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 $1-⅔ 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	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

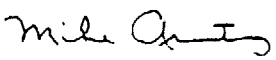
RESPONSIBILITIES FOR CONSOLIDATED FINANCIAL STATEMENTS

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.

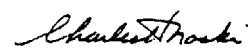
Management is further responsible for maintaining a system of internal accounting controls that is designed to provide reasonable assurance that the books and records reflect the transactions of the companies and that its established policies and procedures are carefully followed. Perhaps the most important 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.

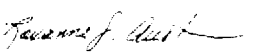
The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its responsibilities in the preparation of the consolidated financial statements and engaging the independent auditors. The Committee reviews the scope of the audits and the accounting principles 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.



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	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
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 $1-⅔ 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.

Major Classes of Inventories

(Dollars in Millions)	1996	1995
Productive material, work in process, and supplies	$1,383.1	$1,060.4
Finished product	145.4	165.1
Total	$1,528.5	$1,225.5

Property and Depreciation. Property is carried at cost. Depreciation of property is provided for based on estimated useful lives (3 to 45 years) generally using accelerated methods.

Telecommunications and Other Equipment. Telecommunications and other equipment includes satellite transponders and other equipment subject to operating leases or service agreements. Such equipment is carried at Hughes' direct and indirect manufacturing cost and is amortized over the estimated useful lives (7 to 23 years) using the straight-line method. The net book value of equipment subject to operating leases was $412.4 million and $299.8 million at December 31, 1996 and 1995, respectively.

Intangible Assets. Intangible assets, principally the excess of cost over the fair value of identifiable net assets of purchased businesses, are amortized using the straight-line method over periods not exceeding 40 years. Hughes periodically evaluates the recoverability of goodwill and other intangible assets by assessing whether the unamortized intangible asset can be recovered over its remaining life through undiscounted cash flows generated by underlying tangible assets.

Income Taxes. The provision for income taxes is based on reported income before income taxes. Deferred income tax assets and liabilities reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes, as measured by applying currently enacted tax laws. Provision has been made for U.S. Federal income taxes to be paid on that portion of the undistributed earnings of foreign subsidiaries that has not been deemed permanently reinvested.

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

Research and Development. Expenditures for research and development are charged to costs and expenses as incurred and amounted to $730.0 million in 1996, $761.7 million in 1995, and $699.3 million in 1994.

Financial Instruments. Hughes enters into foreign exchange-forward contracts to reduce its exposure to fluctuations in foreign exchange rates. Foreign exchange-forward contracts are accounted for as hedges to the extent they are designated as, and are effective as, hedges of firm foreign currency commitments.

Foreign Currency Transactions. Foreign currency transaction net gains (losses) included in consolidated operating results amounted to $5.4 million in 1996, ($0.5) million in 1995, and ($4.2) million in 1994.

Market and Credit Risk Concentrations. Sales under United States Government contracts were 34.5%, 35.5%, and 37.6% of net sales in 1996, 1995, and 1994, respectively. Sales to General Motors and affili-

ates, consisting of various automotive electronic component parts, were 32.3% of total sales in 1996, and 35.2% in 1995 and 1994.

Financial instruments which potentially subject Hughes to concentrations of credit risk consist principally of highly liquid investments purchased with original maturities of 90 days or less. Hughes places these investments with high-quality counterparties and, by policy, limits the amount of credit exposure to any one counterparty.

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.

NOTE 2: RELATED-PARTY TRANSACTIONS

Sales, Purchases, and Administrative Expenses. The amounts due from and to GM and affiliates result from sales of products to and purchases of materials and services from units controlled by GM. Purchases from GM and affiliates, including computer systems services provided by Electronic Data Systems Corporation prior to its split-off from GM, and common administrative expenses allocated by GM, amounted to approximately $77.9 million, $233.7 million, and $257.1 million, in 1996, 1995, and 1994, respectively.

Incentive Plans. Certain eligible employees of Hughes participate in various incentive plans of GM and its subsidiaries.

NOTE 3: INCENTIVE PLAN

Under the Hughes Electronics Corporation Incentive Plan (the Plan), as approved by the GM Board of Directors in 1987, 1992, and 1995, shares, rights, or options to acquire up to 20 million shares of GM Class H common stock may be granted through May 31, 1997.

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

Changes in the status of outstanding options were as follows:

GM Class H common stock	Shares Under Option	Weighted-Average Exercise Price
Outstanding at January 1, 1994	6,366,008	$25.19
Granted	1,612,640	36.75
Exercised	(712,107)	24.48
Terminated	(202,220)	34.22
Outstanding at December 31, 1994	7,064,321	27.64
Granted	1,537,350	39.94
Exercised	(1,929,393)	24.81
Terminated	(14,425)	34.17
Outstanding at December 31, 1995	6,657,853	31.29
Granted	1,501,900	61.31
Exercised	(864,889)	28.58
Terminated	(128,075)	42.94
Outstanding at December 31, 1996	7,166,789	$37.70
Exercisable at December 31, 1996	4,965,289	$30.40

The following table summarizes information about the Plan stock options outstanding at December 31, 1996:

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$15.00 to $24.99	829,669	4.6	$20.74	829,669	$20.74
25.00 to 34.99	2,179,755	5.5	27.36	2,179,755	27.36
35.00 to 44.99	2,692,090	7.9	38.45	1,955,865	37.89
45.00 to 54.99	—	—	—	—	—
55.00 to 65.00	1,465,275	9.3	61.31	—	—
$15.00 to $65.00	7,166,789	7.1	$37.70	4,965,289	$30.40

At December 31, 1996, the maximum number of shares for which additional options and other rights may be granted under the Plan was 2,314,449 shares.

NOTE 4: PENSION PROGRAMS

Hughes' total pension expense amounted to $97.5 million in 1996, $39.0 million in 1995, and $54.9 million in 1994.

Substantially all the employees of Delco Electronics participate in the defined benefit pension plans of General Motors. Plans covering represented employees generally provide benefits of negotiated stated amounts for each year of service as well as significant supplemental benefits for employees who retire with 30 years of service before normal retirement age. The benefits provided by the plans covering salaried employees are generally based on years of service and the employee's salary history. Certain nonqualified pension plans covering executives are

based on targeted wage replacement percentages and are unfunded. The accumulated plan benefit obligation and plan net assets for the employees of Delco Electronics are not determined separately; however, GM charged Delco Electronics $53.1 million, $50.9 million, and $93.3 million, for benefits earned by these employees in 1996, 1995, and 1994, respectively.

Substantially all of Hughes' non-automotive employees are covered by Hughes' bargaining and non-bargaining defined benefit retirement plans. Benefits are based on years of service and compensation earned during a specified period of time before retirement. Additionally, an unfunded, nonqualified pension plan covers certain executives. The net pension expense (credit), related to these plans covering non-automotive employees, included the components shown below:

(Dollars in Millions)	1996	1995	1994
Benefits earned during the year	$ 161.3	$ 110.5	$ 146.7
Interest accrued on benefits earned in prior years	413.4	403.6	377.0
Actual return on assets	(1,253.1)	(1,198.3)	(104.7)
Net amortization and deferral	722.8	672.3	(457.4)
Net retirement plan expense (credit)	$ 44.4	$ (11.9)	$ (38.4)

Costs are actuarially determined using the projected unit credit method and are funded in accordance with U.S. Government cost accounting standards to the extent such costs are tax-deductible. SFAS No. 87, Employers' Accounting for Pensions, requires the recognition of an additional pension liability to increase the amounts recorded up to the unfunded accumulated benefit obligation. The adjustment required to recognize the minimum pension liability required by SFAS No. 87 is recorded as an intangible asset to the extent of unrecognized prior service cost and the remainder, net of applicable deferred income taxes, is recorded as a reduction of Stockholder's Equity. At December 31, 1996 and 1995, the additional minimum pension liability recorded was $210.8 million and $204.9 million, respectively, of which $113.5 million and $108.6 million, respectively, was recorded as a reduction of Stockholder's Equity.

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

The weighted-average discount rates used in determining the actuarial present values of the projected benefit obligation shown in the table on the following page were 7.5% and 7.25% at December 31, 1996 and 1995, respectively. The rate of increase in future compensation levels was 5.0% in 1996 and 1995. The expected long-term rate of return on assets used in determining pension cost was 9.5% in 1996 and 1995.

The table on the following page sets forth the funded status of the Hughes non-automotive employee plans and the amounts included in the Consolidated Balance Sheet at December 31, 1996 and 1995:

(Dollars in Millions)	1996 Assets Exceed Accumulated Benefits	1996 Accumulated Benefits Exceed Assets	1995 Assets Exceed Accumulated Benefits	1995 Accumulated Benefits Exceed Assets
Actuarial present value of benefits based on service to date and present pay levels				
Vested	$ 4,437.0	$ 330.7	$ 4,685.3	$ 327.5
Nonvested	403.7	3.9	225.6	4.7
Accumulated benefit obligation	4,840.7	334.6	4,910.9	332.2
Additional amounts related to projected pay increases	549.3	13.8	456.7	11.0
Total projected benefit obligation based on service to date	5,390.0	348.4	5,367.6	343.2
Plan assets at fair value	7,094.9	70.2	6,397.7	65.9
Plan assets in excess of (less than) projected benefit obligation	1,704.9	(278.2)	1,030.1	(277.3)
Unamortized net amount resulting from changes in plan experience and actuarial assumptions	(564.0)	208.6	173.3	193.3
Unamortized net asset at date of adoption	(106.6)	-	(161.9)	-
Unamortized net amount resulting from changes in plan provisions	(13.0)	15.9	(13.8)	22.6
Adjustment for unfunded pension liabilities	-	(210.8)	-	(204.9)
Net prepaid pension cost (accrued liability)	$ 1,021.3	$ (264.5)	$ 1,027.7	$ (266.3)

NOTE 5: OTHER POSTRETIREMENT BENEFITS

Substantially all of the employees of Delco Electronics participate in various postretirement medical, dental, vision, and life insurance plans of General Motors. Hughes maintains a program for eligible non-automotive retirees to participate in health care and life insurance benefits generally until they reach age 65. Qualified employees who elected to participate in the Hughes contributory defined benefit pension plans may become eligible for these benefits if they retire from Hughes between the ages of 55 and 65.

The total non-pension postretirement benefit cost of Hughes and its subsidiaries included the components set forth as follows:

(Dollars in Millions)	1996	1995	1994
Benefits earned during the year	$ 36.2	$ 33.9	$ 50.1
Interest accrued on benefits earned in prior years	116.5	123.3	130.3
Net amortization	(11.0)	(16.5)	7.6
Total non-pension postretirement benefit cost	$141.7	$140.7	$188.0

The following table displays the components of Hughes' obligation recognized for postretirement benefit plans included in the Consolidated Balance Sheet at December 31, 1996 and 1995:

(Dollars in Millions)	1996	1995
Accumulated postretirement benefit obligation attributable to		
Current retirees	$ 808.3	$ 857.1
Fully eligible active plan participants	254.2	221.1
Other active plan participants	562.0	547.5
Accumulated postretirement benefit obligation	1,624.5	1,625.7
Unrecognized net amount resulting from changes in plan experience and actuarial assumptions	103.7	62.4
Net postretirement benefit obligation	1,728.2	1,688.1
Less current portion	69.3	77.5
Net long-term postretirement benefit obligation	$1,658.9	$1,610.6

The assumed weighted-average discount rates used in determining the actuarial present value of the accumulated postretirement benefit obligation were 7.56% and 7.25% at December 31, 1996 and 1995, respectively. The assumed weighted-average rate of increase in future compensation levels related to pay-related life insurance benefits was 4.5% at December 31, 1996 and 4.4% at December 31, 1995.

The assumed weighted-average health care cost trend rate was 7.91% in 1996, decreasing linearly each successive year until it reaches 5.31% in 2006, after which it remains constant. A one percentage point increase in each year of this annual trend rate would increase the accumulated postretirement benefit obligation at December 31, 1996 by approximately $150 million, and increase the service and interest cost components of the 1996 postretirement benefit expense by approximately $17 million.

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

NOTE 6: INCOME TAXES

The income tax provision consisted of the following:

(Dollars in Millions)	1996	1995	1994
Taxes currently payable			
U.S. Federal	$ 390.7	$ 664.6	$ 532.2
Foreign	11.2	13.4	10.3
U.S. state and local	102.8	138.4	100.5
Total	504.7	816.4	643.0
Deferred tax (assets) liabilities - net			
U.S. Federal	97.9	(130.0)	(62.2)
Foreign	0.3	2.0	1.3
U.S. state and local	2.8	(42.8)	(9.3)
Total	101.0	(170.8)	(70.2)
Total income tax provision	$ 605.7	$ 645.6	$ 572.8*

* Excluding effect of accounting change

The deferred income tax benefit in 1994 included a $63.0 million credit that resulted from an adjustment to the beginning of the year valuation allowance because of a change in circumstances with respect to Hughes' ability to realize the benefit from a capital loss carryforward.

Income before income taxes included the following components:

(Dollars in Millions)	1996	1995	1994
U.S. income	$1,547.1	$1,494.7	$1,448.1
Foreign income	87.5	99.2	80.5
Total	$1,634.6	$1,593.9	$1,528.6

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

(Dollars in Millions)	1996	1995	1994
Expected tax at U.S. statutory income tax rate	$ 572.1	$ 557.9	$ 535.0
U.S. state and local income taxes	68.6	62.2	59.3
Purchase accounting adjustments	42.8	55.8	43.3
Foreign sales corporation tax benefit	(27.2)	(22.2)	(19.2)
Change in valuation allowance	-	-	(63.0)
Other	(50.6)	(8.1)	17.4
Consolidated income tax provision	$ 605.7	$ 645.6	$ 572.8*

* Excluding effect of accounting change

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities at December 31, 1996 and 1995 were as follows:

(Dollars in Millions)	1996 Deferred Tax Assets	1996 Deferred Tax Liabilities	1995 Deferred Tax Assets	1995 Deferred Tax Liabilities
Postretirement benefits other than pensions	$ 763.6	$ -	$ 704.9	$ -
Profits on long-term contracts	370.7	142.3	384.5	203.5
Leveraged leases	119.6	-	74.9	-
Employee benefit programs	148.9	387.8	185.2	393.3
Depreciation	-	496.2	-	479.5
Special provision for restructuring	29.0	-	56.4	-
Other	313.2	251.6	445.2	220.3
Subtotal	1,745.0	1,277.9	1,851.1	1,296.6
Valuation allowance	(33.6)	-	(22.8)	-
Total deferred taxes	$1,711.4	$1,277.9	$1,828.3	$1,296.6

Provision has been made for U.S. Federal income taxes to be paid on that portion of the undistributed earnings of foreign subsidiaries that has not been deemed permanently reinvested. At December 31, 1996 and 1995, undistributed earnings of foreign subsidiaries amounted to approximately $462.3 million and $397.4 million, respectively. Repatriation of all accumulated foreign earnings would have resulted in tax liabilities of $122.6 million and $110.3 million, respectively, for which Hughes has provided deferred tax liabilities of $93.4 million and $82.8 million, respectively.

At December 31, 1996, Hughes had $73.6 million of foreign operating loss carryforwards which expire in varying amounts between 1997 and 2001. The valuation allowance includes a provision for all of the foreign operating loss carryforwards. In addition, Hughes had $19.6 million of capital loss carryforwards, of which $12.3 million will expire in 1998 and $7.3 million will expire in 2000. No valuation allowance has been provided for the capital loss carryforwards.

NOTE 7: EARNINGS ATTRIBUTABLE TO GENERAL MOTORS CLASS H COMMON STOCK ON A PER SHARE BASIS AND AVAILABLE SEPARATE CONSOLIDATED NET INCOME

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

Dividends on the GM Class H common stock are declared by GM's Board of Directors out of the Available Separate Consolidated Net Income of Hughes earned since the acquisition of Hughes Aircraft Company by GM. The Available Separate Consolidated Net Income of Hughes is determined quarterly and is equal to the separate consolidated net income of Hughes, excluding the effects of GM purchase accounting adjustments arising from the

acquisition of Hughes Aircraft Company (Earnings Used for Computation of Available Separate Consolidated Net Income), multiplied by a fraction, the numerator of which is a number equal to the weighted-average number of shares of GM Class H common stock outstanding during the period and the denominator of which was 399.9 million during the fourth quarters of 1996, 1995, and 1994.

The denominator used in determining the Available Separate Consolidated Net Income of Hughes is adjusted as deemed appropriate by the GM Board of Directors to reflect subdivisions or combinations of the GM Class H common stock and to reflect certain transfers of capital to or from Hughes. The GM Board's discretion to make such adjustments is limited by criteria set forth in GM's Certificate of Incorporation. In this regard, the GM Board has generally caused the denominator to decrease as shares are purchased by Hughes, and to increase as such shares are used, at Hughes expense, for Hughes employee benefit plans or acquisitions.

Dividends may be paid on GM Class H common stock only when, as, and if declared by the GM Board of Directors in its sole discretion. The current policy of the GM Board with respect to GM Class H common stock is to pay cash dividends approximately equal to 35% of the Available Separate Consolidated Net Income of Hughes for the prior year. Notwithstanding the current dividend policy, the dividends paid on the GM Class H common stock during 1996, 1995, and 1994 were based on an annual rate higher than 35% of the Available Separate Consolidated Net Income of Hughes for the preceding year.

NOTE 8: PROPERTY - NET

(Dollars in Millions)	Estimated Useful Lives (Years)	December 31, 1996	December 31, 1995
Land and improvements	10-40	$ 187.6	$ 189.7
Buildings and unamortized leasehold improvements	5-45	1,361.5	1,293.3
Machinery and equipment	3-13	3,140.3	2,874.2
Furniture, fixtures, and office machines	5-15	139.1	118.3
Construction in progress	-	348.5	439.9
Total		5,177.0	4,915.4
Less accumulated depreciation		2,378.1	2,244.2
Net real estate, plants, and equipment		2,798.9	2,671.2
Special tools - less amortization	3	87.7	68.0
Property - net		$2,886.6	$2,739.2

NOTE 9: NOTES AND LOANS PAYABLE AND LONG-TERM DEBT AND CAPITALIZED LEASES

(Dollars in Millions)	December 31, 1996	1995
Loans payable to banks	$ 10.2	$ 15.1
Current portion of long-term debt	151.4	7.2
Current portion of GM term loans	58.8	85.0
Other	27.7	325.2
Total notes and loans payable	$248.1	$432.5
Foreign bank debt	$ 27.1	$ 53.8
Term loans		
GM	58.8	143.8
Other	150.0	150.0
Other debt	-	2.9
Total	235.9	350.5
Less current portion	210.2	92.2
Long-term debt	25.7	258.3
Capitalized leases	8.8	.5
Total long-term debt and capitalized leases	$ 34.5	$258.8

At December 31, 1996, Hughes had $550.0 million and $650.0 million of unused credit available under short-term lines of credit and an unsecured revolving credit loan agreement, respectively. The unsecured revolving credit loan agreement provides for a commitment of $650.0 million through January 2000, subject to a facility fee of 0.10% per annum. Borrowings under the agreement bear interest at a rate which approximates the London Interbank Offered Rate plus 0.175%. No amounts were outstanding under the agreement or the short-term lines of credit at December 31, 1996.

At December 31, 1996, foreign bank debt included $27.1 million denominated in British pounds sterling, bearing interest at rates ranging from 5.9% to 7.1% with maturity dates from 1997 to 2003

The GM term loan bears interest at 6.1% with a maturity date in 1997. The other term loans consisted of notes payable to an insurance company bearing interest at rates ranging from 7.7% to 8.0% with maturity dates in 1997.

Other notes and loans payable for 1995 included $302.7 million related to the acquisition of Magnavox Electronic Systems Company (see Note 13). The note, which bore interest at 5.3%, was repaid in full on January 5, 1996.

Annual maturities of long-term debt and capitalized leases are $210.2 million in 1997, $2.4 million in 1998, $2.5 million in 1999, $2.8 million in 2000, $3.1 million in 2001, and $23.7 million thereafter.

Property with a net book value of $14.8 million at December 31, 1996 was pledged as collateral under such debt.

NOTE 10: ACCRUED LIABILITIES

(Dollars in Millions)	December 31, 1996	1995
Payroll and other compensation	$ 671.3	$ 553.2
Provision for losses on contracts	356.3	408.4
Accrual for restructuring	32.9	115.9
Other	965.3	968.8
Total	$ 2,025.8	$ 2,046.3

Certain amounts for 1995 have been reclassified to conform with 1996 classifications.

NOTE 11: STOCKHOLDER'S EQUITY

The authorized capital stock of Hughes consists of 1,000 shares of $0.10 par value common stock. At December 31, 1996, 1995, and 1994, 1,000 shares having an aggregate par value of $100 were issued and outstanding. All of the outstanding capital stock of Hughes is held by General Motors.

(Dollars in Millions)	1996	1995	1994
Capital stock and additional paid-in capital			
Balance at beginning of the year	$ 6,338.1	$ 6,326.5	$ 6,323.1
Tax benefit from exercise of GM Class H common stock options	9.1	11.6	3.4
Balance at end of the year	$ 6,347.2	$ 6,338.1	$ 6,326.5
Net income retained for use in the business			
Balance at beginning of the year	$ 2,323.9	$ 1,743.6	$ 1,138.2
Net income	1,028.9	948.3	925.4
Cash dividends paid to General Motors	(384.0)	(368.0)	(320.0)
Balance at end of the year	$ 2,968.8	$ 2,323.9	$ 1,743.6
Minimum pension liability adjustment			
Balance at beginning of the year	$ (108.6)	$ (76.1)	$ (120.4)
Change during the year	(4.9)	(32.5)	44.3
Balance at end of the year	$ (113.5)	$ (108.6)	$ (76.1)
Accumulated foreign currency translation adjustments			
Balance at beginning of the year	$ (27.7)	$ (18.2)	$ (12.8)
Change during the year	5.1	(9.5)	(5.4)
Balance at end of the year	$ (22.6)	$ (27.7)	$ (18.2)

As sole stockholder of Hughes, GM is able to cause Hughes to pay cash dividends and make advances to or otherwise enter into transactions with GM as GM deems desirable and appropriate. GM reserves the right to cause Hughes to pay cash dividends to GM in such amounts as GM determines are desirable under the then prevailing facts and circumstances. Such amounts may be the same as, greater than, or less than the cash dividends paid by GM on its Class H common stock. There is no fixed relationship, on a per share or aggregate basis, between the cash dividends that may be paid by GM to holders of its Class H common stock and the cash dividends or other amounts that may be paid by Hughes to GM.

NOTE 12: SPECIAL PROVISION FOR RESTRUCTURING

In 1992, Hughes recorded a special restructuring charge of $1,237.0 million primarily attributable to redundant facilities and related employment costs. 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 total will require future cash outflows. It is expected that these costs will be expended predominantly during the next year.

NOTE 13: 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 $143.0 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. The source of the cash component of the consideration is expected to be new debt financing, which will be an obligation of the new company. 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 pretax gain which is included in other income.

In February 1995, Hughes acquired substantially all of the assets of CAE-Link Corporation for $176.0 million in cash. CAE-Link is an established supplier of simulation, training, and technical services, primarily to the U.S. military and NASA. In December 1995, Hughes acquired all of the stock of Magnavox Electronic Systems Company (Magnavox) for $382.4 million, consisting of cash of $70.5 million, a note payable of $302.7 million, and estimated additional

amounts to be paid of $9.2 million. Magnavox is a leading supplier of military tactical communications, electronic warfare, and command and control systems. In addition, Hughes acquired several other enterprises with operations that complement existing technological capabilities at aggregate purchase prices, paid in cash, of $28.7 million and $63.0 million in 1996 and 1995, respectively.

All acquisitions were accounted for using the purchase method of accounting. The operating results of the entities acquired were consolidated with those of Hughes from their respective acquisition dates. These acquisitions did not have a material impact on the operating results of Hughes. The purchase price of each acquisition was allocated to the net assets acquired, including intangible assets, based upon their estimated fair values at the dates of acquisition.

During 1995, Hughes divested several non-strategic enterprises generating aggregate proceeds of approximately $127.2 million and a net loss of approximately $8.2 million, which included the write-off of $30.1 million of purchase accounting adjustments related to GM's acquisition of Hughes Aircraft Company. Also in 1995, Hughes recorded a $46.0 million charge for the estimated loss on disposition of a business unit (including $6.0 million related to the write-off of GM purchase accounting adjustments) and completed the divestiture of Hughes LAN Systems, for which a pre-tax charge of $35.0 million was taken in 1994.

NOTE 14: DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Hughes is a party to financial instruments with off-balance sheet risk in the normal course of business to reduce its exposure to fluctuations in foreign exchange rates. The primary class of derivatives used by Hughes is foreign exchange-forward contracts. These instruments involve, to varying degrees, elements of credit risk in the event a counterparty should default and market risk as the instruments are subject to rate and price fluctuations. Credit risk is managed through the periodic monitoring and approval of financially sound counterparties. Market risk is mitigated because the derivatives are used to hedge underlying transactions. Cash receipts or payments on these contracts normally occur at maturity. Hughes holds derivatives only for purposes other than trading.

Foreign exchange-forward contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. Hughes uses these agreements to hedge risk of changes in foreign currency exchange rates associated with certain firm commitments denominated in foreign currency.

The total notional amount of foreign exchange-forward contracts Hughes held at December 31, 1996 and 1995, was approximately $223 million and $289 million, respectively. Hughes' open contracts extend for periods averaging six months.

NOTE 15: FAIR VALUE OF FINANCIAL INSTRUMENTS

For notes and loans payable and long-term debt and capitalized leases, the estimated fair value (which approximates book value) was $283.2 million and $694.9 million at December 31, 1996 and 1995, respectively. Such fair value is based on the quoted market prices for similar issues or on the current rates offered to Hughes for debt of similar remaining maturities. The carrying value of debt with an original term of less than 90 days is assumed to approximate fair value.

The fair values of derivative financial instruments

reflect the estimated amounts Hughes would receive or pay to terminate the contracts at the reporting date, which takes into account the current unrealized gains or losses on open contracts that are deferred and recognized when the offsetting gains and losses are recognized on the related hedged items. The fair value of foreign exchange forward contracts is estimated based on foreign exchange rate quotes at the reporting date. At December 31, 1996 and 1995, the estimated fair value of open contracts, which were in a net gain position, was $4.5 million and $10.7 million, respectively.

For all financial instruments not described above, fair value approximates book value.

NOTE 16: SEGMENT REPORTING

Hughes operates within the field of modern high-technology electronics for use in Telecommunications and Space, Automotive Electronics, and Aerospace and Defense Systems business segments. The Telecommunications and Space segment includes satellite construction, ownership and operation, communication services, ground equipment, and direct-to-home satellite television entertainment services. Radios, controls for engines and transmissions, navigation and communication systems, monitors and sensors for air bags, controllers for anti-lock brakes, climate control, dashboard instrumentation, vehicle security electronics, and other automotive electronic products are included in the Automotive Electronics segment. The Aerospace and Defense Systems segment includes missile systems, command and control systems, torpedoes and sonar systems, electro-optical systems, airborne radar and communication systems, military training and simulation systems, air traffic control systems, information systems, and guidance and control systems. Intercompany transfers between segments are not material. Information concerning operations by business segment is shown below.

(Dollars in Millions)	Telecommunications and Space	Automotive Electronics	Aerospace and Defense Systems	Corporate and Other	Total
Revenues					
1996	$4,114.9	$5,350.8	$6,338.4	$113.8	$15,917.9
1995	3,092.7	5,561.3	5,945.4	172.4	14,771.8
1994	2,596.2	5,221.7	6,023.6	257.9	14,099.4
Operating Profit (Loss) [1]					
1996	$ 238.8	$ 654.0	$ 593.8	$ (14.6)	$ 1,472.0
1995	168.2	869.0	587.1	(80.4)	1,543.9
1994	250.0	794.8	562.7	(100.9)	1,506.6
Identifiable Assets at Year-End [2]					
1996	$4,874.7	$3,394.9	$7,544.7	$665.8	$16,480.1
1995	4,309.0	3,267.4	7,718.4	679.6	15,974.4
1994	3,727.8	3,429.8	6,712.0	980.9	14,850.5
Depreciation and Amortization [1]					
1996	$ 215.8	$ 195.9	$ 258.5	$ 12.4	$ 682.6
1995	199.3	151.4	232.9	27.5	611.1
1994	161.8	142.2	259.4	30.6	594.0
Capital Expenditures [3]					
1996	$ 449.8	$ 196.0	$ 171.1	$ 23.3	$ 840.2
1995	436.5	264.7	109.8	9.3	820.3
1994	399.3	166.4	159.5	21.1	746.3

Certain amounts for 1995 have been reclassified to conform with 1996 classifications.