j. Telemetry, Command and Ranging ("TC&R")

The telemetry, command and ranging ("TC&R") subsystem will perform the monitoring and command functions necessary for spacecraft control.

(i) Telemetry

The telemetry system will have two identical links consisting of two encoders that modulate either of two transmitters via a cross-strap switch. Data pertaining to unit status, spacecraft attitude, and spacecraft performance will be transmitted continuously for spacecraft management and control. The telemetry transmitter will also serve as the downlink transmitter for ranging tones and command verification. The primary telemetry data mode will be PCM. For normal on-station operation, the telemetry transmitters will be routed to the transmit feeds of the communications antenna.

In transfer orbit, each telemetry transmitter will drive the bicone antenna to provide adequate telemetry coverage. Selection of this high level mode, which may also be used for emergency backup on station, will be by ground command.

(ii) Command

The command system will control spacecraft operation through all phases of the mission by receiving and decoding commands to the spacecraft. Additionally, it will serve as the uplink receiver for ranging signals. The command signals will be fed through a filter diplexer into a redundant pair of command receivers. The composite signal of the receivers' total output will drive a pair of redundant decoders. The decoders will provide command outputs for all satellite functions. The bicone antenna will be used in transfer orbit for command and ranging and the pipe antenna will be used on-station.

(iii) TC&R Performance Characteristics

A telemetry and command summary is given in Table 6. The satellite system requires a command receiver input nominal power of -135 dBW for command execution. With a nominal ground station EIRP of 83.5 dBW, the command threshold requirements are met with margin through the omni and reflector antennas, respectively. See Table 7 for the command link budget. The telemetry link budget for on-station operation is given in Table 8.

Table 6. TT&C- System Parameters

	Spacecraft Antenna	
Parameter	**Bicone**	**Pipe**
Command frequency	13995 MHz	14498.5 MHz
Earth station command EIRP, (typical)	83.5 Dbw	83.5 dBW
Command carrier modulation	FM	FM
Telemetry frequency	11696, 11697 MHz	11699 MHz L/RHCP
Telemetry modulation	PM	PM
Telemetry EIRP (max)	0.0 dBW	5.0 dBW
On-station ranging accuracy	21 m	21 m

Table 7. Command Rf Link Budget

Parameter	Transfer Orbit	On-Station
Ground station, EIRP, dBW	83.5	83.5
Polarization loss, dB	-0.1	-0.1
Path loss, dB/m^2	-162.5	-162.5
Incident power, dBW/m^2	-79.0	-79.1
Isotropic area, dB-m^2	-44.4	-44.2
Antenna gain, 20% on omni, dBi	-0.6	30.6
RF losses to tracking command receiver, dB	-1.55	-10.0
Receiver input power, dBW	-125.5	-94.8
Receiver command threshold, dBW	-135	-135
Margin, command threshold, dB	9.5	32.2

Table 8. Telemetry Link Budget (On-Station)

Parameter	Value
Telemetry EIRP, min.Castle Rock, CO	15.9 dBW
Path loss	-162.5 dB/m^2
Isotropic area	-42.6 dBm^2
Atmospheric absorption (clear sky)	-0.2 dB
TT&C- station G/T	37.2 dB/K
Link C/T	-155.9 dBW/K
Link C/N_0	76.6 dB-Hz
Subcarrier modulation index	-5.0 dB
Subcarrier C/N_0	71.6 dB-Hz
Implementation Loss	-2.5 dB
Telemetry Eb/N_0 (bit rate = 4 kbps)	33.1 dB
Eb/N_0 required for 10^{-6} BER	11.0 dB
Margin	22.1 dB

k. System Reliability

(1) Satellite

The satellite will be designed for an operational and mission life of 15 years. Mission lifetime is determined primarily by the amount of stationkeeping propellant that can be loaded into the tanks within the allowable launch weight and by the wearout of the TWTAs. To ensure highly reliable performance, TWTA redundancy rings of at least 15 for 12 are provided.

Life and reliability will be maximized by using proven reliability concepts in equipment design. All subsystems and units have a minimum design life of 15 years; standby redundancy is used in the attitude control subsystem and in the communications receivers, and active redundancy is used in the power subsystem. All avoidable single-point failure modes will be eliminated. All components and subsystems will be flight-qualified, and all components will be derated in accordance with design guidelines.

(2) Eclipse Conditions

Eclipse conditions occur when a satellite passes through the earth's shadow. Satellite outages during eclipse conditions are avoided by providing each satellite with sufficient on-board battery capacity to power all required spacecraft and communications payload functions. The battery capacity will be more than adequate to power all amplifiers during eclipses throughout the mission life.

(3) Sun Outages

During predictable twice-yearly periods of approximately eight days, the sun briefly transits the field of view of an earth station pointing at a geostationary satellite. The rise in thermal noise in the earth station receivers caused by the sun's radiation disrupts satellite reception (*i.e.*, causes sun outage). Such disruption of satellite reception is predictable and is well understood by satellite users.

Performance Requirements and Operational Characteristics

PAS-1R will be a general purpose communications satellite and has been designed to support all of the various services offered within PanAmSat's satellite system. Depending upon the needs of the users, the transponders on PAS-1R can accomodate television, radio, voice, or data communications. Typical types of communications services to be offered include:

1. Frequency modulated television (FM-TV).
2. High speed digital data.
3. Digital single channel per carrier (SCPC) data channels carrying wide-Band Tl data (1.544 Mbps).
4. Digital SCPC with data channels carrying 56 Kbps data.

5. Frequency Modulated Audio SCPC (FM Audio SCPC).

6. Compressed Digital Video

The characteristics and associated link analyses for representative C- and Ku-Band services have previously been presented in other PanAmSat applications and will be generally similar to the PAS-1R analyses. Previous link budgets have demonstrated satellites very similar to PAS-1R will allow all potential services to meet their respective performance objectives while maintaining sufficient link margin.

<u>Adjacent Satellite Interference Analysis</u>

The interference levels generated between PAS-1R and adjacent satellite systems were evaluated using PanAmSat's interference analysis programs. The results indicate that the satellite can co-exist with PanAmSat's PAS-3R and PAS-8 satellites, and can be successfully coordinated with Intelsat networks at 50 WL. The satellite has already been coordinated with New Skies 806 satellite at 40.5WL. PanAmSat has already requested INTELSAT to commence the PAS-1R coordination.

The analyses already completed demonstrate that PAS-1R does not generate any more interference than other satellite systems previously approved by the Commission. In addition, the sensitivity of PAS-1R to adjacent satellite interference is substantially equivalent to that of previously approved satellite systems. In cases where the analysis indicates an incompatibility between specific service types of PAS-1R and the adjacent satellite PAS-2, such incompatibility is not due to the PAS-1R design, but rather is a fundamental characteristic of the two-degree spacing environment. Such interference situations will be avoided or minimized through normal coordination arrangements made within the PanAmSat operations department.

In summary, the PanAmSat's analyses establish that the design of PAS-1R is in full compliance with the requirements of the Commission and the ITU.

Orbital Location

1. Location

PanAmSat respectfully requests that it be assigned the orbital location at 45° W.L. for PAS-1R. As noted above, the 45° W.L. location is now occupied at both C- and Ku-Band by PanAmSat's PAS-1 satellite. PAS-1R would become the replacement and expansion capacity at this orbital slot. The 45° W.L. location satisfies PAS-1R's requirements for optimizing coverage, elevation angles, and service availability, and ensures that the maximum operational, economic, and public interest benefits will be derived.

2. Orbital Arc Limitations

PAS-1R is intended to provide video, audio, and data services to satellite users in North, South, and Central America. The 45° W.L. position affords reasonable earth station elevation angles, which is important when serving existing users as well as those who will be installing new antennas, and requires no repointing of dishes currently aimed at PAS-1.

PanAmSat proposes to serve North, Central, and South America, as well as Europe and Africa from this orbital slot with PAS-1R. The attractiveness of PAS-1R to this market would be severely diminished if service to all of these areas is not possible.

3. Service Capabilities

Provided that an orbital assignment to 45° W.L. is made, all C-Band and Ku-Band transponders on PAS-1R will be capable of providing commercial-grade service to the targeted service areas. The description of transponders, antenna beams, and other technical parameters are set forth in other portions of this Application.

4. Use of System

PAS-1R will continue providing services previously offered by PAS-1 with increased service areas in Africa and Europe. As previously noted, other nearby PanAmSat satellites are an integral part of PanAmSat's satellite network and are providing services to thousands of customers in conjunction with PAS-1R.

CERTIFICATION OF PERSON RESPONSIBLE

FOR PREPARING ENGINEERING

INFORMATION SUBMITTED IN THIS APPLICATION

I hereby certify that I am PanAmSat's Chief Scientist and the technically qualified person responsible for preparation of the engineering information contained in this Application. I further certify that I am familiar with Part 25 of the Commission's Rules, that I have prepared the engineering information submitted in this Application, and that it is complete and accurate to the best of my knowledge. I am a registered Professional Engineer in Washington, D.C. and my seal is shown below.

By: ____________________

Philip A. Rubin

Chief Scientist

PanAmSat

EXHIBIT 2

PAS-1R CAPITAL REQUIREMENTS

REQUIREMENT	ESTIMATED COST
Pre-Launch costs (construction, launch payments, insurance premium) and first year expenses.	$260 million

FINANCIAL QUALIFICATIONS

Attached

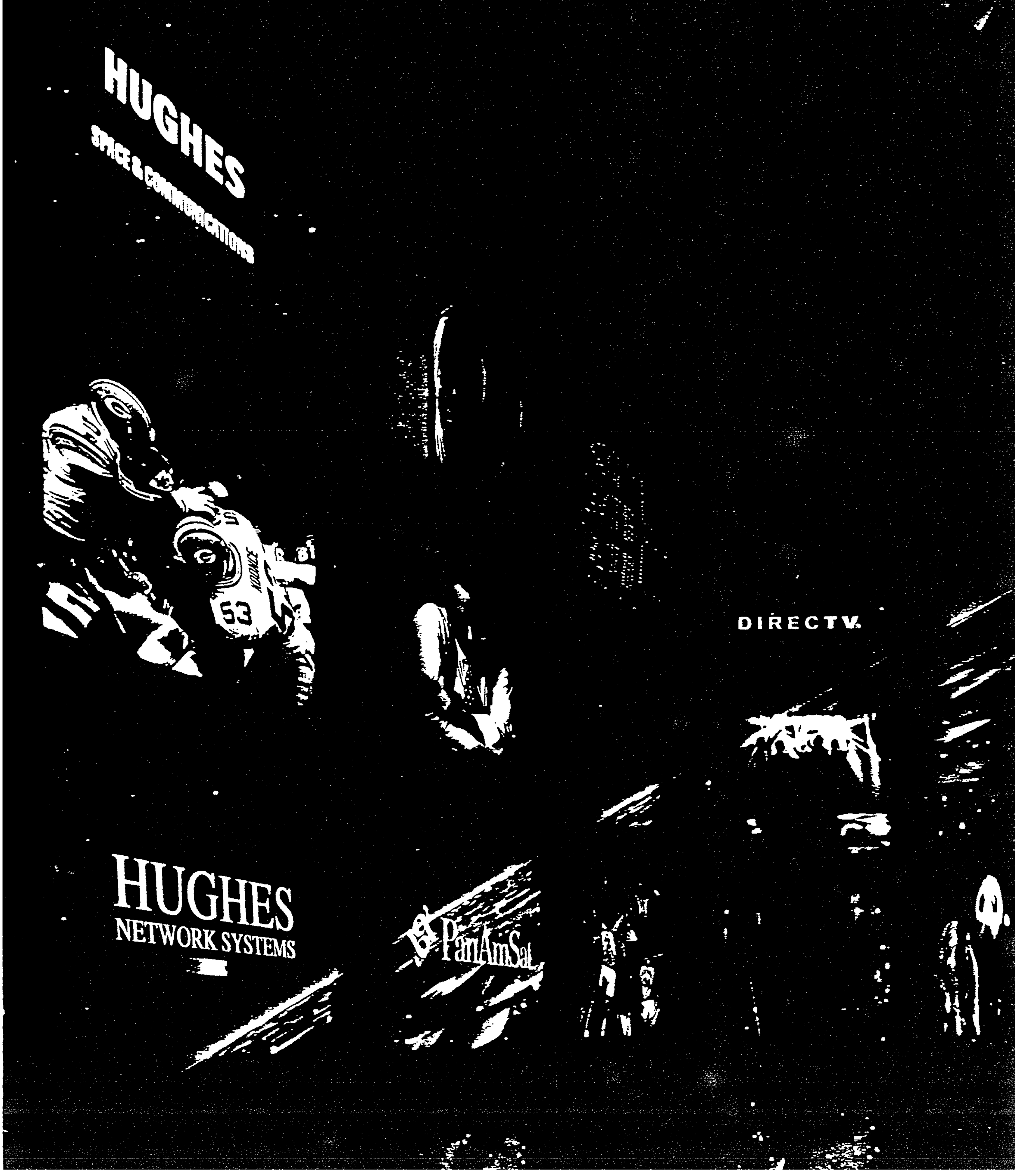
EXHIBIT 3

PAS-1R MILESTONES

EVENT	COMPLETION DATE
Spacecraft RFP issued	N/A
Spacecraft contractor selected	Completed
Spacecraft contract executed	Completed
Launch services contract executed	Completed
Spacecraft construction completed	August 1999
Spacecraft launched	October 1999
Spacecraft in service	January 2000

FINANCIAL QUALIFICATIONS

HUGHES ELECTRONICS 1997 ANNUAL REPORT



responsibilities for financial statements and independent auditors' report

RESPONSIBILITIES FOR FINANCIAL STATEMENTS

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

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

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

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

Michael T. Smith	Charles H. Noski	Roxanne J. Austin
Chairman of the Board and Chief Executive Officer	President	Senior Vice President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

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

We have audited the Balance Sheet of Hughes Electronics Corporation (as more fully described in Note 1 to the financial statements) as of December 31, 1997 and 1996 and the related Statement of Income and Pro Forma Available Separate Consolidated Net Income, Statement of Changes in Owner's Equity and Statement of Cash Flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of Hughes Electronics Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Hughes Electronics Corporation at December 31, 1997 and 1996 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Los Angeles, California
January 26, 1998

statement of income and pro forma available separate consolidated net income

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

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

Reference should be made to the Notes to Financial Statements.

balance sheet

(Dollars in Millions)

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

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

Certain 1996 amounts have been reclassified to conform with the 1997 presentation.
Reference should be made to the Notes to Financial Statements.

statement of changes in owner's equity

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

Reference should be made to the Notes to Financial Statements.

statement of cash flows

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

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

Reference should be made to the Notes to Financial Statements.

notes to financial statements

Note 1: Basis of Presentation and Description of Business

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

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

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

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

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

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

NOTE 2: Summary of Significant Accounting Policies

Principles of Combination and Consolidation

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

Use of Estimates in the Preparation of the Financial Statements

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

Revenue Recognition

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

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

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

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

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

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

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

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

Cash Flows

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

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

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

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

Contracts in Process

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

Inventories

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

Major Classes of Inventories

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

Deferred Subscriber Acquisition Costs

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

Property, Satellites and Depreciation

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

Intangible Assets

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

Software Development Costs

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

Valuation of Long-Lived Assets

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

Research and Development

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

Foreign Currency

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

Financial Instruments and Investments

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

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

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

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

Stock Compensation

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

Market Concentrations and Credit Risk

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

NOTE 3: Property and Satellites, Net

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

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

NOTE 4: Leasing Activities

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

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

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

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

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

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

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

NOTE 5: Accrued Liabilities

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

NOTE 6: Long-Term Debt

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

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

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

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

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

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

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

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

NOTE 7: Income Taxes

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

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

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

The income tax provision consisted of the following:

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

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

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

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

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

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

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

notes to financial statements

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

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

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

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

NOTE 8: Retirement Programs

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

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

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

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

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

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

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

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

NOTE 9: Other Postretirement Benefits

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

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

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

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

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

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

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

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

NOTE 10: Owner's Equity

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

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

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

NOTE 11: Incentive Plan

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

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

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

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

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

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

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

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

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

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

NOTE 12: Other Income and Expenses

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

NOTE 13: Related-Party Transactions

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

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

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

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

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

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

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

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

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

NOTE 15: Special Provision for Restructuring

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

NOTE 16: Acquisitions

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

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

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

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

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

NOTE 17: Derivative Financial Instruments and Risk Management

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

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

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

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

NOTE 18: Discontinued Operations

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

Summarized financial information for Hughes Avicom follows:

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

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

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

NOTE 19: Segment Reporting

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

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

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

notes to financial statements

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

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

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

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

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

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

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

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

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

NOTE 20: Commitments and Contingencies

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

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

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

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

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

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

notes to financial statements

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

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

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

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

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

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

FCC 312
Main Form

Approved by OMB 3060-0678

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FEDERAL COMMUNICATIONS COMMISSION

APPLICATION FOR SATELLITE SPACE AND EARTH STATION AUTHORIZATIONS

FCC Use Only
File Number:
Call Sign:
Fee Number:

APPLICANT INFORMATION

1. Legal Name of Applicant PanAmSat Licensee Corp.		2. Voice Telephone Number (203) 622-6664
3. Other Name Used for Doing Business (if any)		4. Fax Telephone Number
5. Mailing Street Address or P.O. Box One Pickwick Plaza ATTENTION:	6. City Greenwich 7. State / Country (if not U.S.A.) CT	8. Zip Code 06830
9. Name of Contact Representative (If other than applicant) Mr. Joseph A. Godles, Esq.		10. Voice Telephone Number (202) 429-4900
11. Firm or Company Name Goldberg, Godles, Wiener & Wright		12. Fax Telephone Number (202) 429-4912
13. Mailing Street Address or P.O. Box 1229 19th Street NW ATTENTION:	14. City Washington 15. State / Country (if not U.S.A) DC	16. Zip Code 20036

CLASSIFICATION OF FILING

17. Place an "X" in the box next to the classification that applies to this filing for both questions a. and b. Mark only one box for 17a and only one box for 17b.

- ☐ a1. Earth Station
- ☒ a2. Space Station

- ☐ b1. Application for License of New Station
- ☐ b2. Application for Registration of New Domestic Receive-Only Station
- ☐ b3. Amendment to a Pending Application
- ☐ b4. Modification of License or Registration
- ☐ b5. Assignment of License or Registration
- ☐ b6. Transfer of Control of License or Registration
- ☐ b7. Notification of Minor Modification
- ☐ b8. Application for License of New Receive-Only Station Using Non-U.S. Licensed Satellite
- ☐ b9. Letter of Intent to Use Non-U.S. Licensed Satellite to Provide Service in the United States
- ☒ b10. Other (Please Specify): Authorization for replacement satellite

18. If this filing is in reference to an existing station, enter:
Call sign of station:

19. If this filing is an amendment to a pending application enter:
(a) Date pending application was filed: (b) File number of pending application:

TYPE OF SERVICE

20. NATURE OF SERVICE: This filing is for an authorization to provide or use the following type(s) of service(s): Place an "X" in the box(es) next to all that apply.

[X] a. Fixed Satellite
[ ] b. Mobile Satellite
[ ] c. Radiodetermination Satellite
[ ] d. Earth Exploration Satellite
[ ] e. Direct to Home Fixed Satellite
[ ] f. Digital Audio Radio Service
[ ] g. Other (please specify) ______

21. STATUS: Place an "X" in the box next to the applicable status. Mark only one box.

[ ] a. Common Carrier
[X] b. Non-Common Carrier

22. If earth station applicant, place an "X" in the box(es) next to all that apply.

[ ] a. Using U.S. licensed satellites
[ ] b. Using Non-U.S. licensed satellites

23. If applicant is providing INTERNATIONAL COMMON CARRIER service, see instructions regarding Sec. 214 filings. Mark only one box. Are these facilities:

[ ] a. Connected to the Public Switched Network
[ ] b. Not connected to the Public Switched Network

N/A

24. FREQUENCY BAND(S): Place an "X" in the box(es) next to all applicable frequency band(s).

[X] a. C-Band (4/6 GHz)
[X] b. Ku-Band (12/14 GHz)
[ ] c. Other (Please specify) ______

TYPE OF STATION

25. CLASS OF STATION: Place an "X" in the box next to the class of station that applies. Mark only one box.

[ ] a. Fixed Earth Station
[ ] b. Temporary-Fixed Earth Station
[ ] c. 12/14 GHz VSAT Network
[ ] d. Mobile Earth Station
[X] e. Space Station
[ ] f. Other (Specify) ______

If space station applicant, go to Question 27.

26. TYPE OF EARTH STATION FACILITY Mark only one box.

[ ] a. Transmit/Receive
[ ] b. Transmit-Only
[ ] c. Receive-Only

PURPOSE OF MODIFICATION OR AMENDMENT

27. The purpose of this proposed modification or amendment is to: Place an "X" in the box(es) next to all that apply.

[ ] a -- authorization to add new emission designator and related service
[ ] b -- authorization to change emission designator and related service
[ ] c -- authorization to increase EIRP and EIRP density
[ ] d -- authorization to replace antenna
[ ] e -- authorization tó add antenna
[ ] f -- authorization to relocate fixed station
[ ] g -- authorization to change assigned frequency(ies)
[ ] h -- authorization to add Points of Communication (satellites & countries)
[ ] i -- authorization to change Points of Communication (satellites & countries)
[ ] j -- authorization for facilities for which environmental assessment and radiation hazard reporting is required
[ ] k -- Other (Please Specify) ______

ENVIRONMENTAL POLICY

28. Would a Commission grant of any proposal in this application or amendment have a significant environmental impact as defined by 47 CFR 1.1307? If YES, submit the statement as required by Sections 1.1308 and 1.1311 of the Commission's rules, 47 C.F.R. §§ 1.1308 and 1.1311, as an exhibit to this application.

[ ] YES [X] NO

A Radiation Hazard Study must accompany all applications as an exhibit for new transmitting facilities, major modifications, or major amendments. Refer to OET Bulletin 65.

ALIEN OWNERSHIP

29. Is the applicant a foreign government or the representative of any foreign government?	☐ YES	☒ NO
30. Is the applicant an alien or the representative of an alien?	☐ YES	☒ NO
31. Is the applicant a corporation organized under the laws of any foreign government?	☐ YES	☒ NO
32. Is the applicant a corporation of which more than one-fifth of the capital stock is owned of record or voted by aliens or their representatives or by a foreign government or representative thereof or by any corporation organized under the laws of a foreign country?	☐ YES	☒ NO
33. Is the applicant a corporation directly or indirectly controlled by any other corporation of which more than one-fourth of the capital stock is owned of record or voted by aliens, their representatives, or by a foreign government or representative thereof or by any corporation organized under the laws of a foreign country?	☐ YES	☒ NO
34. If any answer to questions 29, 30, 31, 32 and/or 33 is Yes, attach as an exhibit, the identification of the aliens or foreign entities, their nationality, their relationship to the applicant, and the percentage of stock they own or vote.		

BASIC QUALIFICATIONS

35. Does the applicant request any waivers or exemptions from any of the Commission's Rules? If Yes, attach as an exhibit, copies of the requests for waivers or exceptions with supporting documents.	☐ YES	☒ NO
36. Has the applicant or any party to this application had any FCC station authorization or license revoked or had any application for an initial, modification or renewal of FCC station authorization, license, or construction permit denied by the Commission? If Yes, attach as an exhibit, an explanation of the circumstances.	☐ YES	☒ NO
37. Has the applicant, or any party to this application, or any party directly or indirectly controlling the applicant ever been convicted of a felony by any state or federal court? If Yes, attach as an exhibit, an explanation of the circumstances.	☒ YES	☐ NO
38. Has any court finally adjudged the applicant, or any person directly or indirectly controlling the applicant, guilty of unlawfully monopolizing or attempting unlawfully to monopolize radio communication, directly or indirectly, through control of manufacture or sale of radio apparatus, exclusive traffic arrangement or any other means or unfair methods of competition? If Yes, attach as an exhibit, an explanation of the circumstances.	☐ YES	☒ NO
39. Is the applicant, or any person directly or indirectly controlling the applicant, currently a party in any pending matter referred to in the preceeding two items? If Yes, attach as an exhibit, an explanation of the circumstances.	☐ YES	☒ NO
40. If the applicant is a corporation and is applying for a space station license, attach as an exhibit the names, addresses, and citizenship of those stockholders owning of record and/or voting 10 percent or more of the Filer's voting stock and the percentages so held. In the case of fiduciary control, indicate the beneficiary(ies) or class of beneficiaries. Also list the names and addresses of the officers and directors of the Filer.		
41. By checking Yes, the undersigned certifies, that neither the applicant nor any other party to the application is subject to a denial of Federal benefits that includes FCC benefits pursuant to Section 5301 of the Anti-Drug Act of 1988, 21 U.S.C. Section 862, because of a conviction for possession or distribution of a controlled substance. See 47 CFR 1.2002(b) for the meaning of "party to the application" for these purposes.	☒ YES	☐ NO
42a. Does the applicant intend to use a non-U.S. licensed satellite to provide service in the United States? If yes, answer 42b and attach an exhibit providing the information specified in 47 C.F.R. § 25.137, as appropriate. If no, proceed to question 43.	☐ YES	☒ NO
42b. What administration has licensed or is in the process of licensing the space station? If no license will be issued, what administration has coordinated or is in the process of coordinating the space station? ______		

43. Description. (Summarize the nature of the application and the services to be provided).

Application to replace PAS-1 with PAS-1R, a fixed satellite service hybrid (C/Ku-band) satellite.

Exhibit No.	Identify all exhibits that are attached to this application.
1	Litigation Question (Response to Question 37)
2	Stockholder Information (Response to Question 40)

CERTIFICATION

The Applicant waives any claim to the use of any particular frequency or of the electromagnetic spectrum as against the regulatory power of the United States because of the previous use of the same, whether by license or otherwise, and requests an authorization in accordance with this application. The applicant certifies that grant of this application would not cause the applicant to be in violation of the spectrum aggregation limit in 47 CFR Part 20. All statements made in exhibits are a material part hereof and are incorporated herein as if set out in full in this application. The undersigned, individually and for the applicant, hereby certifies that all statements made in this application and in all attached exhibits are true, complete and correct to the best of his or her knowledge and belief, and are made in good faith.

44. Applicant is a (an): (Place an "X" in the box next to applicable response.)

☐ a. Individual ☐ b. Unincorporated Association ☐ c. Partnership ☒ d. Corporation ☐ e. Governmental Entity ☐ f. Other (Please specify) ____________

45. Typed Name of Person Signing: Kalpak S. Gude

46. Title of Person Signing: VP & Associate General Counsel

47. Signature: Kalpak S. Gude

48. Date: 1/25/99

WILLFUL FALSE STATEMENTS MADE ON THIS FORM ARE PUNISHABLE BY FINE AND/OR IMPRISONMENT (U.S. Code, Title 18, Section 1001), AND/OR REVOCATION OF ANY STATION AUTHORIZATION (U.S. Code, Title 47, Section 312(a)(1)), AND/OR FORFEITURE (U.S. Code, Title 47, Section 503).

PanAmSat Licensee Corp.

Exhibit 1
FCC Form 312

Hughes Electronics Corporation ("HE") indirectly owns over 80% of the issued and outstanding stock of PanAmSat Licensee Corp. ("PanAmSat"). HE Holdings, Inc. ("HEH"), a wholly-owned subsidiary of HE formerly known as Hughes Aircraft Company, pled guilty to two felony counts in 1990. The full details of this matter are included in a Form 430 for Hughes Communications Galaxy, Inc., dated August 19, 1991.

On June 15, 1992, HEH was found guilty of one felony count with regard to the testing of microelectronics components. The full details of this matter are included in a Form 430 for Hughes Communications Galaxy, Inc., dated August 12, 1992.

The conduct at issue in these two cases has no relevance to the FCC authorizations and applications of PanAmSat. HEH was merged into the Raytheon Company in 1997 and therefore is no longer affiliated with PanAmSat or any party to this application. HE, moreover, had no ownership interest in the PanAmSat system when the conduct occurred at HEH. In addition, conduct in these matters is wholly unrelated to the communications area and does not reflect in any way upon the FCC-related activity of PanAmSat, whose operations are largely independent of HEH.

Names, addresses, citizenship, and percentage interests of stockholders owning of record and/or voting 10% or more of voting stock

PanAmSat International Systems, Inc. One Pickwick Plaza Greenwich, CT 06830	USA	100%

Names and addresses of Officers and Directors of PanAmSat Licensee Corp.

Frederick A. Landman
c/o PanAmSat Corporation
One Pickwick Plaza
Greenwich, CT 06830

R. Douglas Kahn
c/o PanAmSat Corporation
One Pickwick Plaza
Greenwich, CT 06830

Carl A. Brown
c/o PanAmSat Corporation
One Pickwick Plaza
Greenwich, CT 06830

Kenneth N. Heintz
c/o PanAmSat Corporation
One Pickwick Plaza
Greenwich, CT 06830

James W. Cuminale
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William E. Raftery
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