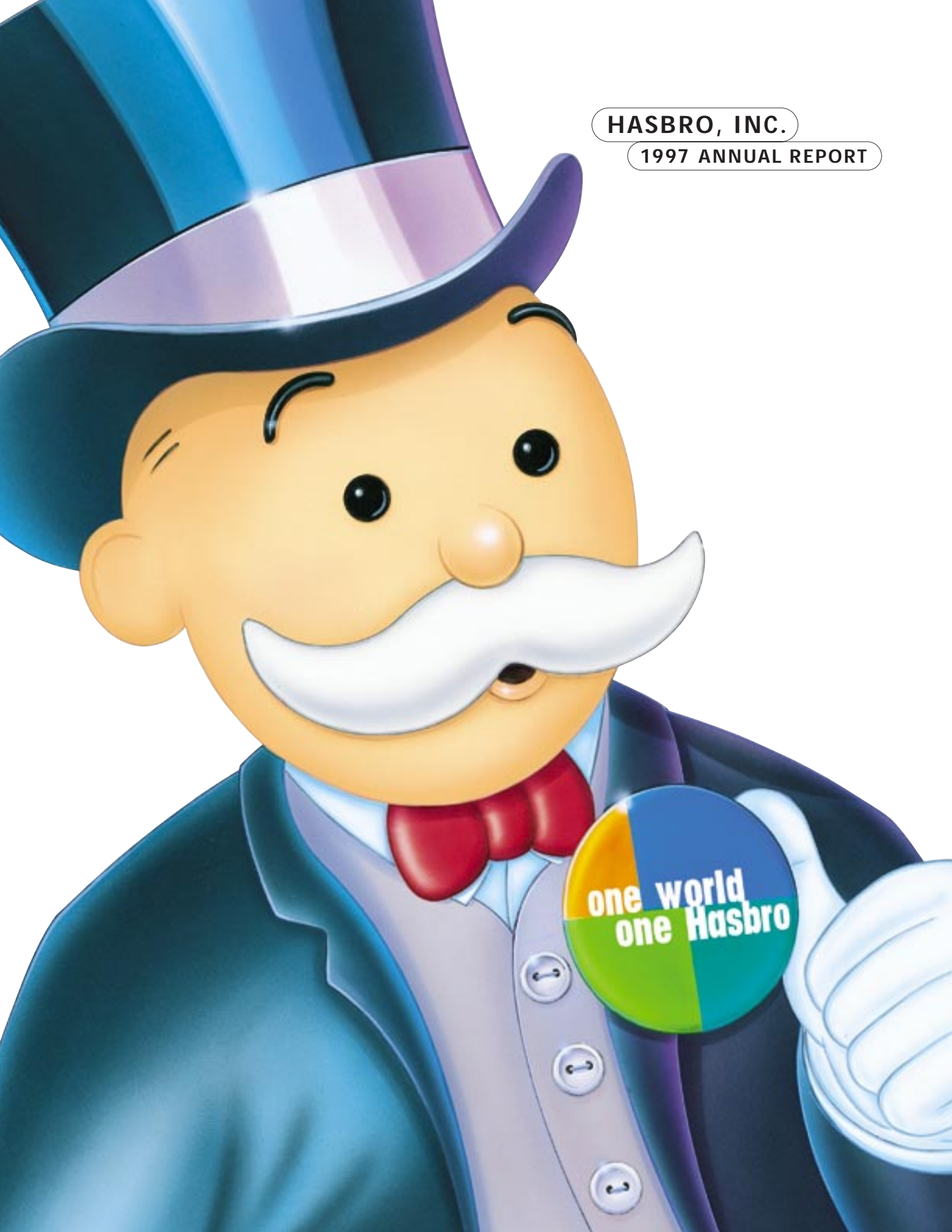


HASBRO, INC.

1997 ANNUAL REPORT

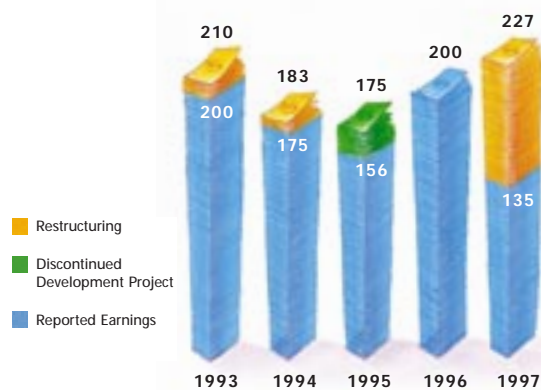


FINANCIAL HIGHLIGHTS

(Thousands of Dollars and Shares Except Per Share Data)

	1996	1995	1994	1993
FOR THE YEAR				
Net revenues	3,002,370	2,858,210	2,670,262	2,747,176
Operating profit (1)	332,267	273,572	295,677	351,188
Earnings before income taxes (1)	306,893	252,550	291,569	325,210
Net earnings (1)	199,912	155,571	175,033	200,004
Cash provided by operating activities	279,993	227,400	283,785	217,237
Cash utilized by investing activities	127,286	209,331	244,178	126,001
Weighted average number of common shares outstanding				
Basic	130,041	131,515	131,703	131,219
Diluted	139,522	140,050	141,667	142,717
EBITDA (2)	470,532	434,580	430,448	467,336
PER COMMON SHARE				
Net earnings (1)				
Basic	1.54	1.18	1.33	1.52
Diluted	1.47	1.15	1.28	1.44
Cash dividends declared	.27	.21	.19	.16
Shareholders' equity	12.82	11.64	10.63	9.69
AT YEAR END				
Shareholders' equity	1,652,046	1,525,612	1,395,417	1,276,683
Total assets	2,701,509	2,616,388	2,378,375	2,293,018
Long-term debt	149,382	149,991	150,000	200,510
Debt to capitalization ratio	.14	.15	.14	.17

EARNINGS



CASH PROVIDED BY OPERATING ACTIVITIES



(1) In 1997, amounts excluding \$140,000 of pretax charges relating to the global integration and profit enhancement program were:

Operating profit	\$375,108	Earnings per share	
Earnings before income taxes	\$344,525	Basic	\$1.77
Net earnings	\$227,386	Diluted	\$1.69

(2) EBITDA (earnings before interest, taxes, depreciation and amortization) represents operating profit plus restructuring charges and discontinued development project and depreciation and all amortization. EBITDA is not adjusted for all noncash expenses or for working capital, capital expenditures or other investment requirements and, accordingly, is not necessarily indicative of amounts that may be available for discretionary uses. Thus, EBITDA should not be considered in isolation or as a substitute for net earnings or cash provided by operating activities, each prepared in accordance with generally accepted accounting principles, when measuring Hasbro's profitability or liquidity as more fully discussed in Management's Review.

(3) Amounts shown on charts are in millions of dollars.

TO OUR SHAREHOLDERS

I am pleased to report that 1997 was a record year for Hasbro in all respects. Not only was it our 18th year of record revenues since 1978, but also the fourth quarter was the best quarter in the history of the company in terms of revenues and earnings, prior to taking \$140 million of one-time pre-tax charges to implement our Global Integration and Profit Enhancement Program.

This program was one of the many moves we made in 1997 to ensure a strong finish for *this* century – and our new and expanded Star Wars™ license was a major step in propelling us into the *next* century. Our accomplishments in 1997 brought our vision into clearer focus: Hasbro will continue to be a leader in the children's and family leisure time and entertainment industry.

Net revenues in local currencies increased 9% in 1997, partly offset by the 3% adverse impact of the stronger U.S. dollar, resulting in reported revenues of \$3.2 billion. Net earnings increased 14% to \$227.4 million prior to the one-time charges, or \$1.69 per share (diluted), compared to \$199.9 million, or \$1.47 per share, in 1996. We are pleased to have achieved 15% growth in earnings per share for the second consecutive year, consistent with our long-term objective. Reported net earnings in 1997 were \$135.0 million, or \$1.02 per share.

Our balance sheet is stronger than ever. In October, we called our 6% Convertible Subordinated Notes Due 1998, which converted into approximately 7.6 million shares of common stock. Receivables and inventories at year-end were below 1996 levels in both dollars and days outstanding, despite the inclusion of our new OddzOn toy and interactive candy unit. Cash increased \$143 million, even after investing \$135 million to repurchase 4.8 million shares of our stock and \$167 million to acquire the OddzOn assets. This shows what a cash powerhouse we are!

This year's annual report highlights Hasbro's proven formula for success: our powerful **Brands**, our **Global Focus**, and the **Leverage** we are achieving from our assets are our key strategies for **Enhancing Shareholder Value**.

Today's Hasbro has more talent and more focus. The "One World, One Hasbro" organization we implemented in July enables us to think and work more globally. This experience helped us identify opportunities to further reduce costs and improve operating efficiency worldwide. On December 9, we announced the Global Integration and Profit Enhancement Program, which focuses on three principal areas: first, continued consolidation of manufacturing locations worldwide; second, streamlining of marketing and sales activities and exiting certain under-performing markets and product lines; and third, better leveraging of resources.





ACTION MAN®

The one unfortunate part of positioning Hasbro for continued growth and profitability is the need to eliminate about 2,500 positions from our global workforce. Approximately 70 percent of those positions are in manufacturing, including the five facilities we are closing in Texas, Rhode Island, Vermont, Mexico and New Zealand.

A one-time, pre-tax charge of \$140 million to implement this program was recognized in the fourth quarter. We expect to achieve approximately \$350 million in total pre-tax savings within five years. In 1998, we expect to save at least \$50 million, but will reinvest about \$10 million in information technology as we plan for the future and sharpen our competitive edge. We will also continue to reinvest a portion of our savings each year to build future growth opportunities. In addition, the Board of Directors authorized a \$500 million stock repurchase program, which we expect to utilize over the next two to three years.

On the global brand and product line front, we had several notable accomplishments last year. In May, the talented employees of OddzOn and Cap Toys and their innovative products – including Koosh®, Vortex® sport toys and the Cap™ line of interactive candy – joined the Hasbro family. Building on our strength in interactive candy, at Toy Fair this year we unveiled an exciting new interactive candy item – Sound Bites™ – which enables you to hear sounds inside your head!

Our revitalized Playskool organization made great strides in 1997, and is expected to return to profitability this year. The Preschool category continues to be dominated by licensed products, where we shine with our good friends Barney® and Arthur™, who eagerly await the arrival in April of the newest member of the family – Teletubbies™.

We continue to be the leader in Boys toys. Star Wars™ is the number one male action toy line in the industry. Jurassic Park® and Batman™ sold well, as video releases in the fourth quarter re-ignited excitement, and Action Man® sales in International marketing grew almost 40%.

Hasbro Interactive, in only its second full year, leap-FROGGED from 14th place among interactive game publishers in 1996 to fourth place in 1997, on the strength of such favorites as FROGGER®, Monopoly®, Tonka® and Scrabble®. We said we would go after the family entertainment category, the fastest-growing category of PC-based interactive games, and we did! Hasbro had the top 4 titles in December and 6 of the top 10 titles in 1997 – an astounding success. In 1998, we will introduce



EASY-BAKE®



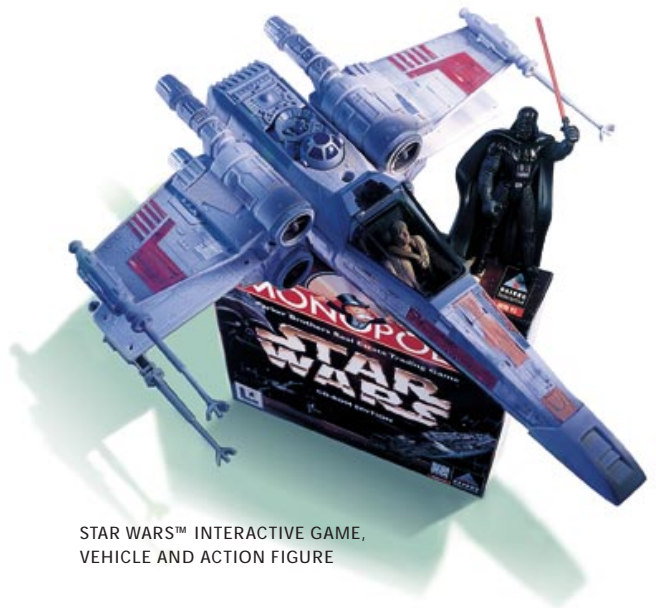
BOP IT®



BARNEY®



HASBRO INTERACTIVE GAMES



STAR WARS™ INTERACTIVE GAME, VEHICLE AND ACTION FIGURE

several new titles, including Wheel of Fortune and Jeopardy for both CD-ROM and Sony Playstation, and two interactive playsets – the Tonka® Workshop and the Star Wars™ Millennium Falcon™ – for a truly unique hands-on experience.

We have many things going for us in 1998, including:

- Core and partnership brand growth.
- Improvements in Preschool, Girls and certain underperforming international markets.
- Continued cost savings.
- The strongest management team Hasbro has ever had.
- Acquisitions – like our pending acquisition of Tiger Electronics. We are so excited about the expanded opportunities Tiger brings us in the electronic entertainment area, including hand-held games, toys and learning aids.

As you can see, at Hasbro the stage is set for a strong finish to the 20th century. For us, the millennium is coming a year early – in 1999 – with properties like Star Wars. We like to be ahead of the curve, and we are absolutely thrilled about our expanded Star Wars licensing agreement with Lucasfilm.

Clearly, the Power of the Force – in addition to our global focus and the strength of our brands – gives us tremendous momentum as we enter the next century. What an exciting time to be a part of Hasbro!



STARTING LINEUP®



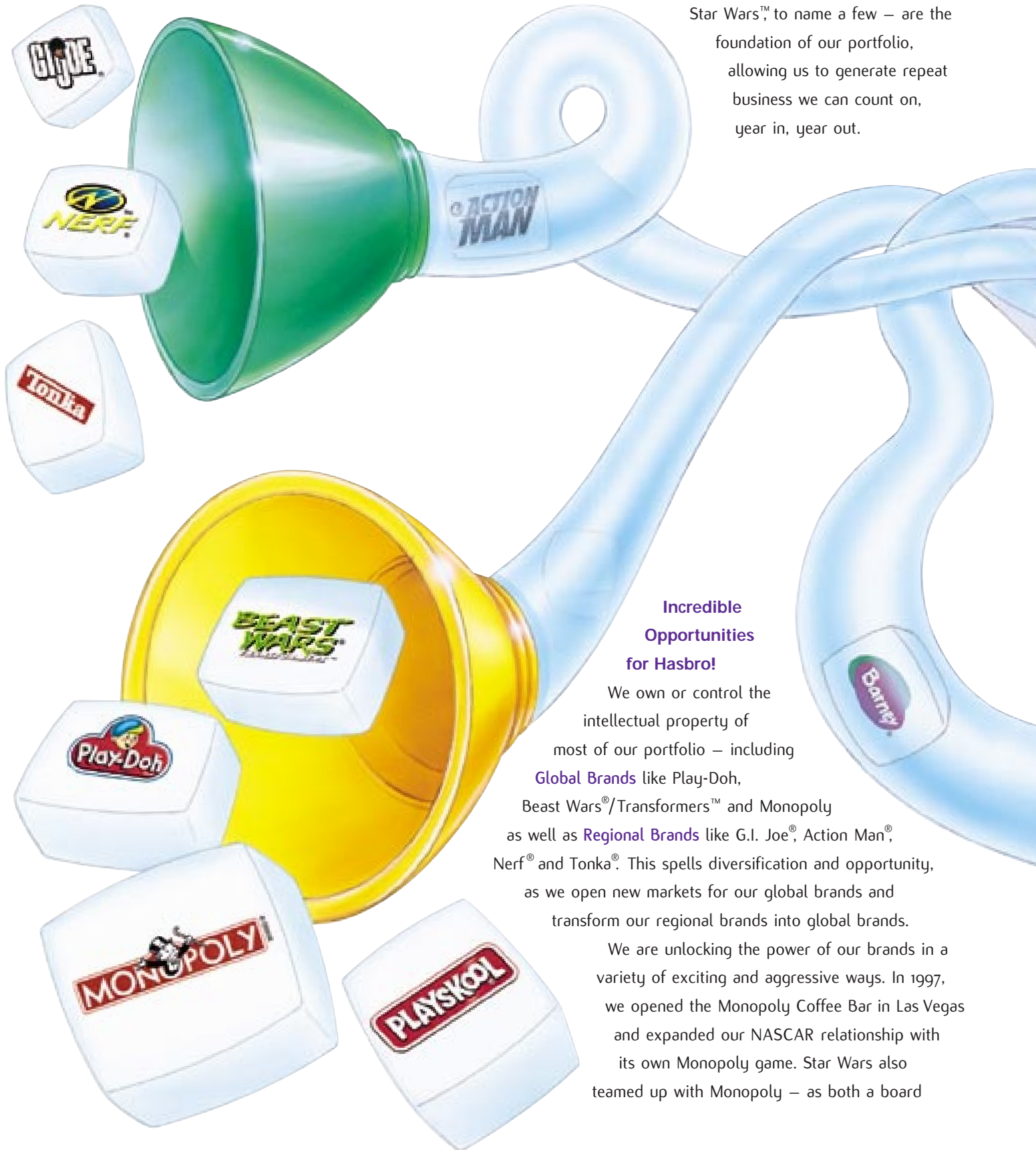
MR. POTATO HEAD®

Alan G. Hassenfeld
Chairman and Chief Executive Officer

BRANDS

Hasbro has the best library of brands and content in the business. Core brands with proven staying power – such as Batman™, Monopoly®, Play-Doh®, Scrabble® and

Star Wars™, to name a few – are the foundation of our portfolio, allowing us to generate repeat business we can count on, year in, year out.



Incredible Opportunities for Hasbro!

We own or control the intellectual property of most of our portfolio – including **Global Brands** like Play-Doh, Beast Wars®/Transformers™ and Monopoly as well as **Regional Brands** like G.I. Joe®, Action Man®, Nerf® and Tonka®. This spells diversification and opportunity, as we open new markets for our global brands and transform our regional brands into global brands.

We are unlocking the power of our brands in a variety of exciting and aggressive ways. In 1997, we opened the Monopoly Coffee Bar in Las Vegas and expanded our NASCAR relationship with its own Monopoly game. Star Wars also teamed up with Monopoly – as both a board



game and CD-ROM game – and Action Man became a popular theme park attraction in England. Mr. Potato Head® kicked off 1998 as the celebrity spokespud for Burger King and will finish the year with his own TV show on the Fox Kids Network.

We are also excited about our **Partnership Brands**’ growth opportunities. Our enviable portfolio includes Star Wars, Batman, Jurassic Park®, Superman®, DreamWorks properties, Barney® and Arthur™. Teletubbies™, our newest family member and an enormous hit internationally, makes its U.S. debut on PBS in April and the first Star Wars prequel debuts in 1999.



GLOBAL INTEGRATION AND
PROFIT ENHANCEMENT
STATION

PACKAGING

INNOVATION

R&D

COMMERCIALS

MANUFACTURING

B·R·A·N·D
EXPRESS

A

Working Globally is what our new “One World, One Hasbro” organization is all about – conducting all of our business in a more integrated and harmonized manner by:

- **Extending** the reach of our powerful brands into new markets.
- **Streamlining** Hasbro’s manufacturing system worldwide.
- **Producing** and using commercials more globally, with significant cost savings.
- **Centralizing** our product research & development effort and reducing third party R&D costs.
- **Thinking** “Outside the Box”, as we drive our brands in many different directions.
- **Implementing** package size modularity in the U.S., building on our success in Europe.

These examples of our **Global Focus** illustrate how working smarter adds more value for our shareholders. With our strong performance in 1997, we know Hasbro’s “*Global Streamliner*” is on the right track to the 21st century.



LEVERAGE

Leverage means making Hasbro's assets work even harder to grow earnings, and is intertwined with our Brands and Global Focus strategies. The key to leveraging our **physical assets** – our diversified portfolio of core brands, our efficient sourcing operations, and our integrated marketing and distribution network – is to drive down costs and work smarter:

- By expanding our hand-held electronic games, one of the fastest growing segments of the games business, we build on the strength of our world-renowned board game icons.
- By licensing out the rights to some of our key brands, like Mr. Potato Head® and Monopoly®, we extend their reach and generate incremental revenue that flows right to our bottom line.
- By consolidating our manufacturing locations worldwide.

Hasbro's **financial assets** are also working harder. We are using our strong balance sheet and our position as a cash powerhouse to invest in acquisitions like Cap Toys, OddzOn Products and Tiger Electronics, and to buy back Hasbro stock, to build value for our shareholders.



ESV

Now you know the strategies behind our winning formula for success:

**BRANDS + GLOBAL FOCUS + LEVERAGE =
ENHANCED SHAREHOLDER VALUE**

Our track record of building two new and highly successful businesses – electronic hand-held games and Hasbro Interactive – from ground zero to profitability in less than 3 years demonstrates that we

know how to win. Clearly, we are more committed than ever to making our shareholders the biggest winners.





Hasbro, Inc.

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