DIRECTV

DIRECTV, the first high-powered satellite-based DTH broadcast service in the United States, nearly doubled its subscriber base and achieved a 155 percent increase in revenues in 1996.

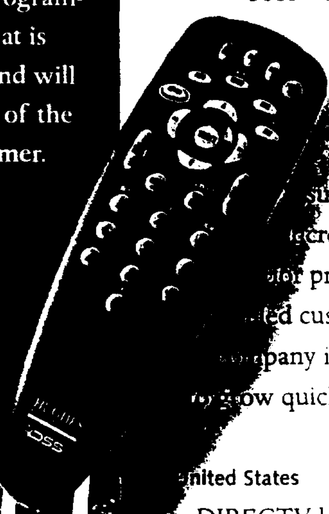
High quality – in customer service, programming selection and technology – is the DIRECTV hallmark. This is why the service has already garnered a more than 50 percent share of the DTH market in the United States. Also spurring subscriber growth is a strong distribution network of more than 26,000 outlets comprising the nation's leading consumer electronics retailers.

In Latin America, DIRECTV anticipates strong demand, in part because an international partnership of prestigious communications companies is guiding the service's entry into the 22-country region, a complex task due to the wide variety of cultures. Another strong international partnership is working to assure that the DIRECTV debut in Japan is successful by carefully planning its marketing and distribution efforts, as well as by creating a programming line-up that is differentiated and will meet the tastes of the Japanese consumer.

DIRECTV delivers theater-quality video, CD-quality audio, more than 175 channels of excellent programming plus top-notch customer service.

Westin Hotels and Resorts is one of several major corporate hotel chains to offer DIRECTV programming as a free-to-guest, in-room service

DIRECTV is very popular with subscribers on two continents already and is about to debut on a third. Hughes is positioning DIRECTV to become the worldwide leader in the burgeoning satellite DTH business.



In the United States and Latin America, Hughes is marketing DIRECTV aggressively to build its subscriber base and is continuously increasing subscriber value with superior programming choices and unparalleled customer service. In Japan, the company is planning to use these strengths to grow quickly.

United States

DIRECTV leads the U.S. market, and by early 1997, the company was delivering over 175 video and audio channels to more than 2.5 million subscribers – a total that grows every day. To build its customer base, DIRECTV is delivering the programming customers demand, expanding its

marketing and distribution, and planning exciting new data services.

Programming Choices. American consumers demand many types of programming and excellent value at the same time. DIRECTV is delivering both. While offering viewers more sports and pay-per-view selections than competitors, DIRECTV continues to expand its programming line-up.

For example, in early 1997, DIRECTV added 14 new channels, including Trinity Broadcasting Network and Superstation WGN – the two channels most requested by its customers. Another differentiator for DIRECTV customers is its sports programming, which includes: NFL Sunday Ticket™, NBA League Pass℠ and MLB Extra Innings℠. In addition, DIRECTV is developing its own original programming, beginning with sports packages such as DIRECTV Ringside™, an exclusive monthly boxing series.

Marketing. In August 1996, DIRECTV introduced a $200 cash-back offer to new customers who purchased any brand of DSS equipment and a one-year subscription to a Total Choice™ programming package. This campaign made DSS equipment even more affordable and further stimulated sales.

Broader Distribution. DIRECTV has developed an unmatched network of licensed consumer electronics retailers who offer the DSS equipment. In addition, consumer electronics manufacturers including Hughes Network Systems market 11 DSS brands, such as RCA, Sony, Toshiba, Hitachi and Panasonic.

While single-family homeowners are the primary market for DIRECTV, the company is steadily developing other markets. In the multiple-dwelling-unit market, DIRECTV has already signed agreements with 65 system operators, including a provider of cable television services that has 50,000 units in the New York City metropolitan area. In the hotel market, the distribution of DIRECTV is also growing, in part through an agreement with On Command Video Corporation. By the end of 1996, DIRECTV was available in more than 100,000 hotel and resort guest rooms.

In the restaurant, bar and nightclub market, DIRECTV had signed nearly 9,000 establishments by year-end 1996. And, to stimulate sales in the office market, DIRECTV offers three information and entertainment packages. To develop the airline market, DIRECTV teamed with Hughes-Avicom International, Inc. to demonstrate live DIRECTV broadcasts on selected Delta Airlines flights.

New Services. In 1996, DIRECTV announced an agreement with Microsoft Corporation for a new PC-based home entertainment service that will use the Microsoft Windows operating sys-

Programming for DIRECTV in Latin America is beamed to satellites from four broadcast centers located in the United States, Mexico, Brazil and Venezuela. DIRECTV offers subscribers more than 100 channels of the best international video and audio programming. Soccer programs are extremely popular.

tem. Subscribers will be able to access not only all of the DIRECTV video programming but also interactive multimedia and data broadcast services. These include: selected World Wide Web sites; new multimedia magazines; financial, news, weather and sports tickers; data enhanced television programming; and games. DIRECTV is targeting the 1997 holiday shopping season for an introduction of these innovative services.

In 1996, DIRECTV not only succeeded in nearly doubling its U.S. subscriber base but also continued to receive an extraordinarily high 95 percent programming satisfaction rating from subscribers.

Latin America and the Caribbean

In mid-1996, DIRECTV became the first DTH service in Latin America and the Caribbean – a 22-nation region that has 90 million television households. Galaxy Latin America (GLA) is a partnership of Hughes and leading communications companies based in Venezuela, Brazil and Mexico. By early 1997, GLA was providing DIRECTV to eight Latin American nations representing more than 70 percent of the potential market. GLA offers approximately 70 video channels and 30 audio channels of international programming in Portugese, Spanish and English.

With the launch of GLA's next, more powerful satellite in the fall of 1997, programming is expected to expand to more than 100 video channels, plus at least 40 channels of highly popular pay-per-view movies and sports.

DIRECTV
JAPAN

In Japan, DIRECTV is preparing a very competitive programming line-up. On the roster are sports – especially baseball – and movies.

Japan

Within a year, a partnership of Hughes and leading Japanese companies is expected to make DIRECTV available to Japan's 44 million television homes, a market that has few viewing choices and is ripe for high-quality video and audio offerings as well as data offerings. DIRECTV Japan will offer up to 100 channels of hot-ticket sports events, blockbuster movies, popular Japanese programming, and audio programming.

Many Japanese consumers are already familar with DIRECTV's reputation for broad programming choices and excellent value, and the Hughes-led partnership is developing an array of customer-pleasing programs that should assure a warm welcome for DIRECTV on yet another continent.

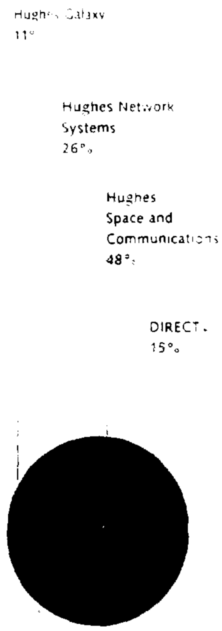
Whether it is in the United States, Latin America or Japan, DIRECTV intends to aggressively grow its subscriber base and continuously increase subscriber value with outstanding programming choices and unrivaled customer service.

TELECOMMUNICATIONS & SPACE: LOOKING AHEAD

Hughes' leadership in growing new businesses like DIRECTV and DirecPC lends confidence to the company's pursuit of future satellite-based global business opportunities. One example is its proposed SPACEWAY system, which may offer customers an array of multimedia services beginning at the turn of the century. The state-of-the-art HS 702 satellites that Hughes would use will incorporate technologies such as onboard digital processing, flexible antenna coverage and intersatellite links to provide excellent customer service and value.

Assuming that the transactions announced in January 1997 are completed (see page 28 for further details), the company's telecommunications and space businesses will derive a double benefit. First, a sharpened management focus on this high-potential area; and second, substantial additional financial resources to fund growth opportunities.

In future years, Hughes expects to achieve rapid growth by building upon its leadership in satellites and digital wireless systems. It also will seek growth in new telecommunications services and continue moving toward realizing its vision of a global Wireless Expressway that will bring people everywhere closer together through universal, mobile and fully interactive communications.

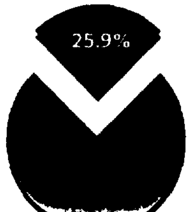


Percentage of 1996 Revenues by Business Unit

The following table sets forth selected pro forma data for the Telecommunications and Space segment.

	Years Ended December 31 *		
(Amounts in millions, except percentages)	**1996**	**1995**	**1994**
Revenues	$4,114.9	$3,092.7	$2,596.2
Revenues as a percentage of Hughes Revenues	25.9%	20.9%	18.4%
Net Sales	$3,992.2	$3,075.8	$2,633.8
Operating Profit (1)	259.8	189.2	271.0
Operating Profit Margin (2)	6.5%	6.2%	10.3%
Identifiable Assets at Year-End	$4,406.7	$3,820.0	$3,217.8
Depreciation and Amortization	194.8	178.3	140.8
Capital Expenditures (3)	449.8	436.5	399.3

* The summary excludes purchase accounting adjustments related to GM's acquisition of Hughes Aircraft Company. Certain amounts for 1995 have been reclassified to conform with 1996 classifications.
(1) Net Sales less Total Costs and Expenses other than Interest Expense.
(2) Operating Profit as a percentage of Net Sales.
(3) Includes expenditures related to telecommunications and other equipment amounting to $187.9 million, $274.6 million and $255.8 million, respectively.



Percentage of Hughes Revenues

RESEARCH & DEVELOPMENT

In 1996, Hughes Research Laboratories (HRL) focused on creating more robust space-based systems for telecommunications and defense. To meet both commercial and government demand for a highly advanced – yet cost-efficient – global space-based communications architecture, HRL devoted significant attention to four critical areas: (1) ion propulsion; (2) microelectronics; (3) Internet access via satellite; and (4) micromechanical sensors.

Until now, commercial satellites have been thrust into space using liquid-fueled engines that add considerable mass. By developing an electronic xenon ion propulsion system (XIPS), HRL has reduced a satellite's propellant requirements to one-tenth of current mass.

The first XIPS-propelled commercial satellite will be the Hughes-built PAS-5, scheduled for launch in 1997.

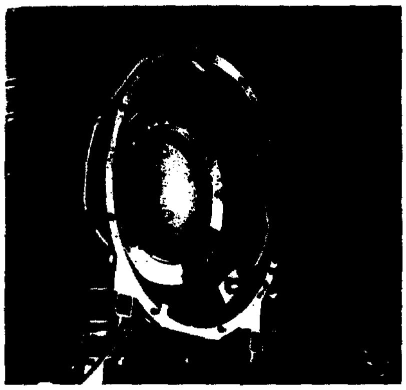
One way to improve the cost-efficiency of the overall satellite system is to reduce the size and cost of the ground equipment that receives the satellite signal. HRL's microelectronics group is developing advanced receivers that combine on a single chip both analog-to-digital converters and low-noise amplifiers.

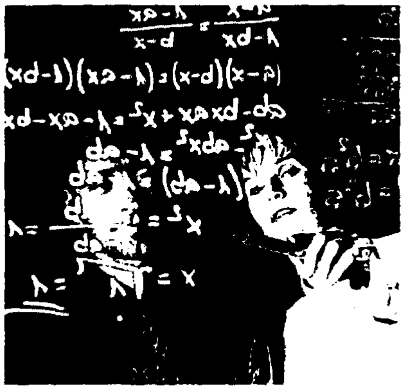
In addition to enhancing transmission quality, digital technology reduces the weight and power consumption of both satellites and ground terminals. Low-noise amplifiers, in turn, increase antenna sensitivity, enabling use of a smaller, less-expensive ground terminal – like the 18-inch DIRECTV dish or a handheld mobile phone.

More powerful and efficient satellites, along with low-cost, high-performance user terminals, are two necessities for universal Internet access. A third is open standards. HRL is working to establish new algorithms that will enable true global interconnectivity.

Concurrently, HRL is designing a flow control algorithm for unimpeded interactive multimedia exchange by satellite. This will facilitate new, real-time global video, voice, and data collaborations in business, education, and medicine.

In the area of space-based defense communications, speed is the single-most crucial requirement for detecting incoming threats and improving reaction times. Motion-detecting sensors called micromechanical accelerometers help satellites detect such threats. In 1996, HRL conducted pioneering research in "tunneling-effect" fabrication technology – yielding a superior micromechanical accelerometer.





The blue glow comes from ions accelerated from the discharge chamber of the Xenon Ion Propulsion System, a thruster that will keep Hughes-built satellites in their proper orbital locations. At HRL, where the system was created, the qualification thruster is undergoing life tests.

Just as human brainwaves leap across synapses to speed communication, the HRL-patented tunneling device allows current to flow between two unconnected pieces of metal. Satellites stabilized by radiation-hardened, tunneling-effect accelerometers can more quickly detect the launch, position, and velocity of incoming missiles or torpedoes.

Assuming that the transactions announced in January 1997 are completed (see page 28 for further details), HRL will be jointly owned by Hughes Electronics and Raytheon Company.

OPERATING AND FINANCIAL REVIEW

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Statements made concerning expected financial performance, ongoing financial performance strategies, and possible future action which Hughes intends to pursue to achieve strategic objectives for each of its three principal business segments (including the planned transactions described below) 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, GM's global sourcing strategy with respect to automotive electronics, General Motors' North American Operations (GM-NAO) volumes, technological risk, interruptions to production attributable to causes outside Hughes' control, and the receipt of various approvals with respect to the planned transactions.

GENERAL

On January 16, 1997, GM and Hughes announced a series of planned transactions designed to address strategic challenges and unlock stockholder value in the three Hughes business segments. The transactions would include the tax-free spin-off of the Hughes defense business to holders of GM's $1-⅔ par value and Class H common stocks, followed immediately by the tax-free merger of that business with Raytheon Company (Raytheon). The spin-off is not being proposed in a manner that would result in the recapitalization of Class H common stock into $1-⅔ par value common stock at a 120% exchange ratio, as currently provided for under certain circumstances in the General Motors Restated Certificate of Incorporation, as amended. At the same time, Delco Electronics, the automotive electronics subsidiary of Hughes, would be transferred from Hughes to GM's Delphi Automotive Systems unit. Finally, GM's Class H common stock would be recapitalized into a tracking stock linked to the telecommunications and space business of Hughes. After the spin-off and tax-free merger of the Hughes defense business with Raytheon, there would be outstanding two classes of Raytheon/Hughes defense common stock: Class A common stock, approximately 103 million shares of which would have been distributed to GM's $1-⅔ par value and Class H stockholders in the spin-off, and Class B common stock which would be exchanged for Raytheon common stock on a one-for-one share basis in the merger. The common stock of the Hughes defense business that would be distributed to GM common stockholders would represent approximately 30% of the stock of the combined company. The distribution of stock in the Hughes defense business to holders of GM Class H and $1-⅔ par value common stock would be in a ratio that would be determined by GM's Board of Directors to be fair to both classes of stockholders and would reflect: (1) a pro rata spin-off of the Hughes defense business to holders of GM Class H and $1-⅔ par value common stock; (2) a partial reallocation of the Hughes defense business from holders of GM $1-⅔ par value common stock to holders of Class H common stock in exchange for the derivative interest in the earnings of Delco currently held by the Class H stockholders; and (3) other effects of and factors relating to the planned transactions. Such a distribution ratio will be set by

GM's Board of Directors at a time closer to GM's distribution of the solicitation statement prospectus pursuant to which GM stockholders will be asked to approve the transactions.

The spin-off of the Hughes defense business and merger with Raytheon would have an indicated total value of $9.5 billion to GM and its common stockholders based on stock prices as of the announcement date. That value would consist of a combination of approximately $4.7 billion of total debt obligations of the Hughes defense business at the time of the merger, and $4.8 billion of indicated value of Hughes defense stock to be distributed to common stockholders (after giving affect to the merger based on the market price of Raytheon common stock as of the announcement date of $47.00). The merger terms provide that the total debt of the Hughes defense business will be adjusted to reflect variations in the average market price of Raytheon stock, subject to specified limits, so that the two components of value will total $9.5 billion so long as such market price is in a range of between $44.42 and $54.29 per share. Substantially all of such debt would be incurred immediately prior to the spin-off, with the proceeds used principally to fund the telecommunications and space business of Hughes.

Consummation of the transactions described previously is subject to various contingencies, including regulatory clearances and approval by GM common stockholders. Additional information regarding these planned transactions is included in Note 18 to the Consolidated Financial Statements. These planned transactions had no impact on 1996 financial results.

The planned transactions described previously are intended to result in the achievement of several strategic objectives. The merger of the Hughes defense business with Raytheon would create a stronger defense electronics company which would be able to more effectively compete for new business in an industry where significant consolidation is occurring. At the same time, the integration of Delco Electronics and Delphi Automotive Systems would combine advanced electronics capability with components and systems expertise, and would be expected to result in reduced costs. Hughes Electronics would continue to hold and operate the telecommunications and space business. This would allow Hughes management to focus on this business segment and the capital infusion would allow it to take advantage of growth opportunities in this very competitive industry. The strategy of this business is to continue to expand its offerings from being primarily a supplier of hardware to becoming a provider of hardware and video, voice, and data services worldwide. This strategy requires significant current and future investment in order to maintain and enhance the segment's competitive position with respect to existing products and to take advantage of the growth opportunities presented, as well as the formation of strategic alliances to compete in the very competitive global marketplace.

RESULTS OF OPERATIONS

Revenues. Hughes reported record revenues of $15,917.9 million in 1996, a 7.5% increase over 1995. Revenues in 1995 were $14,807.9 million, an increase of 5.0% compared with 1994 revenues of $14,099.4 million. The increase in 1996 revenues was largely the result of continued growth in the Telecommunications and Space segment and increased revenues in the Aerospace and Defense Systems segment, partially offset by lower Automotive Electronics revenues caused in part by work stoppages at various GM production locations during the year. 1995 revenue growth was driven by the Automotive Electronics and Telecommunications and Space segments. (Pro forma segment information is presented on page 39).

TELECOMMUNICATIONS AND SPACE - Revenues in the Telecommunications and Space segment were $4,114.9 million in 1996, a 33.1% increase over 1995, and $3,092.7 million in 1995, a 19.1% increase over 1994 revenues of $2,596.2 million. The increases in both years were primarily due to continued expansion of the DIRECTV® subscriber base, increased sales of commercial satellites and cellular communications equipment, and increased video distribution revenues from Galaxy® satellite transponders.

AUTOMOTIVE ELECTRONICS - Revenues in the Automotive Electronics segment decreased 3.8% in 1996 to $5,350.8 million from $5,561.3 million in 1995. The decline was principally due to a decrease in GM vehicles produced in the United States and Canada (excluding joint ventures) primarily related to the United and Canadian Auto Workers' (UAW and CAW, respectively) strikes offset, in part, by an increase in Hughes-supplied electronic content in these vehicles from $888 per vehicle to $906 per vehicle and an increase in international and non-GM-NAO sales from $841 million in 1995 to $1,010 million in 1996. Revenues increased $339.6 million, or 6.5%, in 1995 from $5,221.7 million in 1994. 1995 revenue growth was attributed to an increase in Hughes-supplied electronic content in GM vehicles produced in North America to $888 in 1995 from $857 in 1994, and an increase in sales to international and non-GM-NAO customers to $841 million in 1995 from $672 million in 1994. Vehicle production remained relatively unchanged between 1994 and 1995.

AEROSPACE AND DEFENSE SYSTEMS - Aerospace and Defense Systems segment revenues were $6,338.4 million in 1996, a 6.6% increase from 1995 revenues of $5,945.4 million. The growth was primarily attributable to additional revenues resulting from the December 1995 acquisition of Hughes Defense Communications (formerly Magnavox Electronic Systems Company) and the build-up of newer programs including Desktop V, Wide Area Augmentation System and Land Warrior. 1995 revenues decreased $78.2 million, or 1.3%, from 1994 revenues of $6,023.6 million. The decline was principally due to lower production rates on several missile programs, partially offset by the additional revenues related to the 1995 acquisition of CAE-Link Corporation.

OTHER INCOME - Included in revenues is other income of $173.8 million, $93.6 million, and $37.1 million for 1996, 1995, and 1994, respectively. 1996 includes the $120.3 million pre-tax gain from the sale of a 2.5% equity interest in DIRECTV to AT&T. 1995 and 1994 included pre-tax charges of $40.0 million and $35.0 million, respectively, for the estimated losses on disposition of certain non-strategic business units. Also included in 1995 was $35.9 million of revenue earned for providing services to GM.

Operating Profit. Operating profit was $1,594.3 million in 1996, $1,667.3 million in 1995, and $1,630.4 million in 1994. Operating profit margins, as a percentage of net sales, were 10.1%, 11.3%, and 11.6%, in 1996, 1995, and 1994, respectively. The decline in profitability in 1996 compared to 1995 was primarily attributable to the lower GM production volumes related to the UAW and CAW strikes and continued price reductions in the Automotive Electronics segment offset in part, by the increased profitability in the Telecommunications and Space segment. Also offsetting the 1996 decline in profitability were the reduced operating losses at Hughes-Avicom International, Inc. Operating profit improved in 1995 largely due to a continued emphasis on cost reduction efforts, most notably in the Automotive Electronics and Aerospace and Defense Systems segments, and the overall growth in revenues, partially offset by a planned increase in operating expenses associated with DIRECTV. The 1995 operating profit margin decline was attributable primarily to the DIRECTV operating expense increase which more than offset the margin improvements in the two other segments.

TELECOMMUNICATIONS AND SPACE - Operating profit for 1996 was $259.8 million, a 37.3% increase from $189.2 million reported in 1995. The 1996 increase was largely a result of the revenue increases previously discussed and reduced mobile telephony satellite development costs offset, in part, by operating losses related to the start of service by the Company's DIRECTV business in Latin America. Operating profit in 1995 decreased 30.2% from 1994 operating profit of $271.0 million. The 1995 decline in operating profit was principally due to increased operating expenses associated with the expansion of DIRECTV and increased development costs on a geostationary satellite mobile telephony product line. Operating profit margins were 6.5% in 1996, 6.2% in 1995, and 10.3% in 1994. After 1996, operating profit margins in the Telecommunications and Space segment are expected to increase as DIRECTV's subscriber base grows.

AUTOMOTIVE ELECTRONICS - In 1996, operating profit was $654.0 million compared with $869.0 million in 1995. The decline was mostly due to the reduced production volumes, continued price reductions resulting from competitive pricing in connection with GM's global sourcing initiative, and the impact from continued investment in international expansion. 1995 operating profit increased $74.2 million, or 9.3%, as compared to 1994 operating profit of $794.8 million. The improvement in profitability in 1995 was attributable not only to increased revenues, but also an aggressive cost reduction program.

As the principal supplier of automotive electronics to General Motors' North American Operations unit (GM-NAO), Hughes' sales of automotive electronics will continue to be heavily dependent on General Motors production of vehicles in North America, the level of Hughes-supplied electronic content per GM vehicle, the price of such electronics, and the competitiveness of Hughes' product offerings. In this regard, it is anticipated that competition through GM's global purchasing process will negatively impact Hughes' sales to GM-NAO and result in a decline in the portion of GM-NAO automotive electronics supplied by Hughes. The segment's strategy is to aggressively reduce costs in order to minimize the effect of continuing price reductions and to manage the loss of GM-NAO market share by offering competitive products which increase electronic functionality through a focus on safety, security, communications, and convenience. The segment will also seek to improve its systems capability and cost competitiveness both internally and by developing key design, manufacturing, and marketing alliances and other relationships with mechanical and electrical automotive component suppliers.

The international market for automotive electronic products is also highly competitive. The segment has refined its strategy for this market to focus on profitable growth as well as increased market share, and accordingly, will seek to enhance the cost competitiveness of its international operations.

The competitive environment described above is making it increasingly difficult to maintain the level of operating profit margins realized in this segment in the past. Beyond 1996, operating margins are expected to be lower than recent historical levels as price and volume declines associated with GM's global sourcing initiatives more than offset Hughes' ability to achieve cost reductions. In response to the increased pressure on margins and to enhance future competitiveness, management will take action to reduce the cost structure of the business. As a result of the factors described above, the operating margin is expected to decline further in 1997 to low double digits, and then show modest improvement in 1998 and 1999.

AEROSPACE AND DEFENSE SYSTEMS - Operating profit was $694.7 million in 1996 compared to $688.0 million in 1995 and $663.6 million in 1994. The operating profit margin for 1996 declined to 11.0% from 11.7% in 1995 primarily due to a continued shift from production programs to engineering and development programs, and growth in information systems and services revenues. The operating profit margin for 1995 increased to 11.7% from 11.0% largely due to a provision taken in 1994 for certain air traffic control contracts, partly offset by reduced revenues in 1995. Future operating profits could be adversely impacted by further reductions in the U.S. defense budget.

Costs and Expenses. Selling, general, and administrative expenses were $1,505.6 million in 1996, $1,234.2 million in 1995, and $1,018.3 million in 1994. The increases were principally due to the continued expansion of DIRECTV, both in the U.S. and internationally, and increased international sales activities at Delco Electronics.

The effective income tax rate was 34.5%, 36.8%, and 34.7% in 1996, 1995, and 1994, respectively. The decrease in the effective income tax rate in 1996 was due primarily to the favorable resolution of certain tax contingencies while the effective income tax rate in 1994 was favorably impacted by the recognition of capital loss carryforward benefits.

Earnings. Hughes' 1996 earnings were $1,151.2 million, or $2.88 per share of GM Class H common stock, compared with 1995 earnings of $1,107.8 million, or $2.77 per share, and 1994 earnings of $1,049.2 million, or $2.62 per share. Earnings in 1994 included the unfavorable effect of an accounting change for postemployment benefits. Excluding the accounting change, Hughes' earnings in 1994 would have been $1,079.6 million, or $2.70 per share.

Backlog. The 1996 year-end backlog of $15,100 million increased from $14,929 million at the end of 1995, primarily due to record backlog in the Aerospace and Defense Systems segment. 1995 year-end backlog increased from the $13,210 million at the end of 1994, primarily due to increased satellite orders in the Telecommunications and Space segment. A portion of the backlog is subject to appropriation decisions by the U.S. Government subsequent to award. In addition, Hughes' contracts with the U.S. Government are subject to termination by the Government either for its convenience or for default by Hughes. Sales to the U.S. Government may be affected by changes in acquisition policies, budget considerations, changing concepts in national defense, spending priorities, and other factors that are outside of Hughes' control.

Special Provision for Restructuring. In 1992, Hughes recorded a special charge of $749.4 million (after-tax), for the restructuring of Hughes' operations. The special charge comprehended a reduction of Hughes' worldwide employment, a major facilities consolidation, and a reevaluation of certain business lines that no longer met Hughes' strategic objectives. Restructuring costs of $92.4 million, $208.8 million, and $228.3 million were charged against the reserve during 1996, 1995, and 1994, respectively. In addition, in 1994, the restructuring reserve was increased by $35.0 million, primarily due to changes in the estimated loss on disposition of a subsidiary. The remaining liability at December 31, 1996 of $42.0 million relates primarily to reserves for excess facilities and other site consolidation costs. Approximately $40.7 million of this amount will require future cash outflows. It is expected that these costs will be expended predominantly during the next year.

Accounting Changes. Effective January 1, 1996, Hughes adopted Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, and as permitted by this standard, will continue to apply the recognition and measurement principles of Accounting Principles Board Opinion No. 25 to its stock options. Hughes has calculated the pro forma effects of applying SFAS No. 123 and determined that such effects are not significant in relation to reported net income and earnings per share.

Effective January 1, 1996, Hughes also adopted SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. This Statement establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used, and for long-lived assets and certain identifiable intangibles to be disposed of. The adoption of this new accounting standard did not have a material effect on Hughes' consolidated operating results or financial position.

Effective January 1, 1994, Hughes adopted SFAS No. 112, Employers' Accounting for Postemployment Benefits. The Statement requires accrual of the costs of benefits provided to former or inactive employees after employment, but before retirement. The unfavorable cumulative effect of adopting this Standard was $30.4 million, net of income taxes of $19.2 million, or $0.08 per share of GM Class H common stock. The charge primarily related to extended disability benefits which are accrued on a service-driven basis.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents. Cash and cash equivalents were $1,161.3 million at December 31, 1996, an increase of $21.8 million from December 31, 1995. Operating activities generated cash of $1,199.4 million as Hughes achieved another year of record earnings. Additional cash was provided by proceeds from the sale and leaseback of satellite transponders with General Motors Acceptance Corporation, and proceeds from the sale of a minority interest in DIRECTV of $137.5 million. The increases in cash were offset by the cash used to fund capital expenditures, repay notes and loans payable and pay dividends to General Motors.

In 1995, cash and cash equivalents decreased $362.3 million to $1,139.5 million at December 31, 1995, from $1,501.8 million at December 31, 1994. Operating activities generated cash of $986.2 million, however, cash used to fund capital expenditures, pay dividends to General Motors, and acquire new businesses more than offset the cash generated by operating activities.

In the third quarter of 1996, Hughes reported that cash flows in 1997 and beyond were expected to be negatively impacted by a change in the credit terms between Hughes and GM-NAO for purchases of automotive electronics. With the announcement of the planned transactions in January 1997, (see Note 18 to the Consolidated Financial Statements), implementation of the change in credit terms has been deferred pending the consummation of such planned transactions.

Liquidity Measurement. As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 1.69 at December 31, 1996, 1.58 at December 31, 1995, and 1.76 at December 31, 1994. The increase from 1995 to 1996 was principally due to the repayment of certain notes and loans payable.

The decrease from 1994 to 1995 was principally due to the decrease in cash described above and increases in the notes and loans payable balance, primarily caused by a loan related to an acquisition. (See Note 13 to the Consolidated Financial Statements.)

Property and Equipment. Property, net of accumulated depreciation, increased $147.4 million in 1996 while telecommunications and other equipment, net of accumulated depreciation, decreased $41.6 million, primarily due to the sale and leaseback of GIIIR which more than offset additional expenditures related to the Galaxy satellite fleet.

Expenditures for property and equipment were $652.3 million in 1996 compared with $545.7 million and $490.5 million in 1995 and 1994, respectively. Management anticipates that capital expenditures in 1997 will increase approximately $100 million over 1996 and will be financed primarily from cash provided by operating activities.

Telecommunications and other equipment expenditures were $187.9 million in 1996 compared with $274.6 million and $255.8 million in 1995 and 1994, respectively. Management anticipates that telecommunications and other equipment expenditures in 1997 will increase significantly compared with 1996 and will be financed primarily from cash provided by operating activities.

TELECOMMUNICATIONS AND SPACE - Capital expenditures, including expenditures related to telecommunications and other equipment, increased to $449.8 million in 1996 from $436.5 million in 1995 and $399.3 million in 1994. The 1996 capital expenditures increase reflects additions to the Galaxy satellite fleet and construction of the California Broadcast Center, an uplink facility that supports Hughes' DIRECTV business in Latin America. The increase in 1995 was due primarily to additions to the Galaxy satellite fleet.

AUTOMOTIVE ELECTRONICS - Capital expenditures decreased to $196.0 million in 1996, compared with $264.7 million in 1995, and $166.4 million in 1994. The decrease in the 1996 capital spending reflects the impact of delays in engineering capital expenditures and the higher than normal level of expenditures in 1995. The increased capital spending in 1995 reflects expenditures for additional program requirements related to new product changes associated with the 1996 model year combined with a decrease in tooling cost recoveries.

AEROSPACE AND DEFENSE SYSTEMS - Capital expenditures in the Aerospace and Defense Systems segment for 1996, 1995, and 1994 were $171.1 million, $109.8 million, and $159.5 million, respectively. The 1996 increase relates to capital expenditures to support expanding business requirements. The 1995 decrease was due to the high level of expenditures in 1994 related to the consolidation of facilities in an effort to increase the operational efficiencies of manufacturing and engineering activities.

Debt and Capitalized Leases. Long-term debt and capitalized leases were $34.5 million at December 31, 1996, a decrease from $258.8 million at December 31, 1995, and $353.5 million at December 31, 1994, reflecting scheduled principal repayments and the reclassification of certain amounts to current liabilities. The ratio of long-term debt and capitalized leases to the total of such debt and pro forma stockholder's equity decreased to 0.5% in 1996 from 4.4% in 1995 and 6.6% in 1994.

As discussed further, additional debt will be incurred in conjunction with the PanAmSat merger. It is anticipated that a portion of this debt would be repaid from cash expected to be received pursuant to the planned transactions. (See Note 18 to the Consolidated Financial Statements.)

Other Balance Sheet Items. In evaluating both its pension and retiree medical liabilities, Hughes recognizes the impact of changes in long-term interest rates by adjusting the discount rate used in determining the actuarial present values of the projected benefit obligations. In 1996, the weighted-average discount rate for Hughes' non-automotive pension obligations increased from 7.25% to 7.5% and the weighted-average discount rate for Hughes' other postretirement benefits increased from 7.25% to 7.56%.

Acquisitions and Divestitures. In December 1996, Hughes announced that it had reached an agreement to acquire the Marine Systems Division of Alliant Techsystems, Inc. for $141.0 million in cash. The Marine Systems Division is a leader in lightweight torpedo manufacturing and the design and manufacturing of underwater surveillance, sonar and mine warfare systems. The acquisition was completed in the first quarter of 1997.

In September 1996, Hughes and PanAmSat Corporation entered into an agreement to merge their respective satellite services operations into a new publicly-held company. Hughes would contribute its Galaxy satellite services business in exchange for a 71.5% interest in the new company. Current PanAmSat stockholders would receive 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 are expected to be funded by new debt financing totaling $1.725 billion. This debt financing is expected to be provided by Hughes, which currently intends to borrow such funds from General Motors.

For accounting purposes, this transaction would be treated as a partial sale of the Galaxy business by Hughes and would result in a one-time, nonrecurring gain. The amount of this gain depends on several variables, but is expected to be between $400 and $600 million before tax. PanAmSat is a leading provider of international satellite services. The transaction, which is contingent upon receiving certain regulatory approvals, is expected to close during the second quarter of 1997.

In March 1996, Hughes sold a 2.5% equity interest in DIRECTV, a wholly-owned subsidiary of Hughes, 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.

In February 1995, Hughes completed the acquisition of CAE-Link Corporation, an established supplier of simulation, training, and technical services, primarily to the U.S. military and NASA, for $176.0 million. In December 1995, Hughes acquired Magnavox Electronic Systems Company, a leading supplier of military tactical communications, electronic warfare, and command and control systems, for $382.4 million

During 1995, Hughes divested several non-strategic enterprises resulting in aggregate proceeds of approximately $127.2 million and a net gain of approximately $21.9 million. Also in 1995, Hughes recorded a $40.0 million charge for the estimated loss on disposition of a business unit and completed the divestiture of Hughes LAN Systems, for which a pre-tax charge of $35.0 million was taken in 1994.

Dividend Policy. As discussed in Note 7 to the Consolidated Financial Statements, it is GM's current policy to pay aggregate annual cash dividends on the GM Class H common stock approximately equal to 35% of the Available Separate Consolidated Net Income of Hughes for the prior year. In January 1997, the Board of Directors of GM increased the quarterly dividend on GM Class H common stock from $0.24 per share to $0.25 per share. It is anticipated that if the previously described Hughes transactions are consummated, the General Motors Board of Directors will adopt a dividend policy relating to the new Class H common stock which the Board deems to be appropriate in light of the capital needs and growth opportunities of the Hughes telecommunications and space business and generally commensurate with that of other companies in the telecommunications and space business having similar capital needs and growth opportunities.

Security Ratings. Hughes' security ratings are tied to the security ratings of General Motors.

In October 1996, Standard & Poor's Ratings Services, a division of McGraw-Hill Companies, Inc. (S&P), revised its outlook on Hughes from stable to developing as a result of the uncertainty with respect to GM's investment strategy related to Hughes. S&P indicated that the developing outlook reflects the possibility that if a significant change in the relationship between GM and Hughes were to occur, the credit quality of Hughes could be either favorably or adversely affected, depending upon the nature of the transaction pursued.

In November 1996 and January 1997, 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. S&P's ratings outlook for Hughes remains developing.

In September 1996, 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 rating for Hughes' commercial paper remained unchanged at P-2. The rating indicates that the issuer has a strong ability for repayment relative to other issuers.

Following GM's and Hughes' January 1997 announcement with respect to the Hughes business segments (see Note 18 to the Consolidated Financial Statements), both S&P and Moody's reaffirmed their current ratings and outlook for Hughes' securities. Moody's, however, put Hughes' ratings on review for possible downgrade.

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.

SUPPLEMENTAL DATA

The Consolidated Financial Statements reflect the application of purchase accounting adjustments as described in Note 1 to the Consolidated Financial Statements. However, as provided in GM's 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 and disposal of these intangible assets associated with GM's purchase of Hughes Aircraft Company amounted to $122.3 million in 1996, $159.5 million in 1995, and $123.8 million in 1994. The 1995 amount included a $36.1 million charge, included in other income, for the write-off of such purchase accounting adjustments related to the disposition of certain non-strategic business units. Such amounts were excluded from the earnings available for the payment of dividends on GM Class H common stock and were charged against the earnings available for the payment of dividends on GM's $1-2/3 par value stock. Unamortized purchase accounting adjustments associated with GM's purchase of Hughes Aircraft Company were $2,723.5 million, $2,845.8 million, and $3,005.3 million at December 31, 1996, 1995, and 1994, 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 Consolidated Statement of Income

(Dollars in Millions Except Per Share Amounts)	1996	1995	1994
Total Revenues	$15,917.9	$14,807.9	$14,099.1
Total Costs and Expenses	14,161.0	13,054.5	12,447.0
Income before Income Taxes	1,756.9	1,753.4	1,652.4
Income taxes	605.7	645.6	572.8
Income before cumulative effect of accounting change	1,151.2	1,107.8	1,079.6
Cumulative effect of accounting change	-	-	(30.4)
Earnings Used for Computation of Available Separate Consolidated Net Income	$ 1,151.2	$ 1,107.8	$ 1,049.2
Earnings Attributable to General Motors Class H Common Stock on a Per Share Basis			
Before cumulative effect of accounting change	$2.88	$2.77	$2.70
Cumulative effect of accounting change	-	-	(0.08)
Net earnings attributable to General Motors Class H Common Stock	$2.88	$2.77	$2.62

Pro Forma Condensed Consolidated Balance Sheet

(Dollars in Millions)	DECEMBER 31 1996	DECEMBER 31 1995
Assets		
Total Current Assets	$ 7,079.0	$ 6,810.8
Property - Net	2,886.6	2,739.2
Telecommunications and Other Equipment - Net	1,133.5	1,175.1
Intangible Assets, Investments, and Other Assets - Net	2,657.5	2,403.5
Total Assets	$13,756.6	$13,128.6
Liabilities and Stockholder's Equity		
Total Current Liabilities	$ 4,199.6	$ 4,308.8
Long-Term Debt and Capitalized Leases	34.5	258.8
Postretirement Benefits Other Than Pensions, Other Liabilities, and Deferred Credits	3,066.1	2,881.1
Total Stockholder's Equity (1)	6,456.4	5,679.9
Total Liabilities and Stockholder's Equity (1)	$13,756.6	$13,128.6

* 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).

Pro Forma Selected Segment Data

(Dollars in Millions)	1996	1995	1994
Telecommunications and Space			
Revenues	$4,114.9	$3,092.7	$2,596.2
Revenues as a percentage of Hughes Revenues	25.9%	20.9%	18.4%
Net Sales	$3,992.2	$3,075.8	$2,633.8
Operating Profit (1)	259.8	189.2	271.0
Operating Profit Margin (2)	6.5%	6.2%	10.3%
Identifiable Assets at Year-End	$4,406.7	$3,820.0	$3,217.8
Depreciation and Amortization	194.8	178.3	140.8
Capital Expenditures (3)	449.8	436.5	399.3
Automotive Electronics			
Revenues	$5,350.8	$5,561.3	$5,221.7
Revenues as a percentage of Hughes Revenues	33.6%	37.6%	37.0%
Net Sales	$5,311.3	$5,479.7	$5,170.6
Operating Profit (1)	654.0	869.0	794.8
Operating Profit Margin (2)	12.3%	15.9%	15.4%
Identifiable Assets at Year-End	$3,394.9	$3,267.4	$3,429.8
Depreciation and Amortization	195.9	151.4	142.2
Capital Expenditures	196.0	264.7	166.4
Aerospace and Defense Systems			
Revenues	$6,338.4	$5,945.4	$6,023.6
Revenues as a percentage of Hughes Revenues	39.8%	40.2%	42.7%
Net Sales	$6,331.5	$5,899.7	$6,007.3
Operating Profit (1)	694.7	688.0	663.6
Operating Profit Margin (2)	11.0%	11.7%	11.0%
Identifiable Assets at Year-End	$5,296.9	$5,369.7	$4,262.4
Depreciation and Amortization	157.6	132.0	158.5
Capital Expenditures	171.1	109.8	159.5
Corporate and Other			
Operating Loss (1)	$ (14.2)	$ (78.9)	$ (99.0)
Identifiable Assets at Year-End	658.1	671.5	935.2

* The summary excludes purchase accounting adjustments related to GM's acquisition of Hughes Aircraft Company. Certain amounts for 1995 have been reclassified to conform with 1996 classifications.

(1) Net Sales less Total Cost and Expenses other than Interest Expense.

(2) Operating Profit as a percentage of Net Sales.

(3) Includes expenditures related to telecommunications and other equipment amounting to $187.9 million, $274.6 million, and $255.8 million, respectively.

UNAUDITED SUMMARY PRO FORMA FINANCIAL DATA*

(concluded)

	Dollars in Millions Except Per Share Amounts	1996	1995	1994	1993	1992
PRO FORMA SELECTED FINANCIAL DATA	Operating profit (loss)	$1,594	$1,667	$1,630	$1,460	$(194)
	Income (Loss) before income taxes and cumulative effect of accounting changes	$1,757	$1,753	$1,652	$1,494	$(127)
	Earnings (Loss) used for computation of available separate consolidated net income (loss)**	$1,151	$1,108	$1,049	$ 922	$(922)
	Average number of GM Class H dividend base shares (1)	399.9	399.9	399.9	399.9	399.9
	Stockholder's equity**	$6,456	$5,680	$4,971	$4,199	$3,562
	Dividends per share of GM Class H common stock	$0.96	$0.92	$0.80	$0.72	$0.72
	Working capital	$2,879	$2,502	$2,696	$2,165	$1,692
	Operating profit (loss) as a percent of net sales	10.1%	11.3%	11.6%	10.9%	(1.6%)
	Pre-tax income (loss) as a percent of net sales	11.2%	11.9%	11.8%	11.1%	(1.0%)
	Net income (loss) as a percent of net sales**	7.3%	7.5%	7.5%	6.9%	(7.6%)
	Return on equity** (2)	19.0%	20.8%	22.9%	23.7%	(21.9%)
	Income (Loss) before interest and taxes as a percent of capitalization (3)	27.0%	29.8%	32.9%	33.1%	(1.3%)
	Pre-tax return on total assets (4)	13.1%	14.0%	14.5%	13.6%	(1.2%)

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

** Includes unfavorable cumulative effect of accounting changes of $30.4 million in 1994 and $872.1 million in 1992.

(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 98.4 million in 1996.

(2) Earnings (Loss) Used for Computation of Available Separate Consolidated Net Income (Loss) divided by average stockholder'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 (Loss) before interest and income taxes divided by average stockholder's equity plus average total debt.

(4) Income (Loss) before Income Taxes divided by average total assets.

RESPONSIBILITIES FOR CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

RESPONSIBILITIES FOR CONSOLIDATED FINANCIAL STATEMENTS

The following consolidated financial statements of Hughes Electronics Corporation and subsidiaries 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 a system of internal accounting controls that is designed to provide reasonable assurance that the books and records reflect the transactions of the companies and that its established policies and procedures are carefully followed. Perhaps the most important feature in the system of control is that it is continually reviewed for its 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 consolidated financial statements of Hughes Electronics Corporation and subsidiaries and issue reports thereon. The audit is conducted in accordance with generally accepted auditing standards which comprehend the consideration of internal accounting controls 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 consolidated financial statements and engaging the independent auditors. The 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 Committee to review the activities of each, to ensure that each is properly discharging its responsibilities, and to assess the effectiveness of the system of internal accounting controls. It is management's conclusion that the system of internal accounting controls at December 31, 1996 provides reasonable assurance that the books and records reflect the transactions of the companies and that its established policies and procedures are complied with. To ensure complete independence, Deloitte & Touche LLP has full and free access to meet with the Committee, without management representatives present, to discuss the results of the audit, the adequacy of internal accounting controls, and the quality of the financial reporting.

Mike Armstrong	Charles H. Noski	Roxanne J. Decyk
Chairman of the Board and Chief Executive Officer	Vice Chairman and Chief Financial Officer	Senior Vice President, Treasurer and Controller

INDEPENDENT AUDITORS' REPORT

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

We have audited the Consolidated Balance Sheet of Hughes Electronics Corporation and subsidiaries as of December 31, 1996 and 1995 and the related Consolidated Statement of Income and Available Separate Consolidated Net Income and Consolidated Statement of Cash Flows for each of the three years in the period ended December 31, 1996. 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 and subsidiaries at December 31, 1996 and 1995 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 1994 Hughes Electronics Corporation changed its method of accounting for postemployment benefits.

Deloitte & Touche LLP

Los Angeles, California
January 28, 1997

CONSOLIDATED STATEMENT OF INCOME AND AVAILABLE SEPARATE CONSOLIDATED NET INCOME

	(Dollars in Millions Except Per Share Amounts)	Years Ended December 31, 1996	1995	1994
Revenues	Net sales			
	Outside customers	$10,661.5	$ 9,528.8	$ 9,108.7
	General Motors and affiliates	5,082.6	5,185.5	4,953.6
	Other income - net	173.8	57.5	37.1
	Total Revenues	15,917.9	14,771.8	14,099.4
Costs and Expenses	Cost of sales and other operating charges, exclusive of items listed below	12,083.9	11,325.1	10,943.4
	Selling, general, and administrative expenses	1,505.6	1,234.2	1,018.3
	Depreciation and amortization	560.3	487.7	470.2
	Amortization of GM purchase accounting adjustments related to Hughes Aircraft Company	122.3	123.4	123.8
	Interest expense - net	11.2	7.5	15.1
	Total Costs and Expenses	14,283.3	13,177.9	12,570.8
	Income before Income Taxes	1,634.6	1,593.9	1,528.6
	Income taxes	605.7	645.6	572.8
	Income before cumulative effect of accounting change	1,028.9	948.3	955.8
	Cumulative effect of accounting change	—	—	(30.4)
	Net Income	1,028.9	948.3	925.4
	Adjustments to exclude the effect of GM purchase accounting adjustments related to Hughes Aircraft Company	122.3	159.5	123.8
	Earnings Used for Computation of Available Separate Consolidated Net Income	$ 1,151.2	$ 1,107.8	$ 1,049.2
Available Separate Consolidated Net Income	Average number of shares of General Motors Class H Common Stock outstanding (in millions) (Numerator)	98.4	95.5	92.1
	Class H dividend base (in millions) (Denominator)	399.9	399.9	399.9
	Available Separate Consolidated Net Income	$ 283.3	$ 264.6	$ 241.6
Earnings Attributable to General Motors Class H Common Stock on a Per Share Basis	Before cumulative effect of accounting change	$2.88	$2.77	$2.70
	Cumulative effect of accounting change	—	—	(0.08)
	Net earnings attributable to General Motors Class H Common Stock	$2.88	$2.77	$2.62

Reference should be made to the Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

	(Dollars in Millions Except Per Share Amount)	December 31 1996	December 31 1995
ASSETS	**CURRENT ASSETS**		
	Cash and cash equivalents	$ 1,161.3	$ 1,139.5
	Accounts and notes receivable		
	Trade receivables (less allowances)	1,200.6	1,235.6
	General Motors and affiliates	113.4	146.7
	Contracts in process, less advances and progress payments of $1,010.4 and $1,327.2	2,507.1	2,469.2
	Inventories (less allowances)	1,528.5	1,225.5
	Prepaid expenses, including deferred income taxes of $428.0 and $484.4	568.1	594.3
	Total Current Assets	7,079.0	6,810.8
	Property - Net	2,886.6	2,739.2
	Telecommunications and Other Equipment, net of accumulated depreciation of $362.3 and $274.5	1,133.5	1,175.1
	Intangible Assets, net of amortization of $1,579.1 and $1,415.1	3,466.0	3,573.7
	Investments and Other Assets - principally at cost (less allowances)	1,915.0	1,675.6
	Total Assets	$16,480.1	$15,974.4
LIABILITIES AND STOCKHOLDER'S EQUITY	**CURRENT LIABILITIES**		
	Accounts payable		
	Outside	$ 896.4	$ 748.7
	General Motors and affiliates	27.5	52.2
	Advances on contracts	868.9	838.3
	Notes and loans payable	248.1	432.5
	Income taxes payable	132.9	190.8
	Accrued liabilities	2,025.8	2,046.3
	Total Current Liabilities	4,199.6	4,308.8
	Long-Term Debt and Capitalized Leases	34.5	258.8
	Postretirement Benefits Other Than Pensions	1,658.9	1,610.6
	Other Liabilities and Deferred Credits	1,407.2	1,270.5
	Commitments and Contingencies		
	Stockholder's Equity		
	Capital stock (outstanding, 1,000 shares, $0.10 par value) and additional paid-in capital	6,347.2	6,338.1
	Net income retained for use in the business	2,968.8	2,323.9
	Subtotal	9,316.0	8,662.0
	Minimum pension liability adjustment	(113.5)	(108.6)
	Accumulated foreign currency translation adjustments	(22.6)	(27.7)
	Total Stockholder's Equity	9,179.9	8,525.7
	Total Liabilities and Stockholder's Equity	$ 16,480.1	$ 15,974.4

Certain amounts for 1995 have been reclassified to conform with 1996 classifications.
Reference should be made to the Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	(Dollars in Millions)	1996	1995	1994
		YEARS ENDED DECEMBER 31		
Cash Flows from Operating Activities	Income before cumulative effect of accounting change	$ 1,028.9	$ 948.3	$ 955.8
	Adjustments to reconcile income before cumulative effect of accounting change to net cash provided by operating activities			
	Depreciation and amortization	560.3	487.7	470.2
	Amortization and adjustment of GM purchase accounting adjustments related to Hughes Aircraft Company	122.3	159.5	123.8
	Pension cost, net of cash contributions	(1.3)	(51.9)	20.3
	Provision for postretirement benefits other than pensions, net of cash payments	40.1	43.5	78.4
	Net (gain) loss on sale of property	(23.2)	6.1	14.3
	Net gain on sale of investments and businesses	(120.3)	(12.9)	(3.6)
	Change in deferred income taxes and other*	130.9	(150.1)	(60.1)
	Change in other operating assets and liabilities			
	Accounts receivable	86.7	(147.3)	(238.1)
	Contracts in process	(34.1)	(186.2)	111.4
	Inventories	(302.8)	(160.1)	(27.5)
	Prepaid expenses	(30.3)	(3.0)	(15.2)
	Accounts payable	122.0	(92.0)	25.8
	Income taxes payable	(57.9)	160.4	(70.7)
	Accrued and other liabilities	(13.9)	257.0	(28.2)
	Other*	(308.0)	(272.8)	20.2
	Net Cash Provided by Operating Activities	1,199.4	986.2	1,376.8
Cash Flows from Investing Activities	Investment in companies, net of cash acquired	(28.7)	(309.5)	(7.0)
	Expenditures for property and special tools	(652.3)	(545.7)	(490.5)
	Increase in telecommunications and other equipment	(191.2)	(198.9)	(351.9)
	Proceeds from sale and leaseback of satellite transponders with General Motors Acceptance Corporation	252.0	-	-
	Proceeds from disposal of property	96.2	50.6	90.6
	Proceeds from sale of investments and businesses	-	127.2	3.6
	Decrease (increase) in notes receivable	1.6	(13.6)	206.9
	Net Cash Used in Investing Activities	(522.4)	(889.9)	(548.3)
Cash Flows from Financing Activities	Net decrease in notes and loans payable	(393.2)	(80.9)	(2.1)
	Increase in long-term debt	13.5	28.0	7.5
	Decrease in long-term debt	(29.0)	(37.7)	(20.8)
	Proceeds from sale of minority interest in subsidiary	137.5	-	-
	Cash dividends paid to General Motors	(384.0)	(368.0)	(320.0)
	Net Cash Used in Financing Activities	(655.2)	(458.6)	(335.4)
	Net increase (decrease) in cash and cash equivalents	21.8	(362.3)	493.1
	Cash and cash equivalents at beginning of the year	1,139.5	1,501.8	1,008.7
	Cash and cash equivalents at end of the year	$ 1,161.3	$ 1,139.5	$ 1,501.8

*1994 amounts exclude the effect of accounting change.

Reference should be made to the Notes to Consolidated Financial Statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Consolidation. The consolidated financial statements include the accounts of Hughes Electronics Corporation (Hughes) and its domestic and foreign subsidiaries that are more than 50% owned. Investments in associated companies in which at least 20% of the voting securities is owned are accounted for under the equity method of accounting.

Effective December 31, 1985, General Motors Corporation (General Motors or GM) acquired Hughes Aircraft Company and its subsidiaries for $2.7 billion in cash and cash equivalents and 100 million shares of GM Class H common stock having an estimated value of $2,561.9 million, which carried certain guarantees.

On February 28, 1989, GM and the Howard Hughes Medical Institute (Institute) reached an agreement to terminate GM's then-existing guarantee obligations with respect to the Institute's holding of GM Class H common stock. Under terms of the agreement as amended, the Institute received put options exercisable under most circumstances at $30 per share on March 1, 1991, 1992, 1993, and 1995 for 20 million, 10 million, 10.5 million, and 15 million shares, respectively. The Institute exercised these put options at $30 per share on March 1, 1991, March 2, 1992, and March 1, 1993. On February 15, 1995, GM and the Institute entered into an agreement under which GM assisted the Institute in selling 15 million shares of GM Class H common stock at $38.50 per share. The March 1, 1995 put option expired unexercised.

The acquisition of Hughes Aircraft Company was accounted for as a purchase. The purchase price exceeded the net book value of Hughes Aircraft Company by $4,244.7 million, which was assigned as follows: $500.0 million to patents and related technology, $125.0 million to the future economic benefits to GM of the Hughes Aircraft Company Long-Term Incentive Plan (LTIP), and $3,619.7 million to other intangible assets, including goodwill. The amounts assigned to patents and related technology are being amortized on a straight-line basis over 15 years and other intangible assets, including goodwill, over 40 years. The amount assigned to the future economic benefits of the LTIP was fully amortized in 1990.

For the purpose of determining earnings per share and amounts available for dividends on the common stocks of General Motors, the amortization and disposal, if any, of these intangible assets is charged against earnings attributable to GM $1-2/3 par value common stock and amounted to $122.3 million, $159.5 million, and $123.8 million, in 1996, 1995, and 1994, respectively. The 1995 amount included a $36.1 million charge, included in other income, for the write-off of such purchase accounting adjustments related to the disposition of certain non-strategic business units.

The earnings of Hughes and its subsidiaries since the acquisition of Hughes Aircraft Company form the base from which any dividends on the GM Class H common stock are declared. These earnings include income earned from sales to GM and its affiliates, but exclude purchase accounting adjustments (see Notes 2 and 7).

On January 16, 1997, GM and Hughes announced a series of planned transactions designed to address strategic challenges and unlock stockholder value in the three Hughes business segments. (See Note 18).

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 that differ from those estimates.

Revenue Recognition. Sales to General Motors and affiliates and to outside customers not pursuant to long-term contracts are generally recognized as products are shipped or services are rendered. 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. Sales under certain commercial long-term contracts are recognized using the units-of-delivery method.

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.

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

Net cash provided by operating activities reflects cash payments for interest and income taxes as follows:

(Dollars in Millions)	1996	1995	1994
Interest	$ 39.6	$ 37.5	$ 40.7
Income taxes	647.9	634.2	686.2

Accounts Receivable and Contracts in Process.

Trade receivables are principally related to long-term contracts and programs. Amounts billed under retainage provisions of contracts are not significant, and substantially all amounts are collectible within one year.

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 and amounts receivable under sales-type leases, and $546.0 million of the 1996 amount is expected to be billed after one year. Contracts in process in 1996 also include approximately $53.8 million relating to claims, requests for equitable adjustments, and amounts withheld pending negotiation or settlement with customers. 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 first-in, first-out (FIFO) or average cost methods.