,487	-	124,239	10,316	1,101,622
ISSUANCE OF COMMON STOCK PURSUANT TO EMPLOYEE STOCK OPTIONS	48,221	-	1,315	-	-	-	1,315
TREASURY STOCK	-	-	-	(210, 589)	-	-	(210,589)
TAX BENEFIT FROM STOCK OPTION EXERCISES	-	-	397	-	-	-	397
NET INCOME	-	-	-	-	68,948	-	68,948
CURRENCY TRANSLATION ADJUSTMENT	-	-	-	-	-	2,688	2,688
<i>Balance at December 31, 1998</i>	58,033,094	\$ 580	\$ 968,199	\$ (210,589)	\$ 193,187	\$ 13,004	\$ 964,381

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

Notes to Consolidated Financial Statements

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

MGM Grand, Inc. (the "Company") is a Delaware corporation incorporated on January 29, 1986. As of December 31, 1998, approximately 73% of the outstanding shares of the Company's common stock were owned by Kirk Kerkorian and Tracinda Corporation ("Tracinda"), a Nevada corporation wholly owned by Kirk Kerkorian.

Through its wholly-owned subsidiary, MGM Grand Hotel, Inc., the Company owns and operates the MGM Grand Hotel/Casino ("MGM Grand Las Vegas"), a hotel/casino and entertainment complex in Las Vegas, Nevada. MGM Grand Hotel Finance Corp. ("MGM Finance"), a wholly-owned subsidiary of the Company, was formed to issue First Mortgage Notes ("FMN") to the public, to incur bank debt and to lend the aggregate proceeds thereof to MGM Grand Hotel, Inc. to finance the construction and opening of MGM Grand Las Vegas. See Note 9 regarding defeasance of the FMN.

Through its wholly-owned subsidiary, MGM Grand Australia Pty Ltd., the Company owns and operates the MGM Grand Hotel/Casino in Darwin, Australia ("MGM Grand Australia"), which is located on 18 acres of beachfront property on the north central coast of Australia. The Company acquired MGM Grand Australia on September 7, 1995.

The Company and Primadonna Resorts, Inc. ("Primadonna") each owned 50% of New York-New York Hotel and Casino, LLC ("NYNY LLC"), which completed development of the \$460 million themed destination resort called New York-New York Hotel and Casino ("NYNY") in Las Vegas, Nevada in December 1996. NYNY commenced operations on January 3, 1997, and is located on approximately 20 acres at the northwest corner of Tropicana Avenue and Las Vegas Boulevard, across from MGM Grand Las Vegas.

Through its wholly-owned subsidiary, MGM Grand South Africa, Inc., the Company manages three temporary casinos throughout various provinces of the Republic of South Africa. The casino in Nelspruit began operations on October 15, 1997, the casino in Witbank began operations on March 10, 1998 and the casino in Johannesburg began operations on September 28, 1998. The Company receives development and management fees from its partner, Tsogo Sun Gaming & Entertainment, which is responsible for providing all project costs.

Through its wholly-owned subsidiary, MGM Grand Detroit, Inc., the Company and its local partners in Detroit, Michigan, formed MGM Grand Detroit, LLC to develop a hotel/casino and entertainment complex at an approximate cost of \$800 million. On November 20, 1997, MGM Grand Detroit, LLC was chosen as a finalist for a development agreement to construct, own and operate one of Detroit's three new casinos. On April 9, 1998, the Detroit City Council approved MGM Grand Detroit LLC's development agreement with the City of Detroit. Construction of the project is subject to the receipt of various governmental approvals. The plans for the permanent facility call for an 800-room hotel, a 100,000 square-foot casino, signature restaurants and retail outlets, a showroom and other entertainment venues. On July 22, 1998, the Michigan Gaming Control Board adopted a resolution which allows the issuance of casino licenses to conduct gaming operations in temporary facilities. Pending receipt of a license, MGM Grand Detroit, LLC anticipates the opening of the temporary gaming facility, which will contain approximately 73,000 square feet of casino space, 2,300 slot machines, 80 table games and signature restaurants and bars, in the third quarter of 1999.

Through its wholly-owned subsidiary, MGM Grand Atlantic City, Inc., the Company intends to construct, own and operate a destination resort hotel/casino, entertainment and retail facility in Atlantic City, New Jersey, at an approximate cost of \$700 million, on approximately 35 acres of land on the Atlantic City Boardwalk. Construction of the project is subject to the receipt of various governmental approvals. On July 24, 1996, the Company was found suitable for licensing

by the New Jersey Casino Control Commission.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

a. Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in unconsolidated affiliates which are 50% or less owned are accounted for under the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

b. Management's Use of Estimates - The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. Those principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c. Cash and Cash Equivalents - Cash and cash equivalents consist of investments in bank certificates of deposit and other interest bearing instruments with initial maturities of three months or less. Such investments are carried at cost which approximate market value.

d. Accounts Receivable - Accounts receivable are due within one year and are recorded net of amounts estimated to be uncollectible.

e. Inventories - Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

f. Property and Equipment - Property and equipment are stated at cost. Maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in the determination of income. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	15 to 40 years
Equipment, furniture and fixtures	3 to 7 years
Land improvements	10 years
Leasehold improvements	5 to 20 years

g. Excess of Purchase Price over Fair Market Value of Net Assets Acquired - The excess of purchase price over fair market value of net assets acquired is amortized on a straight-line basis over 40 years.

h. Other Assets - The cost of normal hotel operating quantities of china, silverware, glassware and utensils is recorded as an asset and is depreciated. Direct costs related to the debt offering and bank financing are being deferred and amortized over the debt repayment periods. Organizational costs are amortized on a straight-line basis over 60 months.

i. Casino Revenues and Promotional Allowances - Casino revenue is the aggregate of gaming wins and losses. The retail value of accommodations, food and beverage, and other services furnished to hotel/casino guests without charge is included in gross revenue and then deducted as promotional allowances. The estimated retail value of these promotional allowances was \$66.2 million, \$63.7 million and \$56.2 million for the years ended December 31, 1998, 1997 and 1996, respectively. The estimated cost of providing such promotional allowances was included in casino expenses as follows:

PROMOTIONAL ALLOWANCES

(IN THOUSANDS)

YEARS ENDED DECEMBER 31,

	1998	1997	1996
ROOMS	\$ 11,304	\$ 9,841	\$ 9,487
FOOD AND BEVERAGE	26,826	28,436	23,224

OTHER

	4,011	2,235	2,175
	<u> </u>	<u> </u>	<u> </u>
	\$ 42,141	\$ 40,512	\$ 34,886
	<u> </u>	<u> </u>	<u> </u>

j. Currency Translation - The Company accounts for currency translation in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." The Australian results of operations and the balance sheet are translated from Australian dollars to US dollars. Certain fixed assets and intangibles are valued at historical exchange rates, while other balance sheet accounts are translated at the exchange rate in effect at each year end. Income accounts are translated at the average rate of exchange prevailing during the year.

k. Net Income Per Common Share - Basic income per share of common stock is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted income per share of common stock is computed based on the assumption that options issued to employees are exercised and repurchased at the average price for the periods presented (see Note 13).

l. Capitalized Interest - The Company capitalizes interest costs associated with debt incurred in connection with major construction and development projects. The Company capitalizes interest on amounts expended on the project at the Company's weighted average cost of the borrowed funds (see Note 9), and based upon the weighted average amount of the Company's outstanding borrowings. Capitalization of interest ceases when the project is completed.

m. Corporate Expense - Corporate expense represents unallocated payroll costs, professional fees, and various other expenses not directly related to the Company's hotel/casino operations. In addition, corporate expense includes the costs associated with the Company's evaluation and pursuit of new business opportunities, which are expensed as incurred until development of a specific project has become relatively certain.

n. Reclassifications - The consolidated financial statements for prior years reflect certain reclassifications to conform with the current year presentation, which have no effect on previously reported net income.

o. Recently issued Statement of Position - In April 1998, the American Institute of Certified Public Accountants issued SOP 98-5, "Reporting on the Costs of Start-up Activities." The new standard requires that all companies expense costs of start-up activities as those costs are incurred. The term "start-up" includes pre-opening, pre-operating and organization activities. Previously, the Company had capitalized these items until the development of the property was substantially complete and ready to open, at which time the cumulative costs were expensed. As of December 31, 1998, the Company capitalized "start-up" costs of \$.7 million related to Atlantic City and \$11.6 million related to Detroit. The Company will adopt SOP 98-5 in the first quarter of fiscal year 1999.

Notes to Consolidated Financial Statements

NOTE 3. STATEMENTS OF CASH FLOWS

The following supplemental disclosures are provided for the Consolidated Statements of Cash Flows:

(IN THOUSANDS) YEARS ENDED DECEMBER 31,	1998	1997	1996
<i>Cash payments made for:</i>			
INTEREST, NET OF AMOUNTS CAPITALIZED	\$ 23,680	\$ 7,916	\$ 48,155
	□	□	□
STATE AND FEDERAL INCOME TAXES	\$ 15,900	\$ 43,159	\$ 3,660
	□	□	□

During 1997, the Company completed equipment lease financing for approximately \$3.1 million at MGM Grand Las Vegas.

NOTE 4. ACCOUNTS RECEIVABLE

Components of accounts receivable were as follows:

(IN THOUSANDS) AT DECEMBER 31,	1998	1997
CASINO	\$ 89,681	\$ 87,442
HOTEL	12,679	11,229
INCOME TAX RECEIVABLE	-	6,776
OTHER	3,587	553
	105,947	106,000
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS AND DISCOUNTS	(36,831)	(27,023)
	\$ 69,116	\$ 78,977

Credit is issued in exchange for gaming chips at MGM Grand Las Vegas as permitted by the regulations of the Nevada Gaming Commission and the Nevada State Gaming Control Board. The Company extends credit, following an evaluation of credit worthiness, to certain casino patrons, a substantial portion of whom reside in countries other than the United States. The Company maintains an allowance for doubtful accounts and discounts which is based on management's estimate of the amount expected to be uncollectible considering historical experience and the information management obtains regarding the credit worthiness of the customer. The collectibility of these receivables could be affected by future business or economic trends or other significant events in the countries in which such customers reside. Although management believes the allowance is adequate, it is possible that the estimated amount of cash collections with respect to the casino accounts receivable could change.

NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

(IN THOUSANDS) AT DECEMBER 31,	1998	1997
LAND	\$ 107,613	\$ 105,813
BUILDINGS AND IMPROVEMENTS	929,980	663,832
EQUIPMENT, FURNITURE, FIXTURES AND LEASEHOLD IMPROVEMENTS	304,239	217,723
EQUIPMENT UNDER CAPITAL LEASE	18,053	18,053
CONSTRUCTION IN PROGRESS	223,772	216,898
	<u>1,583,657</u>	<u>1,222,319</u>
LESS: ACCUMULATED DEPRECIATION AND AMORTIZATION	(255,935)	(189,611)
	<u>\$ 1,327,722</u>	<u>\$ 1,032,708</u>

NOTE 6. DEVELOPMENT PROJECTS

The Company, along with its local partners in Detroit, Michigan, plans to develop a permanent hotel/casino and entertainment complex at an approximate cost of \$800 million. On November 20, 1997, MGM Grand Detroit, LLC was chosen as a finalist for a development agreement to construct, own and operate one of Detroit's three new casinos. On April 9, 1998, the Detroit City Council approved MGM Grand Detroit, LLC's development agreement with the City of Detroit. Construction of the project is subject to the receipt of various governmental approvals. The plans for the permanent facility call for an 800-room hotel, a 100,000 square-foot casino, signature restaurants and retail outlets, a showroom and other entertainment venues. On July 22, 1998, the Michigan Gaming Control Board adopted a resolution which allows the issuance of casino licenses to conduct gaming operations in temporary facilities. During November 1998, MGM Grand Detroit, LLC commenced construction activities on its temporary casino which will consist of approximately 73,000 square feet of casino space, 2,300 slot machines, 80 table games, as well as signature restaurants and bars at an approximate cost of \$200 million. Pending the receipt of its license, MGM Grand Detroit, LLC anticipates the opening of the temporary facility in the third quarter of 1999. Through December 31, 1998, approximately \$26.3 million was expended and capitalized by the Company for licensing, design and construction costs for the permanent and temporary facilities.

The Company plans to develop a hotel/casino and entertainment complex in Atlantic City, New Jersey, at a minimum approximate cost of \$700 million, on approximately 35 acres of land on the Atlantic City Boardwalk. Construction of the project is subject to the receipt of various governmental approvals. On July 24, 1996, the Company was found suitable for licensing by the New Jersey Casino Control Commission. Through December 31, 1998, the Company has expended and capitalized approximately \$53.1 million relating primarily to land acquisition and pre-construction activities.

Notes to Consolidated Financial Statements

NOTE 7. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

On December 28, 1994, the Company and Primadonna formed a joint venture to construct, own and operate the New York-New York Hotel and Casino (see Note 1). The hotel/casino opened to the public on January 3, 1997. The Company holds a 50% interest in the joint venture (see Note 20). As of December 31, 1998, the Company has contributed land valued at \$41.2 million with a cost basis of \$37.6 million on which the property is located and cash totaling \$29.5 million. During the years ended December 31, 1998, and December 31, 1997, the Company received distributions of \$4.1 million and \$15.2 million, respectively from the joint venture to pay taxes on its allocated share of income. The joint venture secured bank financing of \$285 million, which was subsequently amended and reduced to \$210 million, and term loan financing of \$20 million (see Note 9). In addition, the joint venture Partners' executed a joint and several unlimited Keep-Well Agreement in conjunction with the financing.

Summary condensed financial information for New York-New York Hotel and Casino, LLC is as follows:

(IN THOUSANDS) YEARS ENDED DECEMBER 31,	1998	1997
NET REVENUES	\$ 219,107	\$ 255,253
OPERATING INCOME	\$ 76,628	\$ 107,431
INTEREST EXPENSE, NET	\$ (16,562)	\$ (19,425)
NET INCOME	\$ 60,066	\$ 88,006

(IN THOUSANDS) AT DECEMBER 31,	1998	1997
TOTAL ASSETS	\$ 451,496	\$ 470,252
LONG-TERM DEBT	\$ 189,361	\$ 246,403
MEMBERS' EQUITY	\$ 235,176	\$ 183,350

Effective December 10, 1993, the Company through its wholly owned subsidiary, MGM Grand Hotel, Inc., and Bally's Grand Inc. ("Bally's") formed a 50/50 joint venture, MGM Grand-Bally's Monorail, LLC. The joint venture was intended to construct, own and operate the MGM Grand-Bally's Monorail. The Company contributed \$2 million, \$1.5 million, and \$1.3 million to the joint venture as part of its operating contribution during 1998, 1997 and 1996, respectively.

The Company has investments in unconsolidated affiliates that are accounted for under the equity method. Under the equity method, original investments are recorded at cost, and are adjusted by the Company's share of earnings, losses and distributions received from and made to these companies. The investment balance also includes interest and certain development costs

capitalized during construction. Investments in unconsolidated affiliates consisted of the following:

(IN THOUSANDS) AT DECEMBER 31,	1998	1997
NEW YORK-NEW YORK HOTEL AND CASINO, LLC	\$ 122,861	\$ 96,949
MGM GRAND - BALLY'S MONORAIL, LLC	11,164	11,172
	\$ 134,025	\$ 108,121

The changes in the Company's investments in unconsolidated affiliates were as follows:

(IN THOUSANDS)

<i>New York - New York Hotel and Casino, LLC</i>	1998	1997
INVESTMENT AT JANUARY 1,	\$ 96,949	\$ 60,943
EARNINGS	30,032	44,003
DISTRIBUTIONS RECEIVED	(4,120)	(15,160)
ADDITIONAL INVESTMENTS	-	7,000
OTHER, NET	-	163
INVESTMENT AT DECEMBER 31,	\$ 122,861	\$ 96,949

(IN THOUSANDS)

<i>MGM Grand - Bally's Monorail, LLC</i>	1998	1997
INVESTMENT AT JANUARY 1,	\$ 11,172	\$ 11,953
COST OF OPERATIONS	(808)	(808)
ADDITIONAL INVESTMENT	800	27
INVESTMENT AT DECEMBER 31,	\$ 11,164	\$ 11,172

NOTE 8. OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following:

(IN THOUSANDS)

AT DECEMBER 31,	1998	1997
ACCRUED SALARIES AND RELATED	\$ 38,422	\$ 35,115
CASINO FRONT MONEY	24,945	26,393
CASINO CHIP LIABILITY	12,198	17,204
OTHER LIABILITIES	40,216	32,241
	\$ 115,781	\$ 110,953

NOTE 9. LONGTERM DEBT

Long term debt consisted of the following:

(IN THOUSANDS)

AT DECEMBER 31,	1998	1997
6.95 % SENIOR COLLATERALIZED NOTES DUE FEBRUARY, 1, 2005	\$ 300,000	\$ -
6.875% SENIOR COLLATERALIZED NOTES DUE FEBRUARY 6, 2008	200,000	-
AUSTRALIAN HOTEL/CASINO LOAN DUE DECEMBER 1, 2002	44,874	57,830
SENIOR REDUCING REVOLVING CREDIT FACILITY	-	-
	<u>544,874</u>	<u>57,830</u>
LESS: CURRENT MATURITIES	(10,077)	(10,589)
	<u>\$ 534,797</u>	<u>\$ 47,241</u>

Total interest incurred during 1998, 1997 and 1996 was \$40.1 million, \$9 million and \$40.8 million, respectively, of which \$15.5 million, \$7.8 million and \$7 million were capitalized in 1998, 1997 and 1996, respectively.

On July 3, 1996, the Company deposited \$523.2 million (the "Defeasance Deposit") with the Trustee, U.S. Trust of California, to fund the defeasance of FMN in accordance with the terms of the bond indenture. The Defeasance Deposit was made in the form of U.S. Government securities and was used to fund interest payments on the FMN through May 1, 1997, at which date the 11.75 % and 12% FMN were called at 101.958% and 105.333% of their outstanding principal, respectively. On October 29, 1996, the liens on the assets of MGM Grand Hotel, Inc. were released and accordingly, the defeasance was finalized. The early extinguishment of the FMN resulted in an extraordinary loss of approximately \$30.8 million, net of income tax benefits.

On July 1, 1996, the Company secured a \$500 million Senior Reducing Revolving Credit Facility with BA Securities (the "Facility"), an affiliate of Bank of America NT&SA. In August 1996, the Facility was increased to \$600 million. In July 1997, the Facility was amended, extended and increased to \$1.25 billion (the "New Facility"), with provisions to allow an increase of the New Facility to \$1.5 billion as well as to allow additional pari passu debt financing up to \$500 million. As a result of the New Facility, the Company recognized an extraordinary loss of approximately \$4.2 million, net of income tax benefits, due to the write-off of unamortized debt costs from the Facility during 1997. The New Facility contains various restrictive covenants on the Company which include the maintenance of certain financial ratios and limitations on additional debt, dividends, capital expenditures and disposition of assets. The New Facility also restricts certain acquisitions and similar transactions. Interest on the New Facility is based on the bank reference rate or Eurodollar rate and as of December 31, 1998, the Company's borrowing rate was approximately 5.8%. The New Facility matures in December 2002, with the opportunity to extend the maturity for successive one-year periods. During the year ended December 31, 1998, \$31 million was drawn down and repaid against the New Facility and no amounts remained outstanding as of December 31, 1998.

The Company filed a Shelf Registration Statement with the Securities and Exchange Commission which became effective on August 4, 1997. The Shelf Registration Statement allows the Company to issue up to \$600 million of debt and equity securities. On February 2 and February 6, 1998, the Company completed public offerings totaling \$500 million of Senior Collateralized Notes in tranches of 7 and 10 years. The 7-year tranche of \$300 million carries a coupon of 6.95%, while the 10-year tranche of \$200 million carries a coupon of 6.875%. Both tranches are initially secured equally and ratably with the New Facility and security may be removed equally with the New Facility at the Company's option, and upon the occurrence of certain events, including the maintenance of investment grade ratings. These Senior

Collateralized Notes are pari passu with the New Facility and contain various restrictive covenants as does the New Facility. The Senior Collateralized Notes and the New Facility are collateralized by substantially all the assets of the Company except for assets of certain unrestricted subsidiaries. Based on the quoted market value of the Senior Collateralized Notes at December 31, 1998, the fair value of the 7-year and 10-year tranches were \$280.5 million and \$179.9 million, respectively.

On September 7, 1995, the Company completed the acquisition of MGM Grand Australia (formerly the Diamond Beach Hotel/Casino) in Darwin, Australia. The acquisition cost was financed by an Australian bank facility which provided a total availability of approximately \$64.4 million (AUD \$105 million) and includes funding for general corporate purposes. During 1998, the facility was reduced by principal payments totaling \$9.7 million (AUD \$15.6 million) made in accordance with the terms of the bank facility, and as of December 31, 1998, \$44.9 million (AUD \$73.2 million) remained outstanding. Interest on the Australian facility is based on the bank bill rate and was approximately 5.3% and 5.8% as of December 31, 1998 and 1997, respectively. The facility matures in December 2002, and the indebtedness has been guaranteed by the Company.

MGM Grand Australia has a \$12.3 million (AUD \$20 million) uncommitted standby line of credit, with a funding period of 91 days for working capital purposes. During the year ended December 31, 1998, no amounts were borrowed under the line of credit and no amounts were outstanding as of December 31, 1998, and 1997, respectively. Maturities of the Company's long-term debt are as follows:

(IN THOUSANDS)

YEARS ENDING DECEMBER 31,

1999	\$	10,077
2000		10,077
2001		10,151
2002		14,569
THEREAFTER		500,000
TOTAL	\$	<u>544,874</u>

On September 15, 1995, NYNY LLC completed its bank financing for up to \$225 million (see Note 1), which was increased to \$285 million during September 1996. The non-revolving construction line of credit converted to a five-year reducing revolver upon completion of construction and commencement of operations of NYNY on January 3, 1997. On October 8, 1998, the NYNY LLC five-year reducing revolver was amended and reduced to \$210 million. The Company and Primadonna (the "Partners") guaranteed completion of the project as a condition to facility availability, and have executed a joint and several unlimited Keep-Well Agreement, which provides that in the event of insufficient cash flow from NYNY to comply with financial covenants, the Partners will make cash infusions which are sufficient to bring NYNY LLC into compliance with the financial covenants. The first draw down occurred on September 30, 1995, and as of December 31, 1998, \$178.5 million was outstanding under the facility. During 1998, \$66.6 million in principal repayments were made by NYNY LLC. On January 21, 1997, NYNY LLC completed an additional \$20 million equipment financing with a financial institution. As of December 31, 1998, \$14.4 million remained outstanding related to the equipment financing.

As of December 31, 1998, the Company was in compliance with all covenant provisions associated with the aforementioned obligations.

Notes to Consolidated Financial Statements

NOTE 10. COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries lease buildings and equipment under non-cancelable operating lease agreements which expire at various times through the year 2003. The leases generally provide that the Company pay taxes, insurance and maintenance expenses related to leased assets.

At December 31, 1998, the Company was obligated under non-cancelable operating leases and capital leases to make future minimum lease payments as follows:

(IN THOUSANDS)

YEARS ENDING DECEMBER 31,	OPERATING LEASES	CAPITAL LEASES
	<u> </u>	<u> </u>
1999	\$ 643	\$ 5,372
2000	519	3,047
2001	429	-
2002	429	-
2003	429	-
THEREAFTER	-	-
	<u> </u>	<u> </u>
TOTAL MINIMUM LEASE PAYMENT	\$ 2,449	8,419
	<u> </u>	
AMOUNT REPRESENTING INTEREST		<u>(466)</u>
TOTAL OBLIGATION UNDER CAPITAL LEASES		7,953
LESS: AMOUNT DUE WITHIN ONE YEAR		<u>(5,086)</u>
AMOUNT DUE AFTER ONE YEAR		\$ 2,867
		<u> </u>

Rental expense on the non-cancelable operating leases was \$1.7 million, \$2.5 million and \$3.7 million for the years ended December 31, 1998, 1997 and 1996, respectively.

NOTE 11. STOCKHOLDERS' EQUITY

On July 2, 1996, the Company completed a public offering (the "Offering") of 8.6 million shares of common stock (including an underwriter's over allotment option to purchase 1.1 million shares of common stock). Based on an Offering price of \$39.50 per share and associated costs incurred, the net proceeds were approximately \$327 million. The net proceeds from the Offering were used for the defeasance of the MGM Grand Hotel Finance Corp. FMN (see Note 9).

On May 7, 1996, the Company made a commitment to grant 15 shares of Company common stock to each of its employees in exchange for continued active employment through the one-year anniversary date of the commitment. As a result of the stock grant commitment, deferred compensation was charged to stockholders' equity and amortized monthly to compensation expense over the one-year commitment period. On May 7, 1997, 99,045 shares were issued to employees as a result of the commitment. Over the life of the commitment, approximately \$4 million was amortized to expense, of which \$1.2 million and \$2.8 million of such expense were recognized during the years ended December 31, 1997 and 1996, respectively.

On May 24, 1995, and as amended, the Company entered into an agreement with Don King Productions, Inc. ("DKP") to present six of Mike Tyson's fights. Pursuant to the agreement, the Company made a non-interest bearing working capital advance of \$15 million to DKP, sold to DKP 618,557 treasury shares of the Company's Common Stock (the "Shares") for \$15 million in exchange for a non-interest bearing promissory note which was repaid, and provided a guaranteed future share price of \$48.50. The original agreement was amended by a Trust Agreement dated October 23, 1996, in which the Shares were placed in the name of, and held by, an independent trustee, pending disposition at the direction of the Company. The Company and DKP determined to terminate the agreement, and on September 25, 1997, after solicitation of competitive bids, the Shares held by the Trustee were sold to Tracinda at the price of \$44.50 per share for an aggregate consideration of \$27.5 million. The Company was repaid the \$15 million working capital advance and the remaining consideration in the amount of \$12.5 million was paid to DKP. As a result of this transaction, the Company reversed approximately \$5.9 million of previously expensed stock price guarantee amortization during 1997.

On June 23, 1998, the Company announced a \$35.00 per share cash tender offer for up to 6 million shares of Company common stock as part of a 12 million share repurchase program. The offer commenced on July 2, 1998 and expired on July 31, 1998. Based upon final results, 10.8 million shares of the Company's common stock were tendered, and accordingly, the shares were prorated. The total acquisition cost of the 6 million shares was approximately \$210.6 million. The Company anticipates that, depending on market conditions, the remaining 6 million shares in the repurchase program may be acquired in the open market, in private transactions, through a tender offer or offers or otherwise.

NOTE 12. COMPREHENSIVE INCOME

Statement of Financial Accounting Standards No. 130 ("SFAS 130"), Reporting Comprehensive Income, requires that the Company disclose comprehensive income and its components. The objective of SFAS 130 is to report a measure of all changes in equity of a company that result from transactions and other economic events of the period other than transactions with stockholders. Comprehensive income is the total of net income and all other non-stockholder changes in equity ("Other Comprehensive Income").

The Company has recorded currency translation adjustments as Other Comprehensive Income in the accompanying financial statements. Comprehensive income is calculated as follows:

(IN THOUSANDS)

YEARS ENDED DECEMBER 31,	1998	1997
NET INCOME	\$ 68,948	\$ 111,018
CURRENCY TRANSLATION ADJUSTMENT	2,688	14,422
COMPREHENSIVE INCOME	\$ 71,636	\$ 125,440

NOTE 13. EARNINGS PER SHARE

The Company accounts for Earnings per Share according to Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). SFAS 128 presents two EPS calculations: (i) basic earnings per common stock which is computed by dividing net income by the weighted average number of shares of common stock outstanding during the periods presented, and (ii) diluted earnings per common share which is determined on the assumption that options issued pursuant to the Company's Stock option plans (see Note 14) are exercised and repurchased at the average price for the periods presented.

(IN THOUSANDS EXCEPT
SHARE DATA)

YEARS ENDED DECEMBER 31,	<u>1998</u>	<u>1997</u>	<u>1996</u>
NET INCOME	\$ 68,948	\$ 111,018	\$ 43,706
WEIGHTED AVERAGE BASIC SHARES	<u>55,678</u>	<u>57,475</u>	<u>52,759</u>
BASIC EARNINGS PER SHARE	\$ 1.24	\$ 1.93	\$ 0.83
WEIGHTED AVERAGE DILUTED SHARES	<u>56,342</u>	<u>58,835</u>	<u>54,257</u>
DILUTED EARNINGS PER SHARE	<u>\$ 1.22</u>	<u>\$ 1.89</u>	<u>\$ 0.81</u>

Weighted average diluted shares include the following: options to purchase approximately 664,000, 877,000, and 962,000 shares issued pursuant to the Company's stock option plans (see Note 14) for the years ended December 31, 1998, 1997 and 1996, respectively; employee grant shares of approximately 29,000 and 22,000 for the years ended December 31, 1997 and 1996, respectively (see Note 11); and DKP shares of approximately 454,000 and 514,000 for the years ended December 31, 1997 and 1996, respectively (see Note 11).

Notes to Consolidated Financial Statements

NOTE 14. STOCK OPTION PLANS

The Company has adopted nonqualified stock option plans and incentive stock plans which provide for the granting of stock options pursuant to the applicable provisions of the Internal Revenue Code and regulations. The aggregate options available under the plans are 6.5 million shares. The Company had granted options of approximately 5.6 million shares through December 31, 1998.

The plans are administered by the Compensation and Stock Option Committee of the Board of Directors. Salaried officers and other key employees of the Company and its subsidiaries are eligible to receive options. The exercise price in each instance is 100% of the fair market value of the Company's common stock on the date of grant. The options have ten-year terms and are exercisable in four and five annual installments.

On March 26, 1996, the Compensation and Stock Option Committee of the Board of Directors determined to adjust the vesting provision of the Company's Non-Qualified Stock Option Plan and Incentive Stock Option Plan to provide for the vesting of future stock option grants under the plans at 20% on each of the first four anniversary dates of the grant, with full vesting on the fifth anniversary date of the grant. The Compensation and Stock Option Committee also determined that pro-rata vesting at times other than successive anniversary dates of the date of the grant are no longer applicable. Stock option holders with grants dated prior to March 26, 1996 were given the opportunity to accept or decline the new vesting provisions with regard to their existing grants.

On June 22, 1998, the Compensation and Stock Option Committee of the Board of Directors approved an offer to employees to reprice their out-of-the-money options (covering an aggregate of 1,820,950 shares). The original options had exercise prices ranging from \$33.1875 to \$44.125, and the new options have an exercise price of \$26.625. For holders who accepted the new price, certain conditions were adopted including (1) commencement of a new holding period for vesting of options (whether or not the initial options had vested) and (2) a one-year extension of employee employment contracts, at the Company's option, where applicable. The repricing offer was not made to the Company's outside directors. Such repricing did not affect options held by the Chairman or the President of the Company.

Had the Company accounted for these plans under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

(IN THOUSANDS)	1998	1997	1996
<i>Net Income:</i>			
AS REPORTED	\$ 68,948	\$ 111,018	\$ 43,706
PRO FORMA	\$ 66,047	\$ 110,235	\$ 34,981
<i>Basic earnings per share:</i>			
AS REPORTED	\$ 1.24	\$ 1.93	\$ 0.83

PER FORMA	\$ 1.19	\$ 1.92	\$ 0.66
	<input type="text"/>	<input type="text"/>	<input type="text"/>
<i>Diluted earnings per share:</i>			
AS REPORTED	\$ 1.22	\$ 1.89	\$ 0.81
	<input type="text"/>	<input type="text"/>	<input type="text"/>
PRO FORMA	\$ 1.17	\$ 1.87	\$ 0.64
	<input type="text"/>	<input type="text"/>	<input type="text"/>

A summary of the status of the Company's fixed stock option plan for each of the years in the period ended December 31, 1998, 1997 and 1996 is presented below (there are no options outstanding under the Incentive Stock Option Plan):

	1998		1997		1996	
	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE
OUTSTANDING AT BEGINING OF THE YEAR	3,642	\$ 28.82	3,213	\$ 27.26	3,102	\$ 22.67
GRANTED	3,167	\$ 29.21	727	\$ 36.26	765	\$ 35.12
EXERCISED	(49)	\$ 27.11	(72)	\$ 15.09	(414)	\$ 11.92
FORFEITED	(2,059)	\$ 36.41	(226)	\$ 35.19	(240)	\$ 26.35
EXPIRED	-	\$ -	-	\$ -	-	\$ -
OUTSTANDING AT END OF THE YEAR	4,701	\$ 25.78	3,642	\$ 28.82	3,213	\$ 27.26
EXERCISABLE AT END OF THE YEAR	1,359	\$ 23.89	783	\$ 24.24	220	\$ 14.38
WEIGHTED AVERAGE FAIR VALUE OF OPTIONS GRANTED	\$ 13.61		\$ 16.98		\$ 22.89	

The following table summarizes information about fixed stock options outstanding at December 31, 1998:

RANGE OF EXERCISE PRICES	OPTIONS OUSTANDING			OPTIONS EXERCISABLE		
	NUMER OUTSTANDING AT 12/31/1998	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/1998	WEIGHTED AVERAGE EXERCIS PRICE	
\$10.25 - \$20.00	241,700	2.5	\$ 12.82	233,700	\$ 12.61	
\$20.01 - \$25.00	626,350	8.0	\$ 24.41	144,900	\$ 24.40	
\$25.01 - \$30.00	3,639,800	8.2	\$ 26.39	945,100	\$ 26.09	

\$30.01 - \$35.00	109,100	8.6	\$ 32.99	4,000	\$ 34.25
\$35.01 - \$40.00	56,425	7.9	\$ 35.49	14,825	\$ 35.63
\$40.01 - \$45.00	27,400	6.1	\$ 40.84	16,200	\$ 40.95
	<u>4,700,775</u>	<u>7.9</u>	<u>\$ 25.78</u>	<u>1,358,725</u>	<u>\$ 23.89</u>

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 used for grants in 1998, 1997 and 1996, respectively; risk-free interest rates 6%, 6%, and 6.1%, respectively; no expected dividend yields for the years presented; expected lives of 6 years for all years; and expected volatility of 36% for 1998, 38% for 1997, and 39% for 1996.

The Company has agreements with 138 executives which provide that, upon a change of control, any unvested stock options covered by such agreements become exercisable. The total number of stock options subject to such agreements is 4.7 million, of which 4.6 million options become immediately exercisable, and the remaining .1 million options become exercisable if employment status is diminished within twelve months following a change in control.

Notes to Consolidated Financial Statements

NOTE 15. EMPLOYEE PENSION AND SAVINGS PLANS

Participation in the MGM Grand Hotel, Inc. 401(k) employee savings plan is available for all full time employees. The savings plan allows participants to defer, on a pre-tax basis, a portion of their salary and accumulate tax deferred earnings as a retirement fund. MGM Grand Hotel, Inc. matches 25% of employee contributions up to a maximum of 1% of participating employee's eligible gross wages. Additionally, MGM Grand Hotel, Inc. makes contributions to the employees' savings plan based on length of service, which vest over a five-year period. For the periods ended December 31, 1998, 1997 and 1996, MGM Grand Hotel, Inc. contributions under this arrangement were \$4.1 million, \$3.4 million, and \$3.1 million, respectively.

Effective November 1994, the Company and MGM Grand Hotel, Inc. adopted a Nonqualified Deferred Retirement Plan for certain key employees not a part of a collective bargaining unit. The Nonqualified Deferred Retirement Plan allows participants to defer, on a pre-tax basis, a portion of their salary and accumulate tax deferred earnings, plus interest, as a retirement fund. These deferrals are in addition to those allowed under the MGM Grand Hotel, Inc. 401(k) savings plan. All deferred amounts vest immediately. There are no employer matching contributions made under this plan. The full amount vested in a participant's account will be distributed to a participant following termination of employment, normal retirement or in the event of disability or death.

Effective with the September 1995 acquisition of MGM Grand Australia (see Note 1), an Australian employee retirement fund was acquired. The fund is subject to the Superannuation Industry (Supervision) Act of 1993, imposing a legal obligation on MGM Grand Australia to contribute to all employees. MGM Grand Australia maintains two categories for the plan, depending on employment status: category (A) for executive employees and category (B) for staff. Death and Disablement benefits are provided for all members; however, category (A) members receive increased coverages under both benefits. MGM Grand Australia contributes 6% of salary to satisfy the Superannuation Guarantee Legislation, and allows participants to defer, on a pre-tax basis, a portion of their salary and accumulate tax deferred earnings as a retirement fund. The full amount vested in members' retirement accounts is payable to the member following termination of employment, under certain circumstances or normal retirement. During 1998, MGM Grand Australia contributed under these arrangements \$269,000 and \$547,000 for the executive employees and staff, respectively. During 1997, MGM Grand Australia contributed under these arrangements \$154,000 and \$458,000 for the executive employees and staff, respectively. During 1996, MGM Grand Australia contributed under these arrangements \$196,000 and \$617,000 for the executive employees and staff, respectively.

NOTE 16. MASTER PLAN ASSET DISPOSITION

During 1997, the Company enhanced and increased the Master Plan to approximately \$570 million, and wrote off assets with a net book value of \$28.6 million (pre-tax) which included the original swimming pool facility, to be replaced by the Mansion at the MGM Grand consisting of 29 exclusive suites and villas, and certain theme park assets. During September 1996, the Company determined to write off various assets with a net book value of \$49.4 million (pre-tax) as a result of the MGM Grand Las Vegas \$250 million Master Plan property construction enhancements associated with the transformation of the facility into "The City of Entertainment." The affected areas included certain assets related to the theme park which totaled approximately \$39.6 million to make way for the newly completed Conference Center and pool and spa complex; approximately \$8.6 million related to the removal of the lion entrance and Emerald

City which has been replaced with a new mezzanine entry, a Rainforest Cafe, Studio 54 nightclub and a remodeled Entertainment casino among other attractions; and approximately \$1.2 million representing certain food court and midway/arcade areas which have been transformed into the Studio Walk, a replica of a sound stage featuring Hollywood landmarks.

NOTE 17. INCOME TAXES

The Company accounts for Income Taxes according to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires the recognition of deferred tax assets, net of applicable reserves, related to net operating loss carryforwards and certain temporary differences. The standard requires recognition of a future tax benefit to the extent that realization of such benefit is more likely than not. Otherwise, a valuation allowance is applied. At December 31, 1998, the Company believes that it is more likely than not that its deferred tax assets are fully realizable because of the future reversal of existing taxable temporary differences and future projected taxable income. Accordingly, there is no valuation allowance at December 31, 1998.

The provision for income taxes and income from continuing operations before extraordinary item for the years ended December 31, 1998, 1997 and 1996 is as follows:

(IN THOUSANDS) YEARS ENDED DECEMBER 31,	1998	1997	1996
	<u> </u>	<u> </u>	<u> </u>
CURRENT - FEDERAL	\$ 24,791	\$ 14,207	\$ 31,014
DEFERRED - FEDERAL	15,789	50,838	(6,380)
	<u> </u>	<u> </u>	<u> </u>
PROVISION FOR INCOME TAXES	\$ 40,580	\$ 65,045	\$ 24,634
	<u> </u>	<u> </u>	<u> </u>

Reconciliation of the Federal income tax rate and the Company's effective tax rate is as follows:

YEARS ENDED DECEMBER 31,	1998	1997	1996
	<u> </u>	<u> </u>	<u> </u>
FEDERAL INCOME TAX RATE	35.0 %	35.0 %	35.0 %
PERMANANT AND OTHER ITEMS	2.0	1.1	6.2
CHANGES IN VALUATION ALLOWANCE	-	-	(16.4)
	<u> </u>	<u> </u>	<u> </u>
EFFECTIVE TAX RATE	37.0 %	36.1 %	24.8 %
	<u> </u>	<u> </u>	<u> </u>

As of Devenber 31, 1998, the major tax affected components of the Company's net deffered tax liability are as follows:

(IN THOUSANDS)	1998	1997
	<u> </u>	<u> </u>
<i>Deferred Tax Assets</i>		
NET OPERATING LOSS CARRYFORWARD	\$ -	\$ 1,929
BAD DEBT RESERVE	12,234	6,586
HOTEL PREOPENING EXPENSES	-	2,781
TAX CREDIT CARRYFORWARDS	29,492	27,219
	<u> </u>	<u> </u>
	41,726	38,515
	<u> </u>	<u> </u>

Deferred Tax Liabilities

DEPRECIATION AND AMORTIZATION	(75,532)	(65,144)
ACCRUALS, RESERVES AND OTHER	(9,261)	(1,908)
	<u>(84,793)</u>	<u>(67,052)</u>
<i>Net Deferred Tax (Liability) Asset</i>	\$ <u>(43,067)</u>	\$ <u>(28,537)</u>

For U.S. Federal income tax return purposes, the Company has an alternative minimum tax credit carryforward of \$26 million which does not expire, and a general business tax credit carryforward of \$3.5 million which expires in different periods through 2012.

Notes to Consolidated Financial Statements

NOTE 18. RELATED PARTY TRANSACTIONS

In conjunction with the Company's 50% interest in the MGM Grand-Bally's Monorail, LLC, the Company, through its wholly-owned subsidiary, MGM Grand Hotel, Inc., contributed approximately \$2 million, \$1.5 million, and \$1.3 million to the joint venture as part of its operating contribution during 1998, 1997 and 1996, respectively.

The Company, through its wholly-owned subsidiary MGM Grand Hotel, Inc., has entered into an agreement to lease space in NYNY to operate a race book and sports pool. The terms of the lease are for ten years from the commencement date of January 3, 1997, with an option for an additional term of ten years. MGM Grand Hotel, Inc. is obligated to pay to NYNY the greater of a minimum annual rent of \$.2 million or percentage rent based upon gross revenue, as defined by the Nevada Gaming Authorities. The percentage rent is based on a graduated scale of gross revenue at percentages ranging from 12 to 15%. During 1998 and 1997, approximately \$.4 million and \$.5 million, respectively, were paid under this agreement. Additionally, MGM Grand Hotel, Inc. leased office facilities to NYNY during 1996 for which it received rental payments of approximately \$.1 million, and provided various other hotel goods and services for which NYNY paid approximately \$.1 million and \$.2 million during 1998 and 1997, respectively. On September 4, 1996, the Company also entered into an agreement with NYNY to provide exclusive floral services through its wholly owned subsidiary, MGM Grand Merchandising, Inc., at rates generally comparable to those offered by third parties. Payments were made by NYNY totaling \$.1 million under the floral service contract for each of 1998 and 1997. The Company and NYNY have entered into various other transactions and arrangements which, individually and in the aggregate, are not material.

For the years ended December 31, 1998, and 1997, the Company and its subsidiaries rented aircraft from Tracinda for various business purposes. The aggregate amount of rental payments were \$.3 million and \$.5 million, respectively, and the rent payments were at rates which management believes are generally below those offered by third parties. The Company and Tracinda have entered into various other transactions and arrangements which, individually and in the aggregate, are not material.

During 1998, the Company made no additional contributions to NYNY LLC, compared with \$7 million during 1997. The Company received approximately \$4.1 million and \$15.2 million in distributions from NYNY LLC during 1998 and 1997, respectively, to pay taxes on its allocated share of income.

In August 1998, Tracinda agreed to sell its building and land (approximately .56 acre located in Las Vegas, Nevada) to the Company's subsidiary, MGM Grand Hotel, Inc., for \$1.8 million. The Company, based on appraisals it received, believes that this purchase was on terms comparable to what it could have obtained for the land and building on an arms-length basis in an equivalent transaction with a third party.

Pursuant to an agreement dated December 23, 1996, between MGM Grand Hotel, Inc. and MGM Home Entertainment, Inc. ("MGM-HE"), a California-based motion picture studio in which Tracinda has an approximate 89.6% ownership interest, MGM Grand Hotel, Inc. can utilize key art and still photographs from certain Metro Goldwyn Mayer, Inc. and United Artists Corporation motion pictures for the period commencing on December 27, 1996 and ending on July 1, 1997, which was subsequently extended to December 31, 1997. In exchange, MGM Grand Hotel, Inc. agreed to promote MGM-HE motion picture video cassettes for availability in one or more retail venues. During 1998 and 1997, MGM Grand Hotel, Inc. purchased video cassettes and other MGM-HE merchandise of approximately \$.1 million and \$.3 million, respectively, at rates which management believes are generally comparable to those offered to

third parties. In addition, MGM Grand Hotel, Inc. provided various goods and services during 1998 to MGM-HE which, individually and in the aggregate, are not material.

Pursuant to a License Agreement between a predecessor in interest to the Company and Metro Goldwyn Mayer Film Co. dated February 29, 1980, the Company has an exclusive royalty-free license in perpetuity to use certain trademarks, trade names and logos in and in connection with the Company's hotel/gaming business and other businesses, excluding the film entertainment business.

During the three-year periods ended December 31, 1998, 1997 and 1996, the Company and MGM-HE have entered into various other transactions and arrangements which, individually and in the aggregate, are not material.

NOTE 19. PROPERTY PERFORMANCE

The Company operates in the hotel/casino industry through the operations of MGM Grand Las Vegas, which commenced operations on December 18, 1993, MGM Grand Australia, which was acquired on September 7, 1995 (see Note 1), its 50% interest in NYNY LLC, which commenced operations on January 3, 1997 (see Notes 1 and 20), MGM Grand South Africa manages three temporary casinos one each in Nelspruit (opened on October 15, 1997), Witbank (opened on March 10, 1998) and Johannesburg (opened on September 28, 1998) (see Note 1). Sales between properties are immaterial and generally at prices approximately equal to those charged to unaffiliated customers.

(IN THOUSANDS) YEARS ENDED DECEMBER 31,	<u>1998</u>	<u>1997</u>	<u>1996</u>
<i>Net revenues:</i>			
HOTEL/CASINO	\$ 735,501	\$ 773,797	\$ 800,189
INCOME FROM UNCONSOLIDATED AFFILIATE	<u>38,362</u>	<u>53,800</u>	<u>-</u>
	<u>\$ 773,863</u>	<u>\$ 827,597</u>	<u>\$ 800,189</u>
<i>Operating income (loss):</i>			
HOTEL/CASINO	\$ 103,901	\$ 169,160	\$ 196,585
INCOME FROM UNCONSOLIDATED AFFILIATE	38,362	53,800	-
MASTER PLAN ASSET DISPOSITION	-	(28,566)	(49,401)
CORPORATE EXPENSE	(10,689)	(3,424)	(10,022)
PREOPENING AND OTHER - UNCONSOLIDATED AFFILIATE	-	-	(7,868)
	<u>\$ 131,574</u>	<u>\$ 190,970</u>	<u>\$ 129,294</u>
<i>Identifiable assets:</i>			
HOTEL/CASINO	\$ 1,719,436	\$ 1,390,215	\$ 1,254,602
CORPORATE	<u>54,358</u>	<u>8,159</u>	<u>33,087</u>
	<u>\$ 1,773,794</u>	<u>\$ 1,398,374</u>	<u>\$ 1,287,689</u>
<i>Capital expenditures:</i>			
HOTEL/CASINO	\$ 349,131	\$ 227,658	\$ 84,544
CORPORATE	<u>12,811</u>	<u>98</u>	<u>231</u>

	\$ 361,942	\$ 227,756	\$ 84,775
	□	□	□
<i>Depreciation and amortization:</i>			
HOTEL/CASINO	\$ 76,284	\$ 64,104	\$ 62,196
CORPORATE	428	140	127
	□	□	□
	\$ 76,712	\$ 64,244	\$ 62,323
	□	□	□

NOTE 20. SUBSEQUENT EVENTS (UNAUDITED)

During December 1998, the Company and Primadonna entered into a definitive merger agreement whereby MGM Grand, Inc. would acquire Primadonna in an all stock transaction plus the assumption of debt. The terms of the merger provided for Primadonna's stockholders to receive 0.33 shares of the Company's common stock for each share of Primadonna stock held, or a total of approximately 9.5 million shares of MGM Grand, Inc. common stock.

On March 1, 1999, the merger with Primadonna was completed making Primadonna a wholly-owned subsidiary of the Company. Primadonna owns and operates three hotel/casino resorts on both sides of Interstate 15 at the California/Nevada border in Primm, Nevada (Whiskey Pete's, Buffalo Bill's and the Primm Valley Resort), a 50% interest in NYNY LLC (which now becomes 100% owned by the Company) and two championship golf courses located four miles south of Primm in California. The Primm, Nevada hotel/casinos are located on approximately 143 acres of leased land. Primadonna owns approximately 16 acres of land in Nevada immediately north of Buffalo Bill's and approximately 573 acres of land in California where the golf courses are located. Approximately 125 of these acres are available for future development.

As of March 1, 1999, the Company assumed approximately \$315 million of long term debt related to the Primadonna acquisition, which includes Primadonna's 50% share of NYNY LLC's long-term debt.

On February 24, 1999, the Company, along with its Detroit partners, received commitments from a consortium of banks for a new five-year \$230 million credit facility. Approximately two-thirds of the commitments are from Michigan-based banks, mostly from the greater metropolitan Detroit area. The facility may be increased to \$250 million at the Company's discretion. Proceeds from the new facility will be used to finance the development and construction of the temporary and permanent casino complexes and for general working capital. The facility will be secured by substantially all of the assets of MGM Grand Detroit, LLC's temporary facility and will be guaranteed by the Company.



Report of Independent Public Accountants

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF MGM GRAND, INC.:

We have audited the accompanying consolidated balance sheets of MGM Grand, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MGM Grand, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ending December 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSON LLP

Las Vegas, Nevada
February 1, 1999



Selected Quarterly Financial Results

(IN THOUSANDS EXCEPT SHARE DATA) (UNAUDITED)

	QUARTER				
	FIRST	SECOND	THIRD	FOURTH	TOTAL
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997					
<i>1998</i>					
NET REVENUES	\$ 179,847	\$ 185,365	\$ 193,707	\$ 214,944	\$ 773,863
OPERATING PROFIT BEFORE NON-RECURRING ITEMS AND CORPORATE EXPENSE	30,609	30,040	34,896	46,718	142,263
OPERATING INCOME	28,158	27,103	34,182	42,131	131,574
INCOME BEFORE INCOME TAXES	25,409	23,515	26,643	33,961	109,528
NET INCOME	16,262	14,399	17,052	21,235	68,948
BASIC INCOME PER SHARE OF COMMON STOCK:					
NET INCOME	\$ 0.28	\$ 0.25	\$ 0.31	\$ 0.41	\$ 1.24
DILUTED INCOME PER SHARE OF COMMON STOCK:					
NET INCOME	\$ 0.28	\$ 0.25	\$ 0.31	\$ 0.41	\$ 1.22
<i>1997</i>					
NET REVENUES	\$ 197,498	\$ 209,085	\$ 208,399	\$ 212,615	\$ 827,597
OPERATING PROFIT BEFORE NON-RECURRING ITEMS AND CORPORATE EXPENSE	53,038	57,368	56,419	56,135	222,960
OPERATING INCOME	51,549	54,079	31,319	54,023	190,970
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	48,077	51,437	28,984	51,803	180,301
NET INCOME	30,150	32,999	14,456	33,413	111,018
BASIC INCOME PER SHARE OF COMMON STOCK:					
INCOME BEFORE EXTRAORDINARY ITEM	\$ 0.52	\$ 0.57	\$ 0.32	\$ 0.58	\$ 2.00
EXTRAORDINARY ITEM	-	-	(0.07)	-	(0.07)
NET INCOME	\$ 0.52	\$ 0.57	\$ 0.25	\$ 0.58	\$ 1.93
DILUTED INCOME PER SHARE OF COMMON STOCK:					
INCOME BEFORE EXTRAORDINARY ITEM	\$ 0.51	\$ 0.56	\$ 0.32	\$ 0.57	\$ 1.96
EXTRAORDINARY ITEM	-	-	(0.07)	-	(0.07)
NET INCOME	\$ 0.51	\$ 0.56	\$ 0.25	\$ 0.57	\$ 1.89



Investor Information

The following table represents the high and low trading prices of the Company's common stock:

FOR THE YEARS ENDING DECEMBER 31,	1998		1997	
	HIGH	LOW	HIGH	LOW
FIRST QUARTER	39 7/8	33 1/4	41	32 3/8
SECOND QUARTER	35 3/4	26 9/16	40 3/8	32 1/8
THIRD QUARTER	33 1/2	23 1/16	44	32 3/8
FOURTH QUARTER	29 3/4	22 5/8	46 11/16	34

The Company's Common Stock is listed on the New York Stock Exchange. The symbol is MGG.

TRANSFER AGENT AND REGISTRAR FOR INDEPENDENT PUBLIC ACCOUNTANTS COMMON STOCK

ChaseMellon Shareholders Services, LLC
Overpeck Center
85 Challenger Rd.
Ridgefield Park, NJ 07660
www.chasemellon.com

Arthur Anderson, LLP
3773 Howard Hughes Parkway
Suite 500 South
Las Vegas, NV 89109

FORM 10 - K

A copy of the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished without charge to any stockholder upon written request to:

Mr. Scott Langser
Secretary/Treasurer
MGM Grand, Inc.
3799 Las Vegas Blvd South
Las Vegas, NV 89109

Directors and Officers



MGM GRAND, CORPORATE.
FROM LEFT TO RIGHT: DANIEL M. WADE, JAMES J. MURREN, JOHN T. REDMOND, RICHARD A. STURM, SCOTT LANGSNER, ROBERT V. MOON



MGM GRAND, LAS VEGAS. FROM LEFT TO RIGHT: THOMAS A. PETERMAN, FELIX A. RAPPAPORT, JOSEPH BRUNINI, WILLIAM J. HORNBUCKLE, DON WELSH, CYNTHIA KISER MURPHEY, COREY SANDERS

J. TERRENCE LANNI
DIRECTOR
CHAIRMAN OF THE
BOARD AND CHIEF
EXECUTIVE OFFICER

ALEX YEMENIDJIAN
DIRECTOR
PRESIDENT AND
CHIEF OPERATING
OFFICER

FRED BENNINGER
DIRECTOR
*Executive
Tracinda Corporation*

JAMES D. ALJIAN
DIRECTOR
Tracinda Corporation

TERRY N.
CHRISTENSEN
DIRECTOR
*Partner
Christensen, Miller,
Fink, Jacobs, Weil &
Shapiro, LLP*

GLENN A. CRAMER
DIRECTOR
*Former Chairman
Transamerica Airlines,
Retired*

WILLIE D. DAVIS
DIRECTOR
*President and Director
All-Pro Broadcasting, Inc.*

ALEXANDER M.
HAIG, JR.
DIRECTOR
*Chairman
Worldwide Associates,
Inc.*

KIRK KERKORIAN
DIRECTOR
*President and
Chief Executive Officer
Tracinda Corporation*

JAMES J. MURREN
DIRECTOR
EXECUTIVE VICE
PRESIDENT AND CHIEF
FINANCIAL OFFICER

WALTER M. SHARP
DIRECTOR
*President
Walter M. Sharp Company*

JEROME B. YORK
DIRECTOR
*Vice Chairman
Tracinda Corporation*

DANIEL M. WADE
EXECUTIVE VICE
PRESIDENT

SCOTT LANGSNER
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