

reorganization strengthened Delco to deal with a challenging competitive environment, making possible new steps toward rightsizing and structural cost reductions, accelerated technology introduction into GM's North American Operations, and a realignment of international operations to sharpen focus on profitable growth.

TELECOMMUNICATIONS AND SPACE:

As the fastest growing segment of Hughes Electronics, Telecommunications and Space posted a 33% growth rate in 1996 — with total revenues of \$4.1 billion. Hughes Space and Communications increased revenues by 21%. Hughes Network Systems broke the \$1 billion revenue threshold for the first time, while the PanAmSat merger announcement marked a major milestone on the path to a truly global communications service. DIRECTV in the United States, attained a subscriber base of 2.5 million in early 1997, making it equivalent in size to the nation's seventh largest cable television company.

Using technology, talent and investment to lead in markets, to build new businesses, to create new value: that's what the new Hughes Electronics will be all about. With more focus on our markets, with capital available for investment and with a team that has proven it makes a difference, our new dedicated company will give us more potential to create value.

It is never easy to so significantly restructure a

business that is succeeding. Employee lives are disrupted, customer relationships must be preserved, shareholders need to be assured and satisfied even as the need to do daily battle with the competition continues.

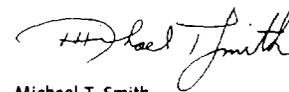
Yet, at each stage in our company's history, Hughes has always been a place where people accept change as challenge — a company that's been too busy defining the future to be afraid of it. We are confident the changes we're making in 1997 will serve to solidify the one constant through Hughes' long history — securing this company's legacy as an industry leader for years to come.



C. Michael Armstrong
Chairman of the Board and
Chief Executive Officer



Charles H. Noski
Vice Chairman and
Chief Financial Officer



Michael T. Smith
Vice Chairman

HUGHES ELECTRONICS CORPORATION

Financial Highlights*

(Dollars in Millions, Except Per Share Amounts)	1996	1995	1994
FOR THE YEAR			
Revenues	\$15,918	\$14,808	\$14,099
Net Sales	15,744	14,714	14,062
Earnings	1,151	1,108	1,049 ⁽¹⁾
% of Revenues	7.2%	7.5%	7.4%
Operating Profit ⁽²⁾	\$ 1,594	\$ 1,667	\$ 1,630
% of Net Sales	10.1%	11.3%	11.6%
Earnings Attributable to General			
Motors Class H Common Stock			
Total	\$ 283	\$ 265	\$ 242 ⁽¹⁾
Per Share	2.88	2.77	2.62 ⁽¹⁾
Dividends Per Share of			
GM Class H Common Stock	0.96	0.92	0.80
Average Number of Shares of			
GM Class H Common Stock			
Outstanding (in millions)	98.4	95.5	92.1
Capital Expenditures ⁽³⁾	\$ 840	\$ 820	\$ 746
Research and Development Expenses	730	762	699
Return on Equity ⁽⁴⁾	19.0%	20.8%	22.9% ⁽¹⁾
Pre-Tax Return on Total Assets ⁽⁵⁾	13.1%	14.0%	14.5%
AT YEAR-END			
Cash and Cash Equivalents	\$ 1,161	\$ 1,140	\$ 1,502
Backlog	15,100	14,929	13,210
Number of Employees (in thousands)	86	84	79

* Financial Highlights are unaudited and exclude purchase accounting adjustments related to GM's acquisition of Hughes Aircraft Company.

(1) Includes the unfavorable effect of accounting change of \$30 million, or \$0.08 per share of GM Class H common stock.

(2) Net Sales less Total Costs and Expenses other than Interest Expense.

(3) Includes expenditures for telecommunications and other equipment of \$188 million in 1996, \$275 million in 1995, and \$256 million in 1994.

(4) Earnings Used for Computation of Available Separate Consolidated Net Income divided by average stockholder'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).

(5) Income before Income Taxes divided by average total assets.

HUGHES AUTOMOTIVE ELECTRONICS

Delco Electronics (DE) has been one of the world's largest providers of automotive electronics for many years – achieving a 22 percent global market share in 1996 – and the company intends to remain at the top of this \$24 billion market.

Vital components of DE's continued global leadership are its growth with non-

Furthermore, DE continues to demonstrate its technology leadership. Its navigation and communications technologies are found in the new OnStar™ on-vehicle communications system for the 1997 Corvett[®], its advanced electronics are part of GM's EV1™ electric vehicle, and a variety of DE designed and manufactured components are found on 15 new GM models.

DE

...customers...
...results showed...
...gains in the...
...rank...
...of GM's AG...
...increased to...
...19 percent of total...
...DE revenues...
...20 percent increase...
...over 1995.

...award...
...for...
...modules, sup...
...to GM world...
...of GM's...
...thousands of suppliers...
...a select...
...receive the award.

The 1997 Chevrolet Corvette features 10 of DE's advanced technologies, including systems that improve performance, security and driver safety.



DE's products are core components of auto cockpit instrumentation displays, controls that increase safety and comfort, as well as audio systems that provide entertainment.

The automotive industry has been undergoing major structural changes. Automakers are seeking suppliers who can give them more cost-effective systems solutions rather than individual components. To maintain its leadership position in this changing marketplace, DE has been undertaking a realignment of its operations.

DE's traditional focus has been on designing and manufacturing vehicle electronics, and it has long been a world leader in its field. The company's broad product line – developed over 60 years – includes engine and transmission controls; antilock brake control modules; air bag electronics; vehicle security electronics; and audio, climate control, navigation and communications systems.

Since these products complement those of Delphi Automotive Systems, the GM sector that produces automotive components and systems, DE has been working more closely with Delphi. For the last several years, the two companies have been co-locating many of their international facilities. Together, the two companies have begun offering automakers inte-

grated electronic and mechanical systems solutions, such as Traxxar. This system increases vehicle stability and safety by integrating steering, braking and suspension electronic controls. Traxxar is being marketed on the 1997 Cadillac as StabiliTrak. Assuming the pending transfer of Delco Electronics to Delphi Automotive Systems occurs later in 1997 (see page 28 for further details), the new partnership will have an even greater competitive edge in the global marketplace.

Another facet of DE's realignment was the appointment in 1996 and early 1997 of a new senior management team, headed by General Manager Michael J. Burns. In 1997, DE's management will continue to improve the company's competitiveness by satisfying customers with cost savings and lower prices plus high manufacturing performance standards; expanding international operations with an increased emphasis on profitable growth; and continuing technology leadership.

Satisfying Customers

DE's focus on customer satisfaction stresses cutting costs and striving for manufacturing excellence through on-time delivery and products with zero defects.

Reduce Costs. The company made further progress in cutting costs in 1996. However, work stoppages at several North American GM plants, intensified global price competition and ongoing investment in international expansion reduced DE's operating margin.

DE continues to achieve cost reduction by incorporating the latest advances in technology into its products more rapidly than many of its competitors. DE also is redesigning its products to decrease the number of parts it buys for each system. Both cost-saving approaches are essential for the company to remain a world-leading supplier to its automotive customers.

An example of how redesign can dramatically impact costs is DE's new generation of sensors for air bag systems, the SDM-R, which employs nearly 50 percent fewer parts and is priced almost 60 percent lower than the previous design – and offers comparable functionality, performance and quality. Another successful redesign effort focused on the company's GEN-II manifold pressure sensor, which helps increase a car's performance. Through redesign, DE cut the number of assembly components nearly in half and improved reliability compared with its predecessor design.

Because purchased materials account for more than 50 percent of the cost of the company's products, redesign continues to have the greatest potential for reducing costs in future years for all of DE's customers.

Another way DE attacked costs in 1996 was by continuing to rationalize and integrate its processes. For example, by establishing uniform processes for engineering teams, DE was able to eliminate significant non-value-added costs. In 1997, another important component of its realignment efforts is to lower structural costs by streamlining the organization.

Ensure Quality. DE has set high standards for each part of its operations and expects continuous improvement toward achieving them. This helps assure that the company will meet its goal of delivering products to customers on time and manufacturing products with zero defects. In addition, the company has received certification by independent experts. In 1995, DE achieved ISO 9000 certification, a well-regarded interna-

The Monsoon brand audio system logo, featuring the word "MONSOON" in a stylized, bold, sans-serif font with a curved underline.

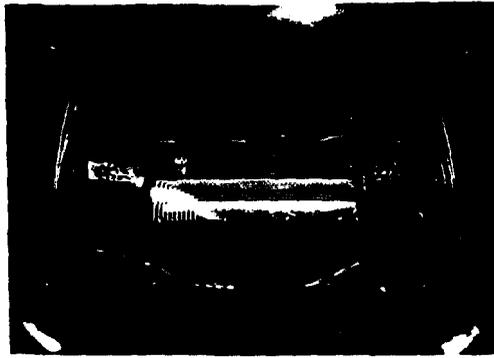
The Monsoon brand audio system, introduced by DE in 1996, is being marketed directly to consumers who seek both power and finesse in a vehicle sound system. The branding and retail marketing effort is designed to stimulate product demand and help automakers sell cars when they offer Monsoon as an option.

The Delco Electronics logo, featuring the word "DELCO" in a bold, sans-serif font with "ELECTRONICS" in a smaller font below it, all enclosed in a rectangular border.

Rockford Fosgate's radios are supplied by DE. These high-performance auto sound systems are available to consumers through independent and regional distributors.



Many of the components and systems in GM's EV1 electric vehicle were developed by DE. The company's inverter (near right), the propulsion system's brain, converts direct current stored in the batteries to alternating current required by the electric motor.



DE's MagneCharge™ inductive charging system (far right) provides a safe, efficient and convenient way to fill up the car.



tional standard for manufacturers, in all of its manufacturing facilities around the world. Further, in early 1997 DE won global QS-9000 certification, which is the U.S. automotive industry's own tough quality standard for automotive equipment suppliers.

Expanding Globally with a Focus on Profitability

A key part of DE's long-term growth strategy is to diversify its customer base, and sales to international and non-GM-NAO customers increased to more than \$1 billion in 1996, compared with \$841 million in 1995. Globally, DE has approximately 50 non-GM-NAO customers. The company is continuing to expand, but with an intensified focus on the profitability of its operations.

International Expansion.

In 1996, DE:

- Opened a new design facility in Singapore that will serve Pacific Rim customers;

- Dedicated a new facility in Piracicaba, Brazil, that is manufacturing parts for automakers serving the South American market, including GM do Brasil;
- Opened a high-tech manufacturing facility in Liverpool, England, that is supplying DE's hybrid engine control unit and other electronics to European customers, and;
- Announced a joint venture, named Shanghai Delco Electronics & Instrumentation Co., Ltd., that is manufacturing a wide variety of automotive products in Shanghai, China, for the Chinese market.

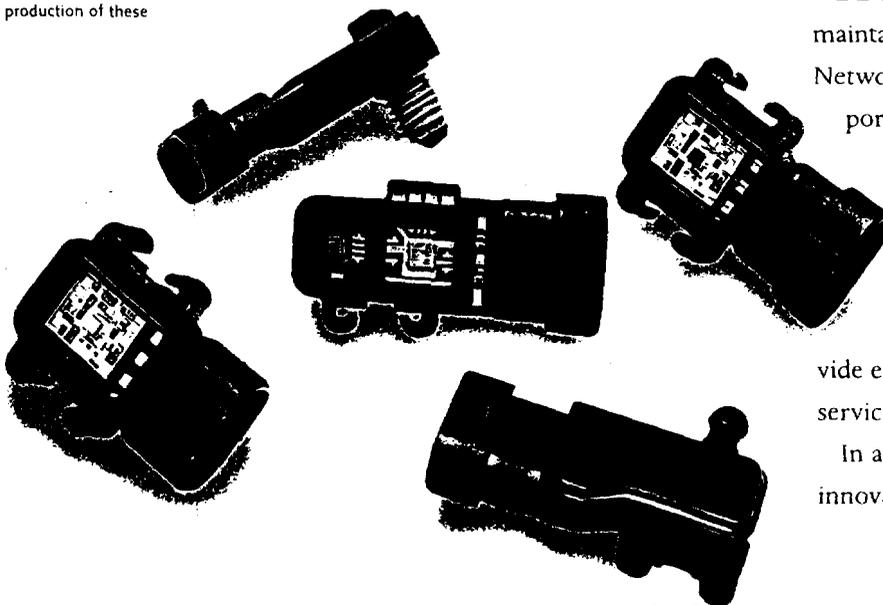
New International Contracts. Among DE's international wins in 1996 was a breakthrough contract for audio systems from Daihatsu Motor Company. For the first time, DE will be supplying radios on cars to be sold to Japanese consumers.

Continuing Technology Leadership

DE continues to develop new technology to maintain its competitive edge. DE, Hughes Network Systems and EDS have teamed to support GM's OnStar smart car system, introduced in 1997 Cadillacs. OnStar incorporates DE's automobile satellite navigation system that employs the Global Positioning System. Delco technologies also enable OnStar to provide emergency message capability and other services.

In addition, DE developed more than 15 innovative technologies for GM's new EV1

DE was a pioneer developer of hybrid manifold pressure sensors, a product now used by customers around the world. In 1996, DE won the prestigious PACE Award from Automotive News for improvements in the design and production of these sensors.



electric vehicle, which was introduced in California and Arizona in 1996, including the vehicle's power electronics bay and the MagneCharge inductive charging system.

And DE's PASS-Key[®] III security system is a standard feature on Buick's all-new Park Avenue. PASS-Key III offers a theft-deterrent system that is set to one of 68.7 billion codes. The system electronically determines if the correct key has been inserted into the vehicle ignition; if not, it sends a message to the engine control system that prevents the car from starting.

Looking ahead, DE engineers are working on smart occupant sensing, employing weight-based and infrared sensing devices to improve the safety of air bag systems by adjusting deployment according to the size and location of the occupant.

Becoming an Even Tougher Competitor

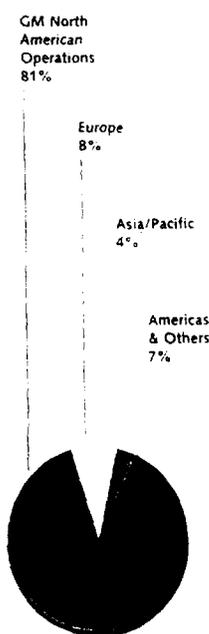
The proposed transfer of DE to Delphi later in 1997 is designed to meet the changing needs of the vehicle marketplace. By combining the strengths of the two companies, management expects to achieve greater efficiencies and to create an industry-leading supplier with an



EyeCue[®] increases safety by projecting critical vehicle information on the windshield, allowing drivers to keep their eyes on the road. DE's innovative system is available for cars and trucks.

unparalleled portfolio of electronically enhanced vehicle systems.

Reducing the duplication of resources should significantly improve the total cost structure. In addition, the DE-Delphi team will be able to offer better customer service by sharing commercial accounts, customer contacts and a global customer support network. With all of these advantages, the DE-Delphi team will be a much tougher competitor in the global automotive marketplace.



Percentage of 1996 Revenues by Customer Group



Percentage of Hughes Revenues

The following table sets forth selected pro forma data for the Automotive Electronics segment.

(Amounts in millions, except percentages)	Years Ended December 31		
	1996	1995	1994
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

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.

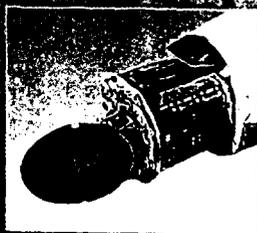
HUGHES

AEROSPACE & DEFENSE

Hughes Aircraft Company (HAC) is an acknowledged leader in its core missile, sensor and information systems programs. It participates in about half of the U.S. tactical missile programs, provides radars to four out of five frontline U.S. fighter aircraft, and has developed 65 percent of the world's air defense systems.

In 1996, revenues grew 6.6 percent to \$6.3 billion and backlog grew 6.2 percent to \$8.2 billion. HAC achieved an operating profit margin of 11 percent, the fourth year in a row of double digit profit margins. International new orders rose 80 percent.

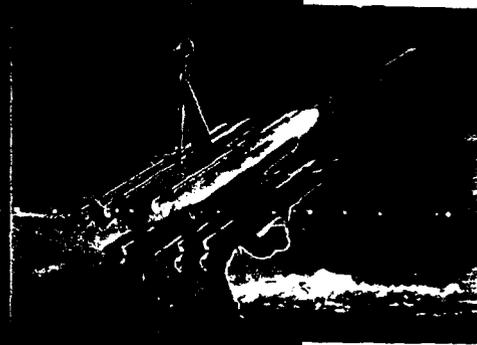
Even in the face of declining defense budgets, HAC won 77 percent of all the



The Hughes APG-73 radar is being integrated with the AMRAAM missile and other weapons during operational testing of the F/A-18 E/F

The HAWK-AMRAAM hybrid integrates the HAWK system, deployed in 19 countries, with the increased firepower of Hughes AMRAAM® missile to provide a modern, affordable air defense system.

competitions it entered, increasing its contract win ratio by 17 percent over 1995. In its fast-growing information and military computer systems and services businesses, HAC won contract awards for supplying U.S. Air Force personal computers and workstations, maintaining U.S. Navy depots, and developing navigation systems for the Federal Aviation Administration. These new contracts have combined potential revenues of more than \$3 billion over five years.



The accomplishments of HAC and its people have enabled it not only to post excellent financial results, but also to meet the challenges of dynamic global defense markets and create an outstanding merger opportunity in a rapidly consolidating industry

(see page 28 for further details).

HAC delivered on its strategies last year and will continue to do so in 1997. The major strategies are: strengthening its leadership position through consolidations and realignments; providing advanced technologies at low cost; increasing its domestic defense program win/loss ratio; and expanding international sales.

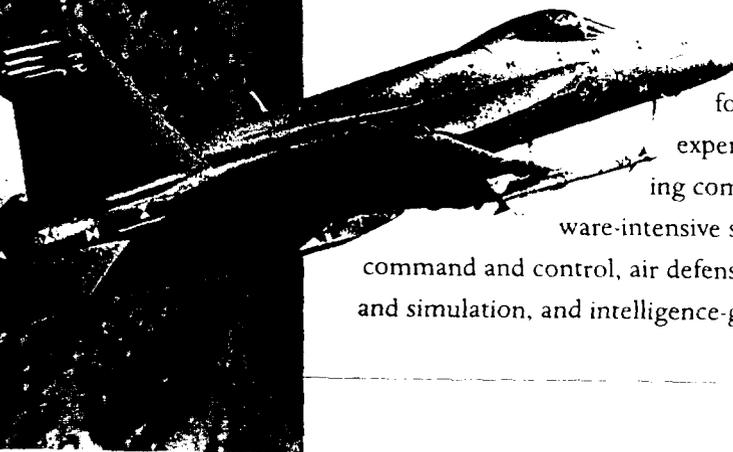
Strengthening Leadership

Reorganization/Consolidation. The organization of HAC's considerable technologies, skills and assets was further refined in 1996 with the consolidation of the company's Electro-Optical Systems business unit and the Radar and Communications business unit into a Sensors and Communications Systems unit, whose programs include space, airborne and surface-based radars; lasers, infrared and other sensors; and military communications.

After this consolidation, HAC has three primary business units. The other two are: Weapons Systems - responsible for numerous cruise missile and tactical programs, and shipboard display and control systems; and

Information Systems - focusing HAC's expertise in building complex software-intensive systems for

command and control, air defense, training and simulation, and intelligence-gathering.



Partnerships. HAC is carrying out several successful partnerships with Raytheon that were entered into prior to the proposed merger.

For example, in 1996 a HAC-Raytheon team won a key study phase contract for the U.S. Army's Aerostat program, an over-the-horizon surveillance effort using high-altitude sensor technology.

And in Norway, HAC and Raytheon have teamed with Kongsberg Gruppen, ASA, to incorporate HAC's Advanced Medium Range Air-to-Air Missile (AMRAAM), along with the Hawk missile, in a new air defense system that will allow a single firing unit to launch either missile.

If the HAC-Raytheon merger occurs as expected, there will be many more opportunities for integrating the two companies' parallel operations, which should give the new company a considerable advantage in the marketplace.

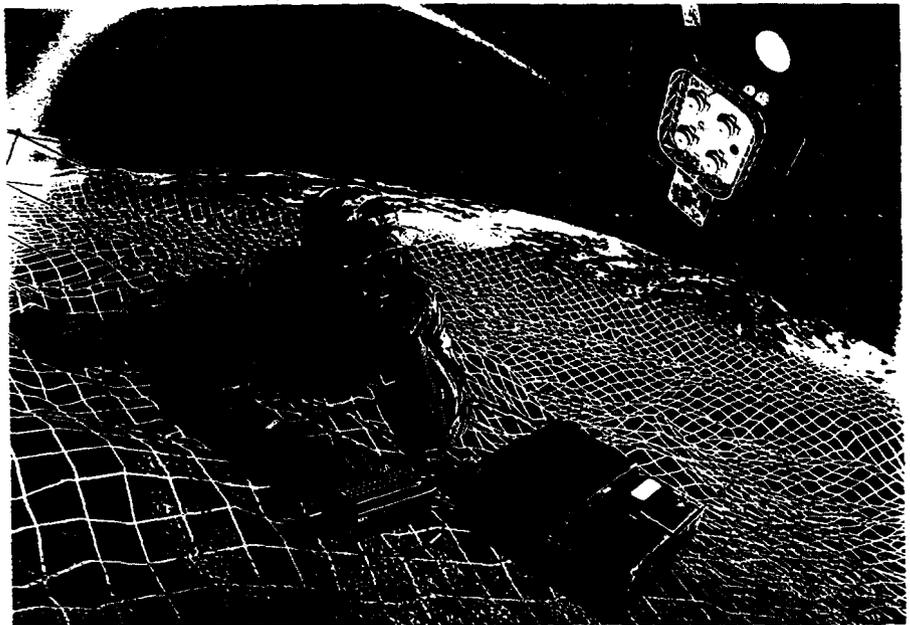
Fielding Advanced Technologies at Low Cost

Today, crucial weapons and protective systems – aboard tanks, planes and ships and in the hands of soldiers themselves – must be made smarter by integrating next-generation electronics technologies, yet must be produced using low-cost manufacturing approaches. HAC excels at this.

In the United States, HAC is leading a team carrying out the Land Warrior™ contract to equip soldiers with an integrated system of 40 state-of-the-art components. The U.S. Army plans to order 34,000 units, and interest from U.S. allies is strong. The global market potential for revenue is in the billions of dollars.

To deliver the kind of value Land Warrior represents, and to achieve life-cycle cost containment in its programs, HAC is pursuing a multi-faceted approach.

Acquisition reform is one way. For the U.S. Army's Fire Support Combined Arms Tactical Trainer (FSCATT) program, acquisition reform is



helping HAC cut substantial time and cost during development, thereby lowering contract costs.

Other keys to HAC's ability to lower total life-cycle costs include: using today's most advanced electronics to achieve ten-fold improvements in performance-to-cost ratios; adopting commercial off-the-shelf technologies and common processes; leveraging all of these to build in high reliability from the start; and offering military customers up-front warranties on new systems, plus lifetime service contracts.

Innovative ways such as these to cut costs can be applied at every stage of building a weapons system. In a shrinking market driven by value, only companies that are able to consistently deliver on promises to be a low-cost manufacturer will succeed.

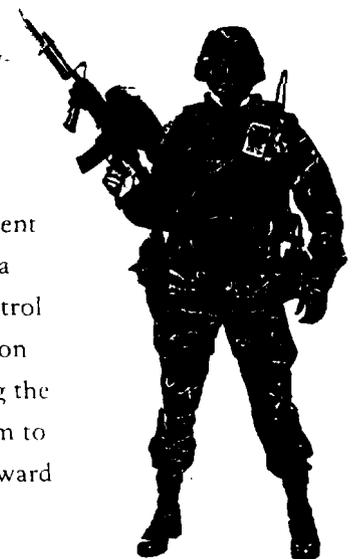
Winning Domestic Contracts

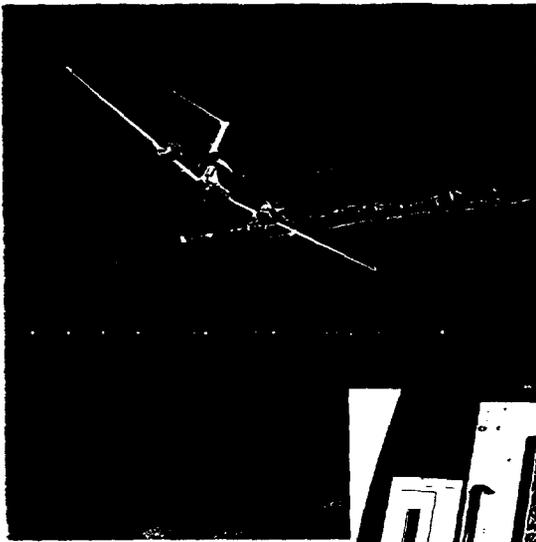
Civil Aviation Expansion. Two major recent contract wins reinforce HAC's position as a significant participant in the air traffic control marketplace: a \$483 million Federal Aviation Administration (FAA) award for improving the capability of the Global Positioning System to support navigation and landings; and an award of up to \$1 billion, jointly won with

HAC is a leading designer and manufacturer of military tactical communications, electronic combat and command and control products.



Land Warrior is the U.S. Army's first integrated fighting and support system for soldiers. HAC is the systems integrator for this new product line, which has 40 components.





The Hughes Integrated Synthetic Aperture Radar is a system employing military reconnaissance technology that helps non-military agencies with such surveillance activities as monitoring the environment and catching smugglers.

Raytheon, to provide HAC's TracView™ air traffic control stations as a backup to FAA and Department of Defense air



traffic control terminals.

Core Market Contracts. Last year, HAC won numerous contracts from military customers in its traditional core markets, including more than \$700 million in awards to build AMRAAM missiles for the U.S. Air Force and U.S. Navy, and Tomahawk and Standard Missiles for the U.S. Navy. HAC also won the engineering and manufacturing development contract for the AIM-9X missile. The initial AIM-9X contract is for \$169 million, but the potential value of the program in sales to the U.S. Navy and Air

Force and international customers over the next two decades is \$5 billion.

Another key contract was HAC's more than \$200 million share in a \$641 million award to the Avondale Alliance to design, construct and support the U.S. Navy's next generation of amphibious ships. As systems integrator, HAC will be responsible for electronic systems over the 40-year life cycle of each ship. Because of the overwhelming importance of electronics to the operation and defense of modern high technology warships, this project points the way for HAC to take a leading role in future shipbuilding programs and retrofits of existing ships with the latest electronics.

Opening New Markets. Billions of dollars in business to perform military overhaul, repair and maintenance work previously exclusively done by government-run depots and terminals is being opened to industry. HAC is in the forefront of companies winning these "privatization" contracts. Last year, it won the largest such contract so far, an award with a potential value of \$1.3 billion over five years for privatizing the Naval Air Warfare Center in Indianapolis.

In the growing U.S. government market for desktop computers, workstations and informa-

(Opposite Page)
HAC's Advanced Oceanic Automation System for the Federal Aviation Administration will provide direct controller-to-pilot data-link communications, automatic position reporting and region-to-region flight information communications.



The Unit Training Device is a cost-effective way for the U.S. Air Force to provide continuing combat training. HAC is the second largest training and simulation systems provider in the world.

tion systems technology, HAC won three major contracts that could have combined revenues of \$2 billion over their lifetimes. HAC is one of two firms chosen to supply the U.S. Air Force with approximately 37,000 workstations over five years at a total price of more than \$950 million, along with \$924 million worth of desktop computers. The U.S. Patent and Trademark Office selected HAC to provide up to \$171 million worth of computers and peripheral equipment.

Winning Internationally

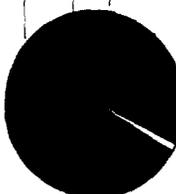
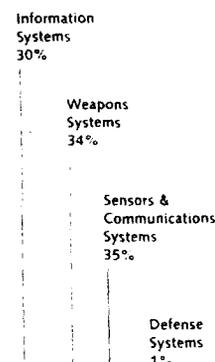
International new orders grew to \$1.8 billion in 1996, led by several major contracts: \$224 million from Norway for AMRAAM missiles, jointly for HAC and Raytheon; \$262 million from the U.S. Air Force for operations, maintenance and training for Saudi Arabia's Peace Shield air defense system (which Hughes designed and built); \$219 million in TOW missile awards from ten countries; and \$126 million from GM's 22-nation European dealership network for training support in 17 languages.

A joint venture of HAC and Raytheon and several European companies has been awarded an \$80 million contract related to the initial project definition stage of MEADS, the Medium Extended Air Defense System.

MEADS is to be available by 2005 for use by U.S., German and Italian military units.

Merging HAC with Raytheon

Assuming that HAC's strengths are combined with those of Raytheon later this year, the merger of the two companies will create a world leader in defense electronics. In the defense electronics sector alone, the new company would report 1996 pro forma combined revenues of \$13 billion and a backlog of \$18 billion. Its 127,000 employees and across-the-board excellence in a broad range of programs and technologies will make it a potent competitor to the giant combinations – like Lockheed Martin and Boeing – that have emerged from the defense industry's continuing consolidation.



The following table sets forth selected pro forma data for the Aerospace and Defense Systems segment.

Years Ended December 31*

(Amounts in millions, except percentages)	1996	1995	1994
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

* 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.



TELECOMMUNIC

As the world's premier satellite builder and services provider, Hughes' Telecommunications & Space segment is shaping the global vision of telecommunications for the 21st century. It is breaking boundaries between satellite and cable, wireline and cellular, desktop computer and living room TV. The Wireless Expressway™ that Hughes is paving will transport us into an age of universal, mobile and interactive communications.

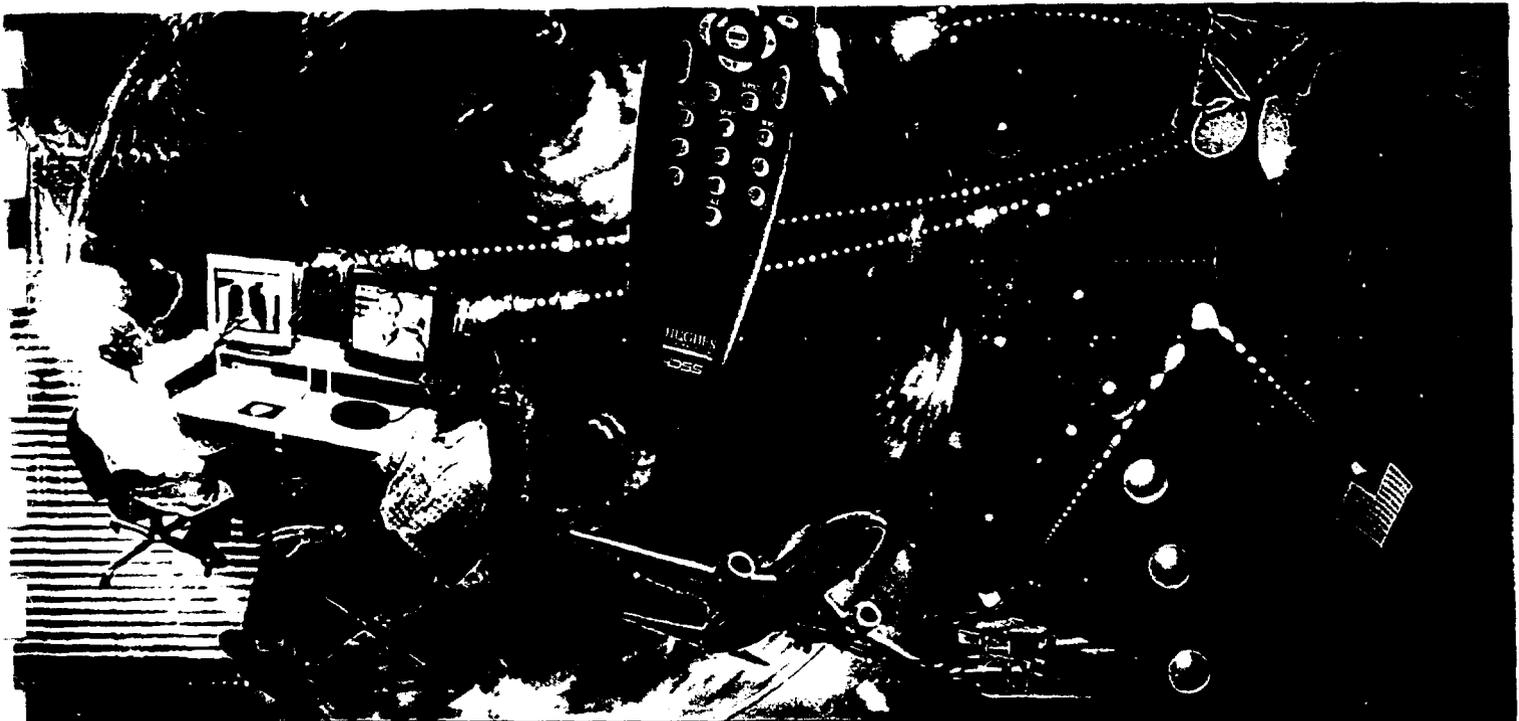
In today's global village, entertainment, personal communications and critical business information flow seamlessly across borders via a worldwide telecommunications infrastructure. Some 64 Hughes-built satellites help form the space-based portion of this great nexus. To meet tomorrow's challenge of Internet usage that is already growing 300 percent a year, Hughes is starting to manufacture satellites with throughput 150 times faster

than conventional telephone lines.

In services, Hughes' market-leading DIRECTV already provides over 175 channels of in-home digital entertainment to more than 2.5 million U.S. subscribers. Hughes also has introduced this service in Latin America, and within a year, DIRECTV is expected to arrive in Japan.

Concurrently, Hughes is introducing mass-market business and consumer services for high-data-rate communications. DirecPC™ now provides instant Internet access and extremely fast download times. In the future, Hughes' proposed next-generation SPACEWAY™ service may enable computer users to exchange data, voice and video simultaneously, at high speed and in real time.

With the convergence of TV and computer technologies, soon, DIRECTV subscribers will be able to receive televised sports, news and enter-



TELECOMMUNICATIONS & SPACE

tainment on their computer, along with interactive and multimedia services, information, games and even software.

Satellite technology also offers unlimited potential for individuals to communicate on the move. Handheld mobile telephony, with full global roaming capability, should become available at the turn of the century with the launch of the Hughes-built 12-satellite ICO system.

In telecommunications and space, Hughes' strategy is two-fold. First, to maintain its edge in commercial satellite manufacturing, transponder sales and leasing, satellite-based and ground-based telecommunications networks, and direct-to-home television services. And second, to keep moving up the value chain, fully exploiting its satellite leadership with additional innovative, value-added, mass market global telecommunications services.

Hughes' core strengths in satellite manufacturing and operations provide strong competitive advantages as it moves into new high-growth service markets. Advantages include an ability to get to market first, recognized market leadership, superb technology, financial strength, management depth of experience, and vertical integration of Hughes' telecommunications businesses into a true one-stop service.

Last year, Telecommunications & Space segment revenues grew 33 percent to \$4.1 billion. Given surging worldwide demand for communications and Hughes' growing strengths in the marketplace, the company expects its vision and strategy to continue yielding strong revenue and earnings growth.

HUGHES

SPACE & COMMUNICATIONS

Global demand for communications satellites is booming, and in 1996 Hughes Space & Communications (HSC), which manufactures commercial and government spacecraft, increased its revenues by 21 percent. The company maintained its leadership position by winning 50 percent of all commercial competitions. At the end of the year, HSC had a booked backlog with a value of \$4.3 billion.

To manage its increasing volume of business, in recent years HSC has streamlined its manufacturing process, and this has significantly increased employee productivity and reduced cycle time.

A key factor in HSC's continuing success is its leading-edge technologies, which have long set the company apart from follow-on competitors. During 1996, HSC completed development of the xenon ion thruster. This new electric propulsion system offers many performance improvements, including longer life

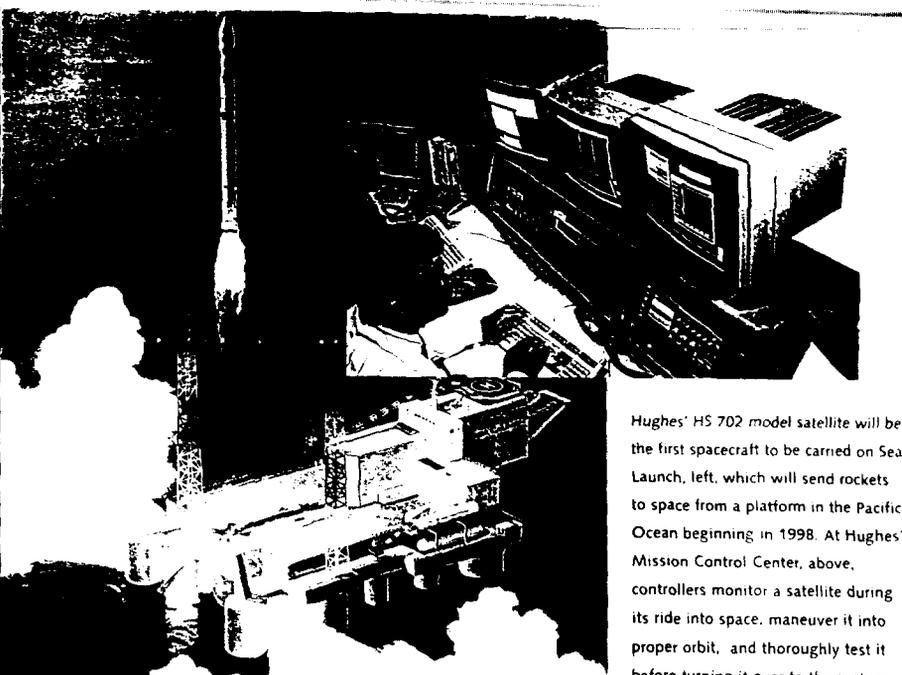
and significant cost savings.

HSC's commercial customers can count on average satellite channel availability exceeding 99 percent, an outstanding record of reliability.

HSC's next generation satellite, the HS 702, will offer customers nearly twice the capacity and more than double the power of the most sophisticated satellite now in operation. The first HS 702 spacecraft, which is being built for Hughes Galaxy Communications, is expected to be launched in 1998.



PAS-5, built for PanAmSat Corporation, will be the first HS 601 HP (i.e., high-powered) model put into operation. It will be carried into space aboard a Proton rocket launched from Kazakhstan, Russia.



Hughes' HS 702 model satellite will be the first spacecraft to be carried on Sea Launch, left, which will send rockets to space from a platform in the Pacific Ocean beginning in 1998. At Hughes' Mission Control Center, above, controllers monitor a satellite during its ride into space, maneuver it into proper orbit, and thoroughly test it before turning it over to the customer.

Hughes' pioneering technologies have broadened the scope of satellite-based telecommunications. For HSC, the expanding market is bringing greater opportunities – and more competition. The company is meeting this challenge with these main strategies: maintaining its number one position in commercial satellite manufacturing; and increasing both its U.S. government and international customer bases.

Maintaining Leadership in Satellite Manufacturing

Maintaining leadership means being the low-cost manufacturer; delivering spacecraft to meet customers' schedules; producing reliable satellites employing advanced technology; and assuring the availability of launch facilities.

Reducing Costs and Cycle Times. HSC delivered 11 satellites in 1996 and expects to deliver 24 more over the next two years. At year-end, its backlog stood at 37 satellites. To meet strong demand and also to lower costs, HSC has made its manufacturing facility more efficient. Since 1992, it has increased productivity by 47 percent.

These gains have helped HSC reduce cycle time by 30 percent over five years. Basic models of the HS 376 and HS 601 spacecraft now can be delivered in two years or less. In 1996, to meet customers' tight schedules, HSC deliv-

ered two HS 376 satellites within 14 months of being ordered.

Reliability Record/Technology Development.

By early 1997, HSC had reached a new milestone: of the 120 commercial communications spacecraft it has launched in the past 32 years, 64 are still in service – and these have accrued 850 years in operation. Its nearest competitors' fleets each have accumulated only about a third as many years. In addition, more than 80 percent of the satellites have exceeded mission life by at least 10 percent.

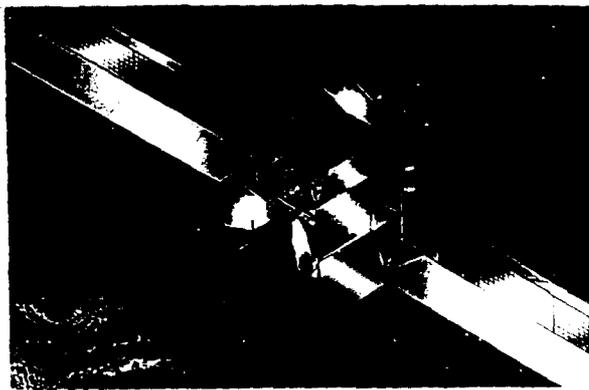
Hughes also is a spacecraft technology leader. Its continuing investment in technology development is dramatically improving the capabilities of satellite-based communications systems. For example, advanced solar technology, including new gallium arsenide solar cells developed by a Hughes subsidiary, will enable HSC's next-generation HS 702 satellite to have double the power of existing satellites. Another key Hughes technology is a digital processor that will operate as a "switchboard in the sky" for the wireless communications of future satellite-based systems.

Global Launch Commitments. To increase competitiveness, HSC must be able to offer customers launch options. HSC has been at the forefront in negotiating advance bookings for multiple launches. These commitments have helped increase competition in the launch industry, which is expected to result in more availability, greater reliability, lower costs, and the capability to launch larger satellites.

By early 1997, HSC had secured more than 40 future launch vehicles to be provided by companies in the United States, Japan, Kazakhstan and elsewhere.

Increasing U.S. Government and International Business

HSC has built numerous satellites for the Department of Defense and other agencies of the U.S. government. These customers represent about 50 percent of the company's business.



Seven ultra-high-frequency (UHF) communications satellites have been built for the U.S. Navy, and three more are under construction, each incorporating a global broadcasting payload derived from Hughes' DIRECTV technology. And three satellites being built for the National Aeronautics and Space Administration will enable it to communicate with the space shuttle and other spacecraft in low-earth orbit.

In 1996, HSC established a new unit, Hughes Government Services, that will help government customers acquire satellite services from various operators of commercial systems. Its goal will be to tailor end-to-end communications solutions matching each government customer's unique requirements.

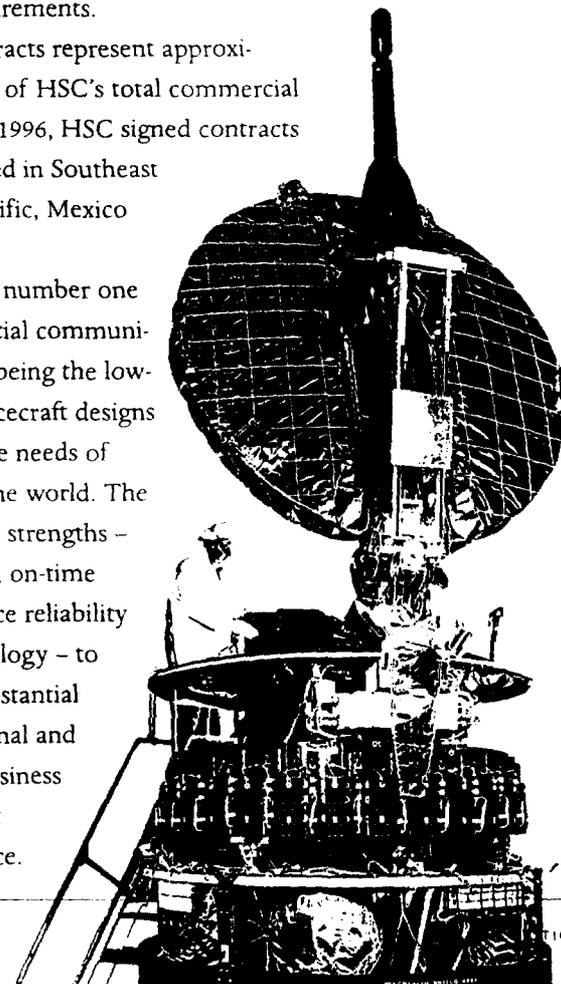
International contracts represent approximately three-fourths of HSC's total commercial satellite business. In 1996, HSC signed contracts with companies based in Southeast Asia, Japan, Asia-Pacific, Mexico and Europe.

HSC maintains its number one position in commercial communications satellites by being the low-cost provider of spacecraft designs that meet the diverse needs of customers around the world. The company is using its strengths – efficient production, on-time delivery, performance reliability and superior technology – to continue to win substantial shares of international and U.S. government business in a competitive but growing marketplace.

The HS 702 satellite model will provide more than double the power and nearly twice the capacity of existing body-stabilized satellites. Its on-board processing capability will allow the satellite to help reconfigure its own power, bandwidth and broadcast patterns to meet customers' expanding needs



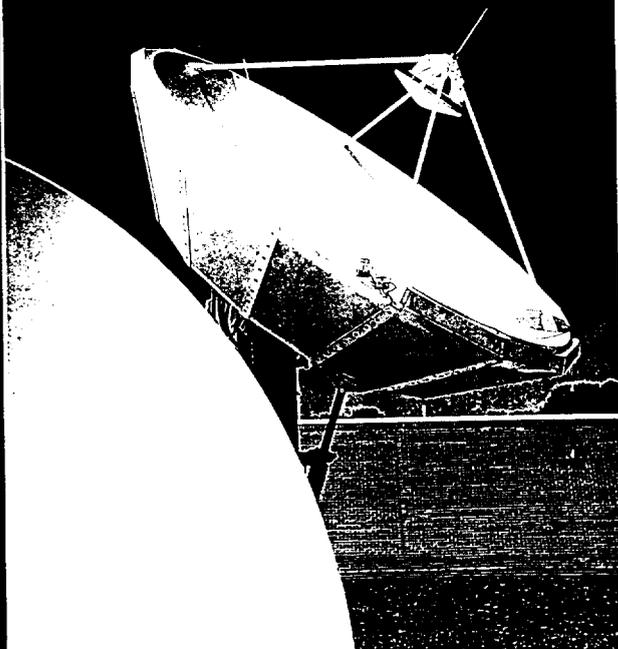
Shown during construction is APSTAR 1A, an HS 376 spinning spacecraft model that was launched in mid-1996 and is now providing general communications services in Asia.



HUGHES NETWORK SYSTEMS

From the world's most prosperous countries to the world's developing countries, wireless communications systems are in great demand. Hughes Network Systems (HNS), a leading provider of satellite-based private business networks – or, very small aperture terminals (VSATs) – and terrestrial-based wireless communications equipment, increased its revenues by 18 percent in 1996. The company has a more than 60 percent share of the global VSAT market. Revenues from terrestrial-based wireless systems sales, the fastest growing segment of HNS' business, were up 25 percent, with the increase fueled by growth in fixed wireless systems for emerging countries.

For more than 25 years, HNS has been the world leader in satellite-based, digital networking. Antennas like these at a VSAT hub station are a key part of every HNS network.



HNS is working to increase its revenues from higher-growth-potential service businesses. One source of such service revenues is DirecPC, with its Turbo Internet™ offering – a fast-speed Internet communications service that the company has begun marketing worldwide. In addition, HNS is pursuing licenses to offer basic telephone services in two large regions of India.

Another growth opportunity will be supplying personal communications service (PCS) equipment. HNS has entered into strategic relationships with two companies that won PCS licenses for major U.S. markets – and will be providing equipment with a potential value of more than \$1 billion.



DirecPC, HNS' satellite-based, fast delivery information service, can transfer files simultaneously to multiple sites and download large software or video files in seconds to desk-top computers.

HNS is achieving double-digit annual revenue growth by providing innovative telecommunications products, systems and services in 60 countries. HNS' strategies are to increase revenues from services; build sales in core markets; and expand its market-driven technology portfolio.

Increasing Revenues from Services

HNS is pursuing its strategy of increasing revenues from services by building on its manufacturing strengths. DirecPC is one such service. DirecPC is a satellite-based, high-data-rate communications service that rapidly delivers software, multimedia communications, video and large documents from the Internet to personal computers. HNS is marketing the DirecPC service, and the equipment it manufactures, in North America, Europe and Asia. In the United States, CompUSA's retail stores began offering the DirecPC equipment to consumers nationwide in early 1997.

A new telecommunications venture in India is another potential source of service revenues. HNS and its local partners are pursuing government licenses to provide telephone service in the states of Maharashtra and Karnataka, with a combined 130 million households. Each state's telephone market size is comparable to that of a Regional Bell Operating Company in the United States.

Strengthening Leadership in Core Markets

HNS pioneered the development of satellite-based VSAT networks, and the company has maintained its worldwide leadership position. In the United States, the company solidified its market share in 1996 with installations of new or expanded VSAT business networks for Ford Motor Company, Mobil Oil and other large companies.

Internationally, HNS installed VSAT business networks that can simultaneously handle data, voice, fax and video services for customers in 49 countries during the year. In addition, the company installed 45 VSAT voice service networks in 17 emerging market countries. Among these was a VSAT system that established China's first nationwide paging network.

Wireless Equipment Market. HNS is a strong competitor in emerging markets because, unlike wireline equipment providers, it can provide a fixed wireless telephone system within months of signing a contract, and at a very competitive cost. In 1996, the company installed systems in Indonesia, the Czech Republic, Malawi, Vietnam and Brazil.

Mobile Cellular Market. Mobile communications is another prime market for HNS. An emerging high-potential segment in this market is PCS. Because of HNS' two large equipment supply agreements with NextWave Telecom, Inc. and Indus, Inc., the company is well positioned for future growth in PCS, which transmits an improved quality of voice communications as well as data to hand-held phones.

In May 1996, HNS completed its installation of a new generation cellular infrastructure for BellSouth's cellular system, which serves more than one million subscribers, using HNS technology that can operate in either analog or digital mode. The company has a valuable ongoing supplier relationship with BellSouth.



Expanding the Technology Portfolio

HNS makes development of new market-driven technologies a top priority. For example, the company's IS-136 TDMA (time division multiple access) digital transmission voice technology offers superior quality, and also allows cellular and PCS operators to provide identical features and seamless roaming between systems. HNS was first to introduce the technology and will supply it to Indus for its new PCS service.

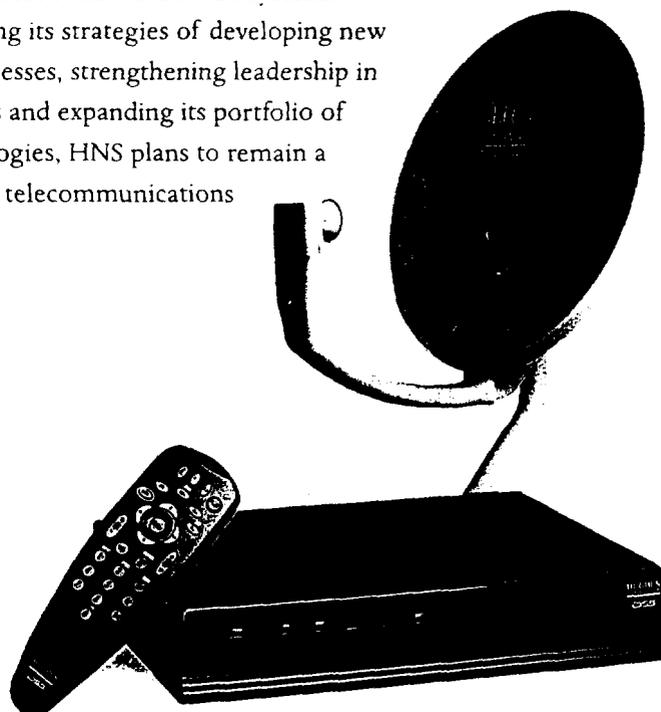
However, because customers are demanding a complete spectrum of PCS technologies from suppliers, HNS is also licensing technology from other companies in order to rapidly expand its product portfolio. For example, HNS will use CDMA (code division multiple access) digital technology in the products it manufactures for NextWave's PCS systems.

By following its strategies of developing new service businesses, strengthening leadership in core markets and expanding its portfolio of new technologies, HNS plans to remain a leader in the telecommunications industry.

In countries around the world, HNS' wireless systems provide basic telephone service. These systems are affordable alternatives to wireline systems, which may be unavailable, overburdened or outmoded in emerging markets. In the home, a Single Subscriber Unit mounts on a wall or window.

HUGHES
NETWORK SYSTEMS

HNS' own brand of DSS made its U.S. debut in 1996, and by year-end, the company had already shipped 170,000 units. The HNS system, including an 18-inch satellite dish, set-top receiving unit and remote control, receives programming from DIRECTV.



HUGHES GALAXY

Operating satellites is a fast-growing, high-margin business for Hughes Galaxy Communications. In 1996, it increased revenues by 20 percent and achieved an operating margin of more than 50 percent. Hughes Galaxy is the leading U.S. provider of satellite distribution services and enjoys a 44 percent share of the market. It leases transponders and sells services to dozens of major cable television systems, news and entertainment companies and private business networks.

Hughes Galaxy pioneered some of the industry's most innovative marketing programs: sales and leasing on a non-common carrier basis; pre-launch sales commitments; creation

of cable, broadcast and other "neighborhoods" to attract customers with similar needs; and sales and leasing of backup transponder capacity.

Hughes Galaxy owns and operates 10 satellites with 283 transponders. The fleet's entire capacity was essentially sold out last year. But the company still expects continued robust growth in the future following completion of its merger with PanAmSat Corporation in mid-1997 and the launch of seven new satellites together this year and next. By the end of 1998, the new company's combined fleet is expected to offer customers 731 transponders aboard 21 satellites spanning the globe.

 PanAmSat

PanAmSat currently has four commercial satellites in orbit, and four more on order that will boost capacity in each global region.

Hughes Galaxy's strategy to build revenues and maintain its strong margins is fourfold: completing the PanAmSat merger; maintaining U.S. leadership; achieving growth in international markets; and offering customers valuable new satellite distribution services and applications.

Completing the PanAmSat Merger

In September 1996, Hughes announced an agreement to merge Galaxy with PanAmSat Corporation and form a new publicly traded company. PanAmSat's 1996 revenues were \$247 million, more than double the previous year. It operates four satellites with 128 transponders and serves all of the world's seven continents.

When the merger is completed, Hughes will own 71.5% of the new company. The combined firms will operate as PanAmSat Corporation, and will own the world's largest, most cost-efficient private sector commercial satellite constellation. The company immediately will have 14 satellites in operation over the Atlantic, Pacific and Indian ocean regions, offering customers one-stop-shopping for global satellite communications services.

Maintaining U.S. Leadership

Expand Domestic Fleet. In 1996, two new satellites were added to the Galaxy fleet, and an additional three are scheduled to be launched by 1998. These current and future satellites are targeted for support of Hughes' direct-to-home (DTH) service to

Latin America and cable, news and business distribution services in the United States.

Customer Service. Last summer, Hughes Galaxy began using a state-of-the-art operations center in Long Beach, California. It enables operators to cut in half the time required to connect customers to Galaxy's satel-



lites. The new center also facilitates round-the-clock customer support, and its design will accommodate future growth.

Marketing Innovations. The company has pioneered the creation of satellite neighborhoods, a powerful concept that adds to its competitive advantage. For example, selected Galaxy satellites are cable television neighborhoods. Each one concentrates a broad range of cable programming on one satellite, thus appealing to many cable TV operators and, in turn, attracting business from additional cable customers who desire wide distribution of their programs. Hughes Galaxy also is extending the concept of neighborhoods to TV broadcasting, financial services and other customer categories.

Building International Sales

Even before the PanAmSat merger was announced, Hughes Galaxy was pursuing international growth. This effort was initiated with the 1996 launch of Galaxy 3R, whose services include the Latin American DTH market. By the year 2000, Hughes expects to launch an additional three satellites, which will provide video, audio and data distribution services in international markets.

However, Hughes Galaxy's efforts to build global sales will be greatly accelerated once the merger with PanAmSat is completed. PanAmSat brings an established international infrastructure, market access, additional orbital slots, an excellent reputation around the world, and a fleet covering 98 percent of the world's population.

Offering New Customer Services

The combined company's substantial number of orbital slots, including many in the new Ka-band frequency, will allow it to expand the wealth of communications services now avail-

able to customers. These include real-time global computer networking, tele-imaging, distance learning, digital libraries, desktop videoconferencing and telecommuting, and high-speed downloading from the Internet.

The coming generation of ever-more powerful satellites, like the HS 702, will enable the new PanAmSat to maximize spectrum use and increase applications, thus further boosting growth to businesses of all sizes, and even to individuals.

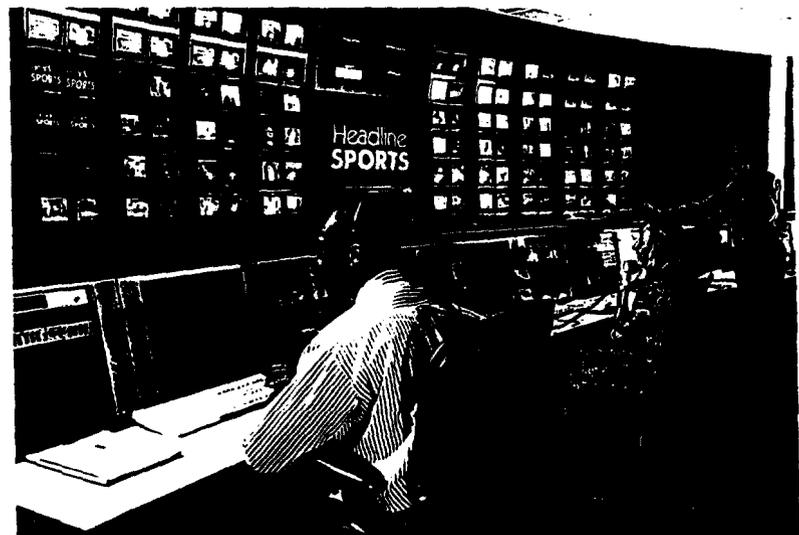
By delivering on its strategies to complete the PanAmSat merger, maintain U.S. leadership, build international sales, and continue serving customers with high-value applications, Hughes Galaxy expects to continue to achieve strong growth and profitability in the satellite transmission service business.



HUGHES
COMMUNICATIONS
GALAXY

The 10 satellites in Galaxy's fleet make it the leading provider of cable and broadcast television distribution in the U.S. market. Three large new satellites are on order.

At the Galaxy Network Operations facility in Long Beach, California, operators provide customers with easy, fast access to Hughes' satellite fleet.



BEST BUY

CIRCUIT CITY

SEARS

RadioShack

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.

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

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.



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

Galaxy Latin America GLA™



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.

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-



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 mil-

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 Portuguese, 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.

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 familiar 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.



lion television households. Galaxy Latin America (GLA) is a partnership of Hughes and leading communications companies based in Venezuela, Brazil and Mexico. By



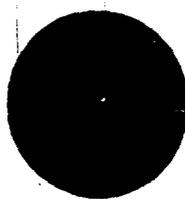
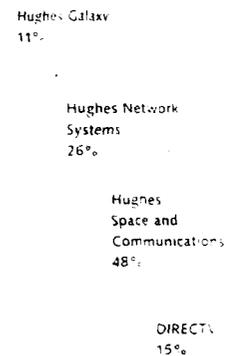
In Japan, DIRECTV is preparing a very competitive programming line-up. On the roster are sports – especially baseball – and movies.

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.

(Amounts in millions, except percentages)	Years Ended December 31*		
	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.

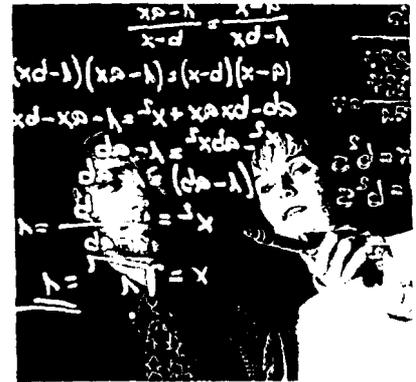
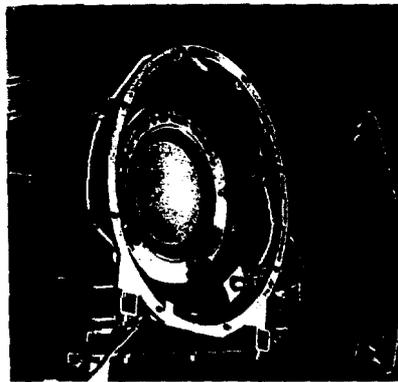
One way to improve the cost-efficiency of the overall satellite system is to reduce the size and cost of the ground equipment that receives the satellite signal. HRL's microelectronics group is developing advanced receivers that combine on a single chip both analog-to-digital converters and low-noise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



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.

ducted pioneering research in "tunneling-effect" fabrication technology – yielding a superior micromechanical accelerometer.

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.

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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 17).

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- $\frac{2}{3}$ par value and Class H common stocks, followed immedi-

ately 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- $\frac{2}{3}$ 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- $\frac{2}{3}$ 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- $\frac{2}{3}$ 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- $\frac{2}{3}$ par value common stock; (2) a partial reallocation of the Hughes defense business from holders of GM \$1- $\frac{2}{3}$ 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