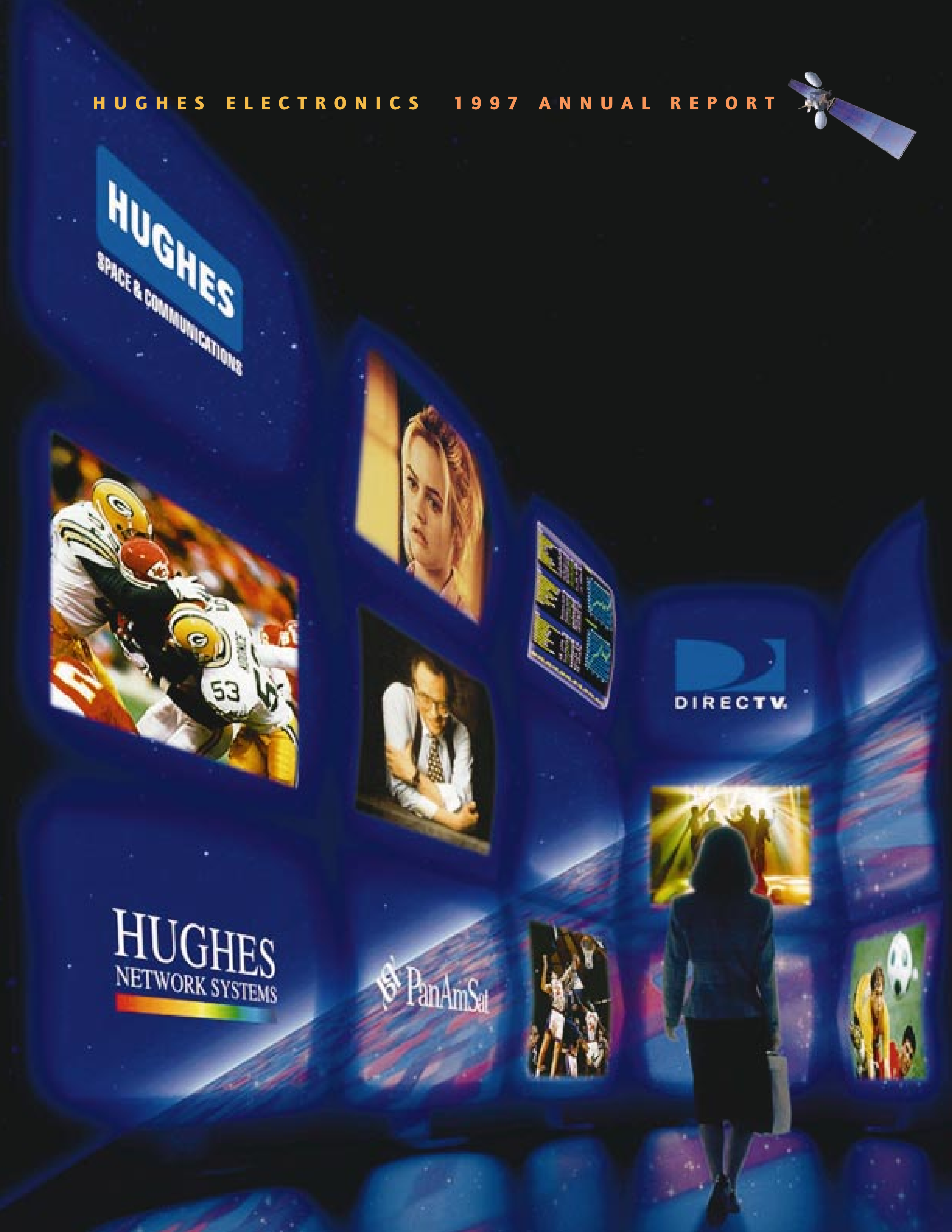
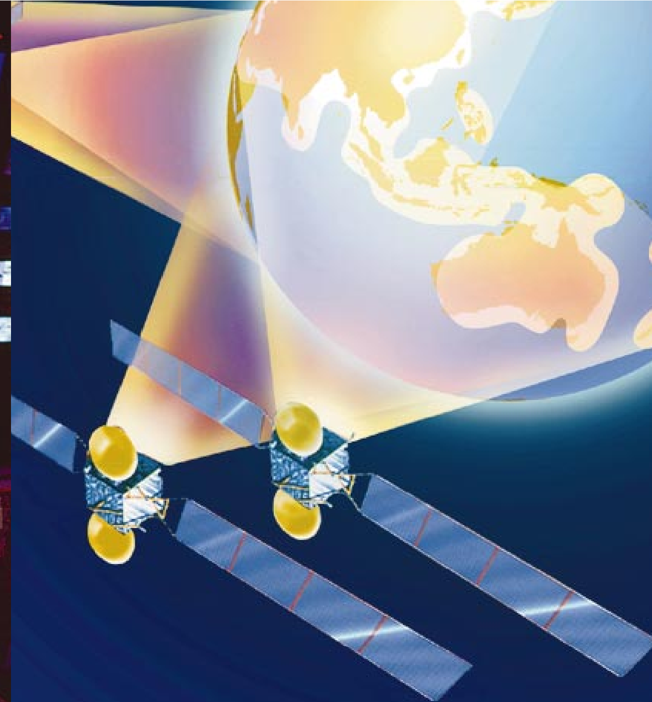
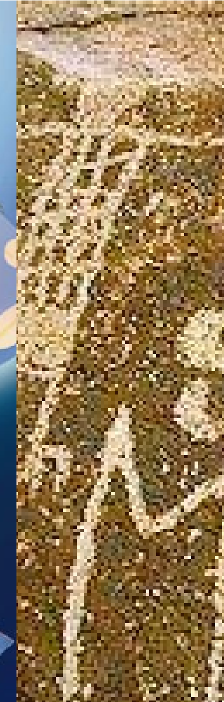
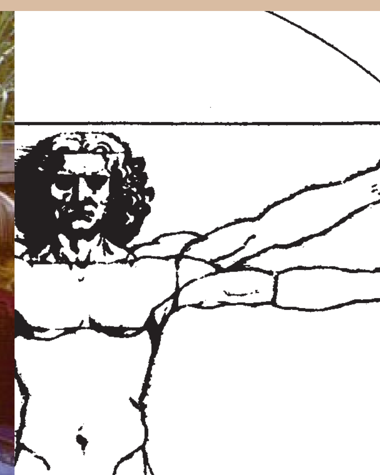
HUGHES ELECTRONICS 1997 ANNUAL REPORT

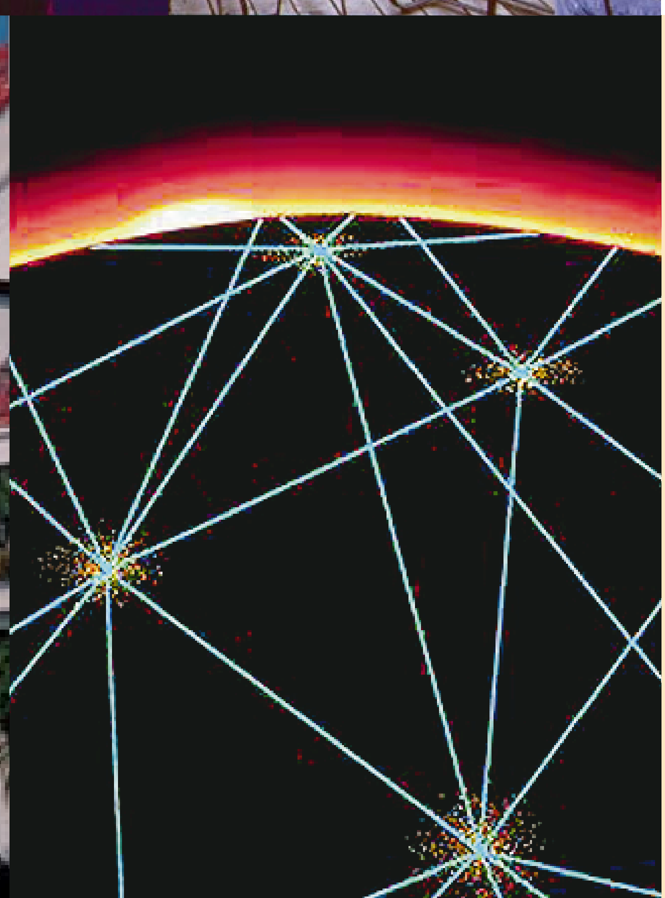


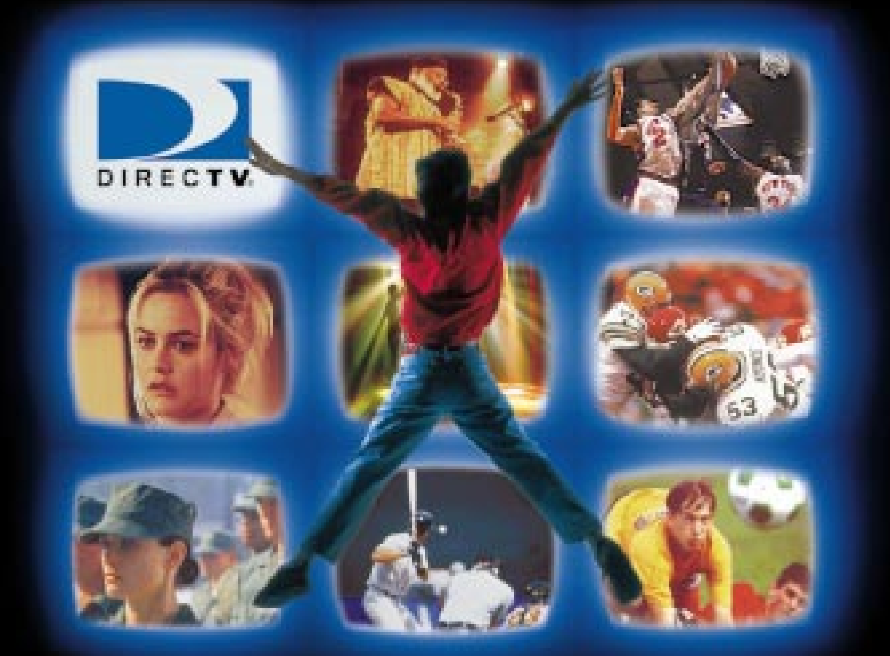




VSATS • SATELLITES • DIRECPC™ • TRANSPOND

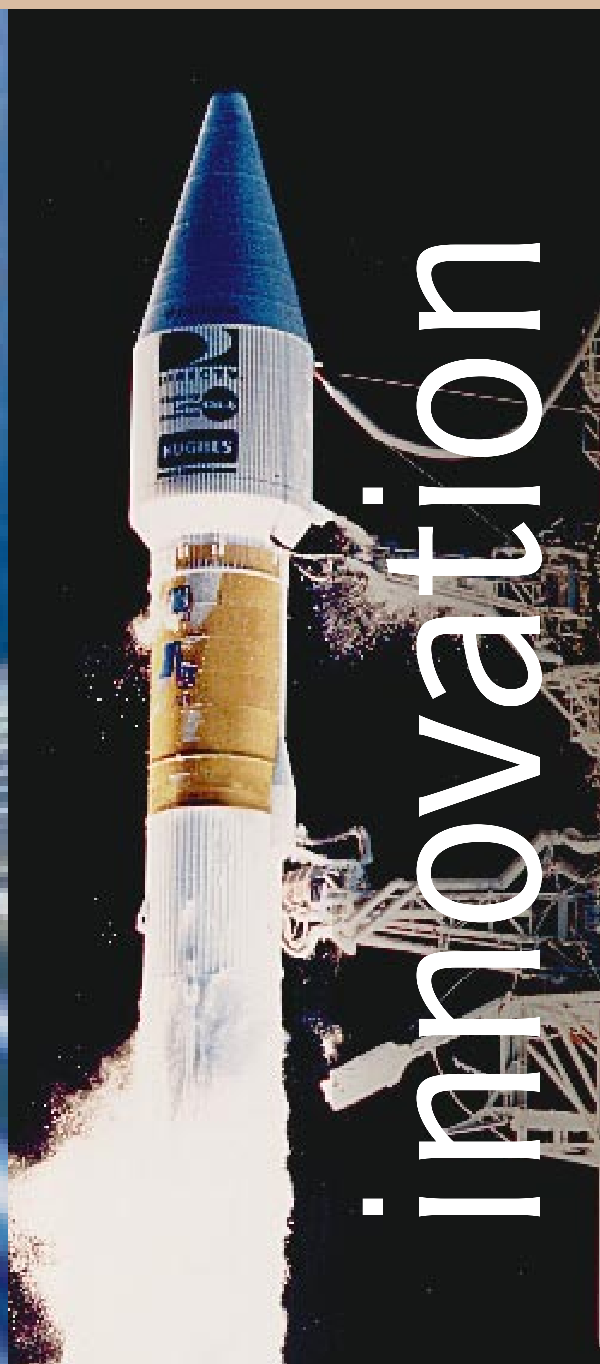






ER LEASING • DIRECTV® • SATELLITE FLEETS • GLOBAL MOBILE COMMUNICATIONS

limitless

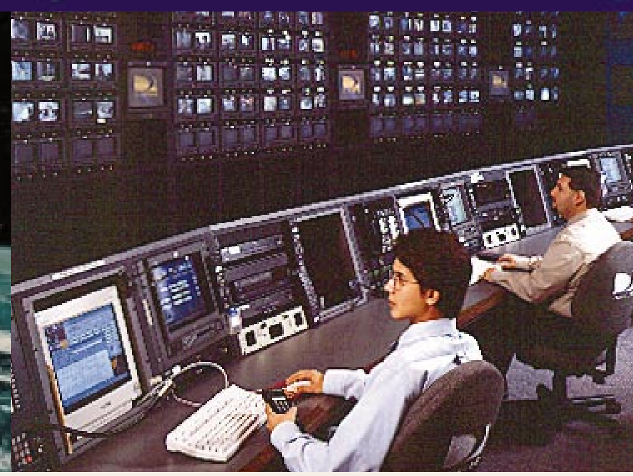


innovation

Introduction

Hughes Electronics stands on a threshold of vast telecommunications opportunities around the world. Everywhere we look, we see strong demand for low-cost advanced communications – for networks of telephones, televisions and computers that will handle the boundless flows of conversation, entertainment, information and

SATELLITES • DIRECPC™ • TRANSPONDER LEASING • DIRECTV® • SATELLITE FLEETS •



HUGHES SPACE & COMMUNICATIONS

HUGHES NETWORK SYSTEMS

PanAmSat

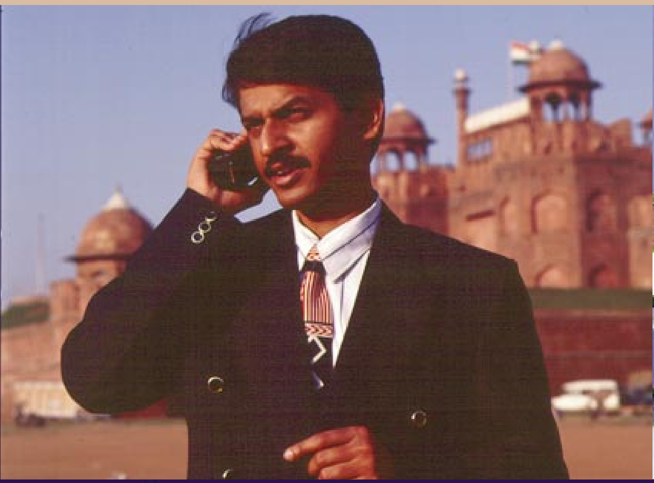
DIRECTV

business data fundamental to modern existence.

To tap these global possibilities, we are leveraging the company's leadership in designing and building satellites and wireless systems into delivering innovative communications services to businesses and homes.

We are using our rich store of technologies, talents and other assets to lead global markets, build our businesses and create new value for shareholders.

INTERNET • SHARED HUBS • PERSONAL COMMUNICATIONS



VISION

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Message to Shareholders

Left to right:

Charles H. Noski,

Michael T. Smith,

Steven D. Dorfman

Following the spin-off of its defense and automotive businesses, the new Hughes, as a telecommunications and space-focused company, is uniquely qualified to take advantage of unprecedented growth opportunities around the world.

The surging demand for entertainment, business networking, Internet access, mobile telephony, and development of communications infrastructures has led businesses and consumers everywhere to turn to satellite and wireless technologies, which are unparalleled in their ability to provide fast, far-reaching and cost-effective communications.

Hughes is the market leader in four major industry segments that supply this demand – satellite manufacturing, wholesale satellite distribution services, telecommunication networks, and satellite television broadcast directly to the consumer. Through the innovative products and services that we designed and introduced, we have not only carved out new markets in these areas, but continue to set the standards for quality and service.

1997

To bolster our position as the world's paramount satellite and wireless company, we have adopted the following key strategies:

- Maintain technology and market leadership in each main business segment;
- Continue to leverage systems competencies to move into faster growing telecommunications services;
- Offer integrated systems solutions, and differentiated products and services; and
- Achieve on average, over the next five years, 20 percent annual growth in revenues and an even higher growth rate in earnings, and continue to emphasize creation of shareholder value.

Perhaps the success of our **DIRECTV** business best exemplifies these strategies. By exploiting our advanced satellite manufacturing technology, DIRECTV® was first to offer digital television through a small (18-inch) dish and has since become the most successful product rollout in U.S. consumer electronics history. DIRECTV has added approximately one million new subscribers per year and is in one out of every 28 homes in the United States. Today, DIRECTV has more subscribers than the other two major satellite-TV services combined, and nearly 80 percent of our new customers come from areas already served by cable television providers.

To strengthen our market leading position, DIRECTV will continue to offer simplified, more affordable consumer packages and also new services, including Internet access and the nation's first high-definition television programming.

Additionally, we are pursuing new approaches to distribution and marketing, such as our recent agreement with two regional telephone operating companies, Bell Atlantic and SBC Communications, which will use their strong local presence to increase DIRECTV's subscriber growth.

The success of DIRECTV in the U.S. has positioned us to develop similar services in other parts of the world. Galaxy Latin America, launched in 1996, already leads the direct-to-home market throughout Latin America and the Caribbean. And DIRECTV Japan, inaugurated at the end of 1997, will help meet the pent-up demand for high-quality multi-channel service in a nation of 40 million TV households.

In our other principal service business, **PanAmSat**, the world's leading commercial provider of satellite-based communications services, expanded its global constellation to 17 satellites following the merger with Hughes' Galaxy fleet and a number of recent successful satellite launches. Today, PanAmSat is the only commercial satellite operator in the world that can provide one-stop shopping for national, regional and global distribution services, a key reason why it has an 80 percent fleet utilization rate and a large backlog.

To meet the accelerating demand for satellite services, PanAmSat plans to deploy seven new satellites by the end of 1999, increasing transponder capacity by over 60 percent. This new capacity will satisfy the expected continuing strong demand for traditional services such as video broadcasting, while at the same time accommodating the anticipated demand for newer services such as Internet access and other interactive multimedia applications.

Hughes Space & Communications Company (HSC), our satellite manufacturing unit, increased its market share in 1997 as it continued to win over 50 percent of all competitions, and ended the year with a backlog of nearly $4 billion and 36 satellites. This year we expect to launch more satellites than ever before, among them our first mid-earth orbit satellite for ICO's worldwide hand-held phone service, and our newest satellite, the HS 702, with nearly twice the power and capacity of our popular HS 601.

In 1997, **Hughes Network Systems** (HNS) continued to be the worldwide leader with its more than 60 percent market share in satellite-based private business networks, and ended the year with a record backlog of $1.1 billion. The company's terrestrial wireless telephony operation continues to win important business that positions it for future growth. HNS' most notable opportunity is to supply equipment for – and also to operate – a major telephone system in Maharashtra, India, that nation's wealthiest state and the backbone of its business and financial infrastructure.

Meanwhile, HNS' DirecPC™ service continues to build demand around the world for consumers seeking affordable, high-speed access to the Internet via satellite.

Looking ahead, our SPACEWAY™ program, now in development, represents one of the next major opportunities to leverage our systems competencies for early entrance into a fast-growing telecommunications market. SPACEWAY will tap the tremendous potential of the next generation in ultra-fast global two-way communications of voice, video and data by using the new Ka-band frequency.

With this unique combination of businesses capable of offering cost-effective telecommunications solutions, we are poised for strong financial growth and generation of exceptional shareholder value. Our focus on shareholder value was most recently illustrated by completion of the Hughes Transactions that included the spin-off of Hughes Defense followed by its merger with Raytheon Company, and the transfer of Delco Electronics to General Motors' Delphi Automotive Systems. The $9.8 billion valuation for Hughes Defense and the $6.5 billion valuation for Delco Electronics and other factors represented a significant premium to public comparables. Additionally, the $4.0 billion in cash received by the new Hughes as a result of these transactions has substantially enhanced our balance sheet.

As Hughes turns a new corner in its long and successful history, we are mindful of the pivotal role our company has played in this nation's defense and in the development of safer, more efficient automotive products. Much of our success can be attributed to the outstanding employees with whom we have had the honor to work. We wish them all the best in their new roles at Raytheon and Delphi, two businesses that are now positioned to be world leaders in their respective areas.

However, as we look forward to the vast opportunities in every corner of the globe, we sense that what has gone before is but a prelude to the most exciting and rewarding period in the ongoing Hughes story. Given our experienced management team, strong market leadership, innovative products and services, and sound balance sheet, we believe we are well positioned to take advantage of the enormous worldwide growth opportunities in telecommunications.

Michael T. Smith
Chairman and Chief Executive Officer

Charles H. Noski
President

Steven D. Dorfman
Vice Chairman

Hughes Electronics Corporation

Financial Highlights*

(Dollars in Millions, Except Per Share Amounts)	1997	1996	1995
FOR THE YEAR			
Revenues	$ 5,128	$ 4,009	$ 3,153
Earnings	471	184	27
% of Revenues	9.2 %	4.6 %	0.9 %
Operating Profit	$ 306	$ 210	$ 172
% of Revenues	6.0 %	5.2 %	5.5 %
Pro Forma Earnings Attributable to General Motors			
Class H Common Stock			
Total	$ 119	$ 45	$ 7
Per Share	1.18	0.46	0.07
Average Number of Shares of			
GM Class H Common Stock			
Outstanding (in millions)	101.5	98.4	95.5
Capital Expenditures (1)	$ 827	$ 449	$ 442
Research and Development Expenses	120	95	75
Return on Equity (2)	9.5 %	8.9 %	1.4 %
Pre-Tax Return on Total Assets (3)	8.2 %	8.0 %	3.8 %
AT YEAR-END			
Cash and Cash Equivalents	$ 2,784	$ 7	$ 8
Backlog	10,338	6,781	7,057
Number of Employees (in thousands)	14	12	10

* Financial Highlights are unaudited and exclude purchase accounting adjustments related to GM's acquisition of Hughes Aircraft Company. See further discussion regarding the basis of presentation in Note 1 to the financial statements.

(1) Includes expenditures for satellites of $575 million in 1997, $188 million in 1996 and $275 million in 1995.

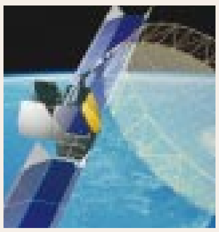
(2) Earnings Used for Pro Forma Computation of Available Separate Consolidated Net Income divided by average owner's equity (General Motors' equity in its wholly-owned subsidiary, Hughes Electronics). Holders of GM Class H common stock have no direct rights in the equity or assets of Hughes Electronics, but rather have rights in the equity and assets of GM (which includes 100% of the stock of Hughes Electronics).

(3) Income from continuing operations before income taxes and extraordinary item divided by average total assets.

hughes at a glance

Systems & Hardware

Two Hughes businesses focus principally on markets for satellite-based and ground-based communications systems and hardware. Both Hughes units are recognized for their superb technology, efficient manufacturing capabilities and track records of market leadership.



Hughes Space & Communications (HSC)

manufactures satellites and payloads, including the industry's newest, largest and most powerful spacecraft, the HS 702, and the industry's two most popular spacecraft, the HS 601 and HS 376.

HSC'S COMPETITIVE EDGE INCLUDES:

- more than 50% share of the competed world market for geosynchronous satellites over the past several years;
- industry-leading technologies and spacecraft reliability;
- high-volume, low-cost manufacturing, and short delivery schedules; and
- ability to offer integrated systems solutions.

HSC'S STRATEGIES ARE TO:

- maintain its number one position in the world in commercial satellites, while leading the industry in technology and reliability;
- strengthen competitiveness and profitability by further improving its manufacturing productivity and cycle times;
- assure affordable access to space;
- maintain a favorable mix of government and commercial sales; and
- leverage advanced technology to gain a competitive advantage in emerging communications services.

		1997 VS. 1996 INCREASE/(DECREASE)
Revenues	$2,491.9 million	21.2%
Operating Profit	$226.3 million	23.5%
Operating Margin	9.1%	0.2 pts.

HSC Percent of Hughes Revenues

Hughes Network Systems (HNS)

builds and services satellite-based private business networks and terrestrial wireless telephone systems around the world. It also manufactures equipment for DIRECTV, Hughes' digital direct-to-home television service, and for DirecPC, our high-speed Internet access service.

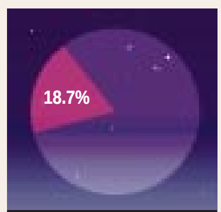
HNS' COMPETITIVE EDGE INCLUDES:

- more than 60% share of the world market for interactive VSATs (very small aperture terminals);
- leadership in the world market for wireless local loop telephone systems;
- advanced, market-driven digital technology; and
- partnership in an exclusive license to provide telephone equipment and services to India's wealthiest states.

HNS' STRATEGIES ARE TO:

- maintain leadership in its core business of satellite-based communications networks and systems;
- continue its international growth in wireless local loop telephone systems;
- increase distribution of DirecPC and DirecDuo services and accelerate subscriber growth; and
- develop the new Indian telephone service business into a significant source of future value.

		1997 VS. 1996 INCREASE/(DECREASE)
Revenues	$1,011.3 million	(5.5)%
Operating Profit	$74.1 million	(31.2)%
Operating Margin	7.3%	(2.8) pts.

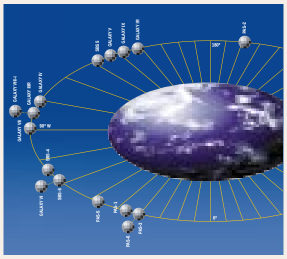


HNS Percent of Hughes Revenues

Note: Revenues, operating profit and percentage of revenues exclude purchase accounting adjustments related to General Motors' acquisition of Hughes Aircraft Company, "Eliminations" and "Other" (see Note 19 on page 57).

Services

Two Hughes businesses focus principally on high-growth markets for entertainment and communications services. Both Hughes units are distinguished by their ability to get to market quickly, provide exemplary customer service and maintain leadership in emerging global markets.



PanAmSat

serves U.S. and international customers with a global fleet of spacecraft. PanAmSat, owned 71.5% by Hughes, provides satellite distribution services to meet the growing demand of television networks, cable TV providers, direct-to-home TV broadcasters, telephone carriers and Internet service providers.

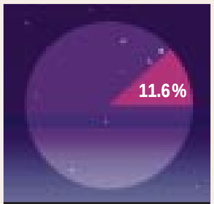
PANAMSAT'S COMPETITIVE EDGE INCLUDES:

- unmatched global coverage through 17 satellites with over 520 transponders;
- large backlog and long-term contracts with "blue chip" customers; and
- valuable orbital slots to optimize current operations and fuel future growth.

PANAMSAT'S STRATEGIES ARE TO:

- build loyalty of customers by continuing to offer them one-stop shopping for national, regional or global satellite transmissions;
- provide innovative value-added services such as satellite "neighborhoods"; and
- expand its satellite fleet and introduce valuable new satellite distribution services and applications such as Internet access.

		1997 VS. 1996 INCREASE/(DECREASE)
Revenues	$629.9 million	30.5%
Operating Profit	$296.2 million	22.2%
Operating Margin	47.0%	(3.2) pts.



PanAmSat
Percent of Hughes Revenues

DIRECTV Global

uses satellites, compact dishes and digital receivers to provide hundreds of channels to TV viewers on three continents. The first high-powered all-digital direct-to-home television service in the United States offers 185 video channels to more than 3.3 million subscribers. Working with local partners, Hughes also has successfully introduced DIRECTV throughout Latin America and the Caribbean, and into Japan.

DIRECTV GLOBAL'S COMPETITIVE EDGE INCLUDES:

- rapidly growing subscriber base;
- worldwide franchise and brand name recognition;
- differentiated programming and reputation for quality and customer service; and
- multiple equipment manufacturers and broad distribution networks.

DIRECTV GLOBAL'S STRATEGIES ARE TO:

- build market share through aggressive marketing and by making consumer offers more affordable and simpler;
- increase subscriber value by offering superior programming choices and unparalleled customer service; and
- broaden its distribution networks.

		1997 VS. 1996 INCREASE/(DECREASE)
Revenues	$1,276.9 million	105.6%
Operating Loss	$(254.6) million	N/A

DIRECTV Global
Percent of Hughes Revenues

space & communications

Hughes Space & Communications Company (HSC) builds spacecraft, payloads and complete systems for commercial customers worldwide and for the Department of Defense, the National Aeronautics and Space Administration (NASA) and other U.S. government agencies.

HSC offers the industry's leading communications satellites. The HS 601 family of body-stabilized satellites provides a wide range of power and payload packages. The ultra-reliable spin-stabilized HS 376 series offers an exceptional combination of versatility, value and short delivery times. Through 1997, a total of 65 HS 601s and 53 HS 376s have been built or ordered, making them the most popular large commercial satellites in the marketplace. The HS 702 is Hughes' newest, largest and most powerful spacecraft, and will nearly double the number of transponders and power of the basic HS 601. By year-end 1997, three HS 702s were on order from PanAmSat.

Strengths

HSC's key strengths include its industry-leading technologies, manufacturing efficiency and spacecraft reliability. Over the last 35 years, HSC has produced more than 165 satellites – in recent years at a rate averaging one a month. Its commercial communications spacecraft have accumulated nearly 900 years in orbit, more than twice HSC's nearest competitor. And HSC's satellites have achieved the highest reliability rate in the industry, with over 99% channel availability. More than 95% of its spacecraft have remained in service beyond their scheduled retirement dates.

Technical advances continually improve the performance, reliability and versatility of HSC's satellites and cut production time. In fact, HSC now offers satellite delivery times of 14 months for the HS 376 and 22 months for the HS 601, representing cycle time improvements of more than 50 percent and 40 percent, respectively, since 1992.

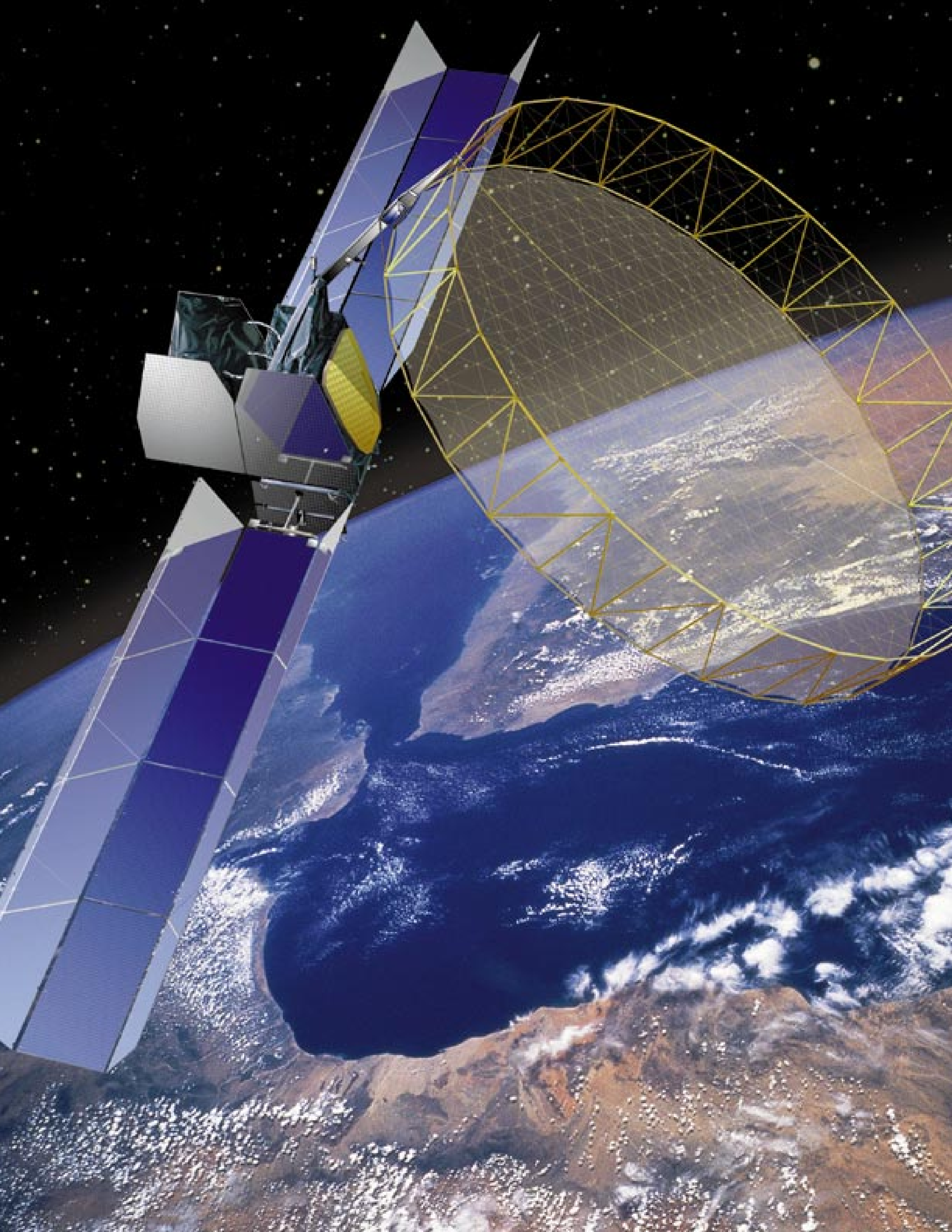
The company enjoys a mix of government and commercial business, with approximately 36% of 1997 revenues from government customers. At year-end, it had orders for 36 spacecraft worth nearly $4 billion from companies and government agencies in nine countries.

To ensure access to space for its customers at competitive prices, HSC has long-term agreements for 56 future launches by five of the world's top launch providers. And it has designed launch versatility into its spacecraft so that, for instance, the HS 601 family of satellites can be carried into orbit by most of the world's launch vehicles.

1997 Accomplishments

HSC has won over 50% of the dollar value of all competitive bids in the last several years. In 1997, an important win was a $960 million contract from Thuraya Satellite Telecommunications Company of the United Arab Emirates for a satellite-based mobile communications system serving dozens of countries from Eastern Europe, North Africa and the Middle East to Central Asia and the Indian subcontinent.

The Thuraya system will incorporate a new series



of Hughes satellites derived from the HS 702 design: the HS-GEM (for "geostationary mobile communications") spacecraft employs advanced digital processing and a large antenna to create many spot beams that allow telephone calls to be directed to specific users.

Other contract awards came from customers in Mexico, Norway, Russia, Sweden and the U.S. In addition, HSC continued to construct a fleet of 12 satellites for ICO Global Communications for delivery beginning in late 1998. These advanced spacecraft, which will be launched into mid-earth orbit to create ICO's planned worldwide mobile hand-held telephone system, will feature digital transmission of voice, data, facsimile and messaging services.

HSC celebrated a dual technological achievement in August with the launch of PAS-5 for PanAmSat. It is one of the most powerful commercial satellites in orbit, an HS 601 HP (for high powered) model. It generates 9.7 kilowatts through the first commercial use of highly efficient dual-junction gallium arsenide solar cells – developed by Hughes scientists – that offer nearly double the efficiency of traditional silicon-based solar cells.

PAS-5 is also the first commercial satellite using a new kind of onboard propulsion for stationkeeping. Its xenon ion propulsion system (XIPS) was developed and built by Hughes. XIPS enables spacecraft to maintain orbital position more efficiently by relying on electric propulsion rather than chemical propulsion. It can reduce by as much as 90% the propellant mass that must be carried aboard a satellite. This weight savings can be used to cut launch costs, increase payload, or carry more xenon fuel to extend the spacecraft's lifetime.

Under U.S. government contracts, HSC continued to build spacecraft and related systems for various military and civil satellite communications projects and classified programs. For instance: NASA Tracking and Data Relay Satellites; U.S. Air Force Milstar payloads; and U.S. Navy UHF Follow-On satellites and Global Broadcast Service payloads. Early in 1998, HSC won an important contract worth more than $400 million (with options that could increase its value an additional $400 million) to build weather satellites for NASA and the National Oceanic Atmospheric Administration.

A new HSC subsidiary, Hughes Global Services, Inc., is selling satellite services to customers, primarily government agencies, that do not require full-time, dedicated satellites.

Left, HSC controllers monitor commercial satellites during their flight into space, orbital positioning and testing. *Center,* Technicians check JCSAT-4, HSC's fourth spacecraft for Japan Satellite Systems, Inc., before its successful launch. *Far right,* Artist's drawing of the high-powered HS 376 being built for a Scandinavian direct-to-home television service and scheduled for launch in 1998.

1998 Goals and Outlook

1998 promises many important milestones: HSC expects a record number of its satellites to be launched, including its first spacecraft for ICO and its first HS 702, both in the fourth quarter. This HS 702, PanAmSat's Galaxy XI, also will be the first satellite launched from a mobile ocean-going platform anchored at sea. This approach allows greater flexibility in placing spacecraft into optimal orbits at lower cost.

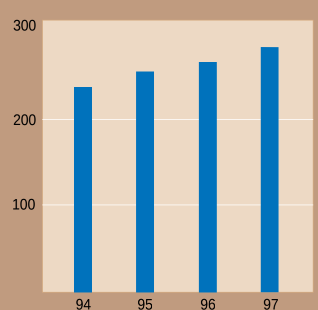
In both commercial and government satellite markets, HSC anticipates growing opportunities as global demand increases for mobile telephone systems, direct satellite broadcast of television, wideband services, and other telecommunications services tailored to users' requirements. This upsurge is clearly pointed to by industry-wide forecasts of nearly 1,700 satellites worth $121 billion to be launched over the next decade.

In addition to building satellites for geosynchronous orbit and mid-earth orbit, HSC will pursue opportunities to construct satellites for low-earth orbit. And it expects to develop new payloads for advanced communications systems to make broadband and multimedia applications cost-effective.

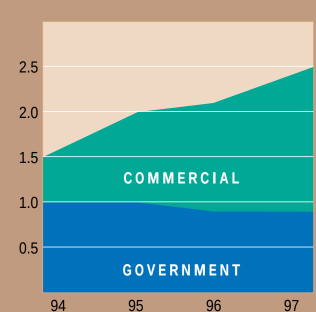
As a satellite manufacturing and services company whose diverse operations complement and work closely with one another, Hughes is uniquely positioned to anticipate and respond to markets with offerings that no competitor can match. The company's full range of capabilities recently led to several opportunities to provide overall systems solutions for customers.

For example, HSC is designing and building a fleet of a dozen advanced satellites for ICO Global Communications' mobile telephone system. HNS is a member of the team building the system's ground stations. HSC also is designing and building a complete regional satellite-based mobile communications system for the Thuraya Satellite Telecommunications Company. HNS and other team members will provide Thuraya's integrated ground systems and control software, plus 235,000 hand-held telephones.

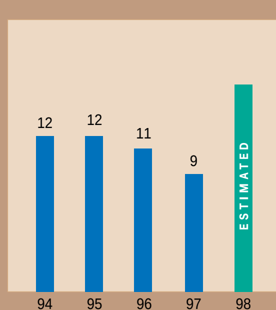
Other projects that will similarly exploit the synergies among Hughes' four principal businesses are in the works. This spring, DIRECTV, along with Ethnic American Broadcasting Company, plans to offer U.S. subscribers a 20-channel ethnic programming service using a satellite built by HSC, operated by PanAmSat and employing a special receiving dish and set-top receiver designed and produced by HNS.



Satellite Mfg. Average Revenue per Employee ($Thousands)



Satellite Manufacturing Revenues ($Millions)



Satellite Launches

network systems

Hughes Network Systems (HNS) builds satellite-based communications networks and rural telephone systems worldwide using very small aperture terminals called "VSATs." It manufactures the AIReach™ family of products for wireless local loop telephone systems and, in addition, mobile and PCS (personal communications system) cellular telephone systems for system operators. HNS has installed its networks and systems in over 60 nations and provides around-the-clock support and services for them, and it operates a shared-hub VSAT service for many customers. The company also manufactures subscriber equipment for reception of Hughes' digital direct-to-home television service, DIRECTV.

Further, HNS operates two emerging service businesses (for which it manufactures equipment as well). With its DirecPC™ system, the company provides a high-speed link to the Internet for computer users in many parts of the world. And, as a result of an exclusive license award in India, HNS will supply telephone service to potentially millions of customers through Hughes Ispat Ltd., a company in which Hughes is a shareholder.

Strengths

Worldwide, through 1997, HNS had under contract more than 170,000 interactive VSATs and 50,000 Telephony Earth Station VSATs for use in satellite communications networks set up by companies, government agencies and universities to transmit and receive data, voice and video. HNS pioneered the VSAT market and remains the industry leader today by offering customers superior, market-driven technology and performance, while taking advantage of high volumes to lower costs.

Its wireless local loop telephone systems are operating in Russia, the Czech Republic, Brazil, Vietnam, Indonesia and Malawi. In fact, there are now approximately one million wireless lines under contract, and HNS expects to garner further business opportunities as the deregulation and privatization of national telephone systems continues. Wireless local loop systems enable telephone companies to provide service to customers quickly. In areas that do not have terrestrial telephone infrastructure in place or are rapidly outgrowing existing capacity, wireless local loop offers a cost-effective, flexible and easily implemented solution.

In cellular telephony, HNS has supplied systems in over 50 U.S. markets supporting roughly two million cellular subscribers.

For both end-user and carrier customers using terrestrial networks, HNS' new line of Radiant™ switches and network management systems helps extend the reach of high-speed data networks and can interconnect tens of thousands of new users at multiple locations. HNS' Radiant™ products also offer customers the ability to expand their business networks to support voice, video and data.

DirecPC, which HNS created, provides unprecedented speed to Internet users nationwide. At 14 times faster than standard modems, it is the fastest Internet access service available throughout the U.S.


24 hrs.
FoodMart

1997 Accomplishments

With several important new contract wins in 1997, HNS maintained its lead in the interactive VSAT market, where it holds more than a 60% share worldwide. In the former Soviet Union, two contracts for VSAT networks were won in Kazakhstan, plus contracts in Russia and Tajikistan, and a system was deployed in the Ukraine. A 1,000-VSAT system was ordered by HNS' subsidiary in New Delhi, and a smaller VSAT network began operations linking two of India's stock exchanges to member brokers across the country.

Other VSAT systems were sold to China for use in a nationwide paging network, to Turkey to provide telephone services in rural areas, and to leading companies in Italy, Mexico and the U.S. In Thailand, a rural VSAT network built by HNS enables the nation's telephone company to provide telephone services to more than 4,000 villages.

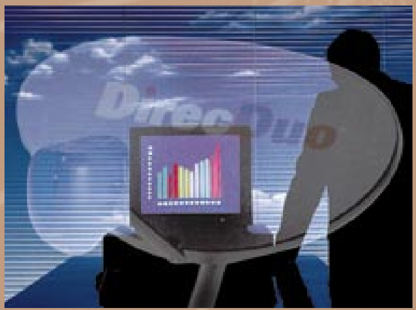
Across the U.S., HNS installed about 13,500 VSATs in 1997, a 13% increase over the previous year. Included was the completion in July of a VSAT system linking more than 5,000 of Mobil Corporation's gasoline stations. HNS deployed and implemented this large network in fewer than 12 months, achieving a significant milestone.

HNS also maintained its world-leading share in emerging markets for wireless local loop telephone systems, installing a second system in Vietnam and signing a contract to set up major systems in the Ukraine and India.

To help win customers for its DirecPC service, HNS has signed up more than 2,000 sales outlets across the U.S. and licensed numerous service providers to sell DirecPC internationally. In the U.S., sales outlets include retail chains such as CompUSA, Staples and Circuit City. In Europe, where DirecPC has been introduced in more than a dozen countries so far, sales have been especially strong to the automotive and financial services sectors. DirecPC is also available in Canada, India, Japan and South Korea.

HNS has introduced new software enabling DirecPC to offer the first "push" services available anywhere by satellite transmission. Push services automatically download information from the Internet and store it in subscribers' personal computers, thus giving them access to news and information files routinely and quickly, and helping them avoid time-consuming Internet searches.

DirecDuo™, a new product that paves the way for the convergence of PCs and TV sets, was launched by HNS in 1997. With a single 21-inch elliptical satellite dish, it brings the Internet and other data to users' personal computers and DIRECTV to their television sets.



DirecPC and DirecDuo are HNS' solution to the demand for high-speed distribution of data, video files *and* TV programs. With DirecPC, computer files travel via the Internet and satellite straight to subscribers' computers. And DirecDuo's 21-inch elliptical dish delivers all of DirecPC's features to subscribers' computers, plus DIRECTV to their TV sets.

These HNS-built antennas, called very small aperture terminals (VSATs), were installed on the grounds of the Delhi stock exchange in 1997. They are part of a new VSAT network that links member brokers across India to facilitate securities trading, HNS leads the world in installing and operating VSAT networks.

During 1997, new orders for HNS' wide range of telecommunications equipment and services reached a record $1.6 billion.

1998 Goals and Outlook

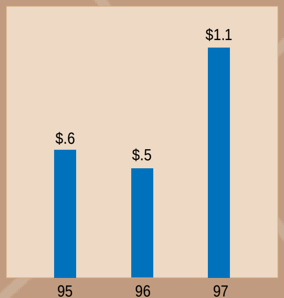
Developing countries around the world realize the necessity of building up communications infrastructure as rapidly as possible. Communications is the gateway to the global economy. HNS provides such nations with a way to avoid the high cost and long delays associated with installing extensive terrestrial communications lines. Instead, these countries can leapfrog directly to a state-of-the-art communications infrastructure using satellite-based networks and wireless local loop telephone systems. As a result, HNS expects worldwide demand for its products and services to continue growing.

In 1998, HNS intends to make DirecPC available in virtually every country in Europe, as well as throughout Latin America and across Asia. It is working to establish DirecPC as the global standard for high-speed multimedia transmissions via satellite to personal computers in the home, small office and corporate markets. And the company hopes to attract more subscribers by making DirecPC equipment easier to use, reducing prices, and improving distribution by creating more points of sale.

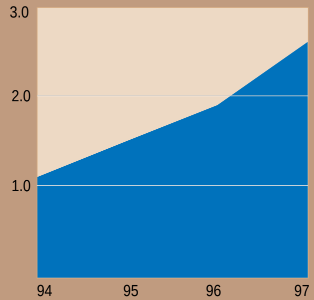
In India, a local company that HNS partly owns has received an exclusive government license to provide basic and value-added telephone services within the states of Maharashtra and Goa starting in 1998. The partnership's service area – which includes India's thriving financial and business center, the city of Mumbai (Bombay) – has more than 80 million potential telephone customers.

Maharashtra is considered the wealthiest state in India, with per capita income 50% higher than the national average.

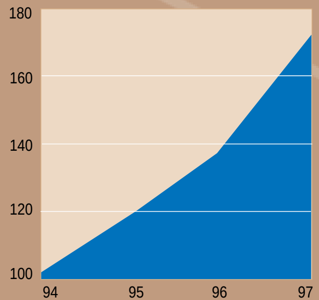
Late in 1997, HNS signed an agreement to initially provide the partnership with wireless local loop telephone systems and other advanced communications equipment. The contract for equipment and related services is expected to be worth approximately $500 million to HNS over the next three years.



HNS Backlog (Billions)



Cumulative Wireless Telephone Lines Under Contract (Millions)



Cumulative Interactive VSATs Under Contract (Thousands)

PanAmSat

As a result of the 1997 merger with Hughes Galaxy Communications, PanAmSat Corporation (71.5% owned by Hughes) now provides satellite services to hundreds of cable TV programmers and television broadcasters across North and South America, Europe, Asia, the Middle East and Africa. In addition, the company serves seven current or planned direct-to-home TV services aimed at the Americas, South Africa, the Middle East and India. And, worldwide, its satellites provide telecommunications services and Internet access to numerous carriers and businesses, including Hughes Network Systems.

The merger achieved a seamless integration of two complementary systems, the U.S. Galaxy® satellite fleet and the "old" PanAmSat's international fleet of spacecraft. Now, as its customers' business interests increasingly become global, the new PanAmSat's 17 spacecraft in orbit – combining over 520 transponders – are in heavy demand. PanAmSats' services also seed a fast-growing global market for television, business networks and Internet access. In fact, Internet service providers in nearly 30 countries already obtain their access to the U.S. Internet backbone over PanAmSat's global satellite system.

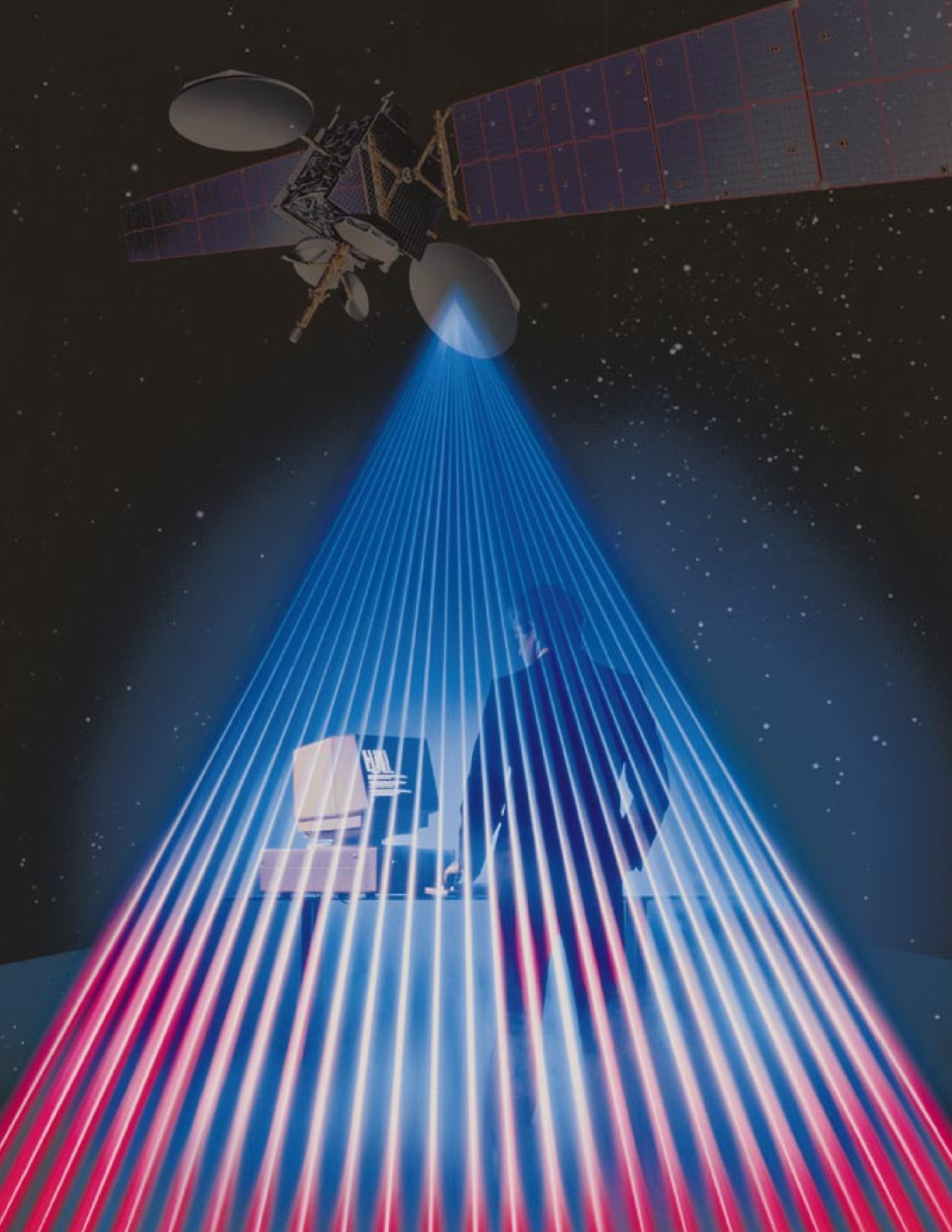
Most of PanAmSat's services are sold under long-term contracts, typically 10 years, resulting in a significant backlog that produces strong and predictable cash flows.

Strengths

PanAmSat is the world's leading commercial provider of satellite-based communications services, and is recognized as a leader both in established and emerging markets. Further, the company's global satellite network is designed to maximize effectiveness and efficiency for users around the world. Nearly 99% of the world's population is within its coverage area. In addition to its well-positioned current fleet, PanAmSat has valuable orbital slots for future satellite launches, both in the traditional C-band and Ku-band frequencies and in the higher Ka-band frequency. Additional license applications are pending for Ka-band and V-band frequencies.

PanAmSat is a one-stop provider of value-added satellite services: it is the only commercial company capable of providing national, regional and worldwide coverage. Another advantage is its prime cable TV and broadcast TV satellites, often called "neighborhoods." Because popular programming is delivered over these satellites, they also become popular neighborhoods for cable and broadcast system operators when they are accessing programming for their viewers. As a result, other programmers have a good reason to join the channel lineup. Thus, both customer groups, programmers as well as cable and broadcast companies, have a strong incentive to stay with PanAmSat.

PanAmSat also enjoys significant revenue diversification, both geographically and in serving three major markets: video distribution, direct-to-home television and telecommunications services. Its customers include blue chip broadcasters such as the BBC, Disney, NHK, Time Warner and Viacom, major corporations such as GM, Citicorp and Wal-Mart, and worldwide news organizations, including the Associated Press and Reuters.

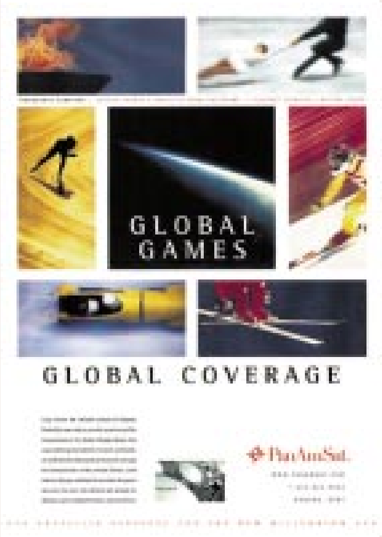


PanAmSat

1997 Accomplishments

PanAmSat's major accomplishments in 1997 included completing the merger and smoothly integrating its U.S. and international satellite fleets. And it introduced a new high-speed Internet access service, called SPOTbytes, that offers fast, dedicated links to the Internet in the United States and dozens of other countries.

PanAmSat improved its financial flexibility by changing its debt structure. In December, the company refinanced $1.1 billion in high-yield debt and, a month later, issued $750 million worth of new investment grade bonds. Subsequently, PanAmSat will enjoy significant interest expense savings.



The company also successfully launched three new satellites primarily serving the Americas. In August, the PAS-5 spacecraft was launched on a Russian Proton rocket from the Baikonur Cosmodrome in Kazakhstan. This satellite is one of PanAmSat's most powerful, a Hughes-built HS 601 HP spacecraft carrying 48 transponders.

For PAS-5, PanAmSat signed customers such as ESPN International, Sony Entertainment, HBO Ole, and a joint venture of Discovery Communications, Inc. and the BBC. Together, they plan to transmit more than 20 cable TV channels throughout Latin America and provide digital direct-to-home television to Mexico, along with a wealth of video, data and other information for businesses operating throughout the Americas and across the Atlantic Ocean into Europe.

The PAS-6 satellite, built by Space Systems/Loral, was launched to serve the direct-to-home market in Latin America. However, as a result of technical anomalies limiting its service capacity, PanAmSat ordered a new satellite (PAS-6B) to be built by HSC.

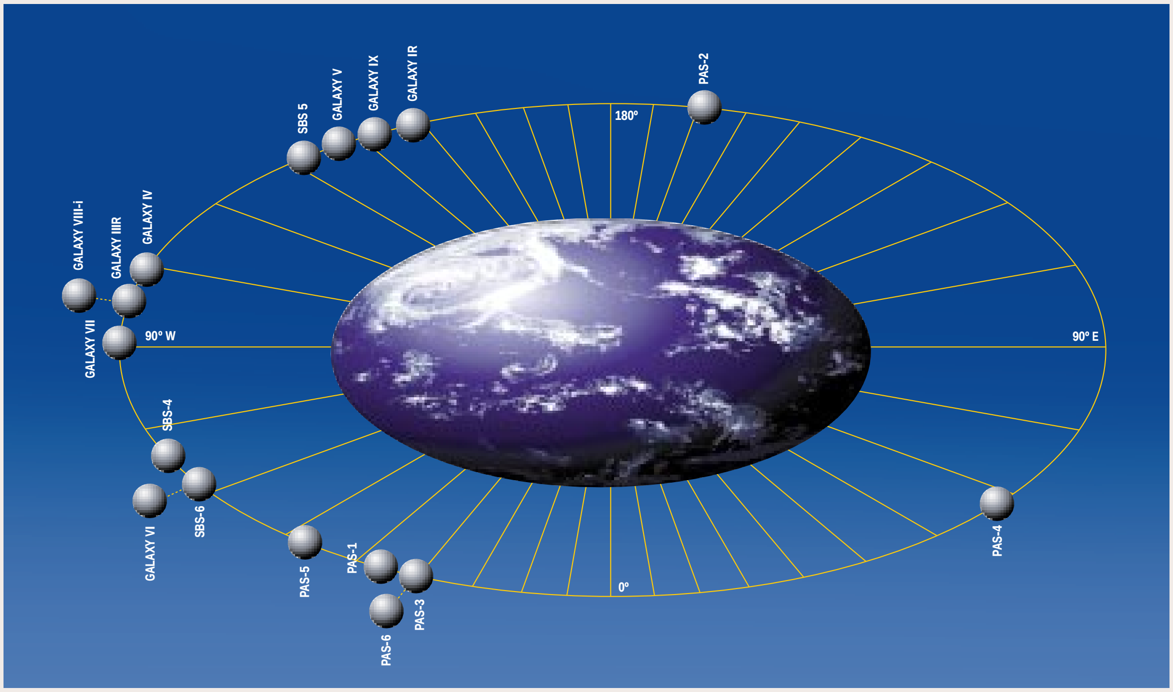
In December, PanAmSat's Galaxy VIII-i satellite – another Hughes-built HS 601 HP spacecraft – was successfully launched on an Atlas rocket from Cape Canaveral. It will transmit over 250 digital TV channels to DIRECTV's Latin American subscribers. PanAmSat now operates five satellites serving the Latin American region.

1998 Goals and Outlook

PanAmSat's 1998 goals include launching up to five new satellites. With the successful launch of these satellites, PanAmSat will increase its transpon-

PanAmSat's satellites help connect U.S. and international users of the Internet and deliver data to them 20 times faster than traditional telephone lines. Internet access is a bandwidth-intensive business, and PanAmSat's spacecraft offer a bandwidth-rich solution. The company is committed to serving this fast-growing market.

Advanced earth stations and satellite monitoring equipment stand beside PanAmSat's Global Operations Center outside Atlanta. The company's 33-acre facility offers plenty of growing space as worldwide demand for satellite-based communications services continues to expand.

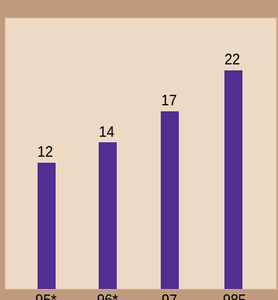


der capacity to over 35% to more than 700 transponders operating aboard 22 satellites.

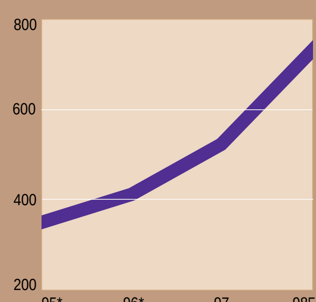
PanAmSat anticipates continued strong growth of its satellite-based video and telecommunications services, and plans to aggressively seek additional Internet service providers throughout the world.

The company believes significant technological breakthroughs are likely in the distribution of video, multimedia and other programming as U.S. cable TV distributors increasingly switch to digital media and as HDTV (high-definition television) broadcasting is introduced. Such technology developments, coupled with growing international distribution of TV programming and the increasing globalization of business, are likely to increase demand for satellite-based distribution, interconnection and networking services.

Anticipating continued growth over the next several years, PanAmSat is planning future higher-frequency Ka-band and V-band systems that will facilitate very fast two-way digital communications around the world.



Satellites In Orbit (Year-end)
*Pro Forma



Transponders In Orbit (Year-end)
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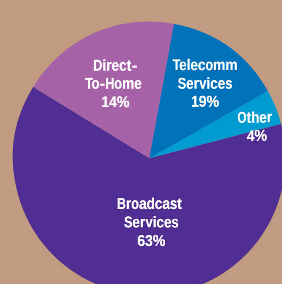


Percent of Business by Service

Opposite page center, the Winter Olympic Games in Nagano, Japan, gave PanAmSat another opportunity to showcase its global reach. It provided seamless coverage to TV broadcasters throughout Asia, the Americas and Europe. Above, PanAmSat's fleet of 17 spacecraft in orbit – with over 520 transponders – serves all points of the compass.

DIRECTV Global

DIRECTV is Hughes' direct-to-home television service. It uses satellites, compact dishes and digital receivers to provide hundreds of channels of video and audio programs featuring sharp pictures and crystal clear sound to millions of TV viewers on three continents. DIRECTV pioneered the small-dish industry and is the leading service provider in the U.S. and Latin America and the Caribbean. Soon, it hopes to be the leader in Japan as well.

In the U.S., DIRECTV's 185 video channels are received by more than 3.3 million subscribers. In Latin America and the Caribbean, Galaxy Latin America (GLA), a partnership created by Hughes and major communications and media firms in Venezuela, Brazil and Mexico, sends 140-plus video channels in Portuguese and Spanish to more than 300,000 subscribers. In Japan, a partnership of Hughes and eight Japanese firms launched DIRECTV Japan, with an initial offering of 63 video channels, expanding to 88 video channels in April 1998.

Strengths

DIRECTV has been the most successful U.S. consumer electronics product in history. Launched in 1994, it attracted three million subscribers in just over 40 months. By comparison, it took the entire cable TV industry nearly 20 years to sign up three million subscribers. DIRECTV's share of America's household television marketplace already makes it comparable in size to the nation's 5th largest cable TV operator.

DIRECTV is attracting new subscribers at a record pace while retaining an extremely high percentage of its current subscribers. One reason is that the company's performance earns very high customer satisfaction ratings. Another factor is the tremendous choice of programming. At $44 per month, average revenue per U.S. DIRECTV subscriber is higher than anticipated – because customers value the premium movies, popular sports and quality entertainment offerings that distinguish DIRECTV from most other satellite TV or cable television services.

In Latin America and the Caribbean, with more than 80 million TV households, the DIRECTV service has been introduced in 12 countries so far, representing 75% of the market. Hughes owns 60% of the GLA partnership and also owns or plans to purchase a minority share in each of the largest local operating companies. In 1997, average monthly Latin American revenues of $47 per subscriber demonstrated the demand for premium channels and pay-per-view movies.

In Japan, where Hughes is an approximately 32% owner of DIRECTV Japan, the new service is aimed at a potential market of 42 million TV households. Because the average Japanese household spends twice as much on entertainment as an average U.S. family, Japan is expected to be an important direct-to-home TV market. Cable TV penetration is quite low, and multi-channel television has only recently been introduced.

1997 Accomplishments

Hughes' revenues from its three direct-to-home television businesses totaled nearly $1.3 billion in 1997, more than double the previous year.

Within the U.S. direct-to-home market, DIRECTV has won more than 50% of the subscribers. Last year, the service attracted approximately


DIRECTV
53
KOONCE

a million subscribers for the third straight year and posted its best-ever holiday selling season, which included a record 409,000 new subscribers in the fourth quarter. More than 2,000 Kmart stores were added as retail outlets, bringing DIRECTV's total to more than 26,000 across the U.S. In addition, 18 new channels of programming were offered, including sports and news networks, and premium movies.

An agreement was signed with Action Adventure Network, a new venture that will produce action-adventure movies and TV series – by directors such as John Landis and Francis Ford Coppola. This original programming is now under production and will premiere on DIRECTV in 1998.

At year-end, DIRECTV was received in more than 400,000 hotel rooms and seen by patrons at thousands of restaurants, night clubs and other commercial establishments. DIRECTV also entered into agreements and partnerships that give it an opportunity to provide its service to 100,000 apartment, townhouse and condominium units across the nation. The potential multiple-dwelling unit market includes more than one quarter of all U.S. television households.

In Latin America and the Caribbean, DIRECTV expanded its programming to include exclusive offerings such as Disney Weekend, Playboy TV and Spanish League Soccer. In 1997, service was launched in Barbados, Chile, Colombia, Guatemala, St. Lucia, and Trinidad and Tobago.

In Asia, DIRECTV Japan's service got underway in December 1997. A very popular figure in Japan, film star Arnold Schwarzenegger, has become DIRECTV Japan's marketing spokesperson.

From the start, DIRECTV Japan has provided subscribers superior value, higher quality video, and a better array of local and international programming than competing satellite TV or cable TV systems.

1998 Goals and Outlook

DIRECTV expects the strong worldwide demand for multi-channel TV to continue in 1998 and beyond. To attract more U.S. subscribers, DIRECTV plans to work with retailers to make the purchase process simpler for customers. It has mounted a more aggressive advertising campaign that directly targets cable television subscribers. And finally, it is improving the value of offerings to customers by addressing issues such as access to local TV channels and the cost of extra digital receivers for subscribers with more than one TV set.

DIRECTV also is seeking broader and new kinds of distribution across the country. For example, in February 1998, long-term marketing agreements were reached with Bell Atlantic and SBC Communications, Inc., both important regional

Under an agreement signed in 1997, the Action Adventure Network is producing original movies and new TV series for DIRECTV. Filming is being overseen by some of the world's best directors, and the programs will air first on DIRECTV in 1998.

Subscribers to DIRECTV Japan's service already have a fast-growing lineup of channels to choose from, including more local and international programming than the competition provides. In 1998, subscribers will also be offered exclusive new interactive services – betting, shopping and ticket buying – directly through their TV sets.

telephone operating companies, to offer DIRECTV service to millions of their customers.

In March 1998, eight popular channels of music television and comedy, children's and movie programming were added to DIRECTV's U.S. programming packages at no extra cost to the subscriber. And this fall, it plans to offer America's households the first nationwide high-definition television programming as HDTV sets become available.

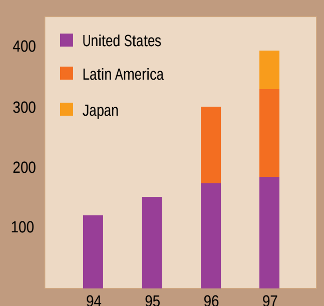
A next generation service called DIRECTV Inter@ctive™ is also being readied for introduction in the U.S. Through personal computers, and eventually through television sets as well, it will deliver home entertainment that combines all of DIRECTV's programming with new interactive services. These will include "the best of the World Wide Web," data-enhanced TV, news, sports and financial tickers, and software downloads.

In Latin America, DIRECTV is expected to reach five more countries, including Argentina and Peru, thus widening its service area to 97% of the marketplace. Utilizing a new Hughes satellite launched in December 1997, DIRECTV is poised to expand its Latin American programming lineup to over 250 video channels, including pay-per-view movies, sports and new forms of information and entertainment programming.

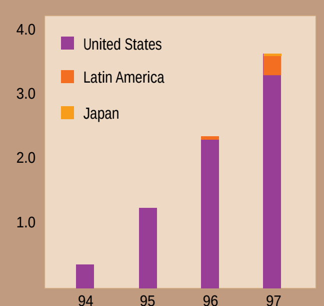
Also, early in 1998, Hughes and its GLA partners purchased a 6.9% stake in Via Digital, a fast growing new satellite TV service based in Spain. Among other things, the agreement will allow for the exchange of new Spanish channels between Latin America and Spain.

In Japan, Hughes hopes to accelerate subscriber growth and establish DIRECTV as the leader in direct-to-home entertainment. Its programming lineup is expected to grow to as many as 130 channels in 1998, including more than 50 that can only be received by subscribers of DIRECTV Japan. Also, the number of distribution outlets and retail stores selling DIRECTV throughout Japan should increase to 50,000 or more from 35,000 at present.

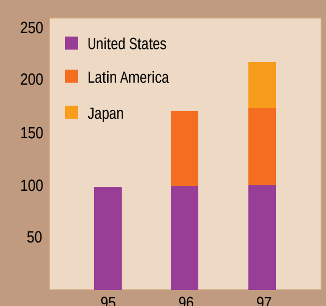
Under an agreement with a Japanese broadcaster planning to end its own analog TV service later in the year, a free transfer to DIRECTV will be offered to its 95,000 customers starting in the spring of 1998. And DIRECTV subscribers throughout Japan will be offered exclusive new interactive services such as betting, shopping and ticket buying through their TV sets.



Video Channels Delivered by DIRECTV



Cumulative DIRECTV Subscribers (Millions)



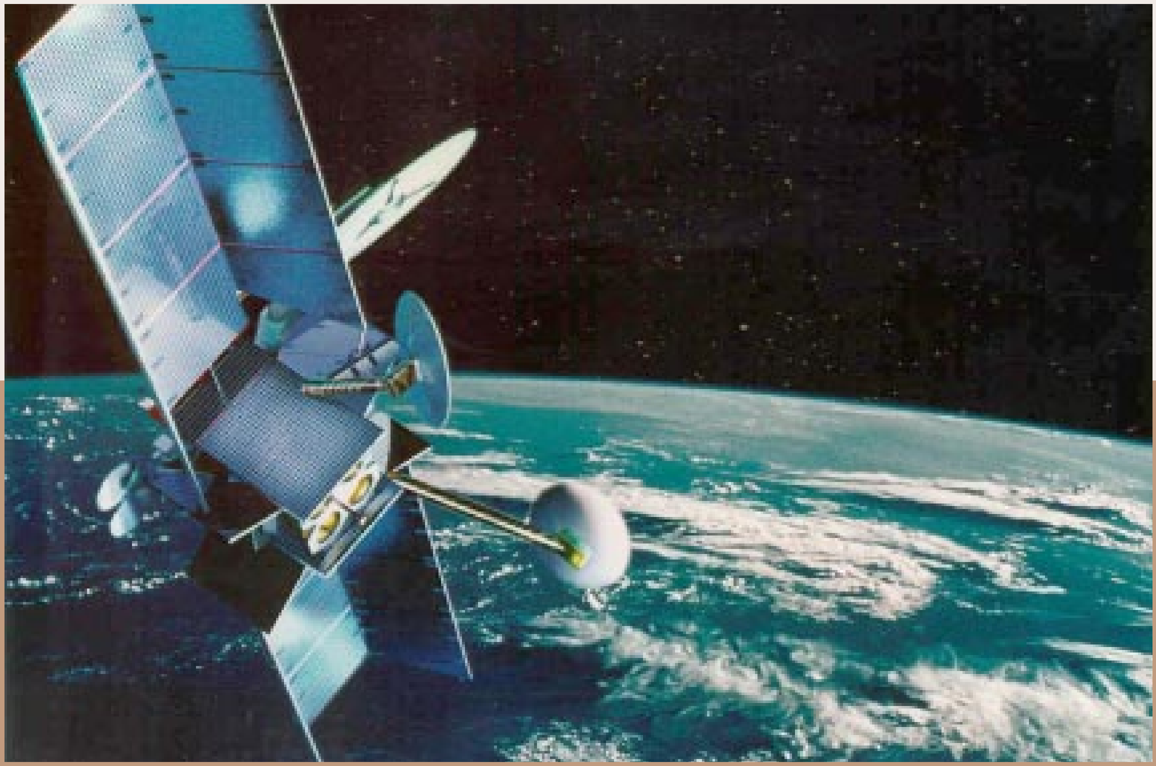
TV Households Accessible by DIRECTV (Millions)

emerging businesses

Hughes continues to focus on emerging satellite businesses with initiatives such as SPACEWAY™, which will use the Ka-band portion of the broadcast spectrum. This project – and others under study for launch early in the 21st century – anticipates fast-growing global demand for high data-rate, interactive communications services. SPACEWAY takes advantage of the company's advanced technologies. It exploits synergies among existing Hughes businesses in spacecraft and ground system manufacturing, and satellite and consumer services.

In May 1997, the Federal Communications Commission assigned 15 Ka-band orbital slots to Hughes and PanAmSat. The SPACEWAY system is expected to bring the power of satellite technology directly to businesses and homes.

As proposed, SPACEWAY will make high-speed, two-way communications possible through ultra-small, low-cost antennas. In doing so, it will provide users with inexpensive "bandwidth on demand," including fast access to the Internet, corporate Intranets, local area and wide area networks, and the public-switched telephone network. SPACEWAY plans to use HS 702 satellites, Hughes' powerful new spacecraft, that feature onboard digital processing and intersatellite communications links.



This artist's conception is an HS 702 satellite that will be used in SPACEWAY, the high-speed, two-way global communications system that Hughes expects to begin deploying early in the 21st century. SPACEWAY will provide businesses and consumers with inexpensive "bandwidth on demand" for numerous applications.

research & development

Hughes has been a world leader in applying advanced technologies to spacecraft and telecommunications projects for nearly four decades. For instance, company scientists have developed transistors and integrated circuits that now fly aboard satellites in 10 Hughes programs, help operate hundreds of ground stations, and support new subscriber services such as DIRECTV and DirecPC.

Today, key applications of such technologies are being made by Hughes' Electron Dynamics Division, which designs and manufactures microwave traveling-wave-tube amplifiers for government and commercial customers around the world, along with ion propulsion systems such as XIPS. Similarly, the company's Spectrolab, Inc. subsidiary produces state-of-the-art gallium arsenide solar cells that now power PAS-5 and other advanced satellites. Spectrolab's solar panel assemblies set the global standard for reliability and performance.

In 1997, work continued at Hughes' research laboratory (now renamed HRL Laboratories, LLC, and jointly owned with Raytheon Company) on components that enhance the efficiency and capacity of HSC spacecraft. Included are: lithium-ion batteries, microelectronic chips with faster speeds and greater functionality, and large microwave antennas controlled by optoelectronic integrated circuits interconnected by fiber optics. These innovations can offer considerable weight savings while still assuring the exceptional reliability of HSC satellites.

Over the next several years, DIRECTV and HNS may begin using integrated circuit protection techniques developed by company scientists in satellite receivers and telecommunications access controls. These techniques protect integrated circuits from unauthorized use and also make it extremely difficult to unravel the software they implement. And the work on integrated circuit protection techniques is also leading toward next-generation applications to protect electronic memories. If successful, this concept would have broad applicability to many of Hughes' products and services and, indeed, could prove useful throughout the telecommunications industry.

Breakthroughs were also achieved last year in devising tiny, highly efficient micro-electromechanical microwave switches for use in communications satellite switching networks.

Integrated circuits have been developed by Hughes scientists and contributed to the success of many programs. Such integrated circuits and transistors fly aboard satellites in 10 Hughes programs, help operate hundreds of ground stations, and support the company's DIRECTV and DirecPC services.

Management's discussion & analysis

The following discussion excludes purchase accounting adjustments related to General Motors' acquisition of Hughes Aircraft Company (see Supplemental Data beginning on page 33).

Statements made concerning expected financial performance, ongoing financial performance strategies, and possible future action which Hughes (as defined below) intends to pursue to achieve strategic objectives for each of its four principal business segments constitute forward-looking information. The implementation of these strategies and of such future actions and the achievement of such financial performance are each subject to numerous conditions, uncertainties and risk factors, and, accordingly, no assurance can be given that Hughes will be able to successfully accomplish its strategic objectives or achieve such financial performance. The principal important risk factors which could cause actual performance and future actions to differ materially from the forward-looking statements made herein include economic conditions, product demand and market acceptance, government action, competition, ability to achieve cost reductions, technological risk, interruptions to production attributable to causes outside of Hughes' control, the success of satellite launches, in-orbit performance of satellites and Hughes' ability to access capital to maintain its financial flexibility.

General

On December 17, 1997, Hughes Electronics Corporation ("Hughes Electronics") and General Motors Corporation ("GM"), the parent of Hughes Electronics, completed a series of transactions (the "Hughes Transactions") designed to address strategic challenges facing the three principal businesses of Hughes Electronics and unlock stockholder value in GM. The Hughes Transactions included the tax-free spin-off of the defense electronics business ("Hughes Defense") to holders of GM $1 2/3 par value and Class H common stocks, followed immediately by the merger of Hughes Defense with Raytheon Company. Concurrently, Delco Electronics Corporation ("Delco"), the automotive electronics business, was transferred to GM's Delphi Automotive Systems unit. Finally, GM Class H common stock was recapitalized into a GM tracking stock linked to the remaining telecommunications and space business. For the periods prior to the consummation of the Hughes Transactions on December 17, 1997, Hughes Electronics, consisting of its defense electronics, automotive electronics and telecommunications and space businesses, is hereinafter referred to as former Hughes.

In connection with the recapitalization of Hughes Electronics on December 17, 1997, the telecommunications and space business of former Hughes, consisting principally of its direct-to-home broadcast, satellite services, satellite manufacturing and network systems businesses, was contributed to the recapitalized Hughes Electronics. Such telecommunications and space business, both before and after the recapitalization, is hereinafter referred to as Hughes. The following discussion and accompanying financial statements pertain only to Hughes and do not pertain to balances of former Hughes related to Hughes Defense or Delco. For additional information on the basis of presentation, see Note 1 to the financial statements.

As a result of the May 1997 PanAmSat merger (see further discussion in Note 16 to the financial statements), Hughes' 1997 financial information includes PanAmSat's results of operations from the date of merger.

Results of Operations

1997 Compared to 1996

Revenues. Hughes reported that 1997 revenues increased 27.9% to $5,128.3 million compared with $4,008.7 million in 1996. The increase reflects strong subscriber growth in the Direct-To-Home Broadcast segment, increased revenues in the Satellite Services segment resulting primarily from the PanAmSat merger and increased sales on commercial satellite programs in the Satellite Manufacturing segment.

Direct-To-Home Broadcast segment revenues more than doubled to $1,276.9 million from $621.0 million in 1996. The increase resulted from strong subscriber growth and continued low subscriber churn rates. Domestic DIRECTV® fueled this growth with revenues of $1,103.3 million, a 78.5% increase over prior year's revenues of $618.2 million. Hughes' Latin American DIRECTV subsidiary, Galaxy Latin America ("GLA"), had revenues of $70.0 million compared with $2.7 million in 1996. Total DIRECTV subscribers as of December 31, 1997 were 3,301,000 in the United States and 300,000 in Latin America. DIRECTV Japan initiated its service in December 1997.

Revenues for the Satellite Services segment in 1997 increased 30.5% to $629.9 million from $482.8 million in 1996. The increased revenues were due to the PanAmSat merger and increased operating lease revenues for both video distribution and business communications services. PanAmSat's services were expanded in 1997 with the successful launch of two dedicated direct-to-home satellites and a new cable TV distribution satellite in Latin America leading to an increase of approximately 25% in total transmission capability since the May merger.

Satellite Manufacturing segment revenues increased 21.2% in 1997 to $2,491.9 million from $2,056.4 million in 1996 primarily due to higher commercial satellite sales in the HS 601 HP and mid-earth orbit satellite product lines.

Revenues in 1997 for the Network Systems segment were $1,011.3 million compared with $1,070.0 million in 1996. The decline was primarily due to lower domestic mobile cellular telephone equipment sales, which were partially offset by higher satellite-based mobile telephone equipment sales.

Operating Profit. Operating profit for Hughes increased to $306.4 million in 1997 from $210.1 million in 1996. The 45.8% increase reflects reduced losses in the Direct-To-Home Broadcast segment, higher commercial satellite sales and the completion of the PanAmSat merger.

The operating loss in the Direct-To-Home Broadcast segment in 1997 was $254.6 million compared with an operating loss of $319.8 million in 1996. The full-year 1997 operating loss for domestic DIRECTV was $137.0 million compared with $192.0 million in 1996. GLA's operating loss was $116.0 million in 1997 versus $131.0 million in 1996. The lower operating losses in 1997 were principally due to increased subscriber revenues which more than offset higher marketing and subscriber-related expenditures.

With respect to the worldwide DIRECTV businesses, particularly in the United States, Hughes has implemented a number of strategic initiatives designed to expand its market share and enhance its competitive position. These include new distribution channels, expanded services, broader programming and marketing and other promotional strategies designed to address "barriers to entry" identified by consumers. The implementation of such strategies is likely to increase subscriber acquisition costs and, as a result, is likely to affect the timing and amount of revenues and the overall profitability of the DIRECTV businesses. However, Hughes believes that early capture of market share and the establishment of market leadership are important to the maximization of the long-term value of the DIRECTV businesses.

The Satellite Services segment operating profit was $296.2 million in 1997, an increase of 22.2% over the prior year's operating profit of $242.4 million. The increase resulted primarily from the PanAmSat merger and increased operating lease revenues for both video distribution and business communications services. Operating profit margin in 1997 declined to 46.5% from 49.5% in the prior year principally due to goodwill amortization associated with the PanAmSat merger.

Operating profit for the Satellite Manufacturing segment in 1997 was $226.3 million, an increase of 23.5% over $183.3 million in 1996. The increase was primarily due to the higher commercial program sales noted above. The operating profit margin for the year was 9.1% compared with 8.9% in the prior year.

The Network Systems segment operating profit in 1997 was $74.1 million versus $107.7 million in 1996 and operating profit margin declined to 7.3% from 10.1% last year. These decreases were primarily the result of lower domestic mobile cellular telephone equipment sales, increased research and development expenditures and higher marketing expenditures associated with the launch of the DirecPC™/DirecDuo™ products.

Costs and Expenses. Selling, general and administrative expenses increased to $1,119.9 in 1997 from $788.5 in 1996. The increase resulted principally from the PanAmSat merger, increased programming and subscriber acquisition costs in the Direct-To-Home Broadcast segment and increased research and development and marketing expenditures in the Network Systems segment. The increase in depreciation and amortization expense to $296.4 in 1997 from $194.6 in 1996, resulted from increased goodwill amortization related to the PanAmSat merger and additional satellite depreciation in 1997.

Interest Income and Expense. Interest income increased $26.3 million in 1997 compared to 1996 due primarily to higher cash balances resulting from the PanAmSat merger as well as increased cash resulting from the Hughes Transactions. Interest expense increased $48.1 million in 1997 versus 1996 due to the increased borrowings resulting from the PanAmSat merger.

Other, net. The 1997 amount included a $489.7 million pre-tax gain related to the PanAmSat merger, partially offset by losses from unconsolidated subsidiaries of $72.2 million attributable principally to equity investments in American Mobile Satellite Corporation, DIRECTV Japan and Surfin Ltd. The 1996 amount included a $120.3 million pre-tax gain recognized from the sale of 2.5% of DIRECTV to AT&T, partially offset by losses from unconsolidated subsidiaries of $42.2 million, primarily related to American Mobile Satellite Corporation.

Income Taxes. The effective income tax rate was 37.0% in 1997 and 43.1% in 1996. The decrease in the effective income tax rate in 1997 was due primarily to an increase in research and development credits and favorable resolution of certain tax contingencies in 1997.

Discontinued Operations and Extraordinary Item. On December 15, 1997, Hughes Avicom International, Inc. ("Hughes Avicom") was sold to Rockwell Collins, Inc., resulting in an after-tax gain of $62.8 million. Hughes recorded an extraordinary after-tax charge of $20.6 million in 1997 related to premiums paid for the refinancing of PanAmSat's debt (for additional information see Note 6 to the financial statements).

Net Earnings. 1997 earnings were $470.7 million, or $1.18 per share of GM Class H common stock on a pro forma basis, compared with 1996 earnings of $183.5 million, $0.46 per share of GM Class H common stock on a pro forma basis. Earnings per share are presented on a pro forma basis assuming the recapitalized GM Class H common stock was outstanding during all periods presented (see further discussion in Note 14 to the financial statements).

Backlog. The 1997 year-end backlog of $10,337.6 million increased from the $6,780.5 million reported at the end of 1996, primarily due to the PanAmSat merger.

1996 Compared to 1995

Revenues. Hughes revenues were $4,008.7 million in 1996, a 27.1% increase from the $3,152.8 million reported in 1995. The increase resulted from a substantial increase in subscribers in the Direct-To-Home Broadcast segment, increased transponder capacity and demand in the Satellite Services segment, increased commercial and government satellite sales in the Satellite Manufacturing segment and increased revenues for the Network Systems segment.

Direct-To-Home segment sales increased to $621.0 million in 1996 from $241.8 million in 1995. This increase was primarily due to the continued expansion of the DIRECTV subscriber base by over one million subscribers from 1995.

Satellite Services segment revenues grew to $482.8 million in 1996 from $386.1 million in 1995. This growth was fueled by improved performance in cable, broadcast and direct-to-home distribution services principally as a result of additional transponder capacity due to the successful launches of Galaxy® III-R and IX.

Revenues from the Satellite Manufacturing segment increased to $2,056.4 million in 1996 from $1,731.5 million in 1995 due to higher commercial and government satellite sales, spread over all product lines.

Revenues increased for the Network Systems segment to $1,070.0 million in 1996 from $919.3 million in 1995 resulting from higher wireless product sales coupled with the introduction and sales of digital satellite system ("DSS®") products.

Operating Profit. Operating profit for 1996 was $210.1 million, a 22.5% increase from the $171.5 million reported in 1995. The operating loss in the Direct-To-Home Broadcast segment in 1996 was $319.8 million compared to a loss of $160.8 million in 1995. The increased loss resulted from increased costs related to DIRECTV for consumer financing, marketing and operating costs and operating losses related to the start of service by Hughes' DIRECTV business in Latin America. The Satellite Services segment operating profit increased to $242.4 million in 1996 from $166.6 million in 1995 due to increased utilization and capacity on existing and new satellites. Operating profit for the Satellite Manufacturing segment in 1996 was $183.3 million compared to $151.5 million in 1995 resulting from the increased sales noted above. The Network Systems segment operating profit increased to $107.7 million in 1996 from $69.0 million in 1995, reflecting the strong performance of the wireless product lines.

Costs and Expenses. Selling, general and administrative expenses were $788.5 million in 1996 compared to $488.4 million in 1995. The increase was primarily related to subscriber acquisition costs related to DIRECTV businesses for both domestic and international operations. In addition, costs associated with international expansion activities for satellite services and the wireless product lines contributed to the increase.

Interest Income and Expense. Interest income in 1996 of $6.8 million was relatively unchanged from the $5.2 million in 1995. Interest expense decreased to $42.9 million in 1996 from $61.1 million in 1995 resulting from a decrease in interest expense allocated from former Hughes.

Other, net. The 1996 amount included a $120.3 million pre-tax gain recognized from the sale of 2.5% of DIRECTV to AT&T, partially offset by losses in unconsolidated subsidiaries of $42.2 million, primarily related to American Mobile Satellite Corporation.

Income Taxes. The effective income tax rate was 43.1% in 1996 and 26.5% in 1995. The variance in the rate was primarily due to the effect of the foreign sales corporation's ("FSC") tax benefits as a percentage of the pre-tax profits for these years. The impact of the FSC benefit on the 1995 tax rate was considerably higher due to the lower operating results in 1995.

Net Earnings. Hughes 1996 earnings were $183.5 million, or $0.46 per share of GM Class H common stock on a pro forma basis, compared with 1995 earnings of $27.2 million, or $0.07 per share of GM Class H common stock on a pro forma basis. Earnings per share are presented on a pro forma basis assuming the recapitalized GM Class H common stock was outstanding during all periods presented (see further discussion in Note 14 to the financial statements).

Backlog. The 1996 year-end backlog of $6,780.5 million decreased from the $7,057.0 million reported at the end of 1995, primarily due to the completion of various government programs, offset in part by increased customer commitments for the HS 601 HP satellite.

Liquidity and Capital Resources

Cash and Cash Equivalents. Cash and cash equivalents were $2,783.8 million at December 31, 1997 compared to $6.7 million at December 31, 1996. The significant increase in cash resulted primarily from the Hughes Transactions pursuant to which Hughes received cash proceeds of $4,392.8 million on December 17, 1997. The $4,392.8 million of cash proceeds resulted from $4.0 billion received from borrowings incurred by Hughes Defense prior to its spin-off to GM and $392.8 million from former Hughes. The May 1997 PanAmSat merger also had a significant impact on cash and debt, as Hughes acquired existing cash and non-marketable securities of $296.9 million and $330.0 million, respectively and assumed existing debt of $613.4 million and preferred stock of $395.8 million, that was subsequently exchanged into debt on September 30, 1997.

In December 1997, PanAmSat completed a $1.1 billion tender offer, which resulted in the retirement of substantially all of its existing outstanding debt. The tender offer was funded with $600 million of bank borrowings and available cash (including cash from the liquidation of marketable securities).

Cash provided by continuing operations was $10.5 million in 1997, compared to $367.4 million in 1996 and $98.8 million in 1995. The change in 1997 from 1996 resulted primarily from a build-up of working capital, while the change in 1996 from 1995 resulted primarily from a decrease in working capital.

Net cash used in investing activities was $2,231.5 million in 1997, $80.5 million in 1996 and $373.5 million in 1995. The substantial increase in 1997 compared to 1996 resulted from an increase in satellites, increased equity investments, the repurchase of AT&T's 2.5% equity interest in DIRECTV and the PanAmSat merger, offset by proceeds received from the sale of Hughes Avicom. The decrease in net cash used in investing activities in 1996 compared to 1995 was due to proceeds received in 1996 for the sale and leaseback of satellite transponders and the sale of a 2.5% equity interest in DIRECTV to AT&T.

Net cash provided by (used in) financing activities was $5,014.0 million in 1997, compared with $(279.8) million and $301.7 million in 1996 and 1995, respectively. The change in 1997 from 1996 resulted from the Hughes Transactions and PanAmSat Merger, discussed above, and increased contributions from former Hughes to Hughes to fund 1997 operations. The change in financing activities in 1996 from 1995 was the result of Hughes distributing $279.8 million to former Hughes in 1996 compared to receiving contributions from former Hughes of $301.7 million in 1995.

Liquidity Measurement. As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) at December 31, 1997 and 1996 was 3.24 and 1.23, respectively. Working capital increased by $3,045.8 million to $3,323.3 million at December 31, 1997 from the $277.5 million at December 31, 1996. These increases were due principally to the cash proceeds resulting from the Hughes Transactions.

Property and Satellites. Property, net of accumulated depreciation, increased $198.9 million to $889.7 million in 1997 from the $690.8 million reported in 1996. Satellites increased $1,586.8 million to $2,643.4 million in 1997 from the $1,056.6 million reported in 1996. The increase in property and satellites resulted primarily from the PanAmSat merger and increased capital expenditures. Capital expenditures, including expenditures related to satellites, increased to $826.6 million in 1997 from $449.4 million in 1996. The increase reflects additions to the satellite fleet, as well as additions to property and equipment to support revenue growth at various Hughes businesses.

Dividend Policy and Use of Cash. As discussed in Note 14 to the financial statements, GM does not initially anticipate paying cash dividends to holders of GM Class H common stock. Alternatively, Hughes anticipates using its cash to fund 1998 capital expenditures for property and equipment, as well as spacecraft, of approximately $1.2 billion, the early buy-out of satellite sale-leasebacks and to fund additional equity investments. Additionally, Hughes may be required to make cash payments for adjustments related to the Hughes Transactions. See further discussion in Note 20 to the financial statements.

Debt and Credit Facilities. Hughes maintains two unsecured revolving loan agreements, consisting of a $750 million multi-year facility and a $250 million 364-day facility. There were no borrowings against the credit facilities at December 31, 1997.

In December 1997, Hughes' subsidiary, PanAmSat, entered into a bank borrowing agreement (the "Bank Agreement") that provided for bridge loans of up to $300 million and loans of up to $500 million under a five-year revolving credit facility. Outstanding borrowings under the Bank Agreement at December 31, 1997 consisted of $100.0 million in bridge loans and $500.0 million under the revolving credit facility. As noted previously, the proceeds from such borrowings, along with cash from the liquidation of marketable securities, were used to retire substantially all of the existing PanAmSat debt then outstanding.

In January 1998, PanAmSat borrowed an additional $125.0 million under the Bank Agreement, principally for the purpose of exercising an early buy-out option on a satellite sale-leaseback agreement. Also in January 1998, PanAmSat completed a private placement debt offering for five, seven, ten and thirty year notes aggregating $750.0 million (the "Notes Offering"), the proceeds of which were used to retire all of the outstanding borrowings under the Bank Agreement. As a result of the Notes Offering, the bridge loan under the Bank Agreement terminated, while the five-year revolving credit facility remains in effect.

Hughes believes that existing cash balances and amounts available under its credit facilities, will provide sufficient resources to meet currently identified working capital requirements, debt service and other cash needs.

Acquisitions. In December 1997, Hughes repurchased from AT&T a 2.5% equity interest in DIRECTV for $161.8 million, ending AT&T's marketing agreement to distribute the DIRECTV direct broadcast satellite television service and DSS® equipment.

In May 1997, Hughes and PanAmSat completed the merger of their respective satellite service operations into a new publicly held company. Hughes contributed its Galaxy® satellite services business in exchange for a 71.5% interest in the new company. Existing PanAmSat stockholders received a 28.5% interest in the new company and $1.5 billion in cash. Such cash consideration and other funds required to consummate the merger were funded by new debt financing totaling $1,725.0 million borrowed from GM, which was subsequently repaid in December 1997.

Divestitures. On December 15, 1997, Hughes sold substantially all of the assets and liabilities of the Hughes Avicom business to Rockwell Collins, Inc. for cash, which resulted in an after-tax gain of $62.8 million. Hughes Avicom is treated as a discontinued operation for all periods presented.

In March 1996, Hughes Electronics sold a 2.5% equity interest in DIRECTV to AT&T for $137.5 million, with options to increase their ownership interest under certain conditions. The sale resulted in a $120.3 million pre-tax gain, which is included in other income.

Year 2000

Certain Hughes information systems have potential operational problems in connection with applications that contain a date and/or use a date in a comparative manner as the date transitions into the Year 2000. Hughes has a comprehensive program to identify and remediate potential problems related to the Year 2000 in its information systems, infrastructure, and production and manufacturing facilities. In addition, Hughes has initiated formal communications with all of its significant external interfaces to determine the extent to which Hughes is vulnerable to third parties' failures to remediate their own potential problems related to the Year 2000. The inability of Hughes or significant external interfaces of Hughes to adequately address Year 2000 issues could cause disruption of Hughes' business operations.

Many of Hughes' systems are Year 2000 compliant, or have been scheduled for replacement in Hughes' ongoing systems plans. Through December 31, 1997, Hughes has incurred and expensed approximately $2 million related to the assessment of, and preliminary efforts in connection with, its Year 2000 program and remediation plan. Future spending for software modifications and testing required for Year 2000 are currently estimated to be approximately $15 million to $25 million with the majority expected to be incurred in 1998. Hughes' target date for completing its Year 2000 modifications is December 31,1998, with additional testing and refinements to identified systems planned for 1999.

Security Ratings

In December 1997, Standard and Poor's Rating Service ("S&P") affirmed its long-term debt rating of Hughes at A-. The S&P A- credit rating is the seventh highest within the 10 investment grade ratings available from S&P for long-term debt, based on a strong capability to pay interest and repay principal, although somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories. Additionally, S&P also affirmed its A-2 rating on Hughes' commercial paper. The A-2 commercial paper rating is the third highest category available and indicates the degree of safety regarding timely payment is satisfactory. S&P's ratings outlook for Hughes remains developing.

Also in December 1997, Moody's Investors Service ("Moody's"), confirmed the long-term credit rating of Hughes at A-3, seventh highest within the 10 investment grade ratings available from Moody's for long-term debt. Moody's defines A-3 bonds as having "upper-medium grade" quality. Moody's ratings for Hughes' commercial paper remained unchanged at P-2. The rating is the second highest rating available and indicates that the issuer has a strong ability for repayment relative to other issuers.

Debt ratings by the various rating agencies reflect each agency's opinion of the ability of issuers to repay debt obligations punctually. Lower ratings generally result in higher borrowing costs. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

Market Risk Disclosure

General

Hughes' cash flows and earnings are subject to fluctuations resulting from changes in foreign currency exchange rates, interest rates and changes in the market value of its equity investments. Hughes manages its exposure to these market risks through internally established policies and procedures and, when deemed appropriate, through the use of derivative financial instruments. Hughes' policy is not to speculate in derivative instruments, nor to enter into derivative instruments for which there are no underlying exposures. Hughes does not use financial instruments for trading purposes and is not a party to any leveraged derivatives.

Foreign Currency Risk

Hughes conducts business in a variety of currencies and therefore is exposed to fluctuations in foreign currency exchange rates. Hughes' objective in managing the exposure to foreign currency changes is to reduce earnings and cash flow volatility associated with foreign exchange rate fluctuations to allow management to focus its attention on its core business issues and challenges. Accordingly, Hughes primarily enters into foreign exchange-forward contracts to protect the value of its existing assets, liabilities and firm commitments. Foreign exchange-forward contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. At December 31, 1997, Hughes held foreign exchange-forward contracts with an aggregate notional amount of approximately $10.9 million to buy and sell Japanese yen, Spanish pesetas and British pounds. The fair value of these contracts at December 31, 1997, as determined by market quotes, was $12.6 million.

Investments

Hughes maintains investments in the publicly traded common stock of two unaffiliated companies and is therefore subject to equity price risk. Both investments are classified as available-for-sale and, consequently, are reflected in the balance sheet at fair value with unrealized gains or losses, net of tax, reported as a separate component of owner's equity. At December 31, 1997, the fair value of the investments in such common stock was $21.7 million. The investments were valued at the market closing price at December 31, 1997. No actions have been taken by Hughes to hedge this market risk exposure. A 20% decline in the market price of both investments would cause the fair value of the investments in common stock to decrease by $4.3 million.

Interest Rate Risk

Hughes is subject to interest rate risk related to its $637.6 million of debt outstanding at December 31, 1997. Debt consisted of PanAmSat's variable rate bank borrowings of $600.0 million, PanAmSat's fixed rate borrowings of $9.1 million and Hughes' fixed rate borrowings of $28.5 million. Hughes is subject to fluctuating interest rates which may adversely impact its results of operations and cash flows for its variable rate bank borrowings. Fluctuations in interest rates may also adversely effect the market value of Hughes' fixed rate borrowings. The fair market value of debt with a fixed interest rate will increase as interest rates fall, and the fair market value will decrease as interest rates rise. Bank borrowings bear interest at a rate which approximates the London Interbank Offered Rate plus 0.40%, equal to 6.09% at December 31, 1997. Other borrowings bear interest at fixed rates ranging from 9.61% to 12.75%.

In connection with PanAmSat's debt refinancing activities, PanAmSat entered into certain U.S. Treasury rate lock contracts to reduce its exposure to fluctuations in interest rates. The aggregate notional value of these contracts was $375.0 million. These contracts were accounted for as hedges as they related to a specific refinancing plan that was consummated shortly after December 31, 1997. The fair value of these financial instruments at December 31, 1997 approximated their contract value. The cost to settle these instruments in 1998 will be amortized to expense over the term of the newly placed debt securities. Subsequent to the refinancing, all Hughes debt, including that of PanAmSat, will be fixed-rate debt. Hughes does not currently hedge this market risk exposure.

Credit Risk

Hughes is exposed to credit risk in the event of non-performance of the counterparties to its foreign currency and treasury rate lock contracts, which Hughes believes is remote. Nevertheless, credit risk is managed through the periodic monitoring and approval of financially sound counterparties.

Supplemental Data

The financial statements reflect the application of purchase accounting adjustments as described in Note 1 to the Financial Statements. However, as provided in GM's Restated Certificate of Incorporation, the earnings attributable to GM Class H common stock for purposes of determining the amount available for the payment of dividends on GM Class H common stock specifically excludes such adjustments. More specifically, amortization of the intangible assets associated with GM's purchase of Hughes Aircraft Company amounted to $21.0 million in 1997, 1996 and 1995. Such amounts are excluded from the earnings available for the payment of dividends on GM Class H common stock and are charged against earnings available for the payment of dividends on GM's $1 2/3 par value common stock. Unamortized purchase accounting adjustments associated with GM's purchase of Hughes Aircraft Company were $447.6 million, $468.6 million, and $489.6 million at December 31, 1997, 1996 and 1995, respectively.

In order to provide additional analytical data to the users of Hughes' financial information, supplemental data in the form of unaudited summary pro forma financial data are provided. Consistent with the basis on which earnings of Hughes available for the payment of dividends on the GM Class H common stock is determined, the pro forma data exclude purchase accounting adjustments related to General Motors' acquisition of Hughes Aircraft Company. Included in the supplemental data are certain financial ratios which provide measures of financial returns excluding the impact of purchase accounting adjustments. The pro forma data are not presented as a measure of GM's total return on its investment in Hughes.

unaudited summary pro forma financial data*

PRO FORMA CONDENSED STATEMENT OF INCOME

(Dollars in Millions Except Per Share Amounts)	YEARS ENDED DECEMBER 31, 1997	1996	1995
Total revenues	$ 5,128.3	$ 4,008.7	$ 3,152.8
Total costs and expenses	4,821.9	3,798.6	2,981.3
Operating profit	306.4	210.1	171.5
Net non-operating income (expense)	332.8	33.0	(52.9)
Income taxes	236.7	104.8	31.4
Minority interests in net losses of subsidiaries	24.8	52.6	4.6
Income (loss) from discontinued operations	64.0	(7.4)	(64.6)
Extraordinary item	(20.6)	–	–
Earnings Used for Pro Forma Computation of Available Separate Consolidated Net Income	$ 470.7	$ 183.5	$ 27.2
Pro Forma Earnings Attributable to General Motors Class H Common Stock on a Per Share Basis:			
Income from continuing operations before extraordinary item	$1.07	$0.48	$0.23
Discontinued operations	0.16	(0.02)	(0.16)
Extraordinary item	(0.05)	–	–
Pro Forma Earnings Attributable to General Motors Class H Common Stock	$1.18	$0.46	$0.07

PRO FORMA CONDENSED BALANCE SHEET

(Dollars in Millions)	DECEMBER 31, 1997	1996
ASSETS		
Total Current Assets	$ 4,805.9	$ 1,497.1
Satellites, net	2,643.4	1,056.6
Property, net	889.7	690.8
Net Investment in Sales-type Leases	337.6	320.6
Intangible Assets, Investments and Other Assets, net	3,639.6	382.7
Total Assets	$12,316.2	$ 3,947.8
LIABILITIES AND OWNER'S EQUITY		
Total Current Liabilities	$ 1,482.6	$ 1,219.6
Long-Term Debt	637.6	–
Postretirement Benefits Other Than Pensions, Other Liabilities and Deferred Credits	1,724.1	683.6
Minority Interests	607.8	21.6
Total Owner's Equity (1)	7,864.1	2,023.0
Total Liabilities and Owner's Equity (1)	$12,316.2	$ 3,947.8

* The summary excludes purchase accounting adjustments related to GM's acquisition of Hughes Aircraft Company.

(1) General Motors' equity in its wholly-owned subsidiary, Hughes. Holders of GM Class H common stock have no direct rights in the equity or assets of Hughes, but rather have rights in the equity and assets of GM (which includes 100% of the stock of Hughes).

unaudited summary pro forma financial data* (continued)

PRO FORMA SELECTED SEGMENT DATA

	YEARS ENDED DECEMBER 31,		
(Dollars in Millions)	1997	1996	1995
DIRECT-TO-HOME BROADCAST			
Total Revenues	$ 1,276.9	$ 621.0	$ 241.8
Operating Loss	(254.6)	(319.8)	(160.8)
Depreciation and Amortization	86.1	67.3	48.6
Segment Assets	1,441.5	1,067.2	855.9
Capital Expenditures (1)	105.6	63.5	107.5
SATELLITE SERVICES			
Total Revenues	$ 629.9	$ 482.8	$ 386.1
Operating Profit	296.2	242.4	166.6
Depreciation and Amortization	141.9	55.2	73.2
Segment Assets	5,612.8	1,202.6	1,061.8
Capital Expenditures (1)	625.7	308.7	280.5
SATELLITE MANUFACTURING			
Total Revenues	$ 2,491.9	$ 2,056.4	$ 1,731.5
Operating Profit	226.3	183.3	151.5
Depreciation and Amortization	39.4	34.4	33.6
Segment Assets	1,312.6	757.8	603.9
Capital Expenditures	113.9	87.8	53.2
NETWORK SYSTEMS			
Total Revenues	$ 1,011.3	$ 1,070.0	$ 919.3
Operating Profit	74.1	107.7	69.0
Depreciation and Amortization	32.0	28.3	25.2
Segment Assets	1,215.6	964.0	801.1
Capital Expenditures	43.1	45.3	50.5

Certain 1996 and 1995 amounts have been reclassified to conform with the 1997 presentation.

* The summary excludes purchase accounting adjustments related to GM's acquisition of Hughes Aircraft Company.

(1) Includes expenditures related to satellites in the segments as follows: $53.1 million in 1995 for Direct-To-Home Broadcast segment; and $606.1 million, $259.2 million and $234.9 million in 1997, 1996 and 1995, respectively, for Satellite Services segment.

unaudited summary pro forma financial data* (concluded)

PRO FORMA SELECTED FINANCIAL DATA

(Dollars in Millions)	YEARS ENDED DECEMBER 31, 1997	1996	1995	1994	1993
Operating profit	$ 306	$ 210	$ 172	$ 235	$ 189
Income from continuing operations before income taxes, minority interests, cumulative effect of accounting change and extraordinary item	$ 639	$ 243	$ 119	$ 174	$ 289
Earnings used for pro forma computation of available separate consolidated net income	$ 471	$ 184	$ 27	$ 62	$ 174
Average number of GM Class H dividend base shares (1)	399.9	399.9	399.9	399.9	399.9
Owner's equity	$ 7,864	$ 2,023	$ 2,119	$ 1,790	$ 1,442
Working capital	$ 3,323	$ 278	$ 312	$ 274	$ 336
Operating profit as a percent of revenues	6.0%	5.2%	5.4%	8.7%	8.6%
Income from continuing operations before income taxes, minority interests, cumulative effect of accounting change and extraordinary item as a percent of revenues	12.5%	6.1%	3.8%	6.5%	13.2%
Net income as a percent of revenues	9.2%	4.6%	0.9%	2.3%	7.9%
Return on equity (2)	9.5%	8.9%	1.4%	3.8%	13.2%
Income before interest expense and income taxes as a percent of capitalization (3)	14.3%	16.3%	9.4%	14.0%	25.3%
Pre-tax return on total assets (4)	8.2%	8.0%	3.8%	6.0%	11.1%

* The summary excludes purchase accounting adjustments related to GM's acquisition of Hughes Aircraft Company.

(1) Class H dividend base shares is used in calculating earnings attributable to GM Class H common stock on a per share basis. This is not the same as the average number of GM Class H shares outstanding, which was 101.5 million in 1997.

(2) Earnings used for pro forma computation of available separate consolidated net income divided by average owner's equity (General Motors' equity in its wholly-owned subsidiary, Hughes). Holders of GM Class H common stock have no direct rights in the equity or assets of Hughes, but rather have rights in the equity and assets of GM (which includes 100% of the stock of Hughes).

(3) Income from continuing operations before interest expense, income taxes, cumulative effect of accounting change and extraordinary item divided by average owner's equity plus average total debt.

(4) Income from continuing operations before income taxes, cumulative effect of accounting change and extraordinary item divided by average total assets.

responsibilities for financial statements and independent auditors' report

RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The following financial statements of Hughes Electronics Corporation (as more fully described in Note 1 to the financial statements) were prepared by management, which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on judgments of management.

Management is further responsible for maintaining internal control designed to provide reasonable assurance that the books and records reflect the transactions of the companies and that established policies and procedures are carefully followed. Perhaps the most important feature in internal control is that it is continually reviewed for effectiveness and is augmented by written policies and guidelines, the careful selection and training of qualified personnel and a strong program of internal audit.

Deloitte & Touche LLP, an independent auditing firm, is engaged to audit the financial statements of Hughes Electronics Corporation and issue reports thereon. The audit is conducted in accordance with generally accepted auditing standards that comprehend the consideration of internal control and tests of transactions to the extent necessary to form an independent opinion on the financial statements prepared by management. The Independent Auditors' Report appears below.

The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements and engaging the independent auditors. The Audit Committee reviews the scope of the audits and the accounting principles being applied in financial reporting. The independent auditors, representatives of management, and the internal auditors meet regularly (separately and jointly) with the Audit Committee to review the activities of each, to ensure that each is properly discharging its responsibilities and to assess the effectiveness of internal control. It is management's conclusion that internal control at December 31, 1997 provides reasonable assurance that the books and records reflect the transactions of the company and that established policies and procedures are complied with. To ensure complete independence, Deloitte & Touche LLP has full and free access to meet with the Audit Committee, without management representatives present, to discuss the results of the audit, the adequacy of internal control and the quality of the financial reporting.

Chairman of the Board and Chief Executive Officer	President	Senior Vice President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Stockholder and Board of Directors of Hughes Electronics Corporation:

We have audited the Balance Sheet of Hughes Electronics Corporation (as more fully described in Note 1 to the financial statements) as of December 31, 1997 and 1996 and the related Statement of Income and Pro Forma Available Separate Consolidated Net Income, Statement of Changes in Owner's Equity and Statement of Cash Flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of Hughes Electronics Corporation'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, such financial statements present fairly, in all material respects, the financial position of Hughes Electronics Corporation at December 31, 1997 and 1996 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

Los Angeles, California
January 26, 1998

statement of income and pro forma available separate consolidated net income

(Dollars in Millions Except Per Share Amounts)	1997	1996	1995
	YEARS ENDED DECEMBER 31,		
REVENUES			
Product sales	$ 3,143.6	$ 3,009.0	$ 2,576.1
Direct broadcast, leasing and other services	1,984.7	999.7	576.7
TOTAL REVENUES	5,128.3	4,008.7	3,152.8
OPERATING COSTS AND EXPENSES			
Cost of products sold	2,493.3	2,183.7	1,977.8
Broadcast programming and other costs	912.3	631.8	335.2
Selling, general and administrative expenses	1,119.9	788.5	488.4
Depreciation and amortization	296.4	194.6	179.9
Amortization of GM purchase accounting adjustments related to Hughes Aircraft Company	21.0	21.0	21.0
TOTAL OPERATING COSTS AND EXPENSES	4,842.9	3,819.6	3,002.3
OPERATING PROFIT	285.4	189.1	150.5
Interest income	33.1	6.8	5.2
Interest expense	(91.0)	(42.9)	(61.1)
Other, net	390.7	69.1	3.0
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTERESTS AND EXTRAORDINARY ITEM	618.2	222.1	97.6
Income taxes	236.7	104.8	31.4
Minority interests in net losses of subsidiaries	24.8	52.6	4.6
Income from continuing operations before extraordinary item	406.3	169.9	70.8
Income (Loss) from discontinued operations, net of taxes	1.2	(7.4)	(64.6)
Gain on sale of discontinued operations, net of taxes	62.8	–	–
Income before extraordinary item	470.3	162.5	6.2
Extraordinary item, net of taxes	(20.6)	–	–
NET INCOME	449.7	162.5	6.2
Adjustments to exclude the effect of GM purchase accounting adjustments related to Hughes Aircraft Company	21.0	21.0	21.0
EARNINGS USED FOR PRO FORMA COMPUTATION OF AVAILABLE SEPARATE CONSOLIDATED NET INCOME	$ 470.7	$ 183.5	$ 27.2
PRO FORMA AVAILABLE SEPARATE CONSOLIDATED NET INCOME			
Average number of shares of General Motors Class H Common Stock outstanding (in millions) (Numerator)	101.5	98.4	95.5
Class H dividend base (in millions) (Denominator)	399.9	399.9	399.9
Pro Forma Available Separate Consolidated Net Income	$ 119.4	$ 45.2	$ 6.5
PRO FORMA EARNINGS ATTRIBUTABLE TO GENERAL MOTORS CLASS H COMMON STOCK ON A PER SHARE BASIS			
Income from continuing operations before extraordinary item	$1.07	$0.48	$0.23
Discontinued operations	0.16	(0.02)	(0.16)
Extraordinary item	(0.05)	–	–
PRO FORMA EARNINGS ATTRIBUTABLE TO GENERAL MOTORS CLASS H COMMON STOCK	$1.18	$0.46	$0.07

Certain 1996 and 1995 amounts have been reclassified to conform with the 1997 presentation.

Reference should be made to the Notes to Financial Statements.

balance sheet

(Dollars in Millions)

ASSETS	DECEMBER 31, 1997	1996
Current Assets		
Cash and cash equivalents	$ 2,783.8	$ 6.7
Accounts and notes receivable (less allowances)	662.8	423.0
Contracts in process, less advances and progress payments of $50.2 and $54.2	575.6	401.4
Inventories	486.4	423.1
Net assets of discontinued operations	–	35.0
Deferred subscriber acquisition costs	26.4	97.5
Prepaid expenses and other, including deferred income taxes of $93.2 and $26.7	270.9	110.4
Total Current Assets	4,805.9	1,497.1
Satellites, net	2,643.4	1,056.6
Property, net	889.7	690.8
Net Investment in Sales-type Leases	337.6	320.6
Intangible Assets, net of accumulated amortization of $318.3 and $260.4	2,954.8	468.0
Investments and Other Assets	1,132.4	383.3
Total Assets	$12,763.8	$ 4,416.4

LIABILITIES AND OWNER'S EQUITY		
Current Liabilities		
Accounts payable	$ 472.8	$ 359.0
Advances on contracts	209.8	287.8
Deferred revenues	110.6	142.8
Accrued liabilities	689.4	430.0
Total Current Liabilities	1,482.6	1,219.6
Long-Term Debt	637.6	–
Deferred Gains on Sales and Leasebacks	191.9	234.8
Accrued Operating Leaseback Expense	100.2	107.8
Postretirement Benefits Other Than Pensions	154.8	–
Other Liabilities and Deferred Credits	706.4	136.9
Deferred Income Taxes	570.8	204.1
Commitments and Contingencies		
Minority Interests	607.8	21.6
Owner's Equity		
Parent Company's net investment	–	2,497.0
Capital stock and additional paid-in capital	8,322.8	–
Net income retained for use in the business	7.1	–
Subtotal	8,329.9	2,497.0
Minimum pension liability adjustment	(34.8)	–
Accumulated unrealized gains on securities	21.4	–
Accumulated foreign currency translation adjustments	(4.8)	(5.4)
Accumulated other comprehensive loss	(18.2)	(5.4)
Total Owner's Equity	8,311.7	2,491.6
Total Liabilities and Owner's Equity	$12,763.8	$ 4,416.4

Certain 1996 amounts have been reclassified to conform with the 1997 presentation.

Reference should be made to the Notes to Financial Statements.

statement of changes in owner's equity

(Dollars in Millions)	Parent Company's Net Investment	Capital Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Owner's Equity	Comprehensive Income
Balance at January 1, 1995	$ 2,305.0			$ (4.0)	$ 2,301.0	
Net contribution from Parent Company	303.9			–	303.9	
Net income	6.2			–	6.2	$ 6.2
Foreign currency translation adjustments	–			(2.2)	(2.2)	(2.2)
Comprehensive income						$ 4.0
Balance at December 31, 1995	2,615.1			(6.2)	2,608.9	
Net distribution to Parent Company	(280.6)			–	(280.6)	
Net income	162.5			–	162.5	$ 162.5
Foreign currency translation adjustments	–			0.8	0.8	0.8
Comprehensive income						$ 163.3
Balance at December 31, 1996	2,497.0			(5.4)	2,491.6	
Net contribution from Parent Company	1,124.2			–	1,124.2	
Transfer of capital from Parent Company's net investment	(4,063.8)	$ 4,063.8			–	
Capital contribution resulting from the Hughes Transactions	–	4,259.0		–	4,259.0	
Minimum pension liability adjustment resulting from the Hughes Transactions	–	–		(34.8)	(34.8)	
Unrealized gains on securities resulting from the Hughes Transactions	–	–		21.4	21.4	
Net income	442.6	–	$ 7.1	–	449.7	$ 449.7
Foreign currency translation adjustments	–	–	–	0.6	0.6	0.6
Comprehensive income						$ 450.3
Balance at December 31, 1997	$ –	$ 8,322.8	$ 7.1	$ (18.2)	$ 8,311.7	

Reference should be made to the Notes to Financial Statements.

statement of cash flows

(Dollars in Millions)	YEARS ENDED DECEMBER 31, 1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	$ 449.7	$162.5	$ 6.2
Adjustments to reconcile net income to cash provided by continuing operations			
(Income) loss from discontinued operations	(1.2)	7.4	64.6
Gain on sale of discontinued operations	(62.8)	–	–
Extraordinary item, net of taxes	20.6	–	–
Depreciation and amortization	296.4	194.6	179.9
Amortization of GM purchase accounting adjustments related to Hughes Aircraft Company	21.0	21.0	21.0
Net (gain) loss on sale of investments and businesses sold	(489.7)	(120.3)	49.0
Gross profit on sales-type leases	(33.6)	(51.8)	(62.9)
Deferred income taxes and other	285.5	91.9	(76.5)
Change in other operating assets and liabilities			
Accounts and notes receivable	(228.0)	(120.1)	(110.3)
Contracts in process	(174.2)	54.1	174.1
Inventories	(60.7)	(121.5)	(109.3)
Deferred subscriber acquisition costs	71.1	(97.5)	–
Collections of principal on net investment in sales-type leases	22.0	31.2	19.6
Accounts payable	(184.1)	116.8	7.1
Advances on contracts	(95.6)	97.6	8.6
Deferred revenues	(32.2)	113.7	22.5
Accrued liabilities	217.8	22.4	86.4
Deferred gains on sales and leasebacks	(42.9)	(41.6)	(27.1)
Other	31.4	7.0	(154.1)
Net Cash Provided by Continuing Operations	10.5	367.4	98.8
Net cash used by discontinued operations	(15.9)	(8.0)	(25.2)
Net Cash (Used in) Provided by Operating Activities	(5.4)	359.4	73.6
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in companies, net of cash acquired	(1,637.0)	(32.2)	(1.3)
Expenditures for property	(251.3)	(261.5)	(167.7)
Increase in satellites	(633.5)	(191.6)	(223.7)
Proceeds from sale of long-term investments	242.0	–	–
Proceeds from sale and leaseback of satellite transponders with General Motors Acceptance Corporation	–	252.0	–
Proceeds from sale of minority interest in subsidiary	–	137.5	–
Repurchase of minority interest in subsidiary	(161.8)	–	–
Proceeds from sale of discontinued operations	155.0	–	–
Proceeds from sales of investments and businesses	–	–	17.5
Proceeds from disposal of property	55.1	15.3	1.7
Net Cash Used in Investing Activities	(2,231.5)	(80.5)	(373.5)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term debt borrowings	2,383.3	–	–
Repayment of long-term debt	(2,851.9)	–	–
Premium paid to retire debt	(34.4)	–	–
Contributions from (distributions to) Parent Company	1,124.4	(279.8)	301.7
Capital proceeds resulting from Hughes Transactions	4,392.8	–	–
Net Cash Provided by (Used in) Financing Activities	5,014.0	(279.8)	301.7
Net increase (decrease) in cash and cash equivalents	2,777.1	(0.9)	1.8
Cash and cash equivalents at beginning of the year	6.7	7.6	5.8
Cash and cash equivalents at end of the year	$ 2,783.8	$ 6.7	$ 7.6

Certain 1996 and 1995 amounts have been reclassified to conform with the 1997 presentation.

Reference should be made to the Notes to Financial Statements.

notes to financial statements

Note 1: Basis of Presentation and Description of Business

On December 17, 1997, Hughes Electronics Corporation ("Hughes Electronics") and General Motors Corporation ("GM"), the parent of Hughes Electronics completed a series of transactions (the "Hughes Transactions") designed to address strategic challenges facing the three principal businesses of Hughes Electronics and unlock stockholder value in GM. The Hughes Transactions included the tax-free spin-off of the defense electronics business ("Hughes Defense") to holders of GM $1\frac{2}{3}$ par value and Class H common stocks, followed immediately by the merger of Hughes Defense with Raytheon Company ("Raytheon"). Concurrently, Delco Electronics Corporation ("Delco"), the automotive electronics business, was transferred to GM's Delphi Automotive Systems unit. Finally, GM Class H common stock was recapitalized into a GM tracking stock linked to the remaining telecommunications and space business. For the periods prior to the consummation of the Hughes Transactions on December 17, 1997, Hughes Electronics, consisting of its defense electronics, automotive electronics and telecommunications and space businesses, is hereinafter referred to as former Hughes.

In connection with the recapitalization of Hughes Electronics on December 17, 1997, the telecommunications and space business of former Hughes, consisting principally of its direct-to-home broadcast, satellite services, satellite manufacturing and network systems businesses, was contributed to the recapitalized Hughes Electronics. Such telecommunications and space business, both before and after the recapitalization, is hereinafter referred to as Hughes. The accompanying financial statements and footnotes pertain only to Hughes and do not include balances of former Hughes related to Hughes Defense or Delco.

Prior to the Hughes Transactions, the Hughes businesses were effectively operated as divisions of former Hughes. For the period prior to December 18, 1997, these financial statements include allocations of corporate expenses from former Hughes, including research and development, general management, human resources, financial, legal, tax, quality, communications, marketing, international, employee benefits and other miscellaneous services. These costs and expenses have been charged to Hughes based either on usage or using allocation methodologies primarily based upon total revenues, certain tangible assets and payroll expenses. Management believes the allocations were made on a reasonable basis; however, they may not necessarily reflect the financial position, results of operations or cash flows of Hughes on a stand-alone basis in the future. Also, prior to December 18, 1997, interest expense in the Statement of Income and Pro Forma Available Separate Consolidated Net Income included an allocated share of total former Hughes' interest expense.

The Hughes Transactions had a significant impact on the Hughes balance sheet. Prior to the consummation of the Hughes Transactions, Hughes participated in the centralized cash management system of former Hughes, wherein cash receipts were transferred to and cash disbursements were funded by former Hughes on a daily basis. Accordingly, Hughes' balance sheet included only cash and cash equivalents held directly by the telecommunications and space business. In conjunction with the completion of the Hughes Transactions, certain assets and liabilities were contributed by former Hughes to Hughes. The contributed assets and liabilities consisted principally of cash, pension assets and liabilities, liabilities for other postretirement benefits, deferred taxes, property and equipment, and other miscellaneous items. In addition, Hughes received $4.0 billion of cash proceeds from the borrowings incurred by Hughes Defense prior to its spin-off to GM. Since these asset and liability changes took place on December 17, 1997, they are not included in the December 31, 1996 balance sheet of Hughes.

The accompanying financial statements include the applicable portion of intangible assets, including goodwill and related amortization resulting from purchase accounting adjustments associated with GM's purchase of Hughes Aircraft Company in 1985.

Hughes is a leading manufacturer of communications satellites and provider of satellite-based services. It owns and operates one of the world's largest private fleets of geostationary communications satellites and is the world's leading supplier of satellite-based private business networks. Hughes is also a leader in the direct broadcast satellite market with its programming distribution service known as DIRECTV®, which was introduced in the U.S. in 1994 and was the first high-powered, all digital, Direct-To-Home ("DTH") television distribution service in North America. DIRECTV began service in Latin America in 1996 and Japan in 1997. Hughes also provides communications equipment and services in the mobile communications and packet switching markets. Its equipment and services are applied in, among other things, data, video and audio transmission, cable and network television distribution, private business networks, digital cellular communications and DTH satellite broadcast distribution of television programming.

NOTE 2: Summary of Significant Accounting Policies

Principles of Combination and Consolidation

Prior to December 18, 1997, the financial statements present the financial position, results of operations and cash flows of the telecommunications and space business owned and operated by former Hughes on a combined basis. Subsequent to the Hughes Transactions, the accompanying financial statements are presented on a consolidated basis. The financial statements include the accounts of Hughes and its domestic and foreign subsidiaries that are more than 50% owned, with investments in associated companies, in which Hughes owns at least 20% of the voting securities, accounted for under the equity method of accounting.

Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates.

Revenue Recognition

Revenues are generated from sales of satellites and telecommunications equipment, DTH broadcast subscriptions, and the sale of transponder capacity and related services through outright sales, sales-type leases and operating lease contracts.

Sales under long-term contracts are recognized primarily using the percentage-of-completion (cost-to-cost) method of accounting. Under this method, sales are recorded equivalent to costs incurred plus a portion of the profit expected to be realized, determined based on the ratio of costs incurred to estimated total costs at completion. Profits expected to be realized on long-term contracts are based on estimates of total sales value and costs at completion. These estimates are reviewed and revised periodically throughout the lives of the contracts, and adjustments to profits resulting from such revisions are recorded in the accounting period in which the revisions are made. Estimated losses on contracts are recorded in the period in which they are identified.

Certain contracts contain cost or performance incentives which provide for increases in profits for surpassing stated objectives and decreases in profits for failure to achieve such objectives. Amounts associated with incentives are included in estimates of total sales values when there is sufficient information to relate actual performance to the objectives.

Sales which are not pursuant to long-term contracts are generally recognized as products are shipped or services are rendered. DTH subscription revenues are recognized when programming is viewed by subscribers. Programming billed in advance of viewing is recorded as deferred revenues in the balance sheet.

Satellite transponder lease contracts qualifying for capital lease treatment (typically based on the term of the lease) are accounted for as sales-type leases, with revenues recognized equal to the net present value of the future minimum lease payments. Upon entering into a lease, the cost basis of the transponder is removed and charged to cost of products sold. The portion of each periodic lease payment deemed to be attributable to interest income is recognized as income in each respective period. Contracts for sales of transponders typically include telemetry, tracking and control ("TT&C") service agreements.

Revenues related to TT&C service agreements are recognized as the services are performed.

Transponder and other lease contracts that do not qualify as sales-type leases are accounted for as operating leases. Operating lease revenues are recognized on a straight-line basis over the respective lease term. Differences between operating lease payments received and revenues recognized are deferred and included in accounts receivable.

Hughes has entered into agreements for the sale and leaseback of certain of its satellite transponders. The leaseback transactions have been classified as operating leases and, therefore, the capitalized cost and associated depreciation related to satellite transponders sold are not included in the accompanying financial statements. Gains resulting from such transactions are deferred and amortized over the leaseback period. Leaseback expense is recorded using the straight-line method over the term of the lease, net of amortization of the deferred gains. Differences between operating leaseback payments made and expense recognized are deferred and included in accrued operating leaseback expense.

Cash Flows

Cash equivalents consist of highly liquid investments purchased with original maturities of 90 days or less.

Net cash from operating activities includes cash payments made by Hughes and by former Hughes on behalf of Hughes for interest of $156.8 million, $55.8 million and $75.7 million in 1997, 1996 and 1995, respectively. Cash payments made by Hughes and by former Hughes on behalf of Hughes for income taxes amounted to $24.0 million, $36.5 million and $160.5 million in 1997, 1996 and 1995, respectively.

Certain non-cash transactions occurred in connection with the consummation of the Hughes Transactions on December 17, 1997, resulting in a net liability of $133.8 million.

In a separate non-cash transaction, PanAmSat converted its outstanding preferred stock, acquired as part of the PanAmSat merger (see Note 16), into debt amounting to $438.5 million.

Contracts in Process

Contracts in process are stated at costs incurred plus estimated profit, less amounts billed to customers and advances and progress payments applied. Engineering, tooling, manufacturing and applicable overhead costs, including administrative, research and development and selling expenses, are charged to costs and expenses when incurred. Contracts in process include amounts relating to contracts with long production cycles, with $137.9 million of the 1997 amount expected to be billed after one year. Amounts billed under retainage provisions of contracts are not significant, and substantially all amounts are collectible within one year. Under certain contracts with the U.S. Government, progress payments are received based on costs incurred on the respective contracts. Title to the inventories related to such contracts (included in contracts in process) vests with the U.S. Government.

Inventories

Inventories are stated at the lower of cost or market principally using the average cost method.

Major Classes of Inventories

(Dollars in Millions)	**1997**	**1996**
Productive material and supplies	$ 57.5	$ 82.6
Work in process	328.5	250.5
Finished goods	100.4	90.0
Total	$ 486.4	$ 423.1

Deferred Subscriber Acquisition Costs

During 1996, Hughes introduced certain rebate programs which reduced the net retail price of Digital Satellite System ("DSS®") equipment when consumers subscribed to and prepaid for DIRECTV programming services for a minimum of one year. The rebate costs have been recorded as deferred subscriber acquisition costs and are being amortized over the one-year subscription commitment period. Net deferred rebate costs totaled $26.4 million and $97.5 million at December 31, 1997 and 1996, respectively.

Property, Satellites and Depreciation

Property and Satellites are carried at cost. Satellite costs include construction costs, launch costs, launch insurance and capitalized interest. Capitalized satellite costs represent the costs of successful satellite launches. Satellite costs related to unsuccessful launches, net of insurance proceeds, are recognized in the period of failure. Depreciation is computed generally using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the life of the asset or term of the lease.

Intangible Assets

Intangible assets are amortized using the straight-line method over periods not exceeding 40 years.

Software Development Costs

Other assets include certain software development costs capitalized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed. Capitalized software development costs at December 31, 1997 and 1996, net of accumulated amortization of $107.7 million and $86.1 million, respectively, totaled $99.0 million and $87.0 million. The software is amortized using the greater of the units of revenue method or the straight-line method over its useful life, not in excess of five years. Software program reviews are conducted to ensure that capitalized software development costs are properly treated and costs associated with programs that are not generating revenues are appropriately written-off.

Valuation of Long-Lived Assets

Hughes periodically evaluates the carrying value of long-lived assets to be held and used, including goodwill and other intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost of disposal.

Research and Development

Expenditures for research and development are charged to costs and expenses as incurred and amounted to $120.4 million in 1997, $94.6 million in 1996 and $74.6 million in 1995.

Foreign Currency

Substantially all of Hughes' foreign operations have determined the local currency to be their functional currency. Accordingly, these foreign entities translate assets and liabilities from their local currencies to U.S. dollars using year-end exchange rates while income and expense accounts are translated at the average rates in effect during the year. The resulting translation adjustment is accumulated as a separate component of owner's equity. Net foreign currency transaction gains and losses included in the operating results were not material for all years presented.

Financial Instruments and Investments

Hughes maintains investments in equity securities of unaffiliated companies. Investments in equity securities are considered available-for-sale and carried at current fair value with unrealized gains or losses, net of tax, reported as a separate component of owner's equity. Fair value is determined by market quotes, when available, or by management estimate.

Market values of financial instruments, other than debt and derivative instruments, are based upon management estimates. Market values of debt and derivative instruments are determined by quotes from financial institutions.

The carrying value of cash and cash equivalents, accounts and notes receivable, investments and other assets, accounts payable, amounts included in accrued liabilities meeting the definition of a financial instrument, and debt approximate fair value at December 31, 1997. The fair value of derivative financial instruments approximates their contract value at December 31, 1997.

Hughes' derivative contracts primarily consist of foreign exchange-forward contracts. Hughes enters into these contracts to reduce its exposure to fluctuations in foreign exchange rates. Foreign exchange-forward contracts are accounted for as hedges to the extent they are designated as, and are effective as, hedges of firm foreign currency commitments. Gains and losses on foreign exchange-forward contracts designated as hedges of firm foreign currency commitments are recognized in income in the same period as gains and losses on the underlying transactions are recognized.

Stock Compensation

Hughes issues stock options to employees with grant prices equal to the fair value of the underlying security at the date of grant. No compensation cost has been recognized for options in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. See Note 11 for information regarding the pro forma effect on earnings of recognizing compensation cost based on the estimated fair value of the stock options granted, as required by SFAS No. 123, Accounting for Stock-Based Compensation.

Market Concentrations and Credit Risk

Sales under U.S. Government contracts were 15.3%, 22.5% and 30.5% of total revenues in 1997, 1996 and 1995, respectively. Hughes provides services and extends credit to a large number of customers in the commercial satellite communications market and to a large number of residential consumers. Management monitors its exposure to credit losses and maintains allowances for anticipated losses.

NOTE 3: Property and Satellites, Net

(Dollars in Millions)	Estimated Useful Lives (years)	1997	1996
Land and improvements	10 - 20	$ 51.2	$ 47.5
Buildings and unamortized leasehold improvements	3 - 45	305.8	272.4
Machinery and equipment	3 - 30	1,015.4	854.5
Furniture, fixtures and office machines	3 - 10	83.2	67.3
Construction in progress	–	169.9	106.2
Total		1,625.5	1,347.9
Less accumulated depreciation		735.8	657.1
Property, net		$ 889.7	$ 690.8
Satellites	9 - 16	$ 3,051.9	$ 1,400.1
Less accumulated depreciation	–	408.5	343.5
Satellites, net		$ 2,643.4	$ 1,056.6

Hughes capitalized interest of $64.5 million, $12.9 million and $14.6 million for 1997, 1996 and 1995, respectively, as part of the cost of its satellites under construction.

NOTE 4: Leasing Activities

Future minimum lease payments due from customers under noncancelable satellite transponder operating leases, exclusive of amounts due from subleases reported below, are $695.9 million in 1998, $666.1 million in 1999, $612.2 million in 2000, $571.6 million in 2001, $505.2 million in 2002 and $2,721.5 million thereafter.

The components of the net investment in sales-type leases are as follows:

(Dollars in Millions)	1997	1996
Total minimum lease payments	$ 662.5	$ 678.7
Less unearned interest income	(297.1)	(337.5)
Total net investment in sales-type leases	365.4	341.2
Less current portion	(27.8)	(20.6)
Total	$ 337.6	$ 320.6

Future minimum payments due from customers under sales-type leases and related service agreements as of December 31, 1997 are $78.1 million in 1998, $87.2 million in 1999, $85.8 million in 2000, $87.1 million in 2001, $87.6 million in 2002 and $305.5 million thereafter.

In February 1996, Hughes entered into a sale and leaseback of certain satellite transponders on Galaxy III-R with General Motors Acceptance Corporation ("GMAC"), a subsidiary of GM. Proceeds from the sale were $252.0 million, and the sale resulted in a gain of $108.8 million, which was deferred and is being amortized over the seven-year leaseback period. In 1992 and 1991, Hughes entered into agreements for the sale and leaseback of certain transponders on Galaxy VII and SBS-6, respectively, resulting in deferred gains of $180.0 million in 1992 and $96.1 million in 1991, which are being amortized over their respective leaseback periods. The transponder leaseback terms include early buyout options of $151.7 million in 1998 and $366.2 million in 1999. In January 1998, PanAmSat exercised an early buy-out option for $96.6 million related to transponders on SBS-6.

As of December 31, 1997, the future minimum leaseback amounts payable to lessors under the operating leasebacks and the future minimum sublease amounts due from subleases under noncancelable subleases are as follows:

(Dollars in Millions)	Minimum Leaseback Payments	Sublease Amounts Due
1998	$102.5	$ 76.6
1999	133.3	74.9
2000	164.6	69.7
2001	90.9	67.0
2002	138.3	56.5
Thereafter	228.5	159.5
Total	$858.1	$504.2

NOTE 5: Accrued Liabilities

(Dollars in Millions)	1997	1996
Payrolls and other compensation	$200.2	$115.5
Contract-related provisions	76.0	159.5
Reserve for consumer finance and rebate programs	86.9	120.5
Other	326.3	34.5
Total	$689.4	$430.0

NOTE 6: Long-Term Debt

(Dollars in Millions)	1997	1996
Bridge loan	$ 100.0	$ –
Revolving credit facility	500.0	–
Other	37.6	–
Total long-term debt	$ 637.6	$ –

At December 31, 1997, Hughes has $1 billion of unused credit available under two unsecured revolving loan agreements, consisting of a $750 million multi-year facility and a $250 million 364-day facility. The multi-year facility loan agreement provides for a commitment of $750.0 million through December 5, 2002, subject to a facility fee of 0.07% per annum. Borrowings bear interest at a rate which approximates the London Interbank Offered Rate plus 0.155%. The 364-day facility provides for a commitment of $250.0 million through December 3, 1998, subject to a facility fee of 0.05% per annum. Borrowings bear interest at a rate which approximates the London Interbank Offered Rate plus 0.175%. No amounts were outstanding under either agreement at December 31, 1997.

At December 31, 1997, Hughes had long-term notes outstanding of $28.5 million which are included in other long-term debt. The notes bear interest at fixed rates as follows: $10.7 million at 9.61% and $17.8 million at 11.11%.

In December 1997, Hughes' subsidiary, PanAmSat, entered into a bank borrowing agreement (the "Bank Agreement") that provided for bridge loans of up to $300 million and loans of up to $500 million under a five-year revolving credit facility. Borrowings bear interest at a rate which approximates the London Interbank Offered Rate plus 0.40%.

In December 1997, using $100.0 million from the bridge loans, $500.0 million from the revolving credit facility and available cash (including cash from the liquidation of certain marketable securities), PanAmSat completed a debt tender offer and restructuring program (the "Program") for its outstanding 9.75% Senior Notes, 11.375% Senior Subordinated Discount Notes and 12.75% Senior Subordinated Notes (collectively, the "Senior Notes"). In connection with the Program, PanAmSat purchased approximately 99% of the principal amount of each class of the Senior Notes then outstanding. PanAmSat retired Senior Notes having a principal value of approximately $1.1 billion. The debt refinancing Program resulted in the recognition of an extraordinary charge of $20.6 million ($34.4 million before taxes) related principally to the excess of the price paid for the debt over its carrying value, net of deferred financing costs.

In addition to its $600.0 million of bank borrowings, PanAmSat had $9.1 million of Senior Notes outstanding at December 31, 1997 which were not tendered as part of its debt refinancing Program. The outstanding balance of the Senior Notes is included in other long-term debt.

In January 1998, PanAmSat borrowed an additional $125.0 million under the Bank Agreement, principally for the purpose of exercising an early buy-out option on a satellite sale-leaseback agreement. Also in January 1998, PanAmSat completed a private placement debt offering for five, seven, ten and thirty year notes aggregating $750.0 million (the "Notes Offering"), the proceeds of which were used to retire all of the outstanding borrowings under the Bank Agreement. As a result of the Notes Offering, the bridge loan under the Bank Agreement terminated, while the five-year revolving credit facility remains in effect. As all of the bank borrowings were refinanced on a long-term basis shortly after year-end, these amounts have been classified as long-term as of December 31, 1997.

The aggregate maturities of long-term debt for the five years subsequent to December 31, 1997 are $3.6 million in 2000 and $634.0 million in 2003 and beyond.

NOTE 7: Income Taxes

The provision for income taxes is based on reported income before income taxes. Deferred income tax assets and liabilities reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes, as measured by applying currently enacted tax laws.

Hughes and former Hughes, and their domestic subsidiaries join with General Motors in filing a consolidated U.S. Federal income tax return. The portion of the consolidated income tax liability recorded by Hughes is generally equivalent to the liability it would have incurred on a separate return basis.

Prior to December 18, 1997, certain income tax assets and liabilities were maintained by former Hughes. Income tax expense was allocated to Hughes as if Hughes filed a separate income tax return. In connection with the Hughes Transactions, certain income tax assets and liabilities were contributed to and assumed by Hughes on December 17, 1997 and are included in the accompanying balance sheet.

The income tax provision consisted of the following:

(Dollars in Millions)	1997	1996	1995
U.S. federal, state and foreign taxes currently payable	$ 24.0	$ 36.5	$ 160.5
U.S. federal, state and foreign deferred tax liabilities (assets), net	212.7	68.3	(129.1)
Total income tax provision	$ 236.7	$ 104.8	$ 31.4

Income from continuing operations before income taxes, minority interests and extraordinary item included the following components:

(Dollars in Millions)	1997	1996	1995
U.S. income	$ 659.4	$ 218.4	$ 96.0
Foreign (loss) income	(41.2)	3.7	1.6
Total	$ 618.2	$ 222.1	$ 97.6

The combined income tax provision was different than the amount computed using the U.S. statutory income tax rate for the reasons set forth in the following table:

(Dollars in Millions)	1997	1996	1995
Expected tax at U.S. statutory income tax rate	$ 216.4	$ 77.7	$ 34.2
Investment and research tax credits	(39.3)	–	(5.0)
Foreign sales corporation tax benefit	(25.5)	(24.0)	(19.7)
U.S. state and local income taxes	24.8	9.4	4.1
Purchase accounting adjustments	7.3	7.3	7.3
Losses of equity method investees	18.7	14.8	4.2
Minority interests in losses of partnership	17.5	17.7	2.0
Non-deductible goodwill amortization	9.7	–	–
Other	7.1	1.9	4.3
Total income tax provision	$ 236.7	$ 104.8	$ 31.4

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities at December 31 were as follows:

	1997		1996	
(Dollars in Millions)	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Profits on long-term contracts	$156.0	$ 142.8	$124.8	$133.3
Sales and leasebacks	85.8	–	111.0	–
Employee benefit programs	64.3	114.0	–	–
Postretirement benefits other than pensions	72.9	–	–	–
Customer deposits and rebates	61.9	–	2.6	–
State taxes	50.0	–	19.8	–
Gain on PanAmSat merger	–	195.0	–	–
Satellite launch insurance costs	–	43.7	–	–
Depreciation	–	438.6	–	255.2
Sale of equity interest in DIRECTV	–	48.7	–	48.7
Other	63.9	35.4	35.8	23.9
Subtotal	554.8	1,018.2	294.0	461.1
Valuation allowance	(14.2)	–	(10.3)	–
Total deferred taxes	$540.6	$1,018.2	$283.7	$461.1

notes to financial statements

No provision has been made for U.S. federal income taxes related to the portion of undistributed earnings of foreign subsidiaries deemed permanently reinvested. At December 31, 1997 and 1996, undistributed earnings of foreign subsidiaries amounted to approximately $18.2 million and $5.3 million, respectively. Repatriation of all accumulated earnings would have resulted in tax liabilities of $5.4 million in 1997 and $0.5 million in 1996.

At December 31, 1997, Hughes had $20.2 million of foreign operating loss carryforwards which expire in varying amounts between 1998 and 2002. The valuation allowance includes a provision of $12.3 million for foreign operating loss carryforwards.

Hughes has an agreement with Raytheon which governs Hughes' rights and obligations with respect to federal and state income taxes for all periods prior to the merger of Hughes Defense with Raytheon. Hughes will be responsible for any taxes pertaining to those periods prior to the merger, including any additional taxes resulting from federal and state tax audits. Hughes will also be entitled to any tax refunds relating to those years.

The federal income tax returns of former Hughes have been examined through 1990. All years prior to 1983 are closed. Issues relating to the years 1983 through 1990 are being contested through various stages of administrative appeal. The Internal Revenue Service is currently examining former Hughes' federal tax returns for years 1991 through 1994. Management believes that adequate provision has been made for any adjustment which might be assessed for open years. In addition, former Hughes has filed an affirmative claim for additional research and experimentation credits for 1986 through 1994.

NOTE 8: Retirement Programs

Substantially all of Hughes' employees participate in Hughes' contributory and non-contributory defined benefit retirement plans. Benefits are based on years of service and compensation earned during a specified period of time before retirement. Additionally, an unfunded, nonqualified pension plan covers certain employees.

Prior to December 18, 1997, the pension-related assets and liabilities were maintained by former Hughes for its non-automotive businesses and were not included in the Hughes balance sheet. A portion of former Hughes' net pension expense or income was allocated to Hughes and is included in the statement of income. In connection with the Hughes Transactions, the pension assets and liabilities related to Hughes employees were contributed to and assumed by Hughes. These assets and liabilities are included in the December 31, 1997 balance sheet. The net pension expense (credit) allocation was $12.3 million, $12.2 million and $(3.0) million for 1997, 1996 and 1995, respectively. The pension expense components including benefits earned during the year, interest accrued on benefits earned in prior years, actual return on assets and net amortization and deferral, were not determined separately for the Hughes participants.

Costs are actuarially determined using the projected unit credit method and are funded in accordance with U.S. Government cost accounting standards to the extent such costs are tax-deductible. SFAS No. 87, Employers' Accounting for Pensions, requires the recognition of an additional pension liability to increase the amounts recorded up to the unfunded accumulated benefit obligation. The adjustment required to recognize the minimum pension liability required by SFAS No. 87 is recorded as an intangible asset to the extent of unrecognized prior service cost and the remainder, net of applicable deferred income taxes, is recorded as a reduction of owner's equity. At December 31, 1997, the additional minimum pension liability recorded was $76.5 million, of which $34.8 million was recorded as a reduction of owner's equity.

Plan assets are invested primarily in listed common stocks, cash and short-term investment funds, U.S. Government securities and other investments.

The following table sets forth the funded status of the Hughes plans and the amounts included in the balance sheet at December 31, 1997:

(Dollars in Millions)	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of benefits based on service to date and present pay levels		
Vested	$ 1,162.8	$ 82.0
Nonvested	105.2	1.8
Accumulated benefit obligation	1,268.0	83.8
Additional amounts related to projected pay increases	194.9	9.7
Total projected benefit obligation based on service to date	1,462.9	93.5
Plan assets at fair value	1,906.1	–
Plan assets in excess of (less than) projected benefit obligation	443.2	(93.5)
Unamortized net amount resulting from changes in plan experience and actuarial assumptions	(200.1)	77.8
Unamortized net asset at date of adoption	(12.8)	–
Unamortized net amount resulting from changes in plan provisions	(3.3)	8.4
Adjustment for unfunded pension liabilities	–	(76.5)
Net prepaid pension cost (accrued liability)	$ 227.0	$ (83.8)

The weighted-average discount rate used in determining the actuarial present values of the projected benefit obligation shown in the table above was 7.25% at December 31, 1997. The rate of increase in future compensation levels was 5.0% and the expected long-term rate of return on assets used in determining pension cost was 9.5%.

Hughes maintains 401(k) plans for qualified employees. A portion of employee contributions are matched by Hughes and amounted to $26.3 million, $16.7 million and $14.9 million in 1997, 1996 and 1995, respectively.

NOTE 9: Other Postretirement Benefits

Hughes maintains a program for eligible retirees to participate in health care and life insurance benefits generally until they reach age 65. Qualified employees who elected to participate in the Hughes contributory defined benefit pension plans may become eligible for these benefits if they retire from Hughes between the ages of 55 and 65.

Prior to December 18, 1997, the postretirement benefit plans were maintained by former Hughes for its non-automotive businesses and were not included in the Hughes balance sheet. A portion of former Hughes' postretirement benefit cost was allocated to Hughes and is included in the statement of income. In connection with the Hughes Transactions, the postretirement benefit obligation related to Hughes employees was assumed by Hughes on December 17, 1997 and is included in the December 31, 1997 balance sheet.

The postretirement benefit cost allocated to Hughes was $11.2 million, $10.4 million and $8.7 million for 1997, 1996 and 1995, respectively. The postretirement benefit cost components, including benefits earned during the year, interest accrued on benefits earned in prior years and net amortization, were not determined separately for the Hughes employees.

The following table displays the components of Hughes' obligation recognized for postretirement benefit plans included in the balance sheet at December 31, 1997:

(Dollars in Millions)	
Accumulated postretirement benefit obligation attributable to	
Current retirees	$ 54.2
Fully eligible active plan participants	18.0
Other active plan participants	63.4
Accumulated postretirement benefit obligation	135.6
Unrecognized net amount resulting from changes in plan experience and actuarial assumptions	31.0
Net postretirement benefit obligation	166.6
Less current portion	11.8
Net long-term postretirement benefit obligation	$ 154.8

The assumed weighted-average discount rate used in determining the actuarial present value of the accumulated postretirement benefit obligation was 6.75% at December 31, 1997. The assumed weighted-average rate of increase in future compensation levels related to pay-related life insurance benefits was 5.0% at December 31, 1997.

The assumed weighted-average health care cost trend rate was 10.5% in 1997, assumed to decrease linearly each successive year until it reaches 6.0% in 2006, after which it remains constant. A one percentage point increase in each year of this annual trend rate would increase the accumulated postretirement benefit obligation at December 31, 1997 by approximately $11 million and increase the service and interest cost components of the 1997 postretirement benefit expense by approximately $1 million.

Hughes has disclosed in the financial statements certain amounts associated with estimated future postretirement benefits other than pensions and characterized such amounts as "accumulated postretirement benefit obligations," "liabilities" or "obligations." Notwithstanding the recording of such amounts and the use of these terms, Hughes does not admit or otherwise acknowledge that such amounts or existing postretirement benefit plans of Hughes (other than pensions) represent legally enforceable liabilities of Hughes.

NOTE 10: Owner's Equity

The authorized capital stock of Hughes consists of 1,000 shares of $1.00 par value common stock. All of the outstanding capital stock of Hughes is held by GM. In connection with the Hughes Transactions, Hughes was recapitalized on December 17, 1997 at which time 1,000 shares of common stock were issued to GM. Prior to December 17, 1997, the equity of Hughes was comprised of former Hughes' (Parent Company's) net investment in its telecommunications and space business.

During the fourth quarter of 1997, Hughes adopted SFAS No. 130, Reporting Comprehensive Income, which establishes standards for reporting and displaying comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements. The changes in the components of other comprehensive income (loss), net of income taxes, are as follows at December 31:

	1997			1996			1995		
(Dollars in Millions)	Pre-tax Amount	Tax Expense	Net Amount	Pre-tax Amount	Tax Expense	Net Amount	Pre-tax Amount	Tax Credit	Net Amount
Foreign currency translation adjustments	$1.0	$0.4	$0.6	$1.3	$0.5	$0.8	$(3.7)	$(1.5)	$(2.2)

NOTE 11: Incentive Plan

Under the Hughes Electronics Corporation Incentive Plan (the "Plan"), as approved by the GM Board of Directors in 1997, shares, rights or options to acquire up to 25.8 million shares of GM Class H common stock were available for grant through December 31, 1997.

The GM Executive Compensation Committee may grant options and other rights to acquire shares of GM Class H common stock under the provisions of the Plan. The option price is equal to 100% of the fair market value of GM Class H common stock on the date the options are granted. These nonqualified options generally vest over two to four years, expire 10 years from date of grant and are subject to earlier termination under certain conditions.

As part of the Hughes Transactions, the outstanding options of former Hughes employees who continued as Hughes employees were converted into options to purchase the recapitalized GM Class H common stock. Recognition of compensation expense was not required in connection with the conversion. The following table summarizes information about the Plan stock options outstanding at December 31, 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 9.00 to $ 15.99	787,450	4	$ 13.66	787,450	$ 13.66
16.00 to 29.99	2,315,562	6	20.35	2,315,562	20.35
30.00 to 40.00	10,858,603	9	32.06	500,051	35.41
$ 9.00 to $ 40.00	13,961,615	8	$ 29.08	3,603,063	$ 20.98

At December 31, 1997, no shares were available for grant under the Plan.

Effective May 6, 1997, PanAmSat, Hughes' 71.5% owned, publicly traded subsidiary, adopted a stock option incentive plan with terms similar to the Plan. As of December 31, 1997, PanAmSat has issued 584,890 options to purchase its common stock with exercise prices ranging from $29.00 per share to $38.25 per share. The options vest ratably over three years and have a remaining life of approximately nine and one-half years. The PanAmSat options have been considered in the following pro forma analysis.

The following table represents pro forma information as if Hughes recorded compensation cost using the fair value of issued options on their grant date:

(Dollars in Millions)	1997	1996	1995
Reported net earnings used for pro forma computation of available separate consolidated net income	$ 470.7	$ 183.5	$ 27.2
Assumed stock compensation cost, net of tax	43.5	8.8	2.6
Adjusted earnings used for pro forma computation of available separate consolidated net income	$ 427.2	$ 174.7	$ 24.6
Reported pro forma earnings per share	$ 1.18	$ 0.46	$ 0.07
Adjusted pro forma earnings per share	$ 1.07	$ 0.44	$ 0.06

Estimated compensation cost was based upon an allocation from former Hughes which was calculated using the Black-Scholes valuation model for estimating the fair value of its options. The following table presents the estimated weighted-average fair value of options granted and the assumptions used for the 1997 calculation (stock volatility has been estimated based upon a study of a Hughes-determined peer group and may not be indicative of actual volatility for future periods):

Estimated fair value per option granted	$ 26.90
Average exercise price per option granted	$ 31.71
Stock volatility	32.5%
Risk-free interest rate	5.87%
Option life in years	7

NOTE 12: Other Income and Expenses

(Dollars in Millions)	1997	1996	1995
Gain on PanAmSat merger	$ 489.7		
Gain on sale of DIRECTV interest to AT&T	–	$ 120.3	
Equity losses	(72.2)	(42.2)	$ (9.6)
Other	(26.8)	(9.0)	12.6
Total Other, net	$ 390.7	$ 69.1	$ 3.0

NOTE 13: Related-Party Transactions

In the ordinary course of its operations, Hughes provides telecommunications services and sells electronic components to, and purchases sub-components from, related parties. In addition, prior to December 18, 1997, Hughes received allocations of corporate expenses and interest costs from former Hughes and GM.

The following table summarizes the significant related party transactions of Hughes with former Hughes and GM entities:

(Dollars in Millions)	1997	1996	1995
Revenues	$ 45.2	$ 50.8	$ 53.6
Costs and expenses			
Purchases	275.4	241.5	144.0
Allocation of corporate expenses	77.5	75.6	60.5
Allocated interest	55.6	53.2	74.7

NOTE 14: Pro Forma Earnings Per Share Attributable to GM Class H Common Stock And Available Separate Consolidated Net Income

Earnings per share attributable to GM Class H common stock is determined based on the relative amounts available for the payment of dividends to holders of GM Class H common stock. Holders of GM Class H common stock have no direct rights in the equity or assets of Hughes, but rather have rights in the equity and assets of GM (which includes 100% of the stock of Hughes).

Amounts available for the payment of dividends on GM Class H common stock are based on the Available Separate Consolidated Net Income of Hughes. The Available Separate Consolidated Net Income of Hughes is determined quarterly and is equal to the separate consolidated net income of Hughes, excluding the effects of GM purchase accounting adjustments arising from GM's acquisition of Hughes Aircraft Company in 1985 (Earnings Used for Computation of Available Separate Consolidated Net Income), multiplied by a fraction, the numerator of which is a number equal to the weighted-average number of shares of GM Class H common stock outstanding during the period and the denominator of which was 399.9 million during 1997, 1996 and 1995. The denominator used in determining the Available Separate Consolidated Net Income of Hughes may be adjusted from time-to-time as deemed appropriate by the GM Board of Directors to reflect subdivisions or combinations of the GM Class H common stock and to reflect certain transfers of capital to or from Hughes. The GM Board's discretion to make such adjustments is limited by criteria set forth in GM's Restated Certificate of Incorporation.

In the accompanying financial statements, Available Separate Consolidated Net Income and Earnings Attributable to General Motors Class H common stock are presented on a pro forma basis. Historically, such amounts were calculated based on the financial performance of former Hughes. Since these financial statements relate only to the telecommunications and space business of former Hughes prior to the consummation of the Hughes Transactions, they do not reflect the earnings attributable to the GM Class H common stock on a historical basis. The pro forma presentation is used, therefore, to present the financial results which would have been achieved relative to the GM Class H common stock had they been calculated based on the performance of the telecommunications and space business of former Hughes for all periods presented.

Pro forma earnings per share represent basic earnings per share. There is no dilutive effect resulting from the assumed exercise of stock options, since the exercise of stock options would not effect the GM class H dividend base (denominator) used in calculating earnings per share. As Hughes has no other common stock equivalents that may impact the calculation, diluted earnings per share are not presented.

Dividends may be paid on the GM Class H common stock only when, as, and if declared by GM's Board of Directors in its sole discretion. Dividends may be paid on GM Class H common stock to the extent of the amount initially determined to be available for the payment of dividends on Class H common stock, plus the portion of earnings of GM after the closing of the Hughes Transactions attributed to GM Class H common stock. The GM Board determined that the amount initially available for the payment of dividends on shares of the recapitalized GM Class H common stock was the cumulative amount available for the payment of dividends on GM Class H common stock immediately prior to the closing of the Hughes Transactions, reduced by a pro rata portion of the net reduction in GM's total stockholders' equity resulting from the Hughes Transactions. As of December 31, 1997, the amount available for the payment of dividends on GM Class H common stock was $3.7 billion. The GM Board does not currently anticipate paying any cash dividends initially on the recapitalized GM Class H common stock.

NOTE 15: Special Provision for Restructuring

In 1992, Hughes recorded a special restructuring charge of $155.6 million primarily attributable to redundant facilities and related employment costs. The special charge comprehended a reduction of Hughes' employment, a major facilities consolidation and a reevaluation of certain business lines that no longer met Hughes' strategic objectives. Restructuring costs of $8.8 million, $19.4 million and $44.7 million were charged against the reserve during 1997, 1996 and 1995, respectively. The remaining liability of $15.1 million relates primarily to reserves for excess facilities. It is expected that these costs will be expended predominantly over the next several years.

NOTE 16: Acquisitions

In May 1997, Hughes and PanAmSat Corporation, a leading provider of international satellite services, merged their respective satellite service operations into a new publicly held company, which retained the name PanAmSat Corporation. Hughes contributed its Galaxy® satellite services business in exchange for a 71.5% interest in the new company. PanAmSat stockholders received a 28.5% interest in the new company and $1.5 billion in cash. Such cash consideration and other funds required to consummate the merger were funded by new debt financing totaling $1,725.0 million provided by Hughes, which borrowed such funds from GM.

For accounting purposes, the merger was treated by Hughes as an acquisition of 71.5% of PanAmSat and was accounted for using the purchase method. Accordingly, the purchase price was allocated to the net assets acquired, including intangible assets, based on estimated fair values at the date of acquisition. The purchase price exceeded the fair value of net assets acquired by $2.4 billion. In addition, the merger was treated as a partial sale of the Galaxy business by Hughes and resulted in a one-time pre-tax gain of $489.7 million ($318.3 million after-tax).

As the Hughes 1997 financial statements include only PanAmSat's results of operations since the date of acquisition, the following selected unaudited pro forma information is being provided to present a summary of the combined results of Hughes and PanAmSat as if the acquisition had occurred as of the beginning of the respective periods, giving effect to purchase accounting adjustments. The pro forma data is presented for informational purposes only and may not necessarily reflect the results of operations of Hughes had PanAmSat operated as part of Hughes for the years ended December 31, 1997 and 1996, nor are they necessarily indicative of the results of future operations. The pro forma information excludes the effect of non-recurring charges.

(Dollars in Millions except per share amounts)	1997	1996
Total revenues	$ 5,247.9	$ 4,189.8
Income before extraordinary item	164.1	42.1
Net income	143.5	42.1
Pro forma available separate consolidated net income	41.8	15.5
Pro forma earnings per share attributable to GM Class H common stock	$ 0.41	$ 0.16

In December 1997, Hughes repurchased from AT&T, a 2.5% equity interest in DIRECTV, ending AT&T's marketing agreement to distribute the DIRECTV direct broadcast satellite television service and DSS® equipment. The $161.8 million repurchase resulted in goodwill of approximately $156.1 million.

NOTE 17: Derivative Financial Instruments and Risk Management

In the normal course of business, Hughes enters into transactions that expose it to risks associated with foreign exchange rates. Hughes utilizes derivative instruments in an effort to mitigate these risks. Hughes' policy is not to speculate in derivative instruments to profit on foreign currency exchange fluctuations, nor to enter trades for which there are no underlying exposures. Instruments used as hedges must be effective at reducing the risk associated with the exposure being hedged and are designated as a hedge at the inception of the contract. Accordingly, changes in market values of hedge instruments are highly correlated with changes in market values of the underlying transactions, both at the inception of the hedge and over the life of the hedge contract.

Hughes primarily uses foreign exchange-forward contracts to hedge firm commitments denominated in foreign currencies. Foreign exchange-forward contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. The total notional amounts of contracts afforded hedge accounting treatment at December 31, 1997 and 1996 were not significant.

Hughes is exposed to credit risk in the event of non-performance of the counterparties to its foreign exchange-forward contracts, which Hughes believes is remote. Nevertheless, credit risk is managed through the periodic monitoring and approval of financially sound counterparties.

In connection with PanAmSat's debt refinancing activities as discussed in Note 6, PanAmSat entered into certain U.S. Treasury rate lock contracts to reduce its exposure to fluctuations in interest rates. The aggregate notional value of these contracts was $375.0 million and these contracts were accounted for as hedges because they were applied to a specific refinancing plan that was consummated shortly after December 31, 1997. The fair value of these financial instruments at December 31, 1997 approximated their contract value. The cost to settle these instruments in 1998 will be amortized to expense over the term of the newly placed debt securities.

NOTE 18: Discontinued Operations

On December 15, 1997, Hughes sold substantially all of the assets and liabilities of the Hughes Avicom International, Inc. ("Hughes Avicom") business to Rockwell Collins, Inc. for cash. Hughes Avicom is a supplier of products and services to the commercial airline market. Hughes recorded an after-tax gain of $62.8 million on the sale. The net operating results of Hughes Avicom have been reported, net of applicable income taxes, as "Income (loss) from discontinued operations"; the net assets as "Net assets of discontinued operations"; and the net cash flows as "Net cash used by discontinued operations."

Summarized financial information for Hughes Avicom follows:

(Dollars in Millions)	**1997***	**1996**	**1995**
Revenues	$102.5	$89.9	$49.6
Net income (loss)	1.2	(7.4)	(64.6)

*Includes the results of Hughes Avicom through December 15, 1997.

(Dollars in Millions)	**December 31, 1996**
Current assets	$73.6
Property, net	10.3
Other assets	13.9
Current liabilities	(62.1)
Other liabilities	(0.7)
Net assets of discontinued operations	$35.0

NOTE 19: Segment Reporting

Hughes adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, during the fourth quarter of 1997. SFAS No. 131 establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. It also establishes standards for related disclosures about products and services and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and assessing performance. The operating segments are managed separately because each operating segment represents a strategic business unit that offers different products and serves different markets.

Hughes' reportable segments include Direct-To-Home Broadcast, Satellite Services, Satellite Manufacturing and Network Systems. Direct-To-Home Broadcast is engaged in acquiring, promoting, selling and/or distributing digital programming via satellite, primarily to residential customers. Satellite Services is engaged in the selling, leasing and operating of satellite transponders and provides services for cable television systems, news companies and private business networks. Satellite Manufacturing designs, manufactures and markets satellites and satellite components. Network Systems products include satellite-based business networks, cellular-based fixed wireless telephone systems and mobile cellular digital packet data systems. Other includes the corporate office and other entities.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Hughes generally evaluates performance based on segment operating profit and accounts for intersegment revenues and transfers as if the revenues or transfers were to third parties, at current market prices.

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(Dollars in Millions)	Direct-To-Home Broadcast	Satellite Services	Satellite Manufacturing	Network Systems	Other	Eliminations	Total
1997							
External Revenues	$1,276.9	$ 537.3	$ 2,290.0	$ 998.3	$ 25.8		$ 5,128.3
Intersegment Revenues	–	92.6	201.9	13.0	2.7	$ (310.2)	–
Total Revenues	$1,276.9	$ 629.9	$ 2,491.9	$1,011.3	$ 28.5	$ (310.2)	$ 5,128.3
Operating Profit (1)	$ (254.6)	$ 292.9	$ 226.3	$ 74.1	$ (47.9)	$ (5.4)	$ 285.4
Depreciation and Amortization (1)	86.1	145.2	39.4	32.0	14.7	–	317.4
Intangibles, net	–	2,498.5	–	–	456.3	–	2,954.8
Segment Assets (2)	1,441.5	5,682.4	1,312.6	1,215.6	3,298.1	(186.4)	12,763.8
Capital Expenditures (3)	105.6	625.7	113.9	43.1	0.4	(62.1)	826.6
1996							
External Revenues	$ 621.0	$ 381.7	$ 1,950.4	$1,049.6	$ 6.0		$ 4,008.7
Intersegment Revenues	–	101.1	106.0	20.4	1.7	$ (229.2)	–
Total Revenues	$ 621.0	$ 482.8	$ 2,056.4	$1,070.0	$ 7.7	$ (229.2)	$ 4,008.7
Operating Profit (1)	$ (319.8)	$ 239.1	$ 183.3	$ 107.7	$ (13.5)	$ (7.7)	$ 189.1
Depreciation and Amortization (1)	67.3	58.5	34.4	28.3	27.1	–	215.6
Intangibles, net	–	72.9	–	–	395.1	–	468.0
Segment Assets (2)	1,067.2	1,275.5	757.8	964.0	457.1	(105.2)	4,416.4
Capital Expenditures (3)	63.5	308.7	87.8	45.3	–	(55.9)	449.4
1995							
External Revenues	$ 241.8	$ 341.3	$ 1,598.8	$ 919.0	$ 51.9		$ 3,152.8
Intersegment Revenues	–	44.8	132.7	0.3	2.4	$ (180.2)	–
Total Revenues	$ 241.8	$ 386.1	$ 1,731.5	$ 919.3	$ 54.3	$ (180.2)	$ 3,152.8
Operating Profit (1)	$ (160.8)	$ 163.3	$ 151.5	$ 69.0	$ (28.1)	$ (44.4)	$ 150.5
Depreciation and Amortization (1)	48.6	76.5	33.6	25.2	17.0	–	200.9
Intangibles, net	–	76.2	–	–	412.8	–	489.0
Segment Assets (2)	855.9	1,138.0	603.9	801.1	574.5	(20.8)	3,952.6
Capital Expenditures (3)	107.5	280.5	53.2	50.5	–	(49.4)	442.3

Certain amounts have been reclassified to conform with the 1997 presentation.

(1) Includes amortization arising from purchase accounting adjustments related to GM's acquisition of Hughes Aircraft Company amounting to $3.3 million in each of the years for the Satellite Services segment and $17.7 million in each of the years in Other.

(2) Assets of the Satellite Services segment and Other include the unamortized purchase accounting adjustments associated with GM's acquisition of Hughes Aircraft Company. Satellite Services includes unamortized purchase accounting adjustments of $69.6 million in 1997, $72.9 million in 1996 and $76.2 million in 1995. Other includes unamortized purchase accounting adjustments of $378.0 million in 1997, $395.7 million in 1996 and $413.4 million in 1995.

(3) Includes expenditures related to satellites in segments as follows: $53.1 million in 1995 for Direct-To-Home Broadcast segment; and $606.1 million, $259.2 million and $234.9 million in 1997, 1996 and 1995, respectively, for Satellite Services segment.

A reconciliation of operating profit shown above to Income from continuing operations before income taxes, minority interests and extraordinary item shown in the Statement of Income and Pro Forma Available Separate Consolidated Net Income follows:

(Dollars in Millions)	1997	1996	1995
Operating profit	$ 285.4	$ 189.1	$ 150.5
Interest income	33.1	6.8	5.2
Interest expense	(91.0)	(42.9)	(61.1)
Other, net	390.7	69.1	3.0
Income from continuing operations before income taxes, minority interests and extraordinary item	$ 618.2	$ 222.1	$ 97.6

The following table presents revenues earned from customers located in different geographic areas. Property and satellites are grouped by their physical location. Satellites are reported as United States assets.

	1997		1996		1995	
(Dollars in Millions)	Total Revenues	Net Property & Satellites	Total Revenues	Net Property & Satellites	Total Revenues	Net Property & Satellites
North America						
United States	$2,851.1	$3,507.1	$2,613.1	$1,725.1	$2,212.9	$1,630.2
Canada and Mexico	101.3	–	27.4	–	18.8	–
Total North America	2,952.4	3,507.1	2,640.5	1,725.1	2,231.7	1,630.2
Europe	1,002.3	10.8	626.2	8.3	298.4	3.9
Latin America	221.6	–	71.7	–	34.2	–
Asia	826.7	15.2	640.2	14.0	558.9	13.3
Middle East	77.7	–	1.2	–	15.5	–
Other	47.6	–	28.9	–	14.1	–
Total	$5,128.3	$3,533.1	$4,008.7	$1,747.4	$3,152.8	$1,647.4

NOTE 20: Commitments and Contingencies

As a result of the Hughes Transactions, Hughes is subject to certain potential adjustments which could require amounts to be paid to or received from GM or Raytheon.

In connection with the transfer of Delco to Delphi, a projected balance sheet for Delco as of December 31, 1997 was prepared. Within approximately four months following the closing of the Hughes Transactions, GM will prepare a balance sheet for Delco as of December 17, 1997, on a basis consistent with the December 31, 1997 projected balance sheet. To the extent that this closing balance sheet reflects a "net investment amount" of Delco different from the "net investment amount" presented on the projected balance sheet by an amount exceeding $50 million, a payment will be made from Hughes to GM or from GM to Hughes as appropriate to compensate for such difference in excess of $50 million.

Similarly, within approximately four months after completion of the Hughes Transactions, Hughes will prepare and deliver to Raytheon a final audited balance sheet for the defense business of former Hughes as of December 17, 1997. To the extent that this final balance sheet reflects an adjusted net worth that deviates more than $50 million from a target amount, a payment will be made from Hughes to Raytheon or from Raytheon to Hughes as appropriate to compensate for such difference in excess of $50 million.

Any amounts resulting from these adjustments will be treated as equity transactions at the time the amounts are determined.

Hughes has entered into agreements to procure commercial satellite launches, a significant number of which are expected to be used in connection with satellites ordered by outside customers. The agreements provide for launches beginning in 1998 and also contain options for additional launch vehicles. The total amount of the commitments, which is dependent upon the number of options exercised, market conditions and other factors, could exceed $2.0 billion.

Hughes has an agreement with a finance company under which the finance company agreed to provide an open-end revolving credit program for consumer purchases of DSS equipment, installations and ancillary items at selected retail establishments. Funding under this program was discontinued effective September 10, 1996. The aggregate outstanding balance under this agreement at December 31, 1997 was approximately $190.0 million. Hughes has certain rights regarding the administration of the program and the losses from qualifying accounts under this program accrue to Hughes, subject to certain indemnity obligations of the finance company. Hughes has established allowances to provide for expected losses under the program. The allowances are subject to periodic review as management collects additional information about the performance of the consumer loan portfolios.

notes to financial statements

In December 1994, former Hughes entered into an agreement with Computer Sciences Corporation ("CSC") whereby CSC provides a significant amount of data processing services required by the non-automotive businesses of former Hughes. Baseline service payments to CSC are expected to aggregate approximately $1.5 billion over the term of the eight-year agreement for former Hughes. Based on historical usage, approximately 17% of the costs incurred under the agreement are attributable to Hughes. The contract is cancelable by Hughes with early termination penalties.

At December 31, 1997, minimum future commitments under noncancelable operating leases having lease terms in excess of one year, exclusive of satellite transponders leaseback payments disclosed in Note 4, are primarily for real property and aggregated $318.8 million, payable as follows: $50.4 million in 1998, $46.5 million in 1999, $43.6 million in 2000, $43.0 million in 2001, $41.4 million in 2002 and $93.9 million thereafter. Certain of these leases contain escalation clauses and renewal or purchase options. Rental expenses under operating leases were $72.2 million in 1997, $52.7 million in 1996 and $54.7 million in 1995.

In conjunction with its performance on long-term contracts Hughes is contingently liable under standby letters of credit and bonds in the amount of $296.0 million and $152.5 million at December 31, 1997 and 1996, respectively. In Hughes' past experience, no material claims have been made against these financial instruments. In addition, Hughes has guaranteed up to $150.0 million of certain American Mobile Satellite Corporation ("AMSC") bank debt due June 2001. Hughes owns approximately 27.0% of the common stock of AMSC. Hughes has additional guarantees of up to $377.5 million, relating principally to a Surfin Ltd. revolving credit facility which expires July 1999. Hughes owns approximately 39% of Surfin Ltd., a company which finances the sale of subscriber equipment in Latin America.

Hughes has commitments related to its programming agreements which are variable based upon the number of underlying subscribers and market penetration rates. Minimum payments over the terms of applicable contracts are anticipated to be approximately $300 million to $400 million.

Hughes is subject to potential liability under government regulations and various claims and legal actions which are pending or may be asserted against it. The aggregate ultimate liability of Hughes under these claims and actions, was not determinable at December 31, 1997. In the opinion of Hughes management, such liability is not expected to have a material adverse effect on Hughes' operations or financial position.

Hughes has maintained a suit against the U.S. government since September 1973 regarding the Government's infringement and use of a Hughes patent (the "Williams Patent") covering "Velocity Control and Orientation of a Spin Stabilized Body," principally satellites. On June 17, 1994, the U.S. Court of Claims awarded Hughes damages of $114.0 million. Because Hughes believed that the record supported a higher royalty rate, it appealed that decision. The U.S. government, contending that the award was too high, also appealed. On June 19, 1996, the Court of Appeals for the Federal Circuit ("CAFC") affirmed the decision of the Court of Claims which awarded Hughes $114.0 million in damages, together with interest. The U.S. government petitioned the CAFC for a rehearing. That petition was denied in October 1996. The U.S. government then filed a petition with the U.S. Supreme Court seeking certiorari. On April 21, 1997, the U.S. Supreme Court, citing a recent decision it had rendered in Warner-Jenkinson v. Hilton Davis, remanded the Hughes' suit over the Williams Patent back to the CAFC in order to have the CAFC determine whether the ruling in the Williams Patent matter was consistent with the U.S. Supreme Court's decision in the Warner-Jenkinson case. The previous liability decision of the Court of Claims in the Williams Patent matter, and its $114.0 million damage award to Hughes currently remain in effect pending reconsideration of the case by the CAFC. Hughes is unable to estimate the duration of this reconsideration process. While no amount has been recorded in the financial statements of Hughes to reflect the $114.0 million award or the interest accumulating thereon, a resolution of this matter could result in a gain that would be material to the results of operations.

SELECTED QUARTERLY DATA (UNAUDITED)

(Dollars in Millions Except Per Share Amounts)

	1997 Quarters				1996 Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Revenues	$1,024.0	$1,151.4	$1,258.3	$1,694.6	$ 826.6	$ 960.4	$1,000.5	$1,221.2
Income from continuing operations before income taxes, minority interests and extraordinary item	$ 5.6	$ 518.6	$ 87.1	$ 6.9	$ 132.4	$ 74.9	$ (13.5)	$ 28.3
Income taxes	2.2	207.5	34.8	(7.8)	53.0	36.4	(7.4)	22.8
Minority interests	14.2	7.7	(5.1)	8.0	3.5	11.9	14.0	23.2
Income (loss) from discontinued operations	1.0	0.3	(0.1)	62.8	(6.5)	0.3	(0.5)	(0.7)
Extraordinary item	–	–	–	(20.6)	–	–	–	–
Net income	18.6	319.1	47.1	64.9	76.4	50.7	7.4	28.0
Earnings used for pro forma computation of available separate consolidated net income	$ 23.9	$ 324.4	$ 52.4	$ 70.0	$ 81.7	$ 56.0	$ 12.7	$ 33.1
Pro forma average number of shares of General Motors Class H common stock outstanding (in millions)	100.4	101.0	102.0	102.5	97.4	98.2	98.8	99.3
Class H dividend base (in millions)	399.9	399.9	399.9	399.9	399.9	399.9	399.9	399.9
Pro forma available separate consolidated net income	$ 6.0	$ 82.0	$ 13.4	$ 18.0	$ 19.9	$ 13.8	$ 3.3	$ 8.2
Pro forma earnings attributable to General Motors Class H common stock on a per share basis:								
Pro forma income from continuing operations before extraordinary item	$0.06	$0.81	$0.13	$0.07	$0.23	$0.14	$0.03	$0.08
Discontinued operations	–	–	–	0.16	(0.02)	–	–	–
Extraordinary item	–	–	–	(0.05)	–	–	–	–
Pro forma earnings attributable to General Motors Class H common stock	$0.06	$0.81	$0.13	$0.18	$0.21	$0.14	$0.03	$0.08

The stock price range for GM Class H common stock, for the period December 18, 1997 through December 31, 1997, was a high of $40.00 and a low of $35.75. The GM Class H common stock was recapitalized as part of the Hughes Transactions on December 17, 1997.

supplemental information

SELECTED FINANCIAL DATA (UNAUDITED) (Dollars in Millions Except Per Share Amounts)

	1997	1996	1995	1994	1993
Revenues	$ 5,128.3	$ 4,008.7	$ 3,152.8	$ 2,697.0	$ 2,195.0
Earnings used for pro forma computation of available separate consolidated net income	$ 470.7	$ 183.5	$ 27.2	$ 62.2	$ 173.9
Average number of shares of General Motors Class H common stock outstanding (in millions)	101.5	98.4	95.5	92.1	88.6
Class H dividend base (in millions)	399.9	399.9	399.9	399.9	399.9
Pro forma available separate consolidated net income	$ 119.4	$ 45.2	$ 6.5	$ 14.3	$ 38.5
Pro forma earnings attributable to General Motors Class H common stock on a per share basis	$ 1.18	$ 0.46	$ 0.07	$ 0.16	$ 0.43
Capital expenditures (1)	$ 826.6	$ 449.4	$ 442.3	$ 399.0	$ 274.2
Cash and cash equivalents	$ 2,783.8	$ 6.7	$ 7.6	$ 5.8	$ 10.2
Working capital	$ 3,323.3	$ 277.5	$ 311.9	$ 273.5	$ 336.4
Total assets	$12,763.8	$ 4,416.4	$ 3,952.6	$ 3,609.3	$ 3,195.5
Long-term debt	$ 637.6	$ –	$ –	$ –	$ 1.3
Minority interests	$ 607.8	$ 21.6	$ 40.2	$ –	$ –
Return on equity (2)	7.5%	6.7%	2.9%	4.6%	8.9%
Income before interest expense and income taxes as a percent of capitalization (3)	12.8%	12.5%	6.6%	9.6%	17.1%
Pre-tax return on total assets (4)	7.5%	6.6%	2.7%	4.5%	8.5%

(1) Includes expenditures related to satellites amounting to $575.3 million, $187.9 million, $274.6 million, $255.8 million and $131.1 million in 1997, 1996, 1995, 1994 and 1993, respectively.

(2) Income from continuing operations before cumulative effect of accounting change and extraordinary item divided by average owner's equity (General Motors' equity in its wholly-owned subsidiary, Hughes). Holders of GM Class H common stock have no direct rights in the equity or assets of Hughes, but rather have rights in the equity and assets of GM (which includes 100% of the stock of Hughes).

(3) Income from continuing operations before interest expense, income taxes, cumulative effect of accounting change and extraordinary item divided by average owner's equity plus average debt.

(4) Income from continuing operations before income taxes, cumulative effect of accounting change and extraordinary item divided by average total assets.

What is Class H Stock?**

GM Has Two Classes of Common Stock

This annual report is prepared for the benefit of holders of General Motors Corporation ("GM") Class H common stock. GM has two classes of common stock, Class H (ticker symbol GMH) and $1 2/3 par value (ticker symbol GM). Holders of GM Class H common stock have no direct rights in the equity or assets of Hughes Electronics Corporation ("Hughes"), but rather have rights in the equity and assets of GM, which includes 100 percent of the stock of Hughes. For purposes of determining the approximate earnings per share attributable to GM Class H common stock for financial reporting purposes, an investor may divide the quarterly Hughes earnings allocated to GM Class H common stock (the Pro Forma Available Separate Consolidated Net Income of Hughes) by the weighted-average number of shares of GM Class H common stock outstanding during such quarter. Earnings per share of GM $1 2/3 par value common stock are calculated on the consolidated earnings of GM excluding the aggregate earnings attributed to the outstanding shares of GM Class H common stock.

Class H is a GM Stock with Financial Returns Linked to the Performance of Hughes

Class H common stock, which is issued by GM, is designed to provide holders with financial returns based on the performance of Hughes and not the performance of any other GM subsidiaries, divisions, or operations. While the financial performance of Hughes determines the amount of GM earnings out of which dividends may be paid on GM Class H common stock, under the current GM board practice cash dividends are not paid on GM Class H common stock. The Board may change dividend practices and policies with respect to GM Class H common stock, or any other class of GM common stock, at any time.

Earnings Attributable to GM Class H Common Stock are Not Affected by Hughes Aircraft Company Acquisition Intangibles

The Hughes Statement of Income and Pro Forma Available Separate Consolidated Net Income reflects amortization of purchase accounting adjustments arising from GM's acquisition of Hughes Aircraft Company in 1985 of $21.0 million in 1997, 1996 and 1995. Also, $448 million and $469 million, respectively, of related unamortized intangible assets are included in the December 31, 1997 and 1996 balance sheet. GM's Restated Certificate of Incorporation, as amended, provides that, in calculating the amount available for payment of dividends on GM Class H common stock (which amount is also used to calculate the earnings attributable to GM Class H common stock on a per share basis), amortization of the excess purchase price for the acquisition of Hughes Aircraft Company will not be charged against the earnings of Hughes. For purposes of calculating the amounts available for payment of dividends on GM Class H common stock and on the GM $1 2/3 par value common stock, amortization of such purchase accounting adjustments is charged against the amounts available for the payment of dividends on GM's $1 2/3 par value common stock, not the GM Class H common stock. This annual report also provides supplemental data that enables readers to review the financial performance of Hughes, excluding amortization of GM purchase accounting adjustments related to Hughes Aircraft Company.

**Not a part of the Notes to financial statements.

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Hughes Electronics Corporation

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Audit Committee
Chairman, Executive Compensation Committee

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Executive Vice President and
Chief Financial Officer
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Hughes Electronics Corporation

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General Counsel

Michael J. Gaines
Controller

Jan L. Williamson
Secretary

**Effective February 16, 1998*

GM Class H Common Stockholder Information
Market prices of General Motors Class H common stock ranged from $35.75 to $40.00 for the period December 18, 1997, through December 31, 1997. (December 18, 1997, was the first day of trading for the recapitalized GM Class H common stock. See Note 1 to the financial statements for additional information.) The number of holders of record of GM Class H common stock as of December 31, 1997, was 231,627.

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Stock Data
Ticker Symbol: GMH
Listed on the New York Stock Exchange.

Internet
View this Annual Report, SEC filings and other information on our World Wide Web site at http://www.hughes.com or GM's site at http://www.gm.com

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