

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM S-4  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

HE HOLDINGS, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

95-1778500 3812  
(I.R.S. EMPLOYER (PRIMARY STANDARD  
IDENTIFICATION NO.) INDUSTRIAL  
CLASSIFICATION CODE  
NUMBER)  
DELAWARE  
(STATE OR OTHER  
JURISDICTION  
OF INCORPORATION OR  
ORGANIZATION)  
7200 HUGHES TERRACE, LOS ANGELES, CALIFORNIA 90045-0066; (310) 568-7200  
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF  
REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

CHARLES S. REAM  
HE HOLDINGS, INC.  
7200 HUGHES TERRACE  
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(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,  
OF AGENT FOR SERVICE)

COPIES TO:

WARREN G. ANDERSEN GENERAL MOTORS CORPORATION 3031 WEST GRAND BOULEVARD DETROIT, MI 48202- 3091 (313) 556-5000	ROBERT S. OSBORNE, P.C. KIRKLAND & ELLIS 200 EAST RANDOLPH DRIVE CHICAGO, IL 60601- 6636 (312) 861-2000	JOHN T. KUELBS HE HOLDINGS, INC. 7200 HUGHES TERRACE LOS ANGELES, CA 90045-0066 (310) 568-7200	FREDERICK S. GREEN WEIL, GOTSHAL & MANGES LLP 767 FIFTH AVENUE NEW YORK, NY 10153 (212) 310-8000
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the requisite consents are obtained pursuant to the solicitation by General Motors Corporation referred to in the Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
Class A Common Stock, par value \$0.01 per share (1).....	102,630,503 shares	\$24.7646 (2)	\$2,541,603,354.59 (2)	\$770,182.83

(1) There are also being registered an equal number of Series A Junior Participating Preferred Stock purchase rights, which will be attached to and transferable only with the shares of Class A Common Stock registered hereby.

(2) Calculated in accordance with Rule 457.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

LOGO

+++++  
+INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. +  
+REGISTRATION STATEMENTS RELATING TO THESE SECURITIES HAVE BEEN FILED WITH THE +  
+SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY +  
+OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENTS +  
+BECOME EFFECTIVE. THIS SOLICITATION STATEMENT/PROSPECTUS SHALL NOT CONSTITUTE +  
+AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE +  
+ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION +  
+OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE +  
+SECURITIES LAWS OF ANY SUCH STATE. +  
+++++

PRELIMINARY SOLICITATION STATEMENT/PROSPECTUS

SOLICITATION OF WRITTEN CONSENT OF  
GENERAL MOTORS CORPORATION  
COMMON STOCKHOLDERS

SUBJECT TO COMPLETION

THE HUGHES TRANSACTIONS

LOGO

THE COMMON STOCKHOLDERS OF GENERAL MOTORS CORPORATION ARE BEING ASKED TO  
APPROVE  
THE FOLLOWING "HUGHES TRANSACTIONS" RELATING TO THE THREE PRINCIPAL BUSINESSES  
OF OUR HUGHES ELECTRONICS SUBSIDIARY.

DEFENSE ELECTRONICS

WE PROPOSE TO SPIN OFF OUR DEFENSE ELECTRONICS BUSINESS, APPROXIMATELY  
% TO OUR CLASS H COMMON STOCKHOLDERS AND % TO OUR \$1 2/3 COMMON  
STOCKHOLDERS (ESTIMATED BASED ON RECENT STOCK PRICES). IMMEDIATELY AFTER THE  
SPIN-OFF, THIS BUSINESS WILL MERGE WITH RAYTHEON COMPANY.

AUTOMOTIVE ELECTRONICS

WE PROPOSE TO TRANSFER OUR AUTOMOTIVE  
ELECTRONICS BUSINESS FROM HUGHES ELECTRONICS TO  
GENERAL MOTORS. AS A RESULT, THE APPROXIMATELY  
25.6% TRACKING STOCK INTEREST IN THIS BUSINESS  
CURRENTLY HELD BY OUR CLASS H COMMON STOCKHOLDERS  
WILL IN EFFECT BE ALLOCATED TO OUR \$1 2/3 COMMON  
STOCKHOLDERS.

TELECOMMUNICATIONS AND SPACE

WE PROPOSE TO RECAPITALIZE OUR CLASS H COMMON  
STOCK INTO A NEW TRACKING STOCK INTEREST OF  
APPROXIMATELY 25.6% IN OUR TELECOMMUNICATIONS AND  
SPACE BUSINESS. THIS BUSINESS WILL ALSO BE  
PROVIDED WITH A SUBSTANTIAL AMOUNT OF NEW CAPITAL  
FUNDING.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES  
COMMISSION HAS APPROVED OR DISAPPROVED THE HUGHES TRANSACTIONS OR THE NEW CLASS  
H COMMON STOCK OR THE CLASS A COMMON STOCK TO BE ISSUED PURSUANT TO THIS  
SOLICITATION STATEMENT/PROSPECTUS. THE SECURITIES AND EXCHANGE COMMISSION HAS  
NOT PASSED UPON THE FAIRNESS OR MERITS OF THE HUGHES TRANSACTIONS OR UPON THE  
ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS SOLICITATION  
STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS SOLICITATION STATEMENT/PROSPECTUS IS , 1997.

Until 25 days after the date of mailing of this Solicitation Statement/Prospectus, all dealers effecting transactions in Class A Common Stock or New GM Class H Common Stock, whether or not participating in this distribution, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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## INTRODUCTION

We have highlighted selected information in this Introduction. However, it may not contain all of the information that is important to you. We urge you to read the entire document (including the Appendices) and the documents incorporated by reference. The Glossary provides definitions for certain capitalized terms.

We have calculated several important values for illustrative purposes in this document based on the October 3, 1997 closing price of Raytheon Common Stock of \$59.94 per share (the "Recent Raytheon Stock Price"). These calculated values include the percentage of Class A Common Stock that will be distributed to holders of each class of GM common stock, the indicated value of the Class A Common Stock to be distributed, the amount of debt that Hughes Defense will be permitted to have when it is spun off and the amount of new capital to be made available to Hughes Telecom. These calculations are illustrative only and will change based on changes in the market price of Raytheon Common Stock between now and the closing.

We also refer throughout this document to the approximately 25% tracking stock interest of the GM Class H Common Stockholders in the earnings of our Hughes Electronics subsidiary. This percentage amount, which we call the "Class H Fraction," changes depending on the number of shares of GM Class H Common Stock outstanding at any time. As of September 30, 1997, the Class H Fraction was 25.6%.

## INTRODUCTION TO THE HUGHES TRANSACTIONS

### THE HUGHES TRANSACTIONS

We are proposing three related transactions to enhance the value of the businesses operated by our Hughes Electronics subsidiary. We need your consent in order to accomplish these "Hughes Transactions."

#### (1) HUGHES DEFENSE

We propose to spin off the defense electronics business of Hughes Electronics to our common stockholders. We call this business "Hughes Defense." Immediately after the spin-off, Hughes Defense will merge with Raytheon Company. These transactions have an indicated value of approximately \$10.1 billion.

The merged company will be the nation's third largest defense company and the largest provider of defense electronics in the world. The merger should enable it to compete more effectively in the U.S. defense industry, where significant consolidation has been occurring. We call the merged company "New Raytheon."

GM common stockholders will receive all of the Class A Common Stock of Hughes Defense, representing approximately 30% of the common stock of New Raytheon after the merger. This stock has an indicated value of approximately \$6.2 billion based on the Recent Raytheon Stock Price. Approximately % of the Class A Common Stock would be distributed to GM Class H Common Stockholders and approximately % would be distributed to GM 1 2/3 Common Stockholders based on the Recent Raytheon Stock Price.

Hughes Defense will be permitted to have approximately \$3.9 billion of debt when it is spun off. Substantially all of the proceeds of this debt will be made available as new capital for Hughes Telecom. The obligation to repay this debt, however, will remain with New Raytheon (in which GM's common stockholders will have an approximately 30% equity interest).

The indicated transaction value of approximately \$10.1 billion consists of the sum of (1) the value of the Class A Common Stock to be distributed to GM's common stockholders and (2) the amount of debt that Hughes Defense is permitted to have at the time of the spin-off. We believe that this amount represents a substantial premium to the enterprise value of Hughes Defense under its current ownership structure.

#### (2) DELCO ELECTRONICS

We propose to transfer Delco Electronics, our automotive electronics business, from Hughes

Electronics to General Motors. The approximately 25% tracking stock interest in Delco's earnings that is currently held by GM Class H Common Stockholders will in effect be allocated to holders of GM \$1 2/3 Common Stock.

By transferring Delco to General Motors, we will be able to fully integrate it with our Delphi Automotive Systems business. That should enable these businesses to participate more effectively in a component industry trend toward integrated automotive systems.

To compensate GM Class H Common Stockholders for the transfer of Delco and other effects of the Hughes Transactions, we have allocated an amount of Class A Common Stock to them which is more than the approximately 25% that reflects their current tracking stock interest in Hughes Defense. The allocation of Class A Common Stock to the GM Class H Common Stockholders is approximately % based on the Recent Raytheon Stock Price.

### (3) HUGHES TELECOM

We propose to make about \$3.9 billion of new capital funding available to the telecommunications and space business of Hughes Electronics, which we call "Hughes Telecom," and to recapitalize the GM Class H Common Stock into a new approximately 25% tracking stock interest in that business.

Hughes Telecom will receive about \$3.9 billion in cash from new debt borrowed by Hughes Defense before it is spun off to our common stockholders. This capital funding will enhance Hughes Telecom's ability to take advantage of growth opportunities in the expanding global telecommunications market. We also believe that Hughes Telecom will benefit from having its senior management focused on a single principal area of business.

Each share of GM Class H Common Stock will become a share of New GM Class H Common Stock. This new stock will represent an approximately 25% tracking stock interest in the business of Hughes Telecom, which will be operated after the Hughes Transactions by a GM subsidiary we call "New Hughes Electronics."

### RAYTHEON STOCK PRICE

Changes in the market price of Raytheon common stock will affect several calculations relevant to the transactions.

First, we have used the Recent Raytheon Stock Price (\$59.94 on October 3, 1997) for illustrative calculations of the amount of the Class A Common Stock to be distributed to the holders of each class of GM common stock and of the value of those distributions.

Second, under our agreement with Raytheon, changes in Raytheon's stock price within a "collar" range will affect the amount of debt that Hughes Defense is permitted to have when it is spun off.

The actual amount of permitted debt and the allocation of Class A Common Stock between the two classes of GM common stockholders will depend on the average stock price of Raytheon during a specified period prior to the closing of the Hughes Transactions. The Recent Raytheon Stock Price is not necessarily indicative of this average price or the market value of Raytheon common stock at the time of or after the closing of the transactions.

The collar range for Raytheon's stock price is between \$44.42 and \$54.29 per share. If the price of Raytheon Common Stock is within the collar (which it was in January 1997 when the agreement was entered into with Raytheon), the amount of debt that Hughes Defense is permitted to have will be adjusted so that the total transaction value will be \$9.5 billion. Raytheon stock prices above \$54.29 per share would result in transaction values higher than \$9.5 billion, while Raytheon stock prices below \$44.42 per share would result in transaction values less than \$9.5 billion.

Based on the Recent Raytheon Stock Price, the Class A Common Stock distributed in the spin-off would be worth approximately \$6.2 billion and Hughes Defense would be allowed to have \$3.9 billion of debt. Accordingly, the transaction would have a current indicated value to General Motors and its common stockholders of approximately \$10.1 billion.



The following table shows a range of illustrative Raytheon Common Stock prices and how they affect the total value of the transaction:

RAYTHEON COMMON STOCK PRICE	VALUE OF CLASS A COMMON STOCK	HUGHES DEFENSE DEBT	TOTAL INDICATED VALUE
-----	-----	-----	-----
(\$ BILLIONS, EXCEPT STOCK PRICE)			
\$65	\$6.7	\$3.9	\$10.6
60	6.2	3.9	10.1
55	5.6	3.9	9.5
50	5.1	4.4	9.5
45	4.6	4.9	9.5
40	4.1	4.9	9.0

GM's common stockholders will directly receive the value of the Class A Common Stock, which will be distributed to them in the spin-off. In addition, our stockholders will benefit from the new debt borrowed by Hughes Defense before the spin off because the proceeds (up to \$4.0 billion) will be made available to Hughes Telecom to fund growth opportunities in the telecommunications and space business. All of our common stockholders will have a continuing interest in that business. If Hughes Defense borrows more than \$4.0 billion of new debt, the additional proceeds will be made available to General Motors, in which case an appropriate adjustment will be made in the amount of Class A Common Stock to be distributed to each class of GM common stockholders.

#### NEW RAYTHEON COMMON STOCK

In the spin-off, GM's common stockholders will receive Class A Common Stock of Hughes Defense. In the merger of Hughes Defense and Raytheon, this stock will remain outstanding as Class A Common Stock of New Raytheon (except that fractional shares will be sold for cash) and Raytheon's common stockholders will receive Class B Common Stock of New Raytheon.

The Class A Common Stock will represent approximately 30% of the outstanding equity value of New Raytheon. The Class B Common Stock will represent the remaining approximately 70% of the outstanding equity value. With respect to the election of directors of New Raytheon, the Class A Common Stockholders will possess 80.1% of the voting power. The Class B Common Stockholders will possess the remaining 19.9% of the voting power in the election of directors. Each class will vote separately as to all other matters. Except as to voting rights, the Class A Common Stock and Class B Common Stock will be identical.

This dual class capital structure of New Raytheon was necessary in order for General Motors to obtain an IRS letter ruling to the effect that the spin-off of Hughes Defense will be tax-free to General Motors and its common stockholders for U.S. federal income tax purposes.

#### THE DISTRIBUTION RATIO

We will distribute a total of 102,630,503 shares of Class A Common Stock to our common stockholders. Based on the Recent Raytheon Stock Price, we estimate that approximately % of these shares will be distributed to GM Class H Common Stockholders and approximately % will be distributed to GM \$1 2/3 Common Stockholders. We refer to the relationship between these amounts as the "Distribution Ratio."

The Distribution Ratio is a formula that depends on certain variables that cannot be known precisely until the closing of the Hughes Transactions. The most significant of these variables is the average closing market price of Raytheon Common Stock during a specified period shortly before the closing. See "Special Factors--The Distribution Ratio" in Chapter 3.

In setting the Distribution Ratio, the GM Board determined that GM Class H Common Stockholders should receive approximately 25% of the Class A Common Stock to reflect their approximately 25% tracking stock interest in Hughes Defense plus an additional amount of Class A Common Stock to compensate them for relinquishing their approximately 25% tracking stock interest in Delco and for the other net effects of the Hughes Transactions.

The GM Board determined that the additional amount of Class A Common Stock to be issued to Class H Common Stockholders should have a value equal to \$ billion multiplied by the percentage amount of the GM Class H Common Stockholders' tracking stock interest in Hughes Electronics

immediately before the closing. Based on the approximately 25.6% tracking stock interest of GM Class H Common Stockholders as of September 30, 1997, this additional Class A Common Stock should have a value of \$ billion, subject to being increased by approximately 25.6% of the amount of any proceeds of Hughes Defense debt made available to General Motors at the closing.

The number of additional shares of Class A Common Stock needed in order to deliver \$ of additional value to the GM Class H Common Stockholders will be determined by valuing each share at the average closing market price of Raytheon Common Stock during a specified period before this closing. Based on the Recent Raytheon Stock Price, this would result in the distribution of additional shares of Class A Common Shares to the GM Class H Common Stockholders.

This would result in a distribution of a total of approximately % of the Class A Common Stock to GM Class H Common Stockholders. The balance of % would be distributed to GM \$1 2/3 Common Stockholders.

The following table illustrates the effect the Hughes Transactions would have on the ownership interests of a holder of one share of each class of GM common stock, if the relevant market price of Raytheon Common Stock were equal to the Recent Raytheon Stock Price.

EXAMPLE OF OWNERSHIP BEFORE THE HUGHES TRANSACTIONS -----	EXAMPLE OF OWNERSHIP AFTER THE HUGHES TRANSACTIONS -----
One share of GM \$1 2/3 Common Stock	One share of GM \$1 2/3 Common Stock AND shares of Class A Common Stock with an indicated market value of \$ .
-----	
One share of GM Class H Common Stock	One share of New GM Class H Common Stock AND shares of Class A Common Stock with an indicated market value of \$ .

For a table showing the illustration of the Class A Common Stock between the two classes of GM common stock based on a range of Raytheon Common Stock prices, see "Special Factors--The Distribution Ratio" in Chapter 3.

#### DELCO TRANSFER

Delco will be transferred from Hughes Electronics to General Motors so that it can be more fully integrated with Delphi. As a result of this transfer, Delco's financial performance will not be tracked by the New GM Class H Common Stock. In effect, the approximately 25% tracking stock interest in Delco's earnings that is currently held by GM Class H Common Stockholders will be allocated to holders of GM \$1 2/3 Common Stock.

We believe that the integration of Delco's automotive electronics capability with Delphi's systems and components expertise will create a premier global automotive systems supplier. The combination will allow us to compete more effectively in markets worldwide by developing new electronically enhanced vehicle systems. We expect these systems to have improved functionality, lower cost and higher quality. Delco will also gain access to Delphi's customer base. In addition, the integration should allow these businesses to achieve structural cost savings.

The GM Board took the transfer of Delco into account when it determined the Net Transaction Effect which reflects the additional amount of Class A Common Stock that GM Class H Common Stockholders should receive in addition to the approximately 25% of such stock that reflects their current tracking stock interest in Hughes Defense. In so doing, the GM Board considered the benefits of the integration of Delco and Delphi. Thus, we believe that the Delco valuation considerations used in determining the Distribution Ratio reflect a substantial premium to the enterprise value of Delco under the current Hughes Electronics and GM ownership structure.

#### NEW GM CLASS H COMMON STOCK

Like the current GM Class H Common Stockholders, the holders of New GM Class

H

Common Stock will be stockholders of General Motors, not of Hughes Electronics. The New GM Class H Common Stock will represent an approximately 25% tracking stock interest in New Hughes Electronics, which will have one principal business: Hughes Telecom. This will be a more focused investment than the existing GM Class H Common Stock, which represents an approximately 25% tracking stock interest in the three principal businesses of Hughes Electronics: Hughes Defense, Delco and Hughes Telecom.

The current policy of the GM Board is to pay a quarterly dividend of \$0.25 per share on the existing GM Class H Common Stock. Because New Hughes Electronics contemplates retaining future earnings for the development of its business, General Motors does not anticipate that it will initially pay any cash dividends on the New GM Class H Common Stock.

The GM Certificate of Incorporation will be amended to delete provisions relating to the existing GM Class H Common Stock and to add new provisions setting forth the terms of the New GM Class H Common Stock. The terms of the New GM Class H Common Stock are described in "Chapter 6: Capital Stock."

In connection with its determination of the terms of the New GM Class H Common Stock, the GM Board reviewed its policies and practices with respect to its dual-class common stock capital structure and adopted a policy statement regarding certain capital stock matters. This policy statement is effective upon the closing of the Hughes Transactions and covers certain transactions involving General Motors and New Hughes Electronics and the relationship between dividends (if any) to be paid by New Hughes Electronics to General Motors and by General Motors to the New GM Class H Common Stockholders. This policy statement is set forth under "Considerations Relating to GM's Dual-Class Common Stock Capital Structure" in Chapter 6.

#### NO RECAPITALIZATION INTO GM \$1 2/3 COMMON STOCK

The Hughes Transactions will not result in a recapitalization of GM Class H Common Stock into GM \$1 2/3 Common Stock at a 120% exchange ratio as currently provided for under certain circumstances in the GM Certificate of Incorporation. As part of the Hughes Transactions, the GM Certificate of Incorporation will be amended to eliminate any possible application of the recapitalization provision to the Hughes Transactions. There is substantial uncertainty as to whether the recapitalization provision would apply absent this amendment. By voting in favor of the Hughes Transactions, you will in effect be waiving application of the provision to the Hughes Transactions.

#### TAX MATTERS

For U.S. federal income tax purposes, the Hughes Transactions and the Raytheon Merger will be tax-free to you as GM's common stockholders (other than with respect to cash you will receive instead of fractional shares of Class A Common Stock) and to General Motors. We have received an IRS letter ruling confirming that the spin-off of Hughes Defense and the separation of Hughes Telecom from Hughes Defense (which is required in order to prepare Hughes Defense for the spin-off) will be tax-free. New tax rules applicable to certain corporate spin-offs signed into law by President Clinton on August 5, 1997 will not apply to the Hughes Transactions under the transition provisions enacted as part of this legislation.

All GM common stockholders will be required to attach information to their U.S. federal income tax return for the year in which the spin-off of Hughes Defense occurs in order to show that the spin-off of Hughes Defense is tax-free. General Motors will provide this information to you after the Hughes Transactions and Raytheon Merger have been completed.

#### BOARD RECOMMENDATION

The GM Board has carefully reviewed the Hughes Transactions with the active participation of its Capital Stock Committee, which consists entirely of independent directors. We have received opinions from two independent investment banking firms, Merrill Lynch and Salomon Brothers, as to the fairness, from a financial point of view, to each class of GM common stockholders of the consideration to

be provided to General Motors and its subsidiaries and to each class of our common stockholders in the Hughes Transactions. We have also received an opinion from a third investment banking firm, Goldman Sachs, as to the fairness of the aggregate consideration in the Raytheon Merger to Hughes Defense, Hughes Electronics, General Motors, GM \$1 2/3 Common Stockholders and GM Class H Common Stockholders taken as a whole.

The full text of the investment bank opinions, which in each case set forth the assumptions made, matters considered and limitations on the review undertaken in connection with the opinions, are included in Appendix B to this document. WE URGE YOU TO READ THESE OPINIONS CAREFULLY.

BASED ON THE FOREGOING, THE GM BOARD HAS DETERMINED THAT THE HUGHES TRANSACTIONS ARE IN THE BEST INTERESTS OF GENERAL MOTORS AND ITS COMMON STOCKHOLDERS AND ARE FAIR TO THE HOLDERS OF BOTH CLASSES OF GM COMMON STOCK. THE GM BOARD HAS UNANIMOUSLY APPROVED THE HUGHES TRANSACTIONS AND RECOMMENDS THAT GM COMMON STOCKHOLDERS APPROVE THE HUGHES TRANSACTIONS BY EXECUTING AND RETURNING THE ENCLOSED CONSENT.

#### RISK FACTORS

There are significant challenges and risks involved in each of the business strategies addressed by the Hughes Transactions. These risks include uncertainties about achieving the expected synergies and benefits from the merger of Hughes Defense and Raytheon and from the integration of Delco and Delphi. There are also risks associated with separating the three businesses of Hughes Electronics. These and other risks are addressed in "Chapter 2: Risk Factors."

#### STOCKHOLDER LITIGATION

Nine lawsuits were filed in Delaware Chancery Court after we announced the Hughes Transactions in January 1997. Each suit purports to be a class action brought on behalf of specified holders of GM Class H Common Stock against the defendants, who are General Motors and its directors. The lawsuits allege that the defendants have breached and are continuing to breach their contractual and fiduciary duties to specified holders of GM Class H Common Stock by proposing and pursuing the Hughes Transactions, which plaintiffs contend would unfairly benefit General Motors to the detriment of such holders.

The lawsuits seek injunctions against the Hughes Transactions (or any other disposition of Hughes Defense in the absence of a recapitalization of the GM Class H Common Stock into GM \$1 2/3 Common Stock at a 120% exchange ratio) and compensatory damages.

#### TIMING AND APPROVALS

We are working towards completing the Hughes Transactions as soon as possible. We expect to complete the Hughes Transactions before the end of 1997.

We will not complete the Hughes Transactions unless we obtain the approval of the holders of:

- . a majority of the outstanding shares of GM \$1 2/3 Common Stock, voting as a separate class; and
- . a majority of the outstanding shares of GM Class H Common Stock, voting as a separate class.

Only GM's common stockholders who held shares on October 15, 1997 are entitled to vote on the Hughes Transactions.

You are not being asked to approve the Raytheon Merger, which has already been approved by Hughes Electronics as the sole stockholder of Hughes Defense. However, if GM's common stockholders do not approve the Hughes Transactions, the Raytheon Merger will not occur. Completion of the Hughes Transactions is also conditioned upon the approval of the Raytheon Merger by Raytheon's common stockholders.

#### CONSENT MECHANICS

Please complete, date, sign and return the enclosed consent as soon as possible. Your consent is important regardless of the number of shares that you own.

YOU SHOULD NOT SEND YOUR STOCK CERTIFICATES WITH THE CONSENT CARD ENCLOSED WITH THIS

DOCUMENT. YOU WILL RECEIVE FURTHER CORRESPONDENCE AFTER THE TRANSACTIONS HAVE BEEN COMPLETED.

You can revoke your consent at any time prior to the approval of the Hughes Transactions. This will occur as soon as consents representing the requisite stockholder approvals described above are delivered to General Motors, so long as this is at least 20 business days from the date this document is mailed to stockholders.

Revocations can be made by filing with the Secretary of General Motors either a written notice stating that you would like to revoke your consent or another written consent bearing a later date. Revocations should be sent to the Secretary of General Motors at the following address:

General Motors Corporation  
General Motors Building  
3044 West Grand Boulevard  
Detroit, Michigan 48202-3091  
Attention: Secretary

#### THE ISSUERS

The New GM Class H Common Stock will be issued by General Motors. GM's principal executive offices are located at 100 Renaissance Center, Detroit, Michigan 48243-7301 (Telephone Number (313) 556-5000).

As of the Record Date, directors and executive officers of General Motors (and their affiliates) together held less than 1% of the outstanding shares of GM \$1 2/3 Common Stock and less than 1% of the outstanding shares of GM Class H Common Stock. To our knowledge, all of such persons currently intend to vote in favor of the Hughes Transactions.

The Class A Common Stock to be distributed in the spin-off will be issued by a subsidiary of Hughes Electronics which is named HE Holdings, Inc. We refer to HE Holdings, Inc. as "Hughes Defense" because it will own and operate the defense electronics business of Hughes Electronics at the time it is spun off to GM's common stockholders and merged with Raytheon.

The principal executive offices of Hughes Defense are currently located at 7200 Hughes Terrace, Los Angeles, California 90045-0066 (Telephone Number (310) 568-7200). Upon the consummation of the Raytheon Merger, the principal executive offices of New Raytheon will be located at 141 Spring Street, Lexington, Massachusetts 02173 (Telephone Number (617) 862-6600).

#### ADDITIONAL INFORMATION

For additional information about the Hughes Transactions, including information about how to complete and return your consent, please contact:

Morrow & Co., Inc.

909 Third Avenue, 20th Floor  
New York, New York 10022

Banks and Brokers Call Toll Free:  
1-800-662-5200

All others Call Toll Free:  
1-800-566-9058

SUMMARY FINANCIAL INFORMATION

CERTAIN HISTORICAL AND PRO FORMA PER SHARE DATA

The following table presents certain historical per share data for the GM \$1 2/3 Common Stock, the GM Class H Common Stock and Raytheon Common Stock and certain pro forma per share data for the GM \$1 2/3 Common Stock, the New GM Class H Common Stock and the two classes of New Raytheon Common Stock. The historical per share data as of and for the year ended December 31, 1996 have been derived from GM's Consolidated Financial Statements and should be read in conjunction with such Consolidated Financial Statements (including the notes thereto) and Management's Discussion and Analysis in the GM 1996 Form 10-K, which is incorporated into this document by reference, including the information with respect to Hughes Electronics in Exhibit 99 to the GM 1996 Form 10-K. The historical per share data for GM \$1 2/3 Common Stock and GM Class H Common Stock as of and for the six months ended June 30, 1997 have been derived from GM's unaudited consolidated financial statements for such period, which in the opinion of GM management, reflect all adjustments (consisting of only normal recurring items) that are necessary to fairly present the historical per share data for such period. The pro forma per share data for the two classes of GM common stock as of and for the six months ended June 30, 1997 and for the year ended December 31, 1996 give effect to the PanAmSat Merger and Hughes Transactions. The pro forma per share data for the two classes of New Raytheon Common Stock as of and for the six months ended June 29, 1997 and for the year ended December 31, 1996 give effect to the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition. The pro forma per share data for the two classes of New Raytheon Common Stock have been derived from, and should be read in conjunction with, the financial data set forth under "New Raytheon Unaudited Pro Forma Combined Condensed Financial Statements" in Chapter 5. The results for interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year. The pro forma per share data for the two classes of GM common stock and the two classes of New Raytheon Common Stock are not necessarily indicative of future operating results.

GM COMMON STOCK HISTORICAL PER SHARE DATA

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 1997		AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1996	
	GM \$1 2/3	GM CLASS H	GM \$1 2/3	GM CLASS H
Book value per share (a).....	\$29.99	\$14.99	\$27.95	\$13.97
Cash dividends per share.....	1.00	0.50	1.60	0.96
Earnings per share from continuing operations attributable to common stocks.....	4.98	1.94	6.07	2.88

GM COMMON STOCK PRO FORMA PER SHARE DATA (B)

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 1997		AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1996	
	GM \$1 2/3	NEW GM CLASS H	GM \$1 2/3	NEW GM CLASS H
Book value per share (a).....	\$27.95	\$13.98	(c)	(c)
Cash dividends per share.....	1.00	--	\$1.60	\$ --
Earnings per share from continuing operations attributable to common stocks.....	4.63	0.16	5.90	0.31

RAYTHEON COMMON STOCK HISTORICAL PER SHARE DATA

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 29, 1997	AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1996
Book value per share.....	\$20.64	\$19.46
Cash dividends per share.....	0.40	0.80
Earnings per share.....	1.66	3.21

CHAPTER 1: INTRODUCTION  
NEW RAYTHEON COMMON STOCK PRO FORMA PER SHARE DATA (D)

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 29, 1997		AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1996	
	CLASS A	CLASS B	CLASS A	CLASS B
Book value per share (e).....	\$29.33	\$29.33	(c)	(c)
Earnings per share.....	1.32	1.32	\$ 2.65	\$ 2.65

GM COMMON STOCK PRO FORMA EQUIVALENT PER SHARE INFORMATION

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 1997	
	NEW GM GM \$1 CLASS 2/3	CLASS H
Book value per share of General Motors (a).....	\$27.95	\$13.98
Book value per share of New Raytheon (f).....		

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 1997		AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1996	
	NEW GM GM \$1 CLASS 2/3	CLASS H	NEW GM GM \$1 2/3	CLASS H
Earnings per share from continuing operations of General Motors.....	\$4.63	\$0.16	\$5.90	\$0.31
Earnings per share of New Raytheon (f).....				

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- (a) Determined based on the liquidation rights with respect to the assets of General Motors associated with the two classes of GM common stock. For a description of such liquidation rights, see "GM Class H Common Stock" in Chapter 6.
- (b) Pro forma amounts reflect the removal of the assets, liabilities and operating results of Hughes Defense, including acquisition goodwill allocated to Hughes Defense and related amortization that was previously charged against the earnings available for the payment of dividends on GM \$1 2/3 Common Stock, the impact of the PanAmSat Merger, the transfer of Delco from Hughes Electronics to General Motors such that 100% of the earnings of Delco are available for the payment of dividends on GM \$1 2/3 Common Stock and other items related to the Hughes Defense Spin-Off. In addition, the earnings per share on New GM Class H Common Stock reflect the earnings of New Hughes Electronics that would have become available for the payment of dividends on New GM Class H Common Stock during the respective periods. For additional information regarding the amounts available for the payment of dividends on the two classes of GM common stock, see "New GM Class H Common Stock--GM Certificate of Incorporation Provisions Regarding Dividends" in Chapter 6.
- (c) Pro forma book values per share as of December 31, 1996 for the two classes of GM common stock and the two classes of New Raytheon Common Stock have not been determined.
- (d) Pro forma amounts include adjustments to reflect the impact of the Hughes Defense Spin-Off and the Raytheon Merger and Raytheon's acquisition of Texas Instruments Defense.
- (e) Calculated by dividing the pro forma book value of the net assets of New Raytheon by the number of shares of New Raytheon Common Stock expected to be outstanding upon the consummation of the Hughes Defense Spin-Off and the Raytheon Merger.
- (f) Amount determined by calculating the ratio of the number of shares of New Raytheon Class A Common Stock, to be issued on the date of the Hughes Defense Spin-Off, to the number of shares of GM \$1 2/3 Common Stock and Class H Common Stock issued at June 30, 1997 multiplied by the New Raytheon Class A Common Stock pro forma book value per share and earnings per share, as applicable.

On January 16, 1997, the day on which General Motors announced that it intended to pursue the Hughes Transactions, the closing price of the GM Class H Common Stock, as reported on the NYSE Composite Tape, was \$62 5/8, and the aggregate market value of the outstanding GM Class H Common Stock was

approximately \$6.3 billion. On such date, the closing price of the GM \$1 2/3 Common Stock, as reported on the NYSE Composite Tape, was \$60 5/8 and the aggregate market value of the outstanding GM \$1 2/3 Common Stock was approximately \$45.8 billion.

On October , 1997, the day on which General Motors announced that the GM Board had approved the final terms of the Hughes Transactions, including the Distribution Ratio, the closing price of the GM Class H Common Stock, as reported on the NYSE Composite Tape, was \$ , and the aggregate market value of the outstanding GM Class H Common Stock was approximately \$ billion. On such date, the closing price of the GM \$1 2/3 Common Stock, as reported on the NYSE Composite Tape, was \$ and the aggregate market value of the outstanding GM \$1 2/3 Common Stock was approximately \$ .



GENERAL MOTORS SELECTED  
CONSOLIDATED HISTORICAL FINANCIAL DATA

The following General Motors selected consolidated historical financial data have been derived from the consolidated financial statements of General Motors. Such data should be read in conjunction with GM's Consolidated Financial Statements (including the notes thereto) and Management's Discussion and Analysis in the GM 1996 Form 10-K, which is incorporated into this document by reference, including the information with respect to Hughes Electronics in Exhibit 99 to the GM 1996 Form 10-K. The General Motors selected consolidated historical financial data as of and for the years ended December 31, 1996, 1995, 1994, 1993 and 1992 have been derived from GM's Consolidated Financial Statements, which have been audited by Deloitte & Touche LLP, independent public accountants. The selected consolidated historical financial data presented with financing and insurance operations on an equity basis as of and for the years ended December 31, 1996, 1995, 1994, 1993 and 1992 are unaudited. The General Motors selected consolidated historical financial data as of and for the six months ended June 30, 1997 and 1996 have been derived from GM's unaudited consolidated financial statements for such periods, which, in the opinion of GM management, reflect all adjustments (consisting of only normal recurring items) that are necessary to fairly present the selected consolidated historical financial data for such periods. The results for interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year. Pro forma financial statements for General Motors have not been prepared because the Hughes Transactions will not have an ongoing material impact on GM's overall results of operations or financial condition. The Hughes Transactions will, however, initially increase GM's net liquidity by an amount equal to the debt proceeds received by Hughes Defense prior to the Hughes Defense Spin-Off, reduced by the transaction costs (which are currently estimated to be approximately \$100 million).

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 30,			AS OF AND FOR THE YEARS ENDED DECEMBER 31,			
	1997	1996	1996	1995 (A)	1994 (B)	1993	1992 (C)
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)							
<b>OPERATING RESULTS:</b>							
Total net sales and revenues.....	\$ 87,387	\$ 84,022	\$164,069	\$160,272	\$148,499	\$132,991	\$127,378
Costs and expenses.....	81,308	79,586	158,120	151,923	141,401	130,562	130,440
Plant closings expense (adjustments) and provisions for other restructurings.....	80	--	(727)	--	--	950	1,237
Total costs and expenses.....	81,388	79,586	157,393	151,923	141,401	131,512	131,677
Income (loss) from continuing operations before cumulative effect of accounting changes.....	3,894	2,896	4,953	6,033	4,866	1,777	(3,222)
Net income (loss).....	\$ 3,894	\$ 2,906	\$ 4,963	\$ 6,881	\$ 4,901	\$ 2,466	\$ (23,498)
<b>EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO COMMON STOCKS:</b>							
GM \$1 2/3 Common Stock per share from continuing operations before cumulative effect of accounting changes..	\$ 4.98	\$ 3.58	\$ 6.07	\$ 7.14	\$ 5.74	\$ 1.68	\$ (5.33)
Net earnings (loss) per share attributable to GM \$1 2/3 Common Stock.	\$ 4.98	\$ 3.57	\$ 6.06	\$ 7.21	\$ 5.15	\$ 2.13	\$ (38.28)
Income per share from discontinued operations attributable to GM Class E Common Stock...	\$ --	\$ 0.04	\$ 0.04	\$ 1.96	\$ 1.71	\$ 1.51	\$ 1.33
Net earnings (loss) per share attributable to GM Class H Common Stock.....	\$ 1.94	\$ 1.55	\$ 2.88	\$ 2.77	\$ 2.62	\$ 2.30	\$ (2.29)

## CHAPTER 1: INTRODUCTION

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 30,			AS OF AND FOR THE YEARS ENDED DECEMBER 31,			
	1997	1996	1996	1995 (A)	1994 (B)	1993	1992 (C)
<b>BALANCE SHEET DATA:</b>							
Cash and marketable securities.....	\$ 21,017	\$ 18,364	\$ 22,262	\$ 16,018	\$ 15,331	\$ 17,369	\$ 14,533
Total assets.....	231,905	212,897	222,142	213,663	191,145	182,388	184,287
Notes and loans payable.....	89,918	80,756	85,300	81,222	72,545	69,747	81,767
Stockholders' equity...	24,031	20,860	23,418	23,346	12,824	5,598	6,226
Cumulative amount available for payment of dividends (d)							
GM \$1 2/3 Common Stock.	\$ 22,986	\$ 20,758	\$ 22,081	\$ 12,475	\$ 9,014	\$ 4,870	\$ 3,488
GM Class E Common Stock.....	--	--	--	10,672	3,752	3,244	2,546
GM Class H Common Stock.....	3,465	3,096	3,245	2,909	2,169	1,887	1,583
Total.....	\$ 26,451	\$ 23,854	\$ 25,326	\$ 26,056	\$ 14,935	\$ 10,001	\$ 7,617
<b>CASH DIVIDENDS PER SHARE:</b>							
GM \$1 2/3 Common Stock.	\$ 1.00	\$ 0.80	\$ 1.60	\$ 1.10	\$ 0.80	\$ 0.80	\$ 1.40
GM Class E Common Stock.....	--	\$ 0.30	\$ 0.30	\$ 0.52	\$ 0.48	\$ 0.40	\$ 0.36
GM Class H Common Stock.....	\$ 0.50	\$ 0.48	\$ 0.96	\$ 0.92	\$ 0.80	\$ 0.72	\$ 0.72
<b>GM OPERATIONS WITH FINANCING AND INSURANCE OPERATIONS ON AN EQUITY BASIS:</b>							
<b>OPERATING RESULTS:</b>							
Total net sales and revenues.....	\$ 77,198	\$ 74,854	\$ 145,427	\$ 143,754	\$ 134,888	\$ 119,803	\$ 113,489
Costs and expenses....	73,993	72,291	142,938	138,294	129,383	118,449	117,289
Plant closings expense (adjustments) and provisions for other restructurings.....	80	--	(727)	--	--	950	1,237
Total costs and expenses.....	74,073	72,291	142,211	138,294	129,383	119,399	118,526
Income (loss) from continuing operations before cumulative effect of accounting changes.....	3,894	2,896	4,953	6,033	4,859	1,777	(3,504)
Net income (loss).....	\$ 3,894	\$ 2,906	\$ 4,963	\$ 6,881	\$ 4,901	\$ 2,466	\$ (23,498)
<b>BALANCE SHEET DATA:</b>							
Cash and marketable securities.....	\$ 14,917	\$ 13,039	\$ 16,962	\$ 10,241	\$ 10,232	\$ 9,891	\$ 7,386
Total assets.....	140,696	129,935	135,262	130,644	118,860	115,160	115,422
Long-term debt and capitalized leases....	6,155	5,439	5,390	4,280	5,198	5,861	6,495
Stockholders' equity...	24,031	20,860	23,418	23,346	12,824	5,598	6,226

- (a) In November 1995, the Emerging Issues Task Force of the Financial Accounting Standards Board reached a consensus on its Issue No. 95-1, "Revenue Recognition of Sales with a Guaranteed Minimum Resale Value." Adoption of this consensus, effective January 1, 1995, resulted in an unfavorable cumulative effect of \$52 million, or \$0.07 per share, attributable to GM \$1 2/3 Common Stock.
- (b) Effective January 1, 1994, General Motors adopted Statement of Financial Accounting Standards ("SFAS") No. 112, "Employers' Accounting for Postemployment Benefits." The unfavorable cumulative effect of adopting SFAS No. 112 was \$758 million, or \$751 million, or \$1.05 per share, attributable to GM \$1 2/3 Common Stock and \$7 million, or \$0.08 per share, attributable to GM Class H Common Stock.
- (c) General Motors adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective January 1, 1992.

The unfavorable cumulative effect of adopting SFAS No. 106 was \$20.7 billion, or \$33.38 per share, attributable to GM \$1 2/3 Common Stock and \$150 million, or \$2.08 per share, attributable to GM Class H Common Stock. Also, effective January 1, 1992, Hughes Electronics changed its revenue recognition policy for certain commercial businesses. The unfavorable effect of this change on 1992 earnings was \$33 million, or \$0.05 per share, attributable to GM \$1 2/3 Common Stock, and \$7 million, or \$0.10 per share, attributable to GM Class H Common Stock.

- (d) Amount of funds legally available as of such date for the payment of dividends on each class of GM common stock under the GM Certificate of Incorporation. For additional information, see "New GM Class H Common Stock--GM Certificate of Incorporation Provisions Regarding Dividends" in Chapter 6.

OVERVIEW

Hughes Electronics currently conducts its operations in three primary business segments: Aerospace and Defense Systems, Automotive Electronics and Telecommunications and Space. In 1996, these segments represented, respectively, 40%, 33% and 26% of Hughes Electronics' revenues and 44%, 41% and 16% of Hughes Electronics' operating profit (excluding purchase accounting adjustments related to GM's acquisition of Hughes Aircraft in 1985), and operations reported as Corporate and Other represented approximately 1% of revenues and reported an operating loss of \$14.2 million.

The Hughes Transactions involve all three primary business segments of Hughes Electronics, as well as the operations reported as Corporate and Other. The Hughes Reorganization includes a number of preliminary transactions necessary to separate the three primary business segments of Hughes Electronics, and the operations reported as Corporate and Other, into Hughes Defense, Delco and Hughes Telecom. See "Description of the Hughes Transactions--General--Hughes Reorganization" and "Separation and Transition Arrangements" in Chapter 3. After giving effect to the Hughes Reorganization, (1) Hughes Defense generally will consist of businesses currently reported in the Aerospace and Defense Systems segment of Hughes Electronics, (2) Delco generally will consist of businesses currently reported in the Automotive Electronics segment of Hughes Electronics and (3) Hughes Telecom generally will consist of businesses currently reported in the Telecommunications and Space segment and Corporate and Other.

The separate financial statements of Hughes Defense, Delco and Hughes Telecom contained in this document have been prepared in accordance with generally accepted accounting principles and reflect the businesses to be included in each after giving effect to the Hughes Reorganization. Hughes Electronics corporate assets and liabilities have been included in the separate financial statements to the extent identifiable to individual business units. The separate financial statements also include allocations of corporate expenses from Hughes Electronics. Such allocations are based either on actual usage or on allocation methodologies which comply with U.S. government cost accounting standards.

PURCHASE ACCOUNTING ADJUSTMENTS

Certain purchase accounting adjustments arose at the time of GM's acquisition of Hughes Aircraft in 1985. As currently provided in the GM Certificate of Incorporation, the earnings attributable to GM Class H Common Stock for purposes of determining the amount available for the payment of dividends on GM Class H Common Stock specifically exclude such adjustments. A significant portion of these adjustments, which are currently charged against the earnings available for the payment of dividends on GM \$1 2/3 Common Stock, will be eliminated as a result of the Hughes Transactions. The GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, will also provide that, in calculating the amount available for payment of dividends on New GM Class H Common Stock (which amount will also be used to calculate earnings per share of New GM Class H Common Stock), such remaining adjustments applicable to the telecommunications and space business of Hughes Electronics will not be charged against the earnings of New Hughes Electronics.

The Hughes Electronics Summary Consolidated Financial Data (Including Purchase Accounting Adjustments) set forth immediately below reflect the application of such purchase accounting adjustments, which are further described in Notes 1 and 7 to Hughes Electronics' Consolidated Financial Statements in Exhibit 99 to the GM 1996 Form 10-K. More specifically, amortization and disposal of intangible assets associated with GM's purchase of Hughes Aircraft amounted to \$122.3 million in 1996, \$159.5 million in 1995 and \$123.8 million in 1994, and \$61.2 million for both of the six month periods ended June 30, 1997 and June 30, 1996. Such amounts were excluded from the earnings available for the payment of dividends on GM Class H Common Stock and were charged against the earnings available for the payment of dividends on GM \$1 2/3

CHAPTER 1: INTRODUCTION

Common Stock. Unamortized purchase accounting adjustments associated with GM's purchase of Hughes Aircraft were \$2,723.5 million, \$2,845.8 million and \$3,005.3 million at December 31, 1996, 1995 and 1994, respectively, and \$2,662.3 million and \$2,784.6 million at June 30, 1997 and 1996, respectively. In order to assist you in understanding and analyzing Hughes Electronics' financial results, the Hughes Electronics Summary Consolidated Financial Data (Excluding Purchase Accounting Adjustments) do not give effect to such purchase accounting adjustments.

In addition, the separate financial statements of Hughes Defense and Hughes Telecom reflect the application of such purchase accounting adjustments applicable to each of Hughes Defense and Hughes Telecom.

## CHAPTER 1: INTRODUCTION

HUGHES ELECTRONICS SUMMARY CONSOLIDATED FINANCIAL DATA  
(INCLUDING PURCHASE ACCOUNTING ADJUSTMENTS)

The following Hughes Electronics summary consolidated financial data have been derived from the consolidated financial statements of Hughes Electronics. The data should be read in conjunction with Hughes Electronics' Consolidated Financial Statements (including the notes thereto) included in Exhibit 99 to the GM 1996 Form 10-K, which is incorporated into this document by reference. The income statement data for the years ended, and the balance sheet data as of, December 31, 1996, 1995, 1994, 1993 and 1992 have been derived from the consolidated financial statements of Hughes Electronics audited by Deloitte & Touche LLP, independent public accountants. The income statement data for the six-month periods ended, and the balance sheet data as of, June 30, 1997 and 1996 have been derived from unaudited consolidated financial statements of Hughes Electronics. In the opinion of management, the unaudited financial statements reflect all adjustments (consisting of only normal recurring items) that are necessary for fair presentation of financial position and results of operations for such periods. Operating results for the six-month periods ended June 30, 1997 and 1996 are not necessarily indicative of the results that may be expected for the entire year.

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 30,			AS OF AND FOR THE YEARS ENDED DECEMBER 31,			
	1997	1996 (B)	1996 (B)	1995 (B)	1994	1993	1992 (A)
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)							
<b>OPERATING RESULTS:</b>							
Net sales.....	\$ 8,393.8	\$ 7,646.2	\$15,744.1	\$14,714.3	\$14,062.3	\$13,450.2	\$12,169.0
Other income--net.....	500.0	136.4	116.8	48.6	37.1	67.3	128.1
Total Revenues.....	8,893.8	7,782.6	15,860.9	14,762.9	14,099.4	13,517.5	12,297.1
Cost and Expenses.....	7,757.6	6,817.2	14,161.0	13,054.5	12,447.0	12,023.3	12,423.8
Amortization of GM purchase accounting adjustments related to Hughes Aircraft .....	61.2	61.2	122.3	123.4	123.8	123.8	123.8
Total Costs and Expenses.....	7,818.8	6,878.4	14,283.3	13,177.9	12,570.8	12,147.1	12,547.6
Income (loss) before income taxes and minority interests.....	1,075.0	904.2	1,577.6	1,585.0	1,528.6	1,370.4	(250.5)
Income taxes (credit)...	385.3	363.7	605.7	645.6	572.8	572.6	(77.2)
Minority interests in net losses of subsidiaries.....	25.7	16.6	57.0	8.9	--	--	--
Cumulative effect of accounting change.....	--	--	--	--	(30.4)	--	(872.1)
Net Income (loss).....	715.4	557.1	1,028.9	948.3	925.4	797.8	(1,045.4)
Adjustment to exclude the effects of GM purchase accounting adjustments related to Hughes Aircraft.....	61.2	61.2	122.3	159.5	123.8	123.8	123.8
Earnings (loss) used for computation of available separate consolidated net income of Hughes.....	\$ 776.6	\$ 618.3	\$ 1,151.2	\$ 1,107.8	\$ 1,049.2	\$ 921.6	\$ (921.6)
Earnings (loss) per share attributable to GM Class H Common Stock.....	\$ 1.94	\$ 1.55	\$ 2.88	\$ 2.77	\$ 2.62	\$ 2.30	\$ (2.29)
<b>BALANCE SHEET DATA:</b>							
Cash and cash equivalents.....	\$ 1,308.5	\$ 1,000.1	\$ 1,161.3	\$ 1,139.5	\$ 1,501.8	\$ 1,008.7	\$ 702.7
Current assets.....	7,530.2	7,219.2	7,079.0	6,810.8	6,243.6	5,714.3	5,546.8
Total assets.....	21,145.2	16,282.0	16,480.1	15,974.4	14,850.5	14,117.1	14,209.2
Current liabilities.....	4,525.4	4,223.5	4,199.6	4,308.8	3,548.1	3,549.1	3,854.4
Long-term debt and capitalized leases.....	2,405.8	107.6	34.5	258.8	353.5	416.8	711.0
Stockholders' equity....	9,699.6	8,894.7	9,179.9	8,525.7	7,975.8	7,328.1	6,815.0
<b>OTHER DATA:</b>							
Depreciation and amortization.....	\$ 372.8	\$ 322.4	\$ 682.6	\$ 611.1	\$ 594.0	\$ 627.3	\$ 610.9
Capital expenditures....	361.5	397.8	840.2	820.3	746.3	580.0	558.5

(a) Includes the effect of a pre-tax restructuring charge of \$1,237.0 million.

(b) Certain amounts have been reclassified to conform with the June 30, 1997 presentation.



CHAPTER 1: INTRODUCTION  
HUGHES ELECTRONICS UNAUDITED SUMMARY CONSOLIDATED FINANCIAL DATA  
(EXCLUDING PURCHASE ACCOUNTING ADJUSTMENTS)

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 30,		AS OF AND FOR THE YEARS ENDED DECEMBER 31,				
	1997	1996 (B)	1996 (B)	1995 (B)	1994	1993	1992 (A)
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)							
<b>OPERATING RESULTS:</b>							
Net sales.....	\$ 8,393.8	\$ 7,646.2	\$15,744.1	\$14,714.3	\$14,062.3	\$13,450.2	\$12,169.0
Other income--net.....	500.0	136.4	116.8	84.7	37.1	67.3	128.1
<b>Total Revenue.....</b>	<b>8,893.8</b>	<b>7,782.6</b>	<b>15,860.9</b>	<b>14,799.0</b>	<b>14,099.4</b>	<b>13,517.5</b>	<b>12,297.1</b>
<b>Cost and Expenses.....</b>	<b>7,757.6</b>	<b>6,817.2</b>	<b>14,161.0</b>	<b>13,054.5</b>	<b>12,447.0</b>	<b>12,023.3</b>	<b>12,423.8</b>
Income (loss) before income taxes and minority interests.....	1,136.2	965.4	1,699.9	1,744.5	1,652.4	1,494.2	(126.7)
Income taxes (credit)...	385.3	363.7	605.7	645.6	572.8	572.6	(77.2)
Minority interests in net losses of subsidiaries.....	25.7	16.6	57.0	8.9	--	--	--
Cumulative effect of accounting change.....	--	--	--	--	(30.4)	--	(872.1)
<b>Earnings (loss) used for computation of available separate consolidated net income.....</b>	<b>776.6</b>	<b>618.3</b>	<b>1,151.2</b>	<b>1,107.8</b>	<b>1,049.2</b>	<b>921.6</b>	<b>(921.6)</b>
<b>Earnings (loss) per share attributable to GM Class H Common Stock.....</b>	<b>\$ 1.94</b>	<b>\$ 1.55</b>	<b>\$ 2.88</b>	<b>\$ 2.77</b>	<b>\$ 2.62</b>	<b>\$ 2.30</b>	<b>\$ (2.29)</b>
<b>BALANCE SHEET DATA:</b>							
Cash and cash equivalents.....	\$ 1,308.5	\$ 1,000.1	\$ 1,161.3	\$ 1,139.5	\$ 1,501.8	\$ 1,008.7	\$ 702.7
Current assets.....	7,530.2	7,219.2	7,079.0	6,810.8	6,243.6	5,714.3	5,546.8
Total assets.....	18,482.9	13,497.4	13,756.6	13,128.6	11,845.2	10,988.0	10,956.3
Current liabilities.....	4,525.4	4,223.5	4,199.6	4,308.8	3,548.1	3,549.1	3,854.4
Long-term debt and capitalized leases.....	2,405.8	107.6	34.5	258.8	353.5	416.8	711.0
Stockholders' equity....	7,037.3	6,110.1	6,456.4	5,679.9	4,970.5	4,199.0	3,562.1
<b>OTHER DATA:</b>							
Depreciation and amortization.....	\$ 311.6	\$ 261.2	\$ 560.3	\$ 487.7	\$ 470.2	\$ 503.5	\$ 487.1
Capital expenditures....	361.5	397.8	840.2	820.3	746.3	580.0	558.5

- (a) Includes the effect of a pre-tax restructuring charge of \$1,237.0 million.  
(b) Certain amounts have been reclassified to conform with the June 30, 1997 presentation.



CHAPTER 1: INTRODUCTION  
HUGHES DEFENSE SUMMARY COMBINED FINANCIAL DATA

The following Hughes Defense summary combined historical financial data have been derived from the financial statements of Hughes Defense. The data should be read in conjunction with Hughes Defense's Combined Financial Statements (including the notes thereto) included in Appendix C to this document. The income statement data for the years ended December 31, 1996, 1995 and 1994 and the balance sheet data as of December 31, 1996 and 1995 have been derived from the combined financial statements of Hughes Defense audited by Deloitte & Touche LLP, independent public accountants. The income statement data for the years ended December 31, 1993 and 1992 and the six-month periods ended June 30, 1997 and 1996 and the balance sheet data as of June 30, 1997 and 1996 and December 31, 1994, 1993 and 1992 have been derived from unaudited combined financial statements of Hughes Defense. In the opinion of management, the unaudited combined financial statements reflect all adjustments (consisting of only normal recurring items) that are necessary for the fair presentation of financial position and results of operations for such periods. Operating results for the six-month periods ended June 30, 1997 and 1996 are not necessarily indicative of the results that may be expected for the entire year.

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 30,		AS OF AND FOR THE YEARS ENDED DECEMBER 31,				
	1997	1996	1996	1995	1994	1993	1992 (A)
(IN MILLIONS)							
<b>OPERATING RESULTS:</b>							
Net sales.....	\$3,413.3	\$3,053.1	\$6,382.7	\$5,921.8	\$5,896.0	\$6,353.5	\$5,503.8
Other income, net.....	13.3	4.5	9.1	43.0	22.5	24.7	45.2
<b>Total Revenues.....</b>	<b>3,426.6</b>	<b>3,057.6</b>	<b>6,391.8</b>	<b>5,964.8</b>	<b>5,918.5</b>	<b>6,378.2</b>	<b>5,549.0</b>
Cost and Expenses.....	3,118.3	2,765.5	5,770.3	5,309.5	5,314.5	5,605.1	5,836.8
Amortization of GM purchase accounting adjustments related to Hughes Aircraft.....	50.6	50.6	101.3	101.3	101.3	101.3	101.3
<b>Total Costs and Expenses.....</b>	<b>3,168.9</b>	<b>2,816.1</b>	<b>5,871.6</b>	<b>5,410.8</b>	<b>5,415.8</b>	<b>5,706.4</b>	<b>5,938.1</b>
Income (loss) before income taxes.....	257.7	241.5	520.2	554.0	502.7	671.8	(389.1)
Income taxes (credit)...	118.5	111.1	239.3	235.4	226.2	293.9	(182.9)
Cumulative effect of accounting changes.....	--	--	--	--	(7.1)	--	(268.5)
<b>Net Income (loss).....</b>	<b>\$ 139.2</b>	<b>\$ 130.4</b>	<b>\$ 280.9</b>	<b>\$ 318.6</b>	<b>\$ 269.4</b>	<b>\$ 377.9</b>	<b>\$ (474.7)</b>
<b>BALANCE SHEET DATA:</b>							
Cash and cash equivalents.....	\$ 81.6	\$ 29.2	\$ 59.7	\$ 15.7	\$ 58.7	\$ 1.6	\$ 9.1
Current assets.....	3,167.2	3,060.1	2,907.7	2,880.0	2,462.0	2,529.3	2,692.9
Total assets.....	7,382.3	7,175.5	7,028.4	7,025.9	6,249.1	6,548.6	7,012.9
Current liabilities.....	1,665.2	1,835.6	1,889.0	1,959.9	1,604.9	1,814.9	1,624.0
Long-term debt and capitalized leases.....	33.3	48.7	34.4	49.7	57.6	83.9	38.0
Parent Company's net investment.....	5,372.5	4,939.6	4,823.0	4,680.2	4,198.2	4,278.3	4,801.0
<b>OTHER DATA:</b>							
Depreciation and amortization.....	\$ 126.7	\$ 116.8	\$ 246.6	\$ 240.5	\$ 265.5	\$ 295.9	\$ 303.5
Capital expenditures....	\$ 68.8	\$ 55.4	\$ 178.3	\$ 99.4	\$ 174.1	\$ 119.8	\$ 88.1

(a) Includes the effect of a pre-tax restructuring charge of \$833.1 million.

CHAPTER 1: INTRODUCTION  
 DELCO SUMMARY COMBINED HISTORICAL AND PRO FORMA FINANCIAL DATA

The following Delco summary combined historical financial data have been derived from the financial statements of Delco. The data should be read in conjunction with Delco's Combined Financial Statements (including the notes thereto) included in Appendix D to this document. The income statement data for the years ended December 31, 1996, 1995 and 1994 and the balance sheet data as of December 31, 1996 and 1995 have been derived from the combined financial statements of Delco audited by Deloitte & Touche LLP, independent public accountants. The income statement data for the years ended December 31, 1993 and 1992 and the six-month periods ended June 30, 1997 and 1996 and the balance sheet data as of June 30, 1997 and 1996 and December 31, 1994, 1993 and 1992 have been derived from the unaudited combined financial statements of Delco. In the opinion of management, the unaudited combined financial statements reflect all adjustments (consisting of only normal recurring items) that are necessary for the fair presentation of financial position and results of operations for such periods. The Delco unaudited summary pro forma operating results for the six months ended June 30, 1997 and for the year ended December 31, 1996 give effect to the Hughes Transactions as if they had occurred at the beginning of each respective period but do not give effect to the planned integration of Delco and Delphi. The Delco unaudited summary pro forma balance sheet data as of June 30, 1997 give effect to the Hughes Transactions as if they had occurred at that date. Operating results for the six-month periods ended June 30, 1997 and 1996 are not necessarily indicative of the results that may be expected for the entire year. Pro forma data are not necessarily indicative of future financial position or operating results.

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 30,			AS OF AND FOR THE YEARS ENDED DECEMBER 31,					
	PRO FORMA 1997 (A)	1997	1996	PRO FORMA 1996 (A)	1996	1995	1994	1993	1992
(DOLLARS IN MILLIONS)									
<b>OPERATING RESULTS:</b>									
Net sales.....	\$2,904.2	\$2,904.2	\$2,916.0	\$5,560.1	\$5,560.1	\$5,757.2	\$5,560.7	\$4,808.1	\$4,143.5
Other income, net.....	13.8	103.8	89.7	32.4	202.4	195.6	150.6	114.7	158.7
Total Revenues.....	2,918.0	3,008.0	3,005.7	5,592.5	5,762.5	5,952.8	5,711.3	4,922.8	4,302.2
Total Cost and Expenses.....	2,628.0	2,628.0	2,524.0	4,901.9	4,901.9	4,869.0	4,751.6	4,219.3	3,695.1
Income before income taxes.....	290.0	380.0	481.7	690.6	860.6	1,083.8	959.7	703.5	607.1
Income taxes.....	107.6	141.0	183.3	261.4	325.8	411.3	364.7	280.5	209.8
Cumulative effect of accounting changes.....	--	--	--	--	--	--	(35.2)	--	(478.4)
Net Income.....	\$ 182.4	\$ 239.0	\$ 298.4	\$ 429.2	\$ 534.8	\$ 672.5	\$ 559.8	\$ 423.0	\$ (81.1)
<b>BALANCE SHEET DATA:</b>									
Cash and cash equivalents.....	\$ 31.0	\$ 221.8	\$ 756.9		\$ 741.0	\$ 926.1	\$1,243.2	\$ 773.2	\$ 571.3
Current assets.....	1,087.5	4,031.3	3,583.1		3,858.0	3,276.2	2,813.0	2,146.9	1,691.2
Total assets.....	2,448.2	5,592.0	5,510.7		5,464.1	5,186.4	4,842.4	4,205.9	3,779.8
Current liabilities.....	714.5	714.5	894.5		734.2	767.9	927.9	786.6	673.5
Parent Company's net investment.....	585.9	3,779.7	3,580.2		3,662.1	3,402.1	2,949.4	2,566.7	2,288.3
<b>OTHER DATA:</b>									
Depreciation and amortization.....		\$ 113.6	\$ 101.2		\$ 204.4	\$ 155.6	\$ 145.0	\$ 152.0	\$ 125.6
Capital expenditures....		\$ 71.9	\$ 103.0		\$ 196.5	\$ 264.1	\$ 165.7	\$ 149.2	\$ 266.1

(a) Pro forma balance sheet data as of December 31, 1996 and pro forma other data have not been determined.

CHAPTER 1: INTRODUCTION  
HUGHES TELECOM SUMMARY COMBINED HISTORICAL  
AND PRO FORMA FINANCIAL DATA

The following Hughes Telecom summary combined historical financial data have been derived from the financial statements of Hughes Telecom. The data should be read in conjunction with Hughes Telecom's Combined Financial Statements (including the notes thereto) included in Appendix E to this document. The income statement data for the years ended December 31, 1996, 1995 and 1994 and the balance sheet data as of December 31, 1996 and 1995 have been derived from the combined financial statements of Hughes Telecom audited by Deloitte & Touche LLP, independent public accountants. The income statement data for the years ended December 31, 1993 and 1992 and the six-month periods ended June 30, 1997 and 1996 and the balance sheet data as of June 30, 1997 and 1996 and December 31, 1994, 1993 and 1992 have been derived from the unaudited combined financial statements of Hughes Telecom. In the opinion of management, the unaudited combined financial statements reflect all adjustments (consisting of only normal recurring items) that are necessary for the fair presentation of financial position and results of operations for such periods. The Hughes Telecom summary pro forma operating results data for the six months ended June 30, 1997 and for the year ended December 31, 1996 give effect to the PanAmSat Merger that was completed on May 16, 1997 and the Hughes Transactions (including the recapitalization of GM Class H Common Stock into New GM Class H Common Stock) as if they had occurred at the beginning of each respective period. The Hughes Telecom unaudited summary pro forma balance sheet data as of June 30, 1997 give effect to the Hughes Transactions as if they had occurred at that date. Operating results for the six-month periods ended June 30, 1997 and 1996 are not necessarily indicative of the results that may be expected for the entire year. Pro forma data are not necessarily indicative of future financial position or operating results.

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 30,			AS OF AND FOR THE YEARS ENDED DECEMBER 31,					
	PRO FORMA 1997 (A)	1997	1996	PRO FORMA 1996 (A)	1996	1995	1994	1993	1992 (B)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)									
<b>OPERATING RESULTS:</b>									
Net sales.....	\$2,354.8	\$2,235.2	\$1,831.4	\$4,280.7	\$4,099.6	\$3,243.0	\$2,773.5	\$2,263.8	\$2,282.2
Other income (expense), net.....	(11.9)	477.8	104.5	74.9	74.9	(32.4)	(10.0)	160.6	39.0
Total Revenues.....	2,342.9	2,713.0	1,935.9	4,355.6	4,174.5	3,210.6	2,763.5	2,424.4	2,321.2
Cost and Expenses.....	2,227.8	2,184.2	1,728.9	4,079.3	3,943.6	3,192.2	2,678.2	2,155.6	2,266.6
Amortization of GM purchase accounting adjustments related to Hughes Aircraft.....	10.6	10.6	10.6	21.0	21.0	27.2	21.2	21.2	21.2
Total Costs and Expenses.....	2,238.4	2,194.8	1,739.5	4,100.3	3,964.6	3,219.4	2,699.4	2,176.8	2,287.8
Income (loss) before income taxes and minority interests.....	104.5	518.2	196.4	255.3	209.9	(8.8)	64.1	247.6	33.4
Income taxes (credit)...	51.6	213.3	84.7	144.8	100.0	(10.4)	20.6	94.7	6.1
Minority interests in (income) losses of subsidiaries.....	0.9	21.9	15.4	(8.0)	52.6	4.6	--	--	--
Cumulative effect of accounting changes.....	--	--	--	--	--	--	(2.3)	--	(112.8)
Net Income (loss).....	53.8	\$326.8	\$ 127.1	102.5	\$ 162.5	\$ 6.2	\$ 41.2	152.9	(85.5)
Adjustment to exclude the effects of GM purchase accounting adjustments related to Hughes Aircraft.....	10.6			21.0					
Earnings used for computation of available separate consolidated net income of Hughes Telecom.....	\$ 64.4			\$ 123.5					
Earnings per share attributable to New GM Class H Common Stock...	\$ 0.16			\$ 0.31					
<b>BALANCE SHEET DATA:</b>									
Cash and cash equivalents.....	\$2,349.4	\$ 342.8	\$ 5.6		\$ 6.7	\$ 7.6	\$ 5.8	\$ 10.2	\$ 6.4
Current assets.....	4,239.7	2,195.1	1,417.9		1,535.7	1,242.9	1,175.9	1,120.5	1,339.5
Total assets.....	11,654.1	9,177.1	4,243.4		4,479.2	4,047.7	3,662.7	3,222.3	3,100.2
Current liabilities.....	1,383.8	1,301.3	1,132.5		1,281.7	958.2	933.9	816.3	836.6
Long-term debt.....	706.3	2,372.5	--		--	--	--	1.5	125.6
Minority interests.....	643.1	643.1	53.9		21.6	40.2	--	--	--

Redeemable preferred stock of a subsidiary..	401.5	401.5	--	--	--	--	--	--
Parent Company's net investment.....	7,143.8	3,610.9	2,538.1	2,491.6	2,608.9	2,301.0	1,973.3	1,752.3
OTHER DATA:								
Depreciation and amortization.....		\$ 129.4	\$ 99.8	\$ 218.5	\$ 209.2	\$ 163.0	\$ 138.3	\$ 145.0
Capital expenditures....		\$ 220.2	\$ 237.1	\$ 451.4	\$ 446.5	\$ 400.4	\$ 276.1	\$ 187.0

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- (a) Pro forma balance sheet data as of December 31, 1996 and pro forma other data have not been determined.
  - (b) Includes the effect of a pre-tax restructuring charge of \$156.6 million.

CHAPTER 1: INTRODUCTION  
RAYTHEON SUMMARY COMBINED HISTORICAL  
AND PRO FORMA FINANCIAL DATA

The following Raytheon summary combined historical financial data have been derived from the financial statements of Raytheon. The unaudited pro forma combined condensed financial statements of New Raytheon have been derived from the historical consolidated financial statements of Raytheon and the historical combined financial statements of Texas Instruments Defense and Hughes Defense, and give effect to the Raytheon Merger and the Texas Instruments Defense Acquisition using the purchase method of accounting as well as consistent application of Raytheon accounting practices. The data should be read in conjunction with Raytheon's Consolidated Financial Statements (including the notes thereto) which are incorporated into this document by reference. The consolidated historical financial data as of and for the years ended December 31, 1996, 1995, 1994, 1993 and 1992 have been derived from the consolidated financial statements of Raytheon audited by Coopers & Lybrand L.L.P., independent public accountants. The Raytheon consolidated historical financial data as of and for the six-month periods ended June 29, 1997 and June 30, 1996 have been derived from the unaudited financial statements of Raytheon for such periods included in Raytheon's Form 10-Q dated August 13, 1997, which is incorporated into this document by reference. In the opinion of Raytheon management, the unaudited consolidated historical financial statements reflect all adjustments (consisting of only normal recurring items) that are necessary for the fair presentation of financial position and results of operations for such periods. The Raytheon unaudited summary pro forma operating results for the six months ended June 29, 1997 and for the year ended December 31, 1996 give effect to the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition as if they had occurred at the beginning of each respective period. The Raytheon unaudited summary pro forma balance sheet data as of June 29, 1997 give effect to the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition as if they had occurred at that date. Operating results for the six-month periods ended June 29, 1997 and June 30, 1996 are not necessarily indicative of the results that may be expected for the entire year. Pro forma data are not necessarily indicative of future financial position or operating results.

	FOR SIX MONTHS ENDED				FOR THE YEARS ENDED				
	PRO FORMA JUNE 29, 1997 (D)	JUNE 29, 1997	JUNE 30, 1996	PRO FORMA 1996 (D)	1996	1995	1994	1993	1992
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)									
<b>OPERATING RESULTS:</b>									
Net Sales.....	\$10,461	\$ 6,223.9	\$ 5,914.4	\$20,514	\$12,330.5	\$11,804.2	\$10,097.7	\$9,334.1	\$9,121.7
Costs and Expenses.....	9,736	5,631.7	5,318.5	19,114 (a)	11,247.0 (a)	10,612.5 (b)	9,197.8 (c)	8,286.8	8,165.7
Income before Taxes.....	725	592.2	595.9	1,400 (a)	1,083.5 (a)	1,191.7 (b)	899.9 (c)	1,047.3	956.0
Income Taxes.....	277	199.3	200.0	499	322.3	399.2	303.0	354.3	320.9
Net Income.....	448	392.9	395.9	901 (a)	761.2 (a)	792.5 (b)	596.9 (c)	693.0	635.1
Earnings per common share.....	1.32	1.66	1.66	2.65 (a)	3.21 (a)	3.25 (b)	2.26 (c)	2.56	2.36
Dividend declared per common share.....		0.40	0.40		0.80	0.75	0.738	0.70	0.663
<b>BALANCE SHEET DATA:</b>									
Cash and marketable securities.....									
	\$ 181	\$ 181.3	\$ 212.3		\$ 138.8	\$ 210.3	\$ 202.2	\$ 190.2	\$ 88.8
Current assets.....	9,444	6,177.5	6,147.5		5,603.9	5,275.2	4,985.5	4,609.2	3,775.8
Total assets.....	28,281	11,843.1	11,620.9		11,126.1	9,840.9	7,395.4	7,257.7	6,015.1
Current Liabilities.....	10,006	5,136.1	5,427.0		4,691.8	3,690.4	3,283.1	2,800.3	2,136.8
Long-term debt.....	6,650	1,496.6	1,496.1		1,500.5	1,487.7	24.5	24.4	25.3
Stockholders' Equity....	9,943	4,877.5	4,337.5		4,598.0	4,292.0	3,982.2	4,297.9	3,843.2
<b>OTHER DATA:</b>									
Depreciation and amortization.....		\$ 193.0	\$ 175.6		\$ 368.9	\$ 371.4	\$ 304.2	\$ 296.4	\$ 302.1
Capital Expenditures....		\$ 201.4	\$ 203.9		\$ 406.0	\$ 328.6	\$ 267.4	\$ 256.1	\$ 307.7

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- (a) Includes special charge of \$34.0 million pre-tax, \$22.1 million after-tax, or \$.09 per share.
- (b) Includes one-time gain of \$8.0 million pre-tax, \$5.2 million after-tax, or \$.02 per share.
- (c) Includes restructuring charge of \$249.8 million pre-tax, \$162.3 million after-tax, or \$.61 per share.
- (d) Pro forma balance sheet data as of December 31, 1996 and pro forma other data have not been determined.

## RECENT DEVELOPMENTS

## RAYTHEON

## SALE OF PORTIONS OF THE APPLIANCES BUSINESS

On September 10, 1997, Raytheon consummated the sale of its home appliance, heating and air conditioning and commercial cooking businesses to Goodman Manufacturing Company, L.P. for an aggregate amount of \$550 million in cash, subject to adjustment for certain changes in the net working capital of such businesses between December 31, 1996 and the closing date of the transaction. In 1996, these three businesses represented approximately 80% of the sales and 50% of the operating income of Raytheon's Appliance Group. In addition, Raytheon has realized approximately \$200 million from the sale of receivables relating to the businesses which were sold. Raytheon is retaining the commercial laundry and electronics controls businesses of the Appliance Group, but is continuing its strategic review of these remaining businesses. Proceeds from the sale of the three Appliance Group businesses will be used to reduce debt incurred in connection with the Texas Instruments Defense Acquisition.

## TEXAS INSTRUMENTS DEFENSE ACQUISITION

On July 11, 1997, Raytheon purchased substantially all of the assets of, and assumed substantially all the liabilities related to, Texas Instruments Defense for an aggregate amount of \$2.875 billion in cash, subject to post-closing adjustments for certain changes in the net assets of Texas Instruments Defense between September 30, 1996 and the closing date of such purchase. In addition, Raytheon paid \$75 million for an assignment and license of certain related intellectual property. Texas Instruments Defense had 1996 sales of approximately \$1.8 billion. Because the Texas Instruments Defense Acquisition involved the purchase of assets, a significant portion of the goodwill created by the acquisition will be deductible for tax purposes.

## DEBT FINANCINGS

In connection with the Texas Instruments Defense Acquisition and in contemplation of the Raytheon Merger, Raytheon arranged revolving credit facilities with a syndicate of banks totaling \$7.0 billion, \$4.0 billion of which has a maturity of 5 years and \$3.0 billion of which has a maturity of 364 days (collectively, the "Raytheon Facilities"). Raytheon incurred indebtedness in the amount of \$2.95 billion under the Raytheon Facilities in order to finance the Texas Instruments Defense Acquisition. The Raytheon Facilities include covenants which require (1) repayment and reduction of the outstanding commitment of such facilities or similar facilities with 75% of the net cash proceeds from any capital markets financings and asset sales for a period of two years from the closing date and (2) the ratio of total debt to total capitalization not to exceed 65% until July 2, 2000, 60% from July 2, 2000 to January 1, 2002 and 55% thereafter. The Raytheon Facilities rank pari passu with other senior unsecured indebtedness of Raytheon, including the Raytheon Notes (as defined below), and, upon completion of the Raytheon Merger, New Raytheon (including the debt incurred by Hughes Defense as described herein).

On August 12, 1997, Raytheon completed a public offering of \$3.0 billion aggregate principal amount of notes offered with final maturities of three, five, ten and thirty years (the "Raytheon Notes"). The net proceeds from the sale of the Raytheon Notes were used primarily to reduce amounts outstanding under the Raytheon Facilities and to refinance other debt incurred in the Texas Instruments Defense Acquisition, including commercial paper borrowings. Additional proceeds have been and will continue to be used by Raytheon for capital expenditures, working capital requirements and general corporate purposes.

RISK FACTORS

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## RISK FACTORS

In addition to the other information set forth in this document, we urge you to consider carefully each of the factors set forth below. Certain of the following factors are relevant to both GM \$1 2/3 Common Stockholders and GM Class H Common Stockholders in connection with their consideration of the Hughes Transactions and their investment in New Raytheon. Others are relevant principally to GM Class H Common Stockholders in connection with their investment in New GM Class H Common Stock. Finally, the factors relating to non-consummation of the Hughes Transactions are relevant to both GM \$1 2/3 Common Stockholders and GM Class H Common Stockholders.

While certain of the factors discussed below already exist with respect to your investment in General Motors, such as the factors relating to the business of New Hughes Electronics and those relating to GM's dual-class common stock capital structure, you should give additional consideration to these factors in determining whether to consent to the Hughes Transactions.

For information regarding forward-looking statements and information contained in this document generally, see "Forward-Looking Information May Prove Inaccurate" in Chapter 7.

## RISK FACTORS RELATING TO THE HUGHES TRANSACTIONS

All of you (as GM common stockholders) should consider carefully each of the following factors.

## ABILITY OF GENERAL MOTORS TO ACHIEVE POTENTIAL BENEFITS FROM THE INTEGRATION OF DELCO AND DELPHI

We are proposing to transfer Delco from Hughes Electronics to General Motors in order to facilitate the integration of Delco's electronics capability with Delphi's automotive systems and components expertise. We believe that the combined Delco/Delphi entity will be better able to realign its product, technical and manufacturing operations to address strategic objectives for growth and competitiveness and will be able to compete more effectively in markets worldwide by developing new electronically enhanced vehicle systems with improved functionality, lower cost and higher quality. As a result, we expect that Delco will be able to maintain a greater level of business with GM's North American Operations ("GM NAO") than in the absence of the combination and will have improved abilities to achieve and maintain non-GM NAO sales due to access to a larger outside customer base. We also believe that structural savings will accrue as a result of the full integration of Delco and Delphi operations. We also expect General Motors to benefit from this integration in its capacity as a manufacturer of automotive vehicles by virtue of Delco/Delphi being a stronger supplier of automotive systems and components. These potential benefits have been considered by the GM Board in determining the Distribution Ratio, as described below under "Special Factors--Background of the Hughes Transactions--Development of the Hughes Transactions and the Raytheon Merger--September 23, 1997 Capital Stock Committee Meeting" in Chapter 3.

Realization of these potential benefits, however, will depend, in part, on GM's ability to effectively integrate the operations of Delco, which are primarily focused on automotive electronics, and the operations of Delphi, which are primarily focused on automotive systems and components. Although we believe that the operations of Delco and Delphi will be complementary, there can be no assurance that General Motors will not encounter difficulties in merging the operations of Delco with those of Delphi or that the benefits expected from the integration will be realized. The process of fully integrating the businesses of Delco and Delphi may also require a disproportionate amount of time and attention of GM's management, financial and other resources. In addition, integrating the two operations may be made more difficult initially by the necessity of coordinating geographically separated organizations. If General Motors is not successful in integrating the strategies and operations of Delco and Delphi or if the integrated operations fail to achieve market acceptance, the combined business could be adversely affected. For additional information regarding the integration of Delco and Delphi, see "Special Factors--Purposes of the Hughes Transactions--Integration of Delco and Delphi" in Chapter 3 and "--Background of the Hughes Transactions--Development of the Hughes Transactions and the Raytheon Merger--September 23, 1997 Capital Stock Committee Meeting" in Chapter 4.



## LOSS OF POTENTIAL AVAILABILITY OF HUGHES DEFENSE FUNDS AND ASSETS

Upon the consummation of the Hughes Transactions, neither General Motors nor New Hughes Electronics will have any continued ownership interest in Hughes Defense. Accordingly, neither General Motors nor New Hughes Electronics will have access to the funds generated by Hughes Defense to fund GM's other businesses (including the business of New Hughes Electronics) or to satisfy other corporate needs, including in periods of economic downturn. Similarly, as a result of the Hughes Defense Spin-Off, the equity and assets of Hughes Defense will no longer be available to you as GM's common stockholders in the event of the liquidation of General Motors. See "GM Class H Common Stock" in Chapter 6.

Under the current dividend policies and practices of Hughes Electronics and General Motors and since Hughes Defense is a subsidiary of Hughes Electronics, Hughes Electronics and General Motors each retain a significant portion of the funds generated by Hughes Defense. As described elsewhere in this document, the earnings of Hughes Electronics (which include the earnings of Hughes Defense) are used in calculating the dividends payable by General Motors to GM Class H Common Stockholders and by Hughes Electronics to General Motors. The earnings generated by Hughes Defense are currently available to, and have been used to, fund Hughes Telecom's capital needs. Although we believe that the additional funding made available to Hughes Telecom in connection with the Hughes Transactions will enable it to take advantage of certain growth opportunities in the telecommunications and space industry as contemplated by its current business plan, there is no assurance that such funding will be adequate to allow New Hughes Electronics to take advantage of other additional opportunities which may arise in the future, to address competitive pressures or to satisfy all of its long-term capital requirements. Moreover, it is not possible at this time to determine whether, over the long term, such funding will be more or less than that which would have been available from the earnings of Hughes Defense had it not been spun off from General Motors.

## SEPARATION OF HUGHES DEFENSE, DELCO AND HUGHES TELECOM

Under the current General Motors and Hughes Electronics ownership structure, Hughes Defense, Delco and Hughes Telecom have each been able to benefit from certain synergistic alliances and shared resources, such as, among other things, shared development of and access to technology. The Hughes Transactions involve, among other things, the reallocation and transfer of certain assets and liabilities among Hughes Defense, Delco and Hughes Telecom. Although we have determined that continued ownership of Hughes Defense is no longer necessary for the execution of our business strategy (including our strategies with respect to Hughes Telecom and Delco) and certain separation and transitional arrangements (including technology sharing arrangements) will be put in place in connection with the consummation of the Hughes Transactions, there can be no assurance that the business of Hughes Telecom (which will be conducted by New Hughes Electronics) will not be adversely affected by its separation from Hughes Defense and Delco (including with respect to the availability of sufficient funding to satisfy its future capital needs) or that the business of Delco will not be adversely affected by its separation from Hughes Defense and Hughes Telecom. In particular, there can be no assurance that Delco and Hughes Telecom will be able to attain the same level of synergistic benefits through the various technology sharing and other separation and transitional arrangements described elsewhere in this document as would be obtained through continued GM ownership of Hughes Defense (including the benefits of the electronic and systems integration capabilities of Hughes Defense). For additional information regarding the separation of these businesses, see "Description of the Hughes Transactions" in Chapter 3.

In addition, Hughes Defense has benefited directly from its status as a wholly owned subsidiary of General Motors through access to, among other things, GM's worldwide corporate purchasing process and related services. While certain separation and transitional arrangement will provide Hughes Defense with some access to GM's worldwide purchasing process and related services following the Hughes Defense Spin-Off, there can be no assurance that Hughes Defense's access to such services will be sustained at the same level or provide the same benefits. Moreover, Hughes Defense will no longer benefit from such access following the termination of such arrangements. Furthermore, there can be no assurance that the purchasing benefits available to New Raytheon will be similar to those available to General Motors. See "Separation and Transition Arrangements--

Summary of Other Agreements Contemplated by the Master Separation Agreement--  
Corporate Purchasing" in Chapter 3.

IMPACT ON FINANCIAL POSITION AND RESULTS OF OPERATION

Following the Hughes Defense Spin-Off, General Motors will no longer own any of Hughes Defense and, accordingly, GM's consolidated balance sheet will reflect decreased net assets and net liabilities, resulting in an overall reduction in GM stockholders' equity of approximately \$0.6 billion to \$1.6 billion (based on the Recent Raytheon Stock Price, the overall reduction in GM stockholders' equity is estimated to be approximately \$1.6 billion). Although we expect that the Hughes Transactions will initially increase GM's net liquidity as a result of the proceeds from the new indebtedness to be incurred by Hughes Defense prior to the Hughes Defense Spin-Off, we do not expect the Hughes Transactions to have an ongoing material impact on GM's overall credit rating, financial condition or results of operations (including with respect to its gross margin percentage, operating margin percentage, net margin percentage and debt-to-equity ratio). However, there can be no assurance that the Hughes Transactions, in combination with other transactions, operating results and market conditions will not result in a lower credit rating or weaker financial condition than in the absence of the Hughes Transactions. For additional information, see "Description of the Hughes Transactions--Accounting Treatment" in Chapter 3.

## CHAPTER 2: RISK FACTORS

### RISK FACTORS RELATING TO THE BUSINESS OF NEW HUGHES ELECTRONICS

Although the following factors are currently applicable to the telecommunications and space business of Hughes Electronics, all of you (as GM common stockholders) should consider carefully each of the following factors in the particular context of the Hughes Transactions.

#### NO ASSURANCE OF SUFFICIENT FUNDING FOR NEW HUGHES ELECTRONICS

As explained elsewhere in this document, the telecommunications and space industry is experiencing a period of rapid expansion and change, providing participants with many opportunities for strategic growth as well as vigorous competition. We expect the global telecommunications services market to continue to grow due to the high demand for communications infrastructure and the opportunities created by industry deregulation. In this environment, many of Hughes Telecom's competitors are committing substantial capital to capture market opportunities and, in many instances, are forging alliances to acquire or maintain market leadership. Therefore, key success factors include access to capital and financial flexibility in order to take advantage of new market opportunities, respond to competitive pressures and react quickly to other major changes in the marketplace.

Our strategy with respect to Hughes Telecom is to leverage its leadership position in satellite technology to be a leader with emerging telecommunications products and services. This strategy will require substantial investments of capital over the next several years. As part of the Hughes Transactions, GM Class H Common Stock (which currently tracks the financial performance of Hughes Electronics, a diversified corporation which conducts three principal businesses: defense electronics, automotive electronics and telecommunications and space) will be recapitalized into New GM Class H Common Stock (which will track the financial performance of New Hughes Electronics, which will continue the telecommunications and space business of Hughes Electronics). As a result, under the current dividend policies and practices of Hughes Electronics and General Motors, after the Hughes Transactions, New Hughes Electronics will no longer have access to the businesses of Hughes Defense and Delco, which have been used in the past to fund Hughes Telecom, as potential sources of funding to satisfy its capital needs. Although approximately \$3.9 billion of the proceeds of the debt of Hughes Defense will be used to provide an infusion of equity into Hughes Telecom, there can be no assurance that New Hughes Electronics' total capital requirements over the long term will not exceed such amount due to, among other things, presently unanticipated growth opportunities, changes in the competitive environment and cash needs which may arise in connection with certain post-closing adjustments as described elsewhere herein. See "Special Factors--The Distribution Ratio--Post-Closing Payment" and "Separation and Transition Arrangements--Summary of Master Separation Agreement--Post-Closing Adjustment Between New Hughes Electronics and New Raytheon" in Chapter 3.

Although we currently expect that the debt of New Hughes Electronics will be rated investment grade after the completion of the Hughes Transactions, there can be no assurance that New Hughes Electronics will be able to satisfy its capital requirements in the future, whether through access to the capital markets or otherwise, including with respect to funding potentially available through General Motors. A shortfall in such funding and inability to access the capital markets could prevent completion of some or all components of New Hughes Electronics' strategy and impair its ability to react to changes in its markets. The ability of New Hughes Electronics to raise capital will be influenced by, among other things, GM's overall financial condition and rating objectives.

See "Special Factors--Purposes of the Hughes Transactions--Enhance Growth Potential of Hughes Telecom" in Chapter 3 and "Hughes Telecom Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business of Hughes Telecom" in Chapter 4.

#### NEW HUGHES ELECTRONICS' ABILITY TO MAINTAIN LEADING TECHNOLOGICAL CAPABILITIES

After the Hughes Transactions, the ability of New Hughes Electronics to maintain leading technological capabilities will have a greater impact on the New GM Class H Common Stock than the ability of Hughes

## CHAPTER 2: RISK FACTORS

Telecom to do so has on the existing GM Class H Common Stock as a result of the fact that New GM Class H Common Stock will represent a more focused investment in less diversified businesses. The telecommunications and space industry is characterized by rapid technological advances and innovations. There can be no assurance that one or more of the technologies currently utilized or under development by Hughes Telecom, or any technologies that may be developed or utilized by New Hughes Electronics after the Hughes Transactions, may not become obsolete, or that planned products or services will still be in demand by the time they are offered. Competitors of New Hughes Electronics may have or obtain access to proprietary technologies that are perceived by the market as being superior to, or more desirable than, the technologies of New Hughes Electronics.

New Hughes Electronics' operating results will depend to a significant extent on its ability to continue to introduce new products and services successfully on a timely basis and to reduce costs of existing products and services. The success of new product development is dependent on many factors, including proper identification of customer needs, cost, timely completion and introduction, differentiation from offerings of competitors and market acceptance. There can be no assurance that New Hughes Electronics will successfully identify new product or service opportunities and develop and bring new products and services to market in a timely manner, or that products or technologies developed by others will not render New Hughes Electronics' product and service offerings obsolete or noncompetitive. No assurance can be given that any of the technologies on which Hughes Telecom is currently focusing its research and development investments will achieve acceptance in the marketplace, and the lack of such market acceptance could have a material adverse effect on New Hughes Electronics' future competitive position and results of operations.

For additional information, see "Business of Hughes Telecom" in Chapter 4.

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RISK FACTORS RELATING TO GM'S DUAL-CLASS COMMON STOCK CAPITAL STRUCTURE

Although the following factors are currently applicable to your investment in General Motors, all of you (as GM common stockholders) should consider carefully each of the following factors in the particular context of the Hughes Transactions.

POTENTIALLY DIVERGING INTERESTS OF GM'S COMMON STOCKHOLDERS; FIDUCIARY DUTIES OF THE GM BOARD

General Motors will continue to have a dual-class common stock structure after the Hughes Transactions. As described below under "Considerations Relating to GM's Dual-Class Common Stock Capital Structure" in Chapter 6, the existence of two classes of common stock with separate dividend rights as provided for in the GM Certificate of Incorporation, both in its current form and as proposed to be amended in the Hughes Transactions, can give rise to potential divergences between the interests of the holders of each of the separate classes of GM common stock with respect to various intercompany transactions and other matters. Because General Motors is incorporated in Delaware, the laws of Delaware govern the duties of the GM Board. Under Delaware law, the GM Board owes an equal fiduciary duty to all holders of GM common stock and must act with due care and on an informed basis in the best interests of General Motors and all such stockholders regardless of class. General Motors is not aware of any judicial precedent directly addressing the manner in which these fiduciary duties would be applied in the context of a capital structure involving multiple classes or series of capital stock which include terms designed to reflect the separate financial performance of specified businesses. The GM Board, in the discharge of its fiduciary duties, will continue to oversee, principally through its Capital Stock Committee, the policies, programs and practices of General Motors which may impact the potentially divergent interests of the two classes of GM common stock, including the policy statement regarding certain capital stock matters as described below under "Considerations Relating to GM's Dual-Class Common Stock Capital Structure--New GM Board Policy Statement" in Chapter 6.

GM BOARD POLICIES AND PRACTICES ARE SUBJECT TO CHANGE

In connection with its determination of the terms of the New GM Class H Common Stock to be issued in the Hughes Transactions, the GM Board reviewed its policies and practices with respect to its dual-class common stock structure and adopted, subject to the consummation of the Hughes Transactions, a policy statement as to certain capital stock matters, including transactions between General Motors and New Hughes Electronics and the relationship between dividends (if any) to be paid by New Hughes Electronics to General Motors and by General Motors to the New GM Class H Common Stockholders. See "Considerations Relating to GM's Dual-Class Common Stock Capital Structure--New GM Board Policy Statement" in Chapter 6. While the GM Board has no present intention to modify or rescind this policy statement, there can be no assurance in this regard and the policy statement as well as other policies and practices may be modified or rescinded at any time and from time to time by the GM Board and the GM Board may adopt additional policies, practices or policy statements, in each case without the approval of GM's common stockholders. Any such action would be taken by the GM Board in a manner consistent with its fiduciary duties under applicable law to holders of both classes of GM common stock and based on its reasonable business judgment that such decision is in the best interests of General Motors and all its common stockholders.

NEW GM CLASS H COMMON STOCKHOLDERS HAVE NO DIRECT INTEREST IN NEW HUGHES ELECTRONICS

Although New GM Class H Common Stock will be a tracking stock relating to New Hughes Electronics, New GM Class H Common Stockholders will continue to be stockholders of General Motors (not New Hughes Electronics) and, accordingly, will continue to have no direct rights in the equity or assets of New Hughes Electronics, but rather will have rights in the equity and assets of General Motors (which will include 100% of the stock of New Hughes Electronics). The provisions in the GM Certificate of Incorporation, as proposed to be amended in the Hughes Transactions, defining the amounts which may be used to pay dividends on each class of GM common stock will not result in a physical segregation of the assets of General Motors or New Hughes Electronics, nor will it result in the establishment of separate accounts or dividend or liquidation preferences

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with respect to such assets for the benefit of the holders of either of the separate classes of GM common stock. See "Considerations Relating to GM's Dual-Class Common Stock Capital Structure" and "New GM Class H Common Stock" in Chapter 6.

POTENTIAL RECAPITALIZATION OF NEW GM CLASS H COMMON STOCK INTO GM \$1 2/3 COMMON STOCK

Under the GM Certificate of Incorporation, as proposed to be amended in the Hughes Transactions, all outstanding shares of New GM Class H Common Stock may be recapitalized as shares of GM \$1 2/3 Common Stock at a 120% exchange ratio at any time after December 31, 2002 in the sole discretion of the GM Board, as described below under "New GM Class H Common Stock--Recapitalization" in Chapter 6. Any such recapitalization would significantly change both the form and nature of the investment of holders of New GM Class H Common Stock. We cannot predict the impact on the market prices of the GM \$1 2/3 Common Stock or the New GM Class H Common Stock of GM's ability to effect any such recapitalization or the effect, if any, that the exercise by General Motors of this recapitalization right would have on the market price of either or both classes of GM common stock. Nothing in the GM Certificate of Incorporation, as proposed to be amended in the Hughes Transactions, or in the new GM Board policy statement referred to above, will restrict the GM Board's ability to submit from time to time to the GM common stockholders for their consideration and approval one or more transactions on terms different from those provided for by the provisions concerning recapitalization of New GM Class H Common Stock at a 120% exchange ratio or by the policy statement. See "Considerations Relating to GM's Dual-Class Common Stock Capital Structure" and "New GM Class H Common Stock" in Chapter 6.

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ADDITIONAL RISK FACTORS REGARDING NEW GM CLASS H COMMON STOCK

If you are a GM Class H Common Stockholder, you will receive shares of New GM Class H Common Stock in the Hughes Transactions and should therefore consider carefully the following factors.

CHANGES IN NATURE OF TRACKING STOCK INVESTMENT; EARNINGS VOLATILITY

Pursuant to the Hughes Transactions, GM Class H Common Stock, which tracks the financial performance of Hughes Electronics, will be recapitalized and converted into a new class of common stock of General Motors, New GM Class H Common Stock, which will track the financial performance of New Hughes Electronics. Because New Hughes Electronics will have significantly different characteristics than Hughes Electronics on a consolidated basis prior to the Hughes Transactions, including with respect to margins, cash flow, investment needs, competitive environment and future growth prospects, there can be no assurance that the returns on New GM Class H Common Stock will in any way correspond to the historical returns on GM Class H Common Stock. In addition, because New GM Class H Common Stock will track the financial performance of only one of the three primary businesses comprising Hughes Electronics prior to the Hughes Transactions, and because of the nature and characteristics of the telecommunications and space business, the earnings per share of New GM Class H Common Stock are expected to be substantially less than the historical earnings per share of GM Class H Common Stock and may be subject to significantly greater volatility. For 1996, we reported earnings per share attributable to GM Class H Common Stock of \$2.88. In contrast, the pro forma earnings per share attributable to New GM Class H Common Stock calculated as described herein based on the 1996 net income of New Hughes Telecom is \$0.31. Furthermore, as a result of the foregoing, there can be no assurance that the public market for New GM Class H Common Stock will be similar to the public market which currently exists for GM Class H Common Stock.

MARKET VOLATILITY; NO ASSURANCE AS TO MARKET PRICE OR PERFORMANCE OF NEW GM CLASS H COMMON STOCK

In anticipation of and immediately following the consummation of the Hughes Transactions, it is possible that a significant percentage of existing GM Class H Common Stockholders may liquidate their holdings of GM Class H Common Stock or New GM Class H Common Stock, as applicable, due to certain fundamental differences in the nature of the New GM Class H Common Stock as compared to the GM Class H Common Stock. If the market experiences heavy trading in the initial period following the Hughes Transactions due to this turnover, trading prices of the New GM Class H Common Stock may be volatile. Ultimately, the value of each share of New GM Class H Common Stock will be principally determined in the trading markets and could be influenced by many factors, including the terms of the New GM Class H Common Stock, the earnings and financial position of New Hughes Electronics, the growth and expansion of New Hughes Electronics' business, investors' expectations of New Hughes Electronics' prospects, trends and uncertainties affecting the telecommunications and space industry as a whole, issuances and repurchases of New GM Class H Common Stock, GM's consolidated results of operations and financial condition and general economic and other conditions. There can be no assurance as to the market for, or market price of, New GM Class H Common Stock following the completion of the Hughes Transactions.

NO CURRENT CASH DIVIDENDS ON NEW GM CLASS H COMMON STOCK

The payment of dividends on the GM Class H Common Stock is subject to the policies and practices of the GM Board. The current dividend policy of the GM Board is to pay quarterly dividends on GM Class H Common Stock, when, as and if declared by the GM Board, at an annual rate equal to approximately 35% of the Available Separate Consolidated Net Income of Hughes Electronics for the prior year. Notwithstanding the current dividend policy of the GM Board, the quarterly dividend paid on GM Class H Common Stock of \$0.25 per share during the first and second quarters of 1997 and \$0.24 per share during each quarter of 1996 was based on an annual rate higher than 35% of the Available Separate Consolidated Net Income of Hughes Electronics for the preceding year. See "GM Class H Common Stock--Dividend Policy" in Chapter 6.

Following the consummation of the Hughes Transactions, the payment of dividends on the New GM Class H Common Stock will also be subject to the policies and practices of the GM Board. As described elsewhere in this document, the GM Board does not currently intend to initially pay cash dividends on New GM Class H Common Stock. Following the completion of the Hughes Transactions, future earnings (if any) from the telecommunications and space business of New Hughes Electronics will be retained for the development of that business. The GM Board has adopted a policy statement regarding certain capital stock matters, including with respect to the relationship between any dividends that may be paid by New Hughes Electronics to General Motors as its sole stockholder and dividends to be paid by General Motors on the New GM Class H Common Stock. See "Considerations Relating to GM's Dual-Class Common Stock Capital Structure--New GM Board Policy Statement" in Chapter 6. The GM Board reserves the right to reconsider from time to time its policies and practices regarding dividends on New GM Class H Common Stock and to increase or decrease the dividends paid on New GM Class H Common Stock on the basis of GM's consolidated financial position, including liquidity, and other factors, including the earnings and consolidated results of operations and financial condition of New Hughes Electronics. See "New GM Class H Common Stock--Dividend Policy" in Chapter 6.



## RISK FACTORS REGARDING NEW RAYTHEON AFTER THE RAYTHEON MERGER

All of you (as GM common stockholders) will receive shares of Class A Common Stock in the Hughes Defense Spin-Off and, upon the consummation of the Raytheon Merger, will be stockholders of New Raytheon. As stockholders of New Raytheon, you will continue to be subject to a number of business risks relating to the defense electronics industry which already exist in connection with your interest in Hughes Defense, such as the possibility of reductions or changes in the U.S. defense budget, recent consolidation trends in the defense industry and risks relating to U.S. government contracts. In addition to these existing business risks, all of you should consider carefully each of the following factors.

### ABILITY TO ACHIEVE SYNERGIES FROM THE RAYTHEON MERGER; INTEGRATION OF TEXAS INSTRUMENTS DEFENSE

The Raytheon Merger involves the integration of two companies previously operated independently, with separate operations and management. The recent acquisition by Raytheon of Texas Instruments Defense provides additional integration challenges. While this integration is necessary to the future profitability of New Raytheon, New Raytheon may encounter difficulties or may not realize the full benefits expected from such integration. The Raytheon Merger and the Texas Instruments Defense Acquisition will require, among other things, integration of the Raytheon, Hughes Defense and Texas Instruments Defense organizations, business infrastructures and products in a way that enhances the performance of the combined businesses. The challenges posed by these transactions include the integration of numerous geographically separated manufacturing facilities and research and development centers. The success of this transition to an integrated entity will be significantly influenced by New Raytheon's ability to retain key employees, to integrate differing management structures and to realize anticipated cost synergies, all of which will require significant management time and resources. Any material delays or unexpected costs incurred in connection with such integration could have a material adverse effect on New Raytheon's business, operating results or financial condition. New Raytheon management currently anticipates that such integration will result in New Raytheon taking a restructuring charge in 1997, although the amount of such charge is not currently determinable.

### NON-DEFENSE BUSINESSES OF NEW RAYTHEON

Although Raytheon's principal business is the design, manufacture and servicing of advanced electronic devices, equipment and systems for governmental and commercial customers, Raytheon also has significant operations in the engineering and construction, aircraft and appliances businesses. As a result, after the consummation of the Raytheon Merger, a portion of each Class A Common Stockholder's investment will be in these non-defense businesses. Each of these businesses has significantly different characteristics than the businesses of General Motors and Hughes Electronics, including with respect to margins, competitive environment and future growth prospects. For example, the engineering and construction business is subject to risks relating to the uncertainty of international growth, significant start-up costs and the cyclical nature of the engineering and construction industry and the aircraft business is subject to risks relating to the intensely competitive aircraft industry, product liability issues and the U.S. Federal Aviation Administration approval and certification process. In light of these and other risks relating to the non-defense businesses of New Raytheon, there can be no assurance that the financial performance of any of these businesses will match the performance of the businesses of General Motors, Hughes Electronics, Hughes Defense or the defense business of New Raytheon. See "Recent Developments--Raytheon" in Chapter 4 and "Overview of New Raytheon Business" in Chapter 5.

### CERTAIN LIMITATIONS ON CHANGES IN CONTROL OF NEW RAYTHEON; NEW RAYTHEON'S ABILITY TO PARTICIPATE IN FUTURE DEFENSE INDUSTRY CONSOLIDATION

The New Raytheon Certificate of Incorporation and the New Raytheon By-Laws will contain certain provisions, such as a classified board of directors, a provision prohibiting stockholder action by written consent, a provision prohibiting stockholders from calling special meetings and a provision authorizing the New Raytheon Board to consider factors other than stockholders' short-term interests in evaluating an offer

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involving a change in control, which are not present in the GM Certificate of Incorporation or the GM By-Laws. Such provisions could have the effect of delaying, deferring or preventing a change in control of New Raytheon or the removal of New Raytheon management, of deterring potential acquirors from making an offer to stockholders of New Raytheon and of limiting any opportunity to realize premiums over prevailing market prices for New Raytheon Common Stock in connection therewith. The New Raytheon Rights Agreement, which also has no equivalent at General Motors, could have the same effect. See "New Raytheon Capital Stock" and "Comparison of GM Class H Common Stock, New GM Class H Common Stock and Class A Common Stock" in Chapter 6.

Furthermore, in order to preserve the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger, New Raytheon will be subject to certain covenants under the Spin-Off Separation Agreement which will prohibit New Raytheon from entering into or permitting (to the extent that New Raytheon has the right to prohibit) certain transactions and activities, in each case unless General Motors has, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger, determined that such transactions and activities would not jeopardize the tax-free status of any of the foregoing. Such transactions and activities include (1) certain acquisition transactions, stock issuance transactions and stock buyback transactions for two years following the Raytheon Merger; (2) certain recapitalizations, reincorporations and similar transactions affecting the rights and privileges of New Raytheon Common Stock; and (3) certain amendments or changes to the New Raytheon Certificate of Incorporation or the New Raytheon By-Laws for three years following the Raytheon Merger. Such prohibitions, to which General Motors and Hughes Defense are not subject, could have the effect of delaying, deferring or preventing a change in control of New Raytheon and of limiting the opportunity to realize premiums over prevailing market prices for New Raytheon Common Stock in connection therewith during the period of their applicability. In addition, although the opportunities to participate in defense industry consolidation have become fewer as consolidation has progressed, such prohibitions could also have the effect of delaying, deferring, hindering or preventing New Raytheon's ability to take advantage of opportunities that do arise during the period of such prohibitions' applicability, including transactions such as a merger of equals or acquisitions financed by New Raytheon Capital Stock.

For additional information regarding these prohibitions, see "Separation and Transition Arrangements--Summary of Spin-Off Separation Agreement--Preservation of Tax-Free Status of the Hughes Transactions and the Raytheon Merger" in Chapter 3. See also "New Raytheon Capital Stock" and "Comparison of GM Class H Common Stock, New GM Class H Common Stock and Class A Common Stock" in Chapter 6.

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SPECIAL FACTORS

PURPOSES OF THE HUGHES TRANSACTIONS

The Hughes Transactions are designed to address certain strategic challenges facing each of the three principal businesses of Hughes Electronics and to enhance the long-term value of these businesses to General Motors and its common stockholders. The immediate impetus for the timing of the Hughes Transactions is the major consolidation taking place in the U.S. defense industry and the significant opportunities for Hughes Defense presented by the proposed merger with Raytheon.

The Hughes Transactions are intended to accomplish three principal business objectives:

- . Enable Hughes Defense to participate in U.S. defense industry consolidation by merging with Raytheon, thereby achieving the critical mass that will be necessary to continue to compete effectively in the defense industry;
- . Better position Delco and Delphi to participate in the automotive electronics industry trend toward integrated automotive systems procurement by facilitating the combination of Delco and Delphi; and
- . Enhance the growth potential of Hughes Telecom in the expanding global telecommunications market through additional funding and more focused senior management.

Each of these business objectives is discussed in greater detail below.

SPIN-OFF OF HUGHES DEFENSE AND THE RAYTHEON MERGER

The first purpose of the Hughes Transactions is to facilitate Hughes Defense's participation in the U.S. defense industry consolidation through the consummation of the Raytheon Merger. In the period during which Hughes Defense has been an indirect, wholly owned subsidiary of General Motors, the U.S. defense industry has experienced major consolidation. This industry consolidation is the result of a decline since 1986 in the U.S. defense budget and declining defense spending projections for the next several years. The procurement portion of the U.S. defense budget, which has historically been a primary revenue source for Hughes Defense, has declined steadily from approximately \$88.0 billion in 1986 to approximately \$48.0 billion in 1996, and is expected to grow only nominally in the near future. The nature of competition for defense business also has been shifting and is increasingly based on systems capabilities, market presence, cost structure and influence due to the size and scope of the contractor and its workforce. Defense industry participants have viewed consolidation on a major scale as the only viable way to increase product and systems scope and achieve increasing economies of scale in an overall market that is not expected to experience significant growth in the future.

With the July 1997 announcement of the planned merger of Lockheed Martin Corporation ("Lockheed Martin") and Northrop Grumman Corporation ("Northrop Grumman"), the major consolidation of the U.S. defense industry has entered its final stage. This industry consolidation has resulted in the development of two principal tiers of defense industry participants: the defense industry "giants," such as Lockheed Martin, Raytheon (assuming the completion of its merger with Hughes Defense) and The Boeing Company ("Boeing"), and the "niche" players with annual revenues ranging from \$1 billion to \$5 billion. Among the industry "giants," various strategies are currently being pursued. For example, Lockheed Martin is vertically integrated within the defense industry, having extensive capabilities in both "platforms" (such as military aircraft, space launch vehicles and satellites) as well as defense electronics systems. In contrast, Raytheon and Boeing have taken a more horizontal approach, focusing primarily on platforms and defense electronics systems, respectively. All three companies, however, are continuing to shape their portfolios and divest non-core businesses while seeking to establish international alliances and targeting occasional acquisitions.

The Raytheon Merger is intended to allow Hughes Defense to maintain a leading position in the consolidating U.S. defense industry. We believe that the combined businesses of Hughes Defense and Raytheon will represent a strong and viable competitor in the defense electronics industry that will be in a position to implement business synergies for the benefit of the two companies, their stockholders and their principal defense electronics customer, the U.S. government. For information regarding the Raytheon Merger, see "Description of the Raytheon Merger" below.

In the context of these changes in the U.S. defense industry, we have been required during the last several years to spend increasing amounts of board, management and staff time and other resources on Hughes Defense and the strategic challenges it currently faces. The Hughes Defense Spin-Off will also allow us to allocate resources currently devoted to Hughes Defense to our core automotive and other businesses.

#### INTEGRATION OF DELCO AND DELPHI

The second business purpose of the Hughes Transactions is to facilitate the integration of Delco with Delphi. Automobile manufacturers are increasingly moving toward integrated automotive systems procurement from a limited number of suppliers. Manufacturers, including GM's North American Operations ("GM NAO"), also are expected to continue to press their suppliers to accelerate the introduction of new technology and otherwise to aggressively pursue cost reductions. In connection with their ongoing long-term review and assessment of Delco and Delphi and their business strategies, General Motors and Hughes Electronics believe that in order to remain competitive in this industry environment Delco and Delphi must possess the capabilities to produce high quality and low cost fully integrated "systems" designs, as well as the capabilities to manufacture high quality components at continuously lower costs. Although Delco has strong capabilities and market position in various electronic and electro-mechanical components, General Motors and Hughes Electronics have determined that Delco will need to gain access to and strengthen its capabilities in the integration of complete systems which incorporate separate systems and components in powertrain, ride and handling, cockpit and control and communications.

The transfer of Delco from Hughes Electronics to General Motors will position the combined Delco/Delphi business to compete more effectively in the changing market for automotive electronics by allowing General Motors to integrate more fully Delco's electronics capability with Delphi's automotive systems and components expertise. The integration of these operations is intended to accelerate GM's ability to compete aggressively in high-growth markets worldwide by developing new electronically enhanced vehicle systems with improved functionality, lower cost and higher quality. The combined Delco/Delphi entity will be better able to realign its product, technical and manufacturing operations to address strategic objectives for growth and competitiveness.

We expect that the integration of Delco and Delphi will enable Delco to be more competitive with respect to its market share with GM NAO as a result of its redesign of key automotive electronics systems and its introduction of lower cost design solutions. GM NAO will benefit directly from these redesigned automotive systems. In addition, we expect Delco to improve its capability to achieve and maintain additional non-GM NAO sales due to its access to a larger outside customer base. Significant structural savings are also expected to accrue to the combined company as a result of the full integration of the two companies.

Once the integration of Delco and Delphi is completed, General Motors will be in a position to consider the future timing of a possible partial public offering of the combined business operations. General Motors has no present intention to make any such offering.

In September 1997, Ford Motor Company ("Ford") announced its intention to reorganize its component operations into a unit called "Visteon." Ford's objectives with respect to Visteon appear to be similar to GM's strategy with respect to the integration of Delco and Delphi, and include, among other things, increasing sales to other original equipment manufacturers ("OEMs") while also driving efficiencies by increasing outsourcing of Ford's automotive business. It is not clear at this time how this will change the competitive environment for the combined Delco/Delphi entity over time. On the one hand, Visteon will likely be pursuing sales to many of the same OEMs targeted by the combined Delco/Delphi entity. On the other hand, however, Delco/Delphi may have the opportunity to sell to Ford as a result of its outsourcing initiatives.

#### ENHANCE GROWTH POTENTIAL OF HUGHES TELECOM

The third business purpose of the Hughes Transactions is to enhance the ability of Hughes Telecom to take advantage of growth opportunities. The telecommunications industry is experiencing a period of rapid

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expansion and change, providing industry participants with many opportunities for strategic growth as well as vigorous competition. We expect the global telecommunications services market to continue to grow due to the high demand for communications infrastructure and the opportunities created by industry deregulation. In this environment, many of Hughes Telecom's competitors are committing substantial capital to capturing market opportunities and to entering into strategic alliances to acquire or maintain and strengthen market leadership. This market will therefore remain intensely competitive and key success factors for participants will include possession of advanced technological capability, speed in introducing new products and services so as to capture first mover advantages, product differentiation, including access to local and international content, strength in partnering/strategic alliances, ability to react quickly to rapid industry change and financial flexibility.

Hughes Electronics' strategy with respect to the Hughes Telecom business is to leverage its leadership position in satellite technology to become a leader in emerging telecommunications markets for products and services. This strategy requires a significant investment of capital in Hughes Telecom.

General Motors and Hughes Electronics currently believe that Hughes Telecom is the Hughes Electronics business which offers the greatest long-term growth potential. By retaining ownership of Hughes Telecom, General Motors and its stockholders will retain the ability to participate in this rapidly growing industry. The Hughes Transactions and the Raytheon Merger, by providing approximately \$3.9 billion of equity to Hughes Telecom, will help to enable New Hughes Electronics to take advantage of growth opportunities in the telecommunications and space marketplace. The Hughes Transactions will also enable New Hughes Electronics to focus its board, management and staff time and other resources solely on the telecommunications and space business.

We currently believe that continued ownership of the telecommunications and space business of Hughes Electronics in a tracking stock structure will not prevent New Hughes Electronics from executing certain types of strategic alliances where needed to assist it to continue to compete effectively and to grow its business. Continued ownership of the telecommunications and space business of Hughes Electronics in a tracking stock structure also will provide General Motors with the flexibility in the future to issue New Hughes Electronics tracking stock in a tax-efficient manner. The New GM Class H Common Stock will provide its holders with a more focused investment in the Hughes Electronics' telecommunications and space business than the existing GM Class H Common Stock.

Achievement of each of the foregoing business objectives is dependent on numerous factors in addition to the consummation of the Hughes Transactions, many of which are beyond the control of General Motors, Hughes Defense, Delco and Hughes Telecom. Accordingly, there can be no assurance as to whether and to what extent any of such objectives will in fact be achieved if the Hughes Transactions are consummated.

ALTERNATIVES TO THE HUGHES TRANSACTIONS

Before deciding to proceed with the Hughes Transactions, General Motors and Hughes Electronics considered several strategic alternatives involving each of the three Hughes Electronics businesses in an attempt to address the strategic challenges and accomplish the business objectives outlined above under "-- Purposes of the Hughes Transactions." In considering these strategic alternatives, we focused on whether such alternatives were in the best interests of General Motors and its common stockholders, the effect of such alternatives on each class of GM's common stockholders and the potential of such alternatives to maximize value for GM common stockholders.

As a preliminary matter, the GM Board was advised by GM management that any strategic transaction involving Hughes Defense could result in a level of corporate and stockholder tax so high that it would make the transaction uneconomic unless it were accomplished on a tax-free basis. Accordingly, the GM Board determined that any potential strategic transactions involving Hughes Electronics or any of its three principal businesses should be structured so as to generally be tax-free for U.S. federal income tax purposes to General Motors and its stockholders. See "Description of the Hughes Transactions--Certain Federal Income Tax Considerations Relating to Certain of the Hughes Transactions" below.

In addition, the GM Board was advised by GM management that certain issues would arise if any strategic transaction were to result in a recapitalization of GM Class H Common Stock into GM \$1 2/3 Common Stock at a 120% exchange ratio, as currently provided for under certain circumstances in the GM Certificate of Incorporation. These issues included substantial dilution that would likely reduce the value of the GM \$1 2/3 Common Stock, including the new stock of that class to be issued to GM Class H Common Stockholders in any such recapitalization; the substantial change that would result in the form and nature of the investment of GM Class H Common Stockholders, who would be deprived of their tracking stock investment in Hughes Electronics; and the loss of GM's flexibility to finance Hughes Electronics through the tax-free issuance of tracking stock. The GM Board also noted certain practical difficulties and uncertainties involving the application of the recapitalization provision in the context of a complex series of strategic transactions. Accordingly, and in light of the substantial benefits that any proposed strategic transactions would be expected to have for the holders of both classes of GM common stock, the GM Board determined that it would be in the best interests of all of GM's common stockholders to structure any potential strategic transactions involving Hughes Electronics or any of its three principal businesses so as not to result in a recapitalization of GM Class H Common Stock into GM \$1 2/3 Common Stock. See "Description of the Hughes Transactions--No Recapitalization at a 120% Exchange Ratio" below.

After review and consideration of the alternatives described below, the GM Board concluded that, in the context of the opportunities presented by the Raytheon Merger, the Hughes Transactions, taken as a whole, represented the best strategic alternative for Hughes Electronics and its three businesses.

#### HUGHES DEFENSE

As described below under "Background of the Hughes Transactions--Development of the Hughes Transactions and the Raytheon Merger," Hughes Electronics determined that in order to address the strategic challenges facing its defense electronics business and preserve stockholder value, it would pursue a strategic combination between Hughes Defense and another significant player in the defense industry. To do so, we considered two principal alternatives for Hughes Defense which would allow it to participate in the consolidation of the U.S. defense industry in a significant manner:

- . a spin-off of Hughes Defense to GM's common stockholders in the absence of a pre-arranged merger; and
- . the acquisition of another significant player in the U.S. defense industry under the existing GM and Hughes Electronics ownership structure.

A spin-off of Hughes Defense in the absence of a pre-arranged merger would have better positioned Hughes Defense to effectuate its strategic objective of participation in the ongoing U.S. defense industry consolidation by separating Hughes Defense from General Motors. It would allow both General Motors and Hughes Electronics to focus their board, management and staff time and other resources on their remaining businesses. However, the opportunity currently presented by the Raytheon Merger achieves these benefits while offering additional advantages as well. Coupling the spin-off of Hughes Defense with the Raytheon Merger afforded us the ability to proactively select an appropriate merger partner well suited to Hughes Defense and provided management with the ability to influence the strategic direction and future growth of the combined entity, thus helping to ensure GM's common stockholders the highest long-term value for their interest in Hughes Defense. Moreover, because of the time required to spin off Hughes Defense, there was a significant risk that, as the consolidation of the U.S. defense industry proceeded, the parties suitable to combine with the free-standing Hughes Defense would undertake to pursue other strategic transactions and, as a result, be unwilling or unable to enter into a strategic transaction with Hughes Defense when it was a free-standing entity. Also, in light of the ongoing consolidation taking place in the U.S. defense industry, a spin-off of Hughes Defense in the absence of a pre-arranged merger could expose Hughes Defense as a potential takeover target for parties who might not offer a desirable strategic fit or provide an opportunity to realize synergies that

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could optimize Hughes Defense's potential long-term value for the benefit of GM's common stockholders. Consequently, we decided to pursue a spin-off of Hughes Defense as part of a pre-arranged merger transaction.

We also considered from time to time the ability of Hughes Defense to execute a large-scale defense industry acquisition under the existing General Motors and Hughes Electronics ownership structure. We do not believe that such a substantial acquisition is currently a viable alternative. The use of GM's capital resources to effect an acquisition in an industry other than that of GM's core automotive and other businesses would divert resources and management focus and would therefore not be in the best interests of General Motors or its common stockholders. In addition, potential merger partners in the defense industry have expressed an unwillingness in preliminary discussions to enter into a combination with Hughes Defense as long as General Motors owns any material interest in Hughes Defense. Further, although GM Class H Common Stock is currently considered to be a feasible alternative for use in funding smaller acquisitions, we do not believe it is a viable currency for funding larger acquisitions.

DELCO

In light of the industry-wide shift in focus from components to systems sourcing and the continuous drive by manufacturers, including GM NAO, for aggressive cost reductions, we considered two possible alternatives to the Hughes Transactions to effect a strategic alliance between and more fully integrate the operations of Delco and Delphi:

- . the contribution of all or a significant portion of Delphi operations to Hughes Electronics; and
- . the formation of one or more joint ventures between Delco and Delphi.

In light of other available alternatives, we determined that a contribution of all or a significant portion of Delphi operations to Hughes Electronics would not be in the best interests of the GM Class H Common Stockholders because such a transaction would materially alter the fundamental character of GM Class H Common Stock by changing it from a tracking stock relating to the defense electronics, automotive electronics and telecommunications businesses to a tracking stock predominantly relating to an automotive components business with materially different characteristics and long-term prospects. We also determined that contributing only a portion of Delphi's business to Hughes Electronics would not be in the best interests of General Motors and its common stockholders because it would not permit the full realization of the benefits to be gained from integrating Delco and Delphi.

We also considered the formation of one or more joint ventures in which Delphi and Delco would each contribute certain assets to form one or more new automotive components companies. Although this alternative would combine the businesses, we determined that this alternative was less attractive than the transfer of Delco from Hughes Electronics to General Motors. The formation of joint ventures would result in a complicated ownership and organizational structure that would not fully promote realization of potential synergies between Delco and Delphi, and thus would not maximize the potential value for GM's common stockholders. In addition, in light of the tracking stock nature of GM Class H Common Stock, Hughes Electronics' ownership of a joint venture could cause confusion in the capital markets and, as a result, adversely impact the price of GM Class H Common Stock. Finally, joint ventures would limit GM's overall strategic flexibility, thus hindering the full realization of the goals of integration.

HUGHES TELECOM

The principal alternative we considered for Hughes Telecom was a spin-off of all or a portion of the Hughes Telecom business to GM's common stockholders (possibly in connection with an initial public offering). We believe that a spin-off of Hughes Telecom would not be in the best interests of General Motors or its common stockholders at the present time for several reasons. First, we believe that Hughes Telecom represents an attractive investment for General Motors and its stockholders since it is the Hughes Electronics



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business which currently offers the greatest growth potential. Both classes of GM's common stockholders will participate in this growth through their ownership of GM common stock. Second, a spin-off of Hughes Telecom at this time could have potentially adverse implications for the credit ratings of General Motors and GMAC because it would further reduce GM's book equity and its funding flexibility. Third, a spin-off of Hughes Telecom generally would reduce GM's strategic flexibility, including the elimination of its ability to issue equity interests relating to Hughes Telecom, such as the New GM Class H Common Stock, without incurring corporate level tax. Any negative impacts on General Motors from credit rating downgrades and reduced flexibility are also likely to affect negatively the interests of stockholders in General Motors.

After examining the alternatives described above, General Motors concluded that the Hughes Transactions offered the most comprehensive solution to the strategic challenges and business objectives described above in "--Purposes of the Hughes Transactions."

BACKGROUND OF THE HUGHES TRANSACTIONS

GM'S ACQUISITION OF HUGHES AIRCRAFT

General Motors organized Hughes Electronics in 1985 in connection with its acquisition of Hughes Aircraft from the Howard Hughes Medical Institute ("HHMI"). In that transaction, General Motors paid HHMI approximately \$2.7 billion in cash and delivered to HHMI 100 million shares of newly-created GM Class H Common Stock. In connection with the Hughes Aircraft acquisition, Hughes Aircraft and Delco (then consisting of GM's Delco Electronics Division, the instrument and display systems business unit of GM's AC Spark Plug division, and Delco Systems Operations) were contributed to Hughes Electronics.

There were two principal reasons for GM's contribution of Delco to Hughes Electronics, whose earnings were to be the basis for dividend payments on the GM Class H Common Stock. First, from a financial perspective, the contribution allowed General Motors to reduce the amount of cash otherwise required to be paid to HHMI in order to acquire Hughes Aircraft. Moreover, the value attributed to Delco by HHMI and General Motors in connection with the Hughes Aircraft acquisition reflected a price/earnings multiple which was higher than that attributed to GM's overall earnings and more consistent with multiples applied to other automotive component manufacturers. Second, from an operational perspective, the contribution of Delco to Hughes Electronics was intended to facilitate the exploitation of Hughes Aircraft's electronics experience and technology for the benefit of Delco. General Motors expected this combination to be particularly important as the electronic content of cars and trucks increased, with new electronic systems to improve driveability, fuel economy, safety, comfort and emissions control and enhanced information, communications and entertainment systems. While a portion of such synergies have been identified and realized, especially in the areas of automotive safety and security products, General Motors believes that it is now positioned to attain any additional synergistic benefits through alternative mechanisms such as the various technology sharing and other separation and transitional arrangements which will be put in place in connection with the Hughes Transactions. For a description of some of these arrangements, see "Separation and Transition Arrangements--Summary of Other Agreements Contemplated by the Master Separation Agreement" below. We therefore have determined that ownership of Hughes Defense is not necessary for General Motors to obtain for Delco the benefits of the electronic and systems integration capabilities of Hughes Defense.

DEVELOPMENT OF THE HUGHES TRANSACTIONS AND THE RAYTHEON MERGER

The Hughes Transactions arise out of the convergence of several initiatives undertaken by General Motors and Hughes Electronics to assess and enhance the long-term value of each of Hughes Electronics' three businesses to General Motors and its common stockholders. However, the immediate impetus for the timing of the Hughes Transactions is the major consolidation taking place in the U.S. defense industry and the significant opportunities for Hughes Defense presented by the Raytheon Merger.

Largely in response to the developing consolidation of the U.S. defense industry, General Motors and Hughes Electronics engaged from time to time during the past few years in preliminary discussions with other defense companies regarding possible strategic transactions involving Hughes Defense. Beginning in the fall of 1995, Hughes Electronics management personnel and financial, legal, tax, accounting and other advisors met from time to time as part of an intensive assessment of the strategic objectives of each of the three principal businesses of Hughes Electronics and to consider legal, tax and accounting issues that would be presented by any transaction or series of transactions involving these businesses that might be proposed. Hughes Electronics determined in late 1995 that it must develop certain strategies with respect to its defense electronics business in order to address strategic challenges and preserve stockholder value. Accordingly, Hughes Electronics identified and considered four strategic alternatives with respect to Hughes Defense:

- . Continue existing business strategy.
- . Pursue selective acquisitions of smaller defense businesses.
- . Proactively pursue a merger or other significant business combination.
- . Exit the defense electronics business.

In connection with its evaluation of these strategic alternatives, Hughes Electronics considered the strategic value of various combinations of Hughes Defense with one of several other defense industry participants. After careful consideration of each of these alternatives, Hughes Electronics determined that a strategy of proactively pursuing a combination of Hughes Defense with the defense business of another significant industry participant represented the best alternative in order to maximize stockholder value with respect to Hughes Defense. In addition, Hughes Electronics determined to continue to pursue selective acquisitions of smaller defense businesses.

During this period, Hughes Electronics also began to consider various strategic alternatives for Delco and Hughes Telecom, as described above under "Purposes of the Hughes Transactions." Hughes Electronics determined that pursuing a combination of Hughes Defense with another defense industry participant would be consistent with its strategies with respect to Delco (i.e., to integrate the business operations of Delco and Delphi) and Hughes Telecom (i.e., to enhance Hughes Telecom's growth potential).

During 1995, Hughes Electronics engaged in informal discussions at the senior management level with Loral Corporation ("Loral") regarding the feasibility of a strategic combination of Hughes Defense with the defense business of Loral. There was no discussion of price or potential structure for such a combination. Such discussions ended in late 1995 and prior to the announcement of Lockheed Martin's agreement to acquire Loral on January 7, 1996.

In early 1996, General Motors and Hughes Electronics began to consider and assess various alternative structures for a transaction or series of transactions involving Hughes Defense and the other principal businesses of Hughes Electronics. Although Hughes Electronics also continued to pursue selective acquisitions, Hughes Electronics management believed that Lockheed Martin's acquisition of Loral's defense business in early 1996 rendered the pursuit of selective acquisitions ineffective as a long-term business strategy for Hughes Defense. Hughes Electronics management determined that a strategic combination with a significant industry participant was required because Lockheed's acquisition of Loral's defense business significantly changed the profile of the defense industry by increasing the size, and the related economies of scale and operating efficiencies, necessary to compete effectively for government contracts.

Beginning in early 1996, Hughes Electronics engaged in discussions with Raytheon regarding a combination of Raytheon's defense business with Hughes Defense. Potential structures for such a combination, tax issues (including whether to seek an IRS ruling or to rely instead on an opinion of tax counsel) and timing issues were discussed. In April 1996, General Motors terminated such discussions in order to focus on other strategic activities. Hughes Electronics and Raytheon recommenced discussions regarding a possible combination in late July 1996. Negotiations continued through November 20, 1996, when both parties agreed to

terminate such negotiations and pursue other alternatives after they were unable to reach agreements on certain management issues.

In October 1996, Hughes Defense began to participate in the auction process for the Texas Instruments Defense business. On January 6, 1997, Raytheon announced its plans to acquire the Texas Instruments Defense business for approximately \$3.0 billion in cash.

Following the termination of discussions with Raytheon in November 1996, General Motors and Hughes Electronics initiated preliminary discussions with Northrop Grumman regarding a possible transaction involving Hughes Defense. On November 23, 1996, Raytheon made a proposal, on an unsolicited basis, for a strategic transaction with Hughes Defense. Raytheon's new proposal was discussed by GM management and Hughes Electronics management and their respective advisors. GM management and Hughes Electronics management then determined to recommend that the GM Board establish a process for soliciting appropriate merger proposals for Hughes Defense, including from Raytheon and Northrop Grumman.

December 1, 1996 Hughes Electronics Board Meeting. At the December 1, 1996 meeting of the Hughes Electronics Board, Hughes Electronics management presented an update of recent developments in connection with various discussions regarding the possible combination of Hughes Defense with another defense industry participant, including the recent termination of discussions with Raytheon and Raytheon's new unsolicited proposal to merge with Hughes Defense. Following discussion of these and related matters, the Hughes Electronics Board determined to recommend that the GM Board implement a process to solicit merger proposals for Hughes Defense from a selected group of potential merger partners and develop definitive terms relating to a strategic transaction involving Hughes Defense, subject to the subsequent approval of the Hughes Electronics Board and the GM Board. As noted above, Hughes Electronics had for some time been reviewing and assessing the strategic challenges facing each of its three principal businesses and it had for some time been contemplated that any transaction involving Hughes Defense would be a part of a series of transactions involving each of the Hughes Electronics businesses.

December 2, 1996 Capital Stock Committee Meeting. At the December 2, 1996 meeting of the Capital Stock Committee, GM management and Hughes Electronics management presented information regarding the termination in early November 1996 of discussions with Raytheon, the unsolicited proposal to merge with Hughes Defense which was submitted by Raytheon, a recommended procedure for soliciting merger proposals for Hughes Defense from a selected group of potential merger partners, the estimated financial results of various alternative structures for any such merger transaction, a proposed timetable for performing due diligence and receiving merger proposals based on comparable non-financial terms and the implications of Hughes Electronics' interest in acquiring Texas Instruments Defense. The Capital Stock Committee discussed these and other related matters and considered the proposed process for overseeing the development of a potential spin-off of Hughes Defense, including the formation of a special committee of the GM Board to oversee the process, to be comprised of the members of the Capital Stock Committee and the GM directors who also serve on the Hughes Electronics Board. The Capital Stock Committee determined to recommend to the GM Board that such a committee be established.

December 2, 1996 GM Board Meeting. At its meeting on the same day, which was attended by all but one of GM's directors, the GM Board received a report of the matters discussed at the Capital Stock Committee held earlier that day and directed GM management to analyze further the business, financial, tax and legal issues relating to the contemplated transactions (including matters relating to the fairness of the transactions to the holders of both classes of GM common stock) for the purposes of developing specific terms of a proposed transaction that would accomplish the goals of the contemplated transactions. For the reasons described above under "Special Factors--Alternatives to the Hughes Transactions," the GM Board also determined that it would not propose any transaction or series of transactions that would result in the recapitalization of GM Class H Common Stock into GM \$1 2/3 Common Stock at the 120% exchange ratio as provided for under certain circumstances in the GM Certificate of Incorporation. The GM Board then authorized the implementation of a process to be managed by a joint GM management and Hughes Electronics management

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team, in consultation with their respective financial, legal and other advisors, to solicit expressions of interest in a tax-free merger involving Hughes Defense from defense industry participants who might constitute an appropriate merger partner for Hughes Defense. The GM Board also established the special committee recommended by the Capital Stock Committee, designated as the "Hughes Defense Spin-Off Committee," composed of John G. Smale, Thomas H. Wyman, John H. Bryan, Ann D. McLaughlin, Edmund T. Pratt and Dennis Weatherstone. The GM Board authorized the Hughes Defense Spin-Off Committee, during the periods between meetings of the GM Board, to exercise all powers and authority of the GM Board in connection with a spin-off or other strategic transaction involving the defense electronics business of Hughes Electronics and related transactions and other matters.

Soliciting a Merger Partner for Hughes Defense. In connection with the process of soliciting a merger partner for Hughes Defense, the joint management team was assisted by financial and legal advisors, Goldman Sachs and Weil, Gotshal & Manges LLP, who had previously been engaged on behalf of General Motors and Hughes Electronics in connection with the prior discussions with Raytheon. The joint management team also received support from the financial, legal and tax staffs of General Motors and Hughes Electronics and from GM's legal and tax counsel, Kirkland & Ellis, who also had previously been engaged on behalf of General Motors in connection with the prior discussions with Raytheon. In addition, the joint management team received assistance from Deloitte & Touche LLP on accounting issues and due diligence analyses of prospective merger partners.

The joint management team, based on advice from Goldman Sachs and antitrust and tax advisors, determined that certain participants in the defense industry either could not or would not participate in the Hughes Defense bid solicitation process for antitrust, tax or other reasons. As a result, the joint management team invited four parties, Boeing, McDonnell Douglas Corporation ("McDonnell Douglas"), Raytheon and Northrop Grumman, to participate in the bid process. Boeing elected not to participate, explaining that it did not embrace the concept of vertical integration and thus was not interested in a strategic combination with a defense electronics systems provider such as Hughes Defense. Subsequently, the joint management team met with and provided access to information about Hughes Defense to McDonnell Douglas, Raytheon and Northrop Grumman. Each was provided a term sheet and draft agreements for its review. The term sheet and draft agreements included certain features intended to ensure that the Hughes Defense Spin-Off and the subsequent merger would be tax-free to General Motors and its stockholders and provided for a transaction structure substantially similar to that eventually contained in the agreements signed with Raytheon. The parties were asked to submit proposals by December 13, 1996.

Proposals were submitted by Raytheon and Northrop Grumman on the date requested and Northrop Grumman increased the value of its proposal in a subsequent revised submission on December 17, 1996. McDonnell Douglas failed to submit a proposal and, on December 15, 1996, announced an agreement to be acquired by Boeing. Raytheon submitted two separate proposals. The first proposal was to merge Hughes Defense with the defense business of Raytheon, with a total value estimated to be approximately \$8.3 billion (based on prior estimates of synergies) to General Motors and its common stockholders, comprised of debt of Hughes Defense and 45% of the common stock of the new company. The second proposal was to merge Hughes Defense with Raytheon, with a total value of approximately \$8.5 billion to General Motors and its common stockholders (subject to a "collar" mechanism designed to preserve the value of the transaction to General Motors and its common stockholders), comprised of debt of Hughes Defense and 30% of the common stock of the new company. Northrop Grumman's proposal, as revised, was to form a new company which would assume \$3.8 billion debt of Hughes Defense and in which GM's common stockholders would own 45-50% of the common stock of the new company. The Northrop Grumman proposal did not contain a "collar" mechanism. Based on the then-current market price of Northrop Grumman's common stock, the revised proposal submitted on December 17 was valued at approximately \$8.3 billion.

December 17, 1996 Hughes Defense Spin-Off Committee Meeting. On December 17, 1996, the Hughes Defense Spin-Off Committee received a report from C. Michael Armstrong, Chairman and Chief Executive Officer of Hughes Electronics, that Raytheon and Northrop Grumman had submitted proposals to merge with

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Hughes Defense immediately after a spin-off of Hughes Defense from General Motors. The Hughes Defense Spin-Off Committee reviewed and considered the proposals. Upon the recommendation of GM management and Hughes Electronics management and the Hughes Electronics Board, the Hughes Defense Spin-Off Committee authorized the joint management team to continue the negotiation process with both Raytheon and Northrop Grumman, setting January 6, 1997 as the deadline to receive from each company a final proposal for a strategic transaction involving Hughes Defense. The Hughes Defense Spin-Off Committee discussed several factors that it could consider in evaluating the proposals, including the terms of the proposed transaction, the likelihood of completing the proposed transaction and the certainty of the valuation of the consideration offered in connection with the proposed transaction, particularly with regard to the long-term value of any equity in the combined company.

Further discussions were held with each of Raytheon and Northrop Grumman and their respective financial advisors and each party was provided with further due diligence opportunities regarding Hughes Defense. During this period, the joint management team and its advisors also conducted due diligence reviews of Raytheon and Northrop Grumman. In addition, the joint management team's legal advisors discussed the draft agreements with each party and distributed revised drafts of the proposed agreements. Each party was asked to submit a final proposal not later than January 6, 1997.

Final Merger Proposals Received. On January 6, 1997, each of Raytheon and Northrop Grumman submitted revised proposals with respect to the proposed merger with Hughes Defense, including comments on the proposed agreements. Raytheon submitted only one revised proposal, in which Hughes Defense would merge with Raytheon, with a total value (as estimated by Raytheon at the time) of approximately \$9.0 billion to General Motors and its common stockholders. The basic structure of such proposal was substantially the same as the structure of the Raytheon Merger and the relevant portions of the Hughes Transactions proposed in this document. Northrop Grumman's revised proposal was for the new company to assume \$4.475 billion debt of Hughes Defense and for GM's common stockholders to own 50% of the common stock of the new company.

On January 6 and 7, 1997, the joint management team, working together with its financial, tax and legal advisors, reviewed each party's submission and discussed the proposals with each party and its advisors in an attempt to seek clarification with respect to certain matters. These matters included, among other things, total value of the proposals, the treatment of stock options held by Hughes Defense employees and, in the case of Northrop Grumman, the addition of a "collar" mechanism to its proposal. Based on these discussions, as requested by the joint management team, each of Raytheon and Northrop Grumman submitted final proposals to General Motors and Hughes Electronics on the evening of January 8, 1997. The final proposals of Raytheon and Northrop Grumman were substantially comparable, other than with respect to the total value of the consideration offered (which consisted, in each case, of a combination of common stock in the new company and debt to be assumed by the new company, protected by an equity collar). Raytheon's final proposal was valued at approximately \$9.5 billion and Northrop Grumman's final proposal was valued at approximately \$9.3 billion.

On January 8 and 9, 1997, the joint management team, in consultation with its financial, legal, tax and other advisors, reviewed and discussed the final proposals of Raytheon and Northrop Grumman. The joint management team also had additional discussions with Raytheon regarding its final proposal, including the definitive agreements included as part of its final proposal. Based on the foregoing, the joint management team determined to recommend that Raytheon be selected as the merger partner for Hughes Defense, subject to the ability to resolve with Raytheon the remaining open issues, including, among other things, the conditions under which a break-up fee would be payable.

January 10, 1997 GM President's Council Meeting. On January 10, 1997, the GM President's Council, GM's senior policy-making management body, met to discuss and consider the final proposals of Raytheon and Northrop Grumman. For additional information regarding the GM President's Council, including the identity of the current members, see the definition of "GM President's Council" in the Glossary. At such meeting, the

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joint management team presented its recommendation that Raytheon be selected as the merger partner for Hughes Defense. Goldman Sachs made a presentation to and held discussions with the GM President's Council concerning Raytheon and Northrop Grumman and their respective merger proposals, including certain relevant valuation considerations. Legal counsel presented a summary of the status of the documentation and tax counsel reviewed certain tax considerations and presented its views on the two proposals. After discussion, the GM President's Council concurred with the joint management team's conclusion and determined that it would make a recommendation to the Hughes Defense Spin-Off Committee that General Motors proceed with negotiations regarding the spin-off of Hughes Defense and the subsequent merger of Hughes Defense with Raytheon (assuming that an acceptable resolution could be reached with Raytheon regarding the few remaining open items (discussed below)).

January 10, 1997 Hughes Defense Spin-Off Committee Meeting. Following the GM President's Council meeting on January 10, 1997, there was a meeting of the Hughes Defense Spin-Off Committee, at which the recommendations of the joint management team and the GM President's Council were discussed. The Hughes Defense Spin-Off Committee also considered information presented by GM management and Hughes Electronics management and their respective financial and legal advisors, including the terms of the proposals, valuation matters, certain financial data and potential synergies. After discussion, the Hughes Defense Spin-Off Committee authorized the management team to negotiate exclusively with Raytheon to reach a satisfactory resolution of the remaining open items. The remaining open items included, among other things, certain matters relating to the prompt finalization of the legal documentation for the proposed transaction, the composition of the board of directors and certain board committees of the post-merger company and confidentiality with respect to the proposed transaction with Hughes Defense.

On January 10, 1997, the joint management team received a communication from Raytheon clarifying the remaining open items with respect to its proposal. Thereafter, the joint management team and its advisors negotiated with Raytheon the final terms of its merger proposal, resolved all outstanding issues and finalized the related definitive agreements.

January 16, 1997 Hughes Defense Spin-Off Committee Meeting. At the January 16, 1997 meetings of the Hughes Defense Spin-Off Committee, the Hughes Electronics Board, the Capital Stock Committee and the GM Board, GM management and Hughes Electronics management reported their respective recommendations that General Motors proceed with the Hughes Transactions and the Raytheon Merger. The principal discussion of these matters took place during the meeting of the Hughes Defense Spin-Off Committee. All of the members of the Hughes Electronics Board and all members of the GM Board were invited to attend this meeting. The meeting was attended by all members of the Hughes Defense Spin-Off Committee (which included all members of the Capital Stock Committee and all members of the GM Board who also served as members of the Hughes Electronics Board), by all other members of the Hughes Electronics Board and by certain other members of the GM Board. The meeting was also attended by representatives of Weil, Gotshal & Manges LLP, legal counsel to the Capital Stock Committee and legal counsel to Hughes Electronics in connection with the Raytheon Merger, and Kirkland & Ellis, legal and tax counsel to General Motors. At this meeting, the Hughes Defense Spin-Off Committee discussed and considered the series of related transactions comprising the Hughes Transactions, including their effects on the three businesses of Hughes Electronics and on the holders of the two classes of GM common stock, and the merger of Hughes Defense with Raytheon.

Thomas Wyman, Chairman of the Hughes Defense Spin-Off Committee, initially observed that the meeting would be based on certain written materials that had been previously delivered to all members of the GM Board, including management reports on the proposed transactions, certain financial information and other materials from GM's financial and legal advisors. Mr. Wyman then described the process by which the Hughes Defense Spin-Off Committee would review in detail the proposed transactions and vote upon a recommendation that would then be considered by the Hughes Electronics Board, the Capital Stock Committee and the GM Board in successive meetings.

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John F. Smith, Jr., Chairman, Chief Executive Officer and President of General Motors, outlined the series of related transactions that comprise the Hughes Transactions and summarized their effects on the three businesses of Hughes Electronics and on holders of the two classes of GM common stock. Mr. Smith explained that both classes of GM common stock would receive shares of Hughes Defense in the Hughes Defense Spin-Off in accordance with the Distribution Ratio to be discussed by Mr. Finnegan following Mr. Smith's presentation. In addition, the GM \$1 2/3 Common Stockholders would gain from the operational synergies resulting from the combination of Delco and Delphi, while GM \$1 2/3 Common Stockholders and GM Class H Common Stockholders would benefit from an infusion of cash into Hughes Telecom. Mr. Smith explained that the Hughes Transactions were expected to produce these results without creating any material tax liability for U.S. federal income tax purposes to General Motors and its stockholders.

John D. Finnegan, Vice President and Treasurer of General Motors, presented a detailed review of the Hughes Transactions, and explained that the proposed merger with Raytheon was conditioned on the independence of Hughes Defense immediately prior to the merger and that the Hughes Defense Spin-Off was intended to satisfy this condition. Mr. Finnegan noted the following underlying economic conditions and strategic considerations that favored the Hughes Transactions: Hughes Defense's need to participate in the continuing consolidation of the U.S. defense industry, the benefits to Delco of integration with Delphi to develop full in-house systems capability and Hughes Telecom's potential for growth and related requirement for significant investment. Mr. Finnegan described several principal benefits resulting from the Hughes Transactions, including the receipt of cash by Hughes Telecom to help meet its expected capital requirements, the organizational flexibility that would permit additional reorganization of the businesses comprising Delco and Delphi and the increased focus of the New GM Class H Common Stock on the telecommunications and space business of Hughes Electronics.

Mr. Finnegan noted that GM management recommended that the Distribution Ratio be set shortly before the distribution of consent solicitation materials relating to the Hughes Transactions in order to reflect then current business and financial information and market data. He explained that the Distribution Ratio would be set at a level that would (1) enable the GM Board to conclude that, as of the date of the determination of the Distribution Ratio, the Hughes Transactions, taken as a whole, are in the best interests of General Motors and its common stockholders and fair to the holders of each class of GM common stock, and (2) enable each of GM's financial advisors in connection with the Hughes Transactions, Merrill Lynch and Salomon Brothers, to provide a written opinion as to the fairness, from a financial point of view, to each class of GM common stockholders of the consideration to be provided to General Motors and its subsidiaries and to each class of GM common stockholders in the Hughes Transactions. For additional information regarding these fairness opinions, which were delivered to the GM Board on October 6, 1997, see "---Hughes Transactions Fairness Opinions: Merrill Lynch and Salomon Brothers" below. Copies of the Merrill Lynch Fairness Opinion and the Salomon Brothers Fairness Opinion, in each case setting forth the assumptions made, matters considered and limitations of the review undertaken, are attached as part of Appendix B to this document.

Mr. Finnegan also described certain studies being conducted by GM management with respect to the possibility of realigning the businesses of Delco and Delphi into two companies and considering various ownership structures for these businesses. Mr. Finnegan then summarized the principal features of the Hughes Defense Spin-Off and the Raytheon Merger, including certain characteristics of the capital stock of the combined company and their importance for obtaining tax-free treatment of the proposed transactions for U.S. federal income tax purposes, and described certain conditions precedent to proceeding with the Hughes Transactions. He also discussed the anticipated accounting treatment, the effect of the Hughes Transactions on GM's credit ratings and the anticipated reaction of the investment community to the Hughes Transactions.

Mr. Armstrong then presented information relating to the proposed merger of Raytheon with Hughes Defense, including the strategic planning efforts relating to Hughes Defense which ultimately led to the proposed merger with Raytheon. Mr. Armstrong described the economic conditions in the defense industry which had earlier led Hughes Defense to pursue a selective acquisition strategy. He explained that, as major

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industry consolidation increased, a more substantial transaction involving Hughes Defense appeared desirable. Mr. Armstrong then reviewed the prior discussions with Raytheon regarding the possibility of a merger between Hughes Defense and Raytheon, but noted that these discussions were unsuccessful. Mr. Armstrong then explained that industry conditions, Hughes Defense's strategic interest in pursuing a more substantial transaction and the discussion with Raytheon had led GM management and Hughes Electronics management, with the approval of the Hughes Electronics Board, the Capital Stock Committee and the GM Board, to initiate a competitive bidding process to find an appropriate merger partner for Hughes Defense. In connection with this discussion, Mr. Armstrong described certain significant terms of the final merger proposals received from Raytheon and Northrop Grumman, including the assumption of all real estate and environmental liabilities by the combined company and the participation on the combined company's initial board of directors of persons associated with Hughes Electronics or General Motors.

A representative of Goldman Sachs then presented a financial analysis of the two merger proposals. See "Description of the Raytheon Merger--Raytheon Merger Fairness Opinion: Goldman Sachs" below. A representative of Goldman Sachs presented advice regarding the merger of Raytheon with Hughes Defense and delivered its written opinion addressed to the GM Board, the Hughes Electronics Board and the board of directors of Hughes Defense that, as of such date, on the basis of and subject to the assumptions, limitations and other matters set forth in the opinion, the Aggregate Consideration (as defined in the Goldman Sachs Fairness Opinion) was fair to the GM Group (as defined in the Goldman Sachs Fairness Opinion) as a whole. A copy of the Goldman Sachs Fairness Opinion, which sets forth the assumptions made, matters considered and limitations of the review undertaken, is attached as part of Appendix B to this document. Materials used in connection with Goldman Sachs' presentation have been filed as an exhibit to the Schedule 13E-3 filed by General Motors in connection with the registration statement that includes this document.

Charles H. Noski, who at the time was Vice Chairman and Chief Financial Officer of Hughes Electronics, then summarized the key terms of the proposed merger to which both potential merger partners had agreed, which included the principal conditions to closing, the continuation of current employee benefits through 1998 and the grounds for assigning technology to the combined company (or retaining such technology within New Hughes Electronics for its exclusive use or for licensing to the combined company for shared use). Mr. Noski and Mr. Armstrong described the proposed treatment of Hughes Research Labs, which would be owned jointly by the combined company and New Hughes Electronics. Mr. Noski also explained that all owned and leased assets currently used in the business of Hughes Defense, including the Hughes Electronics corporate headquarters, and all environmental liabilities relating to such business would be assumed by Hughes Defense as part of the proposed transactions. He then stated that the draft merger agreement with Raytheon provided for a list of directors for the combined company, which included three individuals associated with Hughes Electronics or General Motors, and that the combined company would add an individual associated with Hughes Electronics to its management council for its defense business and establish two joint management-level committees, which would be staffed by personnel formerly associated with Raytheon, Hughes Defense and Texas Instruments Defense, responsible for managing the transition and integration of the various businesses. For additional information regarding the management of New Raytheon and the New Raytheon Board, see "New Raytheon Management--Directors and Executive Officers" in Chapter 5.

Mr. Armstrong presented a comparison of the merger proposals received from Raytheon and Northrop Grumman on the basis of the offered price, the long-term competitive position of the combined company, the business portfolio and financial profile of each potential merger partner, the benefits arising from the combination of each potential merger partner with Hughes Defense and the strength of each potential merger partner's management team. Mr. Armstrong noted that there were no material differences between the contract terms offered by each potential merger partner, but that the price offered by Raytheon was higher than that offered by Northrop Grumman. Based on the foregoing, he then reported that the management of Hughes Electronics recommended that Raytheon be selected as the merger partner for Hughes Defense.

Mr. Smith then commented that the GM President's Council had been kept well-informed about the process of obtaining and pursuing the proposals for a strategic transaction involving Hughes Defense, had



authorized further negotiations with Raytheon at the appropriate time and agreed with the recommendation of Hughes Electronics management.

Mr. Wyman observed that all members of the Hughes Defense Spin-Off Committee had been given pertinent information and ample opportunity for review and to request additional information during the process of development of the Raytheon Merger proposal and that the Hughes Defense Spin-Off Committee was satisfied that it had been thoroughly briefed on the matter.

Representatives of Merrill Lynch and Salomon Brothers, financial advisors to General Motors in connection with the contemplated transactions, made a joint presentation regarding the values created by the Hughes Transactions and the issues to be considered in establishing the Distribution Ratio that would permit each financial advisor to deliver a fairness opinion with respect to the Hughes Transactions. Materials used in connection with this presentation have been filed as an exhibit to the Schedule 13E-3. Each of Merrill Lynch and Salomon Brothers separately concluded that, after considering all of the factors it deemed appropriate, absent a material change in conditions as they existed on the date of the meeting, the GM Board could reasonably expect to be able to establish such a Distribution Ratio.

Representatives from Weil, Gotshal & Manges LLP, as counsel to the Capital Stock Committee, reviewed the fiduciary duties of the GM Board in connection with its consideration of the Hughes Transactions and the Raytheon Merger and its obligation to act in the best interests of General Motors and all of its common stockholders, both procedurally and substantively.

After considering the foregoing matters, the Hughes Defense Spin-Off Committee determined to recommend to the GM Board that it approve and authorize both the Hughes Transactions, subject to the GM Board's subsequent determination of the Distribution Ratio, and the Raytheon Merger. The Hughes Defense Spin-Off Committee did not make a specific determination with respect to the fairness of the Hughes Transactions, which determination was reserved for the GM Board.

January 16, 1997 Hughes Electronics Board Meeting. In conjunction with the meeting of the Hughes Defense Spin-Off Committee on January 16, 1997, the Hughes Electronics Board met to discuss and consider the matters discussed at the Hughes Defense Spin-Off Committee meeting. This meeting was attended by all members of the Hughes Electronics Board.

After considering these matters, the Hughes Electronics Board determined that it would recommend to the Capital Stock Committee that it approve and authorize both the Hughes Transactions, subject to the GM Board's subsequent determination of a Distribution Ratio, and the Raytheon Merger.

January 16, 1997 Capital Stock Committee Meeting. The Capital Stock Committee met on January 16, 1997, immediately after the meetings of the Hughes Defense Spin-Off Committee and the Hughes Electronics Board, to discuss and consider the matters discussed at the Hughes Defense Spin-Off Committee meeting, which had been attended by all members of the Capital Stock Committee.

After considering these matters, the Capital Stock Committee determined that it would recommend to the GM Board that it approve and authorize both the Hughes Transactions, subject to the GM Board's subsequent determination of a Distribution Ratio, and the Raytheon Merger.

January 16, 1997 GM Board Meeting. The GM Board met on January 16, 1997, immediately after the meeting of the Capital Stock Committee, to discuss and consider the matters discussed at the Hughes Defense Spin-Off Committee meeting, which had been attended by all but one of the members of the GM Board. Hughes Electronics management, the Hughes Electronics Board, GM management, the Hughes Defense Spin-Off Committee and the Capital Stock Committee each recommended that the GM Board approve and authorize both the Hughes Transactions, subject to the GM Board's subsequent determination of the Distribution Ratio, and the Raytheon Merger.

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After considering these matters, the GM Board unanimously determined that the Hughes Transactions, taken as a whole, are in the best interests of General Motors and its common stockholders, subject to the GM Board's subsequent determination of a Distribution Ratio that would (1) enable the GM Board to conclude that, as of the date of the determination of the Distribution Ratio, the Hughes Transactions, taken as a whole, are in the best interests of General Motors and its common stockholders and fair to the GM \$1 2/3 Common Stockholders and the GM Class H Common Stockholders and (2) enable each of Merrill Lynch and Salomon Brothers to provide to the GM Board a written opinion as to the fairness, from a financial point of view, to both classes of GM common stockholders of the consideration to be provided to General Motors and its subsidiaries and to each class of GM common stockholders in the Hughes Transactions. For additional information regarding these fairness opinions, which were delivered to the GM Board on October 6, 1997, see "--Hughes Transactions Fairness Opinions: Merrill Lynch and Salomon Brothers" below. Accordingly, the GM Board approved and authorized the Hughes Transactions, subject to the GM Board's subsequent approval of the definitive terms of the transactions and determination of a Distribution Ratio that satisfies the condition described above. The GM Board then directed management, in consultation with its financial, legal, tax and other advisors, to develop for the GM Board's further review and consideration the remaining definitive terms of the Hughes Transactions, including a Distribution Ratio that satisfies the condition described above.

After considering the foregoing matters, the GM Board also determined that Raytheon's merger proposal was in the best interests of General Motors and its stockholders. Accordingly, the GM Board approved the selection of Raytheon as the merger partner for Hughes Defense and approved the Raytheon Merger.

Immediately following the January 16, 1997 GM Board meeting, Hughes Defense and Raytheon entered into the Raytheon Merger Agreement and General Motors and Raytheon entered into the Implementation Agreement. For information regarding these agreements, see "Description of the Raytheon Merger--Raytheon Merger Agreement" and "--Implementation Agreement" below. Immediately after the execution of these agreements, the parties publicly announced the Hughes Transactions and the Raytheon Merger.

Subsequent Events. During the months following the January 16, 1997 GM Board meeting, GM management and Hughes Electronics management, subject to the oversight of the Capital Stock Committee, worked with their financial, legal, tax and other advisors to develop recommendations for the definitive terms of the Hughes Transactions, including a methodology for the determination of the Distribution Ratio. Among other things, GM management and Hughes Electronics management reviewed the business plans relating to each of the three principal businesses of Hughes Electronics, discussed and developed the methodology for determining the Distribution Ratio, developed the proposed terms of the New GM Class H Common Stock, reviewed certain policies of the GM Board and developed a recommended policy statement regarding certain capital stock matters. During this period, the Capital Stock Committee and the GM Board received periodic updates from GM management regarding the Hughes Transactions.

September 23, 1997 Capital Stock Committee Meeting. On September 23, 1997, the Capital Stock Committee (with all but three members in attendance) met for the purpose of reviewing and considering the business plans of Delco and Hughes Telecom and the proposed definitive terms of the Hughes Transactions, including the terms of the New GM Class H Common Stock and the Distribution Ratio formula, as developed by GM management and Hughes Electronics management, and receiving an update regarding certain regulatory and other matters relating to the Hughes Transactions. A meeting of the Hughes Electronics Board was held in conjunction with this meeting, with all but one member in attendance. In addition, all members of the GM Board were invited to attend; all but seven members were able to do so.

At this meeting, Mr. Armstrong and Roxanne S. Austin, Senior Vice President and Chief Financial Officer of Hughes Electronics, together with certain other members of Hughes Electronics management, presented a 1998-2001 business plan of Hughes Telecom as it would be configured following the completion of the Hughes Transactions. This represented an update of the business plan for this sector of Hughes Electronics' business that had previously been presented to the GM Board. Mr. Eddy Hartenstein, President, DIRECTV Enterprises, Inc., presented information regarding the DIRECTV business, including the effects of increased competition on

market share and financial results. Ms. Austin provided the Capital Stock Committee with an overview of the Hughes Telecom business plan and expressed Hughes Electronics management's current expectation that, following the completion of the Hughes Transactions, New Hughes Electronics would initially be adequately capitalized to execute its business plan. Ms. Austin explained that the equity received by Hughes Telecom in the form of a cash infusion in connection with the consummation of the Hughes Transactions would provide New Hughes Electronics with the means to accomplish its base business plan objectives.

Michael Burns, General Manager, Delco, then presented information regarding the 1998-2002 business plan of Delco, as it is currently configured, and a supplemental analysis of the benefits anticipated from 1998 through 2007 in connection with the planned integration of Delco and Delphi following consummation of the Hughes Transactions. The Delco business plan as presented had been developed by Delco management and reviewed and approved by both Hughes Electronics management and the GM President's Council. Both Hughes Electronics management and GM management reported to the Capital Stock Committee that they considered this business plan to be realistic and reasonably achievable. The analysis of the anticipated benefits of the integration, including the benefits to both Delco and Delphi, had been developed jointly by the managements of Delco and Delphi and also had been reviewed and approved by Hughes Electronics management and the GM President's Council.

With respect to the anticipated benefits from the planned integration of Delco and Delphi, Mr. Burns reported that, according to studies undertaken jointly by Delco management and Delphi management, significant savings were expected to accrue from the integration of Delco and Delphi as a result of enhanced systems capability of the combined business operations. The combination would also provide Delco with access to a larger non-GM NAO customer base. In light of the lead time for selling and incorporating new electronics, Delco's business plan does not reflect significant financial benefits from the integration until sometime after the year 2000. However, certain structural cost savings were expected to be realized more promptly as a result of reduced management needs for the combined operations, consolidated marketing/customer teams, finance staff and human resources and consolidated management in manufacturing plants. In addition, the integration is expected to provide Delco with access to Delphi's larger non-GM NAO customer base, resulting in greater growth of this portion of Delco's business. Mr. Burns also noted that the operational benefits from a complete integration of Delco and Delphi were expected to enable Delco to maintain a greater share of the worldwide market for supplying automotive electronics, both to GM NAO and to other customers, as well as to permit Delco to provide products and systems at higher profit margins, than would otherwise be the case.

Mr. Burns also reported on the expected benefits to Delphi from the integration with Delco. It was believed that the integration would produce additional sales opportunities for Delphi for products and systems having further electrical/electronics integration but that there would be no effect on GM NAO or aftermarket sales. Incremental non-GM NAO sales were expected to begin sometime after the year 2000. In concluding his presentation, Mr. Burns noted the importance to Delco's business of gaining the systems capabilities which the integration with Delphi was anticipated to provide.

Following the business plan presentations, Ms. Austin and Mr. Finnegan made presentations on the Hughes Transactions. First, Ms. Austin presented an overview of the Hughes Transactions, including a brief summary of the principal elements of the planned transactions, and provided the Capital Stock Committee with an update regarding the status of various regulatory and other matters relating to the Hughes Transactions. In particular, Ms. Austin stated that the IRS Ruling had been obtained in July 1997 and that arrangements for clearance of the Raytheon Merger under the Hart-Scott-Rodino Act were expected to be reached soon. She then noted that, at the time of the initial approval of the Hughes Transactions in January 1997, determinations regarding certain of the terms of the Hughes Transactions had been deferred for later consideration by the GM Board. Ms. Austin identified the principal terms of the Hughes Transactions which required final authorization and approval by the GM Board, which included the proposed terms of the New GM Class H Common Stock, the application of the proceeds of the indebtedness to be incurred by Hughes Defense prior to the Hughes Defense Spin-Off and the determination of the Distribution Ratio.

Ms. Austin noted that a substantial portion of the value of the Hughes Transactions to holders of GM Class H Common Stock would be represented by the New GM Class H Common Stock. She reported that, in developing the proposed terms for the New GM Class H Common Stock, GM management and Hughes Electronics management began with the terms of the existing GM Class H Common Stock and made changes in response to issues which had been raised by investors from time to time, balanced by considerations related to the tax treatment of such stock and maintaining flexibility for General Motors. In addition, GM management and Hughes Electronics management and their advisors reviewed and considered the terms of other publicly traded tracking stocks. She then reviewed the differences in the voting and liquidation rights and recapitalization provisions between the proposed terms of the New GM Class H Common Stock and the terms of the GM Class H Common Stock. See "Comparison of GM Class H Common Stock, New GM Class H Common Stock and Class A Common Stock" and "New GM Class H Common Stock" in Chapter 6. Ms. Austin explained that the principal differences in the stock terms were developed in order to balance the interests of the GM Class H Common Stockholders and the GM \$1 2/3 Common Stockholders and to preserve the tax treatment of the New GM Class H Common Stock as a stock of General Motors. Ms. Austin also described a proposed policy statement regarding certain capital stock matters to be adopted by the GM Board, subject to the consummation of the Hughes Transactions. See "Considerations Relating to GM's Dual Class Common Stock Capital Structure--New GM Board Policy Statement" in Chapter 6. She then described the recommendation of GM management and Hughes Electronics management that, following the completion of the Hughes Transactions, earnings from the telecommunications and space business of New Hughes Electronics be retained for the development of that business and that, as a result, dividends were not initially expected to be paid by New Hughes Electronics to General Motors. Accordingly, it was recommended by GM management and Hughes Electronics management that dividends not be paid initially on the New GM Class H Common Stock.

Mr. Finnegan then reviewed the principal elements of the Hughes Transactions and the Raytheon Merger and discussed the indicated value, based on recent trading prices of Raytheon Common Stock, of the Hughes Defense Spin-Off and the Raytheon Merger to General Motors and its common stockholders. See "Description of the Hughes Transactions" and "Description of the Raytheon Merger" below.

Mr. Finnegan then explained that the allocation of the Class A Common Stock to be distributed to GM's common stockholders in the Hughes Defense Spin-Off between the GM \$1 2/3 Common Stockholders and the GM Class H Common Stockholders in accordance with the Distribution Ratio would be an important element of the fairness of the Hughes Transactions to the holders of both classes of GM's common stock. He explained that, in accordance with the proposed Distribution Ratio, the GM Class H Common Stockholders as a whole would receive an amount of the Class A Common Stock which represents their current approximately 25% tracking stock interest in Hughes Defense plus an additional amount in order to reflect the net effect on them of all other aspects of the Hughes Transactions, principally the transfer of Delco to General Motors (which would result in the elimination of their tracking stock interest in Delco). Similarly, the GM \$1 2/3 Common Stockholders as a whole would receive a distribution of the Class A Common Stock which represents less than their current approximately 75% interest in Hughes Defense in order to reflect the net effect on them of all other aspects of the Hughes Transactions, principally the transfer of Delco to General Motors.

Mr. Finnegan then reviewed the GM Board's January 1997 decision to reserve for later determination the Distribution Ratio. He noted that the key elements in determining the Distribution Ratio were the value of the combined Hughes Defense/Raytheon, the value of Delco and the value effects of all other aspects of the Hughes Transactions and that the GM Board should also consider, among the other things, stockholder expectations regarding the Hughes Transactions. With respect to the combined Hughes Defense/Raytheon, Mr. Finnegan stated that the value was based upon the market price of Raytheon Common Stock. He reported that GM's financial advisors had completed due diligence and were expected to conclude that the use of the market price was supportable. With respect to Delco, he reported that customary valuation methodologies had been utilized, as would be described in greater detail. He noted that the value of the other factors (which would be reviewed later) were more directional than quantifiable. He also reported that, as to Hughes Telecom, the

proportional interests of stockholders would not change and that GM's financial advisors would report on their assessment as to the business and funding plans of Hughes Telecom as they related to New Hughes Electronics' financial strength.

Mr. Finnegan then explained that, because certain amounts relevant to the Distribution Ratio would not be known until the closing of the Hughes Transactions, the proposed Distribution Ratio would be expressed as a formula which accounts for certain variable factors, rather than as a fixed number of shares to be distributed to each class of stockholders. He then described the proposed Distribution Ratio formula, including the Net Transaction Effect Base Amount and the Net Transaction Effect, and explained how each component of the formula operated. The Distribution Ratio and its components are described in detail in "--The Distribution Ratio" below.

Mr. Finnegan noted that the value ascribed to Delco would be a key element in determining the Distribution Ratio. Mr. Armstrong then commented on the preparation of the Delco business plan presented to the Capital Stock Committee earlier in the meeting. He explained that the Delco business plan was prepared by Delco in a "bottom-up" manner to reflect goals believed to be realistic and reasonably achievable by Delco management; the plan was then reviewed and approved by Hughes Electronics management and the GM President's Council. He further noted that the Delco business plan was not prepared with a view to influencing the valuation of Delco in favor of either class of GM's common stockholders. Mr. Finnegan then described the valuation methodologies being employed by each of Merrill Lynch and Salomon Brothers to consider the value of Delco, including the use of the Delco business plan and the Delco/Delphi integration analysis in connection with the valuation process. He explained that Merrill Lynch and Salomon Brothers had been provided with full access to Delco management throughout the valuation process and described the independent valuations of Delco undertaken by Merrill Lynch and Salomon Brothers. Mr. Finnegan explained that he believed Merrill Lynch and Salomon Brothers employed the same techniques within the framework of the independent methodologies used by their respective firms. Mr. Finnegan explained that these procedures were consistent with standard industry practice. The valuations of Delco (including the valuation techniques utilized) by each of Merrill Lynch and Salomon Brothers are described below under "---Hughes Transactions Fairness Opinions--Merrill Lynch and Salomon Brothers."

Mr. Finnegan then described certain other factors to be considered in determining the Distribution Ratio formula and the Net Transaction Effect Base Amount. He explained that acquisition goodwill allocated to Hughes Defense (in an amount currently requiring amortization charges at the rate of approximately \$100 million per year) would be included in the value of the net assets of Hughes Defense at the time of the Hughes Defense Spin-Off and thus would no longer result in a charge to earnings attributable to GM  $\frac{1}{3}$  Common Stockholders. He further explained that the Hughes Defense Spin-Off would generate a substantial one-time gain, which would have an incremental effect on the profit sharing payout under GM's contract with the United Auto Workers for the year in which the Hughes Transactions are consummated. He noted, however, GM management's current expectation that this incremental payment would be largely offset on a net present value basis by the reduction in future profit sharing payments resulting from the elimination of Hughes Defense earnings. Mr. Finnegan noted the benefits anticipated from the elimination of the perceived discount attributed to GM Class H Common Stockholders' current tracking stock interest in Hughes Defense and the potential benefit to GM NAO (as a customer of Delco) of the cost savings expected to result from the integration of Delco and Delphi. He further explained that the Hughes Transactions would facilitate GM's component strategy by providing electronic systems integration capability. Mr. Finnegan then reviewed anticipated stockholder reactions to the announcement of the definitive terms of the Hughes Transactions and current analysts' assessments as to the value of Delco.

Mr. Finnegan then presented information relating to the value of the Hughes Transactions to the GM  $\frac{1}{3}$  Common Stockholders and the value of the Hughes Transactions to the GM Class H Common Stockholders, including an illustration of the Distribution Ratio formula. He explained that the total value provided to GM Class H Common Stockholders in the Hughes Transactions would consist principally of the value of the Class

A Common Stock to be distributed to such stockholders plus the value of the New GM Class H Common Stock. He further explained that the total benefit of the Hughes Transactions to GM  $\$1 \frac{2}{3}$  Common Stockholders would consist principally of the value of the distribution of Class A Common Stock to such holders, offset in part by some dilution of the earnings per share of GM  $\$1 \frac{2}{3}$  Common Stock in 1998, as well as the benefits derived from the transfer of Delco from Hughes Electronics to General Motors so that its operations could be integrated with those of Delphi. In addition, he explained that both classes of GM common stockholders would benefit from GM's investment in Hughes Telecom, which would receive additional funding in connection with the Hughes Transactions to better enable it to meet its capital requirements over the business planning horizon.

Mr. Armstrong then reviewed the status of the Hughes Transactions and discussed the anticipated timing of the consummation of the Hughes Transactions. He explained that, subject to stockholder approval and the satisfaction of certain other conditions, the Hughes Transactions were currently expected to be completed in December 1997.

Upon the recommendation of Hughes Electronics management, the Hughes Electronics Board approved each of the Hughes Telecom and Delco business plans. After reviewing and discussing these business plans and the other matters discussed at the meeting, including the proposed Distribution Ratio formula and the anticipated determination of the Net Transaction Effect Base Amount, the Capital Stock Committee approved the use of the Delco business plan and the Delco/Delphi integration analysis in the determination of the Distribution Ratio. See "The Distribution Ratio" and "Recommendations of the Capital Stock Committee and the GM Board; Fairness of the Transactions" below.

October 1, 1997 GM President's Council Meeting. On October 1, 1997, the GM President's Council met to discuss and consider the definitive terms of the Hughes Transactions, including the proposed terms of New GM Class H Common Stock, the Distribution Ratio formula, the determination of the Net Transaction Effect Base Amount and related matters. The GM President's Council received an update from GM management and Hughes Electronics management and legal counsel regarding the status of various regulatory and other matters relating to the Hughes Transactions. The GM President's Council then considered and discussed the matters considered and discussed at the Capital Stock Committee meeting on September 23, 1997. After discussion, the GM President's Council determined to recommend to the GM Board that it adopt a comprehensive set of resolutions to implement the Hughes Transactions, including principally the adoption of the Distribution Ratio formula and a determination that the amount of the Net Transaction Effect Base Amount be \$        billion multiplied by the fraction which will represent the tracking stock interest of GM Class H Common Stockholders (i.e., the "Class H Fraction" as defined below under "--The Distribution Ratio") at the time of the Hughes Defense Spin-Off.

October 6, 1997 Hughes Electronics Board Meeting. On October 6, 1997, the Hughes Electronics Board met to discuss and consider the definitive terms of the Hughes Transactions. The meeting was attended by [all] members of the Hughes Electronics Board. After considering the definitive terms of the Hughes Transactions as presented at the meeting, the Hughes Electronics Board approved all elements of the Hughes Transactions and related transactions requiring its approval and determined to recommend to the Capital Stock Committee of the GM Board that it approve the definitive terms of the Hughes Transactions.

October 6, 1997 Capital Stock Committee Meeting. On October 6, 1997, the Capital Stock Committee met to discuss and consider the definitive terms of the Hughes Transactions. The Capital Stock Committee considered, among other things, the presentations of GM management, the recommendations of GM management, Hughes Electronics management and the Hughes Electronics Board, the presentations by each of Merrill Lynch, Salomon Brothers and Goldman Sachs and the prior deliberations of the Capital Stock Committee. Based on the foregoing, the Capital Stock Committee determined to recommend to the GM Board (1) approval of the Distribution Ratio formula and the Net Transaction Effect as described herein, (2) establishment of the terms of the New GM Class H Common Stock and adoption of the GM Board policy

statement as described herein and (3) determination that the Hughes Transactions are in the best interests of General Motors and its common stockholders, fairly take into account the interests of both classes of GM common stock and are fair to the holders of both classes of GM common stock and, accordingly, approve and authorize the Hughes Transactions.

October 6, 1997 GM Board Meeting. On October 6, 1997, the GM Board met to discuss and consider the definitive terms of the Hughes Transactions, including the proposed terms of the New GM Class H Common Stock, the Distribution Ratio formula, the determination of the Net Transaction Effect Base Amount and related matters. Hughes Electronics management, the Hughes Electronics Board, GM management and the Capital Stock Committee each recommended that the GM Board approve and authorize the definitive terms of the Hughes Transactions, including the Distribution Ratio as described at the meeting. After considering the matters discussed and considered at the meeting, the GM Board unanimously determined that the Hughes Transactions, taken as a whole, are in the best interests of General Motors and its common stockholders and are fair to the GM \$1 2/3 Common Stockholders and the GM Class H Common Stockholders. Accordingly, the GM Board unanimously approved and authorized the Hughes Transactions and determined to recommend to the common stockholders of General Motors that they execute consents approving the Hughes Transactions, including the adoption of the GM Spin-Off Merger Agreement.

In connection with this meeting, Merrill Lynch delivered the Merrill Lynch Fairness Opinion and Salomon Brothers delivered the Salomon Brothers Fairness Opinion. See "Recommendations of the Capital Stock Committee and the GM Board; Fairness of the Hughes Transactions" below.

#### THE DISTRIBUTION RATIO

##### GENERAL

We use the term "Distribution Ratio" to refer to the relationship between the amount of Class A Common Stock of Hughes Defense to be distributed to the holders of each of the two classes of GM common stock. Establishing an appropriate formula to express the Distribution Ratio was an important element in the GM Board's determination that the Hughes Transactions, taken as a whole, are fair to the holders of both classes of GM common stock.

The Distribution Ratio is designed to provide GM Class H Common Stockholders with an amount of Class A Common Stock of Hughes Defense that is appropriate to reflect not only their current tracking stock interest in Hughes Defense (approximately 25%) but also the net effect on them of all other aspects of the Hughes Transactions, principally the transfer of Delco to General Motors, which will result in the earnings of Delco no longer being tracked by the New GM Class H Common Stock. The balance of the Class A Common Stock of Hughes Defense will be distributed to the GM \$1 2/3 Common Stockholders and will reflect both their current interest in Hughes Defense (approximately 75%) and the net effect on them of all other aspects of the Hughes Transactions, principally the transfer of Delco to General Motors.

##### DISTRIBUTION RATIO: KNOWN ELEMENTS

Two of the elements of the Distribution Ratio are known at this time:

- (1) The total amount of Class A Common Stock of Hughes Defense to be distributed to all GM common stockholders. The Raytheon Merger Agreement provides that this amount shall be 102,630,503 shares.
- (2) The total amount to be multiplied by the Class H Fraction in order to determine the additional amount of Class A Common Stock that would fairly compensate the GM Class H Common Stockholders for the transfer of Delco and all other aspects of the Hughes Transactions. On October 6, 1997, the GM Board determined this total amount to be \$ billion. Accordingly, assuming a Class H Fraction of 25.6%, the additional Class A Common Stock would have a value of \$ billion. We refer to this amount as the "Net Transaction Effect Base Amount." In the event that any proceeds of Hughes Defense debt are made available to General Motors, the Net Transaction Effect Base Amount will be increased by the amount of

such proceeds multiplied by the Class H Fraction. We refer to the result of that adjustment as the "Net Transaction Effect." If no debt proceeds are made available to General Motors, the Net Transaction Effect will be the same as the Net Transaction Effect Base Amount.

For a description of the process and methodology utilized by the GM Board in determining the Net Transaction Effect Base Amount, see "Background of the Hughes Transactions--Development of the Hughes Transactions and the Raytheon Merger--September 23, 1997 Capital Stock Committee Meeting" above.

#### DISTRIBUTION RATIO: VARIABLE ELEMENTS

Certain elements of the Distribution Ratio cannot be known precisely until the closing of the Hughes Transactions. For this reason, the Distribution Ratio is expressed as a formula that will depend on the final values of the variable elements, although we have used certain assumptions about these values in the discussion and illustrations below.

There are three variable elements of the Distribution Ratio:

- (1) The "Class H Fraction" on the closing date of the Hughes Transactions. The Class H Fraction expresses the number of shares of GM Class H Common Stock outstanding at any time as a percentage of the Class H Dividend Base and reflects the amount of tracking stock interest that the GM Class H Common Stockholders have in the earnings of Hughes Electronics. The Class H Fraction was 25.6% on September 30, 1997, although we have generally referred to it in this document as "approximately 25%." We do not expect this fraction to change significantly between now and the closing. The Class H Dividend Base is the denominator of the fraction that is used in the GM Certificate of Incorporation to allocate the earnings of Hughes Electronics between GM's two classes of common stock for dividend purposes.
- (2) The per share value of the Class A Common Stock of Hughes Defense to be distributed to GM common stockholders. This amount will determine how many shares of that stock are needed in order to provide the GM Class H Common Stockholders with additional value equal to the Net Transaction Effect. The GM Board believes that the market value of the Raytheon Common Stock near the closing date will be the best indicator of the value of the Class A Common Stock to be distributed to GM common stockholders. We refer to this amount on a per share basis as the "Class A Share Value." The Class A Share Value will be measured as the average closing market price of the Raytheon Common Stock during the 30-day period ending on the fifth day before the consummation of the Raytheon Merger. This is the same valuation formula that is used in the Raytheon Merger Agreement to determine the amount of debt that Hughes Defense may have at the time of the Raytheon Merger. However, the Class A Share Value will be determined without giving effect to the collar adjustment used in connection with the Raytheon Merger. We have used the Recent Raytheon Stock Price for illustrative calculations in this document, but it is not necessarily indicative of the Class A Share Value.
- (3) The amount, if any, of cash proceeds from debt incurred by Hughes Defense that will be made available to General Motors rather than used to fund the capital needs of Hughes Telecom. The GM Board has determined that the proceeds of Hughes Defense debt incurred prior to the Hughes Defense Spin-Off will be retained by Hughes Telecom up to the first \$4.0 billion, with any debt proceeds over that amount being used to repay amounts owed to Delco. Since Delco is being transferred to General Motors as part of the Hughes Transactions, any debt proceeds so applied will be made available to General Motors. The amount of new debt that Hughes Defense may incur prior to the closing is limited by the Raytheon Merger Agreement and varies based on the market price of Raytheon Common Stock and the amount of other debt of Hughes Defense at the time of its spin-off from



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General Motors. If the Raytheon Common Stock maintains its current stock price through the closing and based on our estimates of other Hughes Defense debt, the amount of Hughes Defense new debt will be approximately \$3.9 billion, so all of the debt proceeds will be retained by Hughes Telecom and none will be made available to General Motors. In that event, as explained above, no adjustment will be made to the Net Transaction Effect Base Amount, which accordingly will be the same as the Net Transaction Effect. For a description of the total amount of debt proceeds that will be available, see "Description of the Raytheon Merger--Raytheon Merger Agreement--Covenants--Indebtedness" below. The Raytheon Merger Agreement refers to this amount as the "Intercompany Payment Amount." If the Intercompany Payment Amount exceeds \$4.0 billion, the Net Transaction Effect would be calculated by adding to the Net Transaction Effect Base Amount an amount equal to such excess multiplied by the Class H Fraction.

DISTRIBUTION RATIO

For purposes of this discussion and illustration, we have assumed that (1) the Class A Share Value is equal to the Recent Raytheon Stock Price, (2) the Class H Fraction is 25% and (3) there will be no existing indebtedness of Hughes Defense at the time of the Hughes Defense Spin-Off. As a result of the assumed Class A Share Value, no proceeds of new Hughes Defense debt will be made available to General Motors and therefore the Net Transaction Effect will be equal to the Net Transaction Effect Base Amount. We have used these amounts for illustrative purposes only.

In applying the Distribution Ratio formula, we first determine the appropriate number of shares of Class A Common Stock to be distributed to the holders of GM Class H Common Stock. We refer to this amount as the "Class H Distribution." The number of shares to be distributed to the GM  $\frac{1}{3}$  Common Stockholders is then determined by subtracting the Class H Distribution from the total number of shares of Class A Common Stock to be distributed. We refer to this amount as the " $\frac{1}{3}$  Distribution." The "Distribution Ratio" expresses the relationship between the Class H Distribution and the  $\frac{1}{3}$  Distribution.

The Class H Distribution has two components. One component is intended to provide GM Class H Common Stockholders with a portion of the Class A Common Stock equivalent to the amount of their current tracking stock interest in Hughes Defense. Accordingly, this amount is equal to the total amount of Class A Common Stock multiplied by the Class H Fraction: that is, 102,630,503 times 25%, or 25,657,626 shares.

The second component of the Class H Distribution is intended to provide the GM Class H Common Stockholders with an additional amount of Class A Common Stock having a value equal to the Net Transaction Effect. This amount is calculated by dividing the Net Transaction Effect by the Class A Share Value. Accordingly, based on the assumptions stated above, the Class H Distribution would include an additional number of shares of Class A Common Stock equal to \$ divided by \$59.94, or shares.

Based on the assumptions stated above, the Class H Distribution would be equal to the sum of the two components, amounting to shares of Class A Common Stock in total, and shares of Class A Common Stock per share of GM Class H Common Stock. Accordingly, the Class H Distribution would amount to % of the total distribution of Class A Common Stock to GM common stockholders.

The  $\frac{1}{3}$  Distribution would be equal to the total number of shares of Class A Common Stock minus the Class H Distribution. Accordingly, the  $\frac{1}{3}$  Distribution would be equal to 102,630,503 minus , or shares of Class A Common Stock in total, and shares of Class A Common Stock per share of GM  $\frac{1}{3}$  Common Stock. This would amount to % of the total distribution of Class A Common Stock to GM common stockholders.

ILLUSTRATIVE CALCULATIONS

The following table sets forth illustrative calculations of the Distribution Ratio and the per share distributions of Class A Common Stock to be made to each class of GM common stock based on various average closing prices of Raytheon Common Stock, which would determine the Class A Share Value for purposes of the Distribution Ratio formula. In each case, the illustrations are based on the Class H Fraction as of September 30, 1997 (approximately 25.6%) and assume that there will be no existing indebtedness of Hughes Defense (other than the new debt) at the time of the Hughes Defense Spin-Off. For information about recent closing prices of Raytheon Common Stock, see "Description of the Raytheon Merger--Raytheon Merger Agreement" below. The table does not give effect to the treatment of fractional shares in the Raytheon Merger, which provides that fractional shares of Class A Common Stock will be converted into Class B Common Stock and sold for cash, with the proceeds being distributed to the owners of such fractional shares. As described above, to the extent the proceeds of the new debt incurred by Hughes Defense exceed \$4.0 billion, such excess will be made available to General Motors and the Distribution Ratio will be adjusted. We currently estimate that no debt proceeds will be available to General Motors unless the Class A Share Value is \$ or less and that the maximum amount of proceeds that could be made available to General Motors is \$ billion (when the Class A Share Value is at the bottom of the collar (\$44.42 or below)).

CLASS A SHARE VALUE	DISTRIBUTION RATIO:		PER SHARE \$1 2/3		PER SHARE CLASS H	
	AGGREGATE	AGGREGATE	DISTRIBUTION:		DISTRIBUTION: ---	
	\$1 2/3	CLASS H	NUMBER OF	VALUE OF	NUMBER OF	VALUE OF
PERCENTAGE	PERCENTAGE	CLASS A	CLASS A	CLASS A	CLASS A	SHARES
\$70.00	%	%		\$		\$
\$68.00	%	%		\$		\$
\$66.00	%	%		\$		\$
\$64.00	%	%		\$		\$
\$62.00	%	%		\$		\$
\$60.00	%	%		\$		\$
\$58.00	%	%		\$		\$
\$56.00	%	%		\$		\$
\$54.00	%	%		\$		\$
\$52.00	%	%		\$		\$
\$50.00	%	%		\$		\$
\$48.00	%	%		\$		\$
\$46.00	%	%		\$		\$
\$44.00	%	%		\$		\$
\$42.00	%	%		\$		\$
\$40.00	%	%		\$		\$

POST-CLOSING PAYMENT

The determination by the GM Board of the Net Transaction Effect is based on, among other things, valuations of Delco which were based, in part, on a December 31, 1997 projected balance sheet for Delco (which excluded all assets and liabilities related to Delco Systems Operations, which has historically been reported in Hughes Electronics' Aerospace and Defense Systems segment but is being transferred to General Motors in connection with the Hughes Reorganization as described under "Business of Delco" in Chapter 4). Within approximately four months following the closing of the Hughes Transactions, General Motors will prepare a balance sheet for Delco as of the closing date on a basis consistent with such December 31, 1997 projected balance sheet. To the extent that this closing balance sheet reflects "net investment amount" of Delco different from the "net investment amount" of Delco as reflected on the December 31, 1997 projected balance sheet by an amount exceeding \$ million, a payment will be made from New Hughes Electronics to General Motors, or from General Motors to New Hughes Electronics, as appropriate, to compensate for the amount of such difference in excess of \$ million. For such purposes, "net investment amount" means total assets less total liabilities, excluding cash and cash equivalents, notes receivable from Hughes Electronics and all balances related to Delco Systems Operations. In addition, the closing date balance sheet "net investment amount" will exclude the effects of accounting changes, extraordinary items and one time non-recurring gains or losses.

This adjustment will in no way affect the number of shares of Class A Common Stock distributed to GM \$1 2/3 Common Stockholders or to GM Class H Common Stockholders in the Hughes Defense Spin-Off.

RECOMMENDATIONS OF THE CAPITAL STOCK COMMITTEE AND THE GM BOARD; FAIRNESS OF THE HUGHES TRANSACTIONS

As described elsewhere in this document, throughout 1996, General Motors and Hughes Electronics considered the strategic challenges facing each of the three principal businesses of Hughes Electronics and assessed various alternative structures for a transaction or series of transactions involving these businesses. See "--Alternatives to the Hughes Transactions" and "--Background to the Hughes Transactions" above.

At its December 2, 1996 meeting, the Capital Stock Committee considered, among other things, the proposed process for overseeing the development of the terms of transactions which would enable the Hughes Electronics businesses to address such challenges, including the formation of a special committee of the GM Board to oversee the process. At its meeting on the same day, the GM Board determined that it would not propose any transaction or series of transactions that would result in the recapitalization of GM Class H Common Stock into GM \$1 2/3 Common Stock at the 120% exchange ratio as provided for under certain circumstances in the GM Certificate of Incorporation and authorized the implementation of a process to be managed by a joint GM management and Hughes Electronics management team, in consultation with their financial, legal and other advisors, to solicit expressions of interest in a tax-free merger involving Hughes Defense. At this time, the GM Board established the Hughes Defense Spin-Off Committee to oversee the process.

From December 2, 1996 until January 16, 1997, the joint management team, under the oversight of the Hughes Defense Spin-Off Committee and the Capital Stock Committee, solicited expressions of interest in a tax-free merger involving Hughes Defense and developed the proposed terms of the Hughes Transactions, including certain features intended to ensure that the Hughes Defense Spin-Off and the subsequent merger of Hughes Defense with another industry participant would be tax-free to General Motors and its stockholders. The joint management team received significant support from its financial, legal, tax and other advisors in connection with the competitive bidding process and negotiated separately with Raytheon and Northrop Grumman concerning a merger transaction involving Hughes Defense prior to recommending Raytheon as the merger partner.

On January 16, 1997, after discussion and consideration of the Hughes Transactions and related matters as described above, each of the Hughes Electronics Board, the Hughes Defense Spin-Off Committee and the Capital Stock Committee recommended that the GM Board approve and authorize the Hughes Transactions, subject to the GM Board's subsequent approval of the definitive terms of the transactions and determination of a Distribution Ratio that would satisfy the criteria set forth above as to fairness and the delivery by Merrill Lynch and Salomon Brothers of certain fairness opinions. Thereafter, the GM Board unanimously approved and authorized the Hughes Transactions, subject to the GM Board's subsequent approval of the definitive terms of the transactions and determination of a Distribution Ratio satisfying the criteria described above.

The Capital Stock Committee, in connection with its January 16, 1997 determination to recommend that the GM Board approve and authorize the Hughes Transactions, subject to the GM Board's subsequent approval of the definitive terms of the transactions (including an appropriate Distribution Ratio), considered a number of factors, including, among others, the presentations made to and discussions held at the January 16, 1997 meeting of the Hughes Defense Spin-Off Committee (which had been attended by all members of the Capital Stock Committee and all but one of the members of the GM Board). These presentations included the presentation by representatives of Goldman Sachs (including its written opinion as to the fairness of the aggregate consideration provided in the Raytheon Merger to Hughes Defense, Hughes Electronics, General Motors, the GM \$1 2/3 Common Stockholders and the GM Class H Common Stockholders as a whole in connection with the Raytheon Merger was fair to such group) and the presentations by representatives of Merrill Lynch and representatives of Salomon Brothers relating to the values created by the Hughes Transactions and the factors and issues to be considered in establishing a Distribution Ratio that would permit

each financial advisor to deliver a fairness opinion with respect to the Hughes Transactions (including their separate conclusions, after considering all factors each deemed appropriate, that, absent a material change in conditions as they existed on such date, the GM Board could reasonably be expected to be able to establish such a Distribution Ratio).

Upon the recommendation of the Capital Stock Committee, as well as the recommendations of the Hughes Electronics Board and the Hughes Defense Spin-Off Committee, and considering the background, oversight, deliberations and views of the Capital Stock Committee and the Hughes Defense Spin-Off Committee with respect to the development of the terms of the Hughes Transactions and the process by which Raytheon was selected as the merger partner for Hughes Defense, the GM Board approved and authorized the Hughes Transactions, subject to its subsequent approval of the definitive terms of the transactions (including the Distribution Ratio), and the subsequent merger of Hughes Defense with Raytheon. The GM Board also determined that the Distribution Ratio would be determined shortly before the Hughes Transactions would be submitted for stockholder approval so that the GM Board could then consider the most current business and financial information.

In addition to and without limiting the foregoing, in approving and authorizing the Hughes Transactions, subject to the development by management and approval by the GM Board of the definitive terms of the Hughes Transactions, the GM Board considered: (1) the reports, presentation and recommendation of GM's executive management regarding the Hughes Transactions and the Raytheon Merger, (2) the final merger proposals by Raytheon and Northrop Grumman regarding a transaction involving Hughes Defense, (3) the recommendation of GM management and Hughes Electronics management that General Motors proceed with the Hughes Transactions, (4) the recommendation of GM management and Hughes Electronics management that Raytheon be selected as the merger partner for Hughes Defense, (5) the presentations by representatives of Merrill Lynch and representatives of Salomon Brothers regarding the values created by the Hughes Transactions and the factors and issues to be considered in establishing a Distribution Ratio that would permit the delivery by each of Merrill Lynch and Salomon Brothers of a fairness opinion with respect to the Hughes Transactions (including their separate conclusions, after considering all factors each deemed appropriate, that, absent a material change in conditions as they existed on such date, the GM Board could reasonably be expected to be able to establish such a Distribution Ratio), (6) the presentation and written opinion of Goldman Sachs as to the fairness of the aggregate consideration to be provided in the Raytheon Merger to Hughes Defense, Hughes Electronics, General Motors, the GM  $\$1 \frac{2}{3}$  Common Stockholders and the GM Class H Common Stockholders as a whole, (7) the recommendation by the Hughes Electronics Board that General Motors proceed with the Hughes Transactions, (8) the background, oversight, deliberations and views of the Hughes Defense Spin-Off Committee with respect to the Hughes Transactions and the selection of a merger partner for Hughes Defense and its recommendation that Raytheon be selected as the merger partner for Hughes Defense and that the Raytheon Merger be approved, (9) the background, oversight, deliberations and views of the Capital Stock Committee with respect to the Hughes Transactions and its recommendation that the Hughes Transactions be approved, (10) the information previously reviewed and the prior deliberations of the GM Board concerning the Hughes Transactions and the Raytheon Merger and (11) the other matters reported on at the January 16, 1997 meetings of the Hughes Defense Spin-Off Committee, the Hughes Electronics Board, the Capital Stock Committee and the GM Board. See "--Background to the Hughes Transactions--Development of the Hughes Transactions and the Raytheon Merger" above.

From January 16 until October 6, 1997, the Capital Stock Committee and the GM Board received updates from GM management and Hughes Electronics management and legal counsel regarding the status of the Hughes Transactions, including the development of the definitive terms of the transactions and the status of various regulatory and other approvals required to be obtained in order to consummate the transactions. On September 23, 1997, the Capital Stock Committee met to review the development of the definitive terms of the Hughes Transactions, including the Distribution Ratio formula and the terms of the New GM Class H Common Stock. At this meeting, the Capital Stock Committee approved the use of the Delco business plan and the related analysis of the anticipated benefits of the planned Delco/Delphi integration in the determination of the

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Net Transaction Effect Base Amount for use in the Distribution Ratio. See "--Background of the Hughes Transactions--Development of the Hughes Transactions and the Raytheon Merger--September 23, 1997 Capital Stock Committee Meeting" above.

On October 6, 1997, after discussion and consideration of the Hughes Transactions, the Distribution Ratio and related matters, the Capital Stock Committee recommended that the GM Board approve and authorize the definitive terms of the Hughes Transactions, including the Distribution Ratio formula and the Net Transaction Effect Base Amount in an amount equal to \$ billion multiplied by the Class H Fraction as of the time of the Hughes Defense Spin-Off. Thereafter, the GM Board unanimously determined that the Hughes Transactions, including the Distribution Ratio formula and the Net Transaction Effect Base Amount in an amount equal to \$ billion multiplied by the Class H Fraction as of the time of the Hughes Defense Spin-Off, are in the best interests of General Motors and you (its common stockholders) and are fair to the GM  $\$1 \frac{2}{3}$  Common Stockholders and the GM Class H Common Stockholders. Accordingly, the GM Board approved the definitive terms of the Hughes Transactions. On the same date, Merrill Lynch delivered the Merrill Lynch Fairness Opinion and Salomon Brothers delivered the Salomon Brothers Fairness Opinion.

In reviewing the definitive terms of the Hughes Transactions and the fairness of the Hughes Transactions, the GM Board considered the Distribution Ratio formula, including the determination of the Net Transaction Effect, to be an important element in establishing the fairness of the Hughes Transactions to the holders of both classes of GM common stock. In approving the Hughes Transactions in January 1997, the GM Board had reserved for future determination the Distribution Ratio, deciding to make such decision closer to the time when the Hughes Transactions were to be submitted for stockholder approval. By delaying its determination of the Distribution Ratio, the GM Board sought to shorten the interval of time between the determination of the Distribution Ratio and the time the Hughes Transactions would be consummated, thus reducing the possibility of fluctuations in the factors contributing to the determination of the Distribution Ratio that might occur in the marketplace or otherwise during such interval.

In determining to recommend that the GM Board approve the definitive terms of the Hughes Transactions, the Capital Stock Committee reviewed and considered, among other things, the Hughes Telecom business plan, the Delco business plan and the supplemental analysis of the benefits anticipated to be realized from the integration of Delco and Delphi, the proposed terms of the New GM Class H Common Stock and the related proposed GM Board policy statement regarding certain capital stock matters, the recommended Distribution Ratio formula and the Net Transaction Effect and the reports, presentations and recommendation of GM management and Hughes Electronics management regarding these and other matters relating to the Hughes Transactions. See "Background to the Hughes Transactions--Development of the Hughes Transactions and the Raytheon Merger--September 23, 1997 Capital Stock Committee Meeting" above.

In determining the fairness of the Hughes Transactions, the GM Board attributed principal importance to the determination of the Distribution Ratio. In reviewing and approving the Distribution Ratio formula, the GM Board determined that the GM Class H Common Stockholders as a whole should receive an amount of the Class A Common Stock which represents their current approximately 25% tracking stock interest in Hughes Defense plus an additional amount in order to reflect the net effect of all other aspects of the Hughes Transactions, principally the transfer of Delco to General Motors (which would result in the elimination of their tracking stock interest in Delco). Similarly, the GM Board determined that GM  $\$1 \frac{2}{3}$  Common Stockholders as a whole should receive an amount of the Class A Common Stock which represents less than their current approximately 75% interest in Hughes Defense in order to reflect the net effect of all other aspects of the Hughes Transactions, principally the transfer of Delco to General Motors (which would result in the transfer to such holders of the tracking stock interest in Delco currently held by GM Class H Common Stockholders). Accordingly, the GM Board attributed substantial importance to the valuation of Delco (including the benefits anticipated to be realized as a result of the integration of Delco and Delphi) as a key factor in the determination of the Net Transaction Effect in the Distribution Ratio formula and, ultimately, of the fairness of the Hughes Transactions to the holders of each class of GM common stock.

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In determining the value to be ascribed to Delco for purposes of setting the Distribution Ratio, the GM Board placed substantial reliance on the Capital Stock Committee's review and approval of the Delco business plan and the supplemental analysis of the benefits anticipated to be realized from the integration of Delco and Delphi, as prepared jointly by the managements of Delco and Delphi and approved by GM management and Hughes Electronics management, the assessments by GM management and Hughes Electronics management that such business plan was realistic and reasonably achievable, and the Capital Stock Committee's approval of its use for purposes of the valuation of Delco in determining the amounts of Class A Common Stock to be distributed to the holders of each class of GM common stock. In reaching its determination, the GM Board also placed principal reliance on the presentations by representatives of Merrill Lynch and representatives of Salomon Brothers to the GM Board at its October 6, 1997 meeting.

The GM Board considered the fact that the proposed definitive terms of the Hughes Transactions satisfied the condition established by the GM Board as to the tax-free nature of the transactions. The GM Board attributed substantial importance to the satisfaction of this condition in the context of the recently enacted tax legislation which provides that, under certain circumstances, a corporation will recognize gain on the distribution of the stock of a subsidiary in a spin-off transaction coupled with a pre-arranged merger transaction. See "Certain U.S. Federal Income Tax Considerations Relating to Certain of the Hughes Transactions--Certain Legislation" below. The GM Board considered the fact that, if the Hughes Transactions are not consummated, any future transactions involving Hughes Defense, if structured in a manner similar to the Hughes Transactions, would be subject to these legislative provisions and would thus cause General Motors to recognize taxable gain for U.S. federal income tax purposes if consummated.

With respect to the fairness of the Hughes Transactions, the GM Board also considered the fact that the Hughes Transactions would be submitted for the separate approvals of the holders of a majority of the outstanding shares of each class of GM common stock, each voting as a separate class, and that these approvals would together constitute the approval of a majority of the voting power of all outstanding shares of both classes of GM common stock, voting together as a single class based on their respective per share power pursuant to the provisions set forth in the GM Certificate of Incorporation, as required by applicable law. The GM Board also considered the recommendations of GM management and Hughes Electronics management with respect to the definitive terms of the Hughes Transactions, as well as the fact that the proposed definitive terms of the Hughes Transactions satisfied the condition established by the GM Board as to the absence of a recapitalization at a 120% exchange ratio.

In determining the fairness of the Hughes Transactions, taken as a whole, to the holders of both classes of GM common stock, the GM Board considered each of the foregoing factors. The GM Board did not formally assign weights to specific factors, but instead considered all factors together. The GM Board placed principal reliance on its conclusion that the Distribution Ratio formula and the Net Transaction Effect appropriately reflected the interests of the holders of both classes of GM common stock and that certain strategic challenges faced by each of the three principal businesses of Hughes Electronics would be addressed through the Hughes Transactions without significant potential adverse consequences for General Motors. The GM Board also attributed substantial importance to its determination that a fair process had been developed and implemented for the development of the definitive terms of the Hughes Transactions. In addition, with respect to the fairness, from a financial point of view, to the GM  $\$1 \frac{2}{3}$  Common Stockholders and the GM Class H Common Stockholders of the consideration to be provided to General Motors and its subsidiaries and to the GM  $\$1 \frac{2}{3}$  Common Stockholders and the GM Class H Common Stockholders in the Hughes Transactions, the GM Board principally relied on the Merrill Lynch Fairness Opinion and the Salomon Brothers Fairness Opinion and the presentations by representatives of Merrill Lynch and representatives of Salomon Brothers to the GM Board. See "Hughes Transactions Fairness Opinions--Merrill Lynch and Salomon Brothers" below.

In addition to and without limiting the foregoing, in determining the fairness of the definitive terms of the Hughes Transactions to the holders of both classes of GM common stock, the GM Board considered: (1) the report, presentation and recommendation of GM's executive management regarding the Hughes Transactions,

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including the formula for the Distribution Ratio and the Net Transaction Effect (including the determination of the Net Transaction Effect Base Amount), (2) the recommendation of Hughes Electronics' executive management regarding the Hughes Transactions, including the formula for the Distribution Ratio and the Net Transaction Effect (including the determination of the Net Transaction Effect Base Amount), (3) the presentations by representatives of Merrill Lynch and Salomon Brothers as to the fairness, from a financial point of view, to each class of GM common stockholders of the consideration to be provided to General Motors, its subsidiaries and each class of its common stockholders in the Hughes Transactions, (4) the recommendation of the Capital Stock Committee that the GM Board approve the definitive terms of the Hughes Transactions, including the Distribution Ratio formula and the Net Transaction Effect (including the determination of the Net Transaction Effect Base Amount) and the post-closing payment between General Motors and New Hughes Electronics, and determine that the Hughes Transactions, taken as a whole, are in the best interests of General Motors and its common stockholders and are fair to the holders of both classes of GM common stock, (5) the background, oversight, deliberations and views of the Capital Stock Committee with respect to the Hughes Transactions, (6) the information previously reviewed and the prior deliberations of the GM Board concerning the Hughes Transactions and (7) the other matters reported on, considered and discussed at the September 23, 1997 Capital Stock Committee meeting and the October 6, 1997 GM Board meeting. See "Background to the Hughes Transactions--Development of the Hughes Transactions and the Raytheon Merger--October 6, 1997 GM Board Meeting" above and "Hughes Transactions Fairness Opinions: Merrill Lynch and Salomon Brothers" below.

BASED ON THE FOREGOING, THE GM BOARD HAS DETERMINED THAT THE HUGHES TRANSACTIONS ARE IN THE BEST INTERESTS OF GENERAL MOTORS AND IN YOUR BEST INTERESTS AS COMMON STOCKHOLDERS OF GENERAL MOTORS. THE GM BOARD HAS ALSO DETERMINED THAT THE HUGHES TRANSACTIONS ARE FAIR TO THE HOLDERS OF BOTH CLASSES OF GM'S COMMON STOCK. THE GM BOARD HAS UNANIMOUSLY APPROVED THE HUGHES TRANSACTIONS AND RECOMMENDS THAT YOU VOTE IN FAVOR OF THE HUGHES TRANSACTIONS.

HUGHES TRANSACTIONS FAIRNESS OPINIONS: MERRILL LYNCH AND SALOMON BROTHERS

#### MERRILL LYNCH FAIRNESS OPINION

On October 6, 1997, Merrill Lynch delivered its written opinion to the GM Board that, as of such date and on the basis of and subject to the assumptions, limitations and other matters set forth therein, taking into account all relevant aspects of the Hughes Transactions and the Raytheon Merger, the consideration to be provided to General Motors and its subsidiaries and to the GM \$1 2/3 Common Stockholders and the GM Class H Common Stockholders in the Hughes Transactions was fair, from a financial point of view, to the GM \$1 2/3 Common Stockholders and the GM Class H Common Stockholders. It is a condition to the completion of the Hughes Transactions that Merrill Lynch has not withdrawn its fairness opinion.

[Further discussion of the Merrill Lynch Fairness Opinion and related presentation to the GM Board to come.]

The full text of the Merrill Lynch Fairness Opinion, which sets forth the assumptions made, the matters considered and limitations on the review undertaken in connection with the opinion, is included in Appendix B to this document and is incorporated into this document by reference. WE URGE YOU TO READ THE MERRILL LYNCH FAIRNESS OPINION CAREFULLY.

#### SALOMON BROTHERS FAIRNESS OPINION

On October 6, 1997, Salomon Brothers delivered its written opinion to the GM Board that on the basis of and subject to the assumptions, limitations and other matters set forth therein, taking into account all relevant aspects of the Hughes Transactions and the Raytheon Merger, the consideration to be provided to General

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Motors and its subsidiaries and to GM's common stockholders in the Hughes Transactions is fair, from a financial point of view, to each class of GM's common stockholders. It is a condition to the completion of the Hughes Transactions that Salomon Brothers has not withdrawn its fairness opinion.

[Further discussion of the Salomon Brothers Fairness Opinion and related presentation to the GM Board to come.]

The full text of the Salomon Brothers Fairness Opinion, which sets forth the assumptions made, the matters considered and limitations on the review undertaken in connection with the opinion, is included in Appendix B to this document and is incorporated into this document by reference. WE URGE YOU TO READ THE SALOMON BROTHERS FAIRNESS OPINION CAREFULLY.

REQUISITE STOCKHOLDER APPROVAL OF THE HUGHES TRANSACTIONS

In order to consummate the Hughes Transactions, General Motors must obtain the consent of the holders of:

- . a majority of the outstanding shares of GM \$1 2/3 Common Stock, voting as a separate class; and
- . a majority of the outstanding shares of GM Class H Common Stock, voting as a separate class.

If General Motors obtains both of these approvals, General Motors will also have obtained, as required by applicable law, the approval of a majority of the voting power of all outstanding shares of both classes of GM common stock, voting together as a single class based on their respective per share power pursuant to the provisions set forth in the GM Certificate of Incorporation. We sometimes refer in this document to these approvals collectively as the "Requisite Stockholder Approval." See "Description of the Hughes Transactions-- Stockholder Approval of the Hughes Transactions" below and "Solicitation of Written Consent of GM's Common Stockholders" in Chapter 7.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS RELATING TO CERTAIN OF THE HUGHES TRANSACTIONS

The following discussion is a general summary of the material U.S. federal income tax consequences of certain of the Hughes Transactions. This discussion does not address all aspects of U.S. federal income taxation that might be relevant to you in light of your status or personal investment circumstances; nor does it discuss the consequences to those of you who are subject to special treatment under the U.S. federal income tax laws, such as non-U.S. persons, dealers in securities, regulated investment companies, life insurance companies, other financial institutions, tax-exempt organizations, pass-through entities, or taxpayers who will hold GM \$1 2/3 Common Stock, New GM Class H Common Stock or Class A Common Stock as part of a "straddle," "hedge" or "conversion transaction" or who have a "functional currency" other than the U.S. dollar. In addition, this discussion does not address the tax consequences to holders of options in respect of GM common stock or other persons who have received their GM common stock as compensation. Also, this discussion does not address the tax consequences of the Hughes Transactions under U.S. state or local and non-U.S. tax laws. Furthermore, the following discussion does not cover the tax consequences of every transaction included in the Hughes Transactions or the Raytheon Merger. We assume for purposes of this discussion that the GM common stock you now hold, and the Class A Common Stock to be distributed to you in the Hughes Defense Spin-Off, will be held by you as a capital asset on the date of the Hughes Defense Spin-Off.

This discussion is based upon the Code, regulations proposed or promulgated thereunder, judicial precedent relating thereto and current rulings and administrative practice of the IRS, in each case as in effect as of the date of this document and all of which are subject to change at any time, possibly with retroactive effect. Any such change could alter the tax consequences to General Motors or you as its common stockholders as described directly below.



YOU SHOULD CONSULT YOUR TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO YOU OF THE HUGHES TRANSACTIONS, INCLUDING THE APPLICABILITY AND EFFECT OF U.S. FEDERAL, STATE, LOCAL AND NON-U.S. INCOME AND OTHER TAX LAWS. For a description of certain U.S. federal income tax considerations relating to the Raytheon Merger, see "--Certain U.S. Federal Income Tax Considerations Relating to the Raytheon Merger" below.

#### HUGHES DEFENSE SPIN-OFF

The following discussion summarizes those U.S. federal income tax considerations resulting from the Hughes Defense Spin-Off that materially affect General Motors and you (its common stockholders).

General Motors has received the IRS Ruling, which holds, among other things, that the Hughes Defense Spin-Off will be treated as a reorganization under Section 368(a) of the Code and as a tax-free distribution under Section 355 of the Code. Based on the foregoing IRS Ruling, for U.S. federal income tax purposes:

- . no gain or loss will be recognized by General Motors upon the distribution of the Class A Common Stock to you (as part of the Hughes Defense Spin-Off);
- . no gain or loss will be recognized by you (and no amount will otherwise be included in your income) upon your receipt of the Class A Common Stock (as part of the Hughes Defense Spin-Off);
- . the tax basis in the Class A Common Stock which you will receive will be determined by allocating your existing tax basis in your GM common stock immediately before the Hughes Defense Spin-Off between your Class A Common Stock and GM common stock immediately after the consummation of the Hughes Defense Spin-Off, based on the stocks' relative fair market values immediately after such consummation; and
- . the holding period of the Class A Common Stock which you will receive will include the holding period of your GM common stock upon which such Class A Common Stock will have been distributed.

The IRS Ruling also holds that General Motors will not recognize any gain or loss as a result of certain transactions included in the Hughes Reorganization that are generally preparatory to the Hughes Defense Spin-Off, such as the transfer of Delco from Hughes Electronics to General Motors and the Hughes Telecom Spin-Off.

The IRS Ruling does not specifically address how tax bases and holding periods should be allocated among shares of Class A Common Stock received in the Hughes Defense Spin-Off by stockholders who own two or more blocks of either the GM Class H Common Stock or the GM  $\$1 \frac{2}{3}$  Common Stock (or both) with different per share bases and/or holding periods. If you fall into this category of stockholders, you are encouraged to consult with your own tax advisor regarding the possible tax basis and holding period consequences of the Hughes Defense Spin-Off.

The IRS Ruling, while generally binding on the IRS, is based upon certain factual representations and assumptions described in the IRS Ruling. If any such factual representations or assumptions are incorrect or untrue in any material respect, the IRS Ruling may be invalidated. We are not aware of any facts or circumstances which would cause any such representations or assumptions to be incorrect or untrue in any material respect. Nevertheless, if the Hughes Defense Spin-Off were held to be taxable, both General Motors and holders of GM common stock potentially would incur material tax liabilities.

Current Treasury Regulations require each GM stockholder who receives Class A Common Stock pursuant to the Hughes Defense Spin-Off to attach to such stockholder's federal income tax return for the year in which the Hughes Defense Spin-Off occurs a statement setting forth such data as may be appropriate in order to show the applicability of Section 355 of the Code to the Hughes Defense Spin-Off. We will provide such information to you after the consummation of the Hughes Transactions and the Raytheon Merger so that you can comply with these regulations.

TAX-FREE STATUS OF THE EDS SPLIT-OFF

The IRS Ruling also holds that the consummation of the transactions contemplated by the Spin-Off Merger Agreement and the consummation of the Raytheon Merger will not adversely affect the tax-free status of the EDS Split-Off. We sometimes refer in this document to this component of the IRS Ruling as the "IRS Supplemental Ruling." As described below under "Description of the Hughes Transactions--GM Spin-Off Merger Agreement," the absence of any notification from the IRS that the IRS Supplemental Ruling has been withdrawn, invalidated or modified is a condition to GM's obligation to consummate the GM Spin-Off Merger. As of the date of this document, this condition to the GM Spin-Off Merger has been satisfied.

CERTAIN LEGISLATION

On August 5, 1997, President Clinton signed legislation that, under certain circumstances, causes a corporation to recognize gain on the distribution of the stock of a subsidiary in a spin-off transaction. This legislation will not apply to the Hughes Defense Spin-Off and the Hughes Telecom Spin-Off under the transition provisions enacted as part of this legislation, provided that these transactions occur as described in this document.

If the Hughes Transactions are not consummated, any future transactions involving Hughes Defense, if structured in a manner similar to the Hughes Transactions, would be subject to this legislation and thus would cause General Motors to recognize taxable gain for U.S. income tax purposes if consummated. While there may be other transactions involving Hughes Defense that potentially could be effected without generating taxable gain to General Motors or its stockholders (such as, among other things, a spin-off of Hughes Defense in the absence of a pre-arranged merger of Hughes Defense with a third party), there can be no assurance that any such alternative transaction (or transactions) would address Hughes Defense's strategic challenges, would be proposed or, if proposed, consummated.

RECAPITALIZATION AND CONVERSION OF GM CLASS H COMMON STOCK

The following discussion summarizes those U.S. federal income tax considerations that materially affect General Motors and you as its stockholders resulting from the recapitalization and conversion of each issued and outstanding share of GM Class H Common Stock into one share of New GM Class H Common Stock and the right to receive a distribution of Class A Common Stock in accordance with the Distribution Ratio. For a description of the GM Recapitalization, see "Description of the Hughes Transactions--GM Spin-Off Merger Agreement--Recapitalization and Conversion of GM Class H Common Stock" below.

The GM Spin-Off Merger is conditioned on the receipt by General Motors of an opinion of GM's outside tax counsel, Kirkland & Ellis, to the effect that (1) the recapitalization of GM Class H Common Stock into New GM Class H Common Stock will be tax-free to General Motors and the GM Class H Common Stockholders and (2) each of GM Class H Common Stock and New GM Class H Common Stock is stock of General Motors for U.S. federal income tax purposes.

Based on the foregoing opinion of counsel, for U.S. federal income tax purposes:

- . no gain or loss will be recognized by General Motors upon the issuance of New GM Class H Common Stock in exchange for GM Class H Common Stock as part of the Hughes Defense Spin-Off;
- . no gain or loss will be recognized by you (and no amount will otherwise be included in your income) upon your receipt of the New GM Class H Common Stock in exchange for GM Class H Common Stock as part of the Hughes Defense Spin-Off;
- . the tax basis in the New GM Class H Common Stock which you will receive will be equal to your existing tax basis in your GM Class H Common Stock immediately before the Hughes Defense Spin-Off, but reduced by the amount of such existing tax basis which is allocated to the Class A Common Stock which you receive in the Hughes Defense Spin-Off; and

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. the holding period of the New GM Class H Common Stock which you will receive will include the holding period of your GM Class H Common Stock.

GM expects to receive the GM Recapitalization Opinion from Kirkland & Ellis described above prior to the GM Spin-Off Merger Effective Time. Although the condition regarding receipt of the opinion described above is waivable by General Motors, General Motors does not intend to waive such condition to consummation of the GM Spin-Off Merger.

The GM Recapitalization Opinion is subject to certain limitations and qualifications described therein, and will be based on current law and upon certain factual representations and assumptions described therein, which if incorrect or untrue in any material respect would jeopardize the conclusions reached by counsel in the GM Recapitalization Opinion. We are not aware of any facts or circumstances which would cause any such representations or assumptions to be incorrect or untrue in any material respect. General Motors has not requested a letter ruling from the IRS regarding the GM Recapitalization. The GM Recapitalization Opinion neither binds the IRS or the courts, nor precludes the IRS from adopting a contrary position. If the GM Recapitalization were held to be taxable, both General Motors and holders of GM Class H Common Stock potentially would incur material tax liabilities. In addition, the IRS Ruling relating to the Hughes Defense Spin-Off is based in part on a representation that the GM Recapitalization qualifies as a tax-free reorganization for U.S. federal income tax purposes.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS RELATING TO THE RAYTHEON MERGER

GENERAL

The following discussion is a general summary of the material U.S. federal income tax consequences of the Raytheon Merger. This discussion is based upon the Code, regulations proposed or promulgated thereunder, judicial precedent relating thereto and current rulings and administrative practice of the IRS, in each case as in effect as of the date of this document and all of which are subject to change at any time, possibly with retroactive effect. Any such change could alter the tax consequences to General Motors, Hughes Defense or you as a stockholder of these corporations as described directly below. We assume for purposes of this discussion that the Class A Common Stock to be distributed to you in the Hughes Defense Spin-Off will be held by you as a capital asset on the date of the Raytheon Merger. This discussion does not address all aspects of U.S. federal income taxation that might be relevant to you in light of your status or personal investment circumstances; nor does it discuss the consequences to those of you who are subject to special treatment under the U.S. federal income tax laws, such as non-U.S. persons, dealers in securities, regulated investment companies, life insurance companies, other financial institutions, tax-exempt organizations, pass-through entities, or taxpayers who will hold Class A Common Stock as part of a "straddle," "hedge" or "conversion transaction" or who have a "functional currency" other than the U.S. dollar. In addition, this discussion does not address the tax consequences to holders of options in respect of GM Class H Common Stock or other persons who have received their GM common stock as compensation.

YOU SHOULD CONSULT YOUR TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO YOU OF THE RAYTHEON MERGER, INCLUDING THE APPLICABILITY AND EFFECT OF U.S. FEDERAL, STATE, LOCAL AND NON-U.S. INCOME AND OTHER TAX LAWS.

We intend that the Raytheon Merger qualify as a reorganization under Section 368(a) of the Code. It is a condition to Hughes Defense's obligation to consummate the Raytheon Merger that Hughes Defense receive an opinion from its outside tax counsel, Weil, Gotshal & Manges LLP, to the effect that the Raytheon Merger will be treated as a reorganization within the meaning of Section 368(a) of the Code. It is a condition to Raytheon's obligation to consummate the Raytheon Merger that Raytheon receive an opinion from its outside tax counsel, Wachtell, Lipton, Rosen & Katz, to the same effect.

Based on the foregoing opinion of counsel to Hughes Defense, for U.S. federal income tax purposes:

- . no gain or loss will be recognized by Hughes Defense or Raytheon as a result of the Raytheon Merger;
- . no gain or loss will be recognized by you (and no amount will otherwise be included in your income) as a result of the Raytheon Merger (other than with respect to cash received instead of fractional shares of Class A Common Stock, as discussed below); and
- . neither the tax basis nor the holding period of your Class A Common Stock will be affected as a result of the Raytheon Merger.

In rendering the Raytheon Merger Opinions, counsel to each of Hughes Defense and Raytheon will rely upon certain assumptions and certain representations made by Hughes Defense and Raytheon, and such opinions are subject to certain limitations and qualifications set forth therein. We are not aware of any facts or circumstances which would cause any such representations or assumptions to be incorrect or untrue in any material respect. The Raytheon Merger Opinions neither bind the IRS or the courts, nor preclude the IRS from adopting a contrary position. If the Raytheon Merger were held to be taxable, Raytheon, its stockholders and Hughes Defense potentially would incur material tax liabilities. In addition, the IRS Ruling relating to the Hughes Defense Spin-Off is based in part on a representation that the Raytheon Merger qualifies as a tax-free reorganization for U.S. federal income tax purposes.

Hughes Defense and Raytheon expect to receive their respective Raytheon Merger Opinions as described above prior to the Raytheon Merger Effective Time. Although the Hughes Defense condition regarding receipt of its Raytheon Merger Opinion above is waivable by Hughes Defense, Hughes Defense does not intend to waive such condition to consummation of the Raytheon Merger.

#### RECEIPT OF CASH IN LIEU OF FRACTIONAL SHARES

Fractional shares of Class A Common Stock will be distributed to GM's common stockholders in the Hughes Defense Spin-Off. However, all fractional shares so distributed will be converted into an equivalent number of fractional shares of Class B Common Stock in the Raytheon Merger, and these fractional shares will then be aggregated and sold by the Raytheon Merger Exchange Agent and the proceeds will be distributed to the owners of such fractional shares.

Cash received by a holder of GM common stock in lieu of a fractional share interest will be treated as having been received in exchange for such fractional share interest, and gain or loss will be recognized for U.S. federal income tax purposes. This gain or loss will be measured by the difference between the amount of cash received and the portion of such GM common stockholder's tax basis allocable to such fractional share interest. Such gain or loss will generally be treated as capital gain or loss. For taxpayers who are individuals, if their fractional share interest has a holding period for U.S. federal income tax purposes of more than one year but not more than 18 months, any gain will generally be subject to a maximum rate of 28%; if their interest has a holding period of more than 18 months, any gain will generally be subject to a maximum rate of 20%. In general, a person's holding period for a fractional share interest will include the period during which such person held the GM common stock with respect to which the distribution of such fractional share interest was received.

Under the Code, as a holder of fractional share interests in Class A Common Stock you may be subject, under certain circumstances, to backup withholding at a 31% rate with respect to your fractional share interests unless you provide proof of an applicable exemption or a correct taxpayer identification number, and otherwise comply with applicable requirements of the backup withholding rules. Any amounts withheld under the backup withholding rules are not an additional tax and may be refunded or credited against your U.S. federal income tax liability, provided you furnish the required information to the IRS.

STOCKHOLDER LITIGATION RELATING TO THE HUGHES TRANSACTIONS

After our announcement of the Hughes Transactions on January 16, 1997, the following nine lawsuits were filed in Delaware Chancery Court: Levine v. General Motors Corporation, et al.; Patinkin v. General Motors Corporation, et al.; Rosenwald v. General Motors Corporation, et al.; Verkouteren v. General Motors Corporation, et al.; Whited et al. v. General Motors Corporation, et al.; Strauss v. General Motors Corporation, et al.; Andrew Carlucci, I.R.A. v. General Motors Corporation, et al.; Mantel v. General Motors Corporation, et al.; and John P. McCarthy Profit Sharing Plan v. General Motors Corporation, et al. These suits were filed in February and March 1997. All of these lawsuits (other than Patinkin v. General Motors Corporation, et al.) have been consolidated. Each suit is denominated as a class action and is purportedly brought on behalf of specified holders of GM Class H Common Stock against the defendants, General Motors and its directors. The complaints make essentially the same allegations, namely, that the defendants have breached and are continuing to breach their contractual and fiduciary duties to specified holders of GM Class H Common Stock by proposing and pursuing the Hughes Transactions, which plaintiffs variously contend would unfairly benefit General Motors and/or GM  $\$1 \frac{2}{3}$  Common Stockholders to the detriment of GM Class H Common Stockholders.

More specifically, the lawsuits allege that the Hughes Transactions unfairly effect a disposition of Hughes Defense without providing for a recapitalization of the GM Class H Common Stock into GM  $\$1 \frac{2}{3}$  Common Stock at a 120% exchange ratio, as currently provided for under certain circumstances in the GM Certificate of Incorporation. Certain actions further allege that the GM Class H Common Stockholders have contractual rights to recapitalize their shares of GM Class H Common Stock at the 120% exchange ratio and that the proposed Hughes Transactions would result in a breach of those alleged rights. Other actions allege that GM Class H Common Stockholders are being coerced into forfeiting the benefits of current provisions of the GM Certificate of Incorporation that would result under certain circumstances in a recapitalization of GM Class H Common Stock at a 120% exchange ratio in order to receive the benefits of the Hughes Transactions. Certain actions also allege that no independent representative is separately representing the interests of GM Class H Common Stockholders in connection with the Hughes Transactions. Some of the actions also allege that the shares of New GM Class H Common Stock and the shares of Class A Common Stock to be received by GM Class H Common Stockholders in the GM Spin-Off Merger are substantially less valuable than the shares of GM  $\$1 \frac{2}{3}$  Common Stock that such holders would otherwise receive under a recapitalization subject to the 120% exchange ratio.

The lawsuits seek preliminary and permanent injunctions against the Hughes Transactions (or any other disposition of Hughes Defense in the absence of a recapitalization of the GM Class H Common Stock into GM  $\$1 \frac{2}{3}$  Common Stock at the 120% exchange ratio) and compensatory damages. We intend to defend against them vigorously.

Additional suits may be filed after the date of this document.

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DESCRIPTION OF THE HUGHES TRANSACTIONS

GENERAL

You are being asked to approve the Hughes Transactions. There are two principal steps to the Hughes Transactions: the Hughes Reorganization and the GM Spin-Off Merger. Each of these principal steps is described below.

If approved by GM's common stockholders and completed, the Hughes Transactions will have the following principal effects:

- . Hughes Defense will be spun off in its entirety to the GM \$1 2/3 Common Stockholders and the GM Class H Common Stockholders and it then will merge with Raytheon.
- . Delco will be transferred from Hughes Electronics to General Motors such that the tracking stock interest in the earnings of Delco currently held by GM Class H Common Stockholders will be reallocated to GM \$1 2/3 Common Stockholders and the operations of Delco can be more fully integrated with those of Delphi.
- . GM Class H Common Stock will be recapitalized and converted into New GM Class H Common Stock, whose earnings pool for dividend purposes will track the financial performance of New Hughes Electronics.
- . Hughes Telecom will receive approximately \$3.9 billion of the proceeds of debt of Hughes Defense outstanding at the time of the Hughes Defense Spin-Off, which Hughes Telecom will use to fund its capital needs. The obligation to repay this debt will remain with Hughes Defense.

ORGANIZATIONAL CHARTS BEFORE AND AFTER THE HUGHES TRANSACTIONS AND THE RAYTHEON MERGER

The following charts present in simplified form the organizational structure of General Motors and Hughes Electronics before the Hughes Transactions and after the completion of the Hughes Transactions and the Raytheon Merger. The transactions are described in greater detail after the charts.

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BEFORE THE HUGHES TRANSACTIONS

LOGO

AFTER THE HUGHES TRANSACTIONS AND THE RAYTHEON MERGER

LOGO

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HUGHES REORGANIZATION

The Hughes Reorganization includes a number of preliminary transactions which are necessary to prepare Hughes Defense to be spun off to GM's common stockholders and to separate the businesses of Hughes Defense, Delco and Hughes Telecom. The Hughes Reorganization will be effected largely pursuant to transactions described in the Master Separation Agreement and the agreements contemplated thereby. See "Separation and Transition Arrangements."

The following is a description of certain significant aspects of the Hughes Reorganization:

- . Certain assets and liabilities will be transferred among Hughes Defense, Delco and Hughes Telecom and their respective subsidiaries so that each will have the appropriate assets and liabilities for its business.
- . Hughes Defense will make available to Hughes Telecom the proceeds of new debt (up to \$4.0 billion) incurred by Hughes Defense with third party lenders immediately prior to the Hughes Defense Spin-Off as contemplated by the Raytheon Merger Agreement. To the extent such proceeds exceed \$4.0 billion, the funds will be used to repay intercompany loans made by Delco to Hughes Defense. Since Delco will be transferred to General Motors as part of the Hughes Transactions, such funds will effectively be made available to General Motors. See "Description of the Raytheon Merger--Raytheon Merger Agreement--Certain Covenants--Indebtedness" below.
- . Hughes Electronics will be merged with General Motors. As a result, both Hughes Defense and Delco will be direct wholly owned subsidiaries of General Motors.
- . Hughes Aircraft, which is the subsidiary of Hughes Defense which principally operates the defense electronics business, will be merged with Hughes Defense.
- . Hughes Defense will distribute 100% of the stock of Hughes Telecom to General Motors in a tax-free transaction. This distribution of Hughes Telecom stock constitutes the Hughes Telecom Spin-Off. In connection with the Hughes Telecom Spin-Off, Hughes Telecom will be renamed "Hughes Electronics Corporation."

After the completion of these components of the Hughes Reorganization, each of Hughes Defense, Delco and Hughes Telecom will be a direct wholly owned subsidiary of General Motors. Hughes Defense will hold all of the assets and liabilities of the defense electronics business of Hughes Electronics, Delco will continue to hold all of the assets and liabilities of the automotive electronics business of Hughes Electronics and Hughes Telecom will hold all of the assets and liabilities of the telecommunications and space business of Hughes Electronics.

As part of the Hughes Reorganization, Hughes Defense will recapitalize its capital stock so as to authorize Class A Common Stock, Class B Common Stock and preferred stock, which will be New Raytheon Preferred Stock upon consummation of the Raytheon Merger. These three classes of stock will represent all of the authorized capital stock of New Raytheon upon consummation of the Raytheon Merger. The Class A Common Stock (all of which will be held by General Motors after the transactions described above) will be distributed by General Motors to its common stockholders in the Hughes Defense Spin-Off. Immediately following the Hughes Defense Spin-Off, Hughes Defense and Raytheon will merge and Class B Common Stock will be issued to Raytheon's common stockholders in the Raytheon Merger. See "Description of the Raytheon Merger" below. For a description of Class A Common Stock and Class B Common Stock, see "New Raytheon Capital Stock" in Chapter 6.

Prior to the GM Spin-Off Merger, Hughes Defense will adopt a shareholder rights plan to be effective immediately prior to the GM Spin-Off Merger Effective Time, which will become the shareholder rights plan of New Raytheon upon the consummation of the Raytheon Merger. See "New Raytheon Capital Stock--New Raytheon Rights Agreement" in Chapter 6. Each share of Class A Common Stock distributed in the GM Spin-Off Merger, and each share of Class B Common Stock issued in the Raytheon Merger, will have a share purchase right attached to such share.



GM SPIN-OFF MERGER

Subject to the terms and conditions of the GM Spin-Off Merger Agreement, Merger Sub, a wholly owned subsidiary of General Motors formed in order to effect the GM Spin-Off Merger, will merge with General Motors. General Motors will be the surviving corporation of the merger. Pursuant to the GM Spin-Off Merger, among other things, the following will occur:

- . each outstanding share of GM Class H Common Stock will be recapitalized and converted automatically into one share of New GM Class H Common Stock and each GM Class H Common Stockholder will receive a distribution of Class A Common Stock in accordance with the Distribution Ratio;
- . each outstanding share of GM \$1 2/3 Common Stock will remain outstanding and each GM \$1 2/3 Common Stockholder will receive a distribution of Class A Common Stock in accordance with the Distribution Ratio; and
- . the GM Certificate of Incorporation will be amended to delete provisions relating to the GM Class H Common Stock and to add provisions setting forth the terms of the New GM Class H Common Stock.

For additional information regarding the Distribution Ratio, including the methodology used to determine the Distribution Ratio formula and the Net Transaction Effect, see "Special Factors--The Distribution Ratio" and "--Background to the Hughes Transactions--Development of the Hughes Transactions and the Raytheon Merger--September 23, 1997 Capital Stock Committee Meeting" above. For information regarding the provisions of the New GM Class H Common Stock, see "New GM Class H Common Stock" in Chapter 6.

Following the Hughes Reorganization and the GM Spin-Off Merger, Hughes Defense will be an independent, publicly held company, comprising the defense electronics business of Hughes Electronics. Immediately thereafter, Hughes Defense and Raytheon will merge. See "Description of the Raytheon Merger" below.

GM SPIN-OFF MERGER AGREEMENT

INTRODUCTION

As described above, several components of the Hughes Transactions will be effected pursuant to the GM Spin-Off Merger. The GM Spin-Off Merger will be consummated pursuant to the GM Spin-Off Merger Agreement. The following is a summary description of the principal provisions of the GM Spin-Off Merger Agreement.

THE DESCRIPTION OF THE GM SPIN-OFF MERGER AGREEMENT SET FORTH BELOW, WHICH SUMMARIZES THE MATERIAL TERMS OF THE AGREEMENT, DOES NOT PURPORT TO BE COMPLETE AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE GM SPIN-OFF MERGER AGREEMENT, A COPY OF WHICH IS ATTACHED AS APPENDIX A TO THIS DOCUMENT AND IS INCORPORATED INTO THIS DOCUMENT BY REFERENCE. WE THEREFORE URGE YOU TO READ THE GM SPIN-OFF MERGER AGREEMENT, INCLUDING EXHIBIT A THERETO, CAREFULLY.

EFFECTIVENESS OF THE GM SPIN-OFF MERGER

Promptly following the satisfaction or waiver of the conditions to the GM Spin-Off Merger set forth in the GM Spin-Off Merger Agreement, the parties will file a certificate of merger with the Secretary of State of the State of Delaware, at which time (or at such later time as set forth in the certificate of merger) the GM Spin-Off Merger will become effective. At the GM Spin-Off Merger Effective Time, Merger Sub will merge with General Motors and the separate corporate existence of Merger Sub will cease. General Motors will be the surviving corporation of the GM Spin-Off Merger. The Raytheon Merger will be completed immediately after the GM Spin-Off Merger Effective Time.

AMENDMENT OF THE GM CERTIFICATE OF INCORPORATION

In the GM Spin-Off Merger, Article Fourth of the GM Certificate of Incorporation will be amended to:

- . Delete the provisions which relate to the GM Class H Common Stock; and

. Add provisions which relate to the New GM Class H Common Stock.

As part of the GM Spin-Off Merger, the GM Certificate of Incorporation will be amended so that the Hughes Transactions will not result in a recapitalization of GM Class H Common Stock into GM \$1 2/3 Common Stock at a 120% exchange ratio. As a result, by consenting to the Hughes Transactions, you will in effect be waiving application of such recapitalization to the Hughes Transactions. For additional information regarding the GM Class H Common Stock and the New GM Class H Common Stock, see "GM Class H Common Stock" and "New GM Class H Common Stock" in Chapter 6.

The GM Certificate of Incorporation, as so amended, will be the certificate of incorporation of General Motors as the surviving corporation of the GM Spin-Off Merger. Article Fourth of the GM Certificate of Incorporation, in the form proposed to be amended, is included in Appendix A to this document (as Exhibit A to the GM Spin-Off Merger Agreement). The GM By-Laws will be unchanged except for necessary amendments to provisions regarding GM Class H Common Stock and New GM Class H Common Stock (including with respect to uncertificated shares). The directors and officers of General Motors will be the directors and officers of General Motors as the surviving corporation of the GM Spin-Off Merger.

#### RECAPITALIZATION AND CONVERSION OF GM CLASS H COMMON STOCK

At the GM Spin-Off Merger Effective Time, each issued and outstanding share of GM Class H Common Stock will be recapitalized and converted into one share of New GM Class H Common Stock and the right to receive a distribution of Class A Common Stock in accordance with the Distribution Ratio. Accordingly, immediately after the GM Spin-Off Merger Effective Time, (1) for purposes of determining the record holders of New GM Class H Common Stock and Class A Common Stock, the GM Class H Common Stockholders immediately prior to the GM Spin-Off Merger Effective Time will be deemed to be holders of New GM Class H Common Stock and Class A Common Stock and (2) subject to any transfer of such stock (including pursuant to the provisions of the Raytheon Merger Agreement regarding fractional shares), such holders will be entitled to receive all dividends payable on, and exercise voting rights and all other rights and privileges with respect to, New GM Class H Common Stock and Class A Common Stock. Fractional shares of Class A Common Stock will be cashed out as described below under "Description of the Raytheon Merger--Raytheon Merger Agreement--Exchange of Shares."

BankBoston, N.A., as the Hughes Transactions Exchange Agent, will mail, as promptly as practicable following the GM Spin-Off Merger Effective Time to each record holder of GM Class H Common Stock as of the GM Spin-Off Merger Effective Time a letter of transmittal and related materials for use in surrendering the certificates which formerly represented such holder's GM Class H Common Stock. GM Class H Common Stockholders will be instructed to mail the certificates formerly representing their GM Class H Common Stock to the Hughes Transactions Exchange Agent accompanied by such letter of transmittal. However, since New GM Class H Common Stock will be issued as uncertificated shares registered in book-entry form through the Direct Registration System (unless you request certificates representing your shares of New GM Class H Common Stock), no certificates representing shares of New GM Class H Common Stock will be mailed to you. As a result, instead of receiving share certificates, you will receive account statements reflecting your respective ownership interest in shares of New GM Class H Common Stock. Your book-entry shares will be held with the GM Transfer Agent, who will serve as the record keeper for all New GM Class H Common Stockholders. However, any stockholder who wants to receive a physical certificate evidencing his or her shares of New GM Class H Common Stock will be able to obtain a certificate at no charge by contacting the GM Transfer Agent.

After the Hughes Transactions are completed, upon the surrender by GM Class H Common Stockholders of their share certificates, the GM Transfer Agent will mail account statements reflecting ownership of shares of New GM Class H Common Stock as of the close of business on the day on which the GM Spin-Off Merger Effective Time falls.

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Pursuant to the Raytheon Merger Agreement, each GM Class H Common Stockholder will also receive a check for cash instead of fractional shares of Class A Common Stock received by such holder as a result of the GM Spin-Off Merger. GM Class H Common Stockholders will not need any letter of transmittal in order to receive their whole shares of Class A Common Stock. Since Class A Common Stock will also be issued as uncertificated shares registered in book-entry form through the Direct Registration System (unless you request certificates representing your shares of Class A Common Stock), no certificates representing whole shares of Class A Common Stock will be mailed to you. As a result, instead of receiving share certificates you will receive account statements reflecting your respective ownership interest in shares of Common Stock. Your book-entry shares will be held with New Raytheon's transfer agent, who will serve as the record keeper for all Class A Common Stockholders. However, any stockholder who wants to receive a physical certificate evidencing his or her shares of Class A Common Stock will be able to obtain a certificate at no charge by contacting New Raytheon's transfer agent.

After the Hughes Transactions and the Raytheon Merger are completed, New Raytheon's transfer agent will begin mailing account statements reflecting ownership of shares of Class A Common Stock as of the close of business on the day on which the GM Spin-Off Merger Effective Time falls.

DO NOT RETURN THE CERTIFICATES REPRESENTING YOUR SHARES OF GM CLASS H COMMON STOCK WITH THE CONSENT CARD ENCLOSED WITH THIS DOCUMENT.

DISTRIBUTION ON AND CONVERSION OF GM \$1 2/3 COMMON STOCK

At the GM Spin-Off Merger Effective Time, each issued and outstanding share of GM \$1 2/3 Common Stock will be converted into one share of GM \$1 2/3 Common Stock of General Motors as the surviving corporation of the GM Spin-Off Merger (such that GM \$1 2/3 Common Stock effectively will remain outstanding after the consummation of the GM Spin-Off Merger) and the right to receive a distribution of Class A Common Stock in accordance with the Distribution Ratio. Accordingly, immediately after the GM Spin-Off Merger Effective Time, (1) for purposes of determining the record holders of Class A Common Stock, the GM \$1 2/3 Common Stockholders immediately prior to the GM Spin-Off Merger Effective Time will be deemed to be Class A Common Stockholders and (2) subject to any transfer of such stock (including pursuant to the provisions of the Raytheon Merger Agreement regarding fractional shares), such holders will be entitled to receive all dividends payable on, and exercise voting rights and all other rights and privileges with respect to, Class A Common Stock. Fractional shares of Class A Common Stock will be cashed out as described under "Description of the Raytheon Merger--Raytheon Merger Agreement--Exchange of Shares."

Following the GM Spin-Off Merger Effective Time, each GM \$1 2/3 Common Stockholder will receive a check for cash instead of fractional shares of Class A Common Stock received by such holder as a result of the GM Spin-Off Merger. GM \$1 2/3 Common Stockholders will not need any letter of transmittal to receive their whole shares of Class A Common Stock. Since Class A Common Stock will be registered in book-entry form through the Direct Registration System (unless you request certificates representing your shares of Class A Common Stock), no certificates representing whole shares of Class A Common Stock will be mailed to you. For a description of the Direct Registration System, see "--Recapitalization and Conversion of GM Class H Common Stock" above. The certificates representing the shares of GM \$1 2/3 Common Stock outstanding prior to the GM Spin-Off Merger Effective Time will represent the shares of GM \$1 2/3 Common Stock of General Motors as the surviving corporation of the GM Spin-Off Merger after the GM Spin-Off Merger Effective Time.

DO NOT RETURN THE CERTIFICATES REPRESENTING YOUR SHARES OF GM \$1 2/3 COMMON STOCK WITH THE CONSENT CARD ENCLOSED WITH THIS DOCUMENT. THOSE CERTIFICATES WILL CONTINUE TO REPRESENT YOUR SHARES OF GM \$1 2/3 COMMON STOCK AFTER THE HUGHES TRANSACTIONS.

CONDITIONS TO CLOSING

Under the GM Spin-Off Merger Agreement, GM's obligation to consummate the GM Spin-Off Merger is subject to, among other things, satisfaction or waiver of the following conditions:

- . The absence of a good faith determination by the GM Board, in the exercise of its fiduciary obligations under applicable law, on the basis of oral or written advice of outside counsel, that the consummation of the Hughes Transactions would not be both in the best interests of General Motors and its common stockholders and fair to the GM  $\frac{1}{2}$ / $\frac{2}{3}$  Common Stockholders and to the GM Class H Common Stockholders;
- . The absence of any order, injunction, decree, statute, rule or regulation preventing the consummation of any of the transactions contemplated by the GM Spin-Off Merger Agreement;
- . The Requisite Stockholder Approval of the Hughes Transactions shall have been obtained;
- . None of the Merrill Lynch Fairness Opinion, the Salomon Brothers Fairness Opinion and the Goldman Sachs Fairness Opinion shall have been withdrawn, revoked or modified;
- . The absence of any notification from the IRS that the IRS Ruling has been withdrawn, invalidated or modified in any way and the absence of a good faith determination by the GM Board, on the basis of advice of tax counsel, that the representations and assumptions underlying the IRS Ruling are not true and correct in all material respects;
- . The absence of any notification from the IRS that the IRS Supplemental Ruling has been withdrawn, invalidated or modified in any way and the absence of a good faith determination by the GM Board, on the basis of advice of tax counsel, that the representations and assumptions underlying the IRS Supplemental Ruling are not true and correct in all material respects;
- . The receipt of an opinion from Kirkland & Ellis, outside tax counsel to General Motors, to the effect that, on the basis of and subject to the assumptions, representations, limitations and other matters set forth therein, (1) the recapitalization of GM Class H Common Stock into New GM Class H Common Stock will be tax-free to the holders thereof and to General Motors and (2) each of GM Class H Common Stock and New GM Class H Common Stock is stock of General Motors for U.S. federal income tax purposes;
- . The consummation of the Hughes Reorganization;
- . The execution and delivery of the Separation Agreements;
- . The satisfaction or waiver of all conditions to the Raytheon Merger, other than the consummation of the GM Spin-Off Merger, and the preparedness of Raytheon and Hughes Defense to cause the consummation of the Raytheon Merger immediately following the GM Spin-Off Merger Effective Time;
- . The absence of any issuance of, or proceeding initiated for the purpose of issuing, a stop order suspending the effectiveness of either of the Registration Statements of which this document forms a part by the SEC; and
- . The payment in full of the Intercompany Payment.

TERMINATION

General Motors may terminate the GM Spin-Off Merger Agreement for any of the following reasons at any time prior to the GM Spin-Off Merger Effective Time:

- . In the event that the GM Board determines in good faith, in the exercise of its fiduciary obligations under applicable law, on the basis of oral or written advice of outside counsel, (1) that the consummation of the Hughes Transactions would not be both in the best interests of General Motors and its common stockholders and fair to the GM  $\frac{1}{2}$ / $\frac{2}{3}$  Common Stockholders and GM Class H Common Stockholders and (2) that such determination could not reasonably be avoided by adjusting the Distribution Ratio to enable (A) the GM Board to conclude, as of the date of the adjustment of the Distribution Ratio, that the Hughes Transactions, taken as a whole, are both in the best interests of General Motors and its common

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stockholders and fair to the GM \$1 2/3 Common Stockholders and GM Class H Common Stockholders and (B) Merrill Lynch to provide the Merrill Lynch Fairness Opinion and Salomon Brothers to provide the Salomon Brothers Fairness Opinion;

- . In the event that the Merrill Lynch Fairness Opinion, the Salomon Brothers Fairness Opinion or the Goldman Sachs Fairness Opinion is withdrawn or revoked;
- . In the event that General Motors has been notified by the IRS that the IRS Ruling has been withdrawn, invalidated or modified in an adverse manner or has been notified by the IRS or otherwise reasonably determines, on the basis of advice of outside tax counsel, that the consummation of (1) either of (A) the distribution of Class A Common Stock to GM's common stockholders in the Hughes Defense Spin-Off or (B) the Hughes Telecom Spin-Off will not constitute a tax-free distribution under applicable sections of the Code or (2) the recapitalization of GM Class H Common Stock into New GM Class H Common Stock will not be tax-free to General Motors and the holders thereof;
- . In the event that General Motors has been notified by the IRS that the IRS Supplemental Ruling has been withdrawn, invalidated or modified or has been notified by the IRS or otherwise reasonably determines, on the basis of advice of outside tax counsel, that the consummation of the transactions contemplated by the GM Spin-Off Merger Agreement will jeopardize the tax-free status of the EDS Split-Off;
- . In the event that the Hughes Transactions fail to receive the Requisite Stockholder Approval at the time contemplated; or
- . In the event that either the Raytheon Merger Agreement or the Implementation Agreement is terminated in accordance with its terms.

General Motors has agreed that, unless the Implementation Agreement has been terminated, it will not, and will not permit Merger Sub to, terminate (except as may be permitted by the terms of the GM Spin-Off Merger Agreement) or waive any condition of the GM Spin-Off Merger Agreement, without the prior written consent of Raytheon.

AMENDMENT

Subject to certain provisions set forth in the Implementation Agreement, the GM Spin-Off Merger Agreement may be amended at any time and from time to time by General Motors and Merger Sub, provided that any such amendment made after the Hughes Transactions have been approved by GM's common stockholders may not alter or change (1) the amount or kind of shares to be distributed in respect of, or the rights to be received in exchange for or on recapitalization and conversion of, the GM Class H Common Stock, (2) the amount or kind of shares to be distributed to, or the rights to be received by, the GM \$1 2/3 Common Stockholders, (3) any term of the certificate of incorporation of General Motors as the surviving corporation of the GM Spin-Off Merger or (4) any of the terms and conditions of the GM Spin-Off Merger Agreement if such alteration or change would adversely affect the holders of any class or series of GM capital stock.

Pursuant to the Implementation Agreement, General Motors has agreed to consult with Raytheon regarding any changes or additions that are proposed to be made to the GM Spin-Off Merger Agreement prior to the Raytheon Merger. General Motors has also agreed that, except for any amendment to the GM Spin-Off Merger Agreement to adjust the Distribution Ratio (as described above), General Motors will not permit any such change or addition to be made prior to the Raytheon Merger Effective Time to the GM Spin-Off Merger Agreement without Raytheon's consent (which consent will not be unreasonably withheld or delayed), unless such change or addition could not reasonably be foreseen (1) to have an adverse effect on the business, assets, liabilities or financial condition of Hughes Defense or, following the Raytheon Merger, New Raytheon or (2) to delay materially the consummation of the Raytheon Merger on the terms and subject to the conditions of the Implementation Agreement and the other agreements relating to the Hughes Transactions and the Raytheon Merger.

NO RECAPITALIZATION AT A 120% EXCHANGE RATIO

In considering the possibility of strategic transactions involving Hughes Electronics and its three principal businesses, the GM Board was advised that substantial dilution of the GM \$1 2/3 Common Stock would occur if any such transaction were to result in a recapitalization of GM Class H Common Stock into GM \$1 2/3 Common Stock at a 120% exchange ratio, as currently provided for under certain circumstances in the GM Certificate of Incorporation. This dilution would be expected to have an adverse effect not only on the market value of the GM \$1 2/3 Common Stock held by existing stockholders but also on the market value of such stock to be issued to holders of GM Class H Common Stock in any such recapitalization. Further, if a transaction structured along the lines of the Hughes Transactions resulted in a recapitalization, the GM Class H Common Stock would be eliminated and investors in that stock would be deprived of an ongoing tracking stock interest in Hughes Electronics' telecommunications and space business, which GM management and Hughes Electronics management believe currently offers the greatest growth potential of the three principal businesses of Hughes Electronics. The GM Board considered that most holders of GM Class H Common Stock had purchased such stock in order to invest in a tracking stock related to the businesses of Hughes Electronics and that such holders would not necessarily desire to hold GM \$1 2/3 Common Stock, so that the issuance of GM \$1 2/3 Common Stock to them in a recapitalization would likely result in substantial trading activity that would exacerbate the anticipated adverse effect on market value for all stockholders. In addition, the telecommunications and space business would be included within the broader business operations of General Motors, with a resulting loss of the benefits of a tracking stock structure related to that business, such as the flexibility of General Motors to finance the business through the tax-free issuance of tracking stock and the ability of General Motors to use tracking stock as a focused security for management compensation.

GM management also noted certain practical difficulties related to the mechanics of the recapitalization provisions in the context of a complex series of transactions such as the Hughes Transactions. These difficulties included the difficulty of achieving an appropriate valuation period for any such exchange in the context of the negotiation, announcement and consummation of a strategic transaction that would be subject to substantial uncertainties as to the timing of disclosure, the possibility of market leaks and the likelihood of consummation. Moreover, GM management and legal counsel advised the GM Board that there was substantial uncertainty as to whether any likely strategic transactions, such as a possible spin-off of Hughes Defense and transfer of Delco to General Motors, would in fact trigger the nondiscretionary recapitalization provision of the GM Certificate of Incorporation, which is only effective upon the consummation of a sale, transfer, assignment or other disposition of substantially all of the business of Hughes Aircraft (i.e., the entity that currently owns both the defense electronics business and the telecommunications and space business of Hughes Electronics) or the sale or other disposition of substantially all of the other business of Hughes Electronics (i.e., Delco's automotive electronics business) to a person, entity or group of which General Motors is not a majority owner. In addition, GM management and legal counsel further advised the GM Board that there is substantial uncertainty as to whether the Hughes Transactions would trigger this provision absent an amendment to the GM Certificate of Incorporation.

Based on the foregoing factors, and in light of the substantial benefits that any proposed strategic transactions would be expected to have for the holders of both classes of GM common stock, the GM Board determined that it would be in the best interests of all of GM's common stockholders to structure any potential strategic transactions involving Hughes Electronics or any of its three principal businesses so as not to result in a recapitalization of GM Class H Common Stock into GM \$1 2/3 Common Stock. Accordingly, as part of the GM Spin-Off Merger, the GM Certificate of Incorporation will be amended to eliminate any possible application of the recapitalization provision to the Hughes Transactions and, by voting in favor of the Hughes Transactions, you will in effect be waiving application of the recapitalization provision to the Hughes Transactions.

#### STOCKHOLDER APPROVAL OF THE HUGHES TRANSACTIONS

As described above, in order to consummate the Hughes Transactions, General Motors must obtain the Requisite Stockholder Approval, which consists of the consent of the holders of:

- . a majority of the outstanding shares of GM \$1 2/3 Common Stock, voting as a separate class; and
- . a majority of the outstanding shares of GM Class H Common Stock, voting as a separate class.

The series of related transactions comprising the Hughes Transactions are all part of a single plan. By approving and consenting to the Hughes Transactions, you will be ratifying each of these transactions and adopting the GM Spin-Off Merger Agreement. You are not being asked to approve the Raytheon Merger, which has already been approved by Hughes Electronics (in its capacity as the sole stockholder of Hughes Defense). See "Solicitation of Written Consent of GM's Common Stockholders" in Chapter 7.

IF THE HUGHES TRANSACTIONS ARE NOT APPROVED BY GM'S COMMON STOCKHOLDERS, NONE OF THE HUGHES TRANSACTIONS WILL BE CONSUMMATED AND THE RAYTHEON MERGER WILL NOT BE COMPLETED.

In certain circumstances, termination of the Raytheon Merger Agreement requires Hughes Defense to make certain payments to Raytheon. See "Description of the Raytheon Merger--Raytheon Merger Agreement--Effect of Termination; Termination Fees" below.

THE GM BOARD HAS UNANIMOUSLY APPROVED THE HUGHES TRANSACTIONS AND HAS DETERMINED THAT THE HUGHES TRANSACTIONS, ARE IN THE BEST INTERESTS OF GENERAL MOTORS AND IN YOUR BEST INTERESTS AS COMMON STOCKHOLDERS OF GENERAL MOTORS. THE GM BOARD ALSO HAS DETERMINED THAT THE HUGHES TRANSACTIONS ARE FAIR TO BOTH CLASSES OF GM'S COMMON STOCKHOLDERS. THE GM BOARD RECOMMENDS THAT YOU VOTE TO APPROVE THE HUGHES TRANSACTIONS.

#### NO APPRAISAL RIGHTS

The Delaware General Corporation Law does not provide appraisal rights to GM's common stockholders in connection with the Hughes Transactions. Appraisal rights will not be available to GM Class H Common Stockholders because, among other things, the GM Class H Common Stock is, and the New GM Class H Common Stock and the Class A Common Stock will both be, listed on the NYSE. GM \$1 2/3 Common Stockholders will not be entitled to appraisal rights because, among other things, GM \$1 2/3 Common Stock is listed on the NYSE and the holders thereof will not exchange or otherwise relinquish any such stock pursuant to the GM Spin-Off Merger. Similarly, no appraisal rights will be available to GM's common stockholders in connection with the Raytheon Merger.

#### CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

For a description of certain U.S. federal income tax considerations relating to certain of the Hughes Transactions and the Raytheon Merger, see "Special Factors--Certain U.S. Federal Income Tax Considerations Relating to Certain of the Hughes Transactions" and "--Certain U.S. Federal Income Tax Considerations Relating to the Raytheon Merger" above.

#### CERTAIN LITIGATION

For a description of certain stockholder litigation relating to the Hughes Transactions, see "Special Factors--Stockholder Litigation Relating to the Hughes Transactions" above.

#### ACCOUNTING TREATMENT

General Motors will record the distribution of Hughes Defense to GM \$1 2/3 Common Stockholders and GM Class H Common Stockholders at "fair value" and will recognize and report a gain of approximately \$3.9

to \$4.5 billion as "Other Income" (approximately \$5.56 to \$6.41 per share of earnings from continuing operations attributable to GM \$1 2/3 Common Stock) in GM's consolidated financial statements so long as the market price of Raytheon Common Stock is within a range of \$44.42 and \$54.29 per share. The Recent Raytheon Stock Price (\$59.94 per share) is above the collar range and would indicate a total transaction value of approximately \$10.1 billion, with a resulting gain of approximately \$4.6 billion based on the net book value of Hughes Defense at June 30, 1997 (approximately \$6.53 per share of earnings from continuing operations attributable to GM \$1 2/3 Common Stock). In addition, we currently anticipate that there will be a reduction of GM stockholders' equity of between \$0.6 and \$1.6 billion as a result of the Hughes Transactions (based on the Recent Raytheon Stock Price, the overall reduction in GM stockholders' equity is estimated to be approximately \$1.6 billion). The exact amount of such reduction will depend on several variables, the most significant of which is the amount of debt incurred by Hughes Defense prior to the Hughes Defense Spin-Off.

#### REGULATORY REQUIREMENTS

In order to consummate the Hughes Transactions and the Raytheon Merger, we and Raytheon must make certain filings and receive certain various authorizations from various governmental agencies, both in the United States and internationally, with respect to the proposed transactions. These filings, notifications and authorizations relate primarily to competition and securities law issues.

The Raytheon Merger is subject to the requirements of the Hart-Scott-Rodino Act, which provides that certain transactions may not be consummated until required information and materials are furnished to the Antitrust Division of the U.S. Department of Justice and the U.S. Federal Trade Commission (the "FTC") and the requisite waiting period has expired or is terminated. General Motors and Raytheon have reached a preliminary agreement with the U.S. Department of Justice and the Department of Defense regarding the basis upon which the Raytheon Merger can proceed. The preliminary agreement contemplates certain divestitures and operating agreements, the implementation of which we do not expect to be materially adverse to the business of New Raytheon. General Motors and Raytheon expect to finalize the agreement and antitrust clearance in October 1997.

We believe that no material U.S. state, foreign or other regulatory requirements remain to be complied with, and no further material approvals thereunder must be obtained, in order to consummate the Hughes Transactions or the Raytheon Merger.

#### SALES TO GENERAL MOTORS

Approximately 32% of Hughes Electronics' 1996 total revenues were attributable to sales to General Motors and its affiliates. Substantially all of these sales were by Delco, with approximately 81% of Hughes Electronics' 1996 revenues in its automotive electronics business segment attributable to sales to GM NAO, and approximately 9% attributable to sales to GM operations outside of North America and affiliates of General Motors. See "Business of Delco--Sales to GM NAO" and "--International and Other Sales" in Chapter 4. Hughes Electronics and General Motors periodically provide research and technological services to each other pursuant to contractual arrangements.

Approximately 3% of Hughes Defense's 1996 total revenues were attributable to sales to General Motors and its affiliates. Among other things, Hughes Defense provides advanced training system services to General Motors, both in Europe and at several GM facilities in the United States. See "Business of Hughes Defense--Information Systems--Hughes Training Inc." in Chapter 4. After the Hughes Transactions, all transactions between New Raytheon on the one hand and General Motors and its affiliates on the other hand will be subject to GM's worldwide purchasing process.

We do not currently expect sales by New Hughes Electronics to General Motors and its affiliates following the consummation of the Hughes Transactions to be significant. On a pro forma basis giving effect to the consummation of the Hughes Transactions, less than 1% of Hughes Telecom's 1996 total revenues were attributable to General Motors and its affiliates.



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DESCRIPTION OF THE RAYTHEON MERGER

GENERAL

OVERVIEW

Immediately after the completion of the Hughes Defense Spin-Off and the other Hughes Transactions, Raytheon and Hughes Defense will consummate the Raytheon Merger. Hughes Defense will be the surviving corporation of this merger and will be renamed "Raytheon Company." Pursuant to the Raytheon Merger, among other things,

- . each whole share of Class A Common Stock distributed to GM common stockholders in the Hughes Defense Spin-Off will remain outstanding and will be unchanged;
- . all fractional shares of Class A Common Stock distributed to GM's common stockholders in the Hughes Defense Spin-Off will be converted into an equivalent number of fractional shares of Class B Common Stock, which will then be aggregated and sold by the Raytheon Merger Exchange Agent and the proceeds distributed to the owners of such fractional shares on a pro rata basis; and
- . each outstanding share of Raytheon Common Stock will be converted into one share of Class B Common Stock.

See "--Raytheon Merger Agreement" below.

Immediately following the Raytheon Merger, the Class A Common Stock will represent approximately 30% of the common stock of New Raytheon and the Class B Common Stock will represent approximately 70% of the common stock of New Raytheon. The Class A Common Stockholders will be entitled, in the aggregate, to 80.1% of the total voting power of New Raytheon for the election and removal of directors. The Class B Common Stockholders will be entitled, in the aggregate, to 19.9% of the total voting power of New Raytheon for the election and removal of directors. With respect to all other matters, separate class approvals of the Class A Common Stockholders and the Class B Common Stockholders will be required. See "New Raytheon Capital Stock" in Chapter 6. Class A Common Stock and Class B Common Stock will be identical in all other respects. General Motors, Hughes Defense and Raytheon agreed to the terms of the Class A Common Stock and the Class B Common Stock for the sole purpose of permitting General Motors to obtain the IRS Ruling described herein with respect to the U.S. federal income tax consequences of the Hughes Defense Spin-Off and certain related transactions. The IRS Ruling is premised on the fact that GM's common stockholders will receive in the Hughes Defense Spin-Off stock possessing at least 80% of the voting power in the election of directors of New Raytheon.

INDICATED VALUE OF THE HUGHES DEFENSE SPIN-OFF AND THE RAYTHEON MERGER TO  
GENERAL MOTORS AND ITS COMMON STOCKHOLDERS

Under the terms of the Raytheon Merger Agreement, the Hughes Defense Spin-Off and the Raytheon Merger have a total indicated value of approximately \$10.1 billion to General Motors and its common stockholders based on the Recent Raytheon Stock Price. We believe that this value represents a substantial premium to the enterprise value of Hughes Defense under the current General Motors and Hughes Electronics ownership structure. The spin-off and merger transactions would have a total indicated value of \$9.5 billion so long as the market price of Raytheon Common Stock is within a collar ranging from \$44.42 to \$54.29 per share. Raytheon stock prices above \$54.29 per share (such as the Recent Raytheon Stock Price) would result in transaction values higher than \$9.5 billion, while Raytheon stock prices below \$44.42 per share would result in transaction values less than \$9.5 billion.

This total transaction value consists of a combination of:

- . the Class A Common Stock to be distributed to GM's common stockholders in the Hughes Defense Spin-Off, which has an indicated value of approximately \$6.2 billion based on the Recent Raytheon Stock Price; and

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. the amount of debt (including new debt which Hughes Defense will incur prior to the Hughes Defense Spin-Off) that Hughes Defense is permitted to have immediately before the Raytheon Merger Effective Time, which is approximately \$3.9 billion based on the Recent Raytheon Stock Price. This debt will remain with New Raytheon (and not constitute obligations of General Motors, New Hughes Electronics or their respective subsidiaries) after the Raytheon Merger.

Because the value of the shares of Class A Common Stock which you will receive in the Hughes Defense Spin-Off will vary based on the market price of Raytheon Common Stock, the total value of the Hughes Defense Spin-Off and the Raytheon Merger at the Raytheon Merger Effective Time could be either higher or lower than that indicated by the Recent Raytheon Stock Price.

The actual amount of new debt to be incurred by Hughes Defense prior to the Hughes Defense Spin-Off will be determined by subtracting from \$9.5 billion any other outstanding debt of Hughes Defense as of the Raytheon Merger Effective Time and also subtracting the product of (x) the total number of shares of Class A Common Stock to be distributed to GM common stockholders (i.e., 102,630,503 shares) and (y) the average closing market price of Raytheon Common Stock during the 30-day period ending on the fifth day prior to consummation of the Raytheon Merger, provided that in the event such average price is less than \$44.42, it will be deemed to be \$44.42, and in the event such price is more than \$54.29, it will be deemed to be \$54.29. This amount of new debt is referred to in the Raytheon Merger Agreement as the "Intercompany Payment Amount." Based on the Recent Raytheon Stock Price, the Intercompany Payment Amount is currently expected to be \$3.9 billion. To the extent that such amount exceeds \$4.0 billion, the excess will be made available to General Motors as described under "Special Factors--The Distribution Ratio" in Chapter 3.

The table below shows the range of reported per share closing prices on the NYSE Composite Tape for the Raytheon Common Stock for the periods indicated.

MONTH -----	HIGH -----	LOW -----
1996		
October.....	\$55.38	\$45.88
November.....	52.38	49.00
December.....	51.50	46.25
1997		
January.....	50.00	44.75
February.....	47.63	44.38
March.....	48.63	45.13
April.....	45.63	42.75
May.....	47.75	45.25
June.....	53.75	47.38
July.....	56.25	52.56
August.....	57.63	55.00
September.....	60.56	56.94
October (through October 3, 1997).....	60.25	59.56

POST-CLOSING ADJUSTMENT

Within approximately four months after completion of the Raytheon Merger, New Hughes Electronics will prepare and deliver to New Raytheon a final balance sheet for Hughes Defense and its subsidiaries as of immediately prior to the Raytheon Merger (but giving effect to the Hughes Defense Spin-Off) and a related report from New Hughes Electronics' auditors. Within 30 business days after its receipt of this final balance sheet and related auditors' report, New Raytheon will notify New Hughes Electronics of any objections to the balance sheet and report. New Hughes Electronics and New Raytheon will then work together to try to reach

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agreement on any disputed matters and, if the parties cannot reach agreement, all disputed matters will be submitted to arbitration before independent auditors for final resolution.

To the extent that this final balance sheet reflects an adjusted net worth (calculated as described in the Master Separation Agreement) that deviates more than \$50 million from a target amount, a payment will be made from New Hughes Electronics to New Raytheon, or from New Raytheon to New Hughes Electronics, as appropriate, to compensate for the amount of such difference (plus interest thereon from the Raytheon Merger Effective Time to the date of payment). See "Separation and Transition Arrangements--Summary of Master Separation Agreement--Post-Closing Adjustment Between New Hughes Electronics and New Raytheon" below.

THE DESCRIPTIONS OF THE RAYTHEON MERGER AGREEMENT AND THE IMPLEMENTATION AGREEMENT SET FORTH BELOW, WHICH SUMMARIZE THE MATERIAL TERMS OF SUCH AGREEMENTS, DO NOT PURPORT TO BE COMPLETE AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE RAYTHEON MERGER AGREEMENT AND TO THE IMPLEMENTATION AGREEMENT. COPIES OF THESE AGREEMENTS ARE INCLUDED IN GM'S FORM 8-K DATED JANUARY 16, 1997, WHICH WE HAVE INCORPORATED INTO THIS DOCUMENT BY REFERENCE. SEE "WHERE YOU CAN FIND MORE INFORMATION" IN CHAPTER 7.

RAYTHEON MERGER AGREEMENT

GENERAL

The Raytheon Merger Agreement is an agreement between Hughes Defense and Raytheon which provides for the merger of Raytheon with Hughes Defense (which at the time will comprise the defense electronics business of Hughes Electronics). Hughes Defense will be the surviving corporation of the Raytheon Merger. As a result of the Raytheon Merger, the separate corporate existence of Raytheon will cease and Hughes Defense, as the surviving corporation, will continue its existence under the laws of the State of Delaware and its name will be changed to "Raytheon Company." The Raytheon Merger will become effective in accordance with a certificate of merger to be filed with the Secretary of State of the State of Delaware. The closing under the Raytheon Merger Agreement will occur as soon as practicable after the satisfaction or waiver of all of the conditions specified in the Raytheon Merger Agreement, including the consummation of the Hughes Transactions. We and Raytheon are planning to cause the Raytheon Merger to occur immediately after the completion of the GM Spin-Off Merger. Under the Raytheon Merger Agreement, the Hughes Defense Certificate of Incorporation and the Hughes Defense By-Laws described in this document will continue as the certificate of incorporation and the by-laws of New Raytheon following the Raytheon Merger.

As described above, Hughes Defense will be the surviving corporation of the Raytheon Merger. Since Hughes Defense, as the surviving corporation of the Raytheon Merger, will be renamed "Raytheon Company" as part of the merger, we sometimes refer in this document to Hughes Defense as "New Raytheon," particularly where such references relate to periods commencing after the Raytheon Merger Effective Time. References to "Hughes Defense" in the descriptions below of the Raytheon Merger Agreement, the Separation Agreements and the arrangements contemplated by such agreements should be considered, as appropriate, also to be references to "New Raytheon." Similarly, we sometimes refer in this document to the "Hughes Defense Certificate of Incorporation" and the "Hughes Defense By-Laws" as the "New Raytheon Certificate of Incorporation" and the "New Raytheon By-Laws," respectively.

CONSIDERATION TO BE RECEIVED IN THE RAYTHEON MERGER

Under the Raytheon Merger Agreement, each whole share of Class A Common Stock that is issued and outstanding immediately prior to the Raytheon Merger Effective Time (which will be the shares distributed to GM's common stockholders in the Hughes Defense Spin-Off) will remain outstanding and will be unchanged

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after the Raytheon Merger. Each fractional share of Class A Common Stock that is issued and outstanding immediately prior to the Raytheon Merger Effective Time will be converted into and represent an equivalent number of fractional shares of Class B Common Stock, which will be sold by the Raytheon Merger Exchange Agent as described below under "--Raytheon Merger Agreement--Treatment of Fractional Shares of Class A Common Stock." Similarly, the conversion of fractional shares of Class A Common Stock into Class B Common Stock prior to such shares being aggregated and sold as described above is intended to permit such sales without diluting the voting power in the election of directors of New Raytheon to be received by GM's common stockholders in the Hughes Defense Spin-Off, which could have prevented General Motors from receiving the IRS Ruling.

At the Raytheon Merger Effective Time, each issued and outstanding share of Raytheon Common Stock (other than shares to be canceled as described below) will be converted into and represent one share of Class B Common Stock. Each share of Raytheon capital stock held in the treasury of Raytheon or owned by any wholly owned subsidiary of Raytheon will be canceled and retired and no payment will be made in respect thereof.

Each option to purchase Raytheon Common Stock outstanding under stock option plans of Raytheon in effect at the Raytheon Merger Effective Time (each, a "Raytheon Option") will be automatically converted, at the Raytheon Merger Effective Time, into an option to purchase shares of Class B Common Stock (a "New Raytheon Exchange Option"). Each New Raytheon Exchange Option will allow the holder to purchase the same number of shares of Class B Common Stock at the same exercise price as the corresponding Raytheon Option with respect to Raytheon Common Stock, and with other terms and conditions that are the same as the terms and conditions of such Raytheon Option immediately before the Raytheon Merger Effective Time (except for any changes in vesting rights or permitted time of exercise which result from the occurrence of the Raytheon Merger). For information regarding the treatment of stock options in respect of GM Class H Common Stock, see "Separation and Transition Arrangements--Summary of Other Agreements Contemplated by the Master Separation Agreement--Stock Options" below.

TREATMENT OF FRACTIONAL SHARES OF CLASS A COMMON STOCK

As described above, fractional shares of Class A Common Stock will be converted in the Raytheon Merger into an equivalent number of shares of Class B Common Stock. No fractional shares of Class B Common Stock will be distributed to Class A Common Stockholders. Instead, the aggregate number of fractional shares of Class B Common Stock (the "Excess Shares") will be sold by the Raytheon Merger Exchange Agent following the Raytheon Merger Effective Time at then prevailing prices on the NYSE. The sale of the Excess Shares will be in round lots to the extent practicable. The Raytheon Merger Exchange Agent will use all reasonable efforts to complete the sale of the Excess Shares as promptly following the Raytheon Merger Effective Time as is practicable consistent with obtaining the best execution of such sales in light of prevailing market conditions. Until the net proceeds of such sale have been distributed to the holders of such fractional interests in the Class B Common Stock, the Raytheon Merger Exchange Agent will hold such proceeds in trust for such holders. The portion of the proceeds of such sale of Excess Shares to which each holder of such fractional interests in the Class B Common Stock is entitled, as determined by the Raytheon Merger Exchange Agent, will then be distributed, net of any required tax withholding, to such Class B Common Stockholders. New Raytheon will pay all commissions, transfer taxes and other out-of-pocket expenses incurred in connection with such sale of the Excess Shares. For purposes of determining whether a Class A Common Stockholder immediately prior to the Raytheon Merger Effective Time holds a fractional share of Class A Common Stock, all shares of Class A Common Stock held by such holder will be aggregated by the Raytheon Merger Exchange Agent to the extent practicable.

BOARDS, COMMITTEES AND OFFICERS

The Raytheon Merger Agreement provides for the composition of the New Raytheon Board, as well as the composition of various committees of the New Raytheon Board and certain other committees. The Raytheon Merger Agreement also provides that the officers of Raytheon immediately prior to the Raytheon Merger

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Effective Time will be the officers of New Raytheon immediately following the Raytheon Merger Effective Time. See "New Raytheon--New Raytheon Management--Directors and Executive Officers" in Chapter 5.

CERTAIN COVENANTS

The Raytheon Merger Agreement includes certain provisions which govern the manner in which Raytheon and Hughes Defense must conduct their respective businesses between the date of the Raytheon Merger Agreement and the Raytheon Merger Effective Time. The purpose of these provisions is to ensure that at the Raytheon Merger Effective Time, each company represents approximately the same assets, liabilities and businesses as existed when the Raytheon Merger Agreement was executed.

Conduct of Raytheon's Operations. The Raytheon Merger Agreement provides that until the Raytheon Merger Effective Time, Raytheon will conduct its business and operations in the ordinary course except as expressly contemplated by the Raytheon Merger Agreement and the transactions contemplated thereby, and will use all commercially reasonable efforts to maintain and preserve its business organization and its material rights and franchises and to retain the services of its officers and key employees and maintain relationships with customers, suppliers, lessees, licensees and other third parties so that their goodwill and ongoing business will not be impaired in any material respect.

The Raytheon Merger Agreement also provides that, except in certain circumstances, until the Raytheon Merger Effective Time, Raytheon will not, without the prior written consent of Hughes Defense:

- . do or effect any of the following actions with respect to its securities:
  - (1) adjust, split, combine, recapitalize or reclassify its capital stock,
  - (2) declare or pay any dividend (other than regular quarterly cash dividends consistent as to time of payment and amount with the dividends declared and paid during 1996) or distribution on, or directly or indirectly redeem, purchase or otherwise acquire, any shares of its capital stock or any securities or obligations convertible into or exchangeable for any shares of its capital stock (except for limited purchases of shares of Raytheon Common Stock by Raytheon in the open market), (3) grant any person any right or option to acquire any shares of its capital stock other than in the ordinary course of business, consistent with past practice pursuant to existing option plans or the Raytheon Company Deferral Plan for Directors, the aggregate amount of which will not exceed certain pre-determined limits, (4) issue or sell or agree to issue or sell any shares of its capital stock or any securities, instruments or obligations convertible into or exchangeable or exercisable for any shares of its capital stock or such securities except in certain limited circumstances, or (5) enter into any agreement, understanding or arrangement with respect to the sale or voting of Raytheon's capital stock;
- . except as may be required by changes in applicable law or accounting principles, change any method or principle of accounting in a manner that is inconsistent with past practice;
- . take any action that would reasonably be expected to result in its representations and warranties contained in the Raytheon Merger Agreement becoming false or inaccurate;
- . take any action which could reasonably be expected to adversely affect or delay the ability of any of the parties to the Raytheon Merger Agreement to obtain any approval of any governmental authority required to consummate the transactions contemplated by the Raytheon Merger Agreement; or
- . permit or cause any subsidiary to do any of the foregoing or agree or commit to do any of the foregoing or agree in writing or otherwise to take any of the foregoing actions.

Conduct of Hughes Defense's Operations. The Raytheon Merger Agreement provides that, except in certain circumstances, until the Raytheon Merger Effective Time, Hughes Defense will conduct its business and operations in the ordinary course, and will use all commercially reasonable efforts to maintain and preserve its business organization and its material rights and franchises and to retain the services of its officers and key employees and maintain relationships with customers, suppliers, lessees, licensees and other third parties to the end that their goodwill and ongoing business will not be impaired in any material respect.

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The Raytheon Merger Agreement also provides that, except in certain enumerated circumstances, until the Raytheon Merger Effective Time, Hughes Defense will not, without the prior written consent of Raytheon:

- . grant any person any right or option to acquire any shares of its capital stock (other than granting certain options for the purchase of Class B Common Stock to certain employees of Hughes Defense who would have been eligible to receive options to purchase GM Class H Common Stock) or enter into any agreement, understanding or arrangement with respect to the purchase, sale or voting of its capital stock or issue any instrument convertible into or exchangeable for such capital stock, or make, declare or pay any dividend or distribution in respect of any of its capital stock other than in cash;
- . sell, transfer, lease, pledge, mortgage, encumber or otherwise dispose of any material amount of its property or assets other than in the ordinary course of business, consistent with past practice;
- . make or propose any changes in its certificate of incorporation or bylaws;
- . merge or consolidate with any other persons or persons or acquire assets or capital stock of any other person or persons the value of which individually or in the aggregate exceeds \$100 million or enter into any confidentiality agreement with any person with respect to any such transaction;
- . create any subsidiaries which are material to Hughes Defense and which are not, directly or indirectly, wholly owned by Hughes Defense;
- . enter into or modify any employment, severance, termination or similar agreements or arrangements with, or grant any bonuses, salary increases, severance or termination pay to, or otherwise increase the compensation or benefits of, any officer, director, consultant or employee other than increases in salary, compensation or benefits granted in the ordinary course of business consistent (including as to the amount and timing thereof) with past practice, except as may be required by applicable law or a binding written contract in effect on the date of the Raytheon Merger Agreement;
- . except as may be required by changes in applicable law or accounting principles, change any method or principle of accounting in a manner that is inconsistent with past practice;
- . take any action that would reasonably be expected to result in its representations and warranties contained in the Raytheon Merger Agreement becoming false or inaccurate;
- . enter into or carry out any other transaction which is material to Hughes Defense other than in the ordinary and usual course of business;
- . take any action which could reasonably be expected to adversely affect or delay the ability of any parties to the Raytheon Merger Agreement to obtain any approval of any governmental authority required to consummate the transaction contemplated by the Raytheon Merger Agreement;
- . settle any actions, whether now pending or hereafter made or brought, on terms which include a material limitation on the business or operations of New Raytheon; or
- . permit or cause any subsidiary to do any of the foregoing or agree or commit to do any of the foregoing or agree in writing or otherwise to take any of the foregoing actions.

Indebtedness. The Raytheon Merger Agreement also provides that as of or prior to the Raytheon Merger Effective Time, Hughes Defense will incur indebtedness for borrowed money in an amount equal to the Intercompany Payment Amount (as defined below). The proceeds of such indebtedness (up to \$4.0 billion) will be made available as capital to Hughes Telecom. The proceeds of such indebtedness, if any, above \$4.0 billion will be used to repay intercompany loans owing to Delco. The Raytheon Merger Agreement uses the term "Intercompany Payment" to apply to these applications of proceeds. We currently estimate that such proceeds will exceed \$4.0 billion only if the average closing price of Raytheon Common Stock as described below is \$        or less.

The "Intercompany Payment Amount" will be equal to \$9.5 billion minus the "Class A Common Stock Amount" (as defined below) and minus the principal amount of all other indebtedness for borrowed money of Hughes Defense to be outstanding at the Raytheon Merger Effective Time. The "Class A Common Stock Amount" is equal to 102,630,503 (the fixed number of shares of Class A Common Stock to be distributed to GM's common stockholders in the Hughes Defense Spin-Off) multiplied by the average closing price of

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Raytheon Common Stock on the NYSE during the 30-day period ending five days prior to the Raytheon Merger Effective Time, provided, however, that in the event such average price is greater than \$54.29 such price will be deemed to be \$54.29, and in the event such average price is less than \$44.42, such price will be deemed to be \$44.42. It is this covenant that gives rise to the \$9.5 billion of indicated total value in the Hughes Defense Spin-Off and Raytheon Merger to General Motors and its common stockholders, as described elsewhere in this document. See "--General--Indicated Value of the Hughes Defense Spin-Off and the Raytheon Merger to General Motors and Its Common Stockholders" above. The Raytheon Merger Agreement requires that no interest in respect of the indebtedness comprising the Intercompany Payment Amount be accrued and unpaid at the Raytheon Merger Effective Time.

Other Actions; Notification of Certain Matters. The Raytheon Merger Agreement provides that, among other things, (1) during the period from and after the date of the Raytheon Merger Agreement, each of the parties will use all commercially reasonable efforts to consummate the Raytheon Merger and the transactions contemplated by the Raytheon Merger Agreement and to cause the conditions to the Raytheon Merger for which they are responsible to be satisfied as soon as practicable and (2) neither party nor its affiliates will take any action that would cause the Raytheon Merger, the Hughes Defense Spin-Off or the Hughes Telecom Spin-Off not to qualify for tax-free treatment under the Code as contemplated by the parties.

The Raytheon Merger Agreement provides that Raytheon and Hughes Defense will promptly notify the other party of (1) the occurrence or non-occurrence of any event which would cause any representation or warranty made by it in the Raytheon Merger Agreement to be untrue or inaccurate in any material respect at or prior to the Raytheon Merger Effective Time and (2) any material failure by it to comply with or satisfy any covenant, condition or agreement to be compiled with or satisfied by it under the Raytheon Merger Agreement, provided, however, that no such notification will limit or otherwise affect the remedies of the parties available under the Raytheon Merger Agreement.

Competing Transactions. The Raytheon Merger Agreement provides that, during its term, without the consent of the other party, neither Raytheon nor Hughes Defense will, and will not authorize or permit any of its subsidiaries or any of its subsidiaries' directors, officers, employees, agents or representatives, directly or indirectly, to (1) solicit, initiate, knowingly encourage or facilitate, or furnish or disclose non-public information in furtherance of, any inquiries or the making of any proposal with respect to a Competing Transaction (as defined below), (2) negotiate, explore or otherwise engage in discussions with any person (other than the other party to the Raytheon Merger Agreement or its respective directors, officers, employees, agents and representatives or, with respect to Hughes Defense, its affiliates) with respect to any Competing Transaction or (3) enter into any agreement, arrangement or understanding therefor requiring it to abandon, terminate or fail to consummate the Raytheon Merger. This prohibition does not apply (1) to Hughes Defense with respect to Competing Transactions that do not include the defense electronics business of Hughes Electronics or the consummation of which would not otherwise result in the termination or material breach of any of the Transaction Agreements, and (2) to Raytheon, with respect to compliance with Rule 14e-2 under the Exchange Act with regard to a tender or exchange offer. In addition, the prohibition does not apply, subject to the observance of certain notice, confidentiality and other requirements, to certain negotiations and discussions relating to any Competing Transaction (1) that is superior to the transactions contemplated by the Raytheon Merger Agreement, (2) in which the offeror has demonstrated that the consideration necessary for such Competing Transaction is reasonably likely to be available, and (3) that Raytheon's board of directors or Hughes Defense's board of directors, as the case may be, concludes in good faith, on the basis of oral or written advice of outside counsel, that such action is necessary for it to act in a manner consistent with its fiduciary duties under applicable law.

In the event that Raytheon's board of directors or Hughes Defense's board of directors, as the case may be, will have concluded in good faith, after considering applicable provisions of state law, and after seeking to make such adjustments in the terms and conditions of the Raytheon Merger Agreement as would enable such party to proceed with the transactions contemplated by the Raytheon Merger Agreement, that it must accept

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such Competing Transaction in order to comply with its fiduciary duties under applicable law, then Raytheon or Hughes Defense, as the case may be, may terminate the Raytheon Merger Agreement and pay to the other party: (1) the expenses incurred by such other party and its affiliates in connection with pursuing the Raytheon Merger and the transactions contemplated by the Raytheon Merger Agreement, which amount will not exceed \$20 million, and (2) a termination fee of \$200 million.

"Competing Transaction" means any merger, consolidation or other business combination involving such party, or any acquisition of any capital stock or any material portion of the assets (except for acquisitions of assets in the ordinary course of business consistent with past practice and except for consummation of the Hughes Transactions) of such party, or any combination of the foregoing.

CONDITIONS

Each party's obligation to effect the Raytheon Merger is subject to the satisfaction or waiver of a number of conditions. Failure to satisfy or waive any of these conditions could, therefore, result in the delay or non-consummation of the Raytheon Merger.

Conditions of Each Party's Obligations to Consummate the Raytheon Merger. The respective obligations of Raytheon and Hughes Defense to consummate the Raytheon Merger are subject to fulfillment of the following conditions:

- . no order, injunction or decree which prevents the consummation of the Raytheon Merger will have been issued and remain in effect, and no statute, rule or regulation will have been enacted by any governmental authority which prevents the consummation of the Raytheon Merger;
- . all required approvals of, or filings with, any governmental authority will have been obtained or made, except where failure to do so would have no material adverse effect;
- . all required consents or approvals of all persons (other than governmental authorities) will have been obtained and will be in full force and effect, unless the failure to obtain any such consent or approval is not reasonably likely to have, individually or in the aggregate, a material adverse effect;
- . approval of Raytheon's stockholders;
- . consummation of the Hughes Transactions;
- . the Goldman Sachs Fairness Opinion will not have been withdrawn, revoked or modified;
- . the opinions of Bear, Stearns and Credit Suisse First Boston Corporation, each dated January 16, 1997 (respectively, the "Bear Stearns Fairness Opinion" and the "First Boston Fairness Opinion"), to Raytheon's board of directors, in each case to the effect that, on the basis of and subject to the assumptions, representations, limitations and other matters set forth therein, the financial terms of the Raytheon Merger are fair to the stockholders of Raytheon from a financial point of view (with respect to Bear, Stearns) and the Raytheon Merger Consideration (as defined in the opinion of Credit Suisse First Boston Corporation) is fair to the stockholders of Raytheon from a financial point of view, will not have been withdrawn, revoked or modified;
- . receipt by Raytheon and Hughes Defense respectively, of the tax opinions of Wachtell, Lipton, Rosen & Katz, special counsel to Raytheon, and Weil, Gotshal & Manges LLP, special counsel to Hughes Defense, in each case to the effect that the Raytheon Merger will qualify as a reorganization within the meaning of Section 368 of the Code; and
- . receipt of all required state securities or blue sky permits or approvals.

Conditions to the Obligations of Raytheon. Raytheon's obligations to consummate the Raytheon Merger are also subject to the fulfillment or waiver of the following conditions:

- . certain representations and warranties of Hughes Defense being true and correct on the date of the Raytheon Merger Agreement and on and as of the closing date as though made on and as of the closing



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date and certain other representations and warranties of Hughes Defense being true and correct on the date of Raytheon Merger Agreement and on and as of the closing date as though made on and as of the closing date, except for such inaccuracies which would not reasonably be expected to have a material adverse effect on Hughes Defense or New Raytheon;

- . Hughes Defense having performed in all material respects each obligation and agreement and having complied in all material respects with each covenant to be performed and complied with by it under the Raytheon Merger Agreement at or prior to the Raytheon Merger Effective Time; and
- . except to the extent contemplated by the Raytheon Merger Agreement, there will not have been any material adverse change in the assets, liabilities, results of operations, business or financial condition of Hughes Defense and its subsidiaries taken as a whole or any material adverse effect on the ability of Hughes Defense to consummate the transactions contemplated by the Raytheon Merger Agreement.

Conditions to the Obligations of Hughes Defense. Hughes Defense's obligations to consummate the Raytheon Merger are also subject to the fulfillment or waiver of the following conditions:

- . certain representations and warranties of Raytheon being true and correct on the date of the Raytheon Merger Agreement and on and as of the closing date as though made on and as of the closing date and certain other representations and warranties of Raytheon being true and correct on the date of the Raytheon Merger Agreement and on and as of the closing date as though made on and as of the closing date, except for such inaccuracies which would not reasonably be expected to have a material adverse effect on Raytheon or New Raytheon;
- . Raytheon having performed in all material respects each obligation and agreement and having complied in all material respects with each covenant to be performed and complied with by it under the Raytheon Merger Agreement at or prior to the Raytheon Merger Effective Time;
- . except to the extent contemplated by the Raytheon Merger Agreement, there will not have been any material adverse change in the assets, liabilities, results of operations, business or financial condition of Raytheon to consummate the transactions contemplated by the Raytheon Merger Agreement; and
- . the Intercompany Payment will have been duly made in full.

REPRESENTATIONS AND WARRANTIES; NO SURVIVAL

The Raytheon Merger Agreement contains various representations and warranties of Raytheon and Hughes Defense. The representations and warranties of Raytheon relate generally to: due corporate organization and qualification; corporate authority; absence of violations of, among other things, certificates of incorporation, by-laws, contracts and laws; required filings with and consents and approvals of governmental authorities; board recommendation and stockholder voting requirements; the capital structure of Raytheon; the subsidiaries and other equity or ownership interests of Raytheon; documents filed with the SEC by Raytheon, and the accuracy of certain information, including financial statements, contained in such documents and in the Raytheon Registration Statement and this document; financial statements of Raytheon; proper accounting controls; payments to international sales representatives; absence of certain material events and changes; compliance with applicable laws; real estate matters; litigation; taxes; employee benefit plans; environmental matters; takeover statutes; brokers and finders; employees; restrictive agreements; absence of shareholder rights plans; and opinions of financial advisors.

The representations and warranties of Hughes Defense relate generally to: due corporate organization and qualification; corporate authority; absence of violations of, among other things, certificates of incorporation, by-laws, contracts and laws; required filings with and consents and approvals of governmental authorities; board and stockholder approvals; the subsidiaries and other equity or ownership interests of Hughes Defense; information filed with the SEC as part of the Raytheon Registration Statement, including the Raytheon Proxy Statement, and the accuracy of information contained in such documents; financial statements with respect to Hughes Defense; proper accounting controls; payments to international sales representatives; absence of certain

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material changes and events; conduct of operations; absence of undisclosed liabilities; employees; employee benefits and retirement plan assets; real estate matters; environmental matters; restrictive agreements; compliance with applicable laws; litigation; takeover statutes; brokers and finders; and opinions of financial advisors.

The representations and warranties made in the Raytheon Merger Agreement by Raytheon and Hughes Defense will not survive the Raytheon Merger Effective Time.

WAIVER AND AMENDMENT

The Raytheon Merger Agreement provides that, subject to applicable law, the parties may (1) extend the time for the performance of any of the obligations or other acts of the other party, (2) waive any inaccuracies in the representations and warranties contained in the Raytheon Merger Agreement or in any document delivered pursuant thereto or (3) waive compliance with any of the agreements or conditions contained in the Raytheon Merger Agreement, by action of the parties' respective boards of directors and written agreement signed by the party agreeing to such extension or waiver.

In addition, subject to applicable law, the parties to the Raytheon Merger Agreement may amend the Raytheon Merger Agreement by action of their respective board of directors, at any time, provided that after adoption of the Raytheon Merger Agreement by Raytheon's common stockholders or approval of the Hughes Transactions by GM's common stockholders, amendments which by law require further approval or authorization by the stockholders of Raytheon or General Motors, as the case may be, may not be made without such further approval or authorization. In either case, the Raytheon Merger Agreement may not be amended except by a written instrument signed by each party.

TERMINATION

The Raytheon Merger Agreement may be terminated at any time prior to the Raytheon Merger Effective Time by mutual written consent of Raytheon and Hughes Defense or, by either Raytheon or Hughes Defense:

- . if any permanent injunction or other order of a court or other competent governmental authority preventing the consummation of the Raytheon Merger or the Hughes Transactions has become final and nonappealable;
- . in the event of a material breach by the other party of any representation or warranty, or any of the covenants or agreements contained in the Raytheon Merger Agreement which breach cannot be or has not been cured within 30 days after the giving of written notice to the breaching party of such breach;
- . if the Raytheon Merger is not consummated before December 31, 1997, unless such date is extended by the board of directors of both Raytheon and Hughes Defense (provided that the terminating party (or its affiliates) has not failed to perform any material covenant or obligation under the Raytheon Merger Agreement or under the Implementation Agreement, which failure has been the cause of or resulted in the failure of the Raytheon Merger to occur on or before such date);
- . if the requisite vote of Raytheon stockholders to approve the Raytheon Merger and the transactions contemplated hereby is not obtained;
- . if the approval by the GM  $\$1$  2/3 Common Stockholders and the GM Class H Common Stockholders of the Hughes Transactions sought pursuant to this document is not obtained;
- . upon the occurrence of any event or effect not contemplated by the Raytheon Merger Agreement that has resulted in a material adverse change after the date of the Raytheon Merger Agreement in the assets, liabilities, results of operations, businesses or financial condition of the other party and its subsidiaries, taken as a whole, or upon the occurrence of an event which could reasonably be expected to result in such a material adverse change with respect to such party or, after the Raytheon Merger Effective Time, New Raytheon;

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- . if the board of directors of the other party or any committee of the board of directors of the other party (1) withdraws or modifies in any adverse manner its approval or recommendation of the Raytheon Merger Agreement or the Raytheon Merger, (2) fails to reaffirm such approval or recommendation upon such party's request, (3) approves or recommends any acquisition of the other party or a material portion of its assets or any tender offer for shares of its capital stock, in each case, other than by a party to the Raytheon Merger Agreement or an affiliate thereof, or (4) resolves to take any of the actions specified in clause (1) above;
- . under the circumstances described above under "--Raytheon Merger Agreement--Certain Covenants--Competing Transactions"; or
- . if the Implementation Agreement is terminated pursuant to its terms.

In the event of a termination of the Raytheon Merger Agreement pursuant to its terms, the Raytheon Merger Agreement (except with respect to payment of the expenses of the other party and payment of a termination fee in certain circumstances, as described below under "--Raytheon Merger Agreement--Effect of Termination; Termination Fees") will become void and have no effect, without any liability, however, on the part of the parties or their directors, officers or stockholders. Nothing in the Raytheon Merger Agreement relieves any party of liability for a willful breach of any provisions of the Raytheon Merger Agreement.

EFFECT OF TERMINATION; TERMINATION FEES

Termination Fees Payable by Hughes Defense: The Raytheon Merger Agreement obligates Hughes Defense to pay all Raytheon Expenses (as defined below) if the Raytheon Merger Agreement is terminated in accordance with its terms in any of the following circumstances:

- . by Raytheon in response to any resolution or action by Hughes Defense's board of directors (i) to withdraw, modify in any adverse manner or decline to reaffirm upon request, its approval or recommendation of the Raytheon Merger Agreement or the Raytheon Merger or (ii) to approve or recommend any acquisition of Hughes Defense or a material portion of its assets by any person other than Raytheon and its affiliates;
- . by Hughes Defense if Hughes Defense's board of directors concludes that, as a result of a Competing Transaction, such action is necessary in order for it to comply with its fiduciary duties under applicable law as described above;
- . by either Raytheon or Hughes Defense if the GM \$1 2/3 Common Stockholders and the GM Class H Common Stockholders fail to approve the Hughes Transactions as contemplated in this document;
- . by either Raytheon or Hughes Defense in the event that the Implementation Agreement has been terminated for any of the following reasons:
  - (1) by General Motors in the event that the GM Board has determined in good faith, in the exercise of its fiduciary obligations, under applicable law, on the basis of advice of outside counsel, that it must revoke or withdraw its recommendation in favor of the Hughes Transactions set forth in this document and such conclusion cannot reasonably be avoided by adjusting the Distribution Ratio;
  - (2) by Raytheon in the event that the GM Board has made a determination described in paragraph (1) above and has not terminated the Raytheon Merger Agreement within 10 business days thereof;
  - (3) by Raytheon in the event that General Motors revokes, withdraws, modifies in an adverse manner or fails to reaffirm upon request the recommendation of the GM Board in favor of the Hughes Transactions set forth in this document; or
  - (4) by either General Motors or Raytheon as a result of the termination of the GM Spin-Off Merger Agreement as a result of: (A) determination by the GM Board (and such determination cannot reasonably be avoided by adjusting the Distribution Ratio) that consummation of the Hughes Transactions would not be both in the best interests of General Motors and its common stockholders and fair to the GM \$1 2/3 Common Stockholders and the GM Class H Common Stockholders; (B) the

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Merrill Lynch Fairness Opinion, the Salomon Brothers Fairness Opinion or (other than in certain limited circumstances) the Goldman Sachs Fairness Opinion being revoked or withdrawn; or (C) the Hughes Transactions failing to receive the requisite approval of GM stockholders; or

- . by either Raytheon or Hughes Defense if the Raytheon Merger is not consummated before December 31, 1997, or such later date as agreed by Raytheon and Hughes Defense, and the failure to consummate the Raytheon Merger is based on the failure of General Motors to consummate the GM Spin-Off Merger because either (1) the Merrill Lynch Fairness Opinion or the Salomon Brothers Fairness Opinion is withdrawn or revoked or (2) the GM Board determines in good faith, in the exercise of its fiduciary duties under applicable law, on the basis of the advice of outside counsel, that consummation of the Hughes Transactions would not be in the best interests of General Motors and its common stockholders and fair to the holders of both classes of GM common stock.

Hughes Defense also will be obligated to pay Raytheon \$200 million in the event that the Raytheon Merger Agreement is terminated as described above and either (1) prior to the time of such termination a Competing Transaction involving Hughes Defense is commenced, publicly proposed, publicly disclosed or communicated to Hughes Defense's board of directors or (2) at any time within three months following such termination any agreement with respect to a Competing Transaction involving the defense electronics business of Hughes Electronics is entered into or any such Competing Transaction is consummated.

"Raytheon Expenses" means an amount in cash equal to the aggregate amount of Raytheon's and its affiliates' actual documented out-of-pocket expenses incurred in connection with pursuing the transactions contemplated by the Raytheon Merger Agreement, including legal, accounting and investment banking fees, in an aggregate amount not to exceed \$20 million.

Termination Fees Payable by Raytheon. The Raytheon Merger Agreement obligates Raytheon to pay all Hughes Defense Expenses (as defined below) if the Raytheon Merger Agreement is terminated in accordance with its terms in the following circumstances:

- . by Hughes Defense (1) if the requisite vote of Raytheon stockholders to approve the Raytheon Merger is not obtained; or (2) in response to any resolution or action by Raytheon's board of directors to withdraw, modify in any adverse manner or decline to reaffirm upon request, its approval or recommendation of the Raytheon Merger Agreement or the Raytheon Merger or to approve or recommend any acquisition of Raytheon or a material portion of its assets by any person other than Hughes Defense and its affiliates;
- . by Raytheon if (1) the requisite vote of Raytheon stockholders to approve the Raytheon Merger is not obtained; or (2) Raytheon's board of directors concludes that, as a result of a Competing Transaction, such action is necessary in order for it to comply with its fiduciary duties under applicable law as described above; or
- . by either Raytheon or Hughes Defense if the Raytheon Merger shall not have been consummated before December 31, 1997, or such later date as agreed by Raytheon and Hughes Defense, and the failure to consummate the Raytheon Merger because the Bear Stearns Fairness Opinion or the Credit Suisse Fairness Opinion has been withdrawn or revoked when all other conditions to the Raytheon Merger (other than the consummation of the Hughes Transactions) have been satisfied or are capable of being satisfied if such withdrawal or revocation of the Bear Stearns Fairness Opinion or the Credit Suisse Fairness Opinion does not result from a breach of the representations and warranties of Hughes Defense set forth in the Raytheon Merger Agreement.

In addition, Raytheon will be obligated to pay Hughes Defense \$200 million in the event that the Raytheon Merger Agreement is terminated as described above and either (1) prior to the time of such termination a Competing Transaction involving Raytheon is commenced, publicly proposed, publicly disclosed or communicated to Raytheon's board of directors, or (2) at any time within three months following such termination any agreement with respect to a Competing Transaction involving Raytheon is entered into or any such Competing Transaction is consummated.

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"Hughes Defense Expenses" means an amount in cash equal to the aggregate amount of Hughes Defense's and its affiliates' actual documented out-of-pocket expenses incurred in connection with pursuing the transactions contemplated by the Raytheon Merger Agreement, including legal, accounting and investment banking fees, in an aggregate amount not to exceed \$20 million.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Raytheon Merger Agreement provides that from and after the Raytheon Merger Effective Time, New Raytheon will indemnify, defend and hold harmless each individual who was, at any time prior to the Raytheon Merger Effective Time, an officer or director of Raytheon or Hughes Defense or any of their respective subsidiaries (the "Indemnified Parties") against all losses, claims, damages, costs, expenses, liabilities or judgments or amounts that are paid in settlement with the approval of New Raytheon (which approval will not be unreasonably withheld) arising out of or in connection with any claim, action, suit, proceeding or investigation based in whole or in part on or arising in whole or in part out of (1) the fact that such person is or was a director or officer of Raytheon or Hughes Defense or their respective subsidiaries, as the case may be, whether pertaining to any matter existing or occurring at or prior to the Raytheon Merger Effective Time and whether asserted or claimed prior to, or at or after, the Raytheon Merger Effective Time and (2) the Raytheon Merger Agreement or the transactions contemplated thereby, in each case to the full extent Raytheon or Hughes Defense, as the case may be, would have been permitted under Delaware law and its certificate of incorporation and bylaws to indemnify such person, and New Raytheon will pay expenses reasonably incurred by an Indemnified Party in advance of the final disposition of any such action or proceeding to such Indemnified Party to the full extent permitted by law upon receipt of the undertaking contemplated by Section 145(e) of the Delaware General Corporation Law.

Without limiting the generality of the foregoing, in the event any such claim, action, suit, proceeding or investigation is brought against any Indemnified Party (whether arising before or after the Raytheon Merger Effective Time), after the Raytheon Merger Effective Time, New Raytheon (1) will pay all reasonable fees and expenses of any counsel retained by any Indemnified Parties promptly as statements therefor are received, and (2) will use its commercially reasonable efforts to assist in the vigorous defense of any such matter, provided that New Raytheon will not be liable for any settlement of any claim effected without its written consent, which consent, however, will not be unreasonably withheld. Pursuant to the terms of the Raytheon Merger Agreement, any Indemnified Party wishing to claim indemnification, upon learning of any such claim, action, suit, proceeding or investigation, will notify New Raytheon (but the failure so to notify New Raytheon will not relieve it from any liability which it may have except to the extent such failure materially prejudices New Raytheon), and will deliver to new Raytheon the undertaking, if any, contemplated by Section 145(e) of the Delaware General Corporation Law. Under the terms of the Raytheon Merger Agreement, the indemnification provisions are intended to be for the benefit of, and will be enforceable by, each Indemnified Party, his or her heirs and his or her legal representatives.

IMPLEMENTATION AGREEMENT

GENERAL

The Implementation Agreement is an agreement between General Motors and Raytheon, pursuant to which General Motors has agreed to take certain actions to effect the Hughes Transactions.

PROPOSAL OF THE HUGHES TRANSACTIONS

The Implementation Agreement provides that, following the determination of the Distribution Ratio and the execution of the GM Spin-Off Merger Agreement and provided that none of the Merrill Lynch Fairness Opinion, the Salomon Brothers Fairness Opinion and the Goldman Sachs Fairness Opinion has been revoked,

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withdrawn or modified in a manner adverse to General Motors or to the GM Board or to either class of GM's common stockholders, General Motors will:

- (1) take all commercially reasonable action in accordance with the federal securities laws, the Delaware General Corporation Law, the GM Certificate of Incorporation and the GM By-Laws necessary to present the Hughes Transactions to GM's common stockholders for their consideration and approval;
- (2) include in this document the recommendation of the GM Board in favor of the Hughes Transactions; and
- (3) use all commercially reasonable efforts to solicit from GM's common stockholders consents with respect to the Hughes Transactions.

Each of these obligations is subject to the fiduciary duties of the GM Board under applicable law.

COVENANTS OF GENERAL MOTORS

No Solicitation. The Implementation Agreement provides that until the Raytheon Merger Effective Time, without the prior written consent of Raytheon, General Motors will not, and will not authorize or permit any of its subsidiaries or any of its or its subsidiaries' directors, officers, employees, agents or representatives to, directly or indirectly, solicit, initiate, knowingly encourage or facilitate, or furnish or disclose non-public information in furtherance of, any inquiries or the making of any proposal with respect to any Competing Transaction (as defined in the Raytheon Merger Agreement) relating to Hughes Defense or the consummation of which would otherwise result in the termination or material breach of any of the Transaction Agreements, or negotiate, explore or otherwise engage in discussions with any person (other than Raytheon or its respective directors, officers, employees, agents and representatives) with respect to any Competing Transaction or enter into any agreement, arrangement or understanding therefor requiring them to abandon, terminate or fail to consummate the Raytheon Merger. The foregoing limitation, however, does not prohibit any of such parties from taking any action to the extent (including compliance by General Motors with the conditions set forth therein) that Hughes Defense could do so pursuant to the comparable provision of the Raytheon Merger Agreement. See "--Raytheon Merger Agreement--Certain Covenants--Competing Transactions."

Transaction Agreements. The Implementation Agreement also provides that:

- . General Motors will enter into, and to cause its subsidiaries to enter into, the Transaction Agreements, as and when contemplated by the Implementation Agreement and the other Transaction Agreements;
- . General Motors will consult with Raytheon regarding any changes, amendments or additions that are proposed to be made to the Transaction Agreements prior to the Raytheon Merger Effective Time, whether before or after any such agreement is entered into by the respective parties to such agreement;
- . General Motors will not permit (except for any amendment to the GM Spin-Off Merger Agreement to adjust the Distribution Ratio under certain circumstances) any change, amendment or addition to be made prior to the Raytheon Merger Effective Time to the forms or terms of the Transaction Agreements without Raytheon's consent (which consent shall not be unreasonably withheld or delayed), unless such change, amendment or addition could not reasonably be foreseen (1) to have an adverse effect on the business, assets, liabilities or financial condition of Hughes Defense or (2) to delay materially the consummation of the Raytheon Merger on the terms and subject to the conditions of the Implementation Agreement and the other Transaction Agreements;
- . General Motors will not, and will not permit any of its subsidiaries to, terminate (except as may be permitted by the terms of any of the Transaction Agreements) or waive any condition of the Transaction Agreements, without the prior written consent of Raytheon, unless the Implementation Agreement has been terminated; and
- . General Motors will not permit Hughes Defense to make prior to the Raytheon Merger Effective Time any formal election expressly referenced in the Master Separation Agreement to be made by Hughes Defense unless such election is acceptable to Raytheon.

CERTAIN OTHER COVENANTS

The Implementation Agreement further provides that, among other things, each of General Motors and Raytheon will, and will cause its subsidiaries to, use all commercially reasonable efforts to consummate the Hughes Transactions and the Raytheon Merger.

The Implementation Agreement provides that General Motors and Raytheon will promptly notify the other party of (1) the occurrence or non-occurrence of any event which would cause any representation or warranty made by it contained in the Implementation Agreement to be untrue or inaccurate in any material respect at or prior to the Raytheon Merger Effective Time and (2) any material failure by it to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it under the Implementation Agreement, provided, however, that no such notification will limit or otherwise affect the remedies of the parties available under the Implementation Agreement.

REPRESENTATIONS AND WARRANTIES; NO SURVIVAL

The Implementation Agreement contains various representations and warranties of General Motors and Raytheon. The representations and warranties of General Motors relate generally to: due corporate organization and qualification; corporate authority; ownership of the capital stock of Hughes Defense; absence of violations of, among other things, certificates of incorporation, by-laws, contracts and laws; required filings with and consents and approvals of governmental authorities; litigation; brokerage and finder's fees; stockholder voting requirements; and the accuracy of certain information contained in the Raytheon Registration Statement and the Raytheon Proxy Statement.

The representations and warranties of Raytheon relate generally to: due corporate organization and qualification; corporate authority; and the accuracy of certain information contained in this document. Raytheon also confirms in the Implementation Agreement all of the representations and warranties of Raytheon set forth in the Raytheon Merger Agreement. See "--Raytheon Merger Agreement--Representations and Warranties; No Survival" above.

The representations and warranties made in the Implementation Agreement by General Motors and Raytheon will not survive the Raytheon Merger Effective Time.

WAIVER AND AMENDMENT

The Implementation Agreement provides that, subject to applicable law, the parties may (1) extend the time for the performance of any of the obligations or other acts of the other party, (2) waive any inaccuracies in the representations and warranties contained in the Implementation Agreement or in any document delivered pursuant thereto and (3) waive compliance with any of the agreements or conditions contained in the Implementation Agreement, by action of the parties' respective boards of directors and written agreement signed by the party agreeing to such extension or waiver.

In addition, subject to applicable law, the parties to the Implementation Agreement may amend the Implementation Agreement by action of their respective boards of directors, at any time, provided, that after adoption of the Raytheon Merger Agreement by Raytheon stockholders or approval of the Hughes Transactions by GM stockholders, amendments which by law require further approval or authorization by the stockholders of Raytheon or General Motors, as the case may be, may not be made without such further approval or authorization. In either case, the Implementation Agreement may not be amended except by a written instrument signed by each party.

TERMINATION OF THE IMPLEMENTATION AGREEMENT

The Implementation Agreement may be terminated at any time prior to the Raytheon Merger Effective Time by mutual written consent of General Motors and Raytheon or as follows:

- . by either General Motors or Raytheon at any time following the termination of either of the Raytheon Merger Agreement or the GM Spin-Off Merger Agreement in accordance with the terms thereof;
- . by either General Motors or Raytheon in the event of either: (1) a material breach by the other party of any representation or warranty contained in the Implementation Agreement which breach cannot be or has not been cured within 30 days after the giving of written notice to the breaching party of such breach; or (2) a material breach by the other party of any of the covenants or agreements contained in the Implementation Agreement which breach cannot be or has not been cured within 30 days after the giving of written notice to the breaching party of such breach.
- . by General Motors in the event that the GM Board determines in good faith, in the exercise of its fiduciary obligations under applicable law, on the basis of oral or written advice of outside counsel, (1) that it must revoke or withdraw its recommendation in this document in favor of the Hughes Transactions and (2) that the foregoing determination could not reasonably be avoided by adjusting the Distribution Ratio so as to enable (A) the GM Board to determine that the Hughes Transactions, taken as a whole, are in the best interests of General Motors and its common stockholders and fair to the GM \$1 2/3 Common Stockholders and the GM Class H Common Stockholders and (B) the Merrill Lynch Fairness Opinion and the Salomon Brothers Fairness Opinion to be applicable to the Hughes Transactions with the Distribution Ratio as adjusted; or
- . by Raytheon in the event that: (1) the GM Board makes a determination regarding the Distribution Ratio as described in the immediately preceding paragraph and does not terminate the Implementation Agreement within ten business days thereof; or (2) the GM Board withdraws or modifies in any adverse manner its approval or recommendation of the Hughes Transactions or fails to reaffirm such approval or recommendation upon Raytheon's request.

EFFECT OF TERMINATION

In the event of the termination of the Implementation Agreement, the Implementation Agreement will become void and have no effect, without any liability on the part of either party or its subsidiaries or their respective directors, officers or stockholders, except for payment of expenses and a termination fee to the extent provided in the Raytheon Merger Agreement. See "--Raytheon Merger Agreement--Effect of Termination; Termination Fees" above. Notwithstanding the foregoing, nothing in the Implementation Agreement is intended to relieve either party to the Implementation Agreement of liability for a willful breach of any provision of the Implementation Agreement.

GM STOCKHOLDER APPROVAL NOT REQUIRED FOR THE RAYTHEON MERGER

You are not being asked to approve the Raytheon Merger, which has already been approved by Hughes Electronics as the sole stockholder of Hughes Defense. Although you are not being asked to approve the Raytheon Merger, consummation of the Raytheon Merger is conditioned upon, among other things, the consummation of the Hughes Transactions, which requires the approval of GM's common stockholders. IF GM'S COMMON STOCKHOLDERS APPROVE THE HUGHES TRANSACTIONS AND ALL OTHER CONDITIONS ARE SATISFIED OR WAIVED, THE RAYTHEON MERGER WILL BE CONSUMMATED IMMEDIATELY AFTER THE CONSUMMATION OF THE HUGHES DEFENSE SPIN-OFF. IF GM'S COMMON STOCKHOLDERS DO NOT APPROVE THE HUGHES TRANSACTIONS, NEITHER THE HUGHES TRANSACTIONS NOR THE RAYTHEON MERGER WILL BE CONSUMMATED.



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APPROVALS BY THE CAPITAL STOCK COMMITTEE AND THE GM BOARD; FAIRNESS OF THE  
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The Raytheon Merger was approved by the GM Board on January 16, 1997. This approval was based on, among other things, recommendations of the Capital Stock Committee, the Hughes Defense Spin-Off Committee, Hughes Electronics management and GM management. The Raytheon Merger was also approved by the Hughes Electronics Board. Additional information regarding the January 16, 1997 meetings of the Capital Stock Committee, the Hughes Defense Spin-Off Committee, the GM Board and the Hughes Electronics Board, and certain factors considered at these and other meetings, is set forth above under "Special Factors--Background of the Hughes Transactions."

RAYTHEON MERGER FAIRNESS OPINION: GOLDMAN SACHS

On January 16, 1997, Goldman Sachs delivered its written opinion to the boards of directors of General Motors, Hughes Electronics and Hughes Defense that, as of the date of such opinion, the Aggregate Consideration (as defined below) is fair to the GM Group as a whole. It is a condition to the completion of the Hughes Transactions that Goldman Sachs has not withdrawn its fairness opinion.

For purposes of the Goldman Sachs Fairness Opinion, Hughes Defense, Hughes Electronics, General Motors and the GM  $\$1 \frac{2}{3}$  Common Stockholders and the GM Class H Common Stockholders are collectively referred to as the "GM Group."

For purposes of the Goldman Sachs Fairness Opinion, the ownership by the Class A Common Stockholders, in the aggregate, of approximately 30% of the outstanding common stock of New Raytheon upon the consummation of the Raytheon Merger and the indebtedness for borrowed money of Hughes Defense immediately prior to the Hughes Defense Spin-Off and the Raytheon Merger (which will become the indebtedness of New Raytheon upon the consummation of the Raytheon Merger) are together referred to as the "Aggregate Consideration."

The Goldman Sachs Fairness Opinion does not address the fairness of the Hughes Transactions or the fairness of the distribution to and allocation among the GM  $\$1 \frac{2}{3}$  Common Stockholders and GM Class H Common Stockholders of Class A Common Stock in the Hughes Defense Spin-Off. These matters are addressed, to the extent specified therein, in the Merrill Lynch Fairness Opinion and the Salomon Brothers Fairness Opinion. See "Special Factors--Hughes Transactions Fairness Opinions: Merrill Lynch and Salomon Brothers--Merrill Lynch Fairness Opinion" and "--Salomon Brothers Fairness Opinion" above.

The Goldman Sachs Fairness Opinion is directed only to the fairness of the Aggregate Consideration to be received by the GM Group as a whole and does not (1) address GM's underlying business decision to effect the Hughes Transactions, (2) address the fairness of the allocation of the Aggregate Consideration among the members of the GM Group or (3) constitute a recommendation concerning whether GM  $\$1 \frac{2}{3}$  Common Stockholders and GM Class H Common Stockholders should approve the Hughes Transactions.

THE FULL TEXT OF THE GOLDMAN SACHS FAIRNESS OPINION, WHICH SETS FORTH ASSUMPTIONS MADE, MATTERS CONSIDERED AND LIMITATIONS ON THE REVIEW UNDERTAKEN IN CONNECTION WITH THE OPINION, IS INCLUDED IN APPENDIX B TO THIS DOCUMENT AND IS INCORPORATED INTO THIS DOCUMENT BY REFERENCE. WE URGE YOU TO READ THE GOLDMAN SACHS FAIRNESS OPINION CAREFULLY.

In connection with its opinion, Goldman Sachs reviewed, among other things, (1) the form of the Raytheon Merger Agreement; (2) the form of the Implementation Agreement; (3) the form of the GM Spin-Off Merger Agreement; (4) the form of the Master Separation Agreement; (5) the form of the Spin-Off Separation Agreement; (6) the Annual Reports of Hughes Electronics for the five years ended December 31, 1995; (7) the Annual Reports to Stockholders of Raytheon on Form 10-K for the five years ended December 31, 1995; (8) certain interim reports to stockholders and Quarterly Reports on Form 10-Q for Raytheon; (9) certain other

communications from General Motors and Raytheon to their respective stockholders; and (10) certain internal financial analyses and forecasts for Hughes Defense and Raytheon prepared by their respective managements. Goldman Sachs also held discussions with members of the senior management of Hughes Defense and Raytheon regarding the past and current business operations, financial condition, and future prospects of their respective companies, including forecasts of revenue and cost synergies that are expected to result from the Raytheon Merger (collectively, the "Synergies"). In addition, Goldman Sachs reviewed the reported price and trading activity for the shares of Raytheon Common Stock; compared certain financial and stock market information for Raytheon with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations in the aerospace and defense industry specifically and in other industries generally and performed such other studies and analyses as it considered appropriate.

Goldman Sachs relied upon the accuracy and completeness of all of the financial and other information reviewed by it and assumed the accuracy and completeness thereof in all material respects for purposes of its opinion. In that regard, Goldman Sachs assumed, with the consent of General Motors, Hughes Electronics and Hughes Defense, that the financial forecasts prepared by Hughes Defense and Raytheon, including without limitation, the Synergies resulting from the Raytheon Merger, have been reasonably prepared on a basis reflecting the best currently available judgments and estimates of Hughes Defense and Raytheon and that such forecasts will be realized in all material respects in the amounts and at the times contemplated thereby. Goldman Sachs did not make an independent evaluation or appraisal of the assets and liabilities of Hughes Defense or Raytheon or any of their subsidiaries and Goldman Sachs was not furnished with any such evaluation or appraisal. Goldman Sachs' advisory services and opinion were provided for the information and assistance of the boards of directors of each of General Motors, Hughes Electronics and Hughes Defense in connection with their consideration of the Raytheon Merger. Goldman Sachs was informed that the boards of directors of each of General Motors, Hughes Electronics and Hughes Defense were considering the Raytheon Merger in the context of the Hughes Transactions.

In the Goldman Sachs Fairness Opinion, Goldman Sachs does not express any opinion as to the prices at which the Class A Common Stock, the Class B Common Stock or the New GM Class H Common Stock will trade if and when they are issued.

The following is a summary of certain of the financial analyses used by Goldman Sachs in connection with providing the Goldman Sachs Fairness Opinion.

(1) Selected Companies Analysis. Goldman Sachs reviewed certain financial information, ratios and public market multiples for six publicly traded corporations: The Boeing Company (adjusted pro forma for the acquisition of Rockwell International Corporation's Aerospace and Defense business but not including the impact of the then-pending acquisition of McDonnell Douglas Corporation), General Dynamics Corporation, Hughes Electronics, Lockheed Martin Corporation, Northrop Grumman Corporation and Raytheon (adjusted for the then-pending acquisition of Texas Instruments Defense) (the "Selected Companies"). The Selected Companies were chosen because they are publicly traded companies with operations (or, in the case of Hughes Electronics, track operations) that for purposes of analysis may be considered similar to Hughes Defense. Goldman Sachs calculated and compared various financial multiples and ratios. With respect to the Selected Companies, Goldman Sachs considered levered market capitalization (i.e., market value of common equity plus estimated market value of debt less cash) as a multiple of 1997 estimated earnings before interest, taxes, depreciation and amortization ("EBITDA") and stock price as a multiple of 1997 and 1998 estimated earnings per share ("EPS"). The levered market capitalizations were based on closing stock prices as of January 11, 1997 and balance sheet data as of September 30, 1996. January 11, 1997 represented the most recent closing stock prices and September 30, 1996 represented the most recent publicly-available balance sheet information for the selected companies at the time the analysis was performed. The analysis was performed in advance of the GM Board meeting on January 16, 1997 in order to distribute material to the GM Board prior to such meeting. The 1997 EBITDA multiples estimates for each of the Selected Companies were based on Goldman Sachs research as of November 1996 (excluding pension and non-cash

income). The 1997 and 1998 price/earnings ("P/E") multiples were based on stock prices as of January 11, 1997 and Institutional Brokers Estimate Service ("IBES") estimates for EPS as of January 8, 1997 (estimates for companies with non-calendar fiscal years ends were calendarized). Goldman Sachs' analysis of the Selected Companies indicated levered market capitalization multiples of 1997 estimated EBITDA ranging from 6.6x to 9.5x with a median of 8.4x and a mean of 8.2x. Goldman Sachs also considered for the Selected Companies estimated 1997 P/E multiples, which ranged from 13.1x to 23.6x with a median of 14.7x and a mean of 16.5x, estimated 1998 P/E multiples, which ranged from 11.8x to 20.4x with a median of 13.8x and a mean of 14.5x, and debt to capitalization ratios, which ranged from 3.0% to 62.6%.

(2) Selected Transactions Analysis. Goldman Sachs analyzed certain information relating to eight selected transactions in the aerospace and defense industry since 1994 (listed by acquirer/target): (1) Raytheon Company/Texas Instruments Defense, (2) The Boeing Company/McDonnell Douglas Corporation, (3) The Boeing Company/Rockwell International Corporation's Aerospace and Defense business, (4) Lockheed Martin Corporation/Loral Corporation, (5) Northrop Grumman Corporation/Westinghouse's Electronic Systems Group business, (6) Raytheon Company/E-Systems, (7) Martin Marietta Corp./Lockheed Corporation, and (8) Northrop Corporation/Grumman Corporation (the "Selected Transactions"). Such analysis indicated that for the Selected Transactions levered consideration as a multiple of (1) current year sales ranged from 0.56x to 1.68x, as compared to 1.53x for the Raytheon Merger, (2) current year earnings before interest and taxes ("EBIT") ranged from 8.6x to 12.9x, as compared to 13.7x for the Raytheon Merger, (3) current year EBITDA ranged from 5.4x to 10.6x, as compared to 11.7x for the Raytheon Merger, (4) next year sales ranged from 0.57x to 1.66x, as compared to 1.43x for the Raytheon Merger, (5) next year EBIT ranged from 8.2x to 12.9x, as compared to 13.0x for the Raytheon Merger, and (6) book value ranged from 1.9x to 9.6x, as compared to 1.9x for the Raytheon Merger.

(3) Discounted Cash Flow Analysis. Goldman Sachs performed a discounted cash flow analysis using Hughes Defense management projections. Goldman Sachs calculated the net present value of the cash flows of Hughes Defense as of January 1, 1997 using discount rates from 10% to 12%. Goldman Sachs calculated terminal values of Hughes Defense based on a multiple of trailing EBITDA in the year 2001 ranging from 7.0x EBITDA to 8.0x EBITDA. These terminal values were then discounted to present value (as of January 1, 1997) using discount rates from 10% to 12%. Such analysis indicated a range of \$6.482 billion to \$7.757 billion. The discount rates used were determined using a number of different factors, including (1) a weighted average cost of capital analysis and (2) expected internal rates of return for Hughes Defense as well as for other companies in the aerospace and defense industry.

(4) Discounted Cash Flow Analysis--Synergies. Goldman Sachs performed a discounted cash flow analysis of the Synergies using Raytheon's management projections. Goldman Sachs calculated the net present value of the cash flows as of January 1, 1997 using discount rates from 10% to 12%. Goldman Sachs calculated the terminal values based on a multiple of trailing EBIT in the year 2001 ranging from 8.0x EBIT to 10.0x EBIT. These terminal values were then discounted to present value (as of January 1, 1997) using discount rates from 10% to 12%. Such analysis indicated a range from \$2.87 billion to \$3.687 billion. The discount rates used were determined using a number of different factors, including (1) a weighted average cost of capital analysis and (2) expected internal rates of return for each of Hughes Defense and Raytheon as well as for other companies in the aerospace and defense industry.

(5) Contribution Analysis. Goldman Sachs reviewed certain estimated future operating and financial information (including, among other things, revenues, EBITDA, operating income and levered value) for Hughes Defense, Raytheon and the pro forma combined entity resulting from the Raytheon Merger based on Hughes Defense and Raytheon managements' financial forecasts for each of Hughes Defense and Raytheon (which included a pro forma base forecast for the impact of Texas Instruments Defense, before the impact of synergies) and the pro forma combined entity. Goldman Sachs also analyzed the relative income statement contribution of Hughes Defense and Raytheon to the combined company on a pro forma basis based on financial data and on the assumptions provided to Goldman Sachs by Hughes Defense and Raytheon managements. This analysis indicated that in 1997 Hughes Defense would have contributed 28.4% to combined revenues, 27.7% to combined EBITDA and 29.1% to combined operating income. Based on the

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Aggregate Consideration of \$9.5 billion for Hughes Defense and market prices of Raytheon as of January 11, 1997, Hughes Defense would receive 34.1% of the combined levered value.

(6) Pro Forma Merger Analysis. Goldman Sachs prepared pro forma analyses of the financial impact of the Raytheon Merger. Using earnings estimates for Raytheon prepared by its management for the years 1997 and 1998, Goldman Sachs compared the EPS of Raytheon Common Stock, on a stand-alone basis, to the EPS of the common stock of the combined companies on a pro forma basis (including the impact of Raytheon's acquisition of Texas Instruments Defense). Goldman Sachs performed this analysis based on a price of \$49.35 per share (the midpoint of the range used in determining the amount of indebtedness Hughes Defense may have at the Raytheon Merger Effective Time) of Raytheon Common Stock. Based on such analysis the proposed transaction would be dilutive to Raytheon's stockholders on an earnings per share basis in 1997 and slightly accretive to Raytheon's stockholders on an earnings per share basis in 1998.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying the Goldman Sachs Fairness Opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all such analyses. No company or transaction used in the above analyses as a comparison (other than Hughes Electronics and Raytheon) is directly comparable to General Motors, Hughes Electronics, Hughes Defense or Raytheon or the contemplated transaction. The analyses were prepared solely for purposes of Goldman Sachs providing its opinion to the board of directors of each of General Motors, Hughes Electronics and Hughes Defense as to the fairness of the Aggregate Consideration to the GM Group as a whole and do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by such analyses. Because such analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of General Motors, Hughes Electronics, Hughes Defense, Raytheon, Goldman Sachs or any other person assumes responsibility if future results are materially different from those forecast.

As described above, the Goldman Sachs Fairness Opinion was one of many factors taken into consideration by the board of directors of each of General Motors, Hughes Electronics and Hughes Defense in making their respective determinations to approve the Raytheon Merger Agreement. THE FOREGOING SUMMARY DOES NOT PURPORT TO BE A COMPLETE DESCRIPTION OF THE ANALYSIS PERFORMED BY GOLDMAN SACHS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE GOLDMAN SACHS FAIRNESS OPINION INCLUDED IN APPENDIX B TO THIS DOCUMENT.

Goldman Sachs, as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements, and valuations for estate, corporate and other purposes. General Motors, Hughes Electronics and Hughes Defense selected Goldman Sachs as their financial advisor because it is a nationally recognized investment banking firm that has substantial experience in transactions similar to the Raytheon Merger. Goldman Sachs is familiar with Hughes Defense having provided certain investment banking services to Hughes Defense and Hughes Electronics from time to time and having acted as financial advisor to Hughes Defense, Hughes Electronics and General Motors in connection with, and having participated in certain of the negotiations leading to, the Raytheon Merger Agreement. Goldman Sachs is also familiar with Raytheon having provided certain investment banking services to Raytheon from time to time, including having acted as its financial advisor in connection with the acquisition of Chrysler Technologies Airborne Systems in June 1996 and acting as a dealer in connection with Raytheon's issuance of commercial paper.

Goldman Sachs is a full service securities firm and as such may from time to time effect transactions, for its own account or the account of customers, and hold positions in the securities or options on securities of General Motors and/or Raytheon.

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Pursuant to a letter agreement dated October 23, 1996 (the "Engagement Letter"), General Motors and Hughes Electronics engaged Goldman Sachs to act as their financial advisor in connection with the Hughes Defense Spin-Off and the Raytheon Merger. Pursuant to the terms of the Engagement Letter, General Motors and Hughes Electronics have agreed to pay Goldman Sachs upon the consummation of the Raytheon Merger a transaction fee based on 0.30% of the aggregate consideration of the Raytheon Merger. General Motors and Hughes Electronics have agreed to reimburse Goldman Sachs for its reasonable out-of-pocket expenses, including the reasonable fees and disbursements of its attorneys, and to indemnify Goldman Sachs against certain liabilities, including certain liabilities under the U.S. federal securities laws.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

For a description of certain U.S. federal income tax considerations relating to the Raytheon Merger, see "Special Factors--Certain U.S. Federal Income Tax Considerations Relating to the Raytheon Merger" above.

ACCOUNTING TREATMENT

The Raytheon Merger will be accounted for by New Raytheon as a purchase for financial accounting purposes in accordance with GAAP. Raytheon will be treated as the acquiror of Hughes Defense for purposes of preparing the consolidated financial statements of New Raytheon, and New Raytheon will establish a new accounting basis for assets and liabilities of Hughes Defense based upon the fair values thereof and the value of the consideration deemed to be provided to General Motors, its subsidiaries and its common stockholders in connection with the Raytheon Merger, and the costs of the Raytheon Merger. New Raytheon will record as goodwill the excess, if any, of such consideration over such fair values. A final determination of required purchase accounting adjustments, including the allocation of such consideration to the assets acquired and liabilities assumed based on their respective fair values, has not yet been made. Accordingly, the purchase accounting adjustments made in connection with the development of the pro forma condensed combined financial information of New Raytheon appearing elsewhere in this document are preliminary and have been made solely for purposes of developing such pro forma condensed combined financial information. New Raytheon will undertake a study to determine the fair value of certain of Hughes Defense's assets and liabilities (as so adjusted) and will make appropriate purchase accounting adjustments upon completion of that study. For financial reporting purposes, the results of operations of Hughes Defense will be included in New Raytheon's consolidated statement of income following the Raytheon Merger Effective Time. New Raytheon's financial statements for prior periods will not be restated as a result of the Raytheon Merger or related transactions. See "New Raytheon--New Raytheon Unaudited Pro Forma Condensed Combined Financial Statements" in Chapter 5.

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SEPARATION AND TRANSITION ARRANGEMENTS

INTRODUCTION

As a condition to the consummation of the Raytheon Merger, Raytheon has required that Hughes Defense be, at the time of the consummation of the Raytheon Merger, an independent, publicly owned company comprising the defense electronics business of Hughes Electronics. This condition will be satisfied by means of the Hughes Reorganization and the Hughes Defense Spin-Off.

The Hughes Reorganization generally will be effected pursuant to the terms of the Master Separation Agreement among General Motors, Hughes Defense, Delco and Hughes Telecom and the agreements contemplated thereby. See "Description of the Hughes Transactions--General--Hughes Reorganization" above. As the surviving corporation of the Raytheon Merger, Hughes Defense (which will be renamed "Raytheon Company") will continue to have rights and obligations pursuant to each of these agreements after the consummation of the Raytheon Merger, except as otherwise described below. Accordingly, references to "Hughes Defense" in the descriptions below of such agreements should be considered, as appropriate, also to be references to "New Raytheon." In addition, in connection with the consummation of the Hughes Transactions, Hughes Telecom will become a direct wholly owned subsidiary of General Motors and will be renamed "Hughes Electronics Corporation." Accordingly, references to "Hughes Telecom" in the descriptions below of such agreements should be considered, as appropriate, also to be references to "New Hughes Electronics."

THE FOLLOWING IS A SUMMARY DESCRIPTION OF CERTAIN OF THE PRINCIPAL PROVISIONS OF THE SEPARATION AGREEMENTS. THIS DESCRIPTION OF THE SEPARATION AGREEMENTS, WHICH SUMMARIZES THE MATERIAL TERMS OF SUCH AGREEMENTS, DOES NOT PURPORT TO BE COMPLETE AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE SEPARATION AGREEMENTS. THE FORMS OF EACH OF THE MASTER SEPARATION AGREEMENT, THE SPIN-OFF SEPARATION AGREEMENT, THE TAX SHARING AGREEMENT AND THE VARIOUS OTHER AGREEMENTS CONTEMPLATED BY THE MASTER SEPARATION AGREEMENT HAVE BEEN FILED WITH THE SEC AS EXHIBITS TO THE REGISTRATION STATEMENTS OF WHICH THIS DOCUMENT IS A PART AND ARE INCORPORATED INTO THIS DOCUMENT BY REFERENCE.

SUMMARY OF MASTER SEPARATION AGREEMENT

GENERAL

The Master Separation Agreement is an agreement among General Motors, Hughes Defense, Delco and Hughes Telecom, pursuant to which, among other things, the transfers of certain assets and liabilities (which are required so that each of Hughes Defense, Delco and Hughes Telecom will consist of the respective businesses described in this document after the completion of the Hughes Reorganization) will be effected. The Master Separation Agreement also includes indemnification provisions and provides for a post-closing adjustment between New Hughes Electronics and New Raytheon based on an adjusted net worth of Hughes Defense as of immediately prior to the Raytheon Merger and for certain other separation and transition arrangements. The Master Separation Agreement also requires that certain parties to such agreement enter into the Spin-Off Separation Agreement, the Tax Sharing Agreement and certain other agreements. See "Description of the Hughes Transactions--General--Hughes Reorganization" above.

ASSET AND LIABILITY TRANSFERS

Pursuant to the Master Separation Agreement, prior to the GM Spin-Off Merger Effective Time, General Motors will cause Hughes Electronics (or the appropriate subsidiary of Hughes Electronics) to transfer, as appropriate, to each of Hughes Defense, Delco and Hughes Telecom all of Hughes Electronics' right, title and interest in the assets of Hughes Electronics that are used or held for use primarily in (but not presently owned by) the respective businesses of these entities. See "Description of the Hughes Transactions--General--

Hughes Reorganization" above. The assets transferred will be transferred "as is where is" and, except as set forth below under "--Summary of Master Separation Agreement--Indemnification," no transferor of the assets described above will make any warranty, either express or implied, including, without limitation, warranties of merchantability or fitness for a particular purpose, with respect to any of the assets transferred. For a description of the transfers with respect to Hughes Electronics' intellectual property, see "--Summary of Other Agreements Contemplated by the Master Separation Agreement--Intellectual Property" below.

Simultaneously with the transfers described above, each of Hughes Defense, Delco and Hughes Telecom, in partial consideration for such transfers, will assume and agree on a timely basis to pay and discharge in accordance with their terms any and all liabilities relating to or arising out of the assets transferred to such entity. Each of Hughes Defense, Delco and Hughes Telecom will also retain or assume, as the case may be, and no other party to the Master Separation Agreement will assume or have any liability with respect to, liabilities relating primarily to, or arising primarily out of, the defense electronics business, the automotive electronics business or the telecommunications and space business, respectively, of Hughes Electronics as conducted at any time prior to, on or after the GM Spin-Off Merger Effective Time, as well as certain other liabilities as identified in the Master Separation Agreement.

Pursuant to the Master Separation Agreement, immediately following the transfers described above, Hughes Electronics will merge with General Motors, with General Motors as the surviving corporation, and Hughes Aircraft will merge with Hughes Defense, with Hughes Defense as the surviving corporation. Hughes Defense will then transfer to General Motors all of its right, title and interest in and to the shares of capital stock of Hughes Telecom in the Hughes Telecom Spin-Off. See "Description of the Hughes Transactions--General--Hughes Reorganization" above.

#### INDEMNIFICATION

Under the Master Separation Agreement, Hughes Telecom will represent and warrant to Hughes Defense that the assets of Hughes Defense (except for cash and cash equivalents and without giving effect to the sale or anticipated sale of, or other action with respect to, the assets of Hughes Defense relating to the approval process under the Hart-Scott-Rodino Act) as of immediately following the GM Spin-Off Merger Effective Time will include all assets owned by Hughes Electronics (and all assets in which Hughes Electronics has contractual rights) which are primarily used in, or held primarily for use in, the defense electronics business of Hughes Electronics as of the GM Spin-Off Merger Effective Time and will be sufficient to conduct such business after the GM Spin-Off Merger Effective Time as it is conducted immediately prior to the GM Spin-Off Merger Effective Time. Hughes Telecom will indemnify, defend and hold harmless Hughes Defense, New Raytheon, General Motors, Hughes Electronics and Delco, their respective successors-in-interest, subsidiaries and their respective past and present directors, officers, employees, agents, consultants, advisors, accountants, attorneys and representatives against any losses, claims, damages, liabilities or actions arising, whether prior to or following the transfers contemplated by the Master Separation Agreement, out of or in connection with any violation of such representation and warranty and will reimburse them for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action.

Hughes Defense, Delco and Hughes Telecom will each indemnify, defend and hold harmless each other and General Motors and Hughes Electronics, and their respective successors-in-interest, subsidiaries, past and present directors, officers, employees, agents, consultants, advisors, accountants, attorneys and representatives, against any losses, claims, damages, liabilities or actions arising, whether prior to or following the transfers contemplated by the Master Separation Agreement, out of or in connection with their respective assets and liabilities and the conduct of their respective businesses (including, in the case of Hughes Defense, in connection with any breach by Hughes Defense or any of its subsidiaries after the GM Spin-Off Merger Effective Time of any terms of the Transaction Agreements) and will reimburse them for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action.

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Each of Hughes Telecom and Delco will also indemnify, defend and hold harmless General Motors, its successors-in-interest, subsidiaries and past and present directors, officers, employees, agents, consultants, advisors, accountants, attorneys and representatives against any losses, claims, damages, liabilities or actions arising, whether prior to or following the transfers contemplated by the Master Separation Agreement, out of or in connection with the merger of Hughes Electronics with General Motors (other than, in each case, those that primarily relate to the assets, liabilities and conduct of the business of Delco) and will reimburse them for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action. The indemnification by Hughes Telecom of General Motors will include indemnification for losses arising from any guarantees and similar arrangements of Hughes Electronics that become obligations of General Motors as a result of the merger of Hughes Electronics into General Motors as part of the Hughes Reorganization.

POST-CLOSING ADJUSTMENT BETWEEN NEW HUGHES ELECTRONICS AND NEW RAYTHEON

The Master Separation Agreement provides for a payment to be made under the circumstances described below by either New Hughes Electronics or New Raytheon to the other party following the consummation of the Raytheon Merger based upon a comparison of (1) the "adjusted net worth" of Hughes Defense (as determined pursuant to the Master Separation Agreement) as reflected on the September 30, 1996 balance sheet provided to Raytheon as part of the negotiations relating to the Raytheon Merger Agreement, as adjusted pursuant to the terms of the Master Separation Agreement (the "Target Amount"), and (2) the "adjusted net worth" of Hughes Defense as of immediately prior to the Raytheon Merger Effective Time and after the consummation of the Hughes Reorganization as reflected in an audited balance sheet prepared as of such time and in such manner as described in the Master Separation Agreement (the "Closing Date Final Amount").

Within approximately four months after the completion of the Raytheon Merger, New Hughes Electronics will prepare, and its auditors will audit, the final balance sheet for Hughes Defense and its subsidiaries as of immediately prior to the Raytheon Merger Effective Time (but giving effect to the Hughes Reorganization), which will set forth the Closing Date Final Amount, and a related report from New Hughes Electronics' auditors. Within approximately 30 business days after its receipt of this final balance sheet and related auditors' report, New Raytheon will notify New Hughes Electronics of any objections to the balance sheet and report. New Hughes Electronics and New Raytheon will then work together to try to reach agreement on any disputed matters and, if the parties cannot reach agreement, all disputed matters will be submitted to arbitration before independent auditors for final resolution.

If the Target Amount exceeds the Closing Date Final Amount by \$50 million or more, then New Hughes Electronics will be obligated to pay to New Raytheon in cash the amount in excess of \$50 million by which the Target Amount exceeds the Closing Date Final Amount, plus interest thereon from the Raytheon Merger Effective Time to the date of such payment thereof at the per annum rate equal to the rate announced by Citibank, N.A. in the City of New York as its base rate as in effect on the Raytheon Merger Effective Time. If the Closing Date Final Amount exceeds the Target Amount by \$50 million or more, then New Raytheon will be obligated to pay to New Hughes Electronics in cash the amount in excess of \$50 million by which the Closing Date Final Amount exceeds the Target Amount, plus interest thereon calculated in the same manner as described above. In addition to the foregoing, any cash reflected in such audited balance sheet of Hughes Defense will be transferred to New Hughes Electronics at the time of the cash payment described above, or, if no such payment is made, as soon as practicable after the completion of such audited balance sheet, together with interest thereon calculated in the same manner as described above.

CONDITIONS TO CLOSING

The obligations of each of the parties to the Master Separation Agreement to consummate the transactions contemplated by the Master Separation Agreement will be subject to the satisfaction or waiver (by the party for whose benefit such condition exists) of each of the conditions to the closing of the Raytheon Merger as set forth in the Raytheon Merger Agreement (other than the consummation of the Hughes Transactions). See "Description of the Raytheon Merger--Raytheon Merger Agreement--Conditions" above.



SUMMARY OF SPIN-OFF SEPARATION AGREEMENT

GENERAL

The Master Separation Agreement contemplates that, prior to the Raytheon Merger Effective Time, General Motors and Hughes Defense will enter into the Spin-Off Separation Agreement. As noted above, the obligations of Hughes Defense under the Spin-Off Separation Agreement will be obligations of New Raytheon after the Raytheon Merger.

PRESERVATION OF TAX-FREE STATUS OF THE HUGHES TRANSACTIONS AND THE RAYTHEON MERGER

The Spin-Off Separation Agreement contains covenants intended to protect the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger. These covenants could have the effect of delaying, deferring or preventing a change in control of New Raytheon and of limiting the opportunity to realize premiums over prevailing market prices for New Raytheon Common Stock in connection therewith during the period of their applicability. See "Risk Factors--Risk Factors Regarding New Raytheon After the Raytheon Merger--Certain Limitations on Changes in Control of New Raytheon; New Raytheon's Ability to Participate in Future Defense Industry Consolidation" in Chapter 2.

Hughes Defense will indemnify, defend and hold harmless General Motors and its affiliates against any and all tax-related losses incurred by General Motors in connection with any proposed tax assessment or tax controversy with respect to the Hughes Defense Spin-Off or the Raytheon Merger to the extent caused by any breach by Hughes Defense of any of the following covenants.

Hughes Defense will agree that, unless General Motors determines, in its sole and absolute discretion, which discretion will be exercised in good faith solely to preserve the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger, that any of the following transactions would not jeopardize the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off or the Raytheon Merger, Hughes Defense will not:

- . for two years after the Raytheon Merger Effective Time, enter into or permit (to the extent Hughes Defense has the right to prohibit) any transaction or series of transactions as a result of which any person or any group of related persons would acquire, or have the right to acquire, (1) from one or more holders of outstanding shares of New Raytheon Capital Stock, a number of shares of New Raytheon Capital Stock that would comprise more than 15% of (A) the value of all outstanding shares of New Raytheon Capital Stock as of the date of such transaction, or in the case of a series of transactions, the date of the last transaction of such series, or (B) the number of the issued and outstanding shares of Class A Common Stock or Class B Common Stock as of the date of such transaction, or in the case of a series of transactions, the date of the last transaction of such series, or (2) from Hughes Defense, all or a substantial portion of its assets or business in exchange in whole or in part for equity interests in such person or group which are received by holders of New Raytheon Capital Stock (a "Proposed Acquisition Transaction");
- . for two years after the Raytheon Merger Effective Time, enter into any transaction or series of transactions as a result of which any person would acquire, or have the right to acquire, from Hughes Defense or an affiliate of Hughes Defense, one or more shares of New Raytheon Capital Stock (a "Proposed Stock Issuance Transaction") if, as a result of such Proposed Stock Issuance Transaction, Hughes Defense would issue a number of shares of New Raytheon Capital Stock that, when aggregated with all other shares of New Raytheon Capital Stock issued pursuant to any Proposed Stock Issuance Transaction occurring prior to or simultaneously with such Proposed Stock Issuance Transaction, would cause (A) the number of shares of Class A Common Stock distributed to GM's common stockholders in the Hughes Defense Spin-Off to constitute less than 80% of the total combined voting power of all outstanding shares of the New Raytheon Capital Stock entitled to vote generally in the election of directors or (B) the issuance of outstanding shares of any class or series of New Raytheon Capital Stock other than New Raytheon Capital Stock which is entitled to vote generally in the election of directors;

- . for two years after the Hughes Defense Spin-Off, enter into any transaction as a result of which Hughes Defense or an affiliate of Hughes Defense would acquire, or have the right to acquire, one or more shares of New Raytheon Capital Stock if, as a result of such transaction, the then-outstanding shares of Class A Common Stock would constitute less than 80% of the total combined voting power of all outstanding shares of New Raytheon Capital Stock entitled to vote generally in the election of directors; and
- . for three years after the Hughes Defense Spin-Off, amend or change the New Raytheon Certificate of Incorporation or New Raytheon By-Laws in such a way as to affect the composition or size of the New Raytheon Board, the manner in which the New Raytheon Board is elected or the duties and responsibilities of the New Raytheon Board.

For two years after the Hughes Defense Spin-Off, Hughes Defense will also agree:

- . to continue the active conduct of the trade or business (as defined in Section 355(b)(2) of the Code) conducted by Hughes Defense immediately prior to the Raytheon Merger Effective Time (the "Active Trade or Business");
- . not to (A) liquidate, dispose of, or otherwise discontinue the conduct of any portion of the Active Trade or Business with a value in excess of \$1.0 billion or (B) dispose of any business or assets that would cause Hughes Defense to be operated in a manner inconsistent in any material respect with the business purposes for the Hughes Defense Spin-Off as set forth in the representation letters, tax opinions and tax rulings related to the Hughes Transactions and the Raytheon Merger (including, among other things, the IRS Ruling), in each case unless General Motors has determined, in its sole and absolute discretion, which discretion will be exercised in good faith solely to preserve the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger, that such liquidation, disposition or discontinuance would not jeopardize the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off or the Raytheon Merger;
- . not to liquidate, dispose of, or otherwise discontinue the conduct of any portion of the Active Trade or Business if such liquidation, disposition or discontinuance would constitute a breach of Section 4.2(e) of the Spin-Off Separation Agreement (which requires that, until two years after the Raytheon Merger Effective Time, and except in the ordinary course of business, neither Hughes Defense nor any of its subsidiaries sell, transfer, or otherwise dispose of or agree to dispose of assets (including any shares of capital stock of such subsidiaries) that, in the aggregate, constitute more than (A) 60% of the gross assets of Hughes Defense (based on the fair market value of each such asset as of the Raytheon Merger Effective Time) or (B) 60% of the consolidated gross assets of Hughes Defense (based on the fair market value of each such asset as of the Raytheon Merger Effective Time), unless prior to the consummation of such transaction General Motors has determined, in its sole and absolute discretion, which discretion will be exercised in good faith solely to preserve the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger, that such transaction would not jeopardize the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off or the Raytheon Merger); and
- . not to voluntarily dissolve or liquidate, and except in the ordinary course of business, not to sell, transfer, or otherwise dispose of or agree to dispose of assets (including, for such purpose, any shares of capital stock of its subsidiaries) that, in the aggregate, constitute more than (1) 60% of the gross assets of Hughes Defense (based on the fair market value of each such asset as of the Raytheon Merger Effective Time) or (2) 60% of the consolidated gross assets of Hughes Defense (based on the fair market value of each such asset as of the Raytheon Merger Effective Time), unless prior to the consummation of such transaction General Motors has determined, in its sole and absolute discretion, which discretion will be exercised in good faith solely to preserve the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger, that such transaction would not jeopardize the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off or the Raytheon Merger.

Hughes Defense also will agree not to propose at any time a plan of recapitalization (including a Proposed Acquisition Transaction, if, as a result of such transaction, holders of New Raytheon Common Stock

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immediately before the Proposed Acquisition Transaction will own more than 50% of the common equity of the person (or group of related persons) acquiring the New Raytheon Capital Stock immediately after consummation of the Proposed Acquisition Transaction, and, in such case, the person acquiring New Raytheon Capital Stock pursuant to a Proposed Acquisition Transaction will be treated as if such person were Hughes Defense) or amendment to the New Raytheon Certificate of Incorporation or other action providing for (1) the conversion of shares of any class of New Raytheon Common Stock into a different class of New Raytheon Capital Stock, (2) a change in the absolute or relative voting rights of any class of New Raytheon Common Stock from the rights existing at the Raytheon Merger Effective Time, or (3) any other action having an effect similar to that described in clause (1) or (2), unless prior to the consummation of such action General Motors has determined, in its sole and absolute discretion, which discretion will be exercised in good faith solely to preserve the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger, that such action would not jeopardize the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off or the Raytheon Merger.

For two years after the Hughes Defense Spin-Off, Hughes Defense also will agree not to take, or permit any of its subsidiaries to take, any other actions or enter into any transaction or series of transactions or agree to enter into any other transactions that would be reasonably likely to jeopardize the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off or the Raytheon Merger, including any action or transaction that would be reasonably likely to be inconsistent with any representation made in the representation letters related to the Hughes Transactions and the Raytheon Merger, unless prior to the consummation of such action or transaction General Motors has determined, in its sole and absolute discretion, which discretion will be exercised in good faith solely to preserve the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger, that such action or transaction would not jeopardize the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off or the Raytheon Merger.

In the event that Hughes Defense notifies General Motors that it desires to take one of the actions described above and General Motors concludes that such action would jeopardize the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off or the Raytheon Merger, General Motors will, at the request of Hughes Defense, elect either to (1) use all commercially reasonable efforts to obtain a tax opinion or ruling that would permit Hughes Defense to take the specified action or (2) provide all reasonable cooperation to Hughes Defense in connection with Hughes Defense obtaining such tax ruling or opinion in form and substance reasonably satisfactory to General Motors. The reasonable costs and expenses of obtaining any such tax opinion or ruling will be borne by Hughes Defense.

For purposes of this description of the Spin-Off Separation Agreement, "New Raytheon Capital Stock" means all classes or series of capital stock of Hughes Defense and, upon the consummation of the Raytheon Merger, New Raytheon.

#### INDEMNIFICATION

In addition to the indemnification for tax matters described above, Hughes Defense will also indemnify, defend and hold harmless General Motors, all of GM's affiliates and each of their respective directors, officers and employees (in their capacities as such), from and against:

- . all losses relating to, arising out of, or due to, directly or indirectly, any breach by Hughes Defense or any affiliate of Hughes Defense of any of the provisions of the Spin-Off Separation Agreement;
- . all losses relating to, arising out of, or due to (1) any untrue statement or alleged untrue statement of a material fact contained in the Hughes Defense Registration Statement or the Raytheon Registration Statement relating to (A) Raytheon, the capital stock of Raytheon, the Raytheon business, financial information and data relating to Raytheon (including both historical and pro forma financial data) or (B) the Raytheon Merger, plans regarding Hughes Defense after the Raytheon Merger (i.e., New Raytheon) and other forward-looking information regarding Hughes Defense (the "Hughes Defense Disclosure

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Portions") or (2) the omission or alleged omission to state in the Hughes Defense Disclosure Portions a material fact required to be stated therein or necessary to make the statements therein not misleading; and

- . all losses relating to or arising out of actions taken (or omitted to be taken) by Raytheon or any affiliate of Raytheon in violation of the Raytheon Merger Agreement.

General Motors will agree to indemnify, defend, and hold harmless Hughes Defense, all affiliates of Hughes Defense, and each of their respective directors, officers and employees (in their capacities as such), from and against:

- . all losses relating to, arising out of, or due to, directly or indirectly, any breach by General Motors or any affiliate of General Motors (excluding Hughes Defense) of any of the provisions of the Spin-Off Separation Agreement;
- . all losses relating to, arising out of, or due to (1) any untrue statement or alleged untrue statement of a material fact contained in any material set forth in either the Hughes Defense Registration Statement or the Raytheon Registration Statement (A) relating to (x) Hughes Defense, the capital stock of Hughes Defense, the business of Hughes Defense, financial information and data relating to Hughes Defense (including both historical and pro forma financial data), in each case prior to the consummation of the Raytheon Merger, or (y) the Hughes Transactions or (B) that otherwise does not constitute a part of a Hughes Defense Disclosure Portion (the "GM Disclosure Portions") or (2) the omission or alleged omission to state in the GM Disclosure Portions a material fact required to be stated therein or necessary to make the statements therein not misleading; and
- . all losses relating to or arising out of any breach of GM's representation that neither the execution and delivery of the Transactions Agreements by General Motors or any of its subsidiaries (other than Hughes Defense) nor the consummation of the transactions on the part of General Motors or any such subsidiary contemplated by the Implementation Agreement will conflict with or result in a breach of any provision of the certificate of incorporation or bylaws of General Motors or any such subsidiary.

ALLOCATION OF COSTS AND EXPENSES

The Spin-Off Separation Agreement allocates responsibility for the payment of fees and expenses incurred in connection with the Hughes Transactions and the Raytheon Merger between (1) Raytheon and Hughes Defense on the one hand and (2) General Motors and its subsidiaries (other than Hughes Defense) on the other hand.

Hughes Defense will pay all costs and expenses relating exclusively to the Raytheon Merger, including, without limitation, all reasonable out-of-pocket costs and expenses of printing and distributing any materials to be sent to Raytheon's stockholders in connection with the Raytheon Merger (including SEC filing fees), the fees associated with making any other federal, state, local or foreign governmental securities law or other regulatory filings exclusively in connection with the Raytheon Merger, the fees and expenses of the New Raytheon Transfer Agent and any proxy or consent solicitation agents, information agents or similar consultants engaged by Raytheon in connection with effecting the Raytheon Merger. Hughes Defense will also pay, unless otherwise agreed between General Motors and Hughes Defense, the fees and expenses of Goldman Sachs and the fees and expenses of Weil, Gotshal & Manges LLP in connection with the Raytheon Merger, provided that such fees and expenses, to the extent to be paid by Hughes Defense after the Raytheon Merger Effective Time, will be included as current liabilities of Hughes Defense on the balance sheet prepared for the purpose of calculating the post-closing adjustment. See "--Summary of Master Separation Agreement--Post-Closing Adjustment Between New Hughes Electronics and New Raytheon" above.

General Motors or one of its subsidiaries (excluding Hughes Defense) will pay all costs and expenses relating to the Hughes Transactions except (1) those relating exclusively to the Raytheon Merger and (2) the fees of any transfer or exchange agent engaged by Hughes Defense and all fees relating to listing New Raytheon Common Stock on any domestic or foreign stock exchange or similar organization, which will be

paid by Hughes Defense. The costs and expenses to be paid by General Motors or one of such subsidiaries will include, without limitation, the fees and expenses of Merrill Lynch, Salomon Brothers and Kirkland & Ellis, and all costs and expenses relating exclusively to the GM Spin-Off Merger, including, without limitation, all reasonable out-of-pocket costs and expenses of printing and distributing this document and any related materials (including SEC filing fees), the fees associated with making any other federal, state, local or foreign governmental securities law or other regulatory filings exclusively in connection with the GM Spin-Off Merger, and the fees and expenses of the GM Transfer Agent and any proxy or consent solicitation agents, information agents or similar consultants engaged by General Motors in connection with effecting the GM Spin-Off Merger.

#### SUMMARY OF TAX SHARING AGREEMENT

As part of the Master Separation Agreement and as a condition to the consummation of the Raytheon Merger, General Motors, Hughes Defense and Hughes Telecom will enter into the Tax Sharing Agreement. The Tax Sharing Agreement sets out certain duties and obligations of General Motors, Hughes Defense (i.e., New Raytheon) and Hughes Telecom (i.e., New Hughes Electronics) regarding the preparation and filing of returns relating to and the payment of the liability for U.S. federal, state and local (but not foreign) income taxes ("Income Taxes") of Hughes Defense. Among other things, the Tax Sharing Agreement establishes (1) the obligations for paying Hughes Defense's Income Taxes for taxable periods ending on or before the date of the Hughes Defense Spin-Off (each a "Pre-Distribution Taxable Period"), (2) the obligations for paying New Raytheon's Income Taxes for taxable periods which begin after the date of the Hughes Defense Spin-Off (each a "Post-Distribution Taxable Period"), (3) the obligations for paying New Raytheon's Income Taxes for taxable periods which include but do not end on date of the Hughes Defense Spin-Off (each a "Straddle Period") and (4) certain indemnification rights and obligations among New Raytheon, New Hughes Electronics and General Motors. The Tax Sharing Agreement also sets out the rights of General Motors, New Hughes Electronics and New Raytheon to any refunds of Income Taxes and the rights and obligations of such parties with respect to the effects of certain timing differences and the carryback of certain tax benefits for the various taxable periods. The following summary describes certain of the operative elements of the Tax Sharing Agreement.

**Pre-Distribution Taxable Period.** General Motors or New Hughes Electronics generally will pay all Income Taxes attributable to Hughes Defense and its subsidiaries for Pre-Distribution Taxable Periods.

**Post-Distribution Taxable Period.** New Raytheon generally will pay all Income Taxes due with respect to all tax returns required to be filed by New Raytheon for Post-Distribution Taxable Periods.

**Straddle Period.** The Income Tax liability attributable to Hughes Defense and its subsidiaries for a Straddle Period generally will be allocated between New Hughes Electronics or General Motors, on the one hand, and New Raytheon, on the other hand, based on an interim closing of the books on the date of the Hughes Defense Spin-Off. New Raytheon generally will be allocated the Income Tax liability for income (1) attributable to a member of the Hughes Defense Group (as defined in the Tax Sharing Agreement) for the period subsequent to the date of the Hughes Defense Spin-Off or (2) attributable to any entity which becomes a member of the Hughes Defense Group after the Hughes Defense Spin-Off.

**Government Contracts.** The Tax Sharing Agreement contains special provisions relating to Income Taxes which may be reimbursed pursuant to government contracts.

**Indemnification.** Except as provided in the Spin-Off Separation Agreement, General Motors and New Hughes Electronics generally will indemnify New Raytheon for all liabilities (other than foreign income tax liabilities) related to the following:

- . Income Tax liabilities incurred by a member of the GM Consolidated Group (as defined in the Tax Sharing Agreement) arising out of the Hughes Defense Spin-Off or the Raytheon Merger;

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- . all costs, expenses and damages from stockholder litigation or controversies arising in connection with any proposed tax with respect to the Hughes Defense Spin-Off or the Raytheon Merger;
- . all Income Tax liabilities which General Motors or New Hughes Electronics is obligated to pay as set out in the sections above captioned "Post-Distribution Taxable Period," "Pre-Distribution Taxable Period" or "Straddle Period"; and
- . any Income Tax liabilities of the Hughes Defense Group resulting from a breach by New Hughes Electronics or General Motors of any of their covenants contained in the Tax Sharing Agreement.

Under the terms of the Tax Sharing Agreement, New Raytheon generally will indemnify General Motors for all liabilities (other than foreign income tax liabilities) related to the following:

- . all Income Tax liabilities which Hughes Defense/New Raytheon is obligated to pay as set out in the sections above captioned "Post-Distribution Taxable Period," "Pre-Distribution Taxable Period" or "Straddle Period"; and
- . any Income Tax liabilities of any member of the GM Consolidated Group resulting from a breach by New Raytheon of any of its covenants contained in the Tax Sharing Agreement.

The Tax Sharing Agreement provides for arbitration to resolve any disputes in respect of matters covered thereby.

For a description of certain covenants of and related indemnification of General Motors and certain of its affiliates by Hughes Defense (and, after the Raytheon Merger, New Raytheon) which are intended to protect the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger, see "--Summary of Spin-Off Separation Agreement--Preservation of Tax-Free Status of the Hughes Transactions and the Raytheon Merger" above.

SUMMARY OF OTHER AGREEMENTS CONTEMPLATED BY THE MASTER SEPARATION AGREEMENT

Pursuant to the Master Separation Agreement, the parties to that agreement will enter into certain other agreements to implement transitional and separation arrangements with respect to such matters as intellectual property, Hughes Research Labs, real estate and environmental matters, employee matters, stock options, insurance, supply arrangements, transition services and corporate purchasing. SET FORTH BELOW IS A SUMMARY DESCRIPTION OF THE MATERIAL TERMS OF SUCH ARRANGEMENTS WITH RESPECT TO EACH OF THESE MATTERS. THIS DESCRIPTION DOES NOT PURPORT TO BE COMPLETE AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH AGREEMENTS. See "--Introduction" above.

INTELLECTUAL PROPERTY

Pursuant to the provisions of the Master Separation Agreement and the agreements to be entered into pursuant thereto, Hughes Telecom will acquire or otherwise own, and Hughes Defense will assign to Hughes Telecom, all of Hughes Defense's right, title and interest in and to all of Hughes Electronics' or Hughes Electronics' subsidiaries' intellectual property (including trademarks), other than the intellectual property relating primarily to the defense electronics business. Additionally, Hughes Defense will assign to Hughes Telecom (1) Dual Use Technology, which is intellectual property developed by Hughes Defense for the defense electronics business (A) that is useful in the telecommunications and space business as conducted immediately prior to the GM Spin-Off Merger Effective Time and (B) which covers components manufactured or processes that are to be utilized by Hughes Telecom, (2) the intellectual property of Hughes Research Labs that exists as of the GM Spin-Off Merger Effective Time and (3) any trademark, service mark or trade name which contains the name "Hughes." Hughes Defense will grant to Hughes Telecom and Delco a non-exclusive, perpetual,

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royalty-free license to make, have made, use, sell and import products under Hughes Defense's retained intellectual property for use only in the business of Hughes Telecom and the business of Delco, respectively, and any new but related businesses that may be conducted by Hughes Telecom or its affiliates or Delco or its affiliates, as the case may be, after the GM Spin-Off Merger Effective Time that can be reasonably classified under the broad category of a telecommunications or space business or an automotive electronics business, as the case may be. Hughes Telecom will grant a non-exclusive, perpetual, royalty-free license to Hughes Defense to make, have made, use, sell and import products under the Dual Use Technology for use in any business that is not competitive with Hughes Telecom or Delco, in each case as conducted at the GM Spin-Off Merger Effective Time. Hughes Telecom will also grant a non-exclusive, perpetual, royalty-free license to Hughes Defense with respect to the use of certain intellectual property specified in the Master Separation Agreement that is necessary for the business of Hughes Defense as conducted at the GM Spin-Off Merger Effective Time.

Hughes Telecom will grant a non-exclusive, perpetual, royalty-free license to Hughes Defense to make, have made, use, sell and import products under the intellectual property of Hughes Research Labs that exists as of the GM Spin-Off Merger Effective Time for use in any business that is not competitive with Hughes Telecom or Delco, in each case as conducted at the GM Spin-Off Merger Effective Time.

In addition, effective at the GM Spin-Off Merger Effective Time, Hughes Telecom will grant a non-exclusive, perpetual, royalty-free trademark and trade and company name license to Hughes Defense to use the name "Hughes" solely in connection with the business of Hughes Defense as part of any trade and company name of New Raytheon (or any subsidiary or division thereof), provided that the "Raytheon" name is also used as part of such trade or company name and provided further that "Raytheon" precedes the name "Hughes." In no event, however, will Hughes Defense have rights to use the logo of the word "Hughes" in the round-cornered blue rectangle, except for limited circumstances during a transitional period following the Raytheon Merger.

HUGHES RESEARCH LABS

Hughes Defense and Hughes Telecom each will continue to have an interest in Hughes Research Labs, Hughes Electronics' research facility located in Malibu, California. After completion of the transactions contemplated by the Master Separation Agreement, the research facility will be owned and funded 50% by each party.

In general, Hughes Research Labs will own the intellectual property resulting from general research projects and each of Hughes Defense and Hughes Telecom will have a perpetual, royalty-free license to such intellectual property for their respective businesses. In addition, each of Hughes Defense and Hughes Telecom may fund research for special research projects (so long as such projects do not interfere with general research projects) at cost and the funding party will be granted a royalty-free, exclusive license from Hughes Research Labs to intellectual property resulting from such projects. Pursuant to the contemplated arrangements, each of Hughes Defense and Hughes Telecom can dissolve Hughes Research Labs after five years (or earlier if one party becomes affiliated with a competitor of the other party), subject to certain conditions, including a buy-out arrangement which permits the non-dissolving party to purchase the other party's interest.

REAL ESTATE AND ENVIRONMENTAL MATTERS

As contemplated by the Master Separation Agreement, substantially all real property owned or leased by Hughes Electronics and occupied by Hughes Defense will be retained by Hughes Defense, including Hughes Electronics' present corporate headquarters building in Los Angeles. Similarly, substantially all real property owned or leased by Hughes Electronics and occupied by Hughes Telecom will be transferred to Hughes Telecom. Certain facilities, however, will be shared by Hughes Defense and Hughes Telecom, with one party leasing or sub-leasing the shared premises from the other. Additionally, all environmental liabilities will be the responsibility of the business that created the contamination. Thus, for example, the ongoing environmental litigation in Tucson, Arizona will be a liability of New Raytheon after the Raytheon Merger.

EMPLOYEE MATTERS

Pursuant to the Master Separation Agreement, Hughes Defense will agree to maintain for its employees through the end of 1998 compensation and benefits which are, in the aggregate, substantially comparable to those currently provided. Hughes Defense will also agree to continue indefinitely, for contributory participants, without adverse change, the features of the retirement plans which provide for the determination of benefits, the early retirement subsidy and cost of living adjustments. Additionally, Hughes Defense will agree to continue company-paid retiree medical benefits for contributory participants for a period of five years and thereafter as long as such benefits are provided to other retirees of New Raytheon. The aggregate assets and liabilities of the Hughes Bargaining and Nonbargaining Retirement Plans for active and inactive employees will be allocated between Hughes Defense and Hughes Telecom with those allocated to Hughes Defense transferred to separate plans of Hughes Defense.

STOCK OPTIONS

Pursuant to the Master Separation Agreement, all stock options in respect of GM Class H Common Stock, vested and non-vested, held by Hughes Defense employees will be converted into stock options in respect of Class B Common Stock. The formula for conversion is intended to preserve the value of all such stock options (i.e., market value as of the effective time of the transactions less exercise price) in all material respects. The GM Board, based on the recommendation of its Executive Compensation Committee, also has determined that all stock options in respect of GM Class H Common Stock held by Hughes Telecom employees will be converted into stock options in respect of New GM Class H Common Stock and those held by Delco employees will be converted into stock options in respect of GM \$1 2/3 Common Stock. The formulas for conversion are similarly intended to preserve the value of all such options in all material respects. In addition, appropriate adjustments will be made to preserve value in all material respects on options in respect of GM \$1 2/3 Common Stock.

INSURANCE

Hughes Defense will institute its own insurance program after the GM Spin-Off Merger Effective Time while maintaining the ability to assert claims under policies maintained prior to the GM Spin-Off Merger Effective Time. To the extent permitted by law and contract, such policies will remain under the control and administration of Hughes Telecom or General Motors with settlement authority on site-specific environmental claims afforded to Hughes Defense on a basis not prejudicial to Hughes Telecom or General Motors.

SUPPLY ARRANGEMENTS

Hughes Defense and Hughes Telecom will continue to supply various products and technical services to each other after the GM Spin-Off Merger Effective Time. The products and services generally will be provided to the other party at market prices.

TRANSITION SERVICES

Hughes Defense and Hughes Telecom will continue to provide various transitional services to each other at cost for a minimum transition period of twelve months after the GM Spin-Off Merger Effective Time (with longer periods for certain information systems services such as payroll). The services to be provided will be substantially similar in scope, level and cost with services provided at the GM Spin-Off Merger Effective Time. If the periods of providing such services are extended beyond the initial transition period pursuant to agreement of New Raytheon and New Hughes Electronics, the applicable services generally will then be provided at cost plus six percent.



CORPORATE PURCHASING

For an initial period of one year after the GM Spin-Off Merger Effective Time (with termination upon 90-day notice thereafter), (1) New Raytheon will have access to GM's Worldwide Purchasing Process, (2) General Motors, New Hughes Electronics and New Raytheon will continue to work together under joint purchasing agreements and (3) General Motors will continue to support Hughes Defense's Tomahawk procurement activities to the extent commercially reasonable and consistent with the advice of GM's legal counsel until completion of New Raytheon's participation in such program.

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 FINANCIAL AND BUSINESS REVIEWS

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RAYTHEON

SALE OF PORTIONS OF THE APPLIANCES BUSINESS

On September 10, 1997, Raytheon consummated the sale of its home appliance, heating and air conditioning and commercial cooking businesses to Goodman Manufacturing Company, L.P. for an aggregate amount of \$550 million in cash, subject to adjustment for certain changes in the net working capital of such businesses between December 31, 1996 and the closing date of the transaction. In 1996, these three businesses represented approximately 80% of the sales and 50% of the operating income of Raytheon's Appliance Group. In addition, Raytheon has realized approximately \$200 million from the sale of receivables relating to the businesses which were sold. Raytheon is retaining the commercial laundry and electronics controls businesses of the Appliance Group, but is continuing its strategic review of these remaining businesses. Proceeds from the sale of the three Appliance Group businesses will be used to reduce debt incurred in connection with the Texas Instruments Defense Acquisition.

TEXAS INSTRUMENTS DEFENSE ACQUISITION

On July 11, 1997, Raytheon purchased substantially all of the assets of, and assumed substantially all the liabilities related to, Texas Instruments Defense for an aggregate amount of \$2.875 billion in cash, subject to post-closing adjustments for certain changes in the net assets of Texas Instruments Defense between September 30, 1996 and the closing date of such purchase. In addition, Raytheon paid \$75 million for an assignment and license of certain related intellectual property. Texas Instruments Defense had 1996 sales of approximately \$1.8 billion. Because the Texas Instruments Defense Acquisition involved the purchase of assets, a significant portion of the goodwill created by the acquisition will be deductible for tax purposes.

DEBT FINANCINGS

In connection with the Texas Instruments Defense Acquisition and in contemplation of the Raytheon Merger, Raytheon arranged revolving credit facilities with a syndicate of banks totaling \$7.0 billion, \$4.0 billion of which has a maturity of 5 years and \$3.0 billion of which has a maturity of 364 days (collectively, the "Raytheon Facilities"). Raytheon incurred indebtedness in the amount of \$2.95 billion under the Raytheon Facilities in order to finance the Texas Instruments Defense Acquisition. The Raytheon Facilities include covenants which require (1) repayment and reduction of the outstanding commitment of such facilities or similar facilities with 75% of the net cash proceeds from any capital markets financings and asset sales for a period of two years from the closing date and (2) the ratio of total debt to total capitalization not to exceed 65% until July 2, 2000, 60% from July 2, 2000 to January 1, 2002 and 55% thereafter. The Raytheon Facilities rank pari passu with other senior unsecured indebtedness of Raytheon, including the Raytheon Notes (as defined below), and, upon completion of the Raytheon Merger, New Raytheon (including the debt incurred by Hughes Defense as described herein).

On August 12, 1997, Raytheon completed a public offering of \$3.0 billion aggregate principal amount of notes offered with final maturities of three, five, ten and thirty years (the "Raytheon Notes"). The net proceeds from the sale of the Raytheon Notes were used primarily to reduce amounts outstanding under the Raytheon Facilities and to refinance other debt incurred in the Texas Instruments Defense Acquisition, including commercial paper borrowings.

Additional proceeds have been and will continue to be used by Raytheon for capital expenditures, working capital requirements and general corporate purposes.

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
GENERAL MOTORS PRO FORMA CONSOLIDATED CAPITALIZATION

The following table sets forth the capitalization of General Motors and its consolidated subsidiaries at June 30, 1997, and as adjusted to reflect consummation of the Hughes Transactions and a preferred stock exchange that occurred on July 9, 1997. The following table should be read in conjunction with GM's Consolidated Financial Statements (including the notes thereto) and Management's Discussion and Analysis in the GM 1996 Form 10-K, which is incorporated into this document by reference, including the information with respect to Hughes Electronics in Exhibit 99 thereto.

	JUNE 30, 1997		
	ACTUAL	ADJUSTMENTS	PRO FORMA
	(\$ IN MILLIONS)		
Notes and loans payable .....	\$ 89,918	\$ 3,862 (c) (3,900) (d)	\$ 89,880
Minority interests.....	716	--	716
Redeemable preferred stock of subsidiary....	402	--	402
General Motors--obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of General Motors-- Series D.....	--	79 (f)	79
General Motors--obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of General Motors-- Series G.....	--	143 (f)	143
<b>STOCKHOLDERS' EQUITY</b>			
Preference stocks.....	1	--	1
GM common stock			
GM \$1 2/3 Common Stock (a).....	1,202	--	1,202
GM Class H Common Stock.....	10	(10) (e)	--
New GM Class H Common Stock.....	--	10 (e)	10
Capital surplus (principally paid-in capital) (a).....	17,250	991 (e) (196) (f)	18,045
Retained earnings.....	9,201	4,579 (b) (6,152) (d) (106) (d) (991) (e) (26) (f)	6,505
Subtotal.....	27,664	(1,901)	25,763
Minimum pension liability adjustment.....	(3,490)	86 (d)	(3,404)
Accumulated foreign currency translation adjustments.....	(642)	20 (d)	(622)
Net unrealized gains on investments in certain debt and equity securities.....	499	--	499
Total stockholders' equity.....	24,031	(1,795)	22,236
Total capitalization.....	\$115,067	\$ (1,611)	\$113,456
	=====	=====	=====
	HISTORICAL	ADJUSTMENTS	PRO FORMA
	(\$ IN MILLIONS)		
<b>Amount Available for the Payment of</b>			
<b>Dividends</b>			
GM \$1 2/3 Common Stock.....	\$ 22,986	\$ (1,259) (g) (222) (f)	\$ 21,505
GM Class H Common Stock.....	3,465	(420) (g) (3,045) (e)	--
New GM Class H Common Stock.....	--	3,045 (e)	3,045
	\$ 26,451	\$ (1,901)	\$ 24,550
	=====	=====	=====

- (a) During the first six months of 1997, General Motors used \$2 billion to acquire 35.5 million shares of GM \$1 2/3 Common Stock, completing 80% of GM's \$2.5 billion stock repurchase program announced in January 1997. General Motors also used approximately \$300 million to repurchase shares of GM \$1 2/3 Common Stock for certain employee benefit plans during the first six months of 1997. Subsequently, on August 4, 1997, General Motors announced that it had completed the \$2.5 billion stock repurchase program that began in the first half of 1997 and announced an additional \$2.5 billion stock repurchase program of GM \$1 2/3 Common Stock to be completed over a 12 month period. The stock repurchases to be made under the second repurchase program would represent about 5% of the outstanding shares of GM \$1 2/3 Common Stock based on the NYSE's closing price of \$64.44 per share on Friday, August 1, 1997.
- (b) Represents the gain on the Hughes Defense Spin-Off, assuming the price of Raytheon Common Stock is \$59.94 (i.e., the Recent Raytheon Stock Price) at the time of the Hughes Defense Spin-Off, calculated as follows:

Assumed market value of Hughes Defense Net Assets before additional borrowing by Hughes Defense.....	\$10,052
Less: Net Book Value of Hughes Defense Net Assets at June 30, 1997.	5,373
Estimated Transaction Costs.....	100
	-----
Gain.....	\$4,579
	=====

The Hughes Defense Spin-Off and the Raytheon Merger would have a total value of \$9.5 billion (so long as the market price of Raytheon Common Stock is within a collar range of \$44.42 and \$54.29 per share). The Recent Raytheon Stock Price (\$59.94 per share) was above the collar range and would indicate a total transaction value of approximately \$10.1 billion. For additional information about the collar range, see "Description of the Raytheon Merger--General--Indicated Value of the Hughes Defense Spin-Off and the Raytheon Merger to General Motors and Its Common Stockholders."

- (c) Reflects additional borrowings incurred by Hughes Defense prior to the Hughes Defense Spin-Off.
- (d) Represents the impact of the Hughes Defense Spin-Off, including the additional borrowings of \$3.9 billion incurred by Hughes Defense prior to the Hughes Defense Spin-Off, as well as the elimination of certain minimum pension liability and foreign currency translation adjustments relating to Hughes Defense.
- (e) Reflects the recapitalization of GM Class H Common Stock into New GM Class H Common Stock.
- (f) During July 1997, the General Motors Capital Trust D ("Series D Trust") issued approximately \$79 million of its 8.67% Trust Originated Preferred SecuritiesSM ("TOPrSSM"), Series D ("Series D Preferred Securities"), in a one-for-one exchange for 3,055,255 of the outstanding GM Series D 7.92% Depositary Shares, each representing one-fourth of a share of GM Series D 7.92% Preference Stock, \$0.10 par value per share. In addition, the General Motors Capital Trust G ("Series G Trust") issued approximately \$143 million of its 9.87% Trust Originated Preferred SecuritiesSM ("TOPrSSM"), Series G ("Series G Preferred Securities"), in a one-for-one exchange for 5,064,489 of the outstanding GM Series G 9.12% Depositary Shares, each representing one-fourth of a share of GM Series G 9.12% Preference Stock, \$0.10 par value per share. Concurrently with the exchanges and the related purchases by General Motors from the Series D and Series G Trusts (the "Trusts") of the common securities of such Trusts, representing approximately 3% of the assets of such Trusts, General Motors issued to the Trusts, as the Trusts' sole assets, its 8.67% and 9.87% Junior Subordinated Deferrable Interest Debentures, Series D and Series G, due July 1, 2012 (the "Series D Debentures" and "Series G Debentures" or collectively, the "Debentures"), having aggregate principal amounts equal to the aggregate stated liquidation amounts of the Series D and Series G Preferred Securities and the related common securities, respectively. General Motors has guaranteed the payment in full to the holders of the Series D and Series G Preferred Securities (collectively, the "Preferred Securities") of all distributions and other payments on the Preferred Securities to the extent not paid by the Trusts only if and to the extent that the Trusts have assets therefor (i.e., General Motors has made payments of interest or principal on the related Debentures). These guarantees, when taken together with GM's obligations under the Debentures and the indentures relating thereto and the obligations under the Declarations of Trust of the Trusts, including the obligations to pay certain costs and expenses of the Trusts, constitute full and unconditional guarantees by General Motors of each Trust's obligations with respect to its Preferred Securities.
- (g) Based on the Recent Raytheon Stock Price, reflects the allocation of the estimated net reduction in the Amounts Available for the Payment of Dividends on the GM common stocks. For additional information, see "New GM Class H Common Stock--GM Certificate of Incorporation Provisions Regarding Dividends" in Chapter 6.

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
INTRODUCTION TO THE  
FINANCIAL AND BUSINESS REVIEWS OF  
HUGHES DEFENSE, DELCO AND HUGHES TELECOM

OVERVIEW

Hughes Electronics currently conducts its operations in three primary business segments: Aerospace and Defense Systems, Automotive Electronics and Telecommunications and Space. In 1996, these segments represented, respectively, 40%, 33% and 26% of Hughes Electronics' revenues and 44%, 41% and 16% of Hughes Electronics' operating profit (excluding purchase accounting adjustments related to GM's acquisition of Hughes Aircraft in 1985), and operations reported as Corporate and Other represented approximately 1% of revenues and reported an operating loss of \$14.2 million. Information concerning Hughes Electronics' consolidated financial performance, including Management's Discussion and Analysis, may be found in certain documents incorporated into this document by reference, including in Exhibit 99 to the GM 1996 Form 10-K and GM's Forms 10-Q for the periods ended March 31, 1997 and June 30, 1997. For various ways you can obtain this information, see "Where You Can Find More Information" in Chapter 7.

The Hughes Transactions involve all three primary business segments of Hughes Electronics, as well as the operations reported as Corporate and Other. The Hughes Reorganization includes a number of preliminary transactions necessary to separate the three primary business segments of Hughes Electronics, and the operations reported as Corporate and Other, into Hughes Defense, Delco and Hughes Telecom. See "Description of the Hughes Transactions--General--Hughes Reorganization" and "Separation and Transition Arrangements" in Chapter 3. After giving effect to the Hughes Reorganization, (1) Hughes Defense generally will consist of businesses currently reported in the Aerospace and Defense Systems segment of Hughes Electronics, (2) Delco generally will consist of businesses currently reported in the Automotive Electronics segment of Hughes Electronics and (3) Hughes Telecom generally will consist of businesses currently reported in the Telecommunications and Space segment and Corporate and Other.

The separate financial statements of Hughes Defense, Delco and Hughes Telecom contained in this document have been prepared in accordance with generally accepted accounting principles and reflect the businesses to be included in each after giving effect to the Hughes Reorganization. Hughes Electronics corporate assets and liabilities have been included in the separate financial statements to the extent identifiable to individual business units. The separate financial statements also include allocations of corporate expenses from Hughes Electronics. Such allocations are based either on actual usage or on allocation methodologies which comply with U.S. government cost accounting standards.

PURCHASE ACCOUNTING ADJUSTMENTS

The separate financial statements of Hughes Defense and Hughes Telecom reflect the application of purchase accounting adjustments arising from GM's acquisition of Hughes Aircraft in 1985. The GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, will provide that, in calculating the amount available for payment of dividends on New GM Class H Common Stock (which amount will also be used to calculate earnings per share of New GM Class H Common Stock), amortization of excess purchase price for GM's acquisition of Hughes Aircraft in 1985 applicable to Hughes Telecom will not be charged against the earnings of Hughes Telecom. See "New GM Class H Common Stock--GM Certificate of Incorporation Provisions Regarding Dividends" in Chapter 6.

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
HUGHES DEFENSE SELECTED COMBINED HISTORICAL FINANCIAL DATA

The following Hughes Defense selected combined historical financial data have been derived from the financial statements of Hughes Defense. The data should be read in conjunction with Hughes Defense's Combined Financial Statements (including the notes thereto) included in Appendix C to this document. The income statement data for the periods ended December 31, 1996, 1995 and 1994 and the balance sheet data as of December 31, 1996 and 1995 have been derived from the combined financial statements of Hughes Defense audited by Deloitte & Touche LLP, independent public accountants. The income statement data for the periods ended December 31, 1993 and 1992 and June 30, 1997 and 1996 and the balance sheet data as of June 30, 1997 and 1996 and December 31, 1994, 1993 and 1992 have been derived from unaudited combined financial statements of Hughes Defense. In the opinion of management, the unaudited combined financial statements reflect all adjustments (consisting only of normal recurring items) that are necessary for the fair presentation of financial position and results of operations for such periods. Operating results for the six-month periods ended June 30, 1997 and 1996 are not necessarily indicative of the results that may be expected for the entire year.

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 30,		AS OF AND FOR THE YEARS ENDED DECEMBER 31,				
	1997	1996	1996	1995	1994	1993	1992 (A)
(IN MILLIONS)							
<b>OPERATING RESULTS:</b>							
Net sales.....	\$3,413.3	\$3,053.1	\$6,382.7	\$5,921.8	\$5,896.0	\$6,353.5	\$5,503.8
Other income, net.....	13.3	4.5	9.1	43.0	22.5	24.7	45.2
<b>Total Revenues.....</b>	<b>3,426.6</b>	<b>3,057.6</b>	<b>6,391.8</b>	<b>5,964.8</b>	<b>5,918.5</b>	<b>6,378.2</b>	<b>5,549.0</b>
Cost and Expenses.....	3,118.3	2,765.5	5,770.3	5,309.5	5,314.5	5,605.1	5,836.8
Amortization of GM purchase accounting adjustments related to Hughes Aircraft.....	50.6	50.6	101.3	101.3	101.3	101.3	101.3
<b>Total Costs and Expenses.....</b>	<b>3,168.9</b>	<b>2,816.1</b>	<b>5,871.6</b>	<b>5,410.8</b>	<b>5,415.8</b>	<b>5,706.4</b>	<b>5,938.1</b>
Income (loss) before income taxes.....	257.7	241.5	520.2	554.0	502.7	671.8	(389.1)
Income taxes (credit)...	118.5	111.1	239.3	235.4	226.2	293.9	(182.9)
Cumulative effect of accounting changes.....	--	--	--	--	(7.1)	--	(268.5)
<b>Net Income (loss).....</b>	<b>\$ 139.2</b>	<b>\$ 130.4</b>	<b>\$ 280.9</b>	<b>\$ 318.6</b>	<b>\$ 269.4</b>	<b>\$ 377.9</b>	<b>\$ (474.7)</b>
<b>BALANCE SHEET DATA:</b>							
Cash and cash equivalents.....	\$ 81.6	\$ 29.2	\$ 59.7	\$ 15.7	\$ 58.7	\$ 1.6	\$ 9.1
Current assets.....	3,167.2	3,060.1	2,907.7	2,880.0	2,462.0	2,529.3	2,692.9
Total assets.....	7,382.3	7,175.5	7,028.4	7,025.9	6,249.1	6,548.6	7,012.9
Current liabilities.....	1,665.2	1,835.6	1,889.0	1,959.9	1,604.9	1,814.9	1,624.0
Long-term debt and capitalized leases.....	33.3	48.7	34.4	49.7	57.6	83.9	38.0
Parent Company's net investment	5,372.5	4,939.6	4,823.0	4,680.2	4,198.2	4,278.3	4,801.0
<b>OTHER DATA:</b>							
Depreciation and amortization.....	\$ 126.7	\$ 116.8	\$ 246.6	\$ 240.5	\$ 265.5	\$ 295.9	\$ 303.5
Capital expenditures....	\$ 68.8	\$ 55.4	\$ 178.3	\$ 99.4	\$ 174.1	\$ 119.8	\$ 88.1

(a) Includes the effect of a pre-tax restructuring charge of \$833.1 million.



CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
HUGHES DEFENSE MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996.

RESULTS OF OPERATIONS

Revenues. Hughes Defense reported revenues for the first six months of 1997 of \$3,426.6 million, an increase of 12.1% from the \$3,057.6 million reported in the first half of 1996. The growth was primarily the result of the build-up of several newer programs, particularly information systems and service programs such as Desktop V, Wide Area Augmentation System and Hughes Air Warfare Center. Additionally, revenues increased due to the acquisition of the Marine Systems Group of Alliant Techsystems in March 1997, increased engineering effort on several missile programs including Standard, EKV and ESSM and increased activity on the Phalanx program. Finally, Sensors and Communications Systems had increased revenues on certain radar production programs.

Other Income--Included in revenues is other income of \$13.3 million for the first six months of 1997 and \$4.5 million for the same period in the prior year.

Operating Profit. Operating profit for the first half of 1997 was \$294.0 million, a 4.5% increase from the \$281.3 million reported during the comparable period in the prior year. The operating profit margin for 1997 was 8.6% compared with 9.2% in the prior year's period. The increase in operating profit was due primarily to the revenue growth described above, partially offset by lower operating margins. The reduced operating profit margin was primarily due to provisions taken on certain air traffic control and training contracts offset in part by strong performance on several radar programs. Future operating profits could be adversely impacted by the reductions in the U.S. defense budget.

Costs and Expenses. Selling, general and administrative expenses for the first half of 1997 were \$188.4 million, an increase of \$28.8 million from the \$159.6 million reported in the same period last year. The increase was principally due to the addition of the Hughes Air Warfare Center and the acquisition of Alliant Techsystems in 1997 and increased business effort within Information Systems.

The effective income tax rate was 46.0% for the first six months of 1997 and 1996.

Earnings. Hughes Defense earnings increased 6.7% to \$139.2 million in the first six months of 1997 compared with \$130.4 million reported in the same period in 1996. The increase was principally due to the increase in operating profit discussed above.

Backlog. The backlog at June 30, 1997 of \$7,400.0 million decreased from the \$7,982.4 million reported at June 30, 1996, primarily due to activity related to Hughes Air Warfare Center.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents. Cash and cash equivalents were \$81.6 million at June 30, 1997, an increase of \$21.9 million from the \$59.7 million reported at December 31, 1996. The increase was due primarily to net contributions from the Parent Company of \$412.2 million, offset by cash used in operations, the acquisition of the Marine Systems Group of Alliant Techsystems for \$141.0 million, and capital expenditures.

Liquidity Measurement. As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 1.90 at June 30, 1997 and 1.54 at December 31, 1996. Working capital was \$1,502.0 million at June 30, 1997 compared to \$1,018.7 million at December 31, 1996.

Property and Equipment. Property, net of accumulated depreciation, increased \$60.5 million to \$1,145.6 million at June 30, 1997, compared to \$1,085.1 million reported at December 31, 1996. Expenditures for

#### CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS

property were \$68.8 million through June 30, 1997 compared with \$55.4 million for the comparable period in 1996. The increase was largely the result of increased investments on Sensors and Communications Systems programs such as Space Based Infra-Red Systems-Low ("SBIRS-Low") and the Joint Strike Fighter program.

Debt and Capitalized Leases. Long-term debt and capitalized leases at June 30, 1997 were \$33.3 million compared to \$34.4 million reported at December 31, 1996.

Acquisitions. In March 1997, Hughes Defense acquired the Marine Systems Group of Alliant Techsystems, Inc. for \$143.3 million in cash. The Marine Systems Group is a leader in lightweight torpedo manufacturing and the design and manufacturing of underwater surveillance, sonar and mine warfare systems.

1996 COMPARED TO 1995

#### RESULTS OF OPERATIONS

Revenues. Hughes Defense revenues were \$6,391.8 million in 1996, a 7.2% increase from the \$5,964.8 million reported in 1995. The growth was primarily attributable to additional revenues resulting from the December 1995 acquisition of Hughes Defense Communications (formerly Magnavox Electronic Systems Company) and the build-up of newer programs including Desktop V, Wide Area Augmentation System and Land Warrior. Further increases were attributable to the full year impact of the CAE-Link acquisition, increases in certain international training and in civil systems contracts. These increases were partially offset by lower production rates on several missile programs including Stinger, Standard and Sparrow and the divestiture of certain product lines.

Other Income--Included in revenues is other income of \$9.1 million for 1996 and \$43.0 million for 1995. The decrease from 1995 was primarily the result of lower royalty income in 1996 and gains realized from selling certain product lines and businesses and the favorable settlement of an environmental insurance claim in 1995.

Operating Profit. Operating profit was \$603.4 million in 1996 compared to \$586.9 million in 1995. The increase in operating profit was due primarily to the increased revenues described above, offset in part by the lower operating margin. The operating profit margin on the same basis for 1996 declined to 9.5% from 9.9% in 1995 primarily due to a continued shift from production programs to engineering and development programs, and growth in information systems and services revenues.

Costs and Expenses. Selling, general and administrative expenses were \$321.6 million in 1996 compared to \$311.0 million in 1995. The increase was primarily due to increased bidding costs in 1996 on certain programs within Information Systems.

The effective income tax rate was 46.0% in 1996 and 42.5% in 1995. The lower effective tax rate in 1995 was the result of an investment tax credit.

Earnings. Hughes Defense 1996 earnings were \$280.9 million compared with \$318.6 million reported in 1995. The decrease in 1996 earnings was primarily related to higher interest expense and the decreases in other income described above.

Backlog. The 1996 year-end backlog of \$8,197.5 million increased from the \$7,784.2 million reported at the end of 1995, primarily due to the acquisition of Hughes Defense Communications (formerly Magnavox Electronics Systems Company) in 1995 and activity related to TOW missile and UAE Frigate programs.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents. Cash and cash equivalents were \$59.7 million at December 31, 1996, an increase of \$44.0 million from the \$15.7 million reported at December 31, 1995. Operating activities generated

#### CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS

cash of \$353.0 million which was partially offset by capital expenditures of \$178.3 million and net distributions to the Parent Company of \$136.1 million.

**Liquidity Measurement.** As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 1.54 at December 31, 1996 and 1.47 at December 31, 1995. Working capital was \$1,018.7 million at December 31, 1996 as compared to \$920.1 million at December 31, 1995. The increases were principally due to the increase in cash described above.

**Property and Equipment.** Property, net of accumulated depreciation, increased \$23.2 million to \$1,085.1 million in 1996 from \$1,061.9 million reported in 1995. Expenditures for property were \$178.3 million and \$99.4 million, in 1996 and 1995, respectively. The increase was related to capital expenditures to support expanding business requirements, primarily within Information Systems.

**Debt and Capitalized Leases.** Long-term debt and capitalized leases were \$34.4 million at December 31, 1996 compared to \$49.7 million at December 31, 1995. The decline was due to scheduled principal repayments and the reclassification of certain amounts to current liabilities.

1995 COMPARED TO 1994

#### RESULTS OF OPERATIONS

**Revenues.** Hughes Defense revenues were \$5,964.8 million in 1995, a 0.8% increase from the \$5,918.5 million reported in 1994. The increase was due to additional revenues related to the 1995 acquisition of CAE-Link Corporation and increased effort on the Tomahawk program. Such revenue increases were offset in part by lower production rates on several missile programs, including Advanced Medium-Range Air-to-Air Missile ("AMRAAM"), Tube-launched, Optically-tracked, Wire-guided ("TOW") and Advanced Cruise Missile ("ACM").

**Other Income--Included in revenues is other income of \$43.0 million in 1995 and \$22.5 million in 1994. The increase was largely attributable to gains recognized from the sale in 1995 of certain product lines and businesses and the favorable settlement of an environmental insurance claim in 1995.**

**Operating Profit.** Operating profit was \$586.9 million in 1995 compared to \$545.1 million in 1994. The operating profit margin on the same basis for 1995 increased to 9.9% from 9.2% in 1994 largely due to a provision taken in 1994 for certain air traffic control contracts.

**Costs and Expenses.** Selling, general and administrative expenses were \$311.0 million in 1995 compared to \$323.2 million in 1994. The decline was primarily attributable to facilities consolidation costs incurred in 1994 offset by the acquisition of CAE-Link in 1995.

The effective income tax rate was 42.5% in 1995 and 45.0% in 1994. The lower tax rate in 1995 was the result of an investment tax credit.

**Earnings.** Hughes Defense 1995 earnings were \$318.6 million compared with \$269.4 million reported in 1994. The increase was largely due to increased operating profit as described above, the lower effective tax rate in 1995 and the other income increases. Earnings in 1994 included the unfavorable effect of an accounting change for postemployment benefits other than pensions. Excluding the accounting change, Hughes Defense earnings in 1994 would have been \$276.5 million.

**Backlog.** The 1995 year-end backlog of \$7,784.2 million decreased from the \$8,876.0 million reported at the end of 1994, due to several large orders received in 1994 on Tomahawk production and engineering, F-15 and B-2 radar production and TOW missile awards.

## LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents. Cash and cash equivalents were \$15.7 million at December 31, 1995, a decrease of \$43.0 million from the \$58.7 million reported at December 31, 1994. The decrease in cash was primarily due to the acquisitions of CAE-Link and Magnavox Electronic Systems Company for \$176.0 million and \$373.2 million, respectively, partially offset by cash provided by operating activities and proceeds from the sale of the certain product lines and businesses and the disposal of certain property.

Liquidity Measurement. As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 1.47 at December 31, 1995 and 1.53 at December 31, 1994, relatively unchanged. Working capital was \$920.1 million at December 31, 1995 compared to \$857.1 million at December 31, 1994.

Property and Equipment. Property, net of accumulated depreciation, decreased \$34.6 million to \$1,061.9 million in 1995 from \$1,096.5 million in 1994. Expenditures for property were \$99.4 million and \$174.1 million, in 1995 and 1994, respectively. The decrease in 1995 expenditures was due to the high level of expenditures in 1994 related to the consolidation of facilities in an effort to increase the operational efficiencies of manufacturing and engineering activities.

Debt and Capitalized Leases. Long-term debt and capitalized leases were \$49.7 million at December 31, 1995, a decrease of \$7.9 million from the \$57.6 million reported at December 31, 1994. The decline was primarily due to scheduled principal repayments.

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

During 1995, Hughes Defense divested several non-strategic enterprises resulting in aggregate proceeds of approximately \$23.6 million with no significant net income impact.

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
BUSINESS OF HUGHES DEFENSE

INTRODUCTION

The following description of the business of Hughes Defense gives effect to the Hughes Reorganization but does not give effect to the Raytheon Merger. Accordingly, the following description does not address the strategy or business plans of New Raytheon, which are separately addressed under "Overview of New Raytheon Business" in Chapter 5.

Hughes Defense has been a major producer of electronics-based aerospace and defense products and systems for more than four decades and is a leading supplier of defense electronics products and services to the U.S. government. Hughes Defense has positioned itself as a leading developer and producer of a variety of tactical programs and as a subcontractor for certain types of subsystems for strategic purposes rather than seeking to become a prime contractor for major strategic weapons platforms such as tanks and aircraft. This permits Hughes Defense to participate in major segments of the defense market while reducing the impact of specific program cancellations. During 1996, no single Department of Defense program accounted for more than 6% of Hughes Defense's revenues, and the ten largest Department of Defense programs, in the aggregate, accounted for less than 33% of Hughes Defense's revenues. Approximately 64% of Hughes Defense's 1996 revenues were attributable to sales to the Department of Defense.

Hughes Defense's business strategy has been to strengthen its leadership position in aerospace and defense electronics products, systems and services through continued emphasis on technological advances, operational efficiencies, cost reduction and competitiveness. Due to its technological capabilities and the volume of its products and systems in operation around the world, Hughes Defense believes that it has capitalized on the opportunities presented by the continuing trend toward upgrading and retrofitting electronic systems as a cost-effective alternative to developing new strategic weapons platforms. Hughes Defense also has been pursuing its strategy of reducing its vulnerability to reductions in U.S. defense spending by diversifying its customer base and product line, with emphasis on international markets and non-defense government agencies. Hughes Defense has been seeking to expand its non-defense businesses by building on its expertise and experience in developing and manufacturing defense electronics systems and providing related services.

Hughes Defense has also sought to diversify both its product line and its customer base with respect to its sales to the Department of Defense. By positioning itself as a leading developer and producer of a variety of tactical programs and as a subcontractor for certain types of subsystems for strategic programs, Hughes Defense participates in major segments of the defense market while reducing the impact of specific program cancellations. As the U.S. defense budget has declined in recent years, the Pentagon has increasingly used electronic and tactical weapons upgrades to extend the capabilities of existing platforms. Tactical programs, such as airborne radar systems and missile programs, typically involve the large-scale production of expendable products or electronics systems which are later upgraded. Hughes Defense provides subsystems for a variety of strategic programs in which its technological capabilities may offer it a competitive advantage. Hughes Defense's strategy has also included diversification of its customer base. In 1996, no single branch of the U.S. Armed Forces accounted for more than 25% of Hughes Defense's revenues.

Hughes Defense currently conducts its operations through three principal business units: Sensors & Communications Systems, Weapons Systems and Information Systems. In addition, Hughes Defense has a Defense Systems business unit which engages in systems integration work. The following table sets forth the revenues of each of these business units for each of the last three years.

	1996	1995	1994
	-----	-----	-----
	(IN MILLIONS)		
Sensors & Communications Systems.....	\$2,522	\$2,214	\$2,351
Weapons Systems.....	1,979	2,066	2,387
Information Systems.....	2,202	1,923	1,529
Defense Systems.....	56	35	--
Intercompany Sales (a).....	(367)	(273)	(348)
	-----	-----	-----
	\$6,392	\$5,965	\$5,919
	=====	=====	=====

(a) Represents intercompany sales between Hughes Defense business units, which are eliminated in consolidation.

## SENSORS &amp; COMMUNICATIONS SYSTEMS

Hughes Defense's Sensors & Communications Systems ("SCS") business unit designs, develops and produces sophisticated radar (ground and airborne), communications and electro-optical equipment systems for military use. SCS also produces some of the critical high value components within these systems, such as processors and focal planes.

## SENSOR SYSTEMS

Hughes Defense's sensor systems consist of radars, electro-optical systems, electronic warfare systems and processors.

Radars. The principal product groups of the radar business are as follows:

BUSINESS -----	DESCRIPTION -----
Airborne Radar	Multi-mode fire control, reconnaissance and surveillance radar and related upgrades for military aircraft for sale to the U.S. and other governments. Radar Systems for use in customs, law enforcement, environmental monitoring and military applications.
Ground-Based Radar	Ground-based radar and short-range air defense systems.

Airborne Radar--Hughes Defense is a leading developer and producer of sophisticated airborne radar systems. Its airborne fighter radar units are among the most sophisticated in the world. They are deployed by the U.S. military aboard four of its five front-line fighter aircraft (the F-14, the F-15, the F/A-18 and the AV-8B Harrier jet), the AC-130U gunship, the U-2R reconnaissance aircraft and the B-2 stealth bomber, as well as by a number of foreign militaries.

Ground-Based Radar--Hughes Defense supplies a variety of ground-based radar products and short-range air defense systems. Hughes Defense's ground-based radar products are deployed in the U.S. Army's Forward Area Air Defense system, the NASAMS, other medium- and short-range air defense systems and the Firefinder family of weapon-locating radars in use by the military forces of the United States and 16 other nations.

Electro-Optical Systems. Electro-optical systems use advanced sensors to detect radiated energy in the form of heat or light, high-speed data and signal processors to analyze the sensor data and sophisticated communications and display technology to deliver that information to commanders and other decision makers. Electro-optical systems employ thermal imaging, laser guidance, infrared sensors and advanced optics technologies for a variety of tactical, space and strategic applications. Of strategic importance to the electro-optical systems business is Hughes Defense's Santa Barbara Research Center, which designs and produces infrared focal plane detectors and civilian space sensors.

In early 1996, Hughes Aircraft acquired Itek Optical Systems ("Itek"), an expert in large space optics, and combined this business with Hughes Danbury Optical Systems. The acquisition has strengthened Hughes Defense's position as a leader in the large space optics field. Itek is also important to Hughes Defense because it specializes in airborne, visible image reconnaissance. This expertise has improved Hughes Defense's competitive position in reconnaissance.

The principal product groups of the electro-optical systems business are as follows:

PRODUCT -----	DESCRIPTION -----
Tactical EO Systems	Systems for use in military aircraft, tanks and ground defense systems, including weapon fire control systems, night and obscured vision systems and sensors.
Space and Strategic Systems	Systems for earth monitoring and planetary exploration and ballistic missile warning, tracking and guidance systems.

#### CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS

Tactical EO Systems--Hughes Defense is a leading producer of tactical military laser and thermal electro-optical systems. Hughes Defense provides night vision systems incorporating its thermal imaging and laser technologies for aircraft, tanks and armored personnel carriers. Together with its licensees, Hughes Defense has built more than 30,000 tactical laser rangefinders and more than 20,000 thermal imaging systems. Hughes Defense is a contractor for the U.S. Army's Horizontal Technology Integration program to provide improved electro-optical sights on armored vehicles and is a supplier of thermal imaging target acquisition fire control system upgrades for the Bradley Fighting Vehicle.

For light-armored vehicles, Hughes Defense produces a high performance fire control thermal imaging system that is being used in conjunction with fire control and Tube-launched, Optically tracked, Wire-guided ("TOW") missile programs and has been installed on a variety of vehicles. For infantry application, Hughes Defense has developed an infrared Thermal Weapon Sight ("TWS") for the U.S. Army that is light enough to be used with rifles, machine guns and shoulder-launched missiles.

Airborne systems being developed by Hughes Defense include an infrared system for the U.S. Marine Corps' V-22 Osprey that incorporates advanced staring focal plane array technology. Hughes Defense also provides a night targeting system for the AH-1 Cobra attack helicopter, and night vision systems for a variety of other helicopters in service with the U.S. and other armed forces. Fixed-wing electro-optical products include the infrared navigation and targeting pods for the F/A-18 Hornet aircraft.

Space and Strategic Systems--Hughes Defense is a leading designer and producer of visible light wavelength and infrared detector sensors for imaging products deployed on satellites and used for a variety of earth monitoring, planetary exploration and commercial purposes. In the area of earth remote sensing for civil space applications, Hughes Defense has manufactured key instruments for a majority of the imaging weather satellites launched since the late 1960s and is currently performing on several major civil earth monitoring contracts (such as LANDSAT).

Hughes Defense has pioneered the technologies for telescopes that can maintain high performance at extremely low temperatures and which are fundamental to space sensors and interceptors used by the Department of Defense. In addition, for both tactical and space and strategic applications, advances in wide field of view reflective optics for land and airborne applications are permitting increased capability in increasingly smaller packages by enabling visible, infrared and laser wavelengths to use a single aperture. Precision machining and diamond turning technology are being used to enable production of these optics with fewer parts and lower cost.

Hughes Defense is currently developing space-based infrared sensors to detect and track ballistic missiles in flight, providing data for early warning and tracking. Hughes Defense is a contractor on the U.S. Air Force's Space Based Infrared Low ("SBIRs-Low") program.

Electronic Warfare Systems. Electronic Warfare Systems are used for the passive detection, tracking and identification of signals. In 1994, Hughes Defense was awarded a contract to demonstrate and validate the precision direction finding system for the Manned Destructive Suppression of Enemy Air Defenses mission of the U.S. Air Force and two other electronic warfare contracts. Hughes Defense has also developed an advanced special receiver which is expected to become the standard radar warning receiver for U.S. Navy and U.S. Marine Corps tactical aircraft.

Processors. Hughes Defense is a leading developer and producer of sophisticated processors for use in aerospace and defense products and systems. Hughes Defense is developing the Common Integrated Processor, an advanced, ultra high-speed modular computer developed for the avionics systems on the F-22 Advanced Tactical Fighter ("ATF").

## COMMUNICATIONS SYSTEMS

Hughes Defense supplies communications products and command and control systems that can efficiently gather, process and transmit large amounts of information for military use. The strategic acquisition of Magnavox Electronic Systems Company in 1995 significantly added to Hughes Defense's long-range satellite communications customer base and has contributed significantly toward Hughes Defense's goal of becoming the industry's tactical communications market leader. Hughes Defense communications products include the Enhanced Position Location Reporting System ("EPLRS"), a digital locator and communications system. This system provides secure tactical data communications, friendly identification, position reporting and navigation services to the U.S. Army.

## WEAPONS SYSTEMS

Hughes Defense is a leading developer and producer of tactical missile systems as well as naval and maritime systems. The principal product groups of these businesses are as follows:

BUSINESS -----	DESCRIPTION -----
Missile Systems	Tactical guided missiles (including air-to-air, air-to-surface, surface-to-surface and surface-to-air missiles), guidance and control systems, sensor systems and missile launchers.
Naval and Maritime Systems	Torpedoes, sonar and other acoustics systems, ship defense and display systems and underwater surveillance systems.

## MISSILE SYSTEMS

Hughes Defense develops and produces tactical guided missiles, guidance and control systems, sensor systems and missile launchers. With its air-to-air, air-to-surface, surface-to-surface and surface-to-air missile products, Hughes Defense participates in all portions of the tactical missile systems market and believes it is a leader in the tactical missile systems business.

Hughes Defense has been a long-time developer, supplier and leader in radar guided air-to-air missiles, such as the Phoenix used on the F-14 fighter and the Advanced Medium Range Air-to-Air Missile ("AMRAAM"), which has become a primary weapon system on front-line fighter aircraft for the U.S. Air Force and the U.S. Navy. In addition, AMRAAM is the missile of choice for a growing number of foreign militaries. In 1996, Hughes Defense was selected to produce the AIM-9X, the next generation replacement for the existing AIM-9M "Sidewinder" short-range air-to-air missile.

Hughes Defense is one of the primary subcontractors to Standard Missile Company for engineering and production services for all elements of STANDARD Missile. Standard Missile Company is the prime contractor for STANDARD Missile, and is owned by Hughes Missile Systems Company and Raytheon. STANDARD Missile is the primary surface launched area air defense weapon for the U.S. Navy and many allied countries. It is currently in service in several variants--the SM-1 Block VI and SM-2 Block II, III, IIIA and IIIB. The SM-2 Block IV extended range variant has just entered low-rate production. The U.S. Navy is developing the next evolutionary generations of STANDARD Missile capable of intercepting tactical ballistic missiles.

In 1994, Hughes Defense was awarded a sole source contract for the production of the Tomahawk Cruise Missile, and also is developing the next version of Tomahawk, the Block IV. Hughes Defense is also pursuing the growth aspects of the Tomahawk program, including the new Tactical Tomahawk, which currently is expected to be awarded in 1998.



Hughes Defense is also one of two producers of the Sparrow missile, a medium-range, semi-active guided missile used in multiple roles by multiple services. In its air-to-air role, the missile is used on fighter aircraft of the U.S. Navy and U.S. Air Force and allied countries. The surface-to-air version, the SeaSparrow, is used for shipboard point defense on more than 150 ships of various classes for the United States and numerous other countries. In addition to the SeaSparrow, Hughes Defense plays a major role in the self defense of ships as the producer of the Rolling Airframe Missile ("RAM") and the Phalanx Close-in Weapon System. RAM is a surface-to-air missile and launcher system that was developed and is produced by the United States and Germany under a cooperative agreement. Phalanx is a computer-controlled radar and gun system used to defeat anti-ship missiles and other close-in surface and air threats. In addition, Hughes Defense is leading a 10-country NATO consortium to develop the Evolved SeaSparrow Missile ("ESSM"), a kinematics upgrade to the SeaSparrow. ESSM will primarily target enemy aircraft and anti-ship missiles.

The armed forces of more than 40 nations rely on Hughes Defense's TOW missile. Hughes Defense has produced more than 600,000 TOW antitank missiles, which can be fired from ground tripods, armored and unarmored vehicles and helicopters against tanks, armored personnel carriers, bunkers and small boats. Hughes Defense also is the sole-source producer of the Stinger family of missiles, the basis for the most advanced, accurate, shoulder-fired anti-aircraft weapon system in the world. In addition to being shoulder-launched, Stinger is adaptable to a variety of launch platforms, including helicopters, ground combat vehicles and U.S. Navy ships.

Hughes Defense is a leader in Theater Ballistic Missile Air Defense systems. Hughes Defense is developing the Exoatmospheric Kill Vehicle, a well established program which started in 1990. Flight tests in 1998 and 1999 are expected to lead into the National Missile Defense System Testing Phase. Additionally, Hughes Defense is the sole developer of the Lightweight Exoatmospheric Projectile--Kinetic Warhead ("LEAP-KW") for the U.S. Navy. The LEAP-KW will be integrated with a unique variant of STANDARD Missile (also being developed by Hughes Defense) and will have the capability to acquire, track, intercept, and destroy Theater Ballistic Missiles in flight.

Hughes Defense also has been a significant developer and producer of air-to-surface and surface-to-surface missiles. The versatile Maverick family of missiles can be fired from a variety of aircraft. Infrared-guided Mavericks offer all-weather, around-the-clock attack capability and the U.S. Marine Corps' laser-guided Maverick allows pin-point accuracy on the battlefield. Mavericks are employed by the armed forces of many other countries.

#### NAVAL AND MARITIME SYSTEMS

Naval and maritime systems products include torpedoes, antisubmarine warfare systems, naval combat systems, mine warfare systems, ocean surveillance systems and ship system integration, principally for the U.S. Navy. For decades, the UYQ-21 family of display systems has been a standard for the combat information centers of U.S. Navy surface ships. Hughes Defense's MK23 Target Acquisition System, an advanced radar system, permits ships to detect low-flying, high speed missiles and aircraft. Hughes Defense also supports the U.S. Navy's Surveillance Towed Array Sensor Segment ("SURTASS") system, a passive underwater surveillance sensing system that utilizes an acoustic sensor array towed from a dedicated surface ship to acquire data. Hughes Defense believes that technology developed through its current participation in key U.S. Navy programs presents opportunities for international sales. These programs, which are shifting from development to production, include the Airborne Low Frequency Sonar ("ALFS") and the Surface Search Radar ("SSR"). Hughes Defense was recently selected as the ship electronics system integrator for the U.S. Navy's new amphibious San Antonio class of ships of which the LPD-17 is first in class.

This business unit also includes operations acquired from Alliant Techsystems' Marine Systems Group in March 1997 for \$141 million. The group, which is based in Mukilteo, Washington, manufactures MK46, MK50 and NT37 torpedoes and underwater surveillance systems.

## INFORMATION SYSTEMS

Hughes Defense's information systems business unit is involved in developing, supporting and providing training for key information technologies. The unit includes four principal businesses: Hughes Information Technology Systems; Hughes Training Inc.; Hughes Technical Services Company; and Hughes Data Systems. Information technologies are driving the evolving joint command and intelligence networks which, in turn, influence all defense systems, including weapons systems. Advanced distributed simulation is becoming a more important military tool for weapons development, operational planning and training.

## HUGHES INFORMATION TECHNOLOGY SYSTEMS

Hughes Information Technology Systems consists of four principal product groups as described below:

BUSINESS -----	DESCRIPTION -----
Command and Control Systems	Military command and control systems for air defense systems; air traffic control systems; airport information and operations management systems.
Defense Systems	Mapping and weather systems.
Space Systems	Classified and commercial ground station systems.
Civil Systems	Earth Observing System Data Information Systems ("EOSDIS").

Command and Control Systems. Hughes Defense's command and control air defense systems utilize modular software to integrate large amounts of data from a variety of sensors, rapidly process the data using proprietary algorithms and then communicate information to decision makers in command and control centers on a real-time basis. Hughes Defense's systems are deployed in the United States and over 20 other nations. Hughes Defense has designed, developed and implemented a \$1.3 billion Command, Control and Communication system for Saudi Arabia called Peace Shield. Hughes Defense is currently providing contractor technical services for this operational system under a separate \$386 million contract ending in December 1997. Hughes Defense is also currently under contract to design, develop and implement air defense systems for Egypt, Iceland, Kuwait, Taiwan and NATO.

Hughes Defense has applied its technology and experience in air defense systems to develop civilian air traffic control systems. Hughes Defense offers a full range of systems to the air traffic control market, with products that range from systems that integrate multiple support centers and radar installations for large countries to systems servicing a single airport tower.

Hughes Defense is working on contracts to modernize and better integrate Canada's civil and military air traffic control systems. Hughes Defense also is under contract to provide air traffic control systems in a number of countries, including Indonesia, Saudi Arabia, Switzerland and China. In addition, Hughes Defense has become a major supplier to the Federal Aviation Administration ("FAA"). The Wide Area Augmentation System ("WAAS") is a \$480 million five-year contract to develop and deploy a satellite based navigation and air traffic control system over the United States. The Oceanic Systems Development Support ("OSDS") is an \$200 million eight-year contract to improve air traffic control capabilities offshore. Finally, Hughes Defense and Raytheon teamed to win the Standard Terminal Replacement System ("STARS") contract to replace and upgrade equipment in 172 FAA air traffic control terminals and 199 Department of Defense facilities. Hughes Defense's share of the contract is \$125 million.

Defense Systems. Hughes Defense has expertise in processing large quantities of data in real time, storing data in secure data bases accessible to geographically distributed users and handling the requirements of complex communications networks.

For the U.S. government, Hughes Defense has developed Command, Control, Communications and Intelligence ("C3/I") systems and support for classified military requirements as well as missions and sensor

data processing for national security applications. In addition, Hughes Defense provides systems engineering services to the U.S. Defense Information Systems Agency. Defense systems also include terrain mapping and weather information.

Space Systems. Hughes Defense develops and supports classified government and commercial ground station systems which control the operations of satellites while in orbit.

Civil Systems. Hughes Defense also provides scientific and engineering services for the National Aeronautics and Space Administration ("NASA") and the National Oceanic and Atmospheric Administration ("NOAA") such as Mission to Planet Earth, an international research effort to understand the planet's eco-systems and climatic changes, and other planetary and astrophysical research. In 1993, Hughes Defense was awarded a 10-year contract currently valued at approximately \$800 million by NASA to develop the EOSDIS Core System. Hughes Defense also has developed law enforcement applications for the U.S. Immigration and Naturalization Services and is currently pursuing opportunities in information technology for the U.S. government in health care and other non-defense areas.

#### HUGHES TRAINING INC.

Hughes Defense has been a pioneer, and continues to be a leader in, the field of advanced training systems, services and equipment (including simulators) for a variety of military requirements. With the acquisition of CAE-Link in February 1995, Hughes Defense is now a leading supplier of training systems and services to the Department of Defense. Hughes Defense also provides training systems and services for NASA and industrial customers. Hughes Training consists of three principal product groups as described below:

BUSINESS -----	DESCRIPTION -----
Military Training Systems	Training simulators and equipment for the Department of Defense and NASA.
Training Operations	Training services to the Department of Defense and NASA.
Commercial/Industrial Training	Equipment, systems and programs for industrial training and testing applications.

Military Training Systems and Training Operations. For military applications, Hughes Defense has focused its resources on opportunities that permit it to take advantage of ongoing Hughes Defense and similar programs held by other defense contractors, such as training programs for the B-2, F/A-18, F-16 and C-141 aircraft. Hughes Defense is also well positioned to provide combined arms tactics training for the U.S. Army and U.S. Navy. Hughes Defense's flight training systems include sophisticated simulators in which pilots practice combat tactics as well as emergency procedures and standard maneuvers. The flexible software of these simulators can be adapted so that pilots can also train for specific missions. Hughes Defense's training systems are capable of teaching all phases of operations and maintenance for aircraft as diverse as the F-16 and F/A-18 fighters and the C-141 cargo aircraft. Hughes Defense also designs and produces multi-platform training equipment for the U.S. Navy. Using Hughes Defense's Anti-Submarine Warfare Tactical Team Trainers, teams of navy personnel train in coordinating ships, submarines and aircraft in simulated anti-submarine and fleet defense warfare maneuvers.

Commercial/Industrial Training. Hughes Defense also develops equipment, systems and programs for industrial training and testing applications, including curriculum and coursework and training delivery and management. In 1994, Hughes Defense was selected by General Motors Europe to be its single training integrator and to provide various dealer training programs. Hughes Defense also has advanced training system projects with General Motors Europe and several of GM's facilities in the United States. Hughes Defense was awarded a 10-year \$500 million contract with General Motors Europe in 1994. Hughes Defense is exploring training opportunities for General Motors in Asia as well as other customers domestically and internationally.

## HUGHES TECHNICAL SERVICES COMPANY

Hughes Defense provides a wide range of scientific, technical and support services, primarily to the Department of Defense and other military customers, both through direct contracts and through support of other Hughes Defense projects. Hughes Defense specializes in the areas of operation and maintenance of customer equipment and systems; repair and supply depot operations; logistics engineering; space and Earth sciences; commercial services; remote logistics; range support; and privatization of government services. In 1996, Hughes Electronics was selected by the U.S. Navy and the City of Indianapolis to privatize the Naval Air Warfare Center in Indianapolis. The Indianapolis facility, renamed the Hughes Air Warfare Center, represents the Department of Defense's largest privatization initiative to date and provides engineering and technical support of advanced avionics and electronic systems.

## HUGHES DATA SYSTEMS

The Hughes Data Systems unit is responsible for procurement and delivery of system hardware and software. This unit primarily supports certain long-standing customer relationships. Primary products include the Desktop V, USAF Workstation, Patent Trademark Office and Desktop Computers.

## DEFENSE SYSTEMS

In addition to the three major business units addressed above, Hughes Defense is also developing its defense systems integration business. This Defense Systems business unit is approaching new contracts essentially as a "prime" contractor in which Hughes Defense serves as a system integrator to combine the best components for a system. Defense Systems supports customers in the Ballistic Missile Defense Organization ("BMDO") and the U.S. Army in air and missile defense systems and soldier systems. An example of these systems integration efforts is a cost effective short range air defense system that integrates radars and communications equipment from Hughes Defense's Sensors & Communications Systems business unit and a ground launched version of the Weapons Systems business unit's AMRAAM missile. Other major programs include the Medium Extended Air Defense System ("MEADS") for preliminary development of a new multinational ground-based air defense system between the U.S., Germany and Italy; Aerostat CMD for the concept development of a tethered aerostat airborne surveillance and targeting system for cruise missile defense; and the Land Warrior EMD program for development and fielding of an integrated soldier fighting system.

## U.S. GOVERNMENT CONTRACTS

Hughes Defense acts as a prime contractor or major subcontractor with respect to many different U.S. government programs. Government acquisition programs typically follow a life cycle that begins with the research and development stage and progresses into full-scale production which may continue, with refinements and improvements, for several years. Because of significant start-up costs, many programs are not expected to become profitable until well into the full-scale production phase. Moreover, not all programs are selected for full-scale production, even when considerable resources have been expended in pre-production phases. The U.S. government has historically used multiple supply sources for a single program to further intensify competition and add to the number of experienced contractors available for future programs. It is anticipated that the ability to use multiple sources for production will be limited by declines in U.S. defense spending.

A portion of Hughes Defense's contracts with the U.S. government which are the basis of Hughes Defense's backlog are subject to appropriations decisions subsequent to award. This results in many long-term programs being funded annually. Changes in government policy/priorities may lead to the cancellation of the remaining portion of a program. Some Hughes Defense contracts contain options which may or may not be exercised at the discretion of the U.S. government. Also, once awarded, contracts may be contested by other bidders.

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
 DELCO SELECTED COMBINED HISTORICAL AND PRO FORMA FINANCIAL DATA

The following Delco selected combined historical financial data have been derived from the financial statements of Delco. The data should be read in conjunction with Delco's Combined Financial Statements (including the notes thereto) included in Appendix D to this document. The income statement data for the periods ended December 31, 1996, 1995 and 1994 and the balance sheet data as of December 31, 1996 and 1995 have been derived from the combined financial statements of Delco audited by Deloitte & Touche LLP, independent public accountants. The income statement data for the periods ended December 31, 1993 and 1992 and June 30, 1997 and 1996 and the balance sheet data as of June 30, 1997 and 1996 and December 31, 1994, 1993 and 1992 have been derived from unaudited combined financial statements of Delco. In the opinion of management, the unaudited combined financial statements reflect all adjustments (consisting only of normal recurring items) that are necessary for the fair presentation of financial position and results of operations for such periods. The Delco unaudited selected pro forma operating results for the six months ended June 30, 1997 and for the year ended December 31, 1996 give effect to the Hughes Transactions as if they had occurred at the beginning of each respective period but do not give effect to the planned integration of Delco and Delphi. The Delco unaudited selected pro forma balance sheet data as of June 30, 1997 give effect to the Hughes Transactions as if they had occurred at that date. Operating results for the six-month periods ended June 30, 1997 and 1996 are not necessarily indicative of the results that may be expected for the entire year. Pro forma data are not necessarily indicative of future financial position or operating results.

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 30,			AS OF AND FOR THE YEARS ENDED DECEMBER 31,					
	PRO FORMA 1997 (A)	1997	1996	PRO FORMA 1996 (A)	1996	1995	1994	1993	1992
(DOLLARS IN MILLIONS)									
<b>OPERATING RESULTS:</b>									
Net sales.....	\$2,904.2	\$2,904.2	\$2,916.0	\$5,560.1	\$5,560.1	\$5,757.2	\$5,560.7	\$4,808.1	\$4,143.5
Other income, net.....	13.8	103.8	89.7	32.4	202.4	195.6	150.6	114.7	158.7
Total Revenues.....	2,918.0	3,008.0	3,005.7	5,592.5	5,762.5	5,952.8	5,711.3	4,922.8	4,302.2
Total Cost and Expenses.....	2,628.0	2,628.0	2,524.0	4,901.9	4,901.9	4,869.0	4,751.6	4,219.3	3,695.1
Income before income taxes.....	290.0	380.0	481.7	690.6	860.6	1,083.8	959.7	703.5	607.1
Income taxes.....	107.6	141.0	183.3	261.4	325.8	411.3	364.7	280.5	209.8
Cumulative effect of accounting changes.....	--	--	--	--	--	--	(35.2)	--	(478.4)
Net Income.....	\$ 182.4	\$ 239.0	\$ 298.4	\$ 429.2	\$ 534.8	\$ 672.5	\$ 559.8	\$ 423.0	\$ (81.1)
<b>BALANCE SHEET DATA:</b>									
Cash and cash equivalents.....	\$ 31.0	\$ 221.8	\$ 756.9	\$ 741.0	\$ 926.1	\$1,243.2	\$ 773.2	\$ 571.3	
Current assets.....	1,087.5	4,031.3	3,583.1	3,858.0	3,276.2	2,813.0	2,146.9	1,691.2	
Total assets.....	2,448.2	5,592.0	5,510.7	5,464.1	5,186.4	4,842.4	4,205.9	3,779.8	
Current liabilities.....	714.5	714.5	894.5	734.2	767.9	927.9	786.6	673.5	
Parent Company's net investment.....	585.9	3,779.7	3,580.2	3,662.1	3,402.1	2,949.4	2,566.7	2,288.3	
<b>OTHER DATA:</b>									
Depreciation and amortization.....		\$ 113.6	\$ 101.2		\$ 204.4	\$ 155.6	\$ 145.0	\$ 152.0	\$ 125.6
Capital expenditures....		\$ 71.9	\$ 103.0		\$ 196.5	\$ 264.1	\$ 165.7	\$ 149.2	\$ 266.1

(a) Pro forma balance sheet data as of December 31, 1996 and pro forma other data have not been determined.

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
 DELCO UNAUDITED PRO FORMA  
 CONDENSED COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined financial statements of Delco have been derived from the historical combined financial statements of Delco, and give effect to the Hughes Transactions. The unaudited summary pro forma condensed combined statements of income for the six months ended June 30, 1997 and for the year ended December 31, 1996 give effect to the Hughes Transactions as if they had occurred at the beginning of each respective period but do not give effect to the planned integration of Delco and Delphi. The unaudited pro forma condensed combined balance sheet as of June 30, 1997 gives effect to the Hughes Transactions as if they had occurred at that date.

The unaudited pro forma condensed combined financial statements should be read in conjunction with Delco's Combined Financial Statements (including the notes thereto) included in Appendix D to this document as of and for the period ended December 31, 1996, and the unaudited combined financial statements (including the notes thereto) of Delco included in Appendix D to this document as of and for the period ended June 30, 1997.

The pro forma condensed combined balance sheet is not necessarily indicative of the financial position of Delco that would have been attained had the Hughes Transactions been consummated on June 30, 1997. The pro forma condensed combined statements of income are not necessarily indicative of the results of operations of Delco that would have been attained had the Hughes Transactions been consummated on January 1, 1996 and 1997, nor are they necessarily indicative of any future operating results.

DELCO

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 1997

	HISTORICAL DELCO	HUGHES TRANSACTIONS PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
<b>REVENUES</b>			
Net Sales			
General Motors and affiliates.....	\$2,659.5		\$2,659.5
Outside.....	244.7		244.7
Other income, net			
Interest income--General Motors and affiliates.....	93.8	\$ (90.0) (a)	3.8
Other.....	10.0		10.0
	-----	-----	-----
Total Revenues.....	3,008.0	(90.0)	2,918.0
	-----	-----	-----
<b>COSTS AND EXPENSES</b>			
Cost of sales and other operating charges, exclusive of items listed below.....			
Selling, general and administrative expenses.....	2,384.9		2,384.9
Depreciation and amortization.....	129.5		129.5
	113.6		113.6
	-----	-----	-----
Total costs and expenses.....	2,628.0		2,628.0
	-----	-----	-----
INCOME BEFORE INCOME TAXES.....	380.0	(90.0)	290.0
Income taxes.....	141.0	(33.4) (b)	107.6
	-----	-----	-----
Net Income.....	\$ 239.0	\$ (56.6)	\$ 182.4
	=====	=====	=====

The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

DELCO UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1996

	HUGHES TRANSACTIONS		
	HISTORICAL DELCO	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
REVENUES			
Net Sales			
General Motors and affiliates.....	\$4,990.2		\$4,990.2
Outside customers.....	569.9		569.9
Other Income--net			
Interest Income--General Motors and affiliates.....	180.2	\$ (170.0) (a)	10.2
Other.....	22.2		22.2
	-----	-----	-----
Total Revenues.....	5,762.5	(170.0)	5,592.5
	-----	-----	-----
COSTS AND EXPENSES			
Cost of sales and other operating charges, exclusive of items listed below.....	4,421.0		4,421.0
Selling, general and administrative expenses.....	276.5		276.5
Depreciation and amortization.....	204.4		204.4
	-----	-----	-----
Total costs and expenses.....	4,901.9		4,901.9
	-----	-----	-----
INCOME BEFORE INCOME TAXES.....	860.6	(170.0)	690.6
Income taxes.....	325.8	(64.4) (b)	261.4
	-----	-----	-----
Net Income.....	\$ 534.8	\$ (105.6)	\$ 429.2
	=====	=====	=====

The accompanying notes are an integral part of the unaudited pro forma combined financial statements.

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
 DELCO  
 UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

AS OF JUNE 30, 1997

	HISTORICAL DELCO	HUGHES TRANSACTIONS PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
(DOLLARS IN MILLIONS)			
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents.....	\$ 221.8	\$ (190.8) (d)	\$ 31.0
Accounts receivable (less allowances)			
General Motors and affiliates.....	110.2		110.2
Trade receivables.....	160.6		160.6
Notes Receivable--Hughes.....	2,753.0	(2,753.0) (c)	--
Contracts in process.....	43.8		43.8
Inventories.....	657.7		657.7
Deferred income taxes.....	59.0		59.0
Prepaid expenses.....	25.2		25.2
	-----	-----	-----
Total Current Assets.....	4,031.3	(2,943.8)	1,087.5
	-----	-----	-----
Notes receivable--Hughes.....	200.0	(200.0) (c)	--
	-----	-----	-----
Property, net.....	1,004.8		1,004.8
	-----	-----	-----
Investments and Other Assets--principally at cost (less allowances).....	145.4		145.4
	-----	-----	-----
Deferred Income Taxes.....	210.5		210.5
	-----	-----	-----
Total Assets.....	\$5,592.0	\$ (3,143.8)	\$2,448.2
	=====	=====	=====
LIABILITIES AND PARENT COMPANY'S NET INVESTMENT			
CURRENT LIABILITIES			
Accounts payable			
General Motors and affiliates.....	\$ 17.9		\$ 17.9
Other trade payables.....	346.7		346.7
Loans payable.....	27.8		27.8
Income taxes payable.....	67.6		67.6
Accrued liabilities			
General Motors and affiliates.....	34.4		34.4
Other liabilities.....	220.1		220.1
	-----	-----	-----
Total Current Liabilities.....	714.5		714.5
	-----	-----	-----
Other Liabilities and Deferred Credits.....	49.1	\$ 50.0 (e)	99.1
	-----	-----	-----
Post retirement benefits other than pensions.....	1,048.7		1,048.7
	-----	-----	-----
Parent Company's Net Investment.....	3,779.7	(2,953.0) (c) (190.8) (d) (50.0) (e)	585.9
	-----	-----	-----
Total Liabilities and Parent Company's Net Investment.....	\$5,592.0	\$ (3,143.8)	\$2,448.2
	=====	=====	=====

The accompanying notes are an integral part of the unaudited pro forma combined financial statements.



CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
DELCO NOTES TO UNAUDITED PRO FORMA

CONDENSED COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined financial statements of Delco have been derived from the historical combined financial statements of Delco to give effect to the Hughes Transactions (i.e., the Hughes Reorganization and not including the integration with Delphi). The unaudited pro forma condensed combined balance sheet has been prepared as if the Hughes Transactions had occurred on June 30, 1997 and the unaudited pro forma condensed combined statements of income have been prepared as if the Hughes Transactions had occurred at the beginning of the periods presented.

The unaudited pro forma condensed combined financial statements should be read in conjunction with Delco's Combined Financial Statements (including notes thereto) as of and for the year ended December 31, 1996, and as of and for the six months ended June 30, 1997, each included in Appendix D to this document.

The pro forma condensed combined balance sheet is not necessarily indicative of the financial position of Delco that would have been attained had the Hughes Transactions been consummated on June 30, 1997. The pro forma condensed combined statements of income are not necessarily indicative of the results of operations of Delco that would have been attained had the Hughes Transactions been consummated at the beginning of the periods presented, nor are they necessarily indicative of any future operating results.

The following pro forma adjustments were made with respect to the Hughes Transactions:

- (a) To eliminate interest income reflected in the historical financial statements of Delco relating to notes receivable from Hughes Electronics which will be eliminated and cash which will be transferred to Hughes Telecom in connection with the Hughes Transactions.
- (b) To reflect income taxes on pro forma adjustments.
- (c) To reflect the distribution of notes receivable from Delco to its sole stockholder.
- (d) To record the transfer of cash of Delco to Hughes Telecom.
- (e) To record the potential income tax liabilities which will be transferred from Hughes Electronics to Delco.

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
DELCO MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

RESULTS OF OPERATIONS

Revenues. Delco revenues for the first six months of 1997 were \$3,008.0 million, a slight increase from the \$3,005.7 million reported during the first half of 1996. Revenues attributed to GM NAO were relatively unchanged as the decline in average electronic content supplied by Delco (primarily due to price reductions resulting from competitive pricing in connection with GM's global sourcing initiative) was offset by a 6% increase in GM NAO vehicle volume during the first six months of 1997.

Other Income--Included in revenues is other income of \$103.8 million for the first six months of 1997 and \$89.7 million for the same period in 1996. The increase was principally due to the increase in interest income driven primarily by the increase in notes receivable from Hughes Electronics during the first six months of 1997.

Operating Profit. Operating profit for the first half of 1997 was \$276.2 million, a 29.5% decrease from the \$392.0 million reported during the comparable period last year. The operating profit margin on the same basis for 1997 was 9.5% compared with 13.4% in the prior year's period. These reductions were primarily due to price reductions and costs associated with continued international expansion.

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

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

The competitive environment described above is making it increasingly difficult to maintain the level of operating profit margins realized at Delco in recent years as price and volume declines associated with GM's global sourcing initiatives more than offset Delco's ability to achieve cost reductions. In response to the increased pressure on margins and to enhance future competitiveness, Delco management is taking action to reduce the cost structure of the business. As a result of the factors described above, the operating margin is expected to be at low double digits for the remainder of 1997, and then show modest improvement in 1998 and 1999. For information regarding the impact of the integration of Delco and Delphi on Delco's competitive position and business strategy, see "Special Factors--Purposes of the Hughes Transactions--Integration of Delco and Delphi" and "--Background of the Hughes Transactions--Development of the Hughes Transactions and Raytheon Merger--September 23, 1996 Capital Stock Committee Meeting" in Chapter 3.

Costs and Expenses. Selling, general and administrative expenses were \$129.5 million for the first six months of 1997 compared to the \$121.9 million reported during the comparable period in 1996. The increase was attributable to costs associated with continued international expansion.

The effective income tax rate was 37.1% for the first six months of 1997 compared to 38.1% for the same period in 1996.

Earnings. Delco earnings decreased 19.9% to \$239.0 million in the first six months of 1997 compared with \$298.4 million reported in the same period in 1996, principally due to the decrease in operating profit discussed above.

## LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents. Cash and cash equivalents were \$221.8 million at June 30, 1997, a decrease of \$519.2 million from the \$741.0 million reported at December 31, 1996. The decrease was primarily due to the increase in notes receivable from Hughes Electronics of \$776.8 million, net distributions to the Parent Company of \$121.4 million and capital expenditures, partially offset by cash provided by operating activities of \$434.5 million and proceeds from the disposal of certain property.

Cash flows for the third quarter of 1997 and beyond are expected to be negatively impacted by a change in the credit terms between Delco and GM NAO for purchases of automotive electronics. In the past, GM NAO has generally paid Delco for product shipments immediately upon billing. The policy governing Delco/GM NAO credit terms is being changed such that Delco and GM NAO will implement credit terms substantially equivalent to those given to GM NAO's non-affiliated suppliers. Such a change will be phased in over a four-year period starting in the third quarter of 1997. However, if the Hughes Transactions are completed with Delco being transferred to Delphi, the credit terms for Delco will change, effective immediately after the Hughes Transactions are completed, without any phase-in period.

Liquidity Measurement. As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 5.64 at June 30, 1997 and 5.26 at December 31, 1996. Working capital was \$3,316.8 million at June 30, 1997 as compared to \$3,123.8 million at December 31, 1996. The increases were principally due to increased notes receivable from Hughes Electronics of \$776.8 million.

Property and Equipment. Property, net of accumulated depreciation, decreased \$61.3 million to \$1,004.8 million at June 30, 1997, compared to \$1,066.1 million at December 31, 1996. Expenditures for property, equipment and special tools were \$71.9 million through June 30, 1997 compared with \$103.0 million for the comparable period in 1996. The decrease in capital spending was due primarily to an overall reduction in domestic spending.

1996 COMPARED TO 1995

### RESULTS OF OPERATIONS

Revenues. Delco revenues decreased 3.2% in 1996 to \$5,762.5 million from \$5,952.8 million in 1995. The decline was principally due to price reductions resulting from competitive pricing in connection with GM's global sourcing initiative and a 6.4% reduction in GM vehicles produced in the United States and Canada (excluding joint ventures) primarily related to the United and Canadian Auto Workers' ("UAW" and "CAW", respectively) strikes offset, in part, by an increase in Delco-supplied electronic content in these vehicles from \$888 per vehicle to \$906 per vehicle and an increase in international and non-GM NAO sales from \$841 million in 1995 to \$1,010 million in 1996.

Other Income--Included in revenues is other income of \$202.4 million for 1996 compared with \$195.6 million for 1995. The increase was principally due to improved results from certain equity investments.

Operating Profit. Operating profit was \$658.2 million in 1996 compared to \$888.2 million in 1995. Operating profit margin on the same basis for 1996 declined to 11.8% from 15.4% in 1995 primarily due to the reduced production volumes, continued price reductions and the costs associated with continued investment in international expansion.

Costs and Expenses. Selling, general and administrative expenses were \$276.5 million in 1996 compared to \$260.6 million in 1995. The increase was principally due to infrastructure put into place to support non-GM NAO customers in Europe, Asia/Pacific and the Americas. The level of depreciation and amortization in 1996 was \$204.4 million compared to \$155.6 million in 1995 primarily due to the increase in special tooling amortization.

The effective income tax rate was 37.9% in 1996 and 1995.

Earnings. Delco's earnings were \$534.8 million in 1996 compared to the \$672.5 million reported in 1995. The decline was principally due to the decline in operating profit discussed above.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents. Cash and cash equivalents were \$741.0 million at December 31, 1996, a decrease of \$185.1 million from the \$926.1 million reported at December 31, 1995. The decrease in cash was primarily due to increases in notes receivable from Hughes Electronics of \$437.1 million, net distributions to Parent Company of \$274.8 million and capital expenditures of \$196.5 million, partially offset by cash provided by operating activities of \$705.3 million.

Liquidity Measurement. As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 5.26 at December 31, 1996 and 4.27 at December 31, 1995. Working capital was \$3,123.8 million at December 31, 1996 compared to \$2,508.3 million at December 31, 1995. The increases were principally due to increased notes receivable from Hughes Electronics of \$437.1 million.

Property and Equipment. Property, net of accumulated depreciation, decreased \$17.3 million to \$1,066.1 million in 1996 from \$1,083.4 million reported in 1995. Net expenditures for property, equipment and special tools were \$196.5 million in 1996 compared with \$264.1 million in 1995. 1995 capital spending was higher due to spending requirements for new technology and product redesign on powertrain products to meet On Board Diagnostics ("OBD") II and Corporate Average Fuel Economy ("CAFE") requirements.

1995 COMPARED TO 1994

#### RESULTS OF OPERATIONS

Revenues. Delco revenues increased \$241.5 million, or 4.2%, in 1995 to \$5,952.8 million from \$5,711.3 million in 1994. Increased revenue growth was primarily attributed to an increase in Delco-supplied electronic content in GM vehicles produced in North America to \$888 in 1995 from \$857 in 1994 and an increase in sales to international and non-GM NAO customers to \$841 million in 1995 from \$672 million in 1994. GM NAO vehicle production remained relatively unchanged between 1994 and 1995.

Other Income--Included in revenues is other income of \$195.6 million for 1995 compared with \$150.6 million for 1994. The increase was principally due to the increase in interest income driven primarily by the increase in notes receivable from Hughes Electronics.

Operating Profit. Operating profit was \$888.2 million in 1995 compared to \$809.1 million in 1994. Operating profit margin for 1995 increased to 15.4% from 14.6% in 1994 primarily due to the increase in revenues discussed above and aggressive cost reduction programs.

Costs and Expenses. Selling, general and administrative expenses were \$260.6 million in 1995 and \$192.3 million in 1994. The increase was principally due to infrastructure put into place to support non-GM NAO customers in Europe, Asia/Pacific and the Americas. The level of depreciation and amortization in 1995 was \$155.6 million compared to \$145.0 million in 1994.

The effective income tax rate was 37.9% in 1995 and 38.0% in 1994.

Earnings. Delco's earnings were \$672.5 million in 1995 compared to \$559.8 million reported in 1994 due to increased revenues and aggressive cost reduction programs. Earnings in 1994 included the unfavorable effect of an accounting change for post employment benefits. Excluding the accounting change, Delco earnings in 1994 would have been \$595.0 million.

## LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents. Cash and cash equivalents were \$926.1 million at December 31, 1995, a decrease of \$317.1 million from the \$1,243.2 million reported at December 31, 1994. The decrease in cash was primarily due to increases in notes receivable from Hughes Electronics of \$390.8 million, capital expenditures of \$264.1 million, net distributions to Parent Company of \$219.9 million, the acquisition of FUBA Automotive ("FUBA") for \$63.2 million and repayment of loans payable to General Motors of \$33.8 million, partially offset by cash provided by operating activities of \$644.3 million.

Liquidity Measurement. As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 4.27 at December 31, 1995 and 3.0 at December 31, 1994. Working capital was \$2,508.3 million at December 31, 1995 compared to \$1,885.1 million at December 31, 1994. The increases were primarily attributed to increased notes receivable from Hughes Electronics of \$390.8 million.

Property and Equipment. Property, net of accumulated depreciation, increased \$86.3 million to \$1,083.4 million in 1995 from \$997.1 million reported in 1994. Net expenditures for property, equipment and special tools were \$264.1 million in 1995 compared with \$165.7 million in 1994. Increased 1995 capital spending was required for new technology and product redesign on powertrain products to meet On Board Diagnostics ("OBD") II and Corporate Average Fuel Economy ("CAFE") requirements.

Acquisitions. In September 1995, Delco announced that it had reached an agreement to acquire FUBA for \$63.2 million in cash. FUBA is a leading supplier of active integrated antenna systems. The acquisition was completed in October 1995.

INTRODUCTION

The following description of the business of Delco gives effect to the Hughes Reorganization but does not generally give effect to the integration of Delco and Delphi. For additional information, see "Delco Management's Discussion and Analysis of Financial Condition and Results of Operation" above.

Delco is one of the world's leading suppliers of automotive electronics, with an estimated 22% share of worldwide automotive electronics sales in 1996. Delco is currently the principal supplier of automotive electronics to GM North American Operations ("GM NAO"). Approximately 81% (or \$4.3 billion) of Delco's 1996 revenues were attributable to sales to GM NAO, with the remaining 19% resulting from sales to customers (including GM operations outside of North America) other than GM NAO. Delco anticipates increased sales to non-GM NAO and international customers. During 1996, over 50% (based on dollar value) of Delco's contracts for new business were with customers other than GM NAO. Deliveries under such contracts are expected to begin in 1998.

Delco's strategy is to maintain its position as a principal supplier of automotive electronics to GM NAO while continuing to expand its sales to international and other non-GM NAO customers. Delco believes that consumer demand for vehicles with enhanced safety, convenience and performance features will provide opportunities for additional revenues from Delco-supplied automotive electronics on GM NAO vehicles. Moreover, the integration of Delco and Delphi would combine advanced electronics capability with components and systems expertise, and the combined business operations would be expected to compete aggressively in high-growth markets worldwide by developing new electronically enhanced vehicle systems with improved functionality, lower cost and higher quality. The combined Delco/Delphi entity will be better able to align its product, technical and manufacturing operations to address strategic objectives for growth and competitiveness. Delco believes that other opportunities exist as a result of new products based on Delco/Delphi core technologies. Successful commercialization of these products will depend on, among other things, consumer acceptance, affordability and the ability to achieve high volume production of sophisticated products, none of which can be assured.

As the principal supplier of automotive electronics to GM NAO, Delco's sales of automotive electronics will continue to be heavily dependent on GM's North American production, the level of Delco-supplied electronic content per GM vehicle, the price of such electronics and the competitiveness of Delco's product offerings. In this regard, it is anticipated that competition through GM's global purchasing process will negatively impact Delco's sales to GM NAO and result in a decline in the portion of GM NAO automotive electronics supplied by Delco. Delco's strategy is to aggressively reduce costs in order to minimize the effect of continuing price reductions and to manage the loss of GM NAO market share by offering competitive products which increase electronic functionality through a focus on safety, security, communications and convenience.

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

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS

Delco's aggressive cost reduction programs have yielded substantial cost savings over the last several years. Delco continues to work aggressively to reduce its costs for automotive electronics in order to maintain its competitiveness with respect to both GM NAO and other sales. By improving product design and manufacturing techniques, Delco has been able to and expects to continue to improve its production methods while reducing its costs of production. More than half of Delco's automotive electronics products manufacturing is conducted outside of the United States, resulting in substantial cost savings as compared to U.S. operations. Other efforts to reduce costs include purchases of components from unaffiliated suppliers, synchronous workshops, supplier cost improvement programs and a global electronics manufacturing strategy.

PRINCIPAL PRODUCTS AND SALES

Delco has three principal product lines: (1) Powertrain, (2) Chassis, Air Bag, Security and (3) Integrated Body Systems. For GM NAO, product development and design are organized by product line. For sales other than to GM NAO, production and sales responsibility is organized by three customer-focused units: Delco Europe, Delco Asia/Pacific and Delco-Americas.

The following table sets forth revenues of Delco by product line for GM NAO, and by customer-focused unit for non-GM NAO, for each of the last three years.

	1996	1995	1994
	-----	-----	-----
	(IN MILLIONS)		
GM NAO (a)			
Powertrain.....	\$1,561	\$1,554	\$1,516
Chassis, Air Bag, Security.....	680	914	823
Integrated Body Systems.....	2,060	2,171	2,160
Subtotal.....	4,301	4,639	4,499
Other Sales			
Delco Europe.....	405	366	258
Delco Asia/Pacific.....	217	216	168
Delco-Americas and Other.....	388	259	246
Subtotal.....	1,010	841	672
Subtotal Sales--Automotive.....	5,311	5,480	5,171
Delco Systems Operations (b).....	250	277	389
Total Sales.....	5,561	5,757	5,560
Other Income.....	202	196	151
Total Revenues.....	\$5,763	\$5,953	\$5,711
	=====	=====	=====

(a) Includes Delco-supplied content on vehicles which are manufactured in the United States and Canada by General Motors (excluding affiliates) available for sale anywhere in the world.

(b) Delco Systems Operations ("DSO") has historically been included in the Aerospace and Defense Systems segment of Hughes Electronics. However, in connection with the Hughes Reorganization, DSO is being transferred to General Motors and thus is included in Delco, not Hughes Defense. DSO is currently dedicated to the light armored turret vehicle business as well as advanced classified programs.

Delco's non-GM NAO sales have grown from \$672 million in 1994 to \$1.01 billion in 1996, with sales to GM International Operations representing approximately one-third of non-GM NAO sales. Delco and Delphi have established a close working relationship in Europe and have worked together to obtain additional automotive electronics business and expect in the future to further leverage their marketing, engineering, manufacturing and administrative efforts to achieve consistent customer focus and reduced operating cost.

## AUTOMOTIVE

The principal products of Delco's three product lines for automotive electronics sales to customers worldwide are as follows:

PRODUCT LINE	PRINCIPAL PRODUCTS	DESCRIPTION
Powertrain Systems	Engine Management Controllers	Microprocessor-based controllers to optimize engine performance, fuel economy and driveability while reducing emissions and providing on-board diagnostics.
	Ignition Modules	Solid state spark-timing electronics for ignition control.
	Pressure Sensors	Micro-machined pressure sensors used primarily for air-to-fuel ratio mix control.
	Control Modules	Microprocessor-based controllers for engines and transmissions.
Chassis, Air Bag Controls and Security Systems	Air Bag Control Modules and Sensors	Control modules and sensors for driver and passenger-side supplemental inflatable restraint systems.
	Anti-lock Brake Controllers	Electronic systems which control the brakes to prevent wheel lock-up.
	PASS-Key(R)	Anti-theft vehicle security systems.
	FOREWARN(R)	Microwave-based object detection systems.
Integrated Body Systems	Audio Systems	Full line of audio systems ranging from AM radios to integrated compact disc receivers.
	Amplifiers	Vehicle acoustic systems, including speakers.
	Instrument Panel Clusters	Full line of instrumentation, from traditional analog and digital clusters to auxiliary displays, such as head-up displays.
	Air Controls	Heater, ventilation and air conditioner controls, ranging from mechanical (or manual) to electronic (or automatic).
	Telepath(TM) 100	Satellite-based electronic navigation system.

## SALES TO GM NAO

Approximately 81% of Delco's 1996 revenues were attributable to sales to GM NAO. Delco's sales of automotive electronics to GM NAO are heavily dependent upon the level of GM's North American production and sales of motor vehicles. Such sales by Delco are also dependent on the level of Delco-supplied electronic content (based on the number and sophistication of electronic functions) per vehicle and the price (or cost to GM NAO) of such electronics. Since 1992, pursuant to its global sourcing initiative, GM NAO has aggressively pursued price reductions from its suppliers and has provided suppliers worldwide with the opportunity to bid for business customarily sourced with Delco. Delco believes that it has been and will continue to be able to compete effectively for GM NAO business because of the quality of its products, its ongoing cost reduction efforts and its product and technological innovations. From 1994 through 1996, Delco won approximately 81% of all globally sourced, competitive bids for GM NAO automotive electronics business for which Delco competed (based on the dollar value of all bids submitted by Delco). Nonetheless, it is anticipated that competition through GM's global purchasing process will negatively impact Delco's sales to GM NAO and result in a decline in the portion of GM NAO automotive electronics supplied by Delco.

Delco expects that the level of electronic functions in vehicles will continue to increase, but that its prices to GM NAO will continue to decrease as a result of global, market-based pricing pressures and increasing



CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS

electronic sophistication at lower prices. As a result of such price decreases and the decline in the portion of GM NAO automotive electronics supplied by Delco as described above, Delco expects that its revenues per GM NAO vehicle will decrease after 1996. Delco is working to mitigate the effect of continuing price reductions for current products by developing, producing and expanding sales of enhanced products. Delco believes that by utilizing its core technologies, opportunities exist for products offering consumers enhanced safety, convenience and performance. Moreover, Delco believes that it will be able to mitigate the effect of GM NAO price reductions on operating profit through its demonstrated ability to reduce costs.

It is a policy of General Motors that a standard of fair dealing govern the prices, terms and conditions of commercial transactions between Delco and General Motors.

GM PRODUCTION AND SALES

The following table sets forth certain of GM's production, delivery (sales to ultimate purchasers, including both retail and fleet customers) and market share data for North America over the last three years.

	1996	1995	1994
	----	----	----
North American Motor Vehicle Production (in millions of units)*.....	4.8	5.2	5.2
North American Motor Vehicle Deliveries (in millions of units)**.....	5.3	5.3	5.6
North American Motor Vehicle Market Share (%)**.....	31.0%	32.3%	32.3%

- - - - -

\* Includes units which are manufactured in the United States and Canada by General Motors (excluding affiliates), available for sale anywhere in the world.

\*\* Includes units which are manufactured by other companies and which are sold in North America by General Motors and its affiliates.

The automotive industry is historically cyclical and is dependent on general market conditions, including interest rates. In addition, although not necessarily leading to a permanent loss of volume, GM's vehicle production is subject to interruptions from work stoppages, plant and equipment failures and other conditions and events, many of which are beyond the control of General Motors.

ELECTRONIC CONTENT OF MOTOR VEHICLES

From 1986 to 1996, Delco revenues per GM NAO vehicle increased each year, primarily as a result of increases in the number and sophistication of electronic functions. The increasing level of electronic content of motor vehicles is reflected in the average Delco electronics dollar sales per vehicle produced by General Motors (excluding affiliates) in the United States and Canada (for sale anywhere in the world) from 1994 to 1996, as set forth in the following table:

	AVERAGE DELCO DOLLAR SALES PER VEHICLE PRODUCED BY GM IN NORTH AMERICA		
	1996	1995	1994
	----	----	----
Powertrain.....	\$329	\$297	\$289
Chassis, Air Bag Controls, Security.....	143	175	157
Integrated Body Systems.....	434	416	411
	----	----	----
Total.....	\$906	\$888	\$857
	====	====	====

The Delco-supplied electronic content per GM NAO vehicle varies among vehicle models and according to the options selected by customers, with more expensive vehicles tending to have more sophisticated electronic functions. Delco believes that the functionality of automotive electronics in GM NAO vehicles will continue to increase, principally as a result of continued, and often increasingly stringent, regulatory standards for automotive emissions and consumer demand for increased performance, all of which will require more

sophisticated electronic engine controls. In addition, in the near term, Delco believes that electronic components such as sensors and controllers will be increasingly utilized to meet consumer preference for enhanced safety and security features.

**Automotive Emission Standards.** Delco believes that the use of sophisticated engine control computers in the United States will continue to increase, primarily because of increasingly stringent automotive emissions standards and more sophisticated diagnostic requirements as defined by the 1990 Clean Air Act and California Air Resources Board regulations and higher Corporate Average Fuel Economy ("CAFE") standards. Delco's engine control modules increase fuel efficiency while helping to lower exhaust emissions.

**Safety.** Currently, Delco supplies air bag controllers for 100% of GM NAO vehicles, up from 75% in 1994. Beginning in the 1998 model year, side-impact air bag controllers will be introduced on various GM vehicles. Delco is also developing occupant detection sensors which will suppress air bag deployment based on a passenger's weight and/or position.

Delco also supplies over 90% of GM NAO's passenger car requirements for anti-lock brake controllers in conjunction with Delphi. Additional features such as traction control, variable effort steering and YAW control have been integrated into Delco brake controllers for improved vehicle functioning.

**Fuel Efficiency.** In conjunction with Delphi, Delco will introduce electro-hydraulic power steering ("EHPS") in the 1998 model year. EHPS allows for more effective use of the hydraulic steering system which increases fuel efficiency. Delco is also developing an improved electric power steering ("EPS") controller that will eliminate steering hydraulics and lower the total system cost.

**Convenience Features.** Delco has expanded its penetration into the security and personalization market through its acquisition of European-based Megamos and Texton companies. Consumer demand continues to increase for enhanced body control functions such as lock-out prevention, theater light dimming, vehicle theft protection and remote keyless entry.

**New Products.** Delco continues to refine and develop its FOREWARN(R) forward and rear-looking radar systems. The forward looking system is being pursued as an adaptive cruise control system. The rear looking radar system continues to be pursued as a backup aid to warn the driver of possible rear collisions. These products are expected to be in full production around the year 2000. The integration of Delco and Delphi is expected to increase synergies with Delphi units and result in the ability to provide fully integrated, engineered and assembled interior systems for automotive Original Equipment Manufacturer ("OEM") applications. Successful commercialization of these products will depend on, among other things, consumer acceptance, affordability and ability to achieve high volume production of sophisticated products, none of which can be assured.

#### INTERNATIONAL AND OTHER SALES

Sales of Delco's automotive electronics to customers other than GM NAO grew at an 18% compounded annual rate from \$382 million in 1990 to \$1,010 million in 1996. In 1996, Delco was awarded approximately 61% of all orders (excluding GM NAO orders) for which it competed worldwide (based on the dollar value of all bids submitted by Delco). Deliveries under such contracts are expected to begin in 1998. Delco currently supplies automotive electronics products to several customers worldwide, including Chrysler, Daewoo, Isuzu, Renault, Toyota, John Deere, Nissan, BMW, Audi, Ford, Fiat and Mercedes. In 1996, Delco became QS-9000 certified, attesting to its production and quality capabilities as a world-class supplier.

The levels of average electronic content of European-produced and Asian-produced vehicles are currently substantially below the average level of electronic content of vehicles sold in North America, indicating that the worldwide demand for automotive electronics should grow significantly through the end of the decade. In addition, Delco believes that future growth opportunities exist outside of the United States as other countries

adopt automotive emission and fuel standards. Delco's customer-focused business units were established to focus on these growth opportunities as Delco seeks to capitalize on its cost reduction efforts, product quality and technology, together with its worldwide manufacturing capabilities and capacities, to continue to increase international sales (including sales to GM's international operations and affiliates) and sales to customers other than GM NAO.

The success of Delco's international and non-GM NAO efforts will depend, among other things, upon the availability of technical, manufacturing and other resources. Competition in such markets is intense and not necessarily open to all suppliers on equal terms. See "---Competition" below. Delco continues to review and enter into, where appropriate, strategic alliances and partnering arrangements and to make acquisitions to enhance its ability to compete for international business.

#### ACQUISITIONS AND ALLIANCES

Historically, Delco's acquisition and alliance activities have been focused on three objectives: market expansion, product portfolio enhancement to achieve full systems capability and strengthening of core technologies. Recent activities include formation of Shanghai Delco Electronics (joint venture localizing manufacturing in China), acquisition of Fuba Automotive (a leading antenna business in Europe) and formation of the Flip Chip Technologies joint venture (which provides innovative integrated circuit packaging technology). Delco will continue to focus on selective ventures which meet strategic objectives and which complement the venture needs and strategies of Delphi.

#### COMPETITION

In April 1992, General Motors launched a major reorganization to streamline its business practices and downsize its GM NAO operations. These changes were essential to GM's vision of total customer satisfaction. Central to these efforts were improved quality, reduced costs, strengthened product focus and leveraged global sourcing. With regard to global sourcing, GM NAO announced its intentions to begin filling its procurement needs on a global basis. Pursuant to this initiative, GM NAO has aggressively pursued price reductions from its suppliers and has provided suppliers worldwide with the opportunity to bid for business customarily sourced with Delco. As a result, Delco has reduced its prices to GM NAO, and Delco expects prices to continue to decline. In 1996, Delco-supplied electronic content represented approximately 90% of GM NAO requirements. Delco believes that it is, has been and will continue to be able to compete effectively for GM business because of the quality of its products, its on-going cost reduction efforts and its product and technological innovations. Delco also believes that it derives a competitive advantage from its business practice of placing Delco engineers at GM facilities to help integrate Delco electronic products into GM's vehicle designs. Delco believes that its technological experience from its non-automotive businesses also provides it with a competitive advantage in developing and implementing new automotive electronic products. Delco believes that its cost reduction programs will provide significant ongoing and sustainable cost savings. In light of the foregoing, Delco expects to be able to continue to compete effectively for GM NAO business as well as international and North American business other than GM NAO. However, Delco does expect its share of GM NAO automotive electronics requirements to decline from its current 90% share to about 80% in the early 2000's principally due to competition through GM's global purchasing process.

The worldwide automotive electronics market includes many strong, global competitors. In Europe, Delco is challenging incumbent suppliers with dominant shares and strong relationships with European vehicle manufacturers. These competitors, like Delco, are innovative, have system capability, are able to support the European vehicle manufacturers' globalization plans and have embarked on aggressive cost cutting programs to meet the price pressure of vehicle manufacturers. In the Asia/Pacific region, Delco faces competitors who have strong system capability, offer cost competitive, high quality products and who have strong relationships with vehicle manufacturers. In some cases, vehicle manufacturers located in the Asia/Pacific region have significant equity ownership in Delco's competitors. In Latin America, Delco's major competitors include suppliers based

#### CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS

in both Europe and in the Asia/Pacific region who have transplanted some operations to support their customers' entry into, and expansion in, the region.

INTEGRATION OF DELCO AND DELPHI

For information regarding the integration of Delco and Delphi, see "Special Factors--Purposes of the Hughes Transactions--Integration of Delco and Delphi" and "--Background of the Hughes Transactions--Development of the Hughes Transactions and Raytheon Merger--September 23, 1997 Capital Stock Committee Meeting" in Chapter 3.

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
HUGHES TELECOM SELECTED COMBINED HISTORICAL AND  
PRO FORMA FINANCIAL DATA

The following selected combined historical financial data have been derived from the financial statements of Hughes Telecom. The data should be read in conjunction with Hughes Telecom's Combined Financial Statements (including the notes thereto) included in Appendix E to this document. The income statement data for the periods ended December 31, 1996, 1995 and 1994 and the balance sheet data as of December 31, 1996 and 1995 have been derived from the combined financial statements of Hughes Telecom audited by Deloitte & Touche LLP, independent public accountants. The income statement data for the periods ended December 31, 1993 and 1992 and June 30, 1997 and 1996 and the balance sheet data as of June 30, 1997 and 1996 and December 31, 1994, 1993 and 1992 have been derived from the unaudited combined financial statements of Hughes Telecom. In the opinion of management, the unaudited combined financial statements reflect all adjustments (consisting only of normal recurring items) that are necessary for the fair presentation of financial position and results of operations for such periods. The Hughes Telecom unaudited summary pro forma operating results data for the six months ended June 30, 1997 and for the year ended December 31, 1996 give effect to the PanAmSat Merger that was completed on May 16, 1997 and the Hughes Transactions (including the recapitalization of GM Class H Common Stock into New GM Class H Common Stock) as if they had occurred at the beginning of each respective period. The Hughes Telecom unaudited summary pro forma balance sheet data as of June 30, 1997 give effect to the Hughes Transactions as if they had occurred at that date. Operating results for the six-month periods ended June 30, 1997 and 1996 are not necessarily indicative of the results that may be expected for the entire year. Pro forma data are not necessarily indicative of future financial position or operating results.

	AS OF AND FOR THE SIX MONTHS ENDED JUNE 30,			AS OF AND FOR THE YEARS ENDED DECEMBER 31,					
	PRO FORMA 1997 (A)	1997	1996	PRO FORMA 1996 (A)	1996	1995	1994	1993	1992 (B)
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)								
<b>OPERATING RESULTS:</b>									
Net sales.....	\$ 2,354.8	\$2,235.2	\$1,831.4	\$4,280.7	\$4,099.6	\$3,243.0	\$2,773.5	\$2,263.8	\$2,282.2
Other income (expense), net.....	(11.9)	477.8	104.5	74.9	74.9	(32.4)	(10.0)	160.6	39.0
Total Revenues.....	2,342.9	2,713.0	1,935.9	4,355.6	4,174.5	3,210.6	2,763.5	2,424.4	2,321.2
Cost and expenses.....	2,227.8	2,184.2	1,728.9	4,079.3	3,943.6	3,192.2	2,678.2	2,155.6	2,266.6
Amortization of GM purchase accounting adjustments related to Hughes Aircraft.....	10.6	10.6	10.6	21.0	21.0	27.2	21.2	21.2	21.2
Total Costs and Expenses.....	2,238.4	2,194.8	1,739.5	4,100.3	3,964.6	3,219.4	2,699.4	2,176.8	2,287.8
Income (loss) before income taxes and minority interests....	104.5	518.2	196.4	255.3	209.9	(8.8)	64.1	247.6	33.4
Income taxes (credit)...	51.6	213.3	84.7	144.8	100.0	(10.4)	20.6	94.7	6.1
Minority interests in (income) losses of subsidiaries.....	0.9	21.9	15.4	(8.0)	52.6	4.6	--	--	--
Cumulative effect of accounting change.....	--	--	--	--	--	--	(2.3)	--	(112.8)
Net Income (loss).....	\$ 53.8	\$ 326.8	\$ 127.1	\$ 102.5	\$ 162.5	\$ 6.2	\$ 41.2	\$ 152.9	\$ (85.5)
Adjustments to exclude the effects of GM purchase accounting adjustments related to Hughes Aircraft.....	10.6			21.0					
Earnings used for computation of available separate consolidated net income of Hughes Telecom.....	\$ 64.4			\$ 123.5					
Earnings per share attributable to New GM Class H Common Stock...	\$ 0.16			\$ 0.31					
<b>BALANCE SHEET DATA:</b>									
Cash and cash equivalents.....	\$ 2,349.4	\$ 342.8	\$ 5.6		\$ 6.7	\$ 7.6	\$ 5.8	\$ 10.2	\$ 6.4
Current assets.....	4,239.7	2,195.1	1,417.9		1,535.7	1,242.9	1,175.9	1,120.5	1,339.5
Total assets.....	11,654.1	9,177.1	4,243.4		4,479.2	4,047.7	3,662.7	3,222.3	3,100.2
Current liabilities....	1,383.8	1,301.3	1,132.5		1,281.7	958.2	933.9	816.3	836.6
Long-term debt.....	706.3	2,372.5	--		--	--	--	1.5	125.6
Minority interests.....	643.1	643.1	53.9		21.6	40.2	--	--	--
Redeemable preferred stock of a subsidiary..	401.5	401.5	--		--	--	--	--	--

Parent Company's net investment.....	7,143.8	3,610.9	2,538.1	2,491.6	2,608.9	2,301.0	1,973.3	1,752.3
OTHER DATA:								
Depreciation and amortization.....								
	\$ 129.4	\$ 99.8		\$ 218.5	\$ 209.2	\$ 163.0	\$ 138.3	\$ 145.0
Capital expenditures....	\$ 220.2	\$ 237.1		\$ 451.4	\$ 446.5	\$ 400.4	\$ 276.1	\$ 187.0

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- (a) Pro forma balance sheet data as of December 31, 1996 and pro forma other data have not been determined.
  - (b) Includes the effect of a pre-tax restructuring charge of \$156.6 million.

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
HUGHES TELECOM UNAUDITED PRO FORMA  
CONDENSED COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined financial statements of Hughes Telecom have been derived from the historical combined financial statements of Hughes Telecom and consolidated financial statements of PanAmSat to give effect to the PanAmSat Merger that was completed as of May 16, 1997 and the Hughes Transactions (including the recapitalization of GM Class H Common Stock into New GM Class H Common Stock). The pro forma adjustments of the PanAmSat Merger were performed using the purchase method of accounting. The unaudited pro forma condensed combined balance sheet has been prepared as if the Hughes Transactions occurred on June 30, 1997. The unaudited pro forma condensed combined statements of income have been prepared as if the PanAmSat Merger and the Hughes Transactions occurred on January 1, 1996 and 1997.

The unaudited pro forma condensed combined financial statements should be read in conjunction with Hughes Telecom's Combined Financial Statements (including the notes thereto) included in Appendix E to this document and PanAmSat's Consolidated Financial Statements (including the notes thereto) contained in pages FIN-1 through FIN-19 of the Proxy Statement on Schedule 14A, filed on April 18, 1997, of PanAmSat, which pages are incorporated into this document by reference, each as of and for the period ended December 31, 1996, and the unaudited combined financial statements (including the notes thereto) of Hughes Telecom included in Appendix E to this document and the unaudited consolidated financial statements (including the notes thereto) of PanAmSat included in PanAmSat's Form 10-Q/A for the period ended March 31, 1997, which is incorporated into this document by reference.

The pro forma condensed combined balance sheet is not necessarily indicative of the financial position of Hughes Telecom that would have been attained had the Hughes Transactions been consummated on June 30, 1997. The pro forma condensed combined statements of income do not give effect to any synergies that may be realized as a result of the PanAmSat Merger and are not necessarily indicative of the results of operations of Hughes Telecom that would have been attained had the PanAmSat transaction and the Hughes Transactions been consummated on January 1, 1996 and 1997, nor are they necessarily indicative of any future operating results.

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
HUGHES TELECOM  
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 1997

	HISTORICAL HUGHES TELECOM	HISTORICAL PANAMSAT*	PANAMSAT MERGER PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED	HUGHES TRANSACTIONS PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)					
<b>REVENUES</b>						
Product sales.....	\$1,423.8		\$ (6.4) (a)	\$1,417.4		\$1,417.4
Direct broadcast, leasing and other services.....	811.4	\$126.0		937.4		937.4
Other income (expense), net.....	477.8	225.0	(489.7) (b) (225.0) (c)	(11.9)		(11.9)
	-----	-----	-----	-----	-----	-----
Total Revenues.....	2,713.0	351.0	(721.1)	2,342.9		2,342.9
	-----	-----	-----	-----	-----	-----
<b>COSTS AND EXPENSES</b>						
Costs of products sold.	1,096.8		(3.8) (a)	1,093.0		1,093.0
Broadcast programming and other costs.....	466.6			466.6		466.6
Selling, general, and administrative expenses.....	458.5	28.1		486.6		486.6
Depreciation and amortization.....	118.8	24.3	22.0 (d)	165.1		165.1
Amortization of GM purchase accounting adjustments related to Hughes Aircraft.....	10.6			10.6		10.6
Merger-related expenses.....		29.9	(29.9) (e)	--		--
Interest expense.....	43.5	(4.2)	37.0 (f)	76.3	\$ (59.8) (k)	16.5
	-----	-----	-----	-----	-----	-----
Total costs and expenses.....	2,194.8	78.1	25.3	2,298.2	(59.8)	2,238.4
	-----	-----	-----	-----	-----	-----
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTEREST.....</b>						
Income taxes.....	518.2	272.9	(746.4)	44.7	59.8	104.5
Minority interests in net losses (income) of subsidiaries.....	213.3	116.1	(301.7) (g)	27.7	23.9 (l)	51.6
	-----	-----	-----	-----	-----	-----
Preferred Stock Dividend.....		16.9	(16.9) (i)	--		--
	-----	-----	-----	-----	-----	-----
Net Income.....	\$ 326.8	\$139.9	\$(448.8)	\$ 17.9	\$ 35.9	53.8
	=====	=====	=====	=====	=====	=====
Adjustments to exclude the effect of GM purchase accounting adjustments related to Hughes Aircraft.....						10.6
						-----
Earnings Used For Computation of Available Separate Consolidated Net Income.....						\$ 64.4
						=====
Available Separate Consolidated Net Income:						
Average number of shares of New GM Class H Common Stock outstanding (in millions) (Numerator).						100.7
New GM Class H dividend base (in millions) (Denominator).....						399.9
Available Separate Consolidated Net Income						\$ 16.2
						=====
Earnings Per Share Attributable to New GM Class H Common Stock..						\$ 0.16
						=====

The accompanying notes are an integral part of the unaudited pro forma



condensed combined financial statements.

\*The amounts labeled historical PanAmSat are for the period January 1-May 15, 1997.

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
HUGHES TELECOM  
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1996

	HISTORICAL HUGHES TELECOM	HISTORICAL PANAMSAT	PANAMSAT MERGER PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED	HUGHES TRANSACTIONS PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)					
REVENUES						
Product sales.....	\$3,070.6		\$(65.8) (a)	\$3,004.8		\$3,004.8
Direct broadcast, leasing and other services.....	1,029.0	\$246.9		1,275.9		1,275.9
Other income, net.....	74.9			74.9		74.9
	-----	-----	-----	-----	-----	-----
Total Revenues.....	4,174.5	246.9	(65.8)	4,355.6		4,355.6
	-----	-----	-----	-----	-----	-----
COSTS AND EXPENSES						
Cost of products sold..	2,241.3		(49.0) (a)	2,192.3		2,192.3
Broadcast programming and other costs.....	653.8	32.7		686.5		686.5
Selling, general and administrative expenses.....	805.1	44.2		849.3		849.3
Depreciation and amortization.....	197.5	61.3	58.8 (d)	317.6		317.6
Amortization of GM purchase accounting adjustments related to Hughes Aircraft.....	21.0			21.0		21.0
Interest expense.....	45.9	0.6	87.7 (f)	134.2	\$ (100.6) (k)	33.6
	-----	-----	-----	-----	-----	-----
Total costs and expenses.....	3,964.6	138.8	97.5	4,200.9	(100.6)	4,100.3
	-----	-----	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST.....	209.9	108.1	(163.3)	154.7	100.6	255.3
Income taxes.....	100.0	46.4	(41.8) (g)	104.6	40.2 (l)	144.8
Minority interests in net losses (income) of subsidiaries.....	52.6		(28.5) (h) (41.4) (i) 9.3 (j)	(8.0)		(8.0)
Preferred Stock Dividend.....		41.4	(41.4) (i)	--		--
	-----	-----	-----	-----	-----	-----
Net Income.....	\$ 162.5	\$ 20.3	\$ (140.7)	\$ 42.1	\$ 60.4	102.5
	=====	=====	=====	=====	=====	=====
Adjustments to exclude the effect of GM purchase accounting adjustments related to Hughes Aircraft.....						21.0
						-----
EARNINGS USED FOR COMPUTATION OF AVAILABLE SEPARATE CONSOLIDATED NET INCOME.....						\$ 123.5
						=====
Available Separate Consolidated Net Income: Average number of shares of New GM Class H Common Stock outstanding (in millions) (Numerator)						98.4
New GM Class H dividend base (in millions) (Denominator)						399.9
Available Separate Consolidated Net Income						\$ 30.4
						=====
Earnings Per Share Attributable to New GM Class H Common Stock						\$ 0.31
						=====

The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

HUGHES TELECOM  
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

AS OF JUNE 30, 1997

	HUGHES HISTORICAL HUGHES TELECOM	HUGHES TRANSACTIONS PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
(DOLLARS IN MILLIONS)			
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents.....	\$ 342.8	\$ 654.6 (m) 1,352.0 (n)	\$ 2,349.4
Accounts and notes receivable (less allowances).....	526.5	38.0 (o)	564.5
Contracts in process, less advances and progress payments.....	450.4		450.4
Inventories.....	642.8		642.8
Deferred subscriber acquisition costs.....	99.7		99.7
Prepaid expenses and other including deferred income taxes.....	132.9		132.9
Total Current Assets.....	2,195.1	2,044.6	4,239.7
Satellites, net.....	2,220.4		2,220.4
Property, net.....	776.5		776.5
Net Investment in Sales-type Leases.....	310.3		310.3
Intangible Assets, net of amortization.....	2,824.9		2,824.9
Investments and Other Assets--principally at cost (less allowances).....	849.9	259.0 (p) 141.9 (o) 31.5 (q)	1,282.3
Total Assets.....	\$9,177.1 =====	\$ 2,477.0 =====	\$11,654.1 =====
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable.....	\$ 367.1	\$ 11.8 (o)	\$ 378.9
Advances on contracts.....	158.5		158.5
Deferred revenues.....	194.0		194.0
Accrued liabilities.....	581.7	16.4 (r) 9.0 (s) 45.3 (o)	652.4
Total Current Liabilities.....	1,301.3	82.5	1,383.8
Long-Term Debt.....	2,372.5	58.8 (o) (1,725.0) (n)	706.3
Deferred Gains on Sales and Leasebacks.....	230.0		230.0
Other Liabilities and Deferred Credits.....	257.0	159.5 (s) 101.3 (o) 256.2 (t) 10.8 (r)	784.8
Deferred Income Taxes.....	273.5		273.5
Accrued Operating Leaseback Expense.....	87.3		87.3
Total Liabilities.....	4,521.6	(1,055.9)	3,465.7
Minority Interests.....	643.1		643.1
Redeemable Preferred Stock of Subsidiary...	401.5		401.5
STOCKHOLDERS' EQUITY			
Common stock			
Parent Company's Net Investment.....	3,610.9	3,532.9 (u)	7,143.8
Additional paid-in capital.....			
Total Stockholders' Equity.....	3,610.9	3,532.9	7,143.8
Total Liabilities and Stockholders' Equity.....	\$9,177.1 =====	\$ 2,477.0 =====	\$11,654.1 =====

The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

## NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined financial statements of Hughes Telecom have been derived from the historical combined financial statements of Hughes Telecom and consolidated financial statements of PanAmSat to give effect to the PanAmSat Merger that was completed as of May 16, 1997 and the Hughes Transactions (including the recapitalization of GM Class H Common Stock into New GM Class H Common Stock). The PanAmSat pro forma adjustments were performed using the purchase method of accounting. The unaudited pro forma condensed combined balance sheet has been prepared as if the Hughes Transactions had occurred on June 30, 1997. The unaudited pro forma condensed combined statements of income have been prepared as if the PanAmSat Merger and the Hughes Transactions had occurred at the beginning of the periods presented. The historical PanAmSat amounts included in the unaudited pro forma condensed combined statement of income for the six month period ending June 30, 1997 are for the period from January 1, 1997 through May 15, 1997, prior to the date of the PanAmSat Merger.

The unaudited pro forma condensed combined financial statements should be read in conjunction with Hughes Telecom's Combined Financial Statements (including notes thereto) as of and for the year ended December 31, 1996 and as of and for the six months ended June 30, 1997 included in Appendix E to this document and PanAmSat's Consolidated Financial Statements (including notes thereto) contained in pages FIN-1 through FIN-19 of the Proxy Statement on Schedule 14A, filed on April 18, 1997, of PanAmSat, which pages are incorporated into this document by reference, and PanAmSat's Unaudited Consolidated Financial Statements (including the notes thereto) as of and for the period ended June 30, 1997, included in PanAmSat's Form 10-Q/A, which is incorporated into this document by reference.

The pro forma condensed combined balance sheet is not necessarily indicative of the financial position of Hughes Telecom that would have actually been obtained had the Hughes Transactions been consummated on June 30, 1997. The pro forma condensed combined statements of income are not necessarily indicative of the results of operations of Hughes Telecom that would have actually been obtained had the PanAmSat Merger and the Hughes Transactions been consummated at the beginning of the periods presented, nor are they necessarily indicative of any future operating results.

The following pro forma adjustments were made with respect to the PanAmSat Merger:

- (a) To eliminate intercompany transactions between PanAmSat and Hughes Telecom.
- (b) To eliminate the non-recurring gain recorded in connection with the PanAmSat Merger. The PanAmSat Merger was treated for accounting purposes as a partial sale of Hughes Telecom's Galaxy(R) satellite services business by Hughes Telecom and resulted in a one-time pre-tax gain of \$489.7 million.
- (c) To eliminate the non-recurring gain associated with the sale of certain options which occurred in connection with the PanAmSat Merger. Prior to the PanAmSat Merger, PanAmSat held options ("DTH Options") to purchase equity interests in certain joint ventures formed to provide direct-to-home services in Latin America and Spain. Since Hughes Electronics also has investments in entities providing direct-to-home services in Latin America, Hughes Electronics made it a condition of the PanAmSat Merger that PanAmSat divest itself of the DTH Options. As a result, PanAmSat sold the DTH Options and recognized a one-time pre-tax gain of \$225.0.
- (d) To reflect amortization of the excess of the purchase price of the 71.5% interest in PanAmSat acquired by Hughes Electronics over the fair value of the net tangible assets acquired using the straight line method over 40 years.
- (e) To eliminate non-recurring expenses related to the PanAmSat Merger.

(f) To adjust interest expense as follows:

	SIX MONTHS ENDED JUNE 30, 1997	YEAR ENDED DECEMBER 31, 1996
	----- (DOLLARS IN MILLIONS) -----	
To reflect pro forma interest expense related to the borrowings incurred in connection with the PanAmSat Merger.....	\$41.7	\$100.1
To reduce interest expense to reflect the amortization of the adjustment to fair value of PanAmSat's indebtedness at the date of the PanAmSat Merger.....	(4.7)	(12.4)
	-----	-----
Net increase to interest expense.....	\$37.0	\$87.7
	=====	=====

- (g) To reflect income taxes on the pro forma adjustments relating to the PanAmSat Merger. Amortization of goodwill is not deductible for tax purposes.
- (h) To record the minority interest's share of PanAmSat's net income.
- (i) To reclassify the preferred stock dividend of subsidiary to minority interest.
- (j) To reflect amortization of the adjustment to fair value of preferred stock of subsidiary.

The following pro forma adjustments were made with respect to the Hughes Transactions:

- (k) To eliminate interest expense associated with debt related to the PanAmSat Merger and debt held by Hughes Electronics which is expected to be repaid with the proceeds from the Hughes Transactions.
- (l) To reflect income taxes on the pro forma adjustments relating to the Hughes Transactions.
- (m) To record cash and cash equivalents held by Hughes Electronics and Delco which will be contributed to Hughes Telecom in connection with the Hughes Transactions.
- (n) To record the estimated net cash proceeds relating to the Hughes Transactions to be contributed to Hughes Telecom. The net cash proceeds to be paid is subject to adjustment based on the price of Raytheon Corporation's stock price at the closing of the Hughes Transactions and other indebtedness of Hughes Defense outstanding at the time of the Hughes Defense Spin-Off. Based upon the price of Raytheon Corporation's stock price during the period prior to June 30, 1997, the net cash proceeds are expected to be comprised of the following components:

	(DOLLARS IN MILLIONS) -----
Estimated cash proceeds from the Hughes Transactions.....	\$ 3,774
Repayment of Hughes Electronics commercial paper.....	(697)
	-----
Net proceeds contributed to Hughes Telecom.....	3,077
Repayment of PanAmSat merger-related debt.....	(1,725)
	-----
Net cash proceeds.....	\$ 1,352
	=====

The net cash proceeds are also subject to adjustment based on the actual net assets of Hughes Defense at the time of closing. The net assets of Hughes Defense at June 30, 1997 are not necessarily indicative of the actual net assets at the Closing Date.

- (o) To record the transfer of other assets and liabilities of Hughes Electronics related to the joint operations of Hughes Telecom, Hughes Defense, and Delco which, pursuant to the Master Separation Agreement, will be contributed to or assumed by Hughes Telecom.
- (p) To record prepaid pension costs reflecting the estimated excess of pension-related assets over pension-related obligations and net deferred amounts associated with certain pension plans sponsored by Hughes Electronics attributable to employees of Hughes Telecom. The assets and liabilities relating to the pension plans have been allocated to Hughes Telecom based upon the estimated percentage of the projected benefit obligation related to Hughes Telecom in proportion to the

projected benefit obligation of Hughes Electronics. Such assets and liabilities will be assumed by Hughes Telecom pursuant to the Master Separation Agreement as a result of the Hughes Transactions.

- (q) To record Hughes Telecom's 50% equity interest in the Hughes Research Labs joint venture that will be formed pursuant to the Master Separation Agreement.
- (r) To record estimated accrued liabilities associated with employee health and welfare benefit plans sponsored by Hughes Electronics attributable to employees of Hughes Telecom which will be assumed by Hughes Telecom pursuant to the Master Separation Agreement.
- (s) To record estimated accrued liabilities relating to postretirement benefit plans other than pensions sponsored by Hughes Electronics attributable to employees of Hughes Telecom which will be assumed by Hughes Telecom pursuant to the Master Separation Agreement.
- (t) To record potential income tax liabilities which will be transferred from Hughes Electronics to Hughes Telecom.
- (u) To record the effect of parent company's net investment related to the pro forma adjustments referred to in notes (m), (n), (o), (p), (q), (r), (s) and (t) as follows (in millions of dollars):

Contribution of cash held by Hughes Electronics.....	\$ 654.6
Estimated net cash proceeds from Hughes Transactions after repayment of certain Hughes Electronics commercial paper debt.	3,077.0
Transfer of certain other assets and liabilities.....	(37.3)
Contribution of prepaid pension costs.....	259.0
Contribution of 50% equity interest in Hughes Research Labs joint venture.....	31.5
Assumption of liabilities relating to certain health and welfare benefit plans.....	(27.2)
Assumption of liabilities relating to postretirement benefit plans.....	(168.5)
Assumption of liabilities relating to potential income tax liabilities.....	(256.2)
	-----
	\$3,532.9
	=====

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
HUGHES TELECOM MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion excludes purchase accounting adjustments related to GM's acquisition of Hughes Aircraft, since the amortization of such purchase accounting adjustments will be excluded from the calculation of earnings available for the payment of dividends on the New GM Class H Common Stock.

SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996.

RESULTS OF OPERATIONS

Revenues. Hughes Telecom reported revenues for the first six months of 1997 of \$2,713.0 million, an increase of 40.1% from the \$1,935.9 million reported in the comparable period in 1996. The increase was primarily the result of a \$489.7 million pre-tax gain recognized in the second quarter of 1997 related to the recently completed PanAmSat Merger, partially offset by the first quarter 1996 pre-tax gain of \$120.3 million related to the sale of a 2.5% equity interest in DIRECTV to AT&T. Revenues, excluding both of these gains, for the first six months of 1997 were \$2,223.3 million, an increase of 22.5% from the \$1,815.6 million reported in the first half of 1996. Such increase was primarily related to the continued expansion of the DIRECTV(R) subscriber base in the United States and Latin America. Also contributing to the revenue increase was higher commercial satellite sales within the High Powered (HP) product line of satellites and on the ICO Global Communications satellite contract. These revenue increases were partially offset by lower sales of wireless telecommunications equipment.

Other Income--Included in revenues is other income of \$477.8 million for the first six months of 1997 and \$104.5 million in the same period last year. The 1997 amount included the \$489.7 million pre-tax gain recognized in connection with the PanAmSat Merger and the 1996 amount included the \$120.3 million pre-tax gain from the sale of a 2.5% equity interest in DIRECTV to AT&T.

Operating Profit. Operating profit for the first six months of 1997 was \$94.5 million, a \$29.6 million decrease from the \$124.1 million reported in the same period last year. The operating profit margin on the same basis for the first six months of 1997 was 4.2% compared with 6.8% reported in the prior year's period. The reduced operating profit and margin were primarily attributable to increased DIRECTV expenses resulting from the change in amortization period adopted in the first quarter of 1997 for certain subscriber acquisition costs in the United States, start-up operating losses from Hughes Telecom's Latin American DIRECTV subsidiary, Galaxy Latin America, and lower wireless telecommunications equipment sales and margins partially offset by improved performance within satellite manufacturing on the HP and 601 satellite product lines.

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

Costs and Expenses. Selling, general and administrative expenses for the first half of 1997 were \$458.5 million, an increase of \$155.5 million from the \$303.0 million reported in the same period last year. The increase was primarily related to DIRECTV subscriber acquisition costs and start-up costs for Galaxy Latin America.

The effective income tax rate was 40.3% for the first six months of 1997 and 40.9% for the comparable period in 1996.

Earnings. Hughes Telecom earnings increased 145.0% to \$337.4 million in the first six months of 1997 compared with \$137.7 million reported in the same period in 1996. The increase was primarily due to the \$318.3 million after-tax gain recognized in connection with the PanAmSat Merger which more than offset the reduced operating profit in 1997 and first quarter 1996 gain from the sale of 2.5% of DIRECTV to AT&T.

Backlog. The backlog at June 30, 1997 of \$10,034.8 million increased from the \$7,238.4 million reported at June 30, 1996, primarily due to the PanAmSat Merger in May 1997 and activity related to the ICO mobile satellite program.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents. Cash and cash equivalents were \$342.8 million at June 30, 1997, an increase of \$336.1 million from the \$6.7 million reported at December 31, 1996. The increase was primarily due to the positive net impact on cash of \$258.8 million as a result of the PanAmSat Merger and contributions from the Parent Company of \$792.5 million, partially offset by cash used in operating activities of \$529.3 million and capital expenditures.

The completion of the PanAmSat Merger in May 1997 had a significant impact on the liquidity and debt of Hughes Telecom. Existing PanAmSat cash and non-current marketable securities of \$296.9 million and \$330.0 million, respectively, were acquired as a result of the merger. Total Hughes Telecom long-term debt increased by the acquisition financing of \$1,725.0 million provided by General Motors, as well as the assumption of the existing PanAmSat debt of \$613.4 million. Existing redeemable preferred stock of \$395.8 million was also assumed in connection with the merger; however, such redeemable preferred stock is expected to be exchanged for senior subordinated notes in the second half of 1997.

Liquidity Measurement. As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 1.69 at June 30, 1997 and 1.20 at December 31, 1996. Working capital increased to \$893.8 million at June 30, 1997 from \$254.0 million at December 31, 1996. The increases were principally due to the increases in cash described above.

Property and Equipment. Property, net of accumulated depreciation, increased \$75.4 million to \$776.5 million at June 30, 1997 from the \$701.1 million reported at December 31, 1996. Satellites, net of accumulated depreciation, increased \$1,163.8 million to \$2,220.4 million at June 30, 1997 compared with \$1,056.6 million reported at December 31, 1996. The increase in satellites was principally due to the satellites acquired in connection with the PanAmSat Merger as well as capital expenditures. Capital expenditures, including expenditures for satellites, were \$220.2 million through June 30, 1997 compared with \$237.1 million in the comparable period in 1996.

Long-Term Debt. Long-term debt was \$2,372.5 million at June 30, 1997, primarily consisting of the PanAmSat-related debt described above.

Acquisitions. In May 1997, Hughes Electronics and PanAmSat completed the merger of their respective satellite service operations into a new publicly-held company. Hughes Electronics contributed its Galaxy(R) satellite services business in exchange for a 71.5% interest in the new company. Existing PanAmSat stockholders received a 28.5% interest in the new company and \$1.5 billion in cash. Such cash consideration and other funds required to consummate the merger were funded by new debt financing totaling \$1.725 billion borrowed from General Motors. It is anticipated that this borrowing will be repaid as part of the Hughes Transactions.

For accounting purposes, the merger was treated by Hughes Electronics 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 date of acquisition. In



addition, the merger was treated as a partial sale of the Galaxy(R) business by Hughes Electronics and resulted in a one-time pre-tax gain of \$489.7 million (\$318.3 million after-tax).

The preferred stock of PanAmSat outstanding at the time of the merger is included in the accompanying balance sheet as redeemable preferred stock of a subsidiary. Dividends on such redeemable preferred stock are payable quarterly in arrears. The redeemable preferred stock, pursuant to the terms of its redemption feature, was exchanged for senior subordinated notes in September 1997.

1996 COMPARED TO 1995

#### RESULTS OF OPERATIONS

Revenues. Hughes Telecom revenues were \$4,174.5 million in 1996, a 30.0% increase from the \$3,210.6 million reported in 1995. Included in 1996 revenues was the \$120.3 million pre-tax gain recognized on the sale of a 2.5% equity interest in DIRECTV to AT&T. Excluding this gain, revenues were \$4,054.2 million, a 26.3% increase from 1995. The increase in revenues was primarily due to the continued expansion of the DIRECTV(R) subscriber base by over one million subscribers from 1995 to 1996. Further, satellite manufacturing revenues increased due to higher sales volume of commercial satellite programs, including Chinasat, ICO, Asiasat, Thor IIA, Brasil B3 and JCSat 4 as well as government programs such as NASA's TDRS program. Also contributing to the revenue increase was higher wireless product sales coupled with the introduction and sales of DSS(R) products. Finally, satellite services had increased revenues with improved performance in cable, broadcast and direct-to-home distribution services principally as a result of additional transponder capacity due to the successful launches of Galaxy III-R and IX.

Other Income/(Expense)--Included in revenues is other income of \$74.9 million for 1996 and other expense of \$32.4 million for 1995. The 1996 amount included the \$120.3 million pre-tax gain recognized from the sale of a 2.5% equity interest in DIRECTV to AT&T, while the 1995 amount included the pre-tax charge of \$40.0 million for the estimated loss on disposition of a non-strategic business unit.

Operating Profit. Operating profit for 1996 was \$201.9 million, a 74.2% increase from the \$115.9 million reported in 1995. Operating profit margins on the same basis were 4.9% in 1996 compared to 3.6% in 1995. The increases were primarily due to the revenue increases described previously. Further factors affecting the improved profitability were increased utilization and capacity on existing satellites, the strong performance of the wireless product lines and reduced operating losses at Hughes Avicom. The operating loss at Hughes Avicom decreased from \$61.9 million in 1995 to \$8.1 million in 1996. Such improvements were offset in part by increased costs related to DIRECTV for consumer financing, marketing and operating costs and operating losses related to the start of service by the Company's DIRECTV business in Latin America.

Costs and Expenses. Selling, general and administrative expenses were \$805.1 million in 1996 compared to \$510.6 million in 1995. The increase was primarily related to subscriber acquisition costs related to DIRECTV businesses for both domestic and international operations. Further, costs increased due to international expansion activities for satellite services and the wireless product lines.

The effective income tax rate was 43.3% in 1996 and 56.5% in 1995. The variance in the rate was primarily due to the effect of the foreign sales corporation's ("FSC") tax benefits as a percentage of the operating profits of the two years. The impact of the FSC benefit on the 1995 tax rate was considerably higher due to the lower operating results in 1995.

Earnings. Hughes Telecom 1996 earnings were \$183.5 million compared with 1995 earnings of \$33.4 million. The increase was related to improved operating performance within satellite manufacturing for government and commercial programs, improved wireless and satellite network product lines, and reduced operating losses for DIRECTV's domestic subsidiary and Hughes Avicom, offset in part by start-up operating losses for Galaxy Latin America.

Backlog. The 1996 year-end backlog of \$6,866.3 million decreased from the \$7,108.4 million reported at the end of 1995, primarily due to reduced order activity on the Milstar and ICO programs, offset in part by increased customer commitments for Galaxy(R) X.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents. Cash and cash equivalents were \$6.7 million at December 31, 1996, a decrease of \$0.9 million from the \$7.6 million reported at December 31, 1995. The cash balance was impacted by net distributions to the Parent Company of \$279.8 million and capital expenditures for property and satellites totaling \$451.4 million offset in part by cash generated by operating activities of \$330.3 million and the proceeds from the sale-leaseback of satellite GIII-R to GMAC for \$252.0 million, the sale of a 2.5% equity interest in DIRECTV to AT&T for \$137.5 million, and the disposal of certain property for \$14.2 million.

Liquidity Measurement. As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 1.20 at December 31, 1996 and 1.30 at December 31, 1995. Working capital decreased \$30.7 million to \$254.0 million at December 31, 1996 from the \$284.7 million reported at December 31, 1995.

Property and Equipment. Property, net of accumulated depreciation, increased \$139.9 million to \$701.1 million in 1996 from the \$561.2 million reported in 1995. Satellites decreased \$39.4 million to \$1,056.6 million in 1996 from the \$1,096.0 million reported in 1995. The decrease in satellites was primarily due to the sale-leaseback of GIII-R which more than offset the additional expenditures related to the Galaxy satellite fleet. Capital expenditures, including expenditures related to satellites increased to \$451.4 million in 1996 from \$446.5 million in 1995. The increase reflects additions to the Galaxy satellite fleet, construction of the California Broadcast Center, an uplink facility that supports Hughes Telecom's DIRECTV business in Latin America, expenditures to upgrade satellite manufacturing capabilities, costs related to DIRECTV's system enhancement projects, and the land acquisition for the Los Angeles Broadcast Center.

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

#### 1995 COMPARED TO 1994

##### RESULTS OF OPERATIONS

Revenues. Hughes Telecom revenues were \$3,210.6 million in 1995, a 16.2% increase from 1994 revenues of \$2,763.5 million. The increase resulted from higher cellular communications equipment and private business network sales, additional Galaxy satellite transponder sales, increased satellite construction sales, and the commencement of service by DIRECTV. DIRECTV(R) increased subscriber growth by nearly one million from 1994 to 1995. Such revenue increases were offset in part by a decrease in revenues from Claircom Communications at Hughes Network Systems.

Other Expense--Included in revenues is other expenses of \$32.4 million in 1995 and \$10.0 million in 1994. The 1995 and 1994 amounts included the pre-tax charges of \$40.0 million and \$35.0 million, respectively, for the estimated losses on disposition of non-strategic business units.

Operating Profit. Operating profit for 1995 was \$115.9 million, a 23.3% decrease from the \$151.2 million reported in 1994. Operating profit margins on the same basis were 3.6% in 1995 and 5.5% in 1994. Both years included significant operating losses of Hughes Avicom which amounted to \$61.9 million in 1995 and \$79.7 million in 1994. The overall declines were primarily a result of increased operating expenses associated with the continued expansion of DIRECTV(R) and increased development costs on a geostationary satellite mobile telephony product line. Also contributing to the decline in operating profit were the reduced costs associated with the replacement of a Galaxy(R) satellite, that was deployed by a launch vehicle failure in August 1992, and 1994 earnings recognized by DIRECTV related to a contract with the National Rural Telecommunications Cooperative. Such decreases were partially offset by reduced operating losses at Hughes Avicom.

Costs and Expenses. Selling, general and administrative expenses were \$510.6 million in 1995 compared to \$374.5 million in 1994. The increase was principally due to the continued expansion of DIRECTV and the international expansion effort at Hughes Network Systems, offset in part, by the divestiture of Hughes LAN Systems ("HLS") in 1995.

The effective income tax rate was 56.5% in 1995 and 24.2% in 1994. The variance in the rate is primarily due to the effect of the foreign sales corporation's ("FSC") tax benefits as a percentage of the operating profits of the two years. The impact on the 1995 tax rate was considerably higher due to the lower operating results in 1995.

Earnings. Hughes Telecom 1995 earnings were \$33.4 million compared with 1994 earnings of \$62.4 million. The decline was primarily related to the lower operating profits previously discussed. Earnings in 1994 included the unfavorable effect of an accounting change for postemployment benefits other than pensions. Excluding the accounting change, Hughes Telecom earnings in 1994 would have been \$64.7 million.

Backlog. The 1995 year-end backlog of \$7,108.4 million increased from the \$4,253.1 million reported at the end of 1994, primarily due to orders on the ICO and Thor IIA satellite programs, increased customer commitments for Galaxy III-R and Galaxy IX, and increased wireless and broadcast product orders.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents. Cash and cash equivalents were \$7.6 million at December 31, 1995, an increase of \$1.8 million from the \$5.8 million reported at December 31, 1994. The cash balance was impacted by contributions by the Parent Company of \$301.7 million, cash provided by operating activities of \$76.3 million and proceeds from the divestiture of HLS of \$17.5 million, offset in part by capital expenditures.

Liquidity Measurement. As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) of 1.30 at December 31, 1995 remained comparable to the 1.26 reported at December 31, 1994. Working capital was \$284.7 million at December 31, 1995 compared to \$242.0 million at December 31, 1994.

Property and Equipment. Property, net of accumulated depreciation, increased \$55.1 million to \$561.2 million in 1995 from the \$506.1 million reported in 1994. Satellites, net of accumulated depreciation, increased \$151.6 million to \$1,096.0 million in 1995 compared with the \$944.4 million reported in 1994. Capital expenditures, including expenditures for satellites, were \$446.5 million for 1995 compared with \$400.4 million in 1994. The decrease in capital expenditures was primarily due to 1994 capital expenditures including costs associated with the completion of the Castle Rock Broadcast Center to support DIRECTV, offset in part by increased expenditures related to the Galaxy satellite fleet and upgrading satellite manufacturing capabilities.

Divestitures. During 1995, Hughes Electronics divested Hughes LAN Systems resulting in aggregate proceeds of approximately \$38.8 million and a net loss of \$9.0 million, for which a pre-tax charge of \$35.0 million was taken in 1994. Also in 1995, Hughes Electronics recorded a \$40.0 million charge for the estimated loss on disposition of a business unit, which is included in other expense.

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
BUSINESS OF HUGHES TELECOM

INTRODUCTION

The following description of the business of Hughes Telecom gives effect to the Hughes Reorganization. Following the consummation of the Hughes Transactions, this business will be conducted by New Hughes Electronics.

Hughes Telecom is a leading worldwide provider of satellite-based video, data and telephony services and manufacturer of communications satellites and wireless and other telecommunications equipment. Hughes Telecom has the world's largest non-governmental fleet of geostationary communications satellites and is the world's leading supplier of satellite-based private business networks. In addition to providing a broad range of satellite-related services, Hughes Telecom is a leader in the U.S. direct broadcast satellite market with its programming distribution service known as DIRECTV(R), which was introduced in 1994 and was the first high-powered, all digital, Direct-to-Home ("DTH") television distribution service in North America. Hughes Telecom believes it is a leading manufacturer of commercial communications satellites and satellite-based electronic equipment for the U.S. government. Hughes Telecom is a vertically integrated supplier of satellites and satellite-based communications systems and services. It 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.

Hughes Telecom conducts its operations in five principal segments: Satellite Manufacturing, Network Systems, Direct-To-Home Broadcast, Satellite Services and Hughes Avicom. Certain other operations are included in Intercompany Eliminations and Other. The following table sets forth revenues of Hughes Telecom for each of the last three years by segment.

	1996	1995	1994
	-----	-----	-----
	(IN MILLIONS)		
Satellite Manufacturing.....	2,066.2	1,716.8	1,462.4
Network Systems.....	1,067.4	909.2	813.6
Direct-to-Home Broadcast.....	728.4	241.0	108.3
Satellite Services.....	483.4	394.0	331.5
Hughes Avicom.....	89.7	49.2	75.6
Intercompany Eliminations and Other.....	(260.6)	(99.6)	(27.9)
	-----	-----	-----
Total.....	\$4,174.5	\$3,210.6	\$2,763.5
	=====	=====	=====

SATELLITE MANUFACTURING

Through Hughes Space and Communications Company ("HSC"), Hughes Telecom is the world leader in the manufacture of geostationary commercial communications satellites, having built approximately 40% of the communications satellites now in commercial service worldwide. Hughes Telecom believes that HSC is a leading manufacturer of spacecraft and spacecraft-based electronic equipment for the U.S. government. In addition to commercial applications, HSC's satellites and satellite payloads are used for a variety of defense, NASA and other government space missions.

Since its construction of the world's first geosynchronous communications satellite in 1963, HSC has been recognized worldwide as a leader in the design and manufacture of communications satellites. The following table outlines certain publicly announced information with respect to commercial (non-defense) communications satellites during the period from 1994 to 1996. Through September 30, 1997, five additional HSC-built satellites were placed in service.

	1996	1995	1994
	----	----	----
Commercial Communications Satellite Launches			
HSC-Built.....	10	8	10
Total Industry.....	26	19	18
Commercial Communications Satellites in Service			
HSC-Built.....	64	61	57
Total Industry.....	165	145	134

As of September 30, 1997, HSC has publicly announced outstanding orders to construct 39 communications satellites for companies (including subsidiaries and affiliates of Hughes Electronics) and government agencies in nine countries, including orders for 30 of its advanced HS 601 satellites (of which ten are commercial orders for its higher-power models), representing over \$4.4 billion in backlog. As of September 30, 1997, five HSC-built satellites are scheduled for launch in the remainder of 1997. Launch schedules are subject to a number of factors, including construction delays, weather, availability of launch vehicles, launch vehicle problems and governmental and political pressures, many of which are beyond the control of HSC. Launch difficulties and delays can, in certain circumstances, result in increased costs to HSC.

Hughes Telecom believes that HSC's leadership position in the competitive satellite manufacturing industry reflects the high quality and reliability of its satellites, which results from HSC's technological superiority in satellite design, production and operation. One measure of the reliability of HSC's satellites is the duration of their operational service. Since the launch of HSC's first satellite in 1963, HSC's satellites have accumulated over 850 years of in-orbit experience, with channel availability of 99.5% on HS 376, HS 601 and other current generation commercial satellites. Approximately 95% of HSC's satellites have remained in service past their originally scheduled retirement dates. The quality of HSC's satellites is also evidenced by the number of repeat customers. Since 1965, approximately one-half of all HSC's satellite sales have been made to repeat customers.

HSC's technological capabilities have led to enhancements in the quality of its satellites, improvements in cost effectiveness through higher power and compression and expansion of its satellite product line, thereby strengthening HSC's leadership position and expanding the market for satellites as a whole. For example, HSC has developed a family of structures, electronics, propulsion and power systems (referred to as "buses"), which can be replicated at relatively low cost in a variety of commercial and defense configurations. In addition, HSC has applied signal compression and has developed other methods to enhance the efficiency of transponders. The newest product in this family is the HS 702 bus, which offers substantially higher power levels than those previously achieved. Advancements in digital electronics, high power amplifiers, antenna implementations and propulsion systems offer enhanced performance capabilities of HSC-built satellites at a relatively higher power than other satellites. These advancements are expected to provide a competitive advantage for HSC as a result of enhanced performance capabilities.

In order to enhance its competitive position in both the government and commercial satellite manufacturing markets, HSC continues to work to lower its costs and improve productivity while maintaining its quality standards. Since 1992, HSC has improved its satellite manufacturing productivity by approximately 47% (as measured by satellite sales dollars per employee) and reduced cycle time from order to delivery for satellite production by approximately 30%. In addition, HSC has secured commitments for 35 launch vehicles over the next several years, which will assure HSC's access to space at competitive costs.

HSC is currently building twelve communications satellites for London-based ICO Global Communications, providing revenues to HSC of over \$2.0 billion. The satellites will be used in a global satellite-based mobile communications system designed primarily to provide services to dual-mode (space/terrestrial) cellular phones. The system will offer digital voice, data and facsimile services, as well as a range of messaging

services worldwide. This will be the first commercial program to utilize a payload with a complex, on-board digital processor and phased array antenna. It also will be the first spacecraft to be built by HSC for an intermediate earth orbit.

In September 1997, HSC announced a contract with Thuraya Satellite Telecommunications Company ("Thuraya"), to provide a satellite-based mobile phone system to serve the Middle East, North Africa, Eastern Europe (including Turkey), Central Asia and the Indian subcontinent. This award will be the largest satellite communications project in the region, worth approximately \$1 billion to Hughes Electronics, and includes the manufacture of two high-power satellites, launch services for the first satellites, insurance, ground facilities and between 112,000 and 235,000 mobile telephones.

#### NETWORK SYSTEMS

Through Hughes Network Systems, Hughes Telecom provides a broad range of telecommunications products and services, including satellite and ground-based communications equipment and services. With an estimated worldwide market share in excess of 60%, Hughes Network Systems is the world's leading supplier of satellite-based private business networks, which utilize its very small aperture terminals ("VSATs") and are individually designed, owner controlled, interactive, highly flexible communications systems with the capacity to link thousands of locations for data exchange, voice communications and video conferencing. Hughes Network Systems also provides shared-hub systems that allow users with more modest communications needs to share usage of Hughes Network Systems' satellite ground stations and networks. Hughes Network Systems is also a leader in wireless telephone networks and digital cellular mobile systems and believes significant opportunities exist in utilizing digital cellular technologies to provide fixed wireless telecommunications networks for local and international telecommunications in areas with deficient communications infrastructures (particularly developing nations) and to provide mobile communications systems and services. Hughes Network Systems is also the leader in providing satellite-based access to the Internet through its DirecPC(TM) service.

As the leading supplier of VSATs, Hughes Network Systems has delivered or received orders for more than 170,000 VSATs for use in the private networks of companies, government agencies, universities and research institutions. Among these are the more than 9,000 installed in the GM Pulsat network, which is the world's largest private business network. Since 1987, Hughes Network Systems has sold private business networks to a variety of customers worldwide, including Chrysler, Toyota, Chevron, Wal-Mart, Toys "R" Us, Jusco (Japan), China Ministry of Posts and Telecommunications and France Telecom. Sales to international customers are expected to increase, particularly as government regulation of private ownership of such networks decreases. As of September 30, 1997, Hughes Network Systems had sold private networks for use in over 55 countries in North America, Europe, Asia, Latin America and Africa.

Hughes Network Systems has a long history of products for terrestrial data communications, beginning with the X.25 packet switches for Telenet in the mid-1970's. Hughes Network Systems recently announced a new family of networking products called the Radiant(TM) family. Radiant products are able to address a large range of customer's wide area networking requirements.

Hughes Network Systems believes that it has developed a unique and flexible system that uses common hardware and software modules for multiple wireless telecommunications applications, including analog and digital mobile cellular, mobile data, fixed wireless telephony and Personal Communication Services ("PCS"). The advanced GMH 2000(TM) cellular system supports and is compatible with the U.S. Telecommunications Industry Association ("TIA") analog, and Time Division Multiple Access ("TDMA") and Code Division Multiple Access ("CDMA") digital cellular standards, the Cellular Digital Packet Data ("CDPD") mobile data standard, the BellCore "PACS" system proposed as a PCS standard and Hughes Network Systems' proprietary enhancement to TDMA, Extended Time Division Multiple Access ("E-TDMA(R)") standard. E-TDMA offers significantly increased capacity as compared to conventional analog switching technology. Hughes Network Systems has installed major telephone infrastructures in Jakarta, Indonesia; Prague, Czech

Republic; Blantyre, Malawi; Vladivostok, Russia; Chengdu, China; Ho Chi Minh City and Hanoi, Vietnam; and Campos, Brazil. The Hughes Network Systems program in Tatarstan, a Russian republic, for a high capacity fixed wireless telephone system has been in operation since January 1995. Hughes Network Systems has a contract with BellSouth Cellular Corporation under which it installed and continues to expand its GMH 2000(TM) dual analog/digital cellular networks for voice and data transmission in more than 50 markets in the southeastern United States. GTE Mobilnet installed a Hughes Network Systems network with CDPD technology in many of its markets in 1995.

Hughes Network Systems is discussing with several other countries and cities the installation of similar systems to provide and upgrade basic telephone service. For example, the government of India has issued to Hughes Ispat Limited, a limited liability company organized under the laws of India in which Hughes Telecom has agreed to take a strategic ownership interest, letters of intent pursuant to which the company would provide basic telecommunications services within the Indian states of Maharashtra and Karnataka. Hughes Network Systems currently expects to receive the formal licenses to provide these services in October 1997. In addition, HNS will be the primary wireless equipment provider in connection with these services.

Hughes Network Systems believes that its technologies and other capabilities position it to become a leading provider of satellite-based mobile communications equipment and services. Recent awards, including those from Thuraya and ICO, to provide satellite-based ground telecommunications networking equipment have established Hughes Network Systems' credentials in this sector. In addition, HNS is under contract to Thuraya to build between 112,000 and 235,000 hand held telephones that can operate in dual mode: cellular and satellite.

In 1996, Hughes Network Systems began providing subscriber equipment for DIRECTV(R) services. In addition, Hughes Network Systems has developed DirecPC(TM), a satellite-based information delivery service that uses a small antenna and high-speed digital transmission to make software, documents, desk-top video, games, news and other information accessible through personal computers. For example, through DirecPC's Turbo Internet(TM) service, a personal computer user can download data and video at speeds up to 400 kilobits per second. In 1996, Hughes Network Systems initiated commercial DirecPC service in the United States and licensed two operators in Japan and the Hughes Network Systems Olivetti joint venture in Europe for DirecPC operation.

#### DIRECT-TO-HOME BROADCAST

Hughes Telecom has consolidated its North American and international DIRECTV efforts into one organization: DIRECTV Global. The goal of the reorganization is to capitalize on Hughes Telecom's experience in North America as DIRECTV expands into the international arena. The reorganization also provides synergies in programming and technical support provided to these new markets.

#### UNITED STATES

Through DIRECTV Enterprises, Inc. ("DIRECTV U.S."), Hughes Telecom has developed and operates the first high-powered, all digital DTH television distribution service in North America, and is the leader in the direct broadcast satellite market in the United States with its programming distribution service known as DIRECTV. Introduced in June 1994, DIRECTV service is broadcast from three Hughes HS 601 satellites directly to 18-inch receiving antennae and decoding boxes located in households in the 48 contiguous states in the United States. DIRECTV U.S. uses 11 of the 16 transponders on the first satellite and all transponders on the second and third satellites for DIRECTV services. The remaining five transponders on the first satellite have been sold to United States Satellite Broadcasting, Inc. ("USSB") for use in its own programming service. Programming is received and broadcast from DIRECTV's 55,000 square foot broadcast facility in Castle Rock, Colorado. The receiving equipment for DTH television services, DSS(TM), is manufactured by a number of name brand consumer electronics companies, including Thomson Consumer Electronics under the RCA(R), Proscan and GE brand names, Sony, Panasonic, Daewoo, Hitachi, Phillips,

#### CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS

Hughes Network Systems, Toshiba and Uniden. DSS(R) equipment prices have fallen steadily from the initial \$699-\$899 range in June 1994 to approximately \$199-\$399 today. The technology for the DIRECTV(R) service is based, in part, on Hughes Telecom's satellite and satellite-based services experience and in part, on the expertise of the consumer electronics manufacturers which produce DSS equipment. DIRECTV U.S. has outsourced many of the significant facets of marketing directly to consumers and operating the related infrastructure and support services to vendors experienced in the respective fields.

Hughes Telecom believes that DIRECTV U.S. can compete effectively with cable and other DTH providers through a combination of its high quality video, audio and customer service, broad range of programming and extensive distribution. Both the DIRECTV programming service and DSS equipment are currently distributed through consumer electronics stores such as Circuit City, Radio Shack, Best Buy and Sears; and satellite television dealers. In addition, pursuant to an arrangement with the National Rural Telecommunications Cooperative ("NRTC"), the NRTC offers DIRECTV services to member cooperatives located primarily in rural areas of the continental United States.

The DIRECTV entertainment services currently offered to subscribers include over 175 television channels (including The Disney Channel, ESPN and CNN); an assortment of pay per view events such as movies, boxing, wrestling, musical concerts and other similar programs; 31 audio channels of commercial-free, CD-quality music; professional sports programming consisting of out-of-market games from the NFL, NBA, NHL, MLB and collegiate football sports programming; and other entertainment services such as The Golf Channel, STARZ! and Playboy TV. DIRECTV U.S. believes that its wide diversity of programming and its variety of programming packages available to consumers (especially in the areas of sports and movies) will allow DIRECTV to compete effectively in the market for television entertainment. Future program offerings may include additional basic, niche or specialized programming. DIRECTV U.S. also sells programming packages to restaurants, bars, office buildings, hotels and other commercial establishments. DIRECTV U.S. anticipates offering the DIRECTV video and audio services as well as enhanced multimedia and data services on personal computers in early 1998.

Primestar, USSB and Echostar are the only other direct broadcast service companies currently in operation in the United States. ASkyB and Primestar announced their intention to merge in 1997 to form a new company. At this time, the transaction is still pending. In addition, on May 27, 1997, Alphastar filed a voluntary Chapter 11 petition under Title 11 of the United States Code and on August 8, 1997 ceased broadcast operations. DIRECTV service also competes with cable television, other broadcast television and other entertainment services, including video rentals and telephone services.

As of September 30, 1997, there were approximately 2.9 million subscribers in the United States for DIRECTV programming services, including approximately 650,000 NRTC subscribers. Excluding NRTC subscribers (and revenues), average revenue per U.S. subscriber is currently over \$40 per month, and net subscriber churn is currently approximately 1% per month. Recently, the demographics of the DIRECTV U.S. subscriber base has changed, with increasingly more subscribers coming from urban and suburban homes passed by cable.



## INTERNATIONAL

Hughes Telecom's business strategy also includes application of its U.S. telecommunications industry experience and technology to international markets. Consistent with this strategy, Hughes Telecom has entered into a partnership, known as Galaxy Latin America, with three prominent Latin American media companies to introduce satellite-based direct broadcast entertainment into Latin America through a service using the DIRECTV(R) brand name. Galaxy Latin America was the first DTH provider in Latin America and is currently the market leader. Hughes Telecom estimates that the Latin American market represents the third largest television market in the world, with over 90 million television households, although the number of households which are potential customers for DIRECTV service is estimated to be substantially less. In this regard, Hughes Telecom Latin America believes that approximately one-half of television households in Latin America earn an income to afford pay TV services, but only a small fraction currently subscribe to such services. Hughes Telecom maintains a 60% ownership share in the Galaxy Latin America partnership, which also includes Cisneros Group of Venezuela (20%), Multivision of Mexico (10%) and TV Abril of Brazil (10%).

Galaxy Latin America commenced operations in July 1996 using a Hughes Telecom HS 601 satellite. Galaxy Latin America currently utilizes four broadcast centers, in Long Beach, California, Mexico City, San Paulo and Caracas, to uplink diverse programming throughout Latin America and plans to add one additional broadcast center in Buenos Aires, which is expected to become operational in late 1997. Local operating companies ("LOCs") in each country provide marketing, sales, distribution, customer service and other infrastructure services. Hughes Telecom either has purchased or plans to purchase a 10% to 20% interest in each of the LOCs operating in the larger Latin American markets, such as Brazil, Mexico, Venezuela, Colombia and Argentina. Hughes Telecom believes that an equity stake in these firms will help ensure a coordinated strategy throughout Latin America. DIRECTV service in Latin America currently includes approximately 70 channels of entertainment for customers in each of Mexico, Brazil, Venezuela, Ecuador, Panama, Costa Rica, Trinidad/Tobago, Guatemala, Chile and, most recently, Colombia. Later in 1997, Hughes Telecom expects Galaxy Latin America to introduce DIRECTV service in Argentina and, by the end of 1998, expects to offer services to approximately 100% of the Latin American market. As of September 30, 1997, there were approximately 235,000 subscribers in Latin America. Galaxy Latin America's average revenue per subscriber is currently over \$40 per month.

Galaxy Latin America's business strategy includes maintaining its market leadership through program differentiation, high quality video, audio and customer service, advanced technological capabilities and increased channel capacity. Galaxy Latin America believes that its early entry into the Latin American direct broadcast market, coupled with its existing DIRECTV technology, provides it with a competitive advantage in this market.

In October 1996, Hughes Telecom announced an agreement to form DIRECTV JAPAN, Inc. ("DTVJ"), a partnership of leading Japanese and American telecommunications companies. The DTVJ partners and their equity ownership in the company are as follows: Hughes Telecom (31.8%); Culture Convenience Club Co., Ltd. (31.8%); Mitsubishi Corporation and certain of its affiliates (13.7%); Matsushita Electric Industrial Co., Ltd. (9.1%); Tokuma Corporation (9.1%); and Dai Nippon Printing Co., Ltd. (4.5%). Hughes Telecom estimates that there are more than 40 million television households in Japan, with very low cable penetration. Hughes Telecom believes that DTVJ's strong in-country partners, DTH experience in the United States and Latin American markets, its higher-quality video, audio, data and interactive services and its programming line-up containing a number of unique local Japanese programs and major U.S. programming channels provide it with a competitive advantage in this market. Hughes Telecom currently expects DTVJ to commence commercial operations in early 1998, with an offering of over 90 channels of advanced, digital, DTH entertainment services throughout Japan.

## GENERAL

With respect to the worldwide DIRECTV businesses, particularly in the United States, Hughes Telecom is considering a number of strategic initiatives designed to expand its market share and enhance its competitive position. These include new distribution channels, new services, broader programming and marketing and other

promotional strategies designed to address "barriers to entry" identified by consumers. To the extent that such strategies are implemented, subscriber acquisition costs are likely to increase and, as a result, the execution of such strategies is likely to affect the timing and amount of revenues and the overall profitability of the DIRECTV businesses. However, Hughes Telecom believes that early capture of market share and the establishment of market leadership are important to maximization of the long-term value of the DIRECTV businesses.

There can be no assurance that any level of DIRECTV(R) subscribers or profitability to Hughes Telecom in the United States, Latin America, Japan or other markets will be achieved or, if and when achieved, maintained due to the factors described in this section and other factors outside the control of Hughes Telecom and its partners (including economic conditions and political volatility in various foreign countries and currency and exchange rate risks). To the extent that the factors described above affect the levels of subscribers which are achieved or maintained, the timing and amount of revenues and profitability to Hughes Telecom from its participation in providing DIRECTV services in the United States, Latin America, Japan and other markets may be adversely affected.

The DIRECTV U.S., Galaxy Latin America and DTVJ Japan systems, if and when operational, will compete with other technologies and systems. See "--Competition" below. Delays in the successful production or launch of the related satellites could materially delay the commencement or expansion of such services, which could materially affect market acceptance of such services and the financial results to Hughes Telecom. Launch schedules are subject to a number of factors, including construction delays, weather, availability of launch vehicles, launch vehicle problems and governmental and political pressures, many of which are beyond the control of Hughes Telecom. In addition, there can be no assurance that Hughes Telecom will receive the approvals and licenses from the FCC and other U.S. and foreign governmental agencies that will be required to launch and operate the satellites for direct broadcast.

#### SATELLITE SERVICES

On May 16, 1997, Hughes Telecom and Old PanAmSat completed the PanAmSat Merger, resulting in the merger of their respective satellite services operations into a new publicly held company, which assumed the name "PanAmSat Corporation" ("PanAmSat"). As part of this series of transactions, Hughes Telecom contributed its Galaxy(R) satellite services business for a 71.5% interest in PanAmSat. In these transactions, Old PanAmSat stockholders received \$1.5 billion in cash and a 28.5% interest in PanAmSat in exchange for their existing holdings. PanAmSat borrowed approximately \$1.725 billion to finance the Old PanAmSat stock purchase and facilitate the sale of certain DTH television rights to a stockholder of Old PanAmSat.

The PanAmSat Merger brings together the leading provider of commercial satellite services in the U.S. domestic market with the leading commercial provider in the international market. PanAmSat operates a global network of 16 satellites supported by seven teleport and operations facilities in the United States and more than 400 sales, marketing and engineering employees on five continents. PanAmSat believes that these resources enable the company to serve as a unique, one-stop provider of global satellite services.

PanAmSat's global satellite network is used to provide video distribution and telecommunications services. PanAmSat currently operates the leading satellites for cable and broadcast television distribution in the United States, Latin America, the Indian subcontinent and the Asia-Pacific region; and satellite platforms for direct-to-home television services in Latin America, South Africa, the Middle East and India. In addition, the company offers live transmission services for news, sports and special events coverage worldwide and satellite transmissions capacity and related services for private business networks and international Internet access. PanAmSat also provide satellite tracking, telemetry and control services for its own satellite fleet as well as for satellites owned by others.

PanAmSat primarily provides satellite services through long-term operating lease contracts to its customers for the use of full or partial transponder capacity. The company also offers services to its customers through sales and sales-type lease contracts. PanAmSat currently provides service to hundreds of video distribution and telecommunications customers worldwide and, as of June 30, 1997, had long-term contracts for satellite services representing future payments of approximately \$7.1 billion.

The following table sets forth on a pro forma basis the number of transponders on the in-orbit satellites in the PanAmSat network as of September 30, 1997 and December 31, 1996, 1995 and 1994 and the percentage of such transponders committed, in the aggregate, for use by PanAmSat customers during the current year (as of September 30, 1997) and during each of 1996, 1995 and 1994.

	1997*	1996	1995	1994
	-----	-----	-----	-----
PanAmSat Network				
Satellites.....	16	14	11	11
Transponders Available.....	495	411	307	291
Transponders Committed.....	85%	85%	91%	72%

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 \*As of September 30, 1997.

PanAmSat's business strategy is to capture more of the value-added benefits of the satellite-based services market by offering one-stop satellite shopping through its global reach and by capitalizing on its technological capabilities, its early market entry, the desirable orbital locations of its satellite fleet and its management expertise in satellite operations. In addition, PanAmSat is the leader in the development and marketing of cable neighborhoods and a broadcast neighborhood. These innovations, which concentrate a broad range of quality cable programming or broadcast programming on certain satellites, have made such satellites particularly attractive to cable programmers and broadcast programmers desiring to distribute widely their programming to cable system operators or television stations.

To meet the expected demand for additional satellite capacity, PanAmSat has five additional satellites scheduled for launch by the end of 1998. These additional launches would increase the number of PanAmSat satellite transponders between 1996 and 1998 by 74% from 411 to 715 transponders. There can be no assurance, however, that the schedule for PanAmSat's future satellite launches will be met. Delays in the production or successful launch of these satellites could materially affect the ability of PanAmSat to deliver services and benefit from the opportunities it is currently pursuing. Launch schedules are subject to a number of factors, including construction delays, weather, availability of launch vehicles, launch vehicle problems and governmental and political pressures, many of which are beyond the control of PanAmSat.

#### HUGHES AVICOM

Hughes Avicom is a supplier of cabin management, interactive passenger communications and entertainment systems and related services for the commercial airline market. Hughes Avicom's strategy is to provide and service the "Airborne Data Highway" to support entertainment, wideband information and communications for airline cabin crews and passengers. Hughes Avicom continues to focus on improving its video and interactive products, its servicing of those products, as well as reducing delivery costs.

The current health of the airline industry is driving growth in the in-flight entertainment industry. Hughes Avicom believes that interactive and Video-on-Demand systems will comprise the majority of that growth. In response to these industry trends, Hughes Avicom has developed a complete cabin communications and entertainment system that integrates its audio distribution technology, large system processing capability and liquid crystal display technology to be fully interactive and allow passengers, through individual screens at their seats, to watch and listen to individually selected entertainment programs, request meals and beverages and order duty free and other merchandise. The interactive feature of this system is currently operating on a number of major commercial carriers; a video-on-demand feature is expected to be available in 1998.

Hughes Avicom faces stiff competition from an array of international firms, including Matsushita, Sony and BE Aerospace. There can be no assurance that any level of profitability to Hughes Telecom will be achieved or maintained due to factors outside the control of Hughes Telecom, including economic conditions and changes to the current airline market.

## CORPORATE AND OTHER

Hughes Telecom operates and owns equity interests in other businesses in addition to those described above. These businesses will be reported as part of "Other" in New Hughes Electronics' consolidated financial statements and the revenues of these businesses are not, in the aggregate, material to Hughes Telecom.

For example, Hughes Telecom is the largest stockholder of AMSC, with a current equity interest of approximately 27% (plus an option to acquire, under certain circumstances, an additional 10% interest on a fully diluted basis). AMSC's common stock is publicly traded and other stockholders include Singapore Telecommunications Ltd. and AT&T Wireless Services. AMSC provides a full range of satellite-based mobile telephone, facsimile and data services in the United States, including Alaska, Hawaii, Puerto Rico, the Virgin Islands and hundreds of miles of U.S. coastal waters.

## STRATEGY

Hughes Telecom's mission is to leverage its satellite and wireless competencies to become a premier communications company. Hughes Telecom's strategy includes using its vertical integration and market leadership to gain a competitive advantage in the fast growing international communications marketplace. Hughes Telecom's roots lie in its satellite design and manufacturing expertise and it is this technological know how which has given Hughes Telecom its early competitive advantage. Hughes Telecom now intends to capture more of the value-added benefits of the satellite-based services market by capitalizing on its technological capabilities, the size and desirable orbital locations of its satellite fleet and its management expertise in satellite, communications and telecommunications operations. Hughes Telecom's strategy also includes building on its technology and experience to develop new applications for its products and services for governments, businesses and consumers and expanding international sales for all its businesses. Hughes Telecom believes significant opportunities exist in (1) DTH satellite-based television programming distribution outside North America based on Hughes Telecom's experience with its DIRECTV service, especially in areas lacking established alternative distribution infrastructures (such as developing nations); (2) owning and operating an expanding satellite fleet to provide global communications services; (3) fixed wireless telecommunications networks for local and international telecommunications in areas with deficient communications infrastructures (such as developing nations); (4) mobile wireless communications systems and services based on Hughes Telecom's digital satellite and cellular communications technologies; and (5) satellite-based communications directly to personal computers. In addition, Hughes Telecom seeks to maintain its strong position in satellite manufacturing and telecommunications equipment through more efficient production processes.

In addition, Hughes Telecom seeks to expand into related markets where it believes that its existing technologies will provide it with a sustainable competitive advantage. For example, Hughes Telecom is actively involved in pursuing Spaceway(TM), a high speed, bandwidth-on-demand satellite service. Most of the space-based hardware (including the satellites, the transponders and other electronic components comprising the satellite payloads) and most of the ground-based control equipment will be designed or manufactured by Hughes Telecom.

## ACQUISITIONS, STRATEGIC ALLIANCES AND DIVESTITURES

Due to the rapid growth in the telecommunications and space industry, particularly internationally, and increasing competitive pressures, Hughes Telecom reviews its competitive position on an ongoing basis and considers from time to time various acquisitions, strategic alliances and divestitures in order to continue to compete effectively, grow its business and allocate its resources efficiently. It is becoming increasingly important for Hughes Telecom to form strategic partnerships with other firms. These alliances bring together the necessary expertise, such as distribution, market knowledge and technology, to address competitive pressures and meet new market demands. Hughes Telecom has done this in its international DIRECTV businesses as well as its Network Systems businesses. See "--Direct-To-Home Broadcast" and "Network

Systems" above. Hughes Telecom also seeks acquisitions which will improve its position in these high growth and increasingly competitive markets. The PanAmSat Merger, completed as of May 16, 1997, merging Hughes Galaxy and Old PanAmSat satellite operations businesses to form the world's premier public provider of satellite services is the most recent example of this. See "-- Satellite Services" above. Hughes Telecom continues to evaluate acquisitions, alliances and divestitures, and from time to time engages in preliminary discussions regarding possible transactions, which it believes will improve Hughes Telecom's competitive position and financial results.

#### REGULATION

Various aspects of Hughes Telecom's businesses are subject to federal and state regulation, noncompliance with which, depending upon the nature of the noncompliance, may result in the suspension or revocation of any license or registration at issue, the termination or loss of any contract at issue or the imposition of contractual damages, civil fines or criminal penalties. Hughes Telecom has experienced no material difficulties in complying with the various laws and regulations affecting its business.

#### U.S. GOVERNMENT CONTRACTS

Hughes Telecom acts as a prime contractor or major subcontractor with respect to U.S. government programs. Principally, this business is performed in the satellite manufacturing segment of Hughes Telecom. Sales to the U.S. government may be affected by changes in acquisition policies, budget considerations, changing concepts of national defense, civilian space needs, spending priorities and other factors that are outside the control of Hughes Telecom.

Government spacecraft acquisition programs generally follow a life cycle that begins with the research and development phase, followed by an engineering development phase which includes the first spacecraft, and finally progressing into a production stage for the remaining spacecraft and may continue with refinements and improvements for several years. Large programs with significant start-up costs, which are usually incurred in the research and development phase, do not become profitable until the engineering development phase. The U.S. government typically uses multiple sources during the research and development phase to intensify competition and down-selects to one source to perform the later phases of the program. Therefore, Hughes Telecom may not be selected for engineering development and production stages even when considerable resources have been expended in the research and development phase of a program.

Hughes Telecom's U.S. government business is performed under two general types of contracts, fixed-price and cost reimbursement. Under fixed-price contracts, Hughes Telecom realizes all the benefit or detriment caused by decreased or increased costs of performing the contract. Cost reimbursement contracts provide for reimbursement of costs, to the extent such costs are reasonable, allocable to the contract and allowable under applicable regulations, plus payment of a fee. Approximately 26% of Hughes Telecom's total sales to the U.S. government in 1996 were pursuant to fixed-price contracts, and approximately 74% were pursuant to cost reimbursement contracts. Total Hughes Telecom net sales to the U.S. government in 1996 were approximately \$0.9 billion.

Hughes Telecom's fixed-price government contracts contain contract financing provisions under which Hughes Telecom may receive payments in advance of delivery in amounts ranging from over 75% to 100% of cumulative total costs incurred, with the remainder, including profit, billed upon delivery and acceptance or upon the completion of performance milestones. Under cost reimbursement contracts, Hughes Telecom is periodically reimbursed for allowable costs and paid a portion of the fee component based on progress and/or performance. Under either type of contract, certain costs, including certain financing, research and development and marketing expenses, are not reimbursable under currently applicable regulations. Also, under either type of contract, all or a portion of the profit or fee is typically subject to pay-back due to degraded or failed performance in-orbit.

Most of Hughes Telecom's contracts with the U.S. government which are the basis of Hughes Telecom's backlog are incrementally funded and therefore are subject to appropriations decisions subsequent to award. Once awarded, contracts may be contested by other bidders. In addition, Hughes Telecom's contracts with the U.S. government are subject to termination by the U.S. government either for its convenience or for default by Hughes Telecom. The costs recovered for terminations for convenience may not fully reimburse Hughes Telecom, and the profit or fee received by Hughes Telecom may be lower than that which it had expected for the portion of the contract performed. In cases of termination for default, normal contract remedies generally apply. In addition, the U.S. government has broad discretion to suspend or debar contractors from engaging in new government business, including discretion as to the period of suspension or debarment. A contractor may be debarred based on a conviction or civil judgment involving certain offenses, including fraud in connection with obtaining or performing a public contract (or subcontract thereunder), and may be suspended, if indicted for such an offense or if there is other adequate evidence that such an offense has been committed. Like other government contractors, Hughes Telecom is subject to civil and criminal audits and investigations of its contracting activity. This liability includes potential contract cost reductions due to defective pricing claims.

#### COMPETITION

Hughes Telecom has certain competitive advantages in its telecommunications and space business. In the construction of satellites, Hughes Telecom's family of satellite bus designs gives it the flexibility to respond to varying customer requirements, and its relatively lighter weight satellites are less expensive to launch than heavier competing models. The new HS 702 spacecraft keeps Hughes Telecom on the cutting edge of satellite technology as it boasts up to double the transponder capacity and power of other satellites currently available in the marketplace. Hughes Telecom faces competition from companies such as TRW, Loral Space and Communications Ltd. and Lockheed Martin in the satellite construction segment. In the sale and leasing of satellite transponders, Hughes Telecom enjoys advantages from its economies of scale and the location of many of its orbital positions, many of which are the most desirable in North America. Hughes Telecom believes that the merger of Hughes Telecom's satellite fleet with Old PanAmSat's fleet strengthens this competitive position. Loral Space & Communications Ltd.'s recent purchase of AT&T Skynet, as well as Intelsat's and Inmarsat's current spacecraft fleets keep this an exceptionally competitive market. Hughes Telecom also believes that its experience acquired through the development and operation in North America of the DIRECTV(R) service, and its early entry into the Latin American satellite-based direct broadcast market, will provide it with competitive advantages in such markets and in its efforts to expand direct broadcast services to other markets, such as Japan. The various DIRECTV services face stiff competition from local cable operations as well as other DTH satellite systems such as Primestar, Echostar and the various "Sky" services (ASkyB; BSkyB; and JSkyB). The Network Systems business of Hughes Telecom faces global competition from firms such as Lucent Technologies Inc., Telefonaktiebolaget LM Ericsson, AT&T Corporation, as well as other large telecommunications companies and the various regional Bell operating companies.

Notwithstanding the competitive advantages described above, Hughes Telecom participates in markets that involve a high level of competition by other companies that have similar or better financial, technological and personnel resources as Hughes Telecom. Hughes Telecom's telecommunications businesses compete with other communications technologies and systems, such as, with respect to telecommunications systems for fixed and mobile applications, fiber optics networks, cable systems, wire telephony and radio-based systems and other satellite-based systems. In addition to existing and other planned operations of DTH broadcasting services Hughes Telecom's direct broadcasting service competes and will compete in present and future telecommunications markets with telephone companies, cable television, other broadcast television and other entertainment services, including video rentals. No assurance can be given as to the effect that any such competition may have on the financial condition or results of operations of Hughes Telecom.

#### RESEARCH AND INTELLECTUAL PROPERTY

The ability to continue to generate technological innovations is critical to ensure Hughes Telecom's long-term success and competitiveness of the Hughes Telecom business. See "Risk Factors Relating to the Business

#### CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS

of New Hughes Electronics--New Hughes Electronics' Ability to Maintain Leading Technological Capabilities" in Chapter 2. The continued development of new technologies may provide new and improved products which will continue to fuel business opportunities and product improvements which, among other things, will enable the extension of profitable production programs. Research and development is carried on in each of Hughes Telecom's business units in connection with ongoing product improvement efforts. Hughes Research Labs located in Malibu, California, which will be 50% owned by Hughes Telecom after the Hughes Reorganization, conducts long-range applied research in the specialized fields of physics, chemistry, electronics and information sciences. See "Separation and Transition Arrangements--Summary of Other Agreements Contemplated by the Master Separation Agreement--Intellectual Property" and "Separation and Transition Arrangements--Summary of Other Agreements Contemplated by the Master Separation Agreement--Hughes Research Labs" in Chapter 3.

Hughes Telecom utilizes a large number of patents and trademarks which are held by Hughes Electronics or its other affiliates, including Hughes Defense. As part of the Hughes Transactions, Hughes Defense and Hughes Electronics and its affiliates will implement certain cross-licenses to enable them to continue to operate their respective businesses after the Hughes Transactions. See "Separation and Transition Arrangements--Summary of Other Agreements Contemplated by the Master Separation Agreement--Intellectual Property" in Chapter 3. Hughes Telecom believes that, in the aggregate, the rights existing under such patents, trademarks and licenses are important. Hughes Telecom believes that its competitive position is primarily dependent on research, engineering and production capabilities. Hughes Telecom actively pursues patent and trademark protections of its technological and engineering innovations, and actively pursues enforcement of its intellectual property rights.

#### EMPLOYEES

As of September 30, 1997, Hughes Telecom employed approximately 15,500 persons (excluding Hughes Research Labs).

#### REAL PROPERTY

As of June 30, 1997, Hughes Telecom had approximately 165 locations operating in 22 states and 55 cities in the United States and approximately 30 additional locations in 22 cities in approximately 17 countries outside the United States. At such date, approximately 3.2 million square feet of space was owned by Hughes Telecom and an additional 3.3 million square feet of space was leased.

Leased properties consist primarily of office and warehouse facilities. Lease terms on standard leases are generally five years or less. Upon the expiration of its leases, Hughes Telecom does not anticipate any difficulty in obtaining renewals or alternative space.

Hughes Telecom management believes that its facilities are suitable and adequate for its business; however, Hughes Telecom periodically reviews its space requirements to consolidate and dispose of or sublet facilities which are no longer required in connection with its business and to acquire new space to meet the needs of its business.

#### LEGAL PROCEEDINGS

From time to time Hughes Telecom is involved in various litigation matters arising in the ordinary course of its business. Hughes Telecom management does not believe that disposition of any current matter will have a material adverse effect on Hughes Telecom's combined financial position or results of operations.

## THE "WILLIAMS PATENT"

Hughes Electronics has maintained a suit against the U.S. government since September 1973 regarding the U.S. government's infringement and use of a Hughes Electronics 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 Electronics damages of \$114 million. Because Hughes Electronics 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 affirmed the decision of the Court of Claims which awarded Hughes Electronics \$114 million in damages, together with interest. The U.S. government petitioned the Court of Appeals for the Federal Circuit 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 review. On April 21, 1997 the U.S. Supreme Court, citing a recent decision it had rendered in a separate patent matter, remanded Hughes Electronics' suit over the Williams Patent back to the Court of Appeals along with patent cases involving other parties then pending before the U. S. Supreme Court, in order to have the Court of Appeals determine whether the results of prior proceedings in those cases are consistent with the U.S. Supreme Court's recent decision in such other matter. The previous liability decision of the Court of Claims in the Williams Patent matter, and its \$114 million damage award to Hughes Electronics, currently remain in effect pending reconsideration by the Court of Appeals. Hughes Electronics is unable to estimate the duration of this reconsideration process. While no amount has been recorded in the financial statements of Hughes Electronics to reflect the \$114 million award or the interest accumulating thereon, a resolution of this matter could result in a gain that would be material to the earnings of General Motors attributable to New GM Class H Common Stock.

## LANE AND VILLALPANDO LITIGATION

In October 1994, a California jury awarded a total of \$89.5 million in damages against Hughes Telecom, including punitive damages of \$40 million to each of two former Hughes Telecom employees, Lane (race discrimination/retaliation) and Villalpando (retaliation), based on claims of mistreatment and denials of promotions. The trial court granted Hughes Telecom's motion to set aside the verdicts because of insufficient evidence. On January 6, 1997, the Court of Appeal reversed the trial court's decision to set aside the verdicts, reinstated the jury verdicts, but reduced the two \$40 million punitive damage awards to \$5 million and \$2.83 million, resulting in an aggregate judgment of \$17.33 million. Hughes Telecom filed a petition for review by the California Supreme Court, which was supported by various amicus briefs. On March 19, 1997, the California Supreme Court granted Hughes Telecom's request for review of the \$17.33 million judgment, and ordered the Court of Appeal to vacate its decision and reconsider the case. On March 27, 1997, the Court of Appeal issued such an order and requested supplemental briefs. On July 28, 1997, the Court of Appeal reissued essentially the same opinion and award. Hughes Telecom's petition for reconsideration was denied. Hughes Telecom has petitioned the California Supreme Court for review. Because review by the California Supreme Court is in the discretion of that court, no assurance can be given that the case will be accepted for review, or that if accepted, the California Supreme Court's decision will be favorable to Hughes Telecom.

## GOVERNMENT REGULATIONS

Hughes Telecom and its subsidiaries are subject to potential liability under government regulations and various claims and legal actions which are pending or may be asserted against them. Some of the pending actions purport to be class actions. The aggregate ultimate liability of Hughes Telecom and its subsidiaries under these government regulations, and under these claims and actions, was not determinable as of the date of this document. After discussion with counsel, it is the opinion of Hughes Telecom management that such liability is not expected to have a material adverse effect on the Hughes Telecom's consolidated operations or financial position.



DIRECTORS AND EXECUTIVE OFFICERS OF NEW HUGHES ELECTRONICS

After the Hughes Transactions, it is expected that all eight of the current members of the Hughes Electronics Board will initially serve as directors of New Hughes Electronics, including three directors who are also independent directors of General Motors (one of whom is also a member of the Capital Stock Committee of the GM Board), three directors who are executive officers of General Motors and two directors who will be executive officers of Hughes Telecom.

Set forth below are the names, ages and positions with New Hughes Electronics upon the consummation of the Hughes Transactions of the persons expected to be directors and executive officers of New Hughes Electronics immediately after such consummation.

DIRECTORS

NAME ----	AGE ---	POSITION -----
C. Michael Armstrong	58	Chairman of the Board
Charles T. Fisher, III	67	Director
J. Michael Losh	51	Director
Harry J. Pearce	55	Director
Eckhard Pfeiffer	56	Director
John F. Smith, Jr.	59	Director
Michael T. Smith	54	Director
Thomas H. Wyman	67	Director

EXECUTIVE OFFICERS

NAME ----	AGE ---	POSITION -----
C. Michael Armstrong	58	Chief Executive Officer
Michael T. Smith	54	Vice Chairman
Steven D. Dorfman	62	Executive Vice President
Roxanne S. Austin	36	Senior Vice President and Chief Financial Officer
Gareth C. C. Chang	54	Senior Vice President
Jack A. Shaw	58	Senior Vice President
Marcy Tiffany	48	Vice President and General Counsel
Ted G. Westerman	61	Senior Vice President

Set forth below are the persons expected to have primary responsibility for the business segments of New Hughes Electronics after the consummation of the Hughes Transactions.

NAME ----	AGE ---	BUSINESS SEGMENT -----
Steven D. Dorfman	62	Satellite Manufacturing
Jack A. Shaw	58	Network Systems
Eddy W. Hartenstein	46	Direct-To-Home Broadcast
Frederick C. Landman	49	Satellite Services
Kenneth J. McNamera	51	Hughes Avicom

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
RAYTHEON SELECTED COMBINED HISTORICAL  
AND PRO FORMA FINANCIAL DATA

The following Raytheon selected combined historical financial data have been derived from the financial statements of Raytheon. The unaudited pro forma combined condensed financial statements of New Raytheon have been derived from the historical consolidated financial statements of Raytheon and the historical combined financial statements of Texas Instruments Defense and Hughes Defense, and give effect to the Raytheon Merger and the Texas Instruments Defense Acquisition using the purchase method of accounting as well as consistent application of Raytheon accounting practices. The data should be read in conjunction with Raytheon's Consolidated Financial Statements (including the notes thereto) which are incorporated into this document by reference. The consolidated historical financial data as of and for the years ended December 31, 1996, 1995, 1994, 1993 and 1992 have been derived from the consolidated financial statements of Raytheon audited by Coopers & Lybrand L.L.P., independent public accountants. The Raytheon consolidated historical financial data as of and for the six-month periods ended June 29, 1997 and June 30, 1996 have been derived from the unaudited financial statements of Raytheon for such periods included in Raytheon's Form 10-Q dated August 13, 1997, which is incorporated into this document by reference. In the opinion of Raytheon management, the unaudited consolidated historical financial statements reflect all adjustments (consisting of only normal recurring items) that are necessary for fair presentation of financial position and results of operations for such periods. The Raytheon unaudited summary pro forma operating results for the six months ended June 29, 1997 and for the year ended December 31, 1996 give effect to the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition as if they had occurred at the beginning of each respective period. The Raytheon unaudited summary pro forma balance sheet data as of June 29, 1997 give effect to the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition as if they had occurred at that date. Operating results for the six-month periods ended June 29, 1997 and June 30, 1996 are not necessarily indicative of the results that may be expected for the entire year. Pro forma data are not necessarily indicative of future financial position or operating results.

	FOR SIX MONTHS ENDED			FOR THE YEARS ENDED					
	PRO FORMA JUNE 29 1997 (D)	JUNE 29 1997	JUNE 30 1996	PRO FORMA 1996 (D)	1996	1995	1994	1993	1992
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)									
<b>OPERATING RESULTS:</b>									
Net Sales.....	\$10,461	\$ 6,223.9	\$ 5,914.4	\$20,514	\$12,330.5	\$11,804.2	\$10,097.7	\$9,334.1	\$9,121.7
Costs and Expenses.....	9,736	5,631.7	5,318.5	19,114 (a)	11,247.0 (a)	10,612.5 (b)	9,197.8 (c)	8,286.8	8,165.7
Income before Taxes.....	725	592.2	595.9	1,400 (a)	1,083.5 (a)	1,191.7 (b)	899.9 (c)	1,047.3	956.0
Income Taxes.....	277	199.3	200.0	499	322.3	399.2	303.0	354.3	320.9
Net Income.....	448	392.9	395.9	901 (a)	761.2 (a)	792.5 (b)	596.9 (c)	693.0	635.1
Earnings per common share.....	1.32	1.66	1.66	2.65 (a)	3.21 (a)	3.25 (b)	2.26 (c)	2.56	2.36
Dividend declared per common share.....		0.40	0.40		0.80	0.75	0.738	0.70	0.663
<b>BALANCE SHEET DATA:</b>									
Cash and marketable securities.....									
	\$ 181	\$ 181.3	\$ 212.3		\$ 138.8	\$ 210.3	\$ 202.2	\$ 190.2	\$ 88.8
Current assets.....	9,444	6,177.5	6,147.5		5,603.9	5,275.2	4,985.5	4,609.2	3,775.8
Total assets.....	28,281	11,843.1	11,620.9		11,126.1	9,840.9	7,395.4	7,257.7	6,015.1
Current Liabilities.....	10,006	5,136.1	5,427.0		4,691.8	3,690.4	3,283.1	2,800.3	2,136.8
Long-term debt.....	6,650	1,496.6	1,496.1		1,500.5	1,487.7	24.5	24.4	25.3
Stockholders' Equity....	9,943	4,877.5	4,337.5		4,598.0	4,292.0	3,982.2	4,297.9	3,843.2
<b>OTHER DATA:</b>									
Depreciation and amortization.....		\$ 193.0	\$ 175.6		\$ 368.9	\$ 371.4	\$ 304.2	\$ 296.4	\$ 302.1
Capital Expenditures....		\$ 201.4	\$ 203.9		\$ 406.0	\$ 328.6	\$ 267.4	\$ 256.1	\$ 307.7

- -----
- (a) Includes special charge of \$34.0 million pre-tax, \$22.1 million after-tax, or \$.09 per share
- (b) Includes one-time gain of \$8.0 million pre-tax, \$5.2 million after-tax, or \$.02 per share.
- (c) Includes restructuring charge of \$249.8 million pre-tax, \$162.3 million after-tax, or \$.61 per share.
- (d) Pro forma balance sheet as of December 31, 1996 and pro forma other data have not been determined.

CHAPTER 4: FINANCIAL AND BUSINESS REVIEWS  
OVERVIEW OF RAYTHEON BUSINESS

For additional information regarding the business of Raytheon, see Raytheon Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Raytheon 1996 Form 10-K, which is incorporated into this document by reference.

GENERAL

Raytheon is an international high technology company which operates in the following principal businesses: defense and commercial electronics, engineering and construction and aircraft. Historically, Raytheon's principal business has been the design, manufacture and servicing of advanced electronic devices, equipment and systems for government and commercial use. Raytheon is a major defense contractor in the United States and internationally.

ELECTRONICS SEGMENT

DEFENSE ELECTRONICS

Raytheon's defense electronics business consists of Raytheon Electronics Systems and Raytheon E-Systems. Raytheon Electronic Systems is a major provider of ground-based air defense systems, air intercept missiles, ground-based and shipboard radars, military communications systems and naval combat control, sonar and minehunting systems. Raytheon E-Systems is a leader in defense systems integration and provides reconnaissance and surveillance, command, control, communications and intelligence systems, mass data collection, interpretation and dissemination, specialized aircraft modification services and shipboard and airborne countermeasures systems to a wide variety of customers worldwide. In addition to defense electronics systems, Raytheon has been successful in the conversion of certain defense electronics technologies to commercial applications such as air traffic control, environmental monitoring and communications.

On July 11, 1997 Raytheon consummated the acquisition of Texas Instruments Defense. Since that date, Texas Instruments Defense has been conducted through Raytheon TI Systems, a wholly owned subsidiary of Raytheon ("RTIS"). RTIS is a premier supplier of advanced defense systems, including tactical missiles, precision-guided weapons, radar, night vision systems and electronic warfare systems.

COMMERCIAL ELECTRONICS

Raytheon's commercial electronics business consists of Raytheon Marine Company, Raytheon Microelectronics, Raytheon Semiconductor, Seiscor Technologies, Inc. and Switchcraft, Inc. These entities produce, among other things, marine radars and other marine electronics, transmit/receive modules for satellite communications projects, silicon semiconductor components, telephone transmission, switching and connection equipment and other electronic components for a wide range of applications.

ENGINEERING AND CONSTRUCTION SEGMENT

Raytheon Engineers & Constructors ("RE&C") is one of the largest engineering, construction and operation and maintenance firms in the world, supporting customers in thirteen industries. RE&C is engaged in the design, construction and maintenance of facilities and plants operated by a range of customers, including independent power producers, utilities, petroleum companies, pulp and paper companies, industrial concerns and governments. Raytheon Service Company, a unit of RE&C, provides operations, maintenance and technical services for many U.S. defense systems and agencies. Another unit of RE&C designs and manufactures a wide range of equipment used for infrastructure building and repair, including aggregate producing equipment, asphalt paving equipment, mixing plants and soil remediation systems.

AIRCRAFT SEGMENT

Raytheon's Aircraft segment offers one of the broadest product lines in the general aviation market. Raytheon Aircraft manufactures, markets and supports piston-powered aircraft, jet props and light and medium jets for the world's commercial, regional airline and military aircraft markets. Raytheon Aircraft is the prime contractor for the U.S. Air Force/U.S. Navy Joint Primary Aircraft Training System ("JPATS").

APPLIANCES SEGMENT

On September 10, 1997, Raytheon consummated the sale of its home appliance, heating and air conditioning and commercial cooking businesses to Goodman Manufacturing Company, L.P. for an aggregate amount of \$550 million in cash. In the appliances segment, Raytheon is retaining its commercial laundry and electronic controls businesses, but is continuing its strategic review of these remaining businesses.

See "--Recent Developments--Raytheon--Sale of Portions of the Appliances Business" above.

CHAPTER 5  
NEW RAYTHEON

CHAPTER 5: NEW RAYTHEON

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CHAPTER 5: NEW RAYTHEON  
NEW RAYTHEON UNAUDITED PRO FORMA COMBINED  
CONDENSED FINANCIAL STATEMENTS

The unaudited pro forma combined condensed financial statements of New Raytheon have been derived from the historical consolidated financial statements of Raytheon and the historical combined financial statements of Texas Instruments Defense and Hughes Defense, and give effect to the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition using the purchase method of accounting as well as consistent application of Raytheon accounting practices. The unaudited pro forma combined condensed statements of income for the six months ended June 29, 1997 and for the year ended December 31, 1996 have been prepared as if the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition had occurred at the beginning of each respective period. The unaudited pro forma combined condensed balance sheet has been prepared as if the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition occurred on June 29, 1997. The purchase price has been allocated to the assets and liabilities based upon preliminary estimates of their respective fair values and the pro forma adjustments do not give effect to any synergies.

The unaudited pro forma combined condensed financial statements should be read in conjunction with Raytheon's Consolidated Financial Statements (including the notes thereto) included in the Raytheon 1996 Form 10-K, which is incorporated into this document by reference, Hughes Defense's Combined Financial Statements (including the notes thereto) included in Appendix C to this document and the Defense Business of Texas Instruments' Financial Statements (including the notes thereto) included in Raytheon's Form 8-K dated March 14, 1997, which is incorporated into this document by reference, each as of and for the period ended December 31, 1996, and the unaudited consolidated financial statements (including the notes thereto) of Raytheon included in Raytheon's Form 10-Q dated August 13, 1997, which is incorporated into this document by reference, the unaudited combined financial statements of Hughes Defense (including the notes thereto) included in Appendix C to this document and the unaudited financial statements of the Defense Business of Texas Instruments (including the notes thereto) included in Raytheon's Form 8-K dated , 1997, which is incorporated into this document by reference, each as of and for the six-month period ended June 30, 1997 or June 29, 1997, as applicable.

The pro forma combined condensed balance sheet is not necessarily indicative of the financial position of Raytheon that would have been attained had the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition been consummated on June 29, 1997. The pro forma combined condensed statements of income are not necessarily indicative of the results of operations of New Raytheon that would have been attained had the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition been consummated on January 1, 1996 and 1997, nor are they necessarily indicative of future operating results.

## CHAPTER 5: NEW RAYTHEON

## NEW RAYTHEON

## UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED JUNE 29, 1997  
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	HISTORICAL RAYTHEON	HISTORICAL TI DEFENSE	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED	HISTORICAL HUGHES DEFENSE	HUGHES DEFENSE RECLASSES	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
Net sales.....	\$6,224	\$824	----	\$7,048	\$3,413	----	----	\$10,461
Cost of sales.....	4,791	638	\$ (4) (2c) (6) (2d) 35 (2g) (10) (2e)	5,444	2,804	\$ 17	\$(12) (3c) (48) (3d) 93 (3g) (14) (3e)	8,284
Amortization of push- down goodwill.....					50		(50) (3c)	--
Administration and selling expenses.....	542	55		597	188	(8)		777
Depreciation and amortization.....					76	(76)		--
Research and development expenses.....	170	44		214		83		297
Operating income.....	721	87	(15)	793	295	(16)	31	1,103
Interest expense.....	143			143	50		(50) (3i)	143
Interest income.....	(15)			(15)				(15)
Acquisition interest expense.....			110 (2f)	110			150 (3f)	260
Other (Income)/expense..	1	2		3	(13)			(10)
Income before tax.....	592	85	(125)	552	258	(16)	(69)	725
Federal and foreign income taxes.....	199	32	(44) (2h)	187	119	(16)	(13) (3h)	277
Net income.....	\$ 393	\$ 53	\$(81)	\$ 365	\$ 139	--	\$(56)	\$ 448
Earnings per common shares								
Outstanding shares.....	\$ 1.66			\$ 1.55				\$ 1.32
Fully diluted.....	\$ 1.64			\$ 1.53				\$ 1.31
Average common shares								
Outstanding.....	236			236			103	339
Fully diluted.....	239			239			103	342

The Accompanying Notes are an Integral Part of the  
Unaudited Pro Forma Combined Condensed Financial Statements.

## NEW RAYTHEON

## UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1996  
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	HISTORICAL RAYTHEON	HISTORICAL TI DEFENSE	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED	HISTORICAL HUGHES DEFENSE	HUGHES DEFENSE RECLASSES	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
Net sales.....	\$12,331	\$1,800	-----	\$14,131	\$6,383	-----	-----	\$20,514
Cost of sales.....	9,755	1,415	\$ (6) (2c) (12) (2d) 69 (2g) (52) (2e)	11,169	5,211	\$ 5	\$ (18) (3c) (95) (3d) 187 (3g) (29) (3e)	16,430
Amortization of push- down goodwill.....					101		(101) (3c)	--
Administration and selling expenses.....	1,021	129		1,150	322	(21)		1,451
Depreciation and amortization.....					146	(146)		--
Research and development expenses.....	323	78		401		192		593
Special charges.....	34			34				34
Operating income.....	1,198	178	1	1,377	603	(30)	56	2,006
Interest expense.....	256			256	92		(92) (3i)	256
Interest income.....	(102)			(102)				(102)
Acquisition interest expense.....			198 (2f)	198			300 (3f)	498
Other (Income)/expense..	(40)	3		(37)	(9)			(46)
Income before tax.....	1,084	175	(197)	1,062	520	(30)	(152)	1,400
Federal and foreign income taxes.....	322	66	(69) (2h)	319	239	(30)	(29) (3h)	499
Net income.....	\$ 762	\$ 109	\$(128)	\$ 743	\$ 281	--	\$(123)	\$ 901
Earnings per common share								
Outstanding shares.....	\$ 3.21			\$ 3.14				\$ 2.65
Fully diluted.....	\$ 3.16			\$ 3.08				\$ 2.62
Average common shares								
Outstanding.....	237			237			103	340
Fully Diluted.....	241			241			103	344

The accompanying notes are an integral part of the  
Unaudited Pro Forma Combined Condensed Financial Statements.



## CHAPTER 5: NEW RAYTHEON

## NEW RAYTHEON

## UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET

AS OF JUNE 29, 1997  
(IN MILLIONS)

	HISTORICAL RAYTHEON	HISTORICAL TI DEFENSE	RECLASSI- FICATIONS	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED	HISTORICAL HUGHES DEFENSE	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
<b>ASSETS</b>								
<b>Current assets</b>								
Cash and marketable securities.....	\$ 181				\$ 181	\$ 82	\$ (82) (3b)	\$ 181
Accounts receivable....	812	\$237	\$ (207) (2i)		842	683		1,525
Contracts in process...	2,994		395 (2i)	\$ (85) (2b,d)	3,304	1,672	(190) (3b)	4,786
Inventories.....	1,709	218	(188) (2i)		1,739	427		2,166
Other.....	481	2			483	303		786
<b>Total current assets....</b>	<b>6,177</b>	<b>457</b>		<b>(85)</b>	<b>6,549</b>	<b>3,167</b>	<b>(272)</b>	<b>9,444</b>
Property, plant and equipment, net.....	1,923	307			2,230	1,146	8 (3b)	3,384
Cost in excess of net assets acquired.....	3,073	41		(41) (2b) 2,774 (2b)	5,847	2,930	(2,930) (3b) 7,441 (3b)	13,288
Pension asset.....							1,075 (3b)	1,075
Other assets.....	670	1		66 (2b)	737	139	214 (3b)	1,090
<b>Total assets.....</b>	<b>\$11,843</b>	<b>\$806</b>		<b>\$2,714</b>	<b>\$15,363</b>	<b>\$7,382</b>	<b>\$ 5,536</b>	<b>\$28,281</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>								
<b>Current Liabilities:</b>								
Notes payable and current portion of long-term debt.....	\$ 2,510				\$ 2,510	\$ 101	\$ 2,310 (3a)	\$ 4,921
Advance payments.....	358				358	388		746
Accounts payable.....	1,258	\$211			1,469	271		1,740
Other.....	1,010	63		\$ 78 (2b)	1,151	905	543 (3b)	2,599
<b>Total current liabilities.....</b>	<b>5,136</b>	<b>274</b>		<b>78</b>	<b>5,488</b>	<b>1,665</b>	<b>2,853</b>	<b>10,006</b>
Long-term debt and capitalized leases....	1,497			2,990 (2a)	4,487	33	2,130 (3a)	6,650
Other.....	332	178			510	311	861 (3b)	1,682
<b>Stockholders' equity:</b>								
Common stock at par....	236				236		103 (3a)	339
Additional paid-in-capital.....	294				294		4,962 (3a)	5,256
Retained earnings.....	4,348	354		(354)	4,348	5,373	(5,373) (3b)	4,348
<b>Total stockholders' equity.....</b>	<b>4,878</b>	<b>354</b>		<b>(354)</b>	<b>4,878</b>	<b>5,373</b>	<b>(308)</b>	<b>9,943</b>
<b>Total liabilities and stockholders' equity...</b>	<b>\$11,843</b>	<b>\$806</b>		<b>\$2,714</b>	<b>\$15,363</b>	<b>\$7,382</b>	<b>\$ 5,536</b>	<b>\$28,281</b>

The Accompanying Notes are an Integral Part of the Unaudited Pro Forma Combined Condensed Financial Statements.

NEW RAYTHEON  
 NOTES TO UNAUDITED PRO FORMA COMBINED  
 CONDENSED FINANCIAL STATEMENTS

1. Basis of Presentation

The unaudited pro forma combined condensed financial statements of New Raytheon have been derived from the historical consolidated financial statements of Raytheon and the historical combined financial statements of Texas Instruments Defense and Hughes Defense, and give effect to the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition using the purchase method of accounting as well as consistent application of Raytheon accounting practices. The unaudited pro forma combined condensed statements of income for the six months ended June 29, 1997 and for the year ended December 31, 1996 have been prepared as if the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition had occurred at the beginning of each respective period. The unaudited pro forma combined condensed balance sheet has been prepared as if the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition occurred on June 29, 1997. The purchase price has been allocated to the assets and liabilities based upon preliminary estimates of their respective fair values and the pro forma adjustment do not give effect to any synergies.

The unaudited pro forma combined condensed financial statements should be read in conjunction with Raytheon's Consolidated Financial Statements (including the notes thereto) included in the Raytheon 1996 Form 10-K, which is incorporated into this document by reference, Hughes Defense's Combined Financial Statements (including the notes thereto) included in Appendix C to this document and the Defense Business of Texas Instruments' Financial Statements (including the notes thereto) included in Raytheon's Form 8-K dated May 23, 1997 which is incorporated into this document by reference, each as of and for the period ended December 31, 1996, and the unaudited consolidated financial statements (including the notes thereto) of Raytheon included in Raytheon's Form 10-Q dated August 13, 1997 which is incorporated into this document by reference, the unaudited combined financial statements of Hughes Defense (including the notes thereto) included in Appendix C to this document and the unaudited financial statements of the Defense Business of Texas Instruments (including the notes thereto) included in Raytheon's Form 8-K dated , 1997, which is incorporated into this document by reference, each as of and for the six-month period ended June 30, 1997 or June 29, 1997, as applicable.

The pro forma combined condensed balance sheet is not necessarily indicative of the financial position of Raytheon that would have been attained had the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition been consummated on June 29, 1997. The pro forma combined condensed statements of income are not necessarily indicative of the results of operations of New Raytheon that would have been attained had the Hughes Transactions, the Raytheon Merger and the Texas Instruments Defense Acquisition been consummated on January 1, 1996 and 1997, nor are they necessarily indicative of any future operating results.

Certain reclassifications have been made to the historical financial statements of Raytheon, Texas Instruments Defense and Hughes Defense to conform to the pro forma combined condensed financial statement presentation on a consistent basis.

2. Pro Forma Adjustments--Texas Instruments Defense

The following adjustments give pro forma effect to the Texas Instruments Defense Acquisition (in millions):

- (a) To record the exchange consideration at closing:

Consideration.....	\$2,950 =====
--------------------	------------------

CHAPTER 5: NEW RAYTHEON

(Assumed financing of \$2,990 fixed rate medium- and long-term borrowings at an aggregate interest rate of 7.05% including acquisition costs of \$40)

(b) To adjust the assets and liabilities to their estimated fair values:

Net assets of Texas Instruments Defense at June 29, 1997.....	\$ 354
Contracts in process valuation adjustments.....	(85)
Provision for the estimated exit costs of integrating acquired operations.....	(78)
Deferred tax benefits.....	66
Costs in excess of net assets of acquired business.....	2,774
Acquisition costs.....	(40)
Elimination of Texas Instruments Defense goodwill.....	(41)
	-----
	\$2,950
	=====

(c) Adjustment to eliminate the amortization of intangible assets of Texas Instruments Defense which would not have been incurred if the Texas Instruments Defense Acquisition had occurred on January 1, 1996.

(d) Adjustment to reflect the effect on 1996 and 1997 results relating to a net reduction of accumulated contract costs as an allowance for Raytheon's normal profit on its efforts to complete such contracts, and other contract valuation adjustments.

(e) Elimination of \$32 of non-recurring employee related costs and \$20 of non-recurring corporate allocations from the parent of Texas Instruments Defense as a result of the Texas Instruments Defense Acquisition for the year ended December 31, 1996 and \$10 of non-recurring corporate allocations for the six months ending June 29, 1997.

(f) Adjustments which represent additional estimated interest expense resulting from the use of borrowings to finance the Texas Instruments Defense Acquisition and incremental interest on Raytheon's pre-Texas Instruments Defense Acquisition variable rate borrowings to reflect the change in credit rating as a result of the Texas Instruments Defense Acquisition.

(g) The amortization of excess of costs over acquired net assets over an estimated life of 40 years. Such amortization expense is subject to possible adjustment resulting from the completion of the valuation analyses. Raytheon expects that any subsequent adjustment would not materially affect the combined pro forma results.

(h) The estimated tax effect on the applicable pro forma adjustments.

(i) Reclassifications made to conform the Texas Instruments Defense historical financial statements to the unaudited pro forma combined condensed financial statement presentation.

3. Pro Forma Adjustments--Hughes Defense

The following adjustments give pro forma effect to the Raytheon Merger (in millions):

(a) To record the exchange consideration at closing:

Consideration (\$9,500 less acquired debt of \$120).....	\$9,380
	=====

(Assumed financing is based on the following assumptions:  
 Equity--102,634 thousand shares at assumed market value of \$49.35 totals \$5,065  
 Debt--\$4,435 less \$120 of debt assumed plus acquisition costs of \$125 totals \$4,440 to be financed with a combination of variable rate short-term borrowings of \$2,310 and fixed rate medium- and long-term borrowings of \$2,130 at an average interest rate of 6.37%)

(b) To adjust the assets and liabilities to their estimated fair values:

Net assets of Hughes Defense at June 29, 1997.....	\$ 5,373
Additional assets to be recorded in the Raytheon Merger.....	56
Additional liabilities to be recorded in the Raytheon Merger.....	(96)
Cash not included in the Raytheon Merger.....	(82)
Contracts in process valuation adjustments.....	(190)
Accrual for future lease cost in excess of fair market value.....	(264)
Provision for the estimated exit costs of integrating acquired operations.....	(495)
To include pension assets and reflect fair market value less the projected benefit obligation.....	892
To include the liability for post-retirement benefits other than pensions.....	(366)
Deferred tax benefits.....	166
Costs in excess of net assets of Hughes Defense.....	7,441
Raytheon Merger costs.....	(125)
Elimination of Hughes Defense goodwill.....	(2,930)
	-----
	\$ 9,380
	=====

- (c) Adjustment to eliminate the amortization of intangible assets of Hughes Defense which would not have been incurred if the Raytheon Merger had occurred on January 1, 1996.
- (d) Adjustment to reflect the effect on 1996 and 1997 results relating to a net reduction of accumulated contract costs as an allowance for Raytheon's normal profit on its efforts to complete such contracts.
- (e) Elimination of \$29 of non-recurring corporate allocation from the parent of Hughes Defense as a result of the Raytheon Merger for the year ended December 31, 1996 and \$14 for the six months ended June 29, 1997.
- (f) Adjustments which represent additional estimated interest expense resulting from the use of borrowings to finance the Raytheon Merger and incremental interest on Raytheon's pre-Raytheon Merger variable rate borrowings to reflect the change in credit rating as a result of the Raytheon Merger.
- (g) The amortization of excess of costs over acquired net assets over an estimated life of 40 years. Such amortization expense is subject to possible adjustment resulting from the completion of the valuation analyses. Raytheon expects that any subsequent adjustment would not materially affect the combined pro forma results.
- (h) The estimated tax effect on the applicable pro forma adjustments.
- (i) Elimination of Hughes Defense interest expense.
- (j) The consideration to be paid is subject to adjustment based on the actual net assets at the time of the closing and the amount of debt and equity to be issued is subject to adjustment based on the price of Raytheon Common Stock at the closing of the Raytheon Merger.

## OVERVIEW OF NEW RAYTHEON BUSINESS

In early January 1997, Raytheon announced its agreements to acquire Texas Instruments Defense (now Raytheon TI Systems) and to merge with Hughes Defense, thereby creating a unique technology company and a world leader in what it considers to be the most appealing segment of the defense business--defense electronics. Representing the best-of-the-best of the three companies in terms of people, processes and technologies, this dynamic new combination will enhance Raytheon's global competitiveness by fully integrating operations for greater efficiency and effectiveness.

Having completed the acquisition of Texas Instruments Defense on July 11, 1997, the strategic combination of Raytheon and Hughes Defense offers an even broader range of products and services, outstanding returns to New Raytheon stockholders, and a more secure and promising future for its people. The compelling benefits of the powerful Raytheon, Hughes Defense and Texas Instruments combination include:

- . critical mass of programs, skills and investment to compete effectively on cost and performance against top-tier defense companies such as Lockheed Martin and the newly created Boeing/McDonnell Douglas. This same critical mass also provides the technological discriminators and capability to support fully those same primes in areas where teaming is more appropriate;
- . a position of strength in core market areas such as air- and ground-based radar systems, air defense systems, air traffic control systems, airborne and space surveillance systems, communication equipment, information systems, missiles, night vision systems, surface and undersea naval systems, simulation, technical services and training;
- . integration and consolidation of the substantial research and development capabilities of the combined companies, long renowned for their innovative R&D; and
- . annual cost savings and a stronger cash flow through the creation of "centers of excellence" for design and manufacturing and consolidation of operations.

Shortly after the acquisition of Texas Instruments Defense and the Raytheon Merger were announced in January 1997, planning for the new company began with the formation of the Management Transition Committee, which includes personnel from Raytheon and Hughes Defense. Cross-company teams were established in areas such as engineering, facilities, finance, human resources, material procurement, quality and others. Throughout the process, the emphasis has been on achieving efficiencies and refining business operations rapidly while expanding global market presence. In order to accomplish this, the teams have formulated a strategy to integrate and consolidate New Raytheon's businesses, serve its customers and extend its defense technologies and capabilities into related commercial areas. This strategy is currently being used to guide the integration of the operations of Texas Instruments Defense into Raytheon. The end result will be a world-class defense electronics and systems integration company with strong operational management.

The defense operations of New Raytheon will be organized along major product lines, emphasizing weapons systems, sensor systems, information systems, communications systems, training and technical services. Although the defense operations of New Raytheon will be primarily focused on its core capabilities in defense, it will continue to pursue and expand business opportunities in related and growing non-defense areas such as air traffic control, information technology, technical services, telecommunications, training and transportation systems. Furthermore, New Raytheon will be a multi-industry, global enterprise with established commercial businesses in aircraft, engineering and construction and commercial electronics.

After the Raytheon Merger is completed, the business of New Raytheon will consist of:

- . the combined operations of the Raytheon defense business, Hughes Defense and Texas Instruments Defense;
- . the Commercial Electronics business (See "Business of Raytheon--Electronics Segment--Commercial Electronics" in Chapter 4);
- . the Engineering and Construction business (See "Business of Raytheon--Engineering and Construction Segment" in Chapter 4);
- . the Aircraft business (See "Business of Raytheon--Aircraft Segment" in Chapter 4); and
- . the Commercial Laundry and Electronic Controls business (See "Business of Raytheon--Appliances Segment" in Chapter 4).

For additional information regarding the business of Raytheon, see Raytheon Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Raytheon 1996 Form 10-K, which is incorporated into this document by reference.

## NEW RAYTHEON MANAGEMENT

## DIRECTORS AND EXECUTIVE OFFICERS

## BOARD OF DIRECTORS

The Hughes Defense Board currently has three members. The Raytheon Merger Agreement provides that, effective as of the Raytheon Merger Effective Time, the New Raytheon Board will be constituted as set forth below. A majority of such persons will not be employees of New Raytheon.

NAME	AGE
C. Michael Armstrong.....	58
Ferdinand Colloredo-Mansfeld.....	57
Steven D. Dorfman.....	62
Theodore L. Eliot, Jr.....	69
Thomas E. Everhart.....	65
John R. Galvin.....	68
Barbara B. Hauptfuhrer.....	69
Richard D. Hill.....	78
L. Dennis Kozlowski.....	57
James N. Land, Jr.....	68
A. Lowell Lawson.....	59
Thomas L. Phillips.....	73
Dennis J. Picard.....	65
Warren B. Rudman.....	67
Alfred M. Zeien.....	67

The New Raytheon Board will be divided into three classes serving staggered terms. Directors in each class will be elected to serve for three-year terms and until their successors are elected and qualified. Each year, the directors of one class will stand for election as their terms of office expire.

Set forth below is a description of the backgrounds of the persons expected to be directors of New Raytheon.

C. Michael Armstrong. Chairman and Chief Executive Officer, Hughes Electronics Corporation, since March 1992. Prior thereto, Senior Vice President, International Business Machines Corporation (1989-1992).

Ferdinand Colloredo-Mansfeld. Current director of Raytheon. Chairman and Chief Executive Officer, Cabot Partners, since October 1990. Prior thereto, Chairman and Chief Executive Officer, Cabot, Cabot & Forbes Realty Advisers, Inc. (predecessor of Cabot Partners) and Chairman, Chief Executive Officer and President of Cabot, Cabot and Forbes from 1986. Principal Business: Real Estate Investment and Management. Director: Shawmut National Corporation; Data General Corporation.

Steven D. Dorfman. [Information to be provided.]

Theodore L. Eliot, Jr. Current director of Raytheon. Dean Emeritus of the Fletcher School Law and Diplomacy, Tufts University; former U.S. Ambassador. Director: Neurobiological Technologies, Inc. and Fiberstars, Inc.

Thomas E. Everhart. President and Professor of Electrical Engineering and Applied Physics, California Institute of Technology, Pasadena. Prior thereto, Chancellor of University of Illinois, Urbana-Champaign. Director: General Motors Corporation; Hewlett-Packard Corporation; Saint-Gobain Corporation; Reveo, Inc.; Corporation for National Research Initiatives; Community Television of Southern California (KCET).

John P. Galvin. Current director of Raytheon. [Information to be provided.]

Barbara B. Hauptfuhrer. Current director of Raytheon. Principal Business: Corporate Director. Director: The Vanguard Group of Investment Companies and each of the mutual funds in the Vanguard Group; The Great Atlantic and Pacific Tea Co., Inc.; Knight-Ridder, Inc.; Massachusetts Mutual Life Insurance Company; Alco Standard Corporation.

Richard D. Hill. Current director of Raytheon. Retired Chairman, Bank of Boston Corporation and The First National Bank of Boston. Principal Business: Corporate Director.

L. Dennis Kozlowski. Current director of Raytheon. [Information to be provided.]

James N. Land, Jr. Current director of Raytheon. Principal Business: Corporate Financial Advisor. Director: E.W. Blanch Holdings, Inc.

A. Lowell Lawson. Current director of Raytheon. [Information to be provided.]

Thomas L. Phillips. Current director of Raytheon. Retired Chairman of the Board and Chief Executive Officer, Raytheon Company. Director: John Hancock Mutual Life Insurance Company; Knight-Ridder, Inc.; Digital Equipment Corporation; Systems Research and Applications. Trustee: State Street Research Funds; MetLife-State Street Funds.

Dennis J. Picard. Chairman of the Board and Chief Executive Officer of Raytheon since March 1, 1991. Prior thereto, President from 1989 and Senior Vice President, General Manager of the Missile Systems Division of Raytheon from 1983. Director: State Street Boston Corporation.

Warren B. Rudman. Current director of Raytheon. Partner, law firm of Paul, Weiss, Rifkind, Wharton and Garrison since January 1992. Principal Business: Law. Prior thereto, United States Senator from 1980 through January 1992. Director: Chubb Corporation; several mutual funds managed by Dreyfus Corporation.

Alfred M. Zeien. Current director of Raytheon. Chairman of the Board and Chief Executive Officer of The Gillette Company since 1991. Prior thereto, President of Gillette from 1991 and as Vice Chairman, Gillette International/Diversified Operations from 1988. Principal Business: Consumer Goods and Services. Director: Bank of Boston; The Gillette Company; Polaroid Corporation; Massachusetts Mutual Life Insurance Company; Repligen Corporation.

#### COMMITTEES

Pursuant to the Raytheon Merger Agreement, from and after the Raytheon Merger Effective Time, the following three new committees will be created: (1) the Board Transition Committee; (2) the Management Transition Committee; and (3) the Defense Business Executive Council. Set forth below is a brief description of the duties and composition of these new committees as well as the composition of the Audit Committee and the Nominating Committee of New Raytheon.

Board Transition Committee. The Board Transition Committee will be responsible for resolving issues relating to the integration of the businesses, facilities, functions and employees of Hughes Defense, Raytheon and Texas Instruments Defense at the New Raytheon Board level. The Board Transition Committee will be comprised of two directors formerly affiliated with Raytheon and two directors formerly affiliated with Hughes Defense (Messrs. Dorfman and Armstrong) and will be chaired by Mr. Armstrong.

Other Board Committees. As of the Raytheon Merger Effective Time, the Audit Committee will be comprised of three directors formerly affiliated with Raytheon and one director formerly affiliated with Hughes Defense (Mr. Dorfman) and the Nominating Committee will be comprised of five directors formerly affiliated with Raytheon and one director formerly affiliated with Hughes Defense (Mr. Everhart).

Management Committees. The Management Transition Committee, which will be comprised of three management personnel formerly affiliated with Raytheon and three management personnel formerly affiliated with Hughes Defense, will be responsible for supervising and implementing the integration of the businesses, facilities, functions and employees of Hughes Defense, Raytheon and Texas Instruments Defense. The Defense Business Executive Council, which will be comprised of four management personnel formerly affiliated with Raytheon and [four] management personnel formerly affiliated with Hughes Defense, will supervise and manage the combined defense businesses of Hughes Defense, Raytheon and Texas Instruments Defense on an ongoing basis and will serve as a vehicle for planning, communication and decision making on issues involving such combined businesses.

The New Raytheon Board may, from time to time, establish other committees to facilitate the management of New Raytheon or for other purposes it may deem appropriate.

OFFICERS

The Raytheon Merger Agreement provides that the officers of Raytheon immediately prior to the Raytheon Merger Effective Time will be the officers of New Raytheon immediately following the Raytheon Merger Effective Time. Accordingly, effective as of the Raytheon Merger Effective Time, the executive officers of New Raytheon are expected to be as set forth below.

NAME	AGE	POSITIONS
Gail P. Anderson.....	55	Vice President--Human Resources
Shay D. Assad.....	47	Vice President--Contracts Senior Vice President Engineering and Business Development
Renso L. Caporali.....	64	Vice President and Group Executive--Commercial Electronics
Philip W. Cheney.....	61	Electronics
Kenneth H. Colburn....	46	Vice President--Project and International Finance
Peter R. D'Angelo.....	59	Executive Vice President--Chief Financial Officer
Herbert Deitcher.....	64	Senior Vice President--Treasurer
David S. Dwelley.....	58	Vice President--Strategic Business Development Vice President--Corporate Controller and Investor Relations
Michele C. Heid.....	43	Executive Vice President--Law, Corporate Administration, and Secretary
Christoph L. Hoffmann.	53	Administration, and Secretary
Thomas D. Hyde.....	48	Vice President and General Counsel
A. Lowell Lawson.....	59	Executive Vice President and Chairman and Chief Executive Officer of Raytheon E-Systems, Inc. Vice President--Corporate Affairs and Communications
Robert S. McWade.....	41	Communications
Charles Q. Miller.....	52	Executive Vice President and Chairman and Chief Executive Officer of Raytheon Engineers & Constructors International, Inc.
Dennis J. Picard.....	65	Chairman and Chief Executive Officer
Robert A. Skelly.....	55	Vice President--Assistant to the Executive Office
Robert L. Swam.....	57	Executive Vice President and Group Executive-- Commercial Laundry/Electronic Controls
William H. Swanson....	49	Executive Vice President and General Manager-- Raytheon Electronic Systems Division
Arthur E. Wegner.....	60	Executive Vice President and Chairman and Chief Executive Officer of Raytheon Aircraft Company

Executive officers serve at the discretion of the New Raytheon Board.

For a brief description of the backgrounds of the persons expected to be executive officers of New Raytheon upon the consummation of the Hughes Transactions and the Raytheon Merger, please refer to the Raytheon 1996 Form 10-K, which is incorporated into this document by reference. See "Where You Can Find More Information" in Chapter 7.



## DIRECTOR AND EXECUTIVE COMPENSATION

The New Raytheon Board will rely on its Compensation Committee, which will be composed of non-employee directors, to recommend the form and amount of compensation to be paid to New Raytheon's executive officers. Raytheon's current retirement, incentive and stock purchase plans for its directors and executive officers generally will apply to New Raytheon's directors and executive officers. These plans are and will continue to be subject to change from time to time. In addition, the following plans were specifically adopted pursuant to the Raytheon Merger Agreement and will continue in full force and effect as plans of New Raytheon following the Raytheon Merger: the Raytheon Company 1991 Stock Plan and the Raytheon Company 1995 Stock Option Plan. For information regarding these plans, as well as compensation committee interlocks and insider participation, please refer to the Raytheon 1996 Form 10-K, which is incorporated into this document by reference. See "Where You Can Find More Information" in Chapter 7.

## STOCK OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS AND FIVE PERCENT STOCKHOLDERS

No director or executive officer is expected to own more than one percent of the outstanding shares of New Raytheon Capital Stock after giving effect to the Raytheon Merger. The directors and executive officers of New Raytheon as a group are expected to beneficially own less than five percent of the outstanding shares of New Raytheon Capital Stock after giving effect to the Raytheon Merger. No person is expected to beneficially own more than percent of the outstanding shares of New Raytheon after giving effect to the Raytheon Merger (based upon publicly available information).

## CHANGE OF CONTROL EMPLOYMENT AGREEMENTS

In connection with the Hughes Transactions, Hughes Defense entered into change in control agreements with 17 of its senior executives and has entered into retention agreements with 86 of its key employees (in addition to the senior executives). New Raytheon will assume Hughes Defense's obligations under these agreements after the Raytheon Merger Effective Time.

The change of control agreements are effective for three years following the GM Spin-Off Merger Effective Time. In the event of an involuntary termination or constructive termination of employment following a change in control (as defined in the agreements), the agreements provide for cash payments, medical and life insurance, an increase in pension benefits (for six of the senior executives), outplacement services, legal fees (if necessary to resolve any dispute thereunder) and gross up payments if excise taxes are assessed. The aggregate liability for the benefits provided in all of the change of control agreements will not exceed \$11 million (exclusive of gross up payments, if any). The retention agreements provide for cash payments, and gross up payments if excise taxes are assessed, to employees covered by such agreements if still employed by New Raytheon at the end of the second and third years after the GM Spin-Off Merger Effective Time. A pro-rata portion of such cash payments will be paid if there is an involuntary termination prior to the benefit payment dates. The aggregate liability for cash payments under all of the retention agreements will not exceed \$60 million (exclusive of gross up payments, if any). Up to \$25 million will be paid if there is a termination or constructive termination of employment following a change of control. The Raytheon Merger is not a "change of control" for purposes of the agreements.

Raytheon has entered into Change in Control Severance Agreements with 25 senior executives. These agreements provide the executive with severance pay and the continuation of certain benefits upon the occurrence of a "Change in Control" (as defined in the agreements). Specifically, the agreements will provide a cash payment, continuation of fringe benefits pursuant to all of Raytheon's welfare, benefit and retirement plans, an increase in pension benefit, outplacement services, legal fees if necessary to resolve any dispute thereunder and gross up payments if an excise tax is assessed. None of the Change in Control Severance Agreements will be triggered as a result of the consummation of the Merger.

CHAPTER 6: CAPITAL STOCK

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CAPITAL STOCK

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CHAPTER 6: CAPITAL STOCK  
COMPARISON OF GM CLASS H COMMON STOCK, NEW GM CLASS H  
COMMON STOCK AND CLASS A COMMON STOCK

INTRODUCTION

OVERVIEW OF GM COMMON STOCK

General Motors currently has two classes of common stock: GM \$1 2/3 Common Stock and GM Class H Common Stock. Upon the consummation of the Hughes Transactions, General Motors will continue to have two classes of common stock: GM \$1 2/3 Common Stock and New GM Class H Common Stock. See "Description of the Hughes Transactions" in Chapter 3. For considerations relating to GM's dual-class common stock capital structure, including a policy statement adopted by the GM Board in connection with the establishment of the terms of the New GM Class H Common Stock, see "Considerations Relating to GM's Dual-Class Common Stock Capital Structure."

GM CLASS H COMMON STOCK AND NEW GM CLASS H COMMON STOCK

Under the GM Certificate of Incorporation, the financial performance of Hughes Electronics currently determines the earnings pool out of which dividends may be paid on GM Class H Common Stock. Accordingly, GM Class H Common Stock is sometimes described as a "tracking stock" of General Motors with respect to Hughes Electronics. The portion of earnings of Hughes Electronics not included in the earnings pool for GM Class H Common Stock is available for the payment of dividends on GM \$1 2/3 Common Stock. New GM Class H Common Stock, into which the GM Class H Common Stock will be recapitalized and converted in the GM Spin-Off Merger, will also be a "tracking stock" of General Motors, tracking the financial performance of New Hughes Electronics. Accordingly, the portion of earnings of New Hughes Electronics not included in the earnings pool for New GM Class H Common Stock will be available for the payment of dividends on GM \$1 2/3 Common Stock.

GM Class H Common Stockholders are stockholders of General Motors (not Hughes Electronics) and, as a result, have voting, liquidation and other rights with respect to General Motors (not Hughes Electronics), as described below. Upon the consummation of the Hughes Transactions, New GM Class H Common Stockholders will continue to be stockholders of General Motors (not New Hughes Electronics) and, as a result, will continue to have voting, liquidation and other rights with respect to General Motors (not New Hughes Electronics), as described below.

GM \$1 2/3 COMMON STOCK

GM \$1 2/3 Common Stock will remain outstanding following the Hughes Transactions, with no changes in its terms. However, the terms of the New GM Class H Common Stock include a formula for determining the per share liquidation and voting rights of the New GM Class H Common Stock based on the relative prices of the two classes of GM common stock in a specified period prior to the consummation of the Hughes Transactions. Based on current market prices, we expect the per share liquidation and voting rights of the New GM Class H Common Stock to equal 0.50, the same as for the GM Class H Common Stock. To the extent, however, that the formula results in per share liquidation and voting rights for the New GM Class H Common Stock in excess of 0.50, the effect will be to reduce the percentage of the aggregate liquidation and voting rights in General Motors attributable to the GM \$1 2/3 Common Stockholders, even though the stated per share liquidation and voting rights of the GM \$1 2/3 Common Stock will remain unchanged at 1.0. In addition, as a result of the Hughes Transactions, 100% of the earnings of Delco will be available for the payment of dividends on GM \$1 2/3 Common Stock after the completion of the Hughes Transactions.

NEW RAYTHEON COMMON STOCK

After the completion of the Hughes Transactions and the Raytheon Merger, New Raytheon will have two classes of common stock: Class A Common Stock and Class B Common Stock. Class A Common Stock will be distributed to GM's common stockholders in the Hughes Defense Spin-Off. Class B Common Stock will be issued upon conversion of outstanding Raytheon Common Stock on a share-for-share basis in the Raytheon Merger. Neither Class A Common Stock nor Class B Common Stock will be a "tracking stock." As stockholders of New Raytheon, the rights of Class A Common Stockholders will be governed by the New

CHAPTER 6: CAPITAL STOCK

Raytheon Certificate of Incorporation and the New Raytheon By-Laws, which differ in certain material respects from the GM Certificate of Incorporation and the GM By-Laws as summarized below.

Holders of both classes of New Raytheon Common Stock will have identical rights, except that Class A Common Stockholders will be entitled, in the aggregate, to 80.1% and Class B Common Stockholders will be entitled, in the aggregate, to 19.9% of the total voting power of New Raytheon in the election and removal of directors. With respect to all stockholder matters other than the election and removal of directors, separate class approvals of the Class A Common Stockholders and Class B Common Stockholders will be required. As described below, the Class A Common Stockholders (and the Class B Common Stockholders) will have voting, liquidation and other rights with respect to New Raytheon.

COMPARISON

The following chart compares the terms of the GM Class H Common Stock, the New GM Class H Common Stock and the Class A Common Stock (and, in the case of the New GM Class H Common Stock and the Class A Common Stock, gives effect to the consummation of the Hughes Transactions and the Raytheon Merger). More detailed descriptions of the terms, as well as the applicable provisions of Delaware law and the certificates of incorporation and the by-laws of both General Motors and New Raytheon, follow this comparison table. THE COMPARISON CHART BELOW, AS WELL AS THE DESCRIPTIONS WHICH FOLLOW, ARE SUMMARIES AND DO NOT PURPORT TO BE COMPLETE.

	GM CLASS H COMMON STOCK -----	NEW GM CLASS H COMMON STOCK -----	CLASS A COMMON STOCK -----
ISSUER	General Motors, a Delaware corporation, is the issuer of GM Class H Common Stock.	General Motors, a Delaware corporation, will be the issuer of New GM Class H Common Stock.	New Raytheon, a Delaware corporation, will be the issuer of Class A Common Stock.
PRINCIPAL TRACKED BUSINESS (ES)	The defense electronics, automotive electronics and telecommunications and space businesses of Hughes Electronics.	The business of Hughes Telecom (which will be renamed "Hughes Electronics Corporation").	Not applicable.
DIVIDENDS	Under the GM Certificate of Incorporation, dividends on GM Class H Common Stock may be declared by the GM Board and paid out of the assets of General Motors only to the extent of the sum of (1) the paid in surplus of General Motors attributable to the GM Class H Common Stock plus (2) an allocated portion of the earnings of Hughes Electronics, which is referred to in this document as the "Available Separate Consolidated Net Income of Hughes Electronics" and in the	Under the GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, the GM Board will be able to declare and pay dividends on New GM Class H Common Stock out of the assets of General Motors only to the extent of the sum of (1) the paid in surplus of General Motors attributable to the New GM Class H Common Stock plus (2) an allocated portion of the earnings of New Hughes Electronics, which is referred to in this document as the	Subject to the rights of the holders of New Raytheon Preferred Stock (if any) and applicable law, under the New Raytheon Certificate of Incorporation the Class A Common Stockholders and the Class B Common Stockholders will be entitled to receive the same amount per share of any cash dividend. The dividend policy with respect to Class A Common Stock and Class B Common Stock will be determined by the New Raytheon Board. For a description of New Raytheon's anticipated

CHAPTER 6: CAPITAL STOCK

GM CLASS H  
COMMON STOCK  
-----

NEW GM CLASS H  
COMMON STOCK  
-----

CLASS A  
COMMON STOCK  
-----

GM Certificate of  
Incor-  
poration as the  
"Available Sepa-  
rate Consolidated  
Net Income of  
Hughes."

"Available  
Separate  
Consolidated Net  
Income of New  
Hughes  
Electronics" and  
in the GM  
Certificate of  
Incorporation, as  
proposed to be  
amended in the GM  
Spin-Off Merger,  
as the "Available  
Separate  
Consolidated Net  
Income of  
Hughes."

dividend policy  
following the  
Raytheon Merger,  
see "New Raytheon  
Capital Stock--  
Common Stock"  
below.

The current  
dividend policy  
of the GM Board  
is to pay  
quarterly  
dividends on GM  
Class H Common  
Stock, when, as  
and if declared  
by the GM Board,  
at an annual rate  
equal to  
approximately 35%  
of the Available  
Separate  
Consolidated Net  
Income of Hughes  
Electronics for  
the prior year.  
Notwithstanding  
the current  
dividend policy  
of the GM Board,  
the quarterly  
dividend paid on  
GM Class H Common  
Stock of \$0.25  
per share during  
1997 was based on  
an annual rate  
higher than 35%  
of the Available  
Separate  
Consolidated Net  
Income of Hughes  
Electronics for  
the preceding  
year.

General Motors  
does not  
currently  
anticipate paying  
any cash  
dividends  
initially on the  
New GM Class H  
Common Stock  
following the  
Hughes  
Transactions. See  
"New GM Class H  
Common Stock--  
Dividend Policy"  
below.

With respect to  
the relationship  
between dividends  
(if any) paid by  
New Hughes  
Electronics to  
General Motors  
and dividends (if  
any) paid by  
General Motors to  
its common

stockholders, see the policy statement of the GM Board adopted in connection with the establishment of the terms of the New GM Class H Common Stock set forth below under "Considerations Relating to GM's Dual-Class Common Stock Capital Structure."

VOTING RIGHTS

GM Class H Common Stockholders are entitled to cast one-half of a vote per share on all matters submitted to GM's common stockholders for a vote and, with specified exceptions, vote together as a single class with the GM \$1 2/3 Common Stockholders on all matters (including the

New GM Class H Common Stockholders will be entitled to a fixed number of votes per share determined as described below on all matters submitted to GM's common stockholders for a vote and, with specified exceptions, will vote together as a single class with the GM \$1 2/3

With respect to the election and removal of directors, Class A Common Stockholders will be entitled to such number of votes for each share of Class A Common Stock as shall be necessary to entitle the holders of all shares of Class A Common Stock to vote, in the aggregate,

CHAPTER 6: CAPITAL STOCK

GM CLASS H  
COMMON STOCK  
-----

NEW GM CLASS H  
COMMON STOCK  
-----

CLASS A  
COMMON STOCK  
-----

election and removal of directors), based on their respective voting rights as set forth in the GM Certificate of Incorporation. The number of votes per share is subject to certain anti-dilution adjustments for stock subdivisions and combinations and certain other events, as set forth in the GM Certificate of Incorporation.

Common Stockholders on all matters (including the election and removal of directors), based on their respective voting rights as set forth in the GM Certificate of Incorporation (as proposed to be amended

in the GM Spin-Off Merger). The number of votes to which each share of New GM Class H Common Stock will be entitled will be the greater of (1) one-half or (2) a number (rounded to the nearest one-tenth) which reflects the relative market value of New GM Class H Common Stock compared to the market value of GM  $\$1 \frac{2}{3}$  Common Stock, based on the average trading prices of such stocks during a specified period following the consummation of the Hughes Transactions. Based on current market prices, we expect this number to be 0.50 per share. The number of votes per share will be subject to certain anti-dilution adjustments for stock subdivisions and combinations and certain other events, as set forth in the GM Certificate of Incorporation (as proposed to be amended in the GM Spin-Off Merger).

80.1% of the total voting power of all holders of New Raytheon Common Stock. With respect to all other matters submitted to a vote of New Raytheon's common stockholders, the Class A Common Stockholders and the Class B Common Stockholders will each be entitled to a single vote per share and the approval of any such matter will require the approval of both classes of New Raytheon Common Stock, each voting as a separate class. Except as may be provided in connection with any class or series of New Raytheon Preferred Stock issued from time to time or as may be required by law, New Raytheon Common Stock will be the only New Raytheon Capital Stock entitled to vote in the election and removal of directors and other matters presented to the stockholders of New Raytheon from time to time.

Class A Common Stockholders will have the right to vote directly on matters relating to New Raytheon, while GM Class H Common Stockholders vote directly on matters relating to General Motors.

The New Raytheon Certificate of Incorporation provides that

LIQUIDATION  
RIGHTS

The GM Certificate of Incorporation

The GM Certificate of Incorporation, as

provides that  
upon the  
liquidation,  
dissolution or  
winding up of  
General Motors,  
after

proposed to be  
amended in the GM  
Spin-Off Merger,  
provides that  
upon the  
liquidation,

upon the  
liquidation,  
dissolution or  
winding up



CHAPTER 6: CAPITAL STOCK

GM CLASS H  
COMMON STOCK  
-----

NEW GM CLASS H  
COMMON STOCK  
-----

CLASS A  
COMMON STOCK  
-----

the holders of GM Preferred Stock (if any) and GM Preference Stock receive the full preferential amounts to which they are entitled, GM \$1 2/3 Common Stockholders and GM Class H Common Stockholders will receive the remaining assets of General Motors on a per share basis in proportion to their respective per share liquidation units, which are approximately one per share of GM \$1 2/3 Common Stock and one-half per share of GM Class H Common Stock. The number of liquidation units per share is subject to adjustment as described below with respect to voting rights under "GM Class H Common Stock -- Voting Rights."

dissolution or winding up

of the business of General Motors, after the holders of GM Preferred Stock (if any) and GM Preference Stock receive the full preferential amounts to which they are entitled, GM \$1 2/3 Common Stockholders and New GM Class H Common Stockholders will receive the remaining assets of General Motors on a per share basis in proportion to their respective per share liquidation units. GM \$1 2/3 Common Stock is entitled to one liquidation unit per share. New GM Class H Common Stock will be entitled to a number of liquidation units equal to the number of votes to which each such share is entitled, determined as described below under "New GM Class H Common Stock--Voting Rights," subject to adjustment as described above with respect to such voting rights.

of New Raytheon, whether voluntary or involuntary, Class A Common Stockholders and Class B Common Stockholders will be entitled to receive the assets of New Raytheon available for distribution

to its stockholders in proportion to the number of shares held by such holders, provided that the full amounts necessary to satisfy any creditors and preferential or participating amounts owing to the holders of New Raytheon Preferred Stock (if any) have been paid or set aside for payment previously.

The liquidation rights of Class A Common Stockholders will relate to New Raytheon, while the liquidation rights of GM Class H Common Stockholders relate to General Motors.

GM Class H Common Stockholders have no direct rights in the equity or assets of Hughes Electronics, but rather have rights in the equity and assets of General Motors (which includes 100% of the stock of Hughes

Electronics).

New GM Class H  
Common  
Stockholders will  
have no direct  
rights in the  
equity or assets  
of New Hughes  
Electronics, but  
rather will have  
rights in the  
equity and assets  
of General Motors  
(which will  
include 100% of  
the stock of New  
Hughes  
Electronics).

RECAPITALIZATION,  
REPURCHASE  
RIGHTS AND  
CERTAIN  
DISPOSITIONS AND  
OTHER  
TRANSACTIONS

Under the GM  
Certificate of  
Incorporation,  
all outstanding  
shares of GM  
Class H Common  
Stock may be  
recapitalized as

Under the GM  
Certificate of  
Incorporation, as  
proposed to be  
amended in the GM  
Spin-Off Merger,  
all outstanding

Class A Common  
Stockholders will  
have no  
comparable right  
to that which  
they possess as  
GM Class H Common

CHAPTER 6: CAPITAL STOCK

GM CLASS H  
COMMON STOCK  
-----

NEW GM CLASS H  
COMMON STOCK  
-----

CLASS A  
COMMON STOCK  
-----

shares of GM \$1 2/3 Common Stock (1) at any time in the sole discretion of the GM Board (provided that certain requirements are met) or (2) automatically, if at any time General Motors disposes of substantially all of the business of Hughes Aircraft (or its successors) or substantially all of the other business of Hughes Electronics to a person, entity or group of which General Motors is not a majority owner. In the event of such recapitalization, each GM Class H Common Stockholder would receive shares of GM \$1 2/3 Common Stock having a market value, as of a specified date provided for in the GM Certificate of Incorporation, equal to 120% of the market value of such holder's GM Class H Common Stock on such date.

shares of New GM Class H Common Stock may be recapitalized as shares of GM \$1 2/3 Common Stock (1) at any time after December 31, 2002 in the sole discretion of the GM Board, or (2) automatically, if at any time General Motors, in one transaction or a series of related transactions, disposes of substantially all of the business of New Hughes Electronics (or its successors) to a person, entity or group of which General Motors is not a majority owner. For purposes of this recapitalization provision of the GM Certificate of Incorporation, "substantially all of the business" of New Hughes Electronics will mean at least 80% of the business of New Hughes Electronics, based on the fair market value of the assets, both tangible and intangible, of New Hughes Electronics as of the time of the proposed transaction. In the event of any such recapitalization, each New GM Class H Common Stockholder would receive shares of GM \$1 2/3 Common Stock having a market value, as of a specified date provided for in the GM Certificate of Incorporation (as proposed to be amended in the GM Spin-Off Merger), equal to 120% of the market value of such

Stockholders with respect to the potential recapitalization of their GM Class H Common Stock into GM \$1 2/3 Common Stock at a 120% exchange ratio, as currently provided for under certain circumstances in the GM Certificate of Incorporation. Class A Common Stockholders may, however, have the potential to realize premiums over prevailing market prices for Class A Common Stock in connection with certain corporate transactions, including tender offers for New Raytheon Common Stock and change in control transactions involving New Raytheon, although there can be no assurance in this regard. See "New Raytheon Capital Stock-- Limitations on Changes in Control" below. Such premiums, if any, will not be limited by any formula in the New Raytheon Certificate of Incorporation comparable to that relating to the recapitalization of GM Class H Common Stock or New GM Class H Common Stock as described above.

As a result of the GM Spin-Off Merger, the GM Certificate of Incorporation will be amended so that the Hughes Transactions will

not result in a recapitalization of GM Class H Common Stock into GM \$1 2/3 Common Stock at a 120% exchange ratio, as described above.

New Raytheon may not directly or indirectly redeem, purchase, repurchase or otherwise acquire for consideration any shares of New Raytheon Common Stock

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GM CLASS H  
COMMON STOCK  
-----

NEW GM CLASS H  
COMMON STOCK  
-----

CLASS A  
COMMON STOCK  
-----

holder's New GM Class H Common Stock on such date. No automatic recapitalization will occur upon a disposition in connection with the dissolution, liquidation and winding up of General Motors and the distribution of the net assets of General Motors to GM's common stockholders.

unless such action is (1) effected ratably in accordance with the number of outstanding shares of Class A Common Stock and Class B Common Stock, (2) for consideration of the same type and amount as to shares of each class and (3) not in any other way prejudicial to the rights of the holders of one class of New Raytheon Common Stock in favor of the other class of New Raytheon Common Stock.

With respect to certain transfers of assets by New Hughes Electronics to General Motors or the common stockholders of General Motors, see the policy statement of the GM Board adopted in connection with the establishment of the terms of the New GM Class H Common Stock set forth below under "Considerations Relating to GM's Dual-Class Common Stock Capital Structure."

In the event of any corporate merger, consolidation, purchase or acquisition of property or stock, or other reorganization in which any consideration is to be received by the Class A Common Stockholders or the Class B Common Stockholders, the holders of each class will receive the same type and amount of consideration on a per share basis.

CERTAIN  
LIMITATIONS ON  
CHANGES IN  
CONTROL

Not applicable.

Not applicable.

The New Raytheon Certificate of Incorporation and the New Raytheon By-Laws contain certain provisions, such as a classified board of

directors, a  
provision  
prohibiting  
stockholder  
action by written  
consent, a  
provision  
prohibiting  
stockholders from  
calling special  
meetings and a  
provision  
authorizing the  
New Raytheon  
Board to consider  
factors other  
than  
stockholders'  
short-term  
interests in  
evaluating an

GM CLASS H  
COMMON STOCK  
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NEW GM CLASS H  
COMMON STOCK  
-----

CLASS A  
COMMON STOCK  
-----

offer involving a change in control, which are not present in the GM Certificate of Incorporation or the GM By-Laws and which could have the effect of delaying, deferring or preventing a change in control of New Raytheon or the removal of existing management, of deterring potential acquirors from making an offer to stockholders of New Raytheon and of limiting any opportunity to realize premiums over prevailing market prices for New Raytheon Common Stock in connection therewith.

The New Raytheon Rights Agreement, which also has no equivalent at General Motors, will provide for preferred stock purchase rights that could have the same effect.

New Raytheon, like General Motors, will be subject to Section 203 of the Delaware General Corporation Law.

In order to preserve the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger, New Raytheon will be subject to certain covenants under the Spin-Off Separation Agreement which will act to prohibit New Raytheon from entering into or permitting (to the extent that New Raytheon has

CHAPTER 6: CAPITAL STOCK

	GM CLASS H COMMON STOCK -----	NEW GM CLASS H COMMON STOCK -----	CLASS A COMMON STOCK -----
			the right to prohibit) certain transactions and taking certain actions with respect to the New Raytheon Certificate of Incorporation or the New Raytheon By-Laws. Such prohibitions, to which General Motors is not subject, could have the effect of delaying, deferring or preventing a change in control of New Raytheon and of limiting the opportunity to realize premiums over prevailing market prices for New Raytheon Common Stock in connection therewith during the period of their applicability. For additional information regarding these prohibitions, see "Separation and Transition Arrangements-- Summary of Spin-Off Separation Agreement-- Preservation of Tax-Free Status of the Hughes Transactions and the Raytheon Merger" in Chapter 3.
NUMBER OF SHARES OUTSTANDING IMMEDIATELY AFTER THE HUGHES TRANSACTIONS (BASED ON THE NUMBER OF SHARES OF GM CLASS H COMMON STOCK OUTSTANDING AS OF SEPTEMBER 30, 1997)	102,459,163	102,459,163	102,630,503
STOCK EXCHANGE LISTING	GM Class H Common Stock is listed on the NYSE under the symbol "GMH."	Application has been made to list New GM Class H Common Stock on the NYSE. It is	Application has been made to list Class A Common Stock on the NYSE. It is expected



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GM CLASS H  
COMMON STOCK  
-----

NEW GM CLASS H  
COMMON STOCK  
-----

CLASS A  
COMMON STOCK  
-----

that Class A  
Common Stock will  
be listed on the  
NYSE under the  
symbol "[RTNA]"

expected that New  
GM Class H Common  
Stock will be  
listed on the  
NYSE under the  
symbol "GMH."

FORM OF STOCK  
OWNERSHIP

Certificated.

Uncertificated  
(unless otherwise  
requested).

Uncertificated  
(unless otherwise  
requested).

CHAPTER 6: CAPITAL STOCK  
CONSIDERATIONS RELATING TO GM'S DUAL-CLASS  
COMMON STOCK CAPITAL STRUCTURE

OVERVIEW

General Motors currently has a dual-class common stock capital structure with two classes of common stock outstanding: GM \$1 2/3 Common Stock and GM Class H Common Stock. After the completion of the Hughes Transactions, General Motors will continue to have a dual-class common stock capital structure with two classes of common stock outstanding: GM \$1 2/3 Common Stock and New GM Class H Common Stock. The following discussion addresses certain considerations relating to GM's dual-class common stock structure.

The GM Certificate of Incorporation, both in its current form and as proposed to be amended in the GM Spin-Off Merger, restricts the power of the GM Board to declare and pay dividends on either class of common stock to certain defined amounts which are attributable to each separate class of common stock and based on the legally available retained earnings of General Motors. For dividend purposes, this restriction serves to preserve the interest in retained earnings of holders of each class of GM common stock in relation to the interests therein of holders of the other class. However, this restriction does not result in a physical segregation of the assets of General Motors on the one hand and Hughes Electronics (before the Hughes Transactions) or New Hughes Electronics (after the Hughes Transactions) on the other, nor does it result in the establishment of separate accounts or dividend or liquidation preferences with respect to such assets for the benefit of the holders of either of the separate classes of GM common stock. GM Class H Common Stockholders have no direct rights in the equity or assets of Hughes Electronics but rather, together with GM \$1 2/3 Common Stockholders, have certain liquidation rights in the equity and assets of General Motors (which include 100% of the stock of Hughes Electronics). Similarly, New GM Class H Common Stockholders will have no direct rights in the equity or assets of New Hughes Electronics but rather, together with GM \$1 2/3 Common Stockholders, will have certain liquidation rights in the equity and assets of General Motors (which include 100% of the stock of New Hughes Electronics) after the Hughes Transactions.

The existence of two classes of common stock with separate dividend rights as provided for in the GM Certificate of Incorporation, both in its current form and as proposed to be amended in the GM Spin-Off Merger, can give rise to potential divergences among the interests of the holders of the two classes of GM common stock with respect to various intercompany transactions and other matters. Because General Motors is incorporated under the Delaware General Corporation Law (and will continue to be so after the Hughes Transactions), the laws of Delaware govern, and will continue to govern, the duties of the GM Board with respect to such divergences. Under Delaware law, the GM Board owes an equal fiduciary duty to all holders of GM common stock and must act with due care and on an informed basis in the best interest of General Motors and all such common stockholders, regardless of class. In this regard, the GM Board, in the discharge of its fiduciary duties, principally through its Capital Stock Committee (which is and will continue to be comprised entirely of independent directors of General Motors), oversees the policies, programs and practices of General Motors which may impact the potentially divergent interests of the two classes of GM common stock (and will continue to do so after the Hughes Transactions).

The GM By-Laws, in defining the role of the Capital Stock Committee, currently provide that such Committee shall oversee those matters in which the two classes of stockholders may have divergent interests, particularly as they relate to: (1) the business and financial relationships between General Motors or any of its units and Hughes Electronics; (2) dividends in respect of, disclosures to stockholders and the public concerning, and transactions by General Motors or any of its subsidiaries in, shares of GM Class H Common Stock; and (3) any matters arising in connection therewith, all to the extent the Committee may deem appropriate, and to recommend such changes in such policies, programs and practices as the Committee may deem appropriate. In performing this function, the Capital Stock Committee's role is not to make decisions concerning matters referred to its attention, but rather to oversee the process by which decisions concerning such matters are made. The Committee does this with a view towards, among other things, assuring a process

of fair dealing between General Motors and Hughes Electronics as well as fairness to the interests of all of GM's common stockholders in the resolution of such matters.

After the Hughes Transactions, the Capital Stock Committee will continue to have the same oversight role with respect to the relationship between General Motors and New Hughes Electronics, dividend policies and practices of General Motors and such other matters as have the potential to have differing effects on holders of both classes of GM common stock as it currently does with respect to General Motors and Hughes Electronics.

#### BOARD OF DIRECTORS

The Hughes Electronics Board currently has eight members. Three directors are independent directors of General Motors (one of whom is also a member of the Capital Stock Committee of the GM Board), three directors are executive officers of General Motors and two directors are executive officers of Hughes Electronics. Those directors of Hughes Electronics who are also executive officers of General Motors devote a substantial amount of their time to the business and affairs of General Motors and its other subsidiaries or to the oversight thereof.

We expect that the persons currently serving as directors of Hughes Electronics will become directors of New Hughes Electronics. We are continuing to review the composition of the New Hughes Electronics board of directors and may make changes to the composition of the board following the completion of the Hughes Transactions. For additional information regarding the New Hughes Electronics board, see "Business of Hughes Telecom--Directors and Executive Officers of New Hughes Electronics" in Chapter 4.

#### NEW GM BOARD POLICY STATEMENT

In connection with its determination of the terms of the New GM Class H Common Stock, the GM Board reviewed its policies and practices with respect to GM's dual-class common stock capital structure and adopted, subject to the consummation of the Hughes Transactions, the following policy statement:

#### GENERAL MOTORS CORPORATION BOARD OF DIRECTORS

##### GM BOARD POLICY STATEMENT REGARDING CERTAIN CAPITAL STOCK MATTERS

(A) GENERAL POLICY. It is the policy of the Board of Directors of General Motors Corporation (the "GM Board"):

(1) that all material matters as to which the holders of the two classes of GM common stock may have potentially divergent interests shall be resolved in a manner which the GM Board determines to be in the best interests of General Motors Corporation and all of its common stockholders after giving fair consideration to the potentially divergent interests and all other relevant interests of the holders of the separate classes of GM common stock; and

(2) that a process of fair dealing shall govern the relationship between GM and HEC and the means by which the terms of any material transaction between them shall be determined.

(B) ADDITIONAL MATTERS. In relation to the foregoing policy, it is the further policy of the GM Board that:

##### (1) QUARTERLY DIVIDENDS.

(a) In contemplation of the GM Board's duty periodically to consider an appropriate dividend policy and practice in relation to Class H Common Stock and its expectation that the Board of Directors of HEC (the "HEC Board") shall, at least annually, consider and determine a quarterly dividend policy with respect to the common stock of HEC (100% of which is held by GM), the GM Board shall, at least annually, determine a quarterly dividend policy with respect to the Class H Common Stock.

(b) The quarterly dividend policy of the GM Board with respect to the Class H Common Stock shall be to declare and pay quarterly dividends on the Class H Common Stock in an amount equal to the product of (i) the aggregate amount of each quarterly dividend received by GM as a stockholder of HEC, if any, multiplied by (ii) the fraction used to determine the Available Separate Consolidated Net Income of Hughes (as such term is used in GM's Restated Certificate of Incorporation, as amended) at the time such dividend was declared by HEC.

(c) GM's payment of a quarterly dividend on the Class H Common Stock shall be made as soon as practicable after receipt of the corresponding dividend payment from HEC.

(2) PRINCIPLES GOVERNING DIVIDENDS AND DISTRIBUTIONS OTHER THAN QUARTERLY DIVIDENDS.

(a) Except as provided in paragraph (B) (2) (b) below, in the event that HEC directly or indirectly makes any transfer of material assets to GM or to GM's stockholders:

(i) TRANSFERS OF HEC ASSETS TO GM. If such transfer of assets by HEC is to GM, the GM Board shall as soon thereafter as practicable declare and pay a dividend or make other provision with respect to a distribution on the Class H Common Stock so that there shall be distributed to the holders of Class H Common Stock a portion of such assets transferred to GM that is not less than the fraction used to determine the Available Separate Consolidated Net Income of Hughes at the time of such transfer to GM; provided that, if the GM Board determines that it is not reasonably practicable or not in the best interests of the holders of Class H Common Stock for GM to distribute any such assets to the holders of Class H Common Stock, GM shall distribute to such holders cash or other noncash assets having an equivalent fair value; and

(ii) TRANSFERS OF HEC ASSETS TO GM'S STOCKHOLDERS. If such transfer of assets by HEC is to GM's stockholders, the portion of such assets transferred to the holders of Class H Common Stock shall be not less than the fraction used to determine the Available Separate Consolidated Net Income of Hughes at the time of such transfer.

(b) EXCEPTIONS TO FOREGOING PRINCIPLES. The provisions of paragraph (B) (2) (a) above shall not apply to any of the following asset transfers:

(i) any transfer that results in the recapitalization of Class H Common Stock into \$1 2/3 Par Value Common Stock pursuant to the provisions of paragraph (c) of Division I of Article Fourth of GM's Restated Certificate of Incorporation, as amended;

(ii) any transfer that is made pursuant to the quarterly dividend policy described in paragraph (B) (1) above;

(iii) any transfer that is made in the ordinary course of HEC's business;

(iv) any transfer for which HEC shall have received fair compensation as determined pursuant to this policy as described in paragraph (A) above, provided that, where required by paragraph (B) (3) below, stockholder consent to such transfer shall have been received; and

(v) any transfer which shall have received the consent of the holders of a majority of the outstanding shares of Class H Common Stock, voting as a separate class, and \$1 2/3 Par Value Common Stock, voting as a separate class.

(3) SEPARATE CLASS VOTES OF GM'S STOCKHOLDERS AS A CONDITION TO GM'S ACQUISITION OF A SIGNIFICANT PORTION OF HEC ASSETS. GM shall not acquire in one transaction or a series of related transactions a significant portion of the business of HEC for compensation without receiving the consent of the holders of a majority of the outstanding shares of Class H Common Stock, voting as a separate class, and \$1 2/3 Par Value Common Stock, voting as a separate class. For purposes of this paragraph, "significant portion of the business of HEC" shall mean more than 33% of the business of HEC, based on the fair market value of the assets, both tangible and intangible, of HEC as of the time that the proposed transaction is approved by the GM Board.

(4) BASIS FOR COMMERCIAL TRANSACTIONS BETWEEN GM AND HEC. GM and HEC shall operate on the principle that all material commercial transactions between them shall be based on commercially reasonable terms.

(C) MEANING OF "GM" AND "HEC" WITHIN THIS POLICY. For purposes of this policy, "GM" shall mean General Motors Corporation and its affiliates (other than HEC), and "HEC" shall mean Hughes Electronics Corporation, including any person controlled by Hughes Electronics Corporation.

(D) ROLE OF CAPITAL STOCK COMMITTEE RELATING TO THIS POLICY. The Capital Stock Committee of the GM Board shall oversee the implementation of, and shall have authority to interpret, this policy.

(E) DELEGATION. In administering this policy, the GM Board may, at its option, delegate its authority, including to the Capital Stock Committee, and may delegate to members of management the authority to implement any matter pursuant to this policy.

(F) FIDUCIARY OBLIGATIONS. In making any and all determinations in connection with this policy, either directly or by appropriate delegation of authority, the GM Board shall act in its fiduciary capacity and pursuant to legal guidance concerning its obligations under applicable law.

(G) INTERPRETATION, AMENDMENTS AND MODIFICATIONS OF THIS POLICY. All interpretations of this policy shall be made exclusively by the GM Board. Nothing in this policy shall be construed to limit the ability of the GM Board to propose to GM's common stockholders for their approval one or more transactions on terms different from those currently provided for under certain circumstances by the GM Certificate of Incorporation or this policy statement. This policy may at any time and from time to time be modified, rescinded and interpreted by the GM Board, and the GM Board may adopt additional or other policies or make exceptions with respect to the application of this policy in connection with particular facts and circumstances, all as the GM Board may determine, consistent with its fiduciary duties to General Motors Corporation and all of its common stockholders, to be in the best interests of General Motors Corporation and all of its common stockholders, and any such action may be taken with or without the approval of the stockholders of General Motors Corporation.

\* \* \* \* \*

As set forth therein, this policy statement may be modified or rescinded at any time and from time to time by the GM Board. The GM Board has no present intention to modify or rescind this policy statement. See "Risk Factors--Risk Factors Relating to GM's Dual-Class Common Stock Capital Structure--GM Board Policies and Practices Are Subject to Change" in Chapter 2.

Notwithstanding this policy statement or the provisions concerning recapitalization of the New GM Class H Common Stock into GM  $\$1 \frac{2}{3}$  Common Stock at a 120% exchange ratio as provided under certain circumstances in the GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, the GM Board may propose to GM's common stockholders for their approval one or more transactions on terms different from those provided for by such provisions or by this policy statement. See "Risk Factors--Risk Factors Relating to GM's Dual-Class Common Stock Capital Structure--Potentially Diverging Interests of GM's Common Stockholders; Fiduciary Duties of the GM Board" in Chapter 2.

## GM CLASS H COMMON STOCK

## INTRODUCTION

GM Class H Common Stock is one of two classes of GM common stock. The other class of common stock is GM \$1 2/3 Common Stock. On the Record Date, approximately million shares of GM Class H Common Stock, held by approximately record holders, were issued and outstanding.

GM Class H Common Stockholders have no direct rights in the equity or assets of Hughes Electronics or Hughes Defense, but rather have rights in the equity and assets of General Motors (which includes 100% of the stock of Hughes Electronics). GM Class H Common Stock is designed to provide holders with financial returns based on the performance of Hughes Electronics. The intent of this design objective is achieved through (1) allocations under the GM Certificate of Incorporation of the earnings of General Motors attributable to Hughes Electronics between amounts available for the payment of dividends on GM Class H Common Stock and amounts available for the payment of dividends on the GM \$1 2/3 Common Stock and (2) the announced current dividend policies and practices of the GM Board, all as more fully described below. The GM Board is free at any time to change dividend policies and practices with respect to GM Class H Common Stock or the GM \$1 2/3 Common Stock.

## PRICE RANGE AND DIVIDENDS PAID

The GM Class H Common Stock is listed and traded on the NYSE under the symbol "GMH." The table below shows the range of reported per share sale prices on the NYSE Composite Tape for the GM Class H Common Stock for the periods indicated, and the dividends paid per share on the GM Class H Common Stock in such periods. The last reported sale price of the GM Class H Common Stock on the NYSE on October , 1997 was \$ per share.

CALENDAR YEAR	HIGH	LOW	DIVIDENDS PAID
1995			
First Quarter.....	\$41.75	\$33.25	\$0.23
Second Quarter.....	41.63	37.75	0.23
Third Quarter.....	42.75	39.13	0.23
Fourth Quarter.....	50.00	39.50	0.23
1996			
First Quarter.....	63.38	45.00	0.24
Second Quarter.....	68.25	57.50	0.24
Third Quarter.....	61.38	53.13	0.24
Fourth Quarter.....	59.25	49.50	0.24
1997			
First Quarter.....	64.88	54.25	0.25
Second Quarter.....	60.25	49.00	0.25
Third Quarter.....	67.50	56.13	0.25
Fourth Quarter (through October 3, 1997).....	67.75	66.81	--

## GM CERTIFICATE OF INCORPORATION PROVISIONS REGARDING DIVIDENDS

Subject to the rights of the holders of GM Preferred Stock (if any) and GM Preference Stock, under the GM Certificate of Incorporation, dividends on GM Class H Common Stock may be declared and paid out of the assets of General Motors only to the extent of the sum of (1) the paid in surplus of General Motors attributable to the GM Class H Common Stock plus (2) an allocated portion of the earnings of Hughes Electronics after December 31, 1985, the date that General Motors acquired Hughes Aircraft, which is referred to as the Available Separate Consolidated Net Income of Hughes Electronics (determined as described below).

## CHAPTER 6: CAPITAL STOCK

The Available Separate Consolidated Net Income of Hughes Electronics for any quarterly period represents the separate consolidated net income of Hughes Electronics for such period, excluding the effects of GM purchase accounting adjustments arising at the time of GM's acquisition of Hughes Aircraft, calculated for such period and 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 quarter (100 million during the second quarter of 1997) and the denominator of which was 400 million for the second quarter of 1997, provided that such fraction shall never be greater than one. The GM Certificate of Incorporation permits the denominator to be adjusted from time to time as deemed appropriate by the GM Board (1) to reflect subdivisions and combinations of GM Class H Common Stock and stock dividends payable in shares of GM Class H Common Stock to GM Class H Common Stockholders, (2) to reflect the fair market value of contributions of cash or property by General Motors or its subsidiaries to Hughes Electronics or its subsidiaries and to reflect such contributions or contributions of GM capital stock by General Motors to, or for the benefit of, employees of Hughes Electronics or its subsidiaries in connection with employee benefit plans or arrangements and (3) to reflect payments by Hughes Electronics to General Motors of amounts applied to the repurchase by General Motors of shares of GM Class H Common Stock and purchases by Hughes Electronics of shares of GM Class H Common Stock. The GM Board has determined the denominator will be automatically adjusted at the end of each quarter to reflect on a weighted-average basis the number of shares of GM Class H Common Stock acquired or sold by Hughes Electronics during such quarter. For all purposes, determination of the Available Separate Consolidated Net Income of Hughes Electronics is in the discretion of the GM Board, subject to criteria set forth in the GM Certificate of Incorporation.

As described above, under the GM Certificate of Incorporation, the amortization of intangible assets arising from the purchase accounting adjustments related to GM's acquisition of Hughes Aircraft is charged against earnings attributable to GM \$1 2/3 Common Stock and not against earnings attributable to GM Class H Common Stock. For additional information regarding these purchase accounting adjustments, see the Hughes Electronics financial information set forth in Exhibit 99 to the GM 1996 Form 10-K.

For purposes of determining the approximate earnings per share attributable to GM Class H Common Stock for financial reporting purposes, an investor may divide the quarterly earnings allocated to GM Class H Common Stock (the Available Separate Consolidated Net Income of Hughes Electronics) by the weighted average number of shares of GM Class H Common Stock outstanding during such quarter, which is the numerator of the fraction described above. You can obtain approximately the same mathematical result by dividing the quarterly earnings used for computation of the Available Separate Consolidated Net Income of Hughes Electronics (i.e., net income) by the denominator of the fraction described above.

### DIVIDEND POLICY

Dividend policy is one of the matters reviewed by the Capital Stock Committee of the GM Board. See "Considerations Relating to GM's Dual-Class Common Stock Capital Structure" above. The current dividend policy of the GM Board is to pay quarterly dividends on GM Class H Common Stock, when, as and if declared by the GM Board, at an annual rate equal to approximately 35% of the Available Separate Consolidated Net Income of Hughes Electronics for the prior year. Notwithstanding the current dividend policy of the GM Board, the quarterly dividend paid on GM Class H Common Stock of \$0.25 per share during 1997 was based on an annual rate higher than 35% of the Available Separate Consolidated Net Income of Hughes Electronics for the preceding year.

Under Delaware law and the GM Certificate of Incorporation, the GM Board is not required to declare dividends on any class of GM common stock. If and to the extent the GM Board chooses to declare dividends on either or both of the classes of its common stock, neither Delaware law nor the GM Certificate of Incorporation requires that there be any proportionate or other fixed relationship between the amount of dividends declared with respect to such different classes of common stock. The GM Board reserves the right to reconsider from time to time its policies and practices regarding dividends on GM common stock and to increase or decrease the dividends paid on GM common stock on the basis of GM's consolidated financial

## CHAPTER 6: CAPITAL STOCK

position, including liquidity, and other factors, including, with regard to GM Class H Common Stock, the earnings and consolidated financial position of Hughes Electronics. There is no fixed relationship, on a per share or aggregate basis, between the cash dividends that may be paid by General Motors to GM Class H Common Stockholders and cash dividends or other amounts that may be paid by Hughes Electronics to General Motors. However, it has been the practice of the Hughes Electronics Board to pay quarterly cash dividends to General Motors in an aggregate amount equal to the quarterly dividend per share paid by General Motors on GM Class H Common Stock multiplied by the denominator of the fraction used to determine the Available Separate Consolidated Net Income of Hughes Electronics. In addition, under the current dividend policies and practices of the GM Board, dividends on GM Class H Common Stock are not materially affected by developments involving the performance (operations, liquidity or financial condition) of General Motors (excluding Hughes Electronics).

### VOTING RIGHTS

Under the GM Certificate of Incorporation and subject to adjustment as described below under "--Subdivision or Combination," GM Class H Common Stockholders are entitled to cast one-half of a vote per share on all matters submitted to GM's common stockholders for a vote (including the election and removal of directors), while GM \$1 2/3 Common Stockholders may cast one vote per share. Holders of both classes of GM common stock vote together as a single class on all matters, except that separate class votes are required for certain amendments to the GM Certificate of Incorporation, including any amendment which adversely affects the rights, powers or privileges of any class, which must also be approved by the holders of that class voting separately as a class.

### LIQUIDATION RIGHTS

In the event of the liquidation, dissolution or winding up of the business of General Motors, whether voluntary or involuntary, the GM Certificate of Incorporation provides that, after the holders of GM Preferred Stock (if any) and GM Preference Stock receive the full preferential amounts to which they are entitled, GM Class H Common Stockholders and GM \$1 2/3 Common Stockholders will receive the assets remaining for distribution to the GM's stockholders on a per share basis in proportion to the respective per share liquidation units of such classes. Subject to adjustment as described below under "--Subdivision or Combination," each share of GM Class H Common Stock and GM \$1 2/3 Common Stock would be entitled to liquidation units of approximately one-half and one, respectively. GM Class H Common Stockholders have no direct rights in the equity or assets of Hughes Electronics, but rather have rights in the equity and assets of General Motors (which includes 100% of the stock of Hughes Electronics).

### RECAPITALIZATION

Under the GM Certificate of Incorporation, all outstanding shares of GM Class H Common Stock may be recapitalized as shares of GM \$1 2/3 Common Stock (1) at any time in the sole discretion of the GM Board (provided that, during each of the five full fiscal years preceding the exchange, the aggregate cash dividends on the GM Class H Common Stock have been no less than the product of the Payout Ratio (as defined below) for such year multiplied by the Available Separate Consolidated Net Income of Hughes Electronics for the prior fiscal year) or (2) automatically, if at any time General Motors disposes of substantially all of the business of Hughes Aircraft (or its successors) or of substantially all of the other business of Hughes Electronics to a person, entity or group of which General Motors is not a majority owner. In the event of such a recapitalization, each GM Class H Common Stockholder would receive shares of GM \$1 2/3 Common Stock having a market value, as of a specified date provided for in the GM Certificate of Incorporation, equal to 120% of the market value of such holder's GM Class H Common Stock on such date. Based on the dividends paid on GM Class H Common Stock in 1992 through 1996, the conditions described in clause (1) above would be satisfied during 1997.



No fractional shares of GM \$1 2/3 Common Stock would be issued in any such exchange. In lieu of fractional shares, GM Class H Common Stockholders would receive cash equal to the product of (A) the fraction of a share of GM \$1 2/3 Common Stock to which the holder would otherwise have been entitled multiplied by (B) the average market price per share of GM \$1 2/3 Common Stock on such valuation date.

The "Payout Ratio" equals the lesser of (A) 0.25 or (B) the quotient of (x) the total cash dividends paid on the GM \$1 2/3 Common Stock in respect of such fiscal year, divided by (y) the consolidated net income of General Motors and its subsidiaries for each such fiscal year minus the Available Separate Consolidated Net Income of EDS (as defined in Article Fourth of the GM Certificate of Incorporation) for any portion of such fiscal year during which EDS was a direct or indirect wholly owned subsidiary of General Motors and the Available Separate Consolidated Net Income of Hughes Electronics for such fiscal year.

#### SUBDIVISION OR COMBINATION

If General Motors subdivides (by stock split or otherwise) or combines (by reverse stock split or otherwise) the outstanding shares of the GM \$1 2/3 Common Stock or the GM Class H Common Stock, the voting and liquidation rights of shares of GM Class H Common Stock relative to GM \$1 2/3 Common Stock will be appropriately adjusted. In the event of the issuance of shares of GM Class H Common Stock as a dividend on shares of GM \$1 2/3 Common Stock, the liquidation rights of the applicable class of common stock would be adjusted so that the relative aggregate liquidation rights of each stockholder would not be changed as a result of such dividend.

## NEW GM CLASS H COMMON STOCK

## INTRODUCTION

Upon the consummation of the Hughes Transactions, each outstanding share of GM Class H Common Stock will be recapitalized and converted into one share of New GM Class H Common Stock and will be entitled to receive a distribution of Class A Common Stock in accordance with the Distribution Ratio. Persons who currently hold GM Class H Common Stock will be holders of New GM Class H Common Stock and Class A Common Stock. Reference is also made to the more detailed provisions of, and such descriptions are qualified in their entirety by reference to, Article Fourth of the GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, a copy of which is attached as Exhibit A to Appendix A to this document. WE URGE YOU TO READ APPENDIX A (INCLUDING EXHIBIT A THERETO) CAREFULLY.

New GM Class H Common Stockholders will have no direct rights in the equity or assets of New Hughes Electronics, but rather will have rights in the equity and assets of General Motors (which will include 100% of the stock of New Hughes Electronics). New GM Class H Common Stock has been designed to provide holders with financial returns based on the performance of New Hughes Electronics. The intent of this design objective has been achieved through (1) allocations under the GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, of the earnings of General Motors attributable to New Hughes Electronics between amounts available for the payment of dividends on New GM Class H Common Stock and amounts available for the payment of dividends on the GM \$1 2/3 Common Stock and (2) the policy statement of the GM Board regarding certain capital stock matters, all as more fully described elsewhere in this document. General Motors, not New Hughes Electronics, will be the issuer of New GM Class H Common Stock. The GM Board will be free at any time to change dividend policies and practices with respect to New GM Class H Common Stock or the GM \$1 2/3 Common Stock. See "Risk Factors--Risk Factors Relating to GM's Dual-Class Common Stock Structure--GM Board Policies and Practices Are Subject to Change" in Chapter 2.

## GM CERTIFICATE OF INCORPORATION PROVISIONS REGARDING DIVIDENDS

Under the GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, dividends may be paid on GM's two classes of common stock to the extent of the assets of General Motors legally available for the payment of dividends, subject to the rights of the holders of GM Preferred Stock (if any) and GM Preference Stock, and subject to the allocation of the legally available amount between GM's two classes of common stock, as described below. The total amount legally available for the payment of dividends by a Delaware corporation is generally the excess of the fair market value of the corporation's net assets over amounts constituting the corporation's capital; this excess amount is referred to as "surplus." Dividends may also be paid, if there is no surplus, to the extent of the net profits for the then current and/or the preceding fiscal year.

The GM Certificate of Incorporation, as proposed to be amended, will allocate the total amount legally available for the payment of dividends on GM's common stock between GM's two classes of common stock as follows: dividends may be paid on GM \$1 2/3 Common Stock to the extent of the total surplus available for the payment of dividends on common stock reduced by the amount of surplus attributed to the New GM Class H Common Stock, and dividends may be paid on the New GM Class H Common Stock to the extent of the total surplus available for the payment of dividends on common stock reduced by the amount of surplus attributed to the GM \$1 2/3 Common Stock.

. The amount of surplus from time to time attributed to the New GM Class H Common Stock (which will reduce the amount of surplus available for dividends on the GM \$1 2/3 Common Stock) will be the sum of (1) the amount of paid-in surplus initially attributed to the shares of New GM Class H Common Stock issued in the Hughes Transactions and the paid-in surplus attributable to any shares of New GM Class H Common Stock issued after the closing of the Hughes Transactions, plus (2) the portion of the net earnings of New Hughes Electronics after the closing of the Hughes Transactions attributed to the New

GM Class H Common Stock in accordance with the GM Certificate of Incorporation, which is based on the Available Separate Consolidated Net Income of New Hughes Electronics, as described below, plus or minus (3) the amount of any adjustment made by the GM Board as described below.

- . The GM Board has determined that the amount of paid-in surplus initially to be attributed to the shares of New GM Class H Common Stock to be issued in the Hughes Transactions will equal the cumulative amount available for the payment of dividends on GM Class H Common Stock immediately prior to the consummation of the Hughes Transactions, reduced by an allocable portion (based on the Class H Fraction) of the net reduction in GM stockholders' equity resulting from the Hughes Transactions.
- . The amount of surplus from time to time attributed to the GM \$1 2/3 Common Stock will be the surplus of General Motors reduced by the sum of (1) the paid-in surplus attributable to the New GM Class H Common Stock and (2) all of the earnings of General Motors that are attributed to the New GM Class H Common Stock, plus or minus the amount of any adjustment made by the GM Board as described below. This amount will reduce the amount of surplus from time to time available for dividends on New GM Class H Common Stock. As described below, the amount of the surplus attributed to the shares of GM \$1 2/3 Common Stock will be reduced by that portion of the net reduction in GM stockholders' equity resulting from the Hughes Transactions that is not allocated to the GM Class H Common Stock.

The amount available for dividends on each class of GM common stock will be reduced by dividends paid on that class and adjusted for changes to the amount of surplus attributed to the class resulting from the repurchase or issuance of shares of that class. In addition, the amount of surplus, and therefore the amount available for dividends on each class, may be adjusted for any reason deemed appropriate by the GM Board. Delaware law permits the board of directors of a corporation to adjust the total amount legally available for the payment of dividends to reflect a re-valuation of the assets and liabilities of the corporation in the exercise of its business judgment. Subject to the foregoing, the declaration and payment of dividends on each class of GM common stock, and the amount thereof, shall at all times be solely in the discretion of the GM Board. The GM Board may, in its sole discretion, declare dividends payable exclusively to the holders of GM \$1 2/3 Common Stock, exclusively to the holders of GM Class H Common Stock or to the holders of both such classes in equal or unequal amounts, notwithstanding the respective amounts of surplus available for dividends to each class, the respective voting and liquidation rights of each class, the amount of prior dividends declared on each class or any other factor.

As of June 30, 1997, based on the stockholders' equity of General Motors reflected in its consolidated balance sheet at such date prepared in accordance with generally accepted accounting principles and subject to adjustment as described above, the cumulative amount of surplus available for payment of dividends on GM common stock was approximately \$26.5 billion, of which approximately \$23 billion was available for dividends on the GM \$1 2/3 Common Stock and approximately \$3.5 billion was available for dividends on the GM Class H Common Stock. Based on the Recent Raytheon Stock Price, the estimated net effect of the Hughes Transactions would be to reduce the cumulative amount of surplus available for the payment of dividends on GM common stock by approximately \$1.7 billion. The GM Board has determined that it would be appropriate in the context of the Hughes Transactions to allocate the net reduction between the two classes of GM common stock in proportion to the derivative interests of the two classes of common stock in the earnings of Hughes Electronics. Accordingly, the GM Board deems it appropriate in these circumstances to reduce the cumulative amount available for payment of dividends on the GM \$1 2/3 Common Stock by approximately 75% of the net reduction, to approximately \$21.5 billion (including the impact of the preferred stock exchange that occurred on July 9, 1997), and to cause the amount that will initially be available for dividends on the New GM Class H Common Stock to be reduced from the amount currently available on the GM Class H Common Stock by approximately 25% of the net reduction, to approximately \$3 billion.

As described above, under the GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, the amortization of intangible assets arising from the purchase accounting adjustments related to GM's acquisition of Hughes Aircraft applicable to the telecommunications and space business of Hughes

Electronics will be charged against earnings attributable to GM \$1 2/3 Common Stock and not against earnings attributable to New GM Class H Common Stock. For additional information regarding these purchase accounting adjustments, see the Hughes Telecom financial information set forth in Appendix E to this document.

For purposes of determining the approximate earnings per share attributable to New GM Class H Common Stock for financial reporting purposes, an investor will be able to divide the quarterly earnings allocated to New GM Class H Common Stock (the Available Separate Consolidated Net Income of New Hughes Electronics) by the weighted average number of shares of New GM Class H Common Stock outstanding during such quarter, which is the numerator of the fraction described above. You will be able to obtain approximately the same mathematical result by dividing the quarterly earnings used for computation of the Available Separate Consolidated Net Income of New Hughes Electronics (i.e., net income) by the denominator of the fraction described above.

#### DIVIDEND POLICY

Under Delaware law and the GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, the GM Board will not be required to declare dividends on any class of GM common stock. If and to the extent the GM Board chooses to declare dividends on either or both of the classes of its common stock, neither Delaware law nor the GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, will require that there be any proportionate or other fixed relationship between the amount of dividends declared with respect to such different classes of common stock. The GM Board reserves the right to reconsider from time to time its policies and practices regarding dividends on GM common stock and to increase or decrease the dividends paid on GM common stock on the basis of GM's consolidated financial position, including liquidity, and other factors, including, with regard to New GM Class H Common Stock, the earnings and consolidated financial position of New Hughes Electronics. Information concerning General Motors and its consolidated financial performance, including Management's Discussion and Analysis, may be found in the documents incorporated into this document by reference, including the GM 1996 Form 10-K.

In connection with its determination of the terms of the New GM Class H Common Stock to be issued in the Hughes Transactions, the GM Board reviewed its policies and practices with respect to GM's dual-class common stock capital structure and, as described above, subject to consummation of the Hughes Transactions, adopted a policy statement which will provide, among other things, that the quarterly dividend policy of the GM Board with respect to the New GM Class H Common Stock will be to declare and pay quarterly dividends on the New GM Class H Common Stock in an amount equal to the product of (1) the aggregate amount of each quarterly dividend received by General Motors as a stockholder of New Hughes Electronics, if any, multiplied by (2) the fraction used to determine the Available Separate Consolidated Net Income of New Hughes Electronics at the time such dividend was declared by New Hughes Electronics. The policy statement further provides that GM's payment of a quarterly dividend on the New GM Class H Common Stock will be made as soon as practicable after receipt of the corresponding dividend payment from New Hughes Electronics. As set forth therein, this policy statement may at any time and from time to time be modified or rescinded by the GM Board. The GM Board has no present intention to modify or rescind this policy statement. See "Considerations Relating to GM's Dual-Class Common Stock Capital Structure--New GM Board Policy Statement" above.

Following the completion of the Hughes Transactions, future earnings (if any) from the telecommunications and space business of New Hughes Electronics will be retained for the development of that business. As a result, it is not currently expected that dividends will initially be paid by New Hughes Electronics to General Motors. Accordingly, the GM Board does not currently intend to pay initially any cash dividends on New GM Class H Common Stock.

## VOTING RIGHTS

New GM Class H Common Stockholders will be entitled to a fixed number of votes per share on all matters submitted to GM's common stockholders for a vote and, with specified exceptions, as described below, will vote together as a single class with the GM \$1 2/3 Common Stockholders on all matters (including the election and removal of directors), based on their respective voting rights as set forth in the GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger. The number of votes to which each share of New GM Class H Common Stock will be entitled to the greater of (1) one-half or (2) a number (rounded to the nearest one-tenth) which reflects the relative market value of New GM Class H Common Stock compared to the market value of GM \$1 2/3 Common Stock, to be determined based on the average trading prices of such stocks during a specified period following the consummation of the Hughes Transactions. Each share of GM \$1 2/3 Common Stock will continue to be entitled to one vote after the Hughes Transactions. The number of votes to which each share of GM Class H Common Stock and GM \$1 2/3 Common Stock will be entitled will be subject to adjustment as described below under "--Subdivision or Combination." New GM Class H Common Stock will be entitled to vote separately as a class only on (1) any amendment to the GM Certificate of Incorporation which adversely affects the rights, powers or privileges of the New GM Class H Common Stock and (2) any increase in the number of authorized shares of New GM Class H Common Stock.

## LIQUIDATION RIGHTS

In the event of the liquidation, dissolution or winding up of the business of General Motors, whether voluntary or involuntary, the GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, provides that, after the holders of GM Preferred Stock (if any) and GM Preference Stock receive the full preferential amounts to which they are entitled, New GM Class H Common Stockholders and GM \$1 2/3 Common Stockholders will receive the assets remaining for distribution to GM's stockholders on a per share basis in proportion to the respective per share liquidation units of such classes. Subject to adjustment as described below under "--Subdivision or Combination," each share of New GM Class H Common Stock will be entitled to liquidation units equal to the number of votes to which each such share is entitled, determined as described above under "--Voting Rights," and each share of GM \$1 2/3 Common Stock will be entitled to one liquidation unit. New GM Class H Common Stockholders will have no direct rights in the equity or assets of New Hughes Electronics, but rather will have rights in the equity and assets of General Motors (which will include 100% of the stock of New Hughes Electronics).

## RECAPITALIZATION AND CERTAIN OTHER TRANSACTIONS

Under the GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, all outstanding shares of New GM Class H Common Stock may be recapitalized as shares of GM \$1 2/3 Common Stock (1) at any time after December 31, 2002 in the sole discretion of the GM Board or (2) automatically, if at any time General Motors, in one transaction or a series of related transactions, disposes of substantially all of the business of New Hughes Electronics (or its successors) to a person, entity or group of which General Motors is not a majority owner. For purposes of this recapitalization provision of the GM Certificate of Incorporation, "substantially all of the business" of New Hughes Electronics will mean at least 80% of the business of New Hughes Electronics, based on the fair market value of the assets, both tangible and intangible, of New Hughes Electronics as of the time of the proposed transaction. No automatic recapitalization will occur upon a disposition in connection with the dissolution, liquidation and winding up of General Motors and the distribution of the net assets of General Motors to GM's common stockholders. In the event of any recapitalization, each New GM Class H Common Stockholder would receive shares of GM \$1 2/3 Common Stock having a market value, as of a specified date provided for in the GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, equal to 120% of the market value of such holder's New GM Class H Common Stock on such date.

## CHAPTER 6: CAPITAL STOCK

No fractional shares of GM \$1 2/3 Common Stock would be issued in any such exchange. In lieu of fractional shares, a New GM Class H Common Stockholder would receive cash equal to the product of (A) the fraction of a share of GM \$1 2/3 Common Stock to which the holder would otherwise have been entitled multiplied by (B) the average market price per share of GM \$1 2/3 Common Stock on such valuation date.

As described above, the GM Board has adopted, subject to consummation of the Hughes Transactions, a policy statement which will provide, among other things, that, subject to certain exceptions, in the event that New Hughes Electronics transfers any material assets to General Motors, the GM Board shall declare and pay a dividend or make a distribution so that there will be distributed to New GM Class H Common Stockholders a portion of such assets (or cash or other assets having an equivalent fair value) that is not less than their proportionate tracking stock interest in New Hughes Electronics (determined accordingly to the fraction used to calculate the Available Separate Consolidated Net Income of New Hughes Electronics) at the time of such transfer. The policy statement further provides that, subject to certain exceptions, in the event that New Hughes Electronics transfers any such material assets to GM's stockholders, the portion of such assets transferred to the New GM Class H Common Stockholders will not be less than their proportionate tracking stock interest in New Hughes Electronics (determined as described above) at the time of such transfer. The policy statement further provides that General Motors will not acquire in one transaction or a series of transactions a significant portion (more than 33%) of the business of New Hughes Electronics for compensation without receiving the consent of the holders of a majority of the outstanding shares of New GM Class H Common Stock, voting as a separate class, and GM \$1 2/3 Common Stock, voting as a separate class.

### SUBDIVISION OR COMBINATION

If General Motors subdivides (by stock split or otherwise) or combines (by reverse stock split or otherwise) the outstanding shares of the GM \$1 2/3 Common Stock or the New GM Class H Common Stock, the voting and liquidation rights of shares of New GM Class H Common Stock relative to GM \$1 2/3 Common Stock will be appropriately adjusted. In the event of the issuance of shares of New GM Class H Common Stock as a dividend on shares of GM \$1 2/3 Common Stock, the liquidation rights of the applicable class of common stock would be adjusted so that the relative aggregate liquidation rights of each stockholder would not be changed as a result of such dividend.

### STOCK EXCHANGE LISTING

Application has been made to list the New GM Class H Common Stock on the NYSE. It is expected that New GM Class H Common Stock will be listed on the NYSE under the symbol "GMH."

### TRANSFER AGENT AND REGISTRAR

BankBoston, N.A. will serve as the Transfer Agent and Registrar for the New GM Class H Common Stock.

## NEW RAYTHEON CAPITAL STOCK

## INTRODUCTION

Under the New Raytheon Certificate of Incorporation, the authorized capital stock of New Raytheon will consist of Class A Common Stock, par value \$0.01 per share, Class B Common Stock, par value \$0.01 per share, and New Raytheon Preferred Stock, par value \$0.01 per share.

Holders of both classes of GM common stock will receive Class A Common Stock in the GM Spin-Off Merger. Upon the consummation of the Raytheon Merger (pursuant to which the then outstanding Raytheon Common Stock will be converted on a share-for-share basis into Class B Common Stock of New Raytheon), Class A Common Stock will be one of two classes of common stock of New Raytheon, neither of which will be a "tracking stock." There are no current plans for the New Raytheon Board to issue New Raytheon Preferred Stock.

THE FOLLOWING DESCRIPTIONS OF NEW RAYTHEON CAPITAL STOCK (1) ARE SUMMARIES AND DO NOT PURPORT TO BE COMPLETE AND (2) GIVE EFFECT TO THE CONSUMMATION OF THE HUGHES DEFENSE SPIN-OFF AND THE RAYTHEON MERGER. SEE "DESCRIPTION OF THE HUGHES TRANSACTIONS" AND "DESCRIPTION OF THE RAYTHEON MERGER" IN CHAPTER 3 AND "COMPARISON OF GM CLASS H COMMON STOCK, NEW GM CLASS H COMMON STOCK AND CLASS A COMMON STOCK" ABOVE. REFERENCE IS ALSO MADE TO THE MORE DETAILED PROVISIONS OF, AND SUCH DESCRIPTIONS ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO, THE FORMS OF THE NEW RAYTHEON CERTIFICATE OF INCORPORATION AND THE NEW RAYTHEON BY-LAWS, COPIES OF WHICH ARE FILED WITH THE SEC AS EXHIBITS TO A REGISTRATION STATEMENT OF WHICH THIS DOCUMENT IS A PART.

## COMMON STOCK

With respect to the election or removal of directors, (1) Class A Common Stockholders, representing approximately 30% of the equity ownership of New Raytheon as of immediately after the Raytheon Merger Effective Time, will be entitled to such number of votes for each share of Class A Common Stock as shall be necessary to entitle the holders of all shares of Class A Common Stock to vote, in the aggregate, 80.1% of the total voting power of all holders of New Raytheon Common Stock and (2) Class B Common Stockholders, representing approximately 70% of the equity ownership of New Raytheon as of immediately after the Raytheon Merger Effective Time, will be entitled to one vote for each share of Class B Common Stock, which votes shall represent, in the aggregate, 19.9% of the total voting power of all holders of New Raytheon Common Stock. The New Raytheon Board will determine the number of votes for each share of Class A Common Stock outstanding promptly following the fixing of a record date for each annual or special meeting of stockholders at which directors are to be elected or a vote with respect to removal of directors is to be taken. A plurality of votes cast shall elect directors. With respect to all stockholder matters other than the election and removal of directors, the Class A Common Stockholders and the Class B Common Stockholders will each be entitled to a single vote per share and the approval of any such matter will require the approval of both classes of New Raytheon Common Stock, each voting as a separate class. Except as may be provided in connection with any class or series of New Raytheon Preferred Stock issued from time to time or as may otherwise be required by law or the New Raytheon Certificate of Incorporation, the New Raytheon Common Stock will be the only capital stock of New Raytheon entitled to vote in the election and removal of directors and other matters presented to the stockholders of New Raytheon from time to time. The New Raytheon Common Stock will not have cumulative voting rights.

Subject to the rights of holders of New Raytheon Preferred Stock (if any) and applicable law, the Class A Common Stockholders and the Class B Common Stockholders will be entitled to receive such dividends as may be lawfully declared from time to time by the New Raytheon Board. The Class A Common Stockholders and the Class B Common Stockholders will be entitled to receive the same amount per share of any such dividends, provided that the New Raytheon Board may declare a dividend or distribution of shares of Class A Common Stock to Class A Common Stockholders and shares of Class B Common Stock to Class B Common Stockholders so long as, immediately following such dividend or other distribution, the number of shares of Class A Common Stock and Class B Common Stock then outstanding bears the same relationship to each other

as immediately prior to such dividend or other distribution. [Discussion of anticipated dividend policy to come.]

In the case of any split, subdivision, combination or reclassification of Class A Common Stock or Class B Common Stock, the shares of Class A Common Stock or the Class B Common Stock, as the case may be, shall also be split, subdivided, combined or reclassified so that the number of shares of Class A Common Stock and Class B Common Stock outstanding immediately following such split, subdivision, combination or reclassification shall bear the same relationship to each other as immediately prior to such split, subdivision, combination or reclassification.

Upon any liquidation, dissolution or winding up of New Raytheon, whether voluntary or involuntary, the Class A Common Stockholders and the Class B Common Stockholders will be entitled to receive such assets as are available for distribution to stockholders in proportion to the number of shares held by such holders, respectively, without regard to class, after there shall have been paid or set aside for payment the full amounts necessary to satisfy any creditors and any preferential or participating rights to which the holders of each outstanding series of New Raytheon Preferred Stock (if any) are entitled by the express terms of such series.

New Raytheon may not directly or indirectly redeem, purchase, repurchase or otherwise acquire for consideration any shares of New Raytheon Common Stock unless such action is (1) effected ratably in accordance with the number of outstanding shares of Class A Common Stock and Class B Common Stock, (2) for consideration of the same type and amount as to shares of each class and (3) not in any other way prejudicial to the rights of the holders of one class of New Raytheon Common Stock in favor of the other class of New Raytheon Common Stock. In the case of an offer to purchase shares of New Raytheon Common Stock by New Raytheon made to all holders of New Raytheon Common Stock, New Raytheon will purchase shares of New Raytheon Common Stock ratably in accordance with the number of shares of each class of New Raytheon Common Stock tendered thereunder.

Under the New Raytheon Certificate of Incorporation, in the event of any corporate merger, consolidation, purchase or acquisition of property or stock, or other reorganization in which any consideration is to be received by the Class A Common Stockholders or the Class B Common Stockholders, the holders of each class must receive the same type and amount of consideration on a per share basis.

The outstanding shares of New Raytheon Common Stock will be fully paid and nonassessable. The New Raytheon Common Stock will not have any preemptive, subscription or conversion rights. Additional shares of authorized New Raytheon Common Stock may be issued, as authorized by the New Raytheon Board from time to time, without stockholder approval, except as may be required by applicable stock exchange requirements.

Except as indicated above, the rights of the Class A Common Stockholders and the Class B Common Stockholders are in all respects and for all purposes and in all circumstances identical, and New Raytheon will not in any other manner directly or indirectly take any other action or in any other fashion agree to, facilitate, condone or support any transaction in which the Class A Common Stockholders and the Class B Common Stockholders are subject to discriminatory or unequal treatment.

The dual-class capitalization of New Raytheon is designed, among other things, to allow the Hughes Defense Spin-Off and the Hughes Telecom Spin-Off to each be treated as a tax-free distribution for U.S. federal income tax purposes. However, the dual-class capitalization may have certain adverse consequences. In particular, while we expect the shares of both Class A Common Stock and Class B Common Stock to trade on the NYSE, the listing policies of the NYSE with respect to corporations with dual-class capitalizations may change in the future, and there can be no assurance that such policies will allow for the continued listing of the lower vote Class B Common Stock.

#### PREFERRED STOCK

The New Raytheon Board is empowered, without approval of its stockholders, to cause shares of New Raytheon Preferred Stock to be issued in one or more series, with the numbers of shares of each series and the powers, preferences, rights and limitations of each series to be determined by it. Among the specific matters that may be determined by the New Raytheon Board are the rate of dividends (if any), the terms of redemption (if any), the obligation to purchase or redeem pursuant to a sinking fund or otherwise, and the terms thereof (if



any), the amount payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of New Raytheon, rights and terms of conversion or exchange (if any) and voting rights (if any). The Series A Preferred Stock of New Raytheon described under "--New Raytheon Rights Agreement" below is a series of New Raytheon Preferred Stock that has been authorized by the Hughes Defense Board.

Although the New Raytheon Board currently has no plans to issue New Raytheon Preferred Stock, the issuance of shares of New Raytheon Preferred Stock, or the issuance of rights to purchase such shares, could be used to discourage an unsolicited acquisition proposal. For example, a business combination could be impeded by the issuance of a series of New Raytheon Preferred Stock containing class voting rights that would enable the holder or holders of such series to block any such transaction. Alternatively, a business combination could be facilitated by the issuance of a series of New Raytheon Preferred Stock having sufficient voting rights to provide a required percentage vote of the stockholders. In addition, under certain circumstances, the issuance of New Raytheon Preferred Stock could adversely affect the voting power of the holders of the New Raytheon Common Stock. Although the New Raytheon Board is required to make any determination to issue any such stock based on its judgment as to the best interests of the stockholders of New Raytheon, the New Raytheon Board could act in a manner that would discourage an acquisition attempt or other transaction that some, or a majority, of the stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over prevailing market prices of such stock. The New Raytheon Board does not at present intend to seek stockholder approval prior to any issuance of currently authorized stock, unless otherwise required by law or applicable stock exchange requirements. The New Raytheon Board's ability to issue New Raytheon Preferred Stock, however, is limited by certain provisions of the Spin-Off Separation Agreement for a specified period of time after the GM Spin-Off Merger Effective Time. See "Separation and Transition Arrangements--Summary of Spin-Off Separation Agreement--Preservation of the Tax-Free Status of the Hughes Transactions and the Raytheon Merger" in Chapter 3.

#### NEW RAYTHEON RIGHTS AGREEMENT

In connection with the Raytheon Merger, the Hughes Defense Board intends to adopt the New Raytheon Rights Agreement, effective as of immediately prior to the Raytheon Merger Effective Time. Immediately prior to the Raytheon Merger Effective Time, the Hughes Defense Board will declare a dividend of one New Raytheon Right to be paid at the GM Spin-Off Merger Effective Time in the case of Class A Common Stock and at the Raytheon Merger Effective Time in respect of each share of the Class B Common Stock to the holder of record thereof as of such effective time. Thus, each share of Class A Common Stock distributed to GM's common stockholders in the Hughes Defense Spin-Off will have a New Raytheon Right attached. The following description of the New Raytheon Rights and the New Raytheon Rights Agreement (1) is a summary and does not purport to be complete and (2) gives effect to the consummation of the Hughes Transactions and the Raytheon Merger.

Each New Raytheon Right will entitle the registered holder to purchase from New Raytheon one one-hundredth of a share of New Raytheon Junior Preferred Stock at a price per one one-hundredth of a share to be determined by the Hughes Defense Board prior to the Raytheon Merger Effective Time (the "Exercise Price"), subject to adjustment. The terms of the New Raytheon Rights will be set forth in the New Raytheon Rights Agreement.

The New Raytheon Rights (1) will not be exercisable until the New Raytheon Rights Effective Date (as defined below) and (2) will expire on the 10th anniversary of the Raytheon Merger Effective Date (the "Final Expiration Date"), unless the Final Expiration Date is extended or unless the New Raytheon Rights are earlier redeemed or exchanged by New Raytheon, in each case, as described below.

The Exercise Price payable, and the number of shares of Series A Junior Participating Preferred Stock, \$0.01 par value of New Raytheon (the "New Raytheon Junior Preferred Stock") or other securities or property issuable, upon exercise of the New Raytheon Rights are subject to adjustment from time to time to prevent dilution under the following circumstances:

- . in the event of a stock dividend on, or a subdivision, combination or reclassification of, the shares of New Raytheon Junior Preferred Stock;
- . upon the grant to holders of the shares of New Raytheon Junior Preferred Stock of certain rights or warrants to subscribe for or purchase shares of New Raytheon Junior Preferred Stock at a price, or securities convertible into shares of New Raytheon Junior Preferred Stock with a conversion price, less than the then-current market price of the shares of New Raytheon Junior Preferred Stock; or
- . upon the distribution to holders of the shares of New Raytheon Junior Preferred Stock of evidences of indebtedness or assets (other than certain dividend payments) or of subscription rights or warrants (other than those referred to above).

The number of outstanding New Raytheon Rights and the number of one one-hundredths of a share of New Raytheon Junior Preferred Stock issuable upon exercise of each New Raytheon Right are also subject to adjustment in the event of a stock split of New Raytheon Common Stock or a stock dividend on New Raytheon Common Stock payable in New Raytheon Common Stock or subdivisions, consolidations or combinations of New Raytheon Common Stock occurring, in any such case, prior to the New Raytheon Rights Effective Date.

The New Raytheon Rights received on the Raytheon Merger Effective Date will be evidenced by the certificates representing shares of New Raytheon Common Stock which will be on deposit with BankBoston, N.A. as Transfer Agent and Registrar for New Raytheon, until the New Raytheon Rights Effective Date. Ownership of New Raytheon Rights will be reflected on the account statements received in connection with the book-entry ownership of shares of New Raytheon Common Stock, including the Class A Common Stock distributed in the Hughes Defense Spin-Off. See "--Book-Entry Registration" below. The "New Raytheon Rights Effective Date" is a date which is the earlier to occur of (1) 10 days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired beneficial ownership of 15% or more of (a) the outstanding shares of Class A Common Stock, (b) the outstanding shares of Class B Common Stock, or (c) the aggregate voting power in the election of directors (each, a "Triggering Holding") or (2) 10 business days (or a later date determined by the New Raytheon Board prior to any person or group becoming an Acquiring Person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of a Triggering Holding.

The New Raytheon Rights Agreement will provide that, until the New Raytheon Rights Effective Date (or earlier redemption or expiration of the New Raytheon Rights):

- . the New Raytheon Rights will be transferred with and only with the shares of New Raytheon Common Stock;
- . certificates representing shares of New Raytheon Common Stock will contain a notation incorporating the terms of the New Raytheon Rights by reference; and
- . the surrender for transfer of any certificates representing shares of New Raytheon Common Stock will also constitute the transfer of the New Raytheon Rights associated with the shares of New Raytheon Common Stock represented by such certificate.

As soon as practicable following the New Raytheon Rights Effective Date, separate certificates evidencing the New Raytheon Rights ("New Raytheon Rights Certificates") will be mailed to holders of record of the shares of New Raytheon Common Stock as of the close of business on the New Raytheon Rights Effective Date. Such separate New Raytheon Rights Certificates alone will then evidence the New Raytheon Rights.

Flip-in Right. In the event that any person or group of affiliated or associated persons becomes an Acquiring Person, each holder of a New Raytheon Right, other than New Raytheon Rights beneficially owned by the Acquiring Person (which rights become void upon acquisition of a Triggering Holding), will thereafter have the right to receive, upon exercise thereof at the then-current Exercise Price, that number of shares of Class B Common Stock having a market value of two times the Exercise Price of the New Raytheon Right

CHAPTER 6: CAPITAL STOCK

(such right being referred to as a "Flip-in Right"). Thus, if Class B Common Stock at the time the Flip-in Right became exercisable were trading at \$30 per share and the Exercise Price at such time were \$120, each New Raytheon Right would thereafter be exercisable at \$120 for eight shares of Class B Common Stock.

Flip-over Right. In the event that, at any time on or after the date that any person has become an Acquiring Person, New Raytheon is acquired in a merger or other business combination transaction or 50% or more of consolidated assets or earning power are sold, each holder of a New Raytheon Right will thereafter have the right to receive, upon the exercise thereof at the then-current Exercise Price, that number of shares of common stock of the acquiring company which at the time of such transaction will have a market value of two times the Exercise Price of the New Raytheon Right (such right being referred to as a "Flip-over Right"). Thus, if the acquiring company's common stock at the time of such transaction were trading at \$30 per share and the Exercise Price of the New Raytheon Rights at such time were \$120, each New Raytheon Right would thereafter be exercisable at \$120 for eight shares (i.e., the number of shares that could be purchased for \$240, or two times the exercise price of the rights) of the acquiring company's common stock.

Exchange. At any time after any person or group of affiliated or associated persons becomes an Acquiring Person and prior to the acquisition by such person or group of 50% or more of the outstanding shares of New Raytheon Common Stock, the New Raytheon Board may exchange the New Raytheon Rights (other than New Raytheon Rights owned by such person or group which will have become void), in whole or in part, at an exchange ratio of one share of Class B Common Stock, or one one-hundredth of a share of New Raytheon Junior Preferred Stock, per New Raytheon Right (subject to adjustment).

At any time prior to the acquisition by a person or group of affiliated or associated persons of beneficial ownership of a Triggering Holding of New Raytheon Common Stock, the New Raytheon Board may redeem the New Raytheon Rights in whole, but not in part, at a price of \$0.01 per New Raytheon Right (the "Redemption Price"). The redemption of the New Raytheon Rights may be made effective at such time, on such basis and with such conditions as the New Raytheon Board, in its sole discretion, may establish. Immediately upon any redemption of the New Raytheon Rights, the right to exercise the New Raytheon Rights will terminate and the only right of the holders of New Raytheon Rights will be to receive the Redemption Price.

Shares of New Raytheon Junior Preferred Stock purchasable upon exercise of the New Raytheon Rights will not be redeemable. Each share of New Raytheon Junior Preferred Stock will be entitled to a minimum preferential quarterly dividend payment of \$1.00 per share but will be entitled to an aggregate dividend equal to 100 times the dividend declared per share of New Raytheon Common Stock. In the event of liquidation, the holders of the New Raytheon Junior Preferred Stock will be entitled to a minimum preferential liquidation payment of \$100 per share but will be entitled to an aggregate payment equal to 100 times the payment made per share of New Raytheon Common Stock. Each share of New Raytheon Junior Preferred Stock will have 100 votes, and will vote on all matters together with the Class B Common Stockholders. Finally, in the event of any merger, consolidation or other transaction in which New Raytheon Common Stock is exchanged, each share of New Raytheon Junior Preferred Stock will be entitled to receive an amount equal to 100 times the amount received per share of New Raytheon Common Stock. These rights are protected by customary antidilution provisions.

Because of the nature of the dividend, liquidation and voting rights of New Raytheon Junior Preferred Stock, the value of the one one-hundredth interest in a share of New Raytheon Junior Preferred Stock purchasable upon exercise of each New Raytheon Right should approximate the value of one share of Class B Common Stock.

With certain exceptions, no adjustment in the Exercise Price will be required until cumulative adjustments require an adjustment of at least 1% in such Exercise Price. No fractional shares of New Raytheon Junior Preferred Stock will be issued (other than fractions which are integral multiples of one one-hundredth of a share of New Raytheon Junior Preferred Stock, which may, at the election of the New Raytheon Board, be

## CHAPTER 6: CAPITAL STOCK

evidenced by depositary receipts) and in lieu thereof, an adjustment in cash will be made based on the market price of the shares of New Raytheon Junior Preferred Stock on the last trading day prior to the date of exercise.

The terms of the New Raytheon Rights may be amended by the New Raytheon Board without the consent of the holders of the New Raytheon Rights, including an amendment to lower (1) the threshold at which a person becomes an Acquiring Person and (2) the percentage of New Raytheon Common Stock proposed to be acquired in a tender or exchange offer that would cause the New Raytheon Rights Effective Date to occur, to not less than the greater of (a) the sum of .001% and the largest percentage of the outstanding New Raytheon Common Stock then known to New Raytheon to be beneficially owned by any person or group of affiliated or associated persons and (b) 10%, except that, from and after such time as any person or group of affiliated or associated persons becomes an Acquiring Person, no such amendment may adversely affect the interests of the holders of the New Raytheon Rights.

Until a New Raytheon Right is exercised, the holder thereof, as such, will have no rights as a stockholder of New Raytheon, including, without limitation, the right to vote or to receive dividends.

The New Raytheon Rights related to the shares of Class A Common Stock distributed in the Hughes Defense Spin-Off are being registered under the Exchange Act, with such shares. In the event that the New Raytheon Rights become exercisable, New Raytheon will register the shares of New Raytheon Junior Preferred Stock for which the New Raytheon Rights may be exercised in accordance with applicable law.

The New Raytheon Rights will have certain antitakeover effects. The New Raytheon Rights will cause substantial dilution to any person or group that attempts to acquire New Raytheon without the approval of the New Raytheon Board. As a result, the overall effect of the New Raytheon Rights may be to render more difficult or discourage any attempt to acquire New Raytheon even if such acquisition may be favorable to the interests of New Raytheon's stockholders. Because the New Raytheon Board can redeem the New Raytheon Rights, the New Raytheon Rights should not interfere with a merger or other business combination approved by the New Raytheon Board. The New Raytheon Rights will be distributed to protect New Raytheon's stockholders from coercive or abusive takeover tactics and to give the New Raytheon Board more negotiating leverage in dealing with prospective acquirors.

### LIMITATION ON NEW RAYTHEON DIRECTORS' LIABILITY

The New Raytheon Certificate of Incorporation provides, as authorized by Section 102(b)(7) of the Delaware General Corporation Law, that a director of New Raytheon will not be personally liable to New Raytheon or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption or limitation is prohibited under the Delaware General Corporation Law.

The inclusion of this provision in the New Raytheon Certificate of Incorporation may have the effect of reducing the likelihood of derivative litigation against directors, and may discourage or deter stockholders or management from bringing a lawsuit against directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited New Raytheon and its stockholders.

### SECTION 203 OF THE DELAWARE GENERAL CORPORATION LAW

Like General Motors, New Raytheon is a Delaware corporation and subject to Section 203 of the Delaware General Corporation Law. Generally, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the time such stockholder became an interested stockholder, unless (1) prior to such time, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder, (2) upon the consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced or (3) at or subsequent to such

time, the business combination is approved by the board of directors and authorized by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder. A "business combination" includes (a) any merger or consolidation of the corporation with the interested stockholder, (b) any sale, lease, exchange or other disposition, except proportionately as a stockholder of such corporation, to or with the interested stockholder of assets of the corporation having an aggregate market value equal to 10% or more of either the aggregate market value of all the assets of the corporation or the aggregate market value of all the outstanding stock of the corporation, (c) certain transactions resulting in the issuance or transfer by the corporation of stock of the corporation to the interested stockholder, (d) certain transactions involving the corporation which have the effect of increasing the proportionate share of the stock of any class or series of the corporation which is owned by the interested stockholder or (e) certain transactions in which the interested stockholder receives financial benefits provided by the corporation. An "interested stockholder" generally is (1) any person that owns 15% or more of the outstanding voting stock of the corporation, (2) any person that is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the three-year period prior to the date on which it is sought to be determined whether such person is an interested stockholder and (3) the affiliates or associates of any such person.

#### LIMITATIONS ON CHANGES IN CONTROL

The New Raytheon By-Laws contain provisions requiring that advance notice be delivered to New Raytheon of any business to be brought by a stockholder before an annual meeting of stockholders and providing for certain procedures to be followed by stockholders in nominating persons for election to the New Raytheon Board. Generally, such advance notice provisions provide that the stockholder must give written notice to the Secretary of New Raytheon not less than 90 days nor more than 120 calendar days before the first anniversary of the preceding year's annual meeting. In the event that the date of the annual meeting is more than 30 calendar days before or more than 60 calendar days after such anniversary date, notice by the stockholder to be timely must be delivered to the Secretary of New Raytheon not earlier than the close of business on the 120th calendar day prior to such annual meeting and not later than the close of business on the later of the 90th calendar day prior to such annual meeting or the 10th calendar day following the calendar day on which public announcement of the date of such meeting is first made by New Raytheon. In the event that the number of directors to be elected to the New Raytheon Board is increased and there is no public announcement by New Raytheon naming all of the nominees for director or specifying the size of the increased New Raytheon Board at least 100 calendar days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice will also be considered timely if it is delivered not later than the close of business on the 10th calendar day following the day on which public announcement is first made by New Raytheon. The notice must set forth specific information regarding such stockholder and such business or director nominee, as described in the New Raytheon By-Laws.

The New Raytheon Certificate of Incorporation provides that, except as may be provided by the New Raytheon Certificate of Incorporation or in the resolution or resolutions providing for the issuance of any series of New Raytheon Preferred Stock, the number of directors shall not be fewer than three nor more than fifteen and provides for a classified board of directors, consisting of three classes as nearly equal in size as practicable. Each class holds office until the third annual stockholders' meeting for election of directors following the most recent election of such class, except that the initial terms of the three classes expire in 1998, 1999 and 2000, respectively. See Chapter 5, "New Raytheon." A director of New Raytheon may be removed only for cause.

The New Raytheon Certificate of Incorporation provides that stockholders may not act by written consent in lieu of a meeting. Special meetings of the stockholders may be called by the Chairman of the New Raytheon Board or by the New Raytheon Board (if approved by a majority of directors which New Raytheon would have if there were no vacancies), but may not be called by stockholders. No business other than that stated in the notice shall be transacted at any special meeting. In the event New Raytheon calls a special meeting for the purpose of electing one or more directors to the New Raytheon Board, any stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the notice of special meeting, if

notice by the stockholder is delivered to the Secretary of New Raytheon not earlier than the close of business on the 120th calendar day prior to such special meeting and not later than the close of business on the later of the 90th calendar day prior to such special meeting or the 10th calendar day following the calendar day on which public announcement of the date of such meeting and the nominees proposed by the New Raytheon Board to be elected at such meeting is first made by New Raytheon.

The New Raytheon Certificate of Incorporation provides that the New Raytheon Board, in determining whether to take or refrain from taking corporate action on any matter, including making or declining to make any recommendation to the stockholders of New Raytheon, may in its discretion consider the long-term as well as short-term best interests of New Raytheon (including the possibility that these interests may be best served by the continued independence of New Raytheon), taking into account, and weighing as the directors deem appropriate, the effects of such action on employees, suppliers and customers of New Raytheon and its subsidiaries, the effect upon communities in which offices or other facilities of New Raytheon are located and any other factors the directors consider pertinent.

In order to preserve the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger, New Raytheon will be subject to certain covenants under the Spin-Off Separation Agreement which will act to prohibit New Raytheon from entering into or permitting (to the extent that New Raytheon has the right to prohibit) certain transactions, such as (1) certain acquisition transactions, stock issuance transactions and stock buyback transactions for two years following the Raytheon Merger Effective Time and (2) certain recapitalizations, reincorporations and similar transactions affecting the rights and privileges of New Raytheon Common Stock, in each case unless General Motors has, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger, determined that such transactions would not jeopardize the tax-free status of any of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger. In addition, for three years following the Hughes Defense Spin-Off, New Raytheon will be prohibited from amending or changing the New Raytheon Certificate of Incorporation or the New Raytheon By-Laws in such a way as to affect the composition or size of the New Raytheon Board, the manner in which the New Raytheon Board is elected or the duties and responsibilities of the New Raytheon Board unless General Motors has, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the tax-free status of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger, determined that such actions would not jeopardize the tax-free status of any of the Hughes Defense Spin-Off, the Hughes Telecom Spin-Off and the Raytheon Merger. For additional information regarding these prohibitions, see "Separation and Transition Arrangements--Summary of Spin-Off Separation Agreement--Preservation of Tax-Free Status of the Hughes Transactions and the Raytheon Merger" in Chapter 3.

The foregoing provisions of the New Raytheon Certificate of Incorporation, the New Raytheon By-Laws and the Spin-Off Separation Agreement, together with the New Raytheon Rights Agreement and the provisions of Section 203 of the Delaware General Corporation Law, could have the effect of delaying, deferring or preventing a change in control of New Raytheon or the removal of existing management, of deterring potential acquirors from making an offer to stockholders of New Raytheon and of limiting any opportunity to realize premiums over prevailing market prices for New Raytheon Common Stock in connection therewith. For a description of certain other factors that could limit such changes in control and offers, see "Risk Factors--Risk Factors Regarding New Raytheon After the Raytheon Merger--Certain Limitations on Changes in Control of New Raytheon; New Raytheon's Ability to Participate in Future Defense Industry Consolidation" in Chapter 2. This could be the case notwithstanding that a majority of New Raytheon's stockholders might benefit from such a change in control or offer.

STOCK EXCHANGE LISTING

Application has been made to list the Class A Common Stock and the Class B Common Stock on the NYSE, and such application has been granted pending notice of issuance. It is expected that the trading symbol on the NYSE for the Class A Common Stock will be "[RTNA]" and the trading symbol for the Class B Common Stock will be "[RTNB]."

TRANSFER AGENT AND REGISTRAR

BankBoston, N.A. will serve as the Transfer Agent and Registrar for the New Raytheon Common Stock.

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SOLICITATION OF WRITTEN CONSENT OF GM'S  
COMMON STOCKHOLDERS

MATTER TO BE APPROVED

We are furnishing this document to you in connection with our solicitation of your approval of the Hughes Transactions, including the adoption of the GM Spin-Off Merger Agreement.

The Hughes Transactions which you are being asked to approve include the Hughes Reorganization, the GM Spin-Off Merger (pursuant to which, among other things, the Hughes Defense Spin-Off and the recapitalization and conversion of GM Class H Common Stock into New GM Class H Common Stock will be effected), the Master Separation Agreement and all of the other agreements contemplated thereby and the completion of the other transactions and events described in the GM Spin-Off Merger Agreement.

In order to consummate the Hughes Transactions, General Motors must obtain the consent of the holders of (1) a majority of the outstanding shares of GM \$1 2/3 Common Stock, voting as a separate class and (2) a majority of the outstanding shares of GM Class H Common Stock, voting as a separate class. If General Motors obtains both of these approvals, as required by applicable law, General Motors will also have obtained the approval of a majority of the voting power of all outstanding shares of both classes of GM common stock, voting together as a single class based on their respective per share power pursuant to the provisions set forth in the GM Certificate of Incorporation. When voting together as a single class with respect to any proposal, holders of record of GM \$1 2/3 Common Stock are entitled to one vote per share and holders of record of GM Class H Common Stock are entitled to one-half of a vote per share.

You are not being asked to approve the Raytheon Merger, which has already been approved by Hughes Electronics as the sole stockholder of Hughes Defense. Although you are not being asked to approve the Raytheon Merger, the Raytheon Merger is conditioned upon, among other things, the approval of the Hughes Transactions by GM's common stockholders as described in this document. We and Raytheon are obligated to complete the Raytheon Merger immediately after the consummation of the Hughes Defense Spin-Off. See "Description of the Raytheon Merger" in Chapter 3. If the Hughes Transactions are not completed, the Raytheon Merger will not take place and, if the Raytheon Merger cannot be completed, the Hughes Transactions will not be completed.

The GM Board has unanimously recommended that you approve the Hughes Transactions. To the best of GM's knowledge, all of GM's directors and executive officers currently intend to consent to the Hughes Transactions and, except in their capacities as members of the Hughes Electronics Board or the GM President's Counsel as described above under "Summary--The Hughes Transactions" in Chapter 1 and "Special Factors--Background of the Hughes Transactions" and "Special Factors--Recommendations of the Capital Stock Committee and the GM Board; Fairness of the Hughes Transactions" in Chapter 3, none of GM's executive officers who are not directors have made any recommendations with respect to the Hughes Transactions.

ACTION BY WRITTEN CONSENT

We have delivered this document to you in order to obtain your written consent to consummate the Hughes Transactions. We will not hold a special meeting of GM's common stockholders with respect to the Hughes Transactions. Only GM's common stockholders of record on October 15, 1997, the Record Date, are entitled to consent with respect to the Hughes Transactions. On the Record Date, there were outstanding approximately                    million shares of GM \$1 2/3 Common Stock held by approximately                    holders of record and approximately                    million shares of GM Class H Common Stock held by approximately                    holders of record. Approval of the Hughes Transactions by GM's common stockholders will be deemed to be obtained once consents have been received and not revoked from holders of the number of outstanding shares of GM \$1 2/3 Common Stock and GM Class H Common Stock required for approval as described above. In no event will this be sooner than 20 business days after the date on which we complete the mailing of this

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document. Notwithstanding the foregoing, if we do not receive the number of consents required to approve the Hughes Transactions within 60 days of the date of the earliest dated consent delivered to us, no consent will be effective to approve the Hughes Transactions and we will not consummate the Hughes Transactions or the Raytheon Merger.

The shares represented by each executed consent submitted with respect to the proposal to approve the Hughes Transactions will be deemed to have approved the Hughes Transactions.

If you participate in any of the employee benefit or other plans described below or maintain other accounts under a different name (e.g., with and without a middle initial), you may receive more than one set of solicitation materials. To ensure that all of your shares are voted, you must execute and return every consent received.

You may revoke your consent at any time before the approval of the Hughes Transactions by GM's common stockholders, which will occur when unrevoked consents representing the requisite number of shares required to approve the Hughes Transactions are delivered to General Motors (but no sooner than 20 business days after the completion of the mailing of this document to GM's common stockholders). To revoke your consent, file with the Secretary of General Motors a written notice of revocation or another form of written consent bearing a date later than the date of the consent. Any such notice of revocation of written consent should be sent to General Motors at the following address:

General Motors Corporation General Motors  
Building 3044 West Grand Boulevard Detroit,  
Michigan 48202-3091 Attention: Secretary

OTHER CONSENT SOLICITATION MATTERS

Under the rules of the NYSE, brokers who hold shares in street names may not consent on behalf of customers to non-routine proposals such as the approval of the Hughes Transactions without specific instructions from such customers. Thus, "broker non-votes" with respect to the proposal to approve the Hughes Transactions will have the effect of a vote against such proposal.

Arrangements will be made to furnish copies of solicitation materials to fiduciaries, custodians and brokerage houses for forwarding to beneficial owners of GM \$1 2/3 Common Stock and GM Class H Common Stock. Brokers, dealers, banks, voting trustees and their nominees who desire a supply of this solicitation material for transmittal to beneficial owners should write to General Motors at the following address:

General Motors Corporation c/o Morrow & Co.,  
Inc. 909 Third Avenue, 20th Floor New York, NY  
10022-4799

General Motors will bear the cost of preparing and mailing this document and related materials to GM's common stockholders. General Motors will solicit written consents by mail, and the directors, officers and employees of General Motors may also solicit written consents by telephone, facsimile or personal interview. These persons will receive no additional compensation for such services. In addition, General Motors has retained Morrow & Co., Inc. to assist in soliciting written consents and in providing information regarding the Hughes Transactions. General Motors has agreed to pay Morrow & Co., Inc. a fee of \$ \_\_\_\_\_ and reasonable out-of-pocket expenses for its services.

CERTAIN PLANS

If you are a participant in the General Motors Savings-Stock Purchase Program for Salaried Employees in the United States (the "GM SSPP"), the General Motors Personal Savings Plan for Hourly-Rate Employees in the United States (the "GM PSP"), the General Motors Canadian Savings-Stock Purchase Program, the Hughes Salaried Employees' Thrift and Savings Plan, the Hughes Tucson Bargaining Employees' Thrift and Savings Plan, the Hughes California Hourly Employees' Thrift and Savings Plan, the Hughes Thrift and Savings Plan, the Saturn Individual Savings Plan for Represented Members, the Saturn Personal Choices Savings Plan for Non-Represented Members (the "Saturn PCSP") or the GMAC Mortgage Corporation Savings Incentive Plan, each of your consents will also serve as a voting instruction for the trustees, plan committees or independent fiduciaries of those plans. With respect to the GM SSPP, the GM PSP, the Saturn Individual Savings Plan for Represented Members and the Saturn PCSP, if voting instructions are not received for shares in such plans, those shares will be voted by the trustee, plan committee or independent fiduciary. For the remainder of the plans, shares in such plans will not be voted unless the consent is executed and returned.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL  
OWNERS AND MANAGEMENT OF GENERAL MOTORS

The following table sets forth, based on information available to General Motors as of October 3, 1997, beneficial ownership of both classes of GM common stock for each current director, the Chief Executive Officer and the four other most highly compensated executive officers of General Motors and all current directors and officers of General Motors as a group. Each of these individuals, and the group as a whole, are owners of less than one percent of the outstanding shares and voting power of both classes of GM common stock (based on the number of shares of the applicable class outstanding on the Record Date).

These shares do not include any shares of GM \$1 2/3 Common Stock or GM Class H Common Stock held by the pension and profit sharing plans or endowment funds of other corporations or by educational and charitable institutions of which such directors and officers serve as directors or trustees.

The following table also sets forth, based on information available to General Motors as of October 3, 1997, the only person known to General Motors to be a beneficial owner of more than five percent of either class of GM common stock.

DIRECTORS	CLASS OF STOCK	SHARES	DEFERRED	TOTAL	STOCK OPTIONS (A)
		BENEFICIALLY OWNED	STOCK UNITS		
A. L. Armstrong.....	GM \$1 2/3 Common Stock	1,500	17,846	19,346	1,000
	GM Class H Common Stock	112	4,760	4,872	--
P. Barnevik.....	GM \$1 2/3 Common Stock	10,000	337	10,337	--
	GM Class H Common Stock	--	41	41	--
J. H. Bryan.....	GM \$1 2/3 Common Stock	2,000	4,428	6,428	1,000
	GM Class H Common Stock	--	--	--	--
T. E. Everhart.....	GM \$1 2/3 Common Stock	400	8,378	8,778	1,000
	GM Class H Common Stock	--	4,620	4,620	--
C. T. Fisher, III.....	GM \$1 2/3 Common Stock	14,766	8,818	23,584	1,000
	GM Class H Common Stock	58	4,397	4,455	--
G. M. C. Fisher.....	GM \$1 2/3 Common Stock	5,000	906	5,906	1,000
	GM Class H Common Stock	--	--	--	--
J. W. Marriott, Jr.....	GM \$1 2/3 Common Stock	1,000	6,333	7,333	--
	GM Class H Common Stock	--	2,460	2,460	--
A. D. McLaughlin.....	GM \$1 2/3 Common Stock	951	1,686	2,637	--
	GM Class H Common Stock	--	963	963	--
H. J. Pearce.....	GM \$1 2/3 Common Stock	16,937	22,857	39,794	115,168
	GM Class H Common Stock	23,878	7,340	31,218	54,083 (b)
E. Pfeiffer.....	GM \$1 2/3 Common Stock	1,000	1,357	2,357	--
	GM Class H Common Stock	--	121	121	--
J. G. Smale.....	GM \$1 2/3 Common Stock	16,000	5,417	21,417	1,000
	GM Class H Common Stock	200	45	245	--
J. F. Smith, Jr.....	GM \$1 2/3 Common Stock	68,176	53,273	121,449	603,866
	GM Class H Common Stock	19,679	11,209	30,888	--
L. W. Sullivan.....	GM \$1 2/3 Common Stock	100	2,365	2,465	--
	GM Class H Common Stock	--	442	442	--
D. Weatherstone.....	GM \$1 2/3 Common Stock	6,000	16,478	22,478	--
	GM Class H Common Stock	--	5,407	5,407	--

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CERTAIN OTHER MATTERS

DIRECTORS	CLASS OF STOCK	SHARES BENEFICIALLY OWNED	DEFERRED STOCK UNITS	TOTAL	STOCK OPTIONS (A)
T. H. Wyman.....	GM \$1 2/3 Common Stock	1,000	5,898	6,898	1,000
	GM Class H Common Stock	250	2,730	2,980	--
OTHER NAMED EXECUTIVES					
C. M. Armstrong.....	GM \$1 2/3 Common Stock	6,318	--	6,318	
	GM Class H Common Stock	61,620	14,012	75,632	
L. R. Hughes.....	GM \$1 2/3 Common Stock	25,483	24,419	49,902	221,692
	GM Class H Common Stock	9,364	5,485	14,849	--
G. R. Wagoner, Jr.....	GM \$1 2/3 Common Stock	20,067	24,091	44,158	208,557
	GM Class H Common Stock	6,231	5,485	11,716	--
All directors and officers of General Motors as a group.....					
	GM \$1 2/3 Common Stock	196,698	204,887	401,585	1,156,283
	GM Class H Common Stock	121,392	69,517	190,909	54,083

FIVE PERCENT OWNERS

The Capital Group Companies, Inc. 333 South Hope Street Los Angeles, CA 90071...	GM Class H Common Stock	5,383,900	--	5,383,900	--
--	-------------------------	-----------	----	-----------	----

- (a) GM common stock that may be acquired within 60 days through exercise of stock options.
- (b) In connection with the Hughes Transactions, 50% of these options will be adjusted and converted into options for shares of New GM Class H Common Stock and 50% of these options will be adjusted and converted into options for shares of GM \$1 2/3 Common Stock.

As of the Record Date, directors and executive officers of General Motors held an aggregate of 196,698 outstanding shares of GM \$1 2/3 Common Stock and 121,392 outstanding shares of GM Class H Common Stock. In each case, such holdings constituted, as of the Record Date, less than 1% of the outstanding shares of each class of GM common stock.

FORWARD-LOOKING INFORMATION MAY PROVE INACCURATE

This document contains certain forward-looking statements and information relating to General Motors (including Delco and Delphi) and Hughes Telecom that are based on the beliefs of General Motors and/or Hughes Telecom management as well as assumptions made by and information currently available to General Motors and/or Hughes Telecom management. When used in this document, the words "anticipate," "believe," "estimate" and "expect" and similar expressions, as they relate to General Motors (including Delco and Delphi), Hughes Telecom or GM management or Hughes Telecom management, are intended to identify forward-looking statements. Such statements reflect the current view of General Motors and/or Hughes Telecom with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document as anticipated, believed, estimated or expected. General Motors and Hughes Telecom do not intend to update these forward-looking statements.

This document also contains certain forward-looking statements and information relating to Hughes Defense, Raytheon and New Raytheon that are based on the beliefs of Raytheon and/or Hughes Defense management as well as assumptions made by and information currently available to Raytheon and/or Hughes Defense management. When used in this document, the words "anticipate," "believe," "estimate" and "expect" and similar expressions, as they relate to Hughes Defense, Raytheon, New Raytheon or Raytheon management or Hughes Defense management, are intended to identify forward-looking statements. Such

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statements reflect the current views of Raytheon and/or Hughes Defense with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document as anticipated, believed, estimated or expected. Raytheon and Hughes Defense do not intend to update these forward-looking statements.

Statements made concerning expected financial performance, ongoing financial performance strategies, and possible future action which Hughes Electronics intends to pursue to achieve strategic objectives for each of its three principal business segments (including the Hughes Transactions) constitute forward-looking information. The implementation of these strategies and of such future actions and the achievement of such financial performance are each subject to numerous conditions, uncertainties and risk factors. Accordingly, no assurance can be given that Hughes Electronics will be able to successfully accomplish its strategic objectives or achieve such financial performance. The principal important risk factors which could cause actual performance and future actions to differ materially from the forward-looking statements made in this document include economic conditions, product demand and market acceptance, government action, competition, ability to achieve cost reductions, GM's global sourcing strategy with respect to automotive electronics, GM NAO volumes, technological risk, interruptions to production attributable to causes outside Hughes Electronics' control, and the receipt of various approvals with respect to the Hughes Transactions.

ESTIMATED FEES AND EXPENSES

Estimated costs and fees of General Motors and its subsidiaries incurred in connection with the Hughes Transactions (not including those incurred in connection with the Raytheon Merger) are as follows:

Merrill Lynch.....	\$
Salomon Brothers.....	
Legal Fees and Expenses.....	
Accounting Fees and Expenses.....	
SEC Filing Fees.....	
Printing and Mailing Expenses.....	
Solicitation Fees and Expenses.....	
Miscellaneous.....	-----
Total.....	\$ =====

In general, all costs and expenses of either General Motors or Hughes Defense in connection with the Hughes Defense Spin-Off and the Raytheon Merger will be paid by the party that incurs such costs and expenses. Pursuant to the Spin-Off Separation Agreement, General Motors or one of its subsidiaries will pay all fees and out-of-pocket expenses of Hughes Defense in connection with Hughes Transactions and the Raytheon Merger except that Hughes Defense will pay all costs and expenses relating exclusively to the Raytheon Merger. General Motors or its subsidiaries (excluding Hughes Defense) will also pay all fees and expenses relating to the Hughes Transactions except (1) the costs of printing and engraving the certificates representing the Hughes Defense Common Stock, (2) fees of any transfer or exchange agent engaged by Hughes Defense and (3) all fees relating to the listing of the Hughes Defense Common Stock on the NYSE, all of which will be paid by Hughes Defense. See "Separation and Transition Arrangements--Summary of Spin-Off Separation Agreement" in Chapter 3.

LEGAL MATTERS

The validity of the shares of New GM Class H Common Stock to be distributed to the former GM Class H Common Stockholders upon the consummation of the Hughes Transactions will be passed upon for General Motors by Warren G. Andersen, Esq., Attorney, Legal Staff of General Motors. The validity of the shares of Class A Common Stock to be distributed to the GM  $\$1 \frac{2}{3}$  Common Stockholders and the former GM Class H Common Stockholders upon the consummation of the Hughes Defense Spin-Off will be passed upon for Hughes Defense by Weil, Gotshal & Manges, LLP. Certain matters relating to U.S. federal income tax considerations in connection with the Hughes Transactions will be passed upon for General Motors by Kirkland & Ellis. Certain matters relating to the U.S. federal income tax considerations in connection with the Raytheon Merger will be passed upon for Hughes Defense by Weil Gotshal & Manges LLP.

EXPERTS

The consolidated financial statements and financial statement schedule of General Motors Corporation and subsidiaries as of December 31, 1996 and 1995 and for each of the three years in the period ended December 31, 1996, included in the GM 1996 Form 10-K, incorporated by reference in this document, have been audited by Deloitte & Touche LLP, independent public accountants, as stated in their report appearing therein, and have been so incorporated by reference in this document in reliance upon such reports given upon the authority of such firm as experts in accounting and auditing.

The consolidated financial statements and financial statement schedule of Hughes Electronics Corporation as of December 31, 1996 and 1995 and for each of the years in the three-year period ended December 31, 1996, included in Exhibit 99 to the GM 1996 Form 10-K, incorporated by reference in this document, have been audited by Deloitte & Touche LLP, independent public accountants, as stated in their reports appearing therein, and have been so incorporated by reference in reliance upon such reports given upon the authority of that firm as experts in accounting and auditing.

The combined financial statements of Hughes Defense as of December 31, 1996 and 1995 and for each of the years in the three-year period ended December 31, 1996, included in Appendix C to this document, have been audited by Deloitte & Touche LLP, independent public accountants, as stated in their reports appearing therein, and have been so included in reliance upon such reports given upon the authority of that firm as experts in accounting and auditing.

The combined financial statements of Delco as of December 31, 1996 and 1995 and for each of the years in the three-year period ended December 31, 1996, included in Appendix D to this document, have been audited by Deloitte & Touche LLP, independent public accountants, as stated in their reports appearing therein, and have been so included in reliance upon such reports given upon the authority of that firm as experts in accounting and auditing.

The combined financial statements of Hughes Telecom as of December 31, 1996 and 1995 and for each of the years in the three-year period ended December 31, 1996, included in Appendix E to this document, have been audited by Deloitte & Touche LLP, independent public accountants, as stated in their reports appearing therein, and have been so included in reliance upon such reports given upon the authority of that firm as experts in accounting and auditing.

The consolidated financial statements and financial statement schedule of Raytheon Company and Subsidiaries as of December 31, 1996 and 1995 and for each of the years in the three-year period ended December 31, 1996, included in the Raytheon 1996 Form 10-K, incorporated by reference in this document, have been audited by Coopers & Lybrand L.L.P., independent auditors, as stated in their reports appearing therein, and have been so incorporated by reference in reliance upon such reports given upon the authority of that firm as experts in accounting and auditing.

CHAPTER 7: CONSENT SOLICITATION AND  
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The financial statements of the Defense Business of Texas Instruments Incorporated as of December 31, 1996 and 1995 and for each of the years in the three-year period ended December 31, 1996, included in Raytheon's Form 8-K dated March 14, 1997, which is incorporated into this document by reference, have been audited by Ernst & Young LLP, independent auditors, as stated in their reports appearing therein, and have been so incorporated by reference in reliance upon such reports given upon the authority of that firm as experts in accounting and auditing.

The consolidated financial statements of PanAmSat Corporation as of December 31, 1996 and 1995 and for each of the years in the three-year period ended December 31, 1996, included in the PanAmSat Proxy Statement, incorporated by reference in this document, have been audited by Arthur Andersen LLP, independent auditors, as stated in their reports appearing therein, and have been so incorporated by reference in reliance upon such reports given upon the authority of that firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

General Motors is subject to the information requirements of the Exchange Act and files reports and other information with the SEC. You may read and copy any reports or other information General Motors files at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. You may also request copies of these documents upon payment of a duplicating fee, by writing to the SEC's Public Reference Section. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. GM's SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at "<http://www.sec.gov>," and the web site maintained by General Motors at "<http://www.gm.com>."

GM \$1 2/3 Common Stock and GM Class H Common Stock are listed on the NYSE. GM \$1 2/3 Common Stock is also listed on the Chicago Stock Exchange, the Pacific Stock Exchange and the Philadelphia Stock Exchange.

Each of General Motors and Hughes Defense have filed a registration statement with respect to its stock to be issued to GM common stockholders in the Hughes Transactions. Pursuant to SEC rules and regulations, this document does not contain all the information you can find in such registration statements. You may read and copy this information in the same way as any other information that General Motors files with the SEC. Statements in this document concerning any document filed as an exhibit to such registration statements are not necessarily complete and, in each instance, reference is made to the copy of such document filed as an exhibit to one or both registration statements. Each of such statements is qualified in its entirety by such reference.

General Motors has filed a Schedule 13E-3 Transaction Statement under the Exchange Act with respect to the Hughes Transactions. Pursuant to the rules and regulations of the SEC, this document omits certain information contained in the Schedule 13E-3, including reports of financial advisors referred to in this document and filed as exhibits to the Schedule 13E-3. These reports may be inspected and copied, and obtained by mail, from the SEC as set forth above and will be available for inspection and copying at the principal executive offices of General Motors at General Motors Corporation, Room 11-243, General Motors Building, 3044 West Grand Boulevard, Detroit, Michigan 48202-3091 during regular business hours by any interested stockholder of General Motors or his or her representative who has been so designated in writing.

The SEC allows us to "incorporate by reference" information into this document, which means that we can disclose important information to you by referring you to another document filed separately with the SEC, including GM's regular annual and quarterly reports. The information incorporated by reference is deemed to be part of this document, except for any information superseded by information in this document.



CHAPTER 7: CONSENT SOLICITATION AND  
CERTAIN OTHER MATTERS

This document incorporates by reference the documents set forth below that General Motors previously filed with the SEC. These documents contain important information about General Motors and its finances and the Hughes Transactions.

SEC FILINGS (FILE NO. 1-143) -----	PERIOD -----
Annual Report on Form 10-K.....	Year ended December 31, 1996
Quarterly Reports on Form 10-Q...	Quarters ended March 31, 1997 and June 30, 1997
Current Reports on Form 8-K.....	Dated January 16, 1997, January 27, 1997, March 12, 1997, April 14, 1997, May 23, 1997, May 27, 1997, July 1, 1997, July 14, 1997 and October 6, 1997.

This document also incorporates by reference the documents set forth below that Raytheon previously filed with the SEC. These documents contain important information about Raytheon and Texas Instruments Defense and their finances.

SEC FILINGS (FILE NO. 1-2833) -----	PERIOD -----
Annual Report on Form 10-K.....	Year ended December 31, 1996
Quarterly Reports on Form 10-Q...	Quarters ended March 30, 1997 and June 29, 1997
Current Reports on Form 8-K.....	Dated January 4, 1997, January 16, 1997, March 14, 1997, July 11, 1997 and September 10, 1997.

We are also incorporating by reference additional documents that we and Raytheon file with the SEC between the date of this document and the consummation of the Hughes Transactions. Any statement in this document or in a document incorporated or deemed to be incorporated by reference in this document shall be deemed to be modified or superseded for purposes of this document to the extent that a statement contained in this document or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed to constitute a part of this document, except as so modified or superseded.

In addition, this document incorporates by reference (1) PanAmSat's Consolidated Financial Statements contained in pages FIN-1 through FIN-19 of the Proxy Statement on Schedule 14A, filed on April 18, 1997, of PanAmSat (File No. 0-26712) and (2) the unaudited financial statements of PanAmSat contained in the Quarterly Report on Form 10-Q/A for the quarter ended March 31, 1997 of PanAmSat).

If you are a GM common stockholder, we may have already sent you some of the GM documents incorporated by reference, but you can obtain any document incorporated by reference through us or the SEC. Documents incorporated by reference are available from General Motors without charge, excluding all exhibits unless we have specifically incorporated by reference an exhibit in this document. You may obtain documents incorporated by reference in this document by making a request to General Motors by telephone at (800) 331-9922 or in writing at the following address:

General Motors Corporation MC 482-111-238 3044  
West Grand Boulevard Detroit, Michigan 48202-3091  
Tel: (313) 556-2044

If you would like to request documents from General Motors, please do so within 15 business days of the date of the mailing of this document in order to ensure timely delivery.

## GLOSSARY

This Glossary contains certain terms used throughout this document. Certain other terms used exclusively in only one portion of this document do not appear in this Glossary. Unless otherwise indicated, all definitions speak as of the date of this document.

"Available Separate Consolidated Net Income of Hughes Electronics" means, for any quarterly period, an amount representing the separate consolidated net income of Hughes Electronics for such period excluding the effects of GM purchase accounting adjustments arising at the time of GM's acquisition of Hughes Aircraft, calculated for such period and 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 quarter (100 million during the second quarter of 1997) and the denominator of which was 400 million for the second quarter of 1997; provided that such fraction shall never be greater than one. This term is defined in the GM Certificate of Incorporation as part of the terms of the GM Class H Common Stock and is used in determining the amount available for the payment of dividends on the GM Class H Common Stock.

"Available Separate Consolidated Net Income of New Hughes Electronics" means, for any quarterly period, an amount representing the separate consolidated net income of New Hughes Electronics for such period excluding the effects of GM purchase accounting adjustments arising at the time of GM's acquisition of Hughes Aircraft, calculated for such period and multiplied by a fraction, the numerator of which is a number equal to the weighted average number of shares of New GM Class H Common Stock outstanding during the quarter and the denominator of which will initially be the denominator of the fraction described above in "Available Separate Consolidated Net Income of Hughes Electronics" as of immediately prior to the GM Spin-Off Merger Effective Time (currently expected to be approximately 400 million); provided that such fraction shall never be greater than one. This term will be defined in the GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, as part of the terms of the New GM Class H Common Stock and will be used in determining the amount available for the payment of dividends on the New GM Class H Common Stock. The GM Certificate of Incorporation, as proposed to be amended in the GM Spin-Off Merger, will use the term "Available Separate Consolidated Net Income of Hughes" to refer to what this document refers to as the Available Separate Consolidated Net Income of New Hughes Electronics.

"Capital Stock Committee" means a standing committee of the GM Board, comprised entirely of independent directors of General Motors, which oversees those matters in which the two classes of GM's common stockholders may have divergent interests.

"Class A Common Stock" means the Class A Common Stock, \$0.01 par value per share, of Hughes Defense (i.e., HE Holdings) which will be distributed to GM's common stockholders pursuant to the GM Spin-Off Merger.

"Class A Common Stockholder" means a holder of Class A Common Stock.

"Class A Share Value" means the average closing market price of Raytheon Common Stock during the 30-day period ending on the fifth business day before the consummation of the Raytheon Merger.

"Class B Common Stock" means the Class B Common Stock, \$0.01 par value per share, of Hughes Defense (i.e., HE Holdings) which will be distributed to Raytheon's common stockholders pursuant to the Raytheon Merger.

"Class B Common Stockholder" means a holder of Class B Common Stock.

"Class H Distribution" means the total number of shares of Class A Common Stock to be distributed to GM Class H Common Stockholders.

GLOSSARY

## GLOSSARY

"Class H Fraction" means the fraction which expresses the relationship between the number of shares of GM Class H Common Stock outstanding and the Class H Dividend Base, which is the denominator of the fraction that is used in the GM Certificate of Incorporation to allocate the earnings of Hughes Electronics between GM's two classes of common stock for dividend purposes. See "Special Factors--The Distribution Ratio" in Chapter 3.

"Code" means the Internal Revenue Code of 1986, as amended.

"Delaware General Corporation Law" means the General Corporation Law of the State of Delaware, as amended.

"Delco" means Delco Electronics Corporation, a Delaware corporation and (1) before the Hughes Reorganization, a wholly owned subsidiary of Hughes Electronics comprising the automotive electronics business of Hughes Electronics, and (2) after the Hughes Reorganization, a wholly owned subsidiary of General Motors comprising the automotive electronics business of Hughes Electronics. "Delco" also means, as appropriate, the automotive electronics business of Hughes Electronics.

"Delphi" means Delphi Automotive Systems, the automotive components sector of General Motors.

"Department of Defense" means the U.S. Department of Defense.

"Distribution Ratio" means the relationship between (1) the number of shares of Class A Common Stock to be allocated and distributed to the GM  $\frac{1}{2}$ / $\frac{3}{3}$  Common Stockholders and (2) the number of shares of Class A Common Stock to be allocated and distributed to the GM Class H Common Stockholders, pursuant to the Hughes Defense Spin-Off. For a description of the Distribution Ratio and the methodology used by the GM Board to determine the Distribution Ratio, see "Background--The Distribution Ratio" in Chapter 3.

"EDS" means Electronic Data Systems Corporation, a Delaware corporation and formerly a wholly owned subsidiary of General Motors.

"EDS Split-Off" means the split-off of EDS from General Motors consummated on June 7, 1996, pursuant to which all of the outstanding shares of common stock of EDS were exchanged for all of the outstanding shares of the Class E Common Stock, \$0.10 par value, of General Motors.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, together with the rules and regulations promulgated thereunder.

"FTC" means the U.S. Federal Trade Commission.

"General Motors" or "GM" means General Motors Corporation, a Delaware corporation. When we refer to "GM" or "General Motors" in this document, we mean General Motors and its subsidiaries (including Hughes Defense prior to the Hughes Defense Spin-Off) unless the context indicates that we mean otherwise.

"GMAC" means General Motors Acceptance Corporation, a New York corporation and a wholly owned subsidiary of General Motors.

"GM Board" means the Board of Directors of General Motors.

"GM By-Laws" means the By-Laws of General Motors, as amended.

"GM Certificate of Incorporation" means the Restated Certificate of Incorporation of General Motors, as amended.

## GLOSSARY

"GM Class H Common Stock" means the Class H Common Stock, \$0.10 par value per share, of General Motors.

"GM Class H Common Stockholder" means a holder of GM Class H Common Stock.

"GM 1996 Form 10-K" means the Annual Report on Form 10-K of General Motors for the year ended December 31, 1996.

"GM \$1 2/3 Common Stock" means the Common Stock, \$1 2/3 par value per share, of General Motors and, following the GM Spin-Off Merger Effective Time, the Common Stock, \$1 2/3 par value per share, of General Motors as the surviving corporation of the GM Spin-Off Merger.

"GM \$1 2/3 Common Stockholder" means a holder of GM \$1 2/3 Common Stock.

"GM Preference Stock" means the Preference Stock, \$0.10 par value per share, of General Motors (including the Series B 9 1/8% Preference Stock, the Series D 7.92% Preference Stock and the Series G 9.12% Preference Stock).

"GM Preferred Stock" means the Preferred Stock, without par value, of General Motors.

"GM President's Council" means a standing council of certain members of senior management of General Motors, appointed by the GM Board and charged with senior policy-making authority, currently comprised of persons holding the following positions: (1) the Chairman, Chief Executive Officer and President of General Motors, (2) the Vice Chairman of Hughes Electronics, Allison Transmission Division, GM Locomotive Group and Corporate Affairs, (3) the Chairman and Chief Executive Officer of Hughes Electronics, (4) the Executive Vice President of General Motors and President of Delphi Automotive Systems, (5) the Executive Vice President and President, International Operations of General Motors, (6) the Executive Vice President and Chief Financial Officer of General Motors and (7) the Executive Vice President of General Motors and President of GM NAO, including Saturn Corporation.

"GM Recapitalization" means the recapitalization and conversion of each issued and outstanding share of GM Class H Common Stock into one share of New GM Class H Common Stock and the right to receive a distribution of Class A Common Stock in accordance with the Distribution Ratio. The GM Recapitalization will be accomplished pursuant to the GM Spin-Off Merger.

"GM Recapitalization Opinion" means the opinion of Kirkland & Ellis, outside tax counsel to General Motors, to the effect that the GM Recapitalization will constitute a tax-free reorganization within the meaning of Section 368(a) of the Code.

"GM Spin-Off Merger" means the merger of Merger Sub with General Motors, with General Motors as the surviving corporation of the GM Spin-Off Merger, to effect, among other things, the Hughes Defense Spin-Off and the GM Recapitalization.

"GM Spin-Off Merger Agreement" means the Agreement and Plan of Merger by and between General Motors and Merger Sub, dated as of October , 1997, as amended.

"GM Spin-Off Merger Effective Time" means the time at which the GM Spin-Off Merger becomes effective.

"GM Transfer Agent" means BankBoston, N.A., in its capacity as the transfer agent for the GM common stock.

"Goldman Sachs" means Goldman, Sachs & Co., in its capacity as financial advisor to General Motors, Hughes Electronics and Hughes Defense in connection with the Raytheon Merger.

"Goldman Sachs Fairness Opinion" means the written opinion of Goldman Sachs, dated as of January 16, 1997, addressed to the Boards of Directors of General Motors, Hughes Electronics and Hughes Defense in connection with the Raytheon Merger that, on the basis of and subject to the assumptions and limitations and other matters set forth therein, as of the date thereof, the Aggregate Consideration (as defined therein) is fair to the GM Group (as defined therein) as a whole.

"Hart-Scott-Rodino Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

"HE Holdings" means HE Holdings, Inc., a Delaware corporation and (1) before the Hughes Reorganization, a wholly owned subsidiary of Hughes Electronics comprising the defense electronics business and the telecommunications and space business of Hughes Electronics, and (2) after the Hughes Reorganization (but before the Hughes Defense Spin-Off), a wholly owned subsidiary of General Motors comprising the defense electronics business of Hughes Electronics. HE Holdings will be the issuer of the Class A Common Stock to be distributed in the Hughes Defense Spin-Off. In the Raytheon Merger, Raytheon will merge with and into HE Holdings, with HE Holdings as the surviving corporation, which will be renamed "Raytheon Company" in connection with the merger. With respect to periods following the Raytheon Merger Effective Time, we sometimes refer in this document to HE Holdings as "New Raytheon."

"Hughes Aircraft" means Hughes Aircraft Company, a Delaware corporation.

"Hughes Defense" means HE Holdings. "Hughes Defense" also means, as appropriate, the defense electronics business of Hughes Electronics.

"Hughes Defense By-Laws" means the Amended and Restated By-Laws of Hughes Defense, which will continue as the by-laws of New Raytheon after the Raytheon Merger. With respect to periods following the Raytheon Merger Effective Time, we sometimes refer in this document to the Hughes Defense By-Laws as the "New Raytheon By-Laws."

"Hughes Defense Certificate of Incorporation" means the Amended and Restated Certificate of Incorporation of Hughes Defense, which will continue as the certificate of incorporation of New Raytheon after the Raytheon Merger. With respect to periods following the Raytheon Merger Effective Time, we sometimes refer in this document to the Hughes Defense Certificate of Incorporation as the "New Raytheon Certificate of Incorporation."

"Hughes Defense Common Stock" means the Class A Common Stock and the Class B Common Stock. With respect to periods following the Raytheon Merger Effective Time, we sometimes refer in this document to the Hughes Defense Common Stock as "New Raytheon Common Stock."

"Hughes Defense Recapitalization" means the adoption by Hughes Defense of the Hughes Defense Certificate of Incorporation, which authorizes Class A Common Stock and Class B Common Stock, and the recapitalization of the common stock, no par value per share, of Hughes Defense into shares of Class A Common Stock.

"Hughes Defense Registration Statement" means the Registration Statement on Form S-4 of Hughes Defense, as amended and including exhibits, to register with the SEC the shares of Class A Common Stock to be distributed in the Hughes Defense Spin-Off. This document is part of the Hughes Defense Registration Statement.

"Hughes Defense Spin-Off" means the spin-off of Hughes Defense from General Motors.

"Hughes Defense Spin-Off Committee" means a special committee of the GM Board formed to supervise the process of soliciting interest in Hughes Defense and to oversee matters relating to the Hughes Transactions.

## GLOSSARY

The Hughes Defense Spin-Off Committee is [currently] comprised of John G. Smale, Thomas H. Wyman, John H. Bryan, Ann D. McLaughlin, Edmund T. Pratt and Dennis Weatherstone. See "Background--Background of the Hughes Transactions" in Chapter 3.

"Hughes Electronics" means Hughes Electronics Corporation, a Delaware corporation and a wholly owned subsidiary of General Motors. See the definition of "New Hughes Electronics."

"Hughes Electronics Board" means the Board of Directors of Hughes Electronics.

"Hughes Network Systems" means Hughes Network Systems, Inc., a Delaware corporation and a wholly owned subsidiary of Hughes Defense.

"Hughes Reorganization" means all transfers of assets and liabilities by and among Delco, Hughes Telecom and Hughes Defense and their respective subsidiaries, the Hughes Telecom Spin-Off, the transfer of Delco from Hughes Electronics to General Motors, the merger of Hughes Electronics with General Motors (resulting in the liquidation of Hughes Electronics), the merger of Hughes Aircraft with Hughes Defense (resulting in the liquidation of Hughes Aircraft) and the Hughes Defense Recapitalization.

"Hughes Telecom" means, before the Hughes Reorganization, the telecommunications and space business of Hughes Electronics. "Hughes Telecom" also means, as appropriate, the telecommunications and space business of New Hughes Electronics with respect to periods after the Hughes Reorganization.

"Hughes Telecom Spin-Off" means the spin-off of Hughes Telecom by Hughes Defense to General Motors.

"Hughes Transactions" means collectively (1) the Hughes Reorganization, (2) the Hughes Defense Spin-Off, (3) the GM Recapitalization, (4) the consummation of the GM Spin-Off Merger, (5) the execution and delivery of each of the Separation Agreements and (6) the consummation of the other transactions and events contemplated by the Transaction Agreements.

"Hughes Transactions Exchange Agent" means BankBoston, N.A. in its capacity as the exchange agent for the Hughes Transactions.

"Implementation Agreement" means the Implementation Agreement by and between General Motors and Raytheon, dated as of January 16, 1997, as amended.

"Intercompany Payment" means the application of the proceeds of the new indebtedness to be incurred by Hughes Defense as contemplated by the Raytheon Merger Agreement. Such proceeds (up to \$4.0 billion) will be made available to Hughes Telecom, with the amount, if any, in excess of \$4.0 billion used to repay intercompany loans owed to Delco. See "Description of the Raytheon Merger--Raytheon Merger Agreement--Certain Covenants--Indebtedness" in Chapter 3.

"Intercompany Payment Amount" means, as set forth in the Raytheon Merger Agreement, the amount of indebtedness for borrowed money that may be incurred by Hughes Defense prior to the Raytheon Merger Effective Time. See "Description of the Raytheon Merger--Raytheon Merger Agreement--Covenants--Indebtedness" in Chapter 3.

"IRS" means the Internal Revenue Service of the U.S. Department of Treasury.

"IRS Ruling" means the letter ruling, dated as of July 11, 1997, received from the IRS which holds, in part, that each of (1) the distribution of Class A Common Stock to the GM Class H Common Stockholders and the GM  $\frac{1}{3}$  Common Stockholders as contemplated by the GM Spin-Off Merger Agreement and (2) the Hughes Telecom Spin-Off will constitute a tax-free (to the applicable distributing corporation and its stockholders) distribution under Sections 355 and 368(a)(1)(D) of the Code. The IRS Ruling includes a holding which constitutes the IRS Supplemental Ruling defined below.

"IRS Supplemental Ruling" means the holding contained in the IRS Ruling that the consummation of the transactions contemplated by the GM Spin-Off Merger Agreement and the consummation of the Raytheon Merger will not in any way jeopardize the tax-free status of the EDS Split-Off.

"Master Separation Agreement" means the Master Separation Agreement among General Motors, Hughes Telecom, Delco and Hughes Defense, to be entered into in connection with the consummation of the Hughes Transactions.

"Merger Sub" means GM Mergeco Corporation, a Delaware corporation and a wholly owned subsidiary of General Motors, formed for the purpose of effecting the GM Spin-Off Merger.

"Merrill Lynch" means Merrill Lynch, Pierce, Fenner & Smith Incorporated, in its capacity as financial advisor to General Motors in connection with the Hughes Transactions.

"Merrill Lynch Fairness Opinion" means the written opinion of Merrill Lynch, dated as of October 6, 1997, addressed to GM Board that, as of such date, on the basis of and subject to the assumptions, limitations and other matters set forth therein, taking into account all relevant aspects of the Hughes Transactions and the Raytheon Merger, the consideration to be provided to General Motors and its subsidiaries and to the GM  $\$1 \frac{2}{3}$  Common Stockholders and the GM Class H Common Stockholders in the Hughes Transactions was fair, from a financial point of view, to the GM  $\$1 \frac{2}{3}$  Common Stockholders and to the GM Class H Common Stockholders.

"Net Transaction Effect" means the Net Transaction Effect Base Amount, plus, if the Intercompany Payment Amount exceeds \$ billion, such excess multiplied by the Class H Fraction as of immediately prior to the GM Spin-Off Merger Effective Time. See "Special Factors--The Distribution Ratio" in Chapter 3.

"Net Transaction Effect Base Amount" means \$ billion multiplied by the Class H Fraction as of immediately prior to the GM Spin-Off Merger Effective Time. See "Special Factors--The Distribution Ratio" in Chapter 3.

"New GM Class H Common Stock" means the Class H Common Stock, \$0.10 par value per share, of General Motors to be issued in the GM Spin-Off Merger.

"New GM Class H Common Stockholder" means a holder of New GM Class H Common Stock.

"New Hughes Electronics" means a wholly owned subsidiary of General Motors comprising the business of Hughes Telecom. See the definition of "Hughes Telecom."

"New Raytheon" means Hughes Defense (i.e., HE Holdings) as the surviving corporation of the Raytheon Merger.

"New Raytheon Board" means the Board of Directors of New Raytheon.

"New Raytheon By-Laws" means the Amended and Restated By-Laws of New Raytheon, after the consummation of the Raytheon Merger. See the definition of "Hughes Defense By-Laws."

"New Raytheon Capital Stock" means the New Raytheon Common Stock and the New Raytheon Preferred Stock.

"New Raytheon Certificate of Incorporation" means the Amended and Restated Certificate of Incorporation of New Raytheon. See the definition of "Hughes Defense Certificate of Incorporation."

"New Raytheon Common Stock" means the Class A Common Stock and the Class B Common Stock of New Raytheon. See the definition of "Hughes Defense Common Stock."

"New Raytheon Preferred Stock" means the Preferred Stock, \$0.01 par value per share, of New Raytheon.

## GLOSSARY

"New Raytheon Right" means a right to purchase one one-hundredth of a share of New Raytheon Junior Preferred Stock as provided in the New Raytheon Rights Agreement.

"New Raytheon Rights Agreement" means the Rights Agreement, to be entered into by and between HE Holdings and \_\_\_\_\_, as Rights Agent.

"NYSE" means the New York Stock Exchange, Inc.

"\$1 2/3 Distribution" means the total number of shares of Class A Common Stock to be distributed to GM \$1 2/3 Common Stockholders.

"PanAmSat" means PanAmSat Corporation, a Delaware corporation, prior to the consummation of a series of transactions with Hughes Telecom resulting in the merger of their respective satellite services operations as of May 16, 1997.

"PanAmSat Merger" means the series of transactions resulting in the merger of the satellite services operations of each of Hughes Telecom and PanAmSat into a new, publicly held company, which we refer to herein as "New PanAmSat," which were consummated on May 16, 1997.

"Raytheon" means Raytheon Company, a Delaware corporation.

"Raytheon Common Stock" means the Common Stock, \$0.01 par value per share, of Raytheon.

"Raytheon Merger" means the merger of Raytheon with Hughes Defense pursuant to the Raytheon Merger Agreement.

"Raytheon Merger Agreement" means the Agreement and Plan of Merger by and between Hughes Defense and Raytheon, dated as of January 16, 1997, as amended.

"Raytheon Merger Effective Time" means the time at which the Raytheon Merger becomes effective, which will be immediately following the consummation of the GM Spin-Off Merger.

"Raytheon Merger Exchange Agent" means BankBoston, N.A. in its capacity as the exchange agent for the Raytheon Merger.

"Raytheon Merger Opinions" means collectively the opinions of Wachtell, Lipton, Rosen & Katz, counsel to Raytheon, and Weil, Gotshal & Manges LLP, counsel to Hughes Defense, each to the effect that the Raytheon Merger will constitute a tax-free reorganization within the meaning of Section 368(a) of the Code.

"Raytheon 1996 Form 10-K" means the Annual Report on Form 10-K of Raytheon for the year ended December 31, 1996.

"Raytheon Proxy Statement" means the proxy/consent solicitation statement of Raytheon with respect to the Raytheon Merger.

"Raytheon Registration Statement" means the Registration Statement on Form S-4 of Hughes Defense, as amended and including exhibits, to register with the SEC the shares of Class B Common Stock to be distributed in the Raytheon Merger.

"Record Date" means October 15, 1997.



## GLOSSARY

"Registration Statements" means (1) the Registration Statement on Form S-4 of General Motors, as amended and including exhibits, to register with the SEC the shares of New GM Class H Common Stock to be distributed in the GM Spin-Off Merger and (2) the Hughes Defense Registration Statement.

"Requisite Stockholder Approval" means the approval by (1) a majority of the outstanding shares of GM Class H Common Stock, voting as a separate class, and (2) a majority of the outstanding shares of GM \$1 2/3 Common Stock, voting as a separate class.

"Salomon Brothers" means Salomon Brothers Inc, in its capacity as financial advisor to General Motors in connection with the Hughes Transactions.

"Salomon Brothers Fairness Opinion" means the written opinion of Salomon Brothers, dated as of October 6, 1997, addressed to GM Board that, as of such date, on the basis of and subject to the assumptions, limitations and other matters set forth therein, taking into account all relevant aspects of the Hughes Transactions and the Raytheon Merger, the consideration to be provided to General Motors and its subsidiaries and to the GM \$1 2/3 Common Stockholders and the GM Class H Common Stockholders in the Hughes Transactions is fair, from a financial point of view, to the GM \$1 2/3 Common Stockholders and to the GM Class H Common Stockholders.

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended, together with the rules and regulations promulgated thereunder.

"Separation Agreements" means collectively the Master Separation Agreement, the Spin-Off Separation Agreement, the Tax Sharing Agreement and all of the other agreements contemplated by the Master Separation Agreement.

"Schedule 13E-3" means the Schedule 13E-3 Transaction Statement, as amended and including the exhibits, filed by General Motors in connection with the Hughes Transactions.

"Spin-Off Separation Agreement" means the Spin-Off Separation Agreement by and between Hughes Defense and General Motors, to be entered into in connection with the consummation of the Hughes Transactions.

"Tax Sharing Agreement" means the Tax Sharing Agreement by and among General Motors, Hughes Defense and Hughes Telecom, to be entered into in connection with the consummation of the Hughes Transactions.

"Texas Instruments" means Texas Instruments Incorporated, a Delaware corporation.

"Texas Instruments Defense" means the defense systems and electronics business of Texas Instruments, which was acquired by Raytheon on July 11, 1997.

"Texas Instruments Defense Acquisition" means the acquisition by Raytheon of Texas Instruments Defense on July 11, 1997.

"Transaction Agreements" means the GM Spin-Off Merger Agreement, the Implementation Agreement, the Raytheon Merger Agreement and the Separation Agreements.

"Treasury Regulations" means the rules and regulations promulgated by the U.S. Department of Treasury under the Code.

APPENDICES

- APPENDIX A GM Spin-Off Merger Agreement
  - Exhibit A: Article Fourth of the GM Certificate of Incorporation, After Giving Effect to the GM Spin-Off Merger
- APPENDIX B Fairness Opinions
  - Merrill Lynch Fairness Opinion
  - Salomon Brothers Fairness Opinion
  - Goldman Sachs Fairness Opinion
  - Hughes Defense Combined Financial
- APPENDIX C Statements
  - Independent Auditors' Report
  - Hughes Defense Combined Financial Statements and Notes Thereto
- APPENDIX D Delco Combined Financial Statements
  - Independent Auditors' Report
  - Delco Combined Financial Statements and Notes Thereto
  - Hughes Telecom Combined Financial
- APPENDIX E Statements
  - Independent Auditors' Report
  - Hughes Telecom Combined Financial Statements and Notes Thereto

APPENDIX A  
AGREEMENT AND PLAN OF MERGER

BY AND BETWEEN

GENERAL MOTORS CORPORATION

AND

GM MERGECO CORPORATION

DATED AS OF OCTOBER , 1997

AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER ("Agreement") is made and entered into as of October , 1997 by and between General Motors Corporation, a Delaware corporation ("GM"), and GM Mergeco Corporation, a Delaware corporation and a wholly owned subsidiary of GM ("Mergeco"). GM and Mergeco are sometimes referred to herein individually as a "Party" and collectively as the "Parties." Certain capitalized terms used herein have the meanings ascribed to such terms in Section 1 hereof.

WHEREAS, Hughes is an indirect wholly owned subsidiary of GM;

WHEREAS, Hughes and Raytheon desire to combine Raytheon's business with the Defense Business pursuant to the Hughes Merger Agreement;

WHEREAS, as a condition to entering into the Hughes Merger Agreement, Raytheon has required that GM and Hughes agree that, at the time of consummation of the Hughes Merger, Hughes be an independent, publicly owned company, comprising the Defense Business;

WHEREAS, Mergeco has been formed for the purpose of effectuating the spin-off of Hughes from GM and certain related transactions;

WHEREAS, the Parties intend that, subject to the terms and conditions hereof, Mergeco will merge with and into GM in a tax-free (to GM and the holders of GM Common Stocks) transaction pursuant to which, among other things, (i) the GM Class H Stockholders will receive a distribution of shares of Hughes Class A Common Stock in respect of their shares of GM Class H Common Stock and GM Class H Common Stock will be recapitalized into New GM Class H Common Stock and (ii) the GM  $\$1 \frac{2}{3}$  Common Stockholders will receive a distribution of shares of Hughes Class A Common Stock in respect of their shares of GM  $\$1 \frac{2}{3}$  Common Stock; and

WHEREAS, the GM board of directors has determined that the transactions contemplated hereby are desirable and in the best interests of GM and the holders of the GM Common Stocks and, by resolutions duly adopted, has approved and adopted this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the Parties hereby agree as follows:

Section 1. Definitions

" $1 \frac{2}{3}$  Defense Distribution" means 102,630,503 minus the Class H Defense Distribution.

"Agreement" has the meaning set forth in the preface above.

"Average Closing Price of Raytheon Common Stock" means the average closing price of Raytheon common stock, regular way, on the New York Stock Exchange during the 30-day period ending five days prior to the effective time of the Hughes Merger.

"Class H Defense Distribution" means the sum of:

(i) the product of multiplying (A) 102,630,503 times (B) the Class H Fraction, plus

(ii) the result of dividing (Y) the Net Transaction Effect by (Z) the Average Closing Price of Raytheon Common Stock.

"Class H Dividend Base" means the denominator of the fraction used to calculate the Available Separate Consolidated Net Income of Hughes (as defined in the GM Certificate of Incorporation), as of immediately prior to the Effective Time.

"Class H Fraction" means a fraction, the numerator of which is equal to the total number of shares of GM Class H Common Stock outstanding immediately prior to the Effective Time and the denominator of which is equal to the Class H Dividend Base.

"Closing" has the meaning set forth in Section 2(b) below.

"Closing Time" has the meaning set forth in Section 2(b) below.

"Code" means the Internal Revenue Code of 1986, as amended, together with the rules and regulations promulgated thereunder.

"Defense Business" has the meaning ascribed to such term in the Master Separation Agreement.

"Delaware Certificate of Merger" has the meaning set forth in Section 2(c) below.

"Delaware General Corporation Law" means the General Corporation Law of the State of Delaware, as amended.

"Delco" has the meaning ascribed to such term in the Master Separation Agreement.

"EDS" means Electronic Data Systems Corporation, a Delaware corporation and a former wholly owned subsidiary of GM.

"Effective Time" has the meaning set forth in Section 2(d) (i) below.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, together with the rules and regulations promulgated thereunder.

"GM" has the meaning set forth in the preface above.

"GM Certificate of Incorporation" means the Amended and Restated Certificate of Incorporation of GM, as amended and in effect immediately prior to the Effective Time.

"GM Class H Common Stock" means the Class H Common Stock, \$0.10 par value per share, of GM.

"GM Class H Stockholder" means any holder of record of GM Class H Common Stock.

"GM Common Stocks" means collectively the GM \$1 2/3 Common Stock and the GM Class H Common Stock.

"GM Implementation Agreement" means the Implementation Agreement dated as of January 16, 1997 by and between GM and Raytheon, as amended from time to time.

"GM Transactions" means collectively (i) the HEC Reorganization, (ii) the Hughes Recapitalization, (iii) the spin-off of Hughes from GM as contemplated hereby, (iv) the recapitalization of GM Class H Common Stock into New GM Class H Common Stock as contemplated hereby, (v) the consummation of the Spin-Off Merger pursuant hereto, (vi) the execution and delivery of each of the Separation Agreements and (vii) the consummation of the other transactions and events contemplated hereby.

"GM \$1 2/3 Common Stock" means, as of immediately prior to the Effective Time, the Common Stock, \$1 2/3 par value per share, of GM and, at and after the Effective Time, the Common Stock, \$1 2/3 par value per share, of the Surviving Corporation.

"GM \$1 2/3 Common Stockholder" means any holder of record of GM \$1 2/3 Common Stock.

"Governmental Authority" means any court, arbitral tribunal, administrative agency or commission or other governmental or regulatory body, agency, instrumentality or authority.

"Hart-Scott-Rodino Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"HEC" means Hughes Electronics Corporation, a Delaware corporation, a wholly owned subsidiary of GM and the sole stockholder of Hughes.

"HEC Reorganization" means the Telecom Spin-Off, the transfer of Delco by HEC to GM or another subsidiary of GM, the merger of Hughes Subsidiary with and into Hughes and all related transfers of assets and liabilities by and among Hughes, Telecom and Delco and their respective subsidiaries.

"Hughes" means HE Holdings, Inc., a Delaware corporation and an indirectly wholly owned subsidiary of GM.

"Hughes Class A Common Stock" means the Class A Common Stock, \$0.01 par value per share, of Hughes, as set forth in Exhibit A to the Hughes Merger Agreement.

"Hughes Class B Common Stock" means the Class B Common Stock, \$0.01 par value per share, of Hughes, as set forth in Exhibit A to the Hughes Merger Agreement.

"Hughes Distribution Ratio" means the relationship between (i) the number of shares of Hughes Class A Common Stock to be allocated and distributed to the holders of GM \$1 2/3 Common Stock and (ii) the number of shares of Hughes Class A Common Stock to be allocated and distributed to the holders of GM Class H Common Stock, in each case pursuant to the Spin-Off Merger, as set forth in Section 2(d) hereof.

"Hughes Merger" means the merger of Raytheon with and into Hughes, with Hughes as the surviving corporation.

"Hughes Merger Agreement" means the Agreement and Plan of Merger dated as of January 16, 1997 by and between Hughes and Raytheon, as amended from time to time.

"Hughes Recapitalization" means the adoption by Hughes of a certificate of incorporation authorizing the Hughes Class A Common Stock and Hughes Class B Common Stock and the recapitalization of the shares of Hughes Common Stock owned by GM into shares of Hughes Class A Common Stock.

"Hughes Spin-Off Separation Agreement" means the Hughes Spin-Off Separation Agreement attached as Exhibit J to the Master Separation Agreement, as amended from time to time in accordance with the terms thereof and Section 4.2(b) of the GM Implementation Agreement.

"Hughes Subsidiary" means Hughes Aircraft Company, a Delaware corporation and, immediately prior to the consummation of the transactions constituting the HEC Reorganization, a wholly owned subsidiary of Hughes.

"Intercompany Payment" has the meaning ascribed to such term in the Hughes Merger Agreement.

"Intercompany Payment Amount" has the meaning ascribed to such term in the Hughes Merger Agreement.

"IRS" means the Internal Revenue Service.

"Master Separation Agreement" means the Master Separation Agreement attached as Exhibit B to the GM Implementation Agreement, as amended from time to time in accordance with the terms thereof and Section 4.2(b) of the GM Implementation Agreement.

"Mergeco" has the meaning set forth in the preface above.

"Mergeco Share" means any share of the Common Stock, \$0.01 par value, of Mergeco.

"Merrill Lynch" has the meaning set forth in Section 3(c) below.

"Net Transaction Effect" means \$ billion multiplied by the Class H Fraction; plus, if the Intercompany Payment Amount exceeds \$ billion, an amount equal to such excess multiplied by the Class H Fraction.

"New GM Class H Common Stock" means the Class H Common Stock, \$0.10 par value per share, of GM, as described on Exhibit A attached hereto.

"Parties" has the meaning set forth in the preface above.

"Party" has the meaning set forth in the preface above.

"Person" means an individual, a partnership, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization or a governmental entity (or any department, agency or political subdivision thereof).

"Raytheon" means Raytheon Company, a Delaware corporation.

"Registration Statements" means all registration statements under the Securities Act and the proxy or consent solicitation statement under the Exchange Act required to be filed by GM and Hughes in connection with the GM Transactions.

"Requisite Stockholder Approval" means the approval of the holders of (i) a majority of the voting power of all outstanding shares of the GM Common Stocks, voting together as a single class based on their respective per share voting power pursuant to the provisions set forth in the GM Certificate of Incorporation, (ii) a majority of the outstanding shares of GM \$1 2/3 Common Stock, voting as a separate class, and (iii) a majority of the outstanding shares of GM Class H Common Stock, voting as a separate class.

"Ruling" has the meaning set forth in Section 3(e) below.

"Salomon Brothers" has the meaning set forth in Section 3(c) below.

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended, together with the rules and regulations promulgated thereunder.

"Separation Agreements" means collectively the Master Separation Agreement and all of the other agreements contemplated thereby.

"Spin-Off Merger" has the meaning set forth in Section 2(a) below.

"Subsidiary" means, with respect to a Party, any corporation or other organization, whether incorporated or unincorporated, of which at least a majority of the securities or interests having by the terms thereof ordinary voting power to elect at least a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Party or by any one or more of its subsidiaries, or by such Party and one or more of its subsidiaries.

"Supplemental Ruling" has the meaning set forth in Section 3(f) below.

"Surviving Corporation" has the meaning set forth in Section 2(a) below.

"Tax-Free Status of the EDS Split-Off" means the nonrecognition of taxable gain or loss for United States federal income tax purposes to GM and GM's current or former stockholders, including, without limitation, the former holders of GM's Class E Common Stock, par value \$0.10 per share, in connection with the split-off of EDS from GM which split-off was consummated on June 7, 1996.

"Telecom" has the meaning ascribed to such term in the Master Separation Agreement.

"Telecom Spin-Off" means the spin-off of Telecom by Hughes to GM.

## Section 2. Basic Transaction.

(a) The Spin-Off Merger. On the terms and subject to the conditions of this Agreement, Mergeco shall merge with and into GM (the "Spin-Off Merger") at and as of the Effective Time. GM shall be the corporation surviving the Spin-Off Merger (the "Surviving Corporation").

(b) The Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Kirkland & Ellis, 153 East 53rd Street, New York, New York, or at such other place as GM may determine, on such date and at such time as GM may determine (the "Closing Time"), which time shall be on or after the time at which all conditions to the obligations of GM to consummate the transactions contemplated hereby are satisfied or waived by GM and which time shall be immediately prior to the consummation of the Hughes Merger.

(c) Actions at the Closing. At the Closing, GM will cause to be filed with the Secretary of State of the State of Delaware, as provided in Section 251 of the Delaware General Corporation Law, a Certificate of Merger (the "Delaware Certificate of Merger").

(d) Effects of Spin-Off Merger.

(i) General. The Spin-Off Merger shall become effective at such time (the "Effective Time") as GM files the Delaware Certificate of Merger with the Secretary of State of the State of Delaware or as is otherwise specified in the Delaware Certificate of Merger. The Spin-Off Merger shall have the effects set forth in Section 259 of the Delaware General Corporation Law. The Surviving Corporation may, at any time after the Effective Time, take any action (including the execution and delivery of any document) in the name and on behalf of either GM or Mergeco in order to carry out and effectuate the transactions contemplated by this Agreement.

(ii) Certificate of Incorporation. At the Effective Time, Article Fourth of the GM Certificate of Incorporation will be amended to read in its entirety as set forth in Exhibit A attached hereto and the GM Certificate of Incorporation as in effect at and as of immediately prior to the Effective Time, with Article Fourth as so amended and with all Certificates of Designations then in effect, shall be the Certificate of Incorporation of the Surviving Corporation.

(iii) Bylaws. The Bylaws of GM as in effect at and as of immediately prior to the Effective Time will remain the Bylaws of the Surviving Corporation without any modification or amendment as a result of the Spin-Off Merger.

(iv) Directors and Officers. The directors and officers of GM in office at and as of immediately prior to the Effective Time will remain the directors and officers of the Surviving Corporation (retaining their respective positions and terms of office).

(v) Distribution on and Recapitalization of GM Class H Common Stock. At and as of the Effective Time, by virtue of the Spin-Off Merger and without any action on the part of GM, Mergeco, any holder of



any capital stock of GM or any other Person, (A) each share of GM Class H Common Stock issued and outstanding as of immediately prior to the Effective Time (other than shares to be cancelled in accordance with Section 2(d)(viii)) shall be recapitalized and converted into one fully paid and nonassessable share of New GM Class H Common Stock and the right to receive a distribution of such number of fully paid and nonassessable shares of Hughes Class A Common Stock which is equal to the Class H Defense Distribution divided by the number of shares of GM Class H Common Stock (other than shares to be cancelled in accordance with 2(d)(viii)) outstanding as of immediately prior to the Effective Time (rounded to the nearest 0.00001 of a share) and (B) all such shares of GM Class H Common Stock shall be cancelled and shall cease to exist. No share of GM Class H Common Stock shall be exchanged for GM \$1 2/3 Common Stock at a 120% exchange ratio as currently provided under certain circumstances in the GM Certificate of Incorporation by virtue of the Spin-Off Merger. Accordingly, from and after the Effective Time, (x) for all purposes of determining the record holders of New GM Class H Common Stock and Hughes Class A Common Stock, the holders of GM Class H Common Stock as of immediately prior to the Effective Time shall be deemed to be holders of New GM Class H Common Stock and Hughes Class A Common Stock distributed to such holders pursuant to this subsection and (y) subject to any transfer of such stock, each such holder shall be entitled to receive all dividends payable on, and exercise voting rights and all other rights and privileges with respect to, New GM Class H Common Stock and Hughes Class A Common Stock distributed to such holders pursuant to this subsection. Each such holder shall be entitled, upon proper surrender (in accordance with the requirements specified in the letter of transmittal and other instructions provided to such holder following the Effective Time) of the certificate or certificates representing the shares of GM Class H Common Stock formerly held by such holder, to receive a certificate or certificates representing, or other evidence of ownership of, shares of New GM Class H Common Stock and shares of Hughes Class A Common Stock then held by such holder.

(vi) Distribution on and Conversion of GM \$1 2/3 Common Stock. At and as of the Effective Time, by virtue of the Spin-Off Merger and without any action on the part of GM, Mergeco, any holder of any capital stock of GM or any other Person, each share of GM \$1 2/3 Common Stock issued and outstanding as of immediately prior to the Effective Time (subject to Section 2(d)(viii)) shall be converted into (A) one fully paid and nonassessable share of GM \$1 2/3 Common Stock of the Surviving Corporation having the same designations, rights, powers and preferences, and the same qualifications, limitations and restrictions thereof, as the share of GM \$1 2/3 Common Stock being converted pursuant thereto and (B) the right to receive a distribution of such number of fully paid and nonassessable shares of Hughes Class A Common Stock which is equal to the \$1 2/3 Defense Distribution divided by the number of shares of GM \$1 2/3 Common Stock (other than shares described in Section 2(d)(viii)) outstanding as of immediately prior to the Effective Time (rounded to the nearest 0.00001 of a share). Accordingly, from and after the Effective Time, (x) for all purposes of determining the record holders of Hughes Class A Common Stock, the holders of GM \$1 2/3 Common Stock as of immediately prior to the Effective Time shall be deemed to be holders of Hughes Class A Common Stock distributed to such holders pursuant to this subsection and (y) subject to any transfer of such stock, each such holder shall be entitled to receive all dividends payable on, and exercise voting rights and all other rights and privileges with respect to, Hughes Class A Common Stock distributed to such holder pursuant to this subsection. Without any action on the part of any holder of GM \$1 2/3 Common Stock, following the Effective Time each such holder shall receive a certificate or certificates representing, or other evidence of ownership of, the shares of Hughes Class A Common Stock then held by such holder as a result of the foregoing.

(vii) Other GM Capital Stock. All classes and series of GM capital stock outstanding as of immediately prior to the Effective Time, other than GM Class H Common Stock and GM \$1 2/3 Common Stock, shall remain unaffected as a result of the Spin-Off Merger. At and as of the Effective Time, the capital stock of the Surviving Corporation, other than the New Class H Common Stock, shall be represented by the certificates representing the corresponding capital stock of GM outstanding as of immediately prior to the Effective Time.

(viii) Treasury Shares. At and as of the Effective Time, by virtue of the Spin-Off Merger, without any action on the part of GM, Mergeco or any other Person, each share of GM Class H Common Stock

held by GM as treasury stock as of immediately prior to the Effective Time shall be cancelled and retired and shall cease to exist, and no stock or other consideration shall be delivered in exchange therefor. No share of GM \$1 2/3 Common Stock held by GM as treasury stock as of immediately prior to the Effective Time shall be converted into the right to receive a distribution of any shares of Hughes Class A Common Stock in connection herewith.

(ix) Mergeco Shares. Each Mergeco Share issued and outstanding as of immediately prior to the Effective Time shall be cancelled and retired and shall cease to exist and no stock or other consideration shall be delivered in exchange therefor.

(e) Closing of Transfer Records. After the Effective Time, transfers of shares of GM Class H Common Stock outstanding prior to the Effective Time shall not be made on the stock transfer books of the Surviving Corporation or otherwise.

(f) Exchange Procedures. Certificates representing, or other evidence of ownership of, the shares of New GM Class H Common Stock and Hughes Class A Common Stock to which holders of GM Common Stocks are entitled pursuant to Sections 2(d)(v) and (vi) shall be delivered as contemplated in Section 2.1(d) of the Hughes Spin-Off Separation Agreement.

(g) GM Ownership of Hughes Class A Common Stock. As of immediately after the Effective Time, GM shall not own any shares of Hughes Class A Common Stock.

Section 3. Conditions to Obligation to Close. The obligation of GM to consummate the Spin-Off Merger is subject to satisfaction of the following conditions:

(a) no temporary restraining order, preliminary or permanent injunction or other order or decree which prevents the consummation of any of the transactions contemplated by this Agreement shall have been issued and remain in effect, and no statute, rule or regulation shall have been enacted by any Governmental Authority which prevents the consummation of any of the transactions contemplated by this Agreement;

(b) the GM Transactions, including the adoption of this Agreement, shall have received the Requisite Stockholder Approval;

(c) GM shall have received from each of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and Salomon Brothers Inc ("Salomon Brothers") a written opinion, dated on or about the date of the proxy or consent solicitation statement included in the Registration Statements, addressed to GM's board of directors that, as of such date, on the basis of and subject to the assumptions, limitations and other matters set forth therein, taking into account all relevant aspects of the GM Transactions, the consideration to be provided to GM and its subsidiaries and to the holders of GM \$1 2/3 Common Stock and the holders of GM Class H Common Stock in the GM Transactions is fair, from a financial point of view, to the holders of GM \$1 2/3 Common Stock and to the holders of GM Class H Common Stock, together with a consent authorizing the inclusion of such opinion in the Registration Statements, and neither of such opinions shall have been withdrawn, revoked or modified;

(d) GM shall have received from Goldman, Sachs & Co. a written confirmation, dated on or about the date of the proxy or consent solicitation statement included in the Registration Statements, of its opinion, dated January 16, 1997, to the boards of directors of GM, HEC and Hughes that, as of such date, on the basis of and subject to the assumptions, limitations and other matters set forth therein, the Aggregate Consideration (as defined therein) is fair to the GM Group (as defined therein) as a whole, together with a consent authorizing the use of such opinion and confirmation in connection with the Registration Statements, and neither of such opinion or confirmation shall have been withdrawn, revoked or modified;

(e) GM shall have received a ruling from the IRS (the "Ruling"), in form and substance reasonably satisfactory to GM, to the effect that each of (i) the distribution of Hughes Class A Common Stock to GM Class H Stockholders and GM \$1 2/3 Stockholders as contemplated by this Agreement and (ii) the Telecom

Spin-Off will constitute a tax-free (to the applicable distributing corporation and its stockholders) distribution under Sections 355 and 368(a)(1)(D) of the Code, and GM shall not have been notified by the IRS that the Ruling has been withdrawn, invalidated or modified in any way, and GM shall not have determined in good faith, on the basis of advice of tax counsel, that the representations and assumptions underlying the Ruling are not true and correct in all material respects;

(f) GM shall have received a ruling from the IRS (the "Supplemental Ruling"), in form and substance reasonably satisfactory to GM, that the consummation of the transactions contemplated by this Agreement and the consummation of the Hughes Merger will not in any way jeopardize the Tax-Free Status of the EDS Split-Off, and GM shall not have been notified by the IRS that the Supplemental Ruling has been withdrawn, invalidated or modified in any way, and GM shall not have determined in good faith, on the basis of advice of tax counsel, that the representations and assumptions underlying the Supplemental Ruling are not true and correct in all material respects;

(g) GM shall have received an opinion from Kirkland & Ellis, in form and substance reasonably satisfactory to GM, to the effect that, on the basis of and subject to the assumptions, representations, limitations and other matters set forth therein, (i) the recapitalization of GM Class H Common Stock into New GM Class H Common Stock contemplated hereby will be tax-free to GM and the holders thereof and (ii) each of GM Class H Common Stock and New GM Class H Common Stock is stock of GM for U.S. federal income tax purposes;

(h) each of the HEC Reorganization and the Hughes Recapitalization shall have been fully consummated;

(i) each of the Separation Agreements shall have been fully executed and delivered, and each of the same shall be in full force and effect;

(j) GM's board of directors shall not have determined in good faith, in the exercise of its fiduciary obligations under applicable law, on the basis of oral or written advice of outside counsel, that consummation of the GM Transactions would not be both in the best interests of GM and its common stockholders and fair to the holders of GM  $\frac{1}{3}$  Common Stock and to the holders of GM Class H Common Stock;

(k) all conditions to the Hughes Merger, other than the consummation of the Spin-Off Merger, shall have been satisfied or waived (provided that any such waiver by Hughes shall have been made only with GM's consent) and the parties to the Hughes Merger Agreement shall be prepared to cause the consummation of the Hughes Merger immediately following the Effective Time;

(l) all applicable waiting periods (and any extensions thereof) under the Hart-Scott-Rodino Act and any applicable similar law of any foreign jurisdiction with respect to the GM Transactions shall have expired or otherwise been terminated and the Parties shall have made all other required notifications with respect to the GM Transactions and shall have received all other required authorizations, consents and approvals with respect to the GM Transactions of all governments and governmental agencies to which GM, its Subsidiaries or the GM Transactions are subject (including, without limitation, those of foreign governments and governmental agencies);

(m) the Registration Statements shall have become effective under the Securities Act and the Exchange Act and no stop order suspending the effectiveness of any of the Registration Statements shall have been issued and no proceeding for that purpose shall have been initiated by the SEC;

(n) the shares of New GM Class H Common Stock and Hughes Class A Common Stock shall have been approved for listing on the New York Stock Exchange, subject to official notice of issuance; and

(o) the Intercompany Payment shall have been paid in full.

GM may waive any condition specified in this Section 3 in its sole discretion.

Section 4. Termination.

(a) Termination of Agreement. GM may terminate this Agreement (with the prior authorization of its board of directors, if applicable, whether before or after receipt of the Requisite Stockholder Approval) as provided below:

(i) GM may terminate this Agreement by giving written notice to Mergeco at any time prior to the Effective Time in the event that GM's board of directors determines in good faith, in the exercise of its fiduciary obligations under applicable law, on the basis of oral or written advice of outside counsel, (A) that consummation of the GM Transactions as then set forth herein would not be both in the best interests of GM and its common stockholders and fair to the holders of GM \$1 2/3 Common Stock and the holders of GM Class H Common Stock and (B) that the foregoing determination could not reasonably be avoided by adjusting the Hughes Distribution Ratio so as to satisfy the conditions set forth in Section 1.1 of the GM Implementation Agreement as of the date of such adjustment;

(ii) GM may terminate this Agreement by giving written notice to Mergeco at any time prior to the Effective Time in the event that (A) any opinion or confirmation referred to in Section 3(c) is withdrawn or revoked or (B) any opinion or confirmation referred to in Section 3(d) is withdrawn or revoked.

(iii) GM may terminate this Agreement by giving written notice to Mergeco at any time prior to the Effective Time in the event that GM has been notified by the IRS that the Ruling has been withdrawn, invalidated or modified in an adverse manner or has been notified by the IRS or otherwise reasonably determines, on the basis of advice of outside tax counsel, that the consummation of any of (A) the distribution of Hughes Class A Common Stock to GM Class H Stockholders and GM \$1 2/3 Stockholders, (B) the Telecom Spin-Off and (C) the recapitalization of the GM Class H Common Stock into New GM Class H Common Stock will not be tax-free as contemplated by Section 3(e) or Section 3(g);

(iv) GM may terminate this Agreement by giving written notice to Mergeco at any time prior to the Effective Time in the event that GM has been notified by the IRS that the Supplemental Ruling has been withdrawn, invalidated or modified or has been notified by the IRS or otherwise reasonably determines, on the basis of advice of outside tax counsel, that the consummation of the transactions contemplated by this Agreement will jeopardize the Tax-Free Status of the EDS Split-Off;

(v) GM may terminate this Agreement by giving written notice to Mergeco in the event the GM Transactions, including the adoption of this Agreement, fail to receive the Requisite Stockholder Approval at the time contemplated by the Registration Statements; and

(vi) GM may terminate this Agreement by giving written notice to Mergeco at any time following the termination of the Hughes Merger Agreement or the GM Implementation Agreement in accordance with their terms.

(b) Effect of Termination. If GM terminates this Agreement pursuant to Section 4(a) above, all rights and obligations of the Parties hereunder shall terminate without any liability of any Party to any other Party (except for any liability of any Party then in breach).

Section 5. Amendment. Subject to Section 4.2(b) of the GM Implementation Agreement, this Agreement may be amended at any time and from time to time if set forth in a writing executed by both Parties; provided, however, that any such amendment made after this Agreement has received the Requisite Stockholder Approval shall not (i) alter or change the amount or kind of shares, securities, cash and/or property to be distributed to, or the rights to be received in exchange for or on recapitalization and conversion of, the GM Class H Common Stock, (ii) alter or change the amount or kind of shares, securities, cash and/or property to be distributed to, or the rights to be received by, GM \$1 2/3 Common Stockholders, (iii) alter or change any term of the Certificate of Incorporation of the Surviving Corporation or (iv) alter or change any of the terms and conditions of this Agreement if such alteration or change would adversely affect the holders of any class or series of GM capital stock.

\* \* \* \* \*

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on as of the date first above written.

GENERAL MOTORS CORPORATION

/s/ [Name]  
By: \_\_\_\_\_  
Name:  
Its:

GM MERGECO CORPORATION

/s/ [Name]  
By: \_\_\_\_\_  
Name:  
Its:

A-10

EXHIBIT A TO GM SPIN-OFF MERGER AGREEMENT

ARTICLE FOURTH OF THE GM AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION, AFTER GIVING EFFECT TO THE SPIN-OFF MERGER

The complete text of Article Fourth of the General Motors Certificate of Incorporation, as proposed to be amended, appears below. Added text is underlined. Deleted text has been lined through.

ARTICLE FOURTH

The total authorized capital stock of the Corporation is as follows:  
2,706,000,000 shares, of which 6,000,000 shares shall be Preferred Stock, without par value ("Preferred Stock"), 100,000,000 shares shall be Preference Stock, \$0.10 par value ("Preference Stock"), and 2,600,000,000 shares shall be Common Stock, of which 2,000,000,000 shares shall be Common Stock, \$1 2/3 par value ("Common Stock"), and 600,000,000 shares shall be Class H Common Stock, \$0.10 par value ("Class H Common Stock").

DIVISION I:  
COMMON STOCK  
AND CLASS H COMMON STOCK.

The Common Stock and the Class H Common Stock shall be identical in all respects and shall have equal rights and privileges, except as otherwise provided in this Article FOURTH. The relative rights, privileges and restrictions of the shares of each class are as follows:

(a) Dividend Rights.

Subject to the express terms of any outstanding series of Preferred Stock or Preference Stock, dividends may be paid in cash or otherwise upon the Common Stock and the Class H Common Stock out of the assets of the Corporation in the relationship and upon the terms provided for below with respect to each such class:

(1) Dividends on Common Stock.

Dividends on Common Stock may be declared and paid only to the extent of the assets of the Corporation legally available therefor reduced by an amount equal to the sum of (A) the paid in surplus attributable to the Class H Common Stock; and (B) that portion of the earned surplus of the Corporation attributable to the Available Separate Consolidated Net Income of Hughes (as defined in subparagraph <(a)(5)> earned since the date of the acquisition by the Corporation of Hughes Electronics Corporation, its subsidiaries and successors ("Hughes")>(A)(4) EARNED SINCE /1/ (THE "INITIAL ISSUANCE DATE"). Dividends declared and paid with respect to shares of Common Stock and any adjustments to surplus resulting from either (i) the repurchase or issuance of any shares of Common Stock or (ii) any other reason deemed appropriate by the Board of Directors shall be subtracted from or added to the amounts available for the payment of dividends on Common Stock. Subject to the foregoing, the declaration and payment of dividends on the Common Stock, and the amount thereof, shall at all times be solely in the discretion of the Board of Directors of the Corporation.

(2) Dividends on Class H Common Stock.

Dividends on the Class H Common Stock may be declared and paid only to the extent of the assets of the Corporation legally available therefor reduced by an amount equal to the sum of (A) the paid in surplus attributable to the Common Stock; and (B) the earned surplus of the Corporation exclusive of that portion of such earned surplus attributable to the Available Separate Consolidated Net Income of Hughes earned since THE INITIAL ISSUANCE DATE. Dividends declared and

1 Insert date of the Effective Time (as defined in the Agreement and Plan of Merger to which this Exhibit is attached).

paid with respect to shares of Class H Common Stock and any adjustments to surplus resulting from either (i) the repurchase or issuance of any shares of Class H Common Stock or (ii) any other reason deemed appropriate by the Board of Directors shall be subtracted from or added to the amounts available for the payment of dividends on Class H Common Stock. Subject to the foregoing, the declaration and payment of dividends on the Class H Common Stock, and the amount thereof, shall at all times be solely in the discretion of the Board of Directors of the Corporation.

(3) Discrimination Between Common Stock and Class H Common Stock.

The Board of Directors, subject to the provisions of subparagraphs (a)(1) and (a)(2), may, in its sole discretion, declare dividends payable exclusively to the holders of Common Stock, exclusively to the holders of Class H Common Stock or to the holders of both such classes in equal or unequal amounts, notwithstanding the respective amounts of surplus available for dividends to each class, the respective voting and liquidation rights of each class, the amount of prior dividends declared on each class or any other factor.

(4) Available Separate Consolidated Net Income of EDS.

The "Available Separate Consolidated Net Income of EDS" for any period during which Electronic Data Systems Corporation (together with its subsidiaries and successors, "EDS") was a direct or indirect wholly-owned subsidiary of the Corporation shall mean the separate net income of EDS on a consolidated basis, determined in accordance with generally accepted accounting principles without giving effect to any adjustment which would result from accounting for the acquisition of EDS by the Corporation using the purchase method, calculated for each quarterly accounting period and multiplied by a fraction, the numerator of which shall be the weighted average number of shares of Class E Common Stock outstanding during such accounting period and the denominator of which shall initially be 121,888,889; provided, that such fraction shall in no event be greater than one. The denominator of the foregoing fraction shall be adjusted from time to time as deemed appropriate by the Board of Directors of the Corporation (i) to reflect subdivisions (by stock split or otherwise) and combinations (by reverse stock split or otherwise) of the Class E Common Stock and stock dividends payable in shares of Class E Common Stock to holders of Class E Common Stock, (ii) to reflect the fair market value of contributions of cash or property by the Corporation to EDS or of cash or property of the Corporation to, or for the benefit of, employees of EDS in connection with employee benefit plans or arrangements of the Corporation or any of its subsidiaries, (iii) to reflect the number of shares of capital stock of the Corporation contributed to, or for the benefit of, employees of EDS in connection with benefit plans or arrangements of the Corporation or any of its subsidiaries, (iv) to reflect payments by EDS to the Corporation of amounts applied to the repurchase by the Corporation of shares of Class E Common Stock, and (v) to reflect the number of shares of Class E Common Stock repurchased by EDS and no longer outstanding; provided, that in the case of adjustments pursuant to clause (iv) or clause (v) above, adjustments shall be made only to the extent that the Board of Directors of the Corporation, in its sole discretion, shall have approved such repurchase of shares by the Corporation or EDS and, in the case of clause (iv) above, shall declare such payments by EDS to be applied to such repurchase. Any changes in the numerator or denominator of the foregoing fraction occurring after the end of a quarterly accounting period shall not result in an adjustment to the Available Separate Consolidated Net Income of EDS for such quarterly accounting period or any prior period. For all purposes, determination of the Available Separate Consolidated Net Income of EDS shall be in the sole discretion of the Board of Directors of the Corporation and shall be final and binding on all stockholders of the Corporation.

(5) Available Separate Consolidated Net Income of Hughes.

The "Available Separate Consolidated Net Income of Hughes" shall mean the separate net income of Hughes ELECTRONICS CORPORATION, ITS SUBSIDIARIES AND SUCCESSORS ("HUGHES") on a consolidated basis, determined in accordance with generally accepted accounting principles, without giving effect to any adjustment which would result from accounting for the acquisition of Hughes AIRCRAFT COMPANY by the Corporation using the purchase method, calculated for each quarterly accounting period and multiplied by a

fraction, the numerator of which shall be the weighted average number of shares of Class H Common Stock outstanding during such accounting period and the denominator of which shall initially be  $\frac{\quad}{2} <200,000,000>$ ; provided, that such fraction shall in no event be greater than one. The denominator of the foregoing fraction shall be adjusted from time to time as deemed appropriate by the Board of Directors of the Corporation (i) to reflect subdivisions (by stock split or otherwise) and combinations (by reverse stock split or otherwise) of the Class H Common Stock and stock dividends payable in shares of Class H Common Stock to holders of Class H Common Stock, (ii) to reflect the fair market value of contributions of cash or property by the Corporation to Hughes or of cash or property of the Corporation to, or for the benefit of, employees of Hughes in connection with employee benefit plans or arrangements of the Corporation or any of its subsidiaries, (iii) to reflect the number of shares of capital stock of the Corporation contributed to, or for the benefit of, employees of Hughes in connection with benefit plans or arrangements of the Corporation or any of its subsidiaries, (iv) to reflect payments by Hughes to the Corporation of amounts applied to the repurchase by the Corporation of shares of Class H Common Stock, and (v) to reflect the number of shares of Class H Common Stock repurchased by Hughes and no longer outstanding; provided, that in the case of adjustments pursuant to clause (iv) or clause (v) above, adjustments shall be made only to the extent that the Board of Directors of the Corporation, in its sole discretion, shall have approved such repurchase of shares by the Corporation or Hughes and, in the case of clause (iv) above, shall declare such payments by Hughes to be applied to such repurchase. Any changes in the numerator or denominator of the foregoing fraction occurring after the end of a quarterly accounting period shall not result in an adjustment to the Available Separate Consolidated Net Income of Hughes for such quarterly accounting period or any prior period. For all purposes, determination of the Available Separate Consolidated Net Income of Hughes shall be in the sole discretion of the Board of Directors of the Corporation and shall be final and binding on all stockholders of the Corporation.

(b) Voting Rights.

The holders of Common Stock and Class H Common Stock shall vote together as a single class on all matters; provided, however, that (i) the holders of Common Stock voting separately as a class shall be entitled to approve by the vote of a majority of the shares of Common Stock then outstanding any amendment, alteration or repeal of any of the provisions of this Certificate of Incorporation which adversely affects the rights, powers or privileges of the Common Stock; (ii) the holders of Class H Common Stock voting separately as a class shall be entitled to approve by the vote of a majority of the shares of Class H Common Stock then outstanding any amendment, alteration or repeal of any of the provisions of this Certificate of Incorporation which adversely affects the rights, powers or privileges of the Class H Common Stock; and (iii) any increase in the number of authorized shares of Class H Common Stock shall be subject to approval by both (A) the holders of a majority of the shares of Common Stock and Class H Common Stock then outstanding, voting together as a single class based upon their respective voting rights, and (B) the holders of a majority of the shares of Class H Common Stock then outstanding, voting separately as a class. Subject to adjustment pursuant to paragraph (e) hereof, each holder of Common Stock shall be entitled to one vote, in person or by proxy, for each share of Common Stock standing in his name on the stock transfer books of the Corporation; and each holder of Class H Common Stock shall be entitled to THE CLASS H PORTION (AS DEFINED BELOW) of a vote, in person or by proxy, for each share of Class H Common Stock standing in his name on the stock transfer books of the Corporation. FOR PURPOSES OF THIS PARAGRAPH (B) AND PARAGRAPH (D) OF DIVISION I OF THIS ARTICLE FOURTH, "CLASS H PORTION" SHALL MEAN THE GREATER OF (X) 0.50 AND (Y) AN AMOUNT, ROUNDED TO THE NEAREST ONE-TENTH, EQUAL TO (I) THE AVERAGE OF THE CLOSING PRICES (AS DEFINED IN SUBPARAGRAPH (C)(5)) OF A SHARE OF CLASS H COMMON STOCK DURING THE PERIOD OF TWENTY (20) CONSECUTIVE TRADING DAYS BEGINNING ON  $\frac{\quad}{3}$  DIVIDED BY (II) THE AVERAGE OF THE CLOSING PRICES OF A SHARE OF COMMON STOCK DURING SUCH PERIOD.

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- 2 Insert the number equal to the denominator of the Class H Dividend Base (as defined in the Agreement and Plan of Merger to which this Exhibit is attached).
  - 3 Insert the date of the 11th trading day on the New York Stock Exchange after the Initial Issuance Date.



(c) Exchangeability.

(1) After December 31, <1995> 2002, the Board of Directors of the Corporation, in its sole discretion and by a majority vote of the directors then in office, may at any time effect a recapitalization of the Corporation by Date of the 11th trading day on the New York Stock Exchange after the Initial Issuance Date. The number equal to the denominator of the fraction set forth in Section (a) (5) of Division I of Article Fourth of the GM Certificate of Incorporation as of immediately prior to the Effective Time of the Spin-Off Merger to be inserted. declaring that all of the outstanding shares of Class H Common Stock shall be exchanged for fully paid and nonassessable shares of Common Stock in accordance with the Exchange Rate (as defined in subparagraph (c) (4))<; provided, that the Board of Directors may effect such recapitalization only if, during each of the five full fiscal years preceding such recapitalization, the Board of Directors has declared and paid cash dividends on the Class H Common Stock equal to or greater than the Class H Payout Ratio for such year (as defined in subparagraph (c) (2)) multiplied by the Available Separate Consolidated Net Income of Hughes for the prior fiscal year.>.

<(2) For purposes of this paragraph (c) of Division I of this Article FOURTH, the term "Class H Payout Ratio" shall mean, for any fiscal year, the lesser of (A) 0.25 or (B) the quotient of (x) the total cash dividends paid on the Common Stock in respect of such fiscal year, divided by (y) (i) the consolidated net income of the Corporation and its subsidiaries for such fiscal year minus (ii) the Available Separate Consolidated Net Income of EDS for any portion of such fiscal year during which EDS was a direct or indirect wholly owned subsidiary of the Corporation, minus (iii) the Available Separate Consolidated Net Income of Hughes for such fiscal year; provided, that nothing in this paragraph (c) shall be deemed to limit or restrict the authority of the Board of Directors of the Corporation to declare and pay dividends on Class H Common Stock and Common Stock at such times and in such amounts as the Board of Directors in its sole discretion (subject to paragraph (a)) may determine.

(3)>(2) In the event of the sale, transfer, assignment or other disposition by the Corporation of SUBSTANTIALLY ALL OF THE BUSINESS OF HUGHES (AS DEFINED IN SUBPARAGRAPH (C) (3)) to a person, entity or group of which the Corporation is not a majority owner (whether by merger, consolidation, sale of assets or stock, liquidation, dissolution, winding up or otherwise), effective upon the consummation of such sale, transfer, assignment or other disposition and automatically without any action on the part of the Corporation or its Board of Directors or on the part of the holders of shares of Class H Common Stock, the Corporation shall be recapitalized and all outstanding shares of Class H Common Stock shall be exchanged for fully paid and nonassessable shares of Common Stock at the Exchange Rate<(as defined in subparagraph (c) (4)).>.

(3) FOR PURPOSES OF SUBPARAGRAPH (C) (2) OF THIS SUBPARAGRAPH (C) OF DIVISION I OF THIS ARTICLE FOURTH, THE TERM "SUBSTANTIALLY ALL OF THE BUSINESS OF HUGHES" SHALL MEAN 80% OR MORE OF THE BUSINESS OF HUGHES, BASED ON THE FAIR MARKET VALUE OF THE ASSETS, BOTH TANGIBLE AND INTANGIBLE, OF HUGHES AS OF THE TIME THAT THE PROPOSED TRANSACTION IS APPROVED BY THE BOARD OF DIRECTORS OF THE CORPORATION.

(4) For purposes of this paragraph (c) of Division I of this Article FOURTH, the term "Exchange Rate" applicable to the Class H Common Stock shall mean the number of shares of Common Stock for which each share of Class H Common Stock shall be exchangeable pursuant to subparagraphs (c) (1) and <(c) (3)>(C) (2), as the case may be, of this paragraph (c) determined as follows: Each share of Class H Common Stock shall be exchangeable for such number of shares of Common Stock (calculated to the nearest five decimal places) as is determined by dividing (A) the product resulting from multiplying (i) the Average Market Price Per Share (as defined in subparagraph (c) (5)) of such Class H Common Stock by (ii) 1.2, by (B) the Average Market Price Per Share of Common Stock.

(5) For purposes of this paragraph (c) of Division I of this Article FOURTH, the "Average Market Price Per Share" of Common Stock or Class H Common Stock, as the case may be, shall mean the average of the CLOSING PRICES OF A share OF such Common Stock or Class H Common Stock for the fifteen (15) consecutive trading days ending one (1) trading day prior to either (A) in the case of an exchange pursuant to subparagraph (c) (1), the date the Exchange Notice (as defined in subparagraph (c) (8)) is mailed or (B) in the

case of an exchange pursuant to subparagraph <(c)(3)>(C)(2), the date of the public announcement by the Corporation or one of its subsidiaries of the first to occur of the following: that the Corporation or one of its subsidiaries (1) has entered into an agreement in principle with respect to such transaction or (2) has entered into a definitive agreement with respect thereto. FOR PURPOSES OF THIS PARAGRAPH (C) OF DIVISION I OF THIS ARTICLE FOURTH, THE "CLOSING PRICE" OF A SHARE OF COMMON STOCK OR CLASS H COMMON STOCK FOR EACH DAY SHALL MEAN the closing sales price THEREFOR as reported in The Wall Street Journal or, if not reported therein, as reported in another newspaper of national circulation chosen by the Board of Directors of the Corporation or, in case no such sale takes place on such day, the average of the closing bid and asked prices regular way on the New York Stock Exchange, or if the Common Stock or Class H Common Stock is not then listed or admitted to trading on the New York Stock Exchange, on the largest principal national securities exchange on which such stock is then listed or admitted to trading, or if not listed or admitted to trading on any national securities exchange, then the last reported sale prices for such shares in the over-the-counter market, as reported on the National Association of Securities Dealers Automated Quotation System, or, if such sale prices shall not be reported thereon, the average of the closing bid and asked prices so reported, or, if such bid and asked prices shall not be reported thereon, as the same shall be reported by the National Quotation Bureau Incorporated, or, in all other cases, an appraised market value furnished by any New York Stock Exchange member firm selected from time to time by the Board of Directors or the Finance Committee of the Corporation for that purpose.

(6) No fraction of a share of Common Stock shall be issued in connection with the exchange of shares of Class H Common Stock into Common Stock, but in lieu thereof, each holder of Class H Common Stock who would otherwise be entitled to a fractional interest of a share of Common Stock shall, upon surrender of such holder's certificate or certificates (IF ANY) representing shares of Class H Common Stock, BE ENTITLED TO receive a cash payment (without interest) (the "Fractional Payment") equal to the product resulting from multiplying (A) the fraction of a share of Common Stock to which such holder would otherwise have been entitled by (B) the Average Market Price Per Share of the Common Stock .

(7) No adjustments in respect of dividends shall be made upon the exchange of any shares of Class H Common Stock; provided, however, that if the Exchange Date (AS DEFINED IN SUBPARAGRAPH (C)(8)) with respect to Class H Common Stock shall be subsequent to the record date for the payment of a dividend or other distribution thereon or with respect thereto but prior to the payment or distribution thereof, the registered holders of such shares at the close of business on such record date shall be entitled to receive the dividend or other distribution payable on such shares on the date set for payment of such dividend or other distribution notwithstanding the exchange of such shares or the Corporation's default in payment of the dividend or distribution due on such date.

(8) At such time or times as the Corporation exercises ITS right to cause all of the shares of Class H Common Stock to be exchanged for Common Stock in accordance with subparagraph (c)(1) of this paragraph (c) of Division I of this Article FOURTH and at such time as the Corporation causes the exchange of such Class H Common Stock for Common Stock as a result of a sale, transfer, assignment or other disposition of the type referred to in subparagraph <(c)(3)>(C)(2) of this paragraph (c), the Corporation shall give notice of such exchange to the holders of Class H Common Stock whose shares are to be exchanged, by mailing by first-class mail a notice of such exchange (the "Exchange Notice"), in the case of an exchange in accordance with subparagraph (c)(1) not less than thirty (30) nor more than sixty (60) days prior to the date fixed for such exchange (the "Exchange Date"), and in the case of an exchange in accordance with subparagraph <(c)(3)>(C)(2) as soon as practicable before or after the Exchange Date, in either case to their last addresses as they shall appear upon the Corporation's books. Each such Exchange Notice shall specify the Exchange Date and the Exchange Rate applicable to such exchange, and shall state that issuance of certificates representing, OR OTHER EVIDENCE OF OWNERSHIP OF, Common Stock to be received upon exchange of shares of Class H Common Stock shall be, IF SUCH SHARES OF CLASS H COMMON STOCK ARE HELD IN CERTIFICATED FORM, upon surrender of certificates representing such shares of Class H Common Stock.

(9) Before any holder of shares of Class H Common Stock WHO HOLDS SUCH SHARES IN CERTIFICATED FORM shall be entitled to receive certificates representing , OR OTHER EVIDENCE OF OWNERSHIP OF, shares of Common Stock<, he> FOR WHICH SUCH SHARES OF CLASS H COMMON STOCK WERE EXCHANGED, SUCH HOLDER shall surrender at such office as the Corporation shall specify certificates for such shares of Class H Common Stock duly endorsed to the Corporation or in blank or accompanied by proper instruments of transfer to the Corporation or in blank, unless the Corporation shall waive such requirement. The Corporation will, as soon as practicable after such surrender of ANY SUCH certificates representing shares of Class H Common Stock, issue and deliver at the office of the transfer agent representing the Common Stock to the person for whose account such shares of Class H Common Stock were so surrendered, or to his nominee or nominees, certificates representing, OR OTHER EVIDENCE OF OWNERSHIP OF, the number of whole shares of Common Stock to which SUCH HOLDER shall be entitled as aforesaid, together with the Fractional Payment, if any.

(10) From and after the Exchange Date, all rights of a holder of shares of Class H Common Stock which were exchanged for shares of Common Stock shall cease except for the right<, upon surrender of the certificates representing such shares of Class H Common Stock,> to receive certificates representing, OR OTHER EVIDENCE OF OWNERSHIP OF, shares of Common Stock together with a Fractional Payment, if any, as contemplated by subparagraphs (c) (6) and (c) (9) of this paragraph (c) and rights to dividends as provided in subparagraph (c) (7)<. No>; PROVIDED, HOWEVER, THAT NO holder of a certificate which immediately prior to the Exchange Date represented shares of Class H Common Stock shall be entitled to receive any OF THE FOREGOING until surrender of such CERTIFICATE. Upon such surrender, there shall be paid to the holder the amount of any dividends or other distributions (without interest) which theretofore became payable with respect to a record date after the Exchange Date, but which were not paid by reason of the foregoing, with respect to the number of whole shares of Common Stock represented by the certificate or certificates issued upon such surrender. From and after the Exchange Date applicable to the Class H Common Stock, the Corporation shall, however, be entitled to treat the certificates for Class H Common Stock which have not yet been surrendered for exchange as evidencing the ownership of the number of whole shares of Common Stock for which the shares of Class H Common Stock represented by such certificates shall have been exchanged, notwithstanding the failure to surrender such certificates.

(11) If any shares of Common Stock ARE to be issued in a name other than that in which the shares of Class H Common Stock EXCHANGED therefor ARE registered, it shall be a condition of such issuance that the person requesting such issuance shall pay any transfer or other taxes required by reason of the issuance of such shares of Common Stock in a name other than that of the record holder of the SHARES OF CLASS H COMMON STOCK EXCHANGED THEREFOR, or shall establish to the satisfaction of the Corporation or its agent that such tax has been paid or is not applicable. Notwithstanding anything to the contrary in this paragraph (c), the Corporation shall not be liable to a holder of shares of Class H Common Stock for any shares of Common Stock or dividends or distributions thereon delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

(12) At such time as any Exchange Notice is delivered with respect to any shares of Class H Common Stock, or at the time of the Exchange Date, if earlier, the Corporation shall have reserved and kept available, solely for the purpose of issuance upon exchange of the outstanding shares of Class H Common Stock, such number of shares of Common Stock as shall be issuable upon the exchange of the number of shares of Class H Common Stock specified or to be specified in the Exchange Notice, provided, that nothing contained herein shall be construed to preclude the Corporation from satisfying its obligations in respect of the exchange of the outstanding shares of Class H Common Stock by delivery of purchased shares of Common Stock which are held in the treasury of the Corporation.

(d) Liquidation Rights.

In the event of the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, after there shall have been paid or set apart for the holders of Preferred Stock and Preference Stock the full preferential amounts to which they are entitled, the holders of Common Stock and Class H Common Stock shall be entitled to receive the assets of the Corporation remaining for distribution to its stockholders, on a per share basis in proportion to the respective per share liquidation units of such classes. Subject to adjustment pursuant to paragraph (e) hereof, each share of Common Stock and Class H Common Stock shall be entitled to liquidation units of one (1.0) and THE CLASS H PORTION, respectively.

(e) Subdivision or Combination.

(1) If after THE INITIAL ISSUANCE DATE, the Corporation shall in any manner subdivide (by stock split or otherwise) or combine (by reverse stock split or otherwise) the outstanding shares of the Common Stock or Class H Common Stock, or pay a stock dividend in shares of any class to holders of that class, the per share voting rights specified in paragraph (b) and the per share liquidation units specified in paragraph (d) of Class H Common Stock relative to Common Stock shall be appropriately adjusted so as to avoid any dilution in the aggregate voting or liquidation rights of any class. Distribution by the Corporation of shares of any class of its common stock as a dividend on any other class of its common stock shall not require an adjustment pursuant to this paragraph (e)(1).

(2) If after THE INITIAL ISSUANCE DATE, the Corporation shall distribute shares of Class H Common Stock <(such class being hereinafter referred to as the "Distributed Class")> as a dividend (the "Dividend") on Common Stock<(such class being hereinafter referred to as the "Recipient Class")>, then the per share liquidation rights of the classes of common stock set forth in paragraph (d) above, as they may have been previously adjusted, shall be adjusted so that:

(A) each holder of shares of CLASS H COMMON STOCK shall be entitled to, with respect to such holder's interest in SUCH CLASS H COMMON STOCK, the same percentage of the aggregate liquidation units of all shares of the Corporation's common stock immediately after the Dividend as such holder was entitled to<,> with respect to such holder's interest in such CLASS H COMMON STOCK immediately prior to the Dividend; and

(B) each holder of shares of COMMON STOCK shall be entitled to, with respect to such holder's interest in COMMON STOCK and all shares of CLASS H COMMON STOCK issued with respect to such holder's shares of COMMON STOCK, the same percentage of the aggregate liquidation units of all shares of the Corporation's common stock immediately after the Dividend as such holder was entitled to with respect to such holder's interest in COMMON STOCK immediately prior to the Dividend; provided, that any adjustment pursuant to this subparagraph (e)(2)(B) shall be made to the liquidation units of COMMON STOCK.

In no event will any adjustments be made pursuant to this subparagraph (e)(2) if the adjustment called for herein would reduce the liquidation units of any class of common stock to less than zero.

(3) The determination of any adjustment required under this paragraph (e) shall be made by the Corporation's Board of Directors; any such determination shall be binding and conclusive upon all holders of shares of all classes of the Corporation's common stock. Following any such determination, the Secretary of the Corporation shall maintain a record of any such adjustment.

DIVISION II:  
PREFERRED STOCK.

A statement of the relative rights of the holders of Preferred Stock and a statement of the limits of variation between each series of Preferred Stock as to rate of dividends and price of redemption and a statement of the voting powers and the designations, powers, privileges and rights, and the qualifications, limits or restrictions thereof of the various series thereof, except so far as the Board of Directors is expressly authorized to fix the same by resolution or resolutions for the various series of the Preferred Stock, are as follows:

Preferred Stock of the Corporation may be issued in various series as may be determined from time to time by the Board of Directors, each such series to be distinctly designated. All shares of any one series of Preferred Stock shall be alike in every particular, and all series shall rank equally and be identical in all respects except as to the dividend rate and the amount payable upon the exercise of the right to redeem.

The dividend on the Preferred Stock of each series shall be such rate as may be fixed by the Board of Directors in the resolution or resolutions providing for the issuance of the Preferred Stock of such series, and as shall be stated on the face or back of the certificates of stock therefor.

The amount payable on the exercise of the right to redeem Preferred Stock of each series shall be an amount as may be fixed by the Board of Directors in the resolution or resolutions providing for the issuance of the Preferred Stock of such series, and as shall be stated on the face or back of the certificates of stock therefor.

All other provisions herein set forth in respect of the Preferred Stock of the Corporation shall apply to all the Preferred Stock of the Corporation, irrespective of any variations between the Preferred Stock of the different series.

The holders of the Preferred Stock shall be entitled to receive cumulative dividends, when and as declared by the Board of Directors, at the rates fixed for the respective series in the Certificate of Incorporation or in the resolution or resolutions of the Board of Directors providing for the issuance of the respective series, and no more, payable quarterly on the dates to be fixed by the By-Laws. The periods between such dates commencing on such dates are herein designated as "dividend periods." Dividends on all shares of any one series shall commence to accrue and be cumulative from the first day of the current dividend period within which shares of such series are first issued, but in the event of the issue of additional shares of such series subsequent to the date of the first issue of said shares of such series, all dividends paid on the shares of such series prior to the issue of such additional shares and all dividends declared payable to holders of record of shares of such series of a date prior to such issue shall be deemed to have been paid in respect of the additional shares so issued. Such dividends on the Preferred Stock shall be in preference and priority to any payment on any other class of stock of the Corporation.

The dividends on the Preferred Stock shall be cumulative and shall be payable before any dividend on the Common Stock or Class H Common Stock or any series of the Preference Stock shall be paid or set apart so that if in any year dividends at the rates determined for the respective series of the Preferred Stock shall not be paid thereon, the deficiency shall be payable before any dividend shall be paid upon or set apart for the Common Stock or Class H Common Stock or any series of the Preference Stock. Dividends shall not be declared and paid on the shares of Preferred Stock of any one series for any dividend period unless dividends have been or are contemporaneously paid or declared and set apart for payment thereof on the shares of Preferred Stock of all series, for all the dividend periods terminating on the same or an earlier date.

Whenever all cumulative dividends on the Preferred Stock outstanding shall have been paid and a sum sufficient for the payment of the next ensuing quarterly dividend on the Preferred Stock outstanding shall have been set aside from the surplus or net profits, the Board of Directors may declare dividends on the Common Stock or Class H Common Stock or any series of the Preference Stock, payable then or thereafter, out of any

remaining surplus or net profits, and no holders of any shares of any series of Preferred Stock, as such, shall be entitled to share therein.

At the option of the Board of Directors, the Preferred Stock shall be subject to redemption at the amounts fixed for the respective series in the Certificate of Incorporation or in the resolution or resolutions of the Board of Directors providing for the issuance of the respective series, together, in the case of each class or series, with accrued dividends on the shares to be redeemed, on any dividend paying date in such manner as the Board of Directors may determine.

The holders of the Preferred Stock shall not have any voting power whatsoever, except upon the question of selling, conveying, transferring or otherwise disposing of the property and assets of the Corporation as an entirety and except as otherwise required by law.

DIVISION III:  
PREFERENCE STOCK.

The Board of Directors is authorized, subject to limitations prescribed by law and the provisions of this Article FOURTH, to provide for the issuance of Preference Stock from time to time in one or more series of any number of shares, with a distinctive serial designation for each series, provided that the aggregate number of shares issued and not cancelled of any and all such series shall not exceed the total number of shares of Preference Stock authorized by this Article FOURTH, all as shall hereafter be stated and expressed in the resolution or resolutions providing for the issue of such Preference Stock from time to time adopted by the Board of Directors. Subject to said limitations, and provided that each series of Preference Stock shall rank junior to the Preferred Stock with respect to the payment of dividends and distributions in liquidation, each series of Preference Stock (a) may have such voting powers, full or limited, or may be without voting powers; (b) may be subject to redemption at such time or times and at such prices; (c) may be entitled to receive dividends (which may be cumulative or noncumulative) at such rate or rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or series of stock; (d) may have such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation; (e) may be made convertible into, or exchangeable for, shares of any other class or classes of or any other series of the same or any other class or classes of stock of the Corporation or any other issuer, at such price or prices or at such rates of exchange, and with such adjustments; (f) may be entitled to the benefit of a sinking fund to be applied to the purchase or redemption of shares of such series in such amount or amounts; (g) may be entitled to the benefit of conditions and restrictions upon the creation of indebtedness of the Corporation or any subsidiary, upon the issue of any additional stock (including additional shares of such series or of any other series) and upon the payment of dividends or the making of other distributions on, and the purchase, redemption or other acquisition by the Corporation or any subsidiary of any outstanding stock of the Corporation; and (h) may have such other relative, participating, optional or other special rights, qualifications, limitations or restrictions thereof; all as shall be stated in said resolution or resolutions providing for the issue of such series of Preference Stock.

Shares of any series of Preference Stock which have been redeemed (whether through the operation of a sinking fund or otherwise) or which, if convertible or exchangeable, have been converted into or exchanged for shares of stock of any other class or classes shall have the status of authorized and unissued shares of Preference Stock of the same series and may be reissued as a part of the series of which they were originally a part or may be reclassified and reissued as part of a new series of Preference Stock to be created by resolution or resolutions of the Board of Directors or as part of any other series of Preference Stock, all subject to the conditions or restrictions on issuance set forth in the resolution or resolutions adopted by the Board of Directors providing for the issue of any series of Preference Stock.

DIVISION IV:  
MISCELLANEOUS.

From time to time, the Preferred Stock, the Preference Stock, the Common Stock and the Class H Common Stock may be increased or decreased according to law, and may be issued in such amounts and proportions as shall be determined by the Board of Directors, and as may be permitted by law.

In the event of any liquidation or dissolution or winding up, whether voluntary or otherwise, of the Corporation, the holders of the Preferred Stock shall be entitled to be paid the redemption price of each series in full, as aforesaid, out of the assets whether capital or surplus, and, in every case, the unpaid dividends accrued on such shares, whether or not earned or declared, before any distribution of the assets to be distributed shall be made to the holders of Common Stock or Class H Common Stock or any series of the Preference Stock; but the holders of such shares shall be entitled to no further participation in such distribution. If the assets distributable on such liquidation, dissolution or winding up shall be insufficient to permit the payment to the holders of the Preferred Stock of the full amount of the redemption price of each series in full as aforesaid and accrued dividends as aforesaid, the said assets shall be distributed pro rata among the holders of the respective series of the Preferred Stock. After all payments are made as aforesaid, any required payments shall be made with respect to the Preference Stock, if any, outstanding, and the remaining assets and funds shall be divided among and paid to the holders of Common Stock and Class H Common Stock pro rata in proportion to the respective per share liquidation units of such classes. The merger or consolidation of the Corporation into or with any other corporation shall not be or be deemed to be a distribution of assets or a dissolution, liquidation or winding up for the purposes of this paragraph.

Any Preferred Stock, Preference Stock, Common Stock or Class H Common Stock, authorized hereunder or under any amendment hereof, in the discretion of the Board of Directors, may be issued, except as herein otherwise provided, in payment for property or services, or as bonuses to employees of the Corporation or employees of subsidiary companies, or for other assets or securities including cash, necessary or desirable, in the judgment of the Board of Directors, to be purchased or acquired from time to time for the Corporation, or for any other lawful purpose of the Corporation.

If it seems desirable so to do, the Board of Directors may from time to time issue scrip for fractional shares of stock. Such scrip shall not confer upon the holder any right to dividends or any voting or other rights of a stockholder of the Corporation, but the Corporation shall from time to time, within such time as the Board of Directors may determine or without limit of time if the Board of Directors so determines, issue one or more whole shares of stock upon the surrender of scrip for fractional shares aggregating the number of whole shares issuable in respect of the scrip so surrendered, provided that the scrip so surrendered shall be properly endorsed for transfer if in registered form.

APPENDIX B  
FAIRNESS OPINIONS







January 16, 1997

Board of Directors  
General Motors Corporation  
767 Fifth Avenue  
New York, NY 10053

Board of Directors  
Hughes Electronics Corporation  
P.O. Box 80028  
7200 Hughes Terrace  
Los Angeles, CA 90045

Board of Directors  
HE Holdings, Inc.  
7200 Hughes Terrace  
Los Angeles, CA 90045

Ladies and Gentlemen:

You have requested our opinion as to the fairness to (i) HE Holdings, Inc., a Delaware corporation ("Hughes"), (ii) Hughes Electronics Corporation, a Delaware corporation ("HEC") and the holder of the outstanding shares of Common Stock, par value \$0.01 per share (the "Shares"), of Hughes, (iii) General Motors Corporation, a Delaware corporation and the parent of HEC ("GM"), (iv) the holders of GM's Common Stock, par value \$1 2/3 per share (the "1 2/3 Common Stock"), and (v) the holders of GM's Class H Common Stock, par value \$0.10 per share (the "GM Class H Common Stock" and together with the 1 2/3 Common Stock, the "Common Shares") (Hughes, HEC, GM and the holders of the Common Shares collectively referred to herein as the "GM Group"), of the Aggregate Consideration (as defined below) as contemplated by the Agreement and Plan of Merger dated as of January 16, 1997 by and between Raytheon Company, a Delaware corporation ("Raytheon"), and Hughes (the "Agreement"). Pursuant to the Agreement, Raytheon will merge (the "Merger") with and into Hughes, which at such time and after giving effect to the GM Transactions (as defined below), will be comprised primarily of the defense-related businesses of Hughes.

Pursuant to the Merger, (i) each issued and outstanding whole share of Class A Common Stock (as defined below) will remain outstanding and will be unchanged; (ii) each issued and outstanding fractional share of Class A Common Stock will be converted into and represent an equivalent fractional share of Class B Common Stock (as defined below), which will be sold by the Exchange Agent as provided in the Agreement; and (iii) each issued and outstanding share of Common Stock, par value \$0.01 per share ("Raytheon Common Stock"), of Raytheon will be converted into and represent one share of Class B Common Stock. Immediately following the Merger, as contemplated by the Agreement, the holders of the Class A Common Stock will own, in the aggregate, approximately 30% of the outstanding common stock of Hughes (the "Equity Interest"). Prior to the Hughes Spin-off (as defined below) and Merger, Hughes is to have indebtedness for borrowed money in an amount not to exceed \$9.5 billion minus the Class A Common Stock Amount (as defined below) ((the "Permitted Indebtedness") and together with the Equity Interest, the "Aggregate Consideration"). The "Class A Common Stock Amount" is equal to (x) 102,630,503 shares multiplied by (y) the average closing price of Raytheon Common Stock on the New York Stock Exchange during the 30-day period ending 5 days prior to the Effective Time (as defined in the Agreement); provided, that in the event that such average closing price is greater than \$54.29, the Permitted Indebtedness will be an amount determined as if such average closing price was deemed to be \$54.29, and in the event such average closing price is less than \$44.42, the Permitted Indebtedness will be an amount determined as if such average closing price was deemed to be \$44.42.

You have informed us that prior to the Merger, among other things, (i) Hughes will effectuate the Telecom Spin-off (as defined in the Hughes Distribution Agreement (as defined below)); (ii) HEC will be liquidated into GM, as a result of which Delco Electronics Corporation, a Delaware corporation and a wholly owned subsidiary of HEC, will become a direct, wholly-owned subsidiary of GM; (iii) Hughes Aircraft Company, a Delaware corporation, will merge with and into Hughes with Hughes as the surviving entity; (iv) Hughes will recapitalize its outstanding capital stock into Class A Common Stock, par value \$0.01 per share ("Class A Common Stock"), and provide for a Class B Common Stock, par value \$0.01 per share ("Class B Common Stock"); (v) a wholly-owned subsidiary of GM ("Mergeco") will merge with and into GM, pursuant to which, among other things, the Class A Common Stock will be distributed to and allocated among the holders of the Common Shares with the result that Hughes will be a publicly held company prior to the consummation of the Merger (the "Hughes Spin-Off"); and (vi) GM will recapitalize its GM Class H Common Stock into a new class of GM common stock (the transactions set forth in clauses (i) through (vi) above being referred to herein as the "GM Transactions").

It is understood that we are not opining as to the fairness of the GM Transactions or as to the fairness of the distribution to and allocation among the holders of the Common Shares of the Class A Common Stock in the Hughes Spin-Off. In fact, you have advised us that GM expects to receive, from other financial advisors opinions as to the fairness to the holders of the Common Shares, from a financial point of view, of the consideration to be received by GM and its subsidiaries and common stockholders in the GM Transactions. Our opinion is directed only to the fairness of the Aggregate Consideration to be received by the GM Group as a whole and does not (i) address GM's underlying business decision to effect the GM Transactions, (ii) address the fairness of the allocation of the Aggregate Consideration among the members of the GM Group or (iii) constitute a recommendation concerning how holders of the Common Shares should vote with respect to the GM Transactions.

Goldman, Sachs & Co., as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. We are familiar with Hughes having provided certain investment banking services to Hughes and HEC from time to time and having acted as financial advisor to Hughes, HEC and GM in connection with, and having participated in certain of the negotiations leading to, the Agreement. We are also familiar with Raytheon having provided certain investment banking services to Raytheon from time to time, including having acted as its financial advisor in connection with the acquisition of Chrysler Technologies Airborne Systems in June 1996 and acting as a dealer in connection with its issuance of commercial paper.

In connection with this opinion, we have reviewed, among other things, the Agreement; the Implementation Agreement dated as of January 16, 1997 by and between GM and Raytheon (the "Implementation Agreement"); the form of Agreement and Plan of Merger by and between GM and Mergeco, attached as an exhibit to the Implementation Agreement (the "Hughes Distribution Agreement"); the form of Master Separation Agreement among GM, Hughes and the other parties identified therein, attached as an exhibit to the Implementation Agreement, including the form of the Hughes Spin-Off Separation Agreement attached thereto; Annual Reports of HEC for the five years ended December 31, 1995; Annual Reports to Stockholders of Raytheon on Form 10-K for the five years ended December 31, 1995; certain interim reports to stockholders and Quarterly Reports on Form 10-Q for Raytheon; certain other communications from GM and Raytheon to their respective stockholders; and certain internal financial analyses and forecasts for Hughes and Raytheon prepared by their respective managements. We also have held discussions with members of the senior management of Hughes and Raytheon regarding their past and current business operations, financial condition and future prospects of their respective companies, including forecasts of revenue and cost synergies that are expected to result from the Merger. In addition, we have reviewed the reported price and trading activity for the shares of Raytheon Common Stock; compared certain financial and stock market information for Raytheon with similar information for certain other companies the securities of which are publicly traded, reviewed the

financial terms of certain recent business combinations in the aerospace and defense industry specifically and in other industries generally and performed such other studies and analyses as we considered appropriate.

We have relied upon the accuracy and completeness of all of the financial and other information reviewed by us and have assumed the accuracy and completeness thereof in all material respects for purposes of this opinion. In that regard, we have assumed, with your consent, that the financial forecasts prepared by Hughes and Raytheon, including without limitation, projected revenue and cost synergies resulting from the Merger, have been reasonably prepared on a basis reflecting the best currently available judgments and estimates of Hughes and Raytheon and that such forecasts will be realized in all material respects in the amounts and at the times contemplated thereby. In addition, we have not made an independent evaluation or appraisal of the assets and liabilities of Hughes or Raytheon or any of their subsidiaries and we have not been furnished with any such evaluation or appraisal. Our advisory services and the opinion expressed herein are provided for the information and assistance of the Boards of Directors of GM, HEC and Hughes in connection with their consideration of the Merger. You have informed us that the Boards of Directors of GM, HEC and Hughes are considering the Merger in the context of the GM Transactions. As stated above, we are not opining as to the fairness of the GM Transactions. We are not expressing any opinion herein as to the prices at which the Class A Common Stock, the Class B Common stock or the GM Class H Common Stock may trade if and when they are issued.

Based upon and subject to the foregoing and based upon such other matters as we consider relevant, it is our opinion that as of the date hereof the Aggregate Consideration is fair to the GM Group as a whole.

Very truly yours,

GOLDMAN, SACHS & CO.

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APPENDIX C

HUGHES DEFENSE

COMBINED FINANCIAL STATEMENTS

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HUGHES DEFENSE  
 COMBINED STATEMENT OF INCOME AND  
 PARENT COMPANY'S NET INVESTMENT  
 (UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	1997	1996
	(DOLLARS IN MILLIONS)	
<b>REVENUES</b>		
Net sales.....	\$3,413.3	\$3,053.1
Other income, net.....	13.3	4.5
	-----	-----
Total Revenues.....	3,426.6	3,057.6
	-----	-----
<b>COSTS AND EXPENSES</b>		
Cost of sales and other operating charges, exclusive of items listed below.....	2,804.2	2,495.4
Selling, general, and administrative expenses.....	188.4	159.6
Depreciation and amortization.....	76.1	66.2
Amortization of GM purchase accounting adjustments related to Hughes Aircraft Company.....	50.6	50.6
Interest expense.....	49.6	44.3
	-----	-----
Total Costs and Expenses.....	3,168.9	2,816.1
	-----	-----
INCOME BEFORE INCOME TAXES.....	257.7	241.5
Income taxes.....	118.5	111.1
	-----	-----
NET INCOME.....	139.2	130.4
	-----	-----
Parent Company's Net Investment, beginning of period.....	4,823.0	4,680.2
Net contributions from Parent Company.....	412.2	137.9
Change in foreign currency translation adjustment.....	(1.9)	(8.9)
	-----	-----
PARENT COMPANY'S NET INVESTMENT, END OF PERIOD.....	\$5,372.5	\$4,939.6
	=====	=====

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

HUGHES DEFENSE  
COMBINED BALANCE SHEET  
(UNAUDITED)

	JUNE 30, 1997	DECEMBER 31, 1996
	-----	-----
	(DOLLARS IN MILLIONS)	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents.....	\$ 81.6	\$ 59.7
Accounts and notes receivable (less allowances).....	683.5	612.7
Contracts in process, less advances and progress payments of \$894.1 and \$956.2.....	1,672.1	1,581.2
Inventories.....	427.0	337.7
Deferred income taxes.....	260.2	285.3
Prepaid expenses.....	42.8	31.1
	-----	-----
Total Current Assets.....	3,167.2	2,907.7
	-----	-----
Property, net.....	1,145.6	1,085.1
	-----	-----
Intangible Assets, net of amortization of \$1,329.5 and \$1,268.5.....	2,930.0	2,907.4
	-----	-----
Investments and Other Assets, principally at cost (less allowances).....	139.5	128.2
	-----	-----
Total Assets.....	\$7,382.3	\$7,028.4
	=====	=====
<b>LIABILITIES AND PARENT COMPANY'S NET INVESTMENT</b>		
Current Liabilities		
Accounts payable.....	\$ 271.3	\$ 278.3
Advances on contracts.....	387.6	396.8
Notes and loans payable.....	100.9	94.5
Accrued liabilities.....	905.4	1,119.4
	-----	-----
Total Current Liabilities.....	1,665.2	1,889.0
	-----	-----
Long-Term Debt and Capitalized Leases.....	33.3	34.4
	-----	-----
Other Liabilities and Deferred Credits.....	181.0	174.4
	-----	-----
Deferred Income Taxes.....	130.3	107.6
	-----	-----
Contingent Liabilities		
Parent Company's Net Investment.....	5,372.5	4,823.0
	-----	-----
Total Liabilities and Parent Company's Net Investment.....	\$7,382.3	\$7,028.4
	=====	=====

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



HUGHES DEFENSE

COMBINED STATEMENT OF CASH FLOWS  
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	1997	1996
	(DOLLARS IN MILLIONS)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income.....	\$139.2	\$130.4
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization.....	76.1	66.2
Amortization of GM purchase accounting adjustments related to Hughes Aircraft Company.....	50.6	50.6
Deferred income taxes and other.....	47.8	(1.1)
Change in other operating assets and liabilities		
Accounts receivable.....	(54.6)	30.7
Contracts in process.....	(81.9)	(170.8)
Inventories.....	(88.8)	(30.7)
Accounts payable.....	(11.7)	(31.7)
Advances on contracts.....	(39.2)	(27.6)
Accrued liabilities.....	(215.9)	(97.3)
Other.....	(11.4)	(14.9)
Net Cash Used in Operating Activities.....	(189.8)	(96.2)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in companies, net of cash acquired.....	(143.3)	(28.7)
Expenditures for property.....	(68.8)	(55.4)
Proceeds from disposal of property.....	6.7	26.8
(Increase) Decrease in notes receivable.....	(0.4)	13.8
Net Cash Used in Investing Activities.....	(205.8)	(43.5)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in notes and loans payable.....	6.4	16.3
Increase in long-term debt.....	7.4	17.8
Decrease in long-term debt.....	(8.5)	(18.8)
Net contributions from Parent Company.....	412.2	137.9
Net Cash Provided By Financing Activities.....	417.5	153.2
Net increase in cash and cash equivalents.....	21.9	13.5
Cash and cash equivalents at beginning of the period.....	59.7	15.7
Cash and cash equivalents at the end of the period.....	\$ 81.6	\$ 29.2
	=====	=====

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

HUGHES DEFENSE

NOTES TO COMBINED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1: BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

The accompanying unaudited combined financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. In the opinion of management, all adjustments (consisting of only normal recurring items) which are necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year.

On January 16, 1997, Hughes Electronics Corporation ("Hughes Electronics"), General Motors Corporation ("GM"), the parent of Hughes Electronics, and Raytheon Company ("Raytheon") announced a series of planned transactions that would include:

- . The tax-free spin-off of 100% of the defense business of Hughes Electronics ("Hughes Defense") to holders of GM's \$1 2/3 par value and Class H Common Stocks followed immediately by the tax-free merger of that business with Raytheon, after which there would be outstanding two classes of Raytheon/Hughes Defense common stock;
- . The transfer of Delco Electronics Corporation and related entities ("Delco"), from Hughes Electronics to GM and a reallocation of the derivative interest in the earnings of Delco currently held by GM Class H common stockholders to holders of GM \$1 2/3 par value Common Stock; and
- . The recapitalization of GM Class H Common Stock into a GM tracking stock linked to the telecommunications and space business of Hughes Electronics ("Hughes Telecom"). GM would continue to own 100% of Hughes Telecom.

On July 14, 1997, GM received a ruling from the Internal Revenue Service that its contemplated spin-off of Hughes Defense would be tax-free to GM and its stockholders. The planned transactions must be approved by holders of GM \$1 2/3 par value and Class H Common Stocks, among a number of other conditions. In addition, the merger of Hughes Defense and Raytheon is subject to antitrust clearance and approval by Raytheon stockholders. No assurance can be given that the above transactions will be completed. GM expects to solicit stockholders' approval of the planned transactions during the fourth quarter of 1997, after certain conditions are satisfied.

Hughes Defense is not a legal entity. The combined financial statements present the financial position, results of operations and cash flows of Hughes Defense, which consists primarily of operations included in the Aerospace and Defense Systems segment of Hughes Electronics, certain other businesses identified in the Merger Agreements and certain Hughes Electronics Corporate assets, liabilities, income and expenses attributable to Hughes Defense. The combined financial statements do not include certain other defense operations of Hughes Electronics which will not be merged with Raytheon, consisting principally of the defense business of Hughes Electronics currently reported in the Hughes Electronics Telecommunications and Space segment. All transactions and balances between the entities included in the combined financial statements have been eliminated. All Hughes Defense amounts due from or payable to other Hughes Electronics businesses, except for certain loans payable to affiliates which are included in notes and loans payable, have been reported in Parent Company's Net Investment.

The combined financial statements include allocations of corporate expenses from Hughes Electronics 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 Defense based either on usage or using allocation methodologies which

HUGHES DEFENSE

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONCLUDED)  
(UNAUDITED)

comply with U.S. Government cost accounting standards, primarily based upon total revenues, certain tangible assets and payroll expenses. Management believes the allocations were made on a reasonable basis.

NOTE 2: INVENTORIES

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

Major Classes of Inventories

	JUNE 30, 1997	DECEMBER 31, 1996
	-----	-----
	(DOLLARS IN MILLIONS)	
Productive material and supplies.....	\$ 67.9	\$ 63.5
Work in process and finished goods.....	359.1	274.2
	-----	-----
Total.....	\$427.0	\$337.7
	=====	=====

NOTE 3: CONTINGENT LIABILITIES

In conjunction with its performance on long-term contracts, Hughes Defense is contingently liable under standby letters of credit and bonds in the amount of \$281.1 million at June 30, 1997. In Hughes Defense's past experience, no material claims have been made against these financial instruments.

Hughes Defense 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 Defense under these government regulations and under these claims and actions, was not determinable at June 30, 1997. In the opinion of Hughes Electronics and Hughes Defense management, such liability is not expected to have a material adverse effect on Hughes Defense's combined operations or financial position.

NOTE 4: NEW ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board issued SFAS Nos. 130 and 131. SFAS 130, "Reporting Comprehensive Income," establishes accounting standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. This statement requires that all items required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," establishes accounting standards for the way public enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. Hughes Defense will adopt SFAS Nos. 130 and 131 on January 1, 1998, as required.

INDEPENDENT AUDITORS' REPORT

Hughes Electronics Corporation:

We have audited the Combined Balance Sheet of the Defense Business of Hughes Electronics Corporation and subsidiaries ("Hughes Defense") as of December 31, 1996 and 1995 and the related Combined Statements of Income and Parent Company's Net Investment and of Cash Flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of Hughes Defense'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 Defense at December 31, 1996 and 1995 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the combined financial statements, effective January 1, 1994 Hughes Defense changed its method of accounting for postemployment benefits.

Los Angeles, California  
March 21, 1997

HUGHES DEFENSE

COMBINED STATEMENT OF INCOME  
AND PARENT COMPANY'S NET INVESTMENT

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
	(DOLLARS IN MILLIONS)		
<b>REVENUES</b>			
Net Sales.....	\$6,382.7	\$5,921.8	\$5,896.0
Other income, net.....	9.1	43.0	22.5
Total Revenues.....	6,391.8	5,964.8	5,918.5
<b>COSTS AND EXPENSES</b>			
Cost of sales and other operating charges, exclusive of items listed below.....	5,211.1	4,783.4	4,762.2
Selling, general and administrative expenses...	321.6	311.0	323.2
Depreciation and amortization.....	145.3	139.2	164.2
Amortization of GM purchase accounting adjustments related to Hughes Aircraft Company.....	101.3	101.3	101.3
Interest expense.....	92.3	75.9	64.9
Total Costs and Expenses.....	5,871.6	5,410.8	5,415.8
INCOME BEFORE INCOME TAXES.....	520.2	554.0	502.7
Income taxes.....	239.3	235.4	226.2
Income before cumulative effect of accounting change.....	280.9	318.6	276.5
Cumulative effect of accounting change.....	--	--	7.1
NET INCOME.....	280.9	318.6	269.4
Parent Company's Net Investment, beginning of period.....	4,680.2	4,198.2	4,283.3
Net (distributions to) contributions from Parent Company.....	(136.1)	173.2	(354.8)
Change in minimum pension liability.....	0.4	(5.0)	--
Foreign currency translation adjustment.....	(2.4)	(4.8)	0.3
PARENT COMPANY'S NET INVESTMENT, END OF PERIOD...	\$4,823.0	\$4,680.2	\$4,198.2

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

HUGHES DEFENSE  
COMBINED BALANCE SHEET

	DECEMBER 31,	
	1996	1995
	(DOLLARS IN MILLIONS)	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents.....	\$ 59.7	\$ 15.7
Accounts and notes receivables (less allowances).....	612.7	754.6
Contracts in process, less advances and progress payments of \$956.2 and \$1,259.2.....	1,581.2	1,460.2
Inventories.....	337.7	291.3
Deferred income taxes.....	285.3	325.6
Prepaid expenses.....	31.1	32.6
	-----	-----
Total Current Assets.....	2,907.7	2,880.0
	-----	-----
Property, net.....	1,085.1	1,061.9
	-----	-----
Intangible Assets, net of amortization of \$1,268.5 and \$1,149.3.....	2,907.4	2,993.0
	-----	-----
Investments and Other Assets, principally at cost (less allowances).....	128.2	91.0
	-----	-----
Total Assets.....	\$7,028.4	\$7,025.9
	=====	=====
<b>LIABILITIES AND PARENT COMPANY'S NET INVESTMENT</b>		
Current Liabilities		
Accounts payable.....	\$ 278.3	\$ 267.6
Advances on contracts.....	396.8	441.1
Notes and loans payable.....	94.5	84.0
Accrued liabilities.....	1,119.4	1,167.2
	-----	-----
Total Current Liabilities.....	1,889.0	1,959.9
	-----	-----
Long-term Debt and Capitalized Leases.....	34.4	49.7
	-----	-----
Other Liabilities and Deferred Credits.....	174.4	200.9
	-----	-----
Deferred Income Taxes.....	107.6	135.2
	-----	-----
Commitments and Contingent Liabilities		
Parent Company's Net Investment.....	4,823.0	4,680.2
	-----	-----
Total Liabilities and Parent Company's Net Investment....	\$7,028.4	\$7,025.9
	=====	=====

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

## HUGHES DEFENSE

## COMBINED STATEMENT OF CASH FLOWS

	YEARS ENDED DECEMBER		
	31,		
	1996	1995	1994
(DOLLARS IN MILLIONS)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income.....	\$ 280.9	\$ 318.6	\$ 269.4
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization.....	145.3	139.2	164.2
Amortization of GM purchase accounting adjustments related to Hughes Aircraft Company.	101.3	101.3	101.3
Deferred income taxes and other.....	19.6	(25.8)	16.4
Change in other operating assets and liabilities			
Accounts receivable.....	148.0	46.8	(254.6)
Contracts in process.....	(117.2)	(153.9)	337.5
Inventories.....	(46.2)	(84.7)	28.5
Accounts payable.....	9.7	(146.6)	(143.9)
Advances on contracts.....	(44.3)	38.5	45.9
Accrued liabilities.....	(62.8)	253.8	(164.3)
Other.....	(81.3)	(154.0)	63.3
Net Cash Provided by Operating Activities.....	353.0	333.2	463.7
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in companies, net of cash acquired....	(28.7)	(549.2)	--
Expenditures for property.....	(178.3)	(99.4)	(174.1)
Proceeds from disposal of property.....	45.2	58.6	87.6
Proceeds from sale of businesses.....	--	23.6	--
(Increase) decrease in notes receivable.....	(6.3)	6.7	3.8
Net Cash Used in Investing Activities.....	(168.1)	(559.7)	(82.7)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in notes and loans payable.....	10.5	18.2	57.2
Payment on long-term debt.....	(15.3)	(7.9)	(26.3)
Net (distributions to) contributions from Parent Company.....	(136.1)	173.2	(354.8)
Net Cash (Used in) Provided by Financing Activities.....	(140.9)	183.5	(323.9)
Net increase (decrease) in cash and cash equivalents.....	44.0	(43.0)	57.1
Cash and cash equivalents at beginning of the year..	15.7	58.7	1.6
Cash and cash equivalents at end of the year.....	\$ 59.7	\$ 15.7	\$ 58.7

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

## NOTES TO COMBINED FINANCIAL STATEMENTS

## NOTE 1: BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

On January 16, 1997, Hughes Electronics Corporation ("Hughes Electronics"), General Motors Corporation ("GM"), the parent of Hughes Electronics and Raytheon Company ("Raytheon") announced a series of planned transactions that would include:

- . The tax-free spin-off of 100% of the defense business of Hughes Electronics ("Hughes Defense") to holders of GM's \$1 2/3 par value and Class H Common Stocks followed immediately by the tax-free merger of that business with Raytheon, after which there would be outstanding two classes of Raytheon/Hughes Defense common stock;
- . The transfer of Delco Electronics Corporation and Related Entities ("Delco"), from Hughes Electronics to GM and a reallocation of the derivative interest in the earnings of Delco currently held by GM Class H common stockholders to holders of GM \$1 2/3 par value Common Stock; and
- . The recapitalization of GM Class H Common Stock into a GM tracking stock linked to the telecommunications and space business of Hughes Electronics ("Hughes Telecom"). GM would continue to own 100% of Hughes Telecom.

The planned transactions are subject to approval by holders of GM \$1 2/3 par value and Class H Common Stocks. In addition, the merger of the Hughes Defense with Raytheon, which is contingent upon the spin-off of Hughes Defense, is subject to approval by the stockholders of Raytheon. The planned transactions also are subject to a variety of regulatory approvals.

Hughes Defense is not a legal entity. The combined financial statements present the financial position, results of operations and cash flows of Hughes Defense, which consists primarily of operations included in the Aerospace and Defense Systems segment of Hughes, certain other businesses identified in the Merger Agreements and certain Hughes Electronics Corporate assets, liabilities, income and expenses attributable to Hughes Defense. The combined financial statements do not include certain other defense operations of Hughes Electronics which will not be merged with Raytheon, consisting principally of the defense business of Hughes Electronics currently reported in the Hughes Electronics Telecommunications and Space segment. All transactions and balances between the entities included in the combined financial statements have been eliminated. All Hughes Defense amounts due from or payable to other Hughes Electronics businesses, except for certain loans payable to affiliates, which are included in notes and loans payable, have been reported in Parent Company's Net Investment.

The combined financial statements include allocations of corporate expenses from Hughes Electronics 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 Defense based either on usage or using allocation methodologies which comply with U.S. Government cost accounting standards, primarily based upon total revenues, certain tangible assets and payroll expenses. Management believes the allocations were made on a reasonable basis.

Hughes Defense participates in a centralized cash management system wherein cash receipts are transferred to and cash disbursements are funded by Hughes daily. Accordingly, the Combined Balance Sheet includes only cash and cash equivalents held by Hughes Defense, consisting principally of cash held by foreign operations. Interest expense in the Combined Statement of Income and Parent Company's Net Investment includes interest expense associated with the debt included in the Combined Balance Sheet plus an allocated share of total HE Holdings, Inc. interest expense.

Hughes Defense operates in one segment: the development, production and support of advanced defense electronics systems including missile, airborne radar and communications, information, training and simulation, command and control, torpedoes and sonar, electro-optical, air traffic control and guidance and control.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## 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.



NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

Revenue Recognition

Sales under long-term contracts are recognized primarily using the percentage-of-completion (cost-to-cost) method of accounting. Under this method, sales are recorded equivalent to costs incurred plus a portion of the profit expected to be realized, determined based on the ratio of costs incurred to estimated total costs at completion. Sales under certain commercial long-term contracts and to outside customers not pursuant to long-term contracts generally are recognized as products are shipped or services are rendered.

Profits expected to be realized on long-term contracts are based on estimates of total sales value and costs at completion. These estimates are reviewed and revised periodically throughout the lives of the contracts and adjustments to profits resulting from such revisions are recorded in the accounting period in which the revisions are made. Estimated losses on contracts are recorded in the period in which they are identified.

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

Cash Flows

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

Net cash provided by operating activities reflects cash payments for interest made by Hughes Defense and by Hughes Electronics on behalf of Hughes Defense of \$92.3 million, \$75.9 million and \$64.9 million in 1996, 1995 and 1994, respectively. Cash payments for income taxes made by Hughes Electronics on behalf of Hughes Defense amounted to \$226.6 million, \$299.0 million and \$209.1 million in 1996, 1995 and 1994, respectively.

Accounts Receivable and Contracts in Process

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

Contracts in process are stated at costs incurred plus estimated profit, less amounts billed to customers and advances and progress payments applied. Engineering, tooling, manufacturing and applicable overhead costs, including administrative, research and development and selling expenses, are charged to costs and expenses when incurred. Contracts in process include amounts relating to contracts with long production cycles and \$87.3 million of the 1996 amount is expected to be billed after one year. Contracts in process in 1996 also includes approximately \$43.8 million relating to claims and requests for equitable adjustments. 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.

	1996	1995
	-----	-----
	(DOLLARS IN MILLIONS)	
<b>Major Classes of Inventories</b>		
Productive material and supplies.....	\$ 63.5	\$ 75.6
Work in process and finished goods.....	274.2	215.7
	-----	-----
Total.....	\$ 337.7	\$ 291.3
	=====	=====

Property and Depreciation

Property is carried at cost. Depreciation of property is provided for based on estimated useful lives generally using accelerated methods. Recoverability of property is periodically evaluated by assessing whether the net book value can be recovered over its remaining life through undiscounted cash flows generated by the asset.

## NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

## Intangible Assets

Effective December 31, 1985, GM acquired Hughes Aircraft Company ("HAC"), now a wholly owned subsidiary of Hughes Electronics. The acquisition of HAC was accounted for as a purchase. The excess of the purchase price over the net tangible assets acquired, \$4,244.7 million, was assigned to intangible assets, primarily goodwill. The portion of such intangible assets and related amortization attributable to Hughes Defense has been reflected in the accompanying combined financial statements.

Intangible assets are amortized using the straight-line method over periods not exceeding 40 years. Recoverability is periodically evaluated by assessing whether the unamortized carrying amount can be recovered over its remaining life through undiscounted cash flows generated by underlying tangible assets.

## Income Taxes

Hughes Defense, along with other Hughes Electronics businesses and subsidiaries, joins with GM in filing a consolidated U.S. federal income tax return. Current and deferred income taxes are computed by Hughes Electronics and allocated to Hughes Defense according to principles established by Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for 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 Electronics has paid Hughes Defense's share of the consolidated income tax liability. The income taxes that would have been paid by Hughes Defense if it were a separate taxpayer but were not paid under Hughes Electronics' policy results in an increase in the Parent Company's Net Investment.

## Research and Development

Expenditures for research and development are charged to costs and expenses as incurred and amounted to \$84.2 million in 1996, \$100.0 million in 1995 and \$126.8 million in 1994.

## Financial Instruments

Hughes Electronics enters into foreign exchange-forward contracts on behalf of Hughes Defense to reduce Hughes Defense's exposure to fluctuations in foreign exchange rates. Such foreign exchange-forward contracts are accounted for in the accompanying combined financial statements as hedges to the extent they are designated as, and are effective as, hedges of firm foreign currency commitments.

## Foreign Currency

Substantially all of Hughes Defense's foreign operations have determined the local currency to be their functional currency. Accordingly, most foreign entities translate assets and liabilities from their local currencies to U.S. dollars using year-end exchange rates. Income and expense accounts are translated at the average rates in effect during the year. The related translation adjustments are included in the foreign currency translation adjustment in the Combined Statement of Income and Parent Company's Net Investment. Foreign currency transaction net gains and losses included in the combined operating results were not material in all years presented.

## Market Concentrations

Sales under U.S. Government contracts were approximately 70%, 71% and 74% of net sales in 1996, 1995 and 1994, respectively. No single U.S. Government program accounted for more than 10% of revenues.

## New Accounting Standards

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

HUGHES DEFENSE

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

Effective January 1, 1994, Hughes Defense adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." This Statement requires accrual of the costs of benefits provided to former or inactive employees after employment, but before retirement. The unfavorable cumulative effect on Hughes Defense of adopting this Statement was \$7.1 million, net of income taxes of \$4.4 million. The charge primarily related to extended disability benefits which are accrued on a service-driven basis.

NOTE 3: RELATED-PARTY TRANSACTIONS

The following table summarizes the significant related party transactions between Hughes Defense and other GM and Hughes Electronics entities:

	1996	1995	1994
	(DOLLARS IN MILLIONS)		
Revenues.....	\$400.0	\$273.6	\$219.1
Costs and expenses:			
Purchases.....	41.8	38.6	50.5
Cost of sales.....	352.5	249.2	203.7
Allocation of corporate expenses.....	150.4	157.3	192.6
Imputed interest.....	82.1	65.3	60.6

Imputed interest was charged at a rate of 3.6% to Hughes Defense based on its average adjusted net operating assets for the years ended 1996, 1995 and 1994.

NOTE 4: PROPERTY, NET

	ESTIMATED USEFUL LIVES (YEARS)	1996	1995
		(DOLLARS IN MILLIONS)	
Land and improvements.....	20 - 40	\$ 102.8	\$ 108.2
Buildings and unamortized leasehold improvements.....	3 - 45	842.7	828.0
Machinery and equipment.....	3 - 23	1,306.4	1,323.0
Furniture, fixtures and office machines...	7 - 10	65.7	60.7
Construction in progress.....		105.9	77.1
Total.....		2,423.5	2,397.0
Less accumulated depreciation.....		1,338.4	1,335.1
Property, net.....		\$1,085.1	\$1,061.9

HUGHES DEFENSE

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 5: NOTES AND LOANS PAYABLE AND LONG-TERM DEBT AND CAPITALIZED LEASES

	1996	1995
	-----	-----
	(DOLLARS IN MILLIONS)	
Loans payable to banks.....	\$ 10.2	\$ 13.0
Loans payable to affiliate.....	82.9	65.1
Current portion of long-term debt.....	1.4	5.9
	-----	-----
Total notes and loans payable.....	\$ 94.5	\$ 84.0
	=====	=====
Foreign bank debt.....	\$ 27.1	\$ 53.8
Other.....	--	1.6
	-----	-----
Subtotal.....	27.1	55.4
Less current portion.....	1.4	5.9
	-----	-----
Long-term debt.....	25.7	49.5
Capitalized leases.....	8.7	0.2
	-----	-----
Total long-term debt and capitalized leases.....	\$ 34.4	\$ 49.7
	=====	=====

At December 31, 1996, loans payable to affiliate, a subsidiary of GM, consists of \$82.9 million with a maturity date of July 15, 1997, of which \$34.9 million bears interest at a rate which approximates the London Interbank Offered Rate ("LIBOR") plus 0.10% and the remaining \$48.0 million bears interest at a rate which approximates LIBOR plus 0.625%. At December 31, 1996, all foreign bank debt was denominated in British pounds sterling, bearing interest at rates ranging from 5.9% to 7.1%, with maturity dates from 1997 to 2003.

Annual maturities of long-term debt and capitalized leases are \$1.4 million in 1997, \$2.4 million in 1998, \$2.5 million in 1999, \$2.8 million in 2000, \$3.1 million in 2001 and \$23.6 million thereafter.

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

NOTE 6: ACCRUED LIABILITIES

	1996	1995
	-----	-----
	(DOLLARS IN MILLIONS)	
Payrolls and other compensation.....	\$ 344.5	\$ 349.7
Contract related provisions.....	587.0	620.6
Accrual for restructuring.....	11.6	88.0
Other.....	176.3	108.9
	-----	-----
Total.....	\$1,119.4	\$1,167.2
	=====	=====

NOTE 7: INCOME TAXES

The income tax provision consisted of the following:

	1996	1995	1994
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
U.S. federal, state and foreign taxes currently payable.....	\$226.6	\$299.0	\$209.1
U.S. federal, state and foreign deferred tax liabilities (assets)--net.....	12.7	(63.6)	17.1
	-----	-----	-----
Total income tax provision.....	\$239.3	\$235.4	\$226.2*
	=====	=====	=====

- -----  
\* Excluding effect of accounting change.

HUGHES DEFENSE

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

Income before income taxes included the following components:

	1996	1995	1994
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
U.S. income.....	\$525.5	\$546.2	\$487.9
Foreign (loss) income.....	(5.3)	7.8	14.8
	-----	-----	-----
Total.....	\$520.2	\$554.0	\$502.7
	=====	=====	=====

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:

	1996	1995	1994
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
Expected tax at U.S. statutory income tax rate...	\$182.0	\$193.9	\$175.9
U.S. state and local income taxes.....	20.3	21.6	19.6
Investment tax credits.....	--	(15.0)	--
Purchase accounting adjustments.....	35.5	35.5	35.5
Non-deductible goodwill amortization.....	5.2	2.8	1.4
Other.....	(3.7)	(3.4)	(6.2)
	-----	-----	-----
Combined income tax provision.....	\$239.3	\$235.4	\$226.2*
	=====	=====	=====

\* Excluding effect of accounting change.

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

	1996		1995	
	-----	-----	-----	-----
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
	-----	-----	-----	-----
	(DOLLARS IN MILLIONS)			
Profits on long-term contracts.....	\$185.6	\$ --	\$205.2	\$ --
Employee benefit programs.....	60.4	--	56.8	--
Depreciation.....	--	128.6	--	156.8
Accrued expenses.....	18.0	--	6.5	--
Other.....	75.5	11.8	100.8	11.8
	-----	-----	-----	-----
Subtotal.....	339.5	140.4	369.3	168.6
Valuation allowance.....	(21.4)	--	(10.3)	--
	-----	-----	-----	-----
Total deferred taxes.....	\$318.1	\$140.4	\$359.0	\$168.6
	=====	=====	=====	=====

No provision has been made for U.S. Federal income taxes to be paid on the portion of the undistributed earnings of foreign subsidiaries deemed permanently reinvested. At December 31, 1996 and 1995, undistributed earnings of foreign subsidiaries amounted to approximately \$49.8 million and \$46.0 million, respectively. Repatriation of all accumulated foreign earnings would have resulted in tax liabilities of \$13.8 million and \$12.6 million, respectively.

At December 31, 1996, Hughes Defense had \$61.0 million of foreign operating loss carryforwards which expire in varying amounts between 1997 and 2001. The valuation allowance consists of a provision for all of the foreign operating loss carryforwards.

## NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

## NOTE 8: RETIREMENT AND INCENTIVE PLANS

Certain employees of Hughes Defense and other Hughes Electronics businesses participate in contributory and non-contributory defined benefit retirement plans (the "Plans") maintained by Hughes Electronics. The Plans are available to substantially all full-time employees of Hughes Defense. Benefits are based on years of service and compensation earned during a specified period of time before retirement. The accumulated plan benefit obligations and plan net assets for the employees of Hughes Defense have not been separately determined and are not included in the Combined Balance Sheet. However, the fair value of plan assets exceeds the accumulated plan benefit obligations related to the Plans. In addition, employees of Hughes Defense and other Hughes Electronics businesses participate in certain other postretirement and postemployment benefit plans, principally health and life insurance plans, which are unfunded. The accumulated postretirement and postemployment benefit obligations related to employees of Hughes Defense have not been separately determined and are not included in the Combined Balance Sheet. Hughes Defense recorded expenses related to the pension, postretirement and postemployment benefits plans of approximately \$60.7 million, \$31.9 million and \$21.4 million in 1996, 1995 and 1994, respectively.

Certain other Hughes Defense employees (principally foreign employees and those employed by the businesses acquired in the CAE-Link and Magnavox Electronic Systems Company acquisitions (see Note 10)) are covered by contributory and non-contributory defined benefit retirement plans, where benefits are based on years of service and compensation earned during a specified period of time before retirement. The net pension cost, assets and liabilities related to these plans are not significant.

Certain eligible employees of Hughes Defense participate in the Hughes Electronics Corporation Incentive Plan pursuant to which shares, rights, or options to acquire GM Class H Common Stock may be granted through May 31, 1997. 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 non-qualified options generally expire 10 years from the dates of grant and are subject to earlier termination under certain conditions.

Employees of Hughes Defense also participate in other Hughes Electronics health and welfare plans. Charges related to these plans were \$132.6 million, \$147.0 million and \$195.6 million in 1996, 1995 and 1994, respectively.

## NOTE 9: SPECIAL PROVISION FOR RESTRUCTURING

In 1992, Hughes Electronics recorded a special restructuring charge of \$1,237.0 million primarily attributable to redundant facilities and related employment costs. Approximately \$833.1 million was attributable to Hughes Defense and comprehended a reduction of Hughes Defense worldwide employment, a major facilities consolidation and a reevaluation of certain business lines that no longer met Hughes Defense strategic objectives. Restructuring costs of \$75.4 million, \$140.8 million and \$184.4 million attributable to Hughes Defense were charged against the reserve during 1996, 1995 and 1994, respectively. The remaining liability attributable to Hughes Defense of \$16.1 million relates primarily to reserves for excess facilities and other site consolidation costs. It is expected that these costs will be expended predominantly during 1997.

## NOTE 10: ACQUISITIONS AND DIVESTITURES

In December 1996, Hughes Defense announced that it had reached an agreement to acquire the Marine Systems Division of Alliant Techsystems, Inc. for \$141.0 million. The Marine Systems Division is a leader in lightweight torpedo manufacturing and the design and manufacturing of underwater surveillance, sonar and mine warfare systems. The acquisition was completed in the first quarter of 1997. Also in 1996, Hughes Defense acquired an enterprise with operations that complement existing technological capabilities for \$28.7 million.

## NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

In February 1995, Hughes Defense acquired substantially all of the assets of CAE-Link Corporation for \$176.0 million. CAE-Link is an established supplier of simulation, training and technical services, primarily to the U.S. military and NASA. In December 1995, Hughes Defense acquired all of the stock of Magnavox Electronic Systems Company ("Magnavox") for \$382.4 million. Magnavox is a leading supplier of military tactical communications, electronic warfare and command and control systems.

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

During 1995, Hughes Defense divested several non-strategic enterprises generating aggregate proceeds of approximately \$23.6 million with no significant net income impact.

## NOTE 11: DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

The total notional amount of foreign exchange-forward contracts entered into by Hughes Defense at December 31, 1996 and 1995, was approximately \$23.0 million and \$31.0 million, respectively. The total notional amount of foreign exchange-forward contracts entered into by Hughes Electronics on behalf of Hughes Defense at December 31, 1996 and 1995, was approximately \$136.0 million and \$148.0 million, respectively.

## NOTE 12: FAIR VALUE OF FINANCIAL INSTRUMENTS

For notes and loans payable and long-term debt, the estimated fair value was \$120.2 million and \$134.2 million at December 31, 1996 and 1995, respectively. Such fair value is based on quoted market prices for similar issues or on current rates offered to Hughes Defense for debt of similar remaining maturities. The carrying value of debt with an original term of less than 90 days is assumed to approximate fair value.

The fair values of derivative financial instruments reflect the estimated amounts Hughes Defense would receive or pay to terminate the contracts at the reporting date, which takes into account the current unrealized gains or losses on open contracts that are deferred and recognized when the offsetting gains and losses are recognized on the related hedged items. The fair value of foreign exchange-forward contracts is estimated based on foreign exchange rate quotes at the reporting date. At December 31, 1996 and 1995, the total estimated fair

HUGHES DEFENSE

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

value of open contracts, which were in a net gain (loss) position, was \$0.4 million and (\$0.5) million, respectively. No amounts were recorded on the Combined Balance Sheet for these contracts in 1996 and 1995. For all financial instruments not described above, fair value approximates book value.

NOTE 13: COMMITMENTS AND CONTINGENT LIABILITIES

In December 1994, Hughes Electronics 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 Hughes Electronics. Baseline service payments to CSC are expected to aggregate approximately \$1.5 billion over the term of the eight-year agreement. Based on historical usage, approximately 85% of the costs incurred under the agreement are attributable to Hughes Defense. The contract is cancelable by Hughes Electronics with substantial early termination penalties.

Minimum future commitments under operating leases having noncancelable lease terms in excess of one year, primarily for real property, aggregating \$1,048.6 million, are payable as follows: \$98.6 million in 1997, \$86.0 million in 1998, \$88.8 million in 1999, \$84.2 million in 2000, \$74.4 million in 2001 and \$616.6 million thereafter. Certain of these leases contain escalation clauses and renewal or purchase options. Rental expenses under operating leases were \$96.2 million in 1996, \$114.1 million in 1995 and \$133.7 million in 1994.

In conjunction with its performance on long-term contracts, Hughes Defense is contingently liable under standby letters of credit and bonds in the amount of \$227.0 million at December 31, 1996. In Hughes Defense's past experience, no material claims have been made against these financial instruments.

Hughes Defense 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 Defense under these government regulations and under these claims and actions, was not determinable at December 31, 1996. In the opinion of Hughes Electronics and Hughes Defense management, such liability is not expected to have a material adverse effect on Hughes Defense combined operations or financial position.

NOTE 14: EXPORT SALES

Export sales from the U.S. were as follows:

	1996	1995	1994
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
Europe.....	\$321.5	\$319.7	\$ 363.5
Asia.....	335.8	269.6	204.0
Middle East.....	244.9	302.9	347.0
Canada.....	54.3	25.6	70.7
Other.....	12.4	10.4	18.6
	-----	-----	-----
Total.....	\$968.9	\$928.2	\$1,003.8
	=====	=====	=====



APPENDIX D

DELCO

COMBINED FINANCIAL STATEMENTS

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DELCO

COMBINED STATEMENT OF INCOME AND  
PARENT COMPANY'S NET INVESTMENT  
(UNAUDITED)

	SIX MONTHS ENDED	
	JUNE 30,	
	1997	1996
	(DOLLARS IN MILLIONS)	
REVENUES		
Net Sales		
General Motors and affiliates.....	\$2,659.5	\$2,657.5
Outside.....	244.7	258.5
Other income, net		
Interest income--General Motors and affiliates.....	93.8	86.7
Other.....	10.0	3.0
	-----	-----
Total Revenues.....	3,008.0	3,005.7
	-----	-----
COSTS AND EXPENSES		
Cost of sales and other operating charges, exclusive of items listed below.....	2,384.9	2,300.9
Selling, general, and administrative expenses.....	129.5	121.9
Depreciation and amortization.....	113.6	101.2
	-----	-----
Total Costs and Expenses.....	2,628.0	2,524.0
	-----	-----
INCOME BEFORE INCOME TAXES.....	380.0	481.7
Income taxes.....	141.0	183.3
	-----	-----
NET INCOME.....	239.0	298.4
	-----	-----
Parent Company's Net Investment, beginning of period.....	3,662.1	3,402.1
Net distributions to Parent Company.....	(121.4)	(120.3)
	-----	-----
PARENT COMPANY'S NET INVESTMENT, END OF PERIOD.....	\$3,779.7	\$3,580.2
	=====	=====

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

DELCO  
 COMBINED BALANCE SHEET  
 (UNAUDITED)

	JUNE 30, 1997	DECEMBER 31, 1996
	-----	-----
	(DOLLARS IN MILLIONS)	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents.....	\$ 221.8	\$ 741.0
Accounts receivable (less allowances)		
General Motors and affiliates.....	110.2	82.3
Trade receivables.....	160.6	170.9
Notes receivable--Hughes Electronics.....	2,753.0	1,976.2
Contracts in process.....	43.8	112.5
Inventories.....	657.7	688.3
Deferred income taxes.....	59.0	76.4
Prepaid expenses.....	25.2	10.4
	-----	-----
<b>Total Current Assets.....</b>	<b>4,031.3</b>	<b>3,858.0</b>
	-----	-----
Notes receivable--Hughes.....	200.0	200.0
	-----	-----
Property, net.....	1,004.8	1,066.1
	-----	-----
Investments and Other Assets, principally at cost (less allowances).....	145.4	139.0
	-----	-----
Deferred Income Taxes.....	210.5	201.0
	-----	-----
<b>Total Assets.....</b>	<b>\$5,592.0</b>	<b>\$5,464.1</b>
	=====	=====
<b>LIABILITIES AND PARENT COMPANY'S NET INVESTMENT</b>		
<b>Current liabilities</b>		
Accounts payable		
General Motors and affiliates.....	\$ 17.9	\$ 35.2
Other trade payables.....	346.7	322.2
Advances on contracts.....	--	40.9
Loans payable to General Motors.....	27.8	27.8
Income taxes payable.....	67.6	59.7
Accrued liabilities		
General Motors and affiliates.....	34.4	44.1
Other liabilities.....	220.1	204.3
	-----	-----
<b>Total Current Liabilities.....</b>	<b>714.5</b>	<b>734.2</b>
	-----	-----
Other Liabilities and Deferred Credits.....	49.1	48.8
	-----	-----
Postretirement Benefits Other Than Pensions.....	1,048.7	1,019.0
	-----	-----
Contingent Liabilities		
Parent Company's Net Investment.....	3,779.7	3,662.1
	-----	-----
<b>Total Liabilities and Parent Company's Net Investment.....</b>	<b>\$5,592.0</b>	<b>\$5,464.1</b>
	=====	=====

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

DELCO

COMBINED STATEMENT OF CASH FLOWS  
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	1997	1996
	(DOLLARS IN MILLIONS)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income.....	\$ 239.0	\$ 298.4
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization.....	113.6	101.2
Provision for postretirement benefits other than pensions, net of cash payments.....	29.7	33.5
Net loss on sale of property.....	6.9	7.7
Deferred income taxes.....	7.9	13.8
Change in other operating assets and liabilities		
Accounts receivable.....	(17.6)	(35.3)
Contracts in process.....	68.7	25.3
Inventories.....	30.6	(128.3)
Accounts payable.....	7.2	85.0
Advances on contracts.....	(40.9)	(26.2)
Income taxes payable.....	7.9	51.7
Accrued liabilities.....	6.1	7.6
Other.....	(24.6)	(28.4)
Net Cash Provided by Operating Activities.....	434.5	406.0
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property and special tools.....	(71.9)	(103.0)
Proceeds from disposal of property.....	16.4	3.6
Increase in notes receivable--Hughes Electronics.....	(776.8)	(364.0)
Net Cash Used in Investing Activities.....	(832.3)	(463.4)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in loans payable to General Motors.....	--	8.5
Net Distributions to Parent Company.....	(121.4)	(120.3)
Net Cash Used in Financing Activities.....	(121.4)	(111.8)
Net decrease in cash and cash equivalents.....	(519.2)	(169.2)
Cash and cash equivalents at beginning of the period.....	741.0	926.1
Cash and cash equivalents at the end of the period.....	\$ 221.8	\$ 756.9
	=====	=====

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

DELCO

NOTES TO COMBINED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1: BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

The accompanying unaudited combined financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. In the opinion of management, all adjustments (consisting of only normal recurring items) which are necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year.

On January 16, 1997, Hughes Electronics Corporation ("Hughes Electronics"), General Motors Corporation ("GM"), the parent of Hughes Electronics, and Raytheon Company ("Raytheon") announced a series of planned transactions that would include:

- . The tax-free spin-off of 100% of the defense business of Hughes Electronics ("Hughes Defense") to holders of GM's \$1 2/3 par value and Class H Common Stocks followed immediately by the tax-free merger of that business with Raytheon, after which there would be outstanding two classes of Raytheon/Hughes Defense common stock;
- . The transfer of Delco Electronics Corporation and Related Entities ("Delco"), from Hughes Electronics to GM and a reallocation of the derivative interest in the earnings of Delco currently held by GM Class H common stockholders to holders of GM \$1 2/3 par value Common Stock; and
- . The recapitalization of GM Class H Common Stock into a GM tracking stock linked to the telecommunications and space business of Hughes Electronics ("Hughes Telecom"). GM would continue to own 100% of Hughes Telecom.

On July 14, 1997, GM received a ruling from the Internal Revenue Service that its contemplated spin-off of Hughes Defense would be tax-free to GM and its stockholders. The planned transactions must be approved by holders of GM \$1 2/3 par value and Class H Common Stocks, among a number of other conditions. In addition, the merger of Hughes Defense and Raytheon is subject to antitrust clearance and approval by Raytheon stockholders. No assurance can be given that the above transactions will be completed. GM expects to solicit stockholders' approval of the planned transactions during the fourth quarter of 1997, after certain conditions are satisfied.

Delco is not a legal entity. The combined financial statements present the financial position, results of operations and cash flows of Delco, which consists primarily of operations included in the Automotive Electronics segment of Hughes Electronics, certain other Hughes Electronics businesses and certain Hughes Electronics Corporate assets, liabilities, income and expenses attributable to Delco. Delco includes the accounts of Delco Electronics Corporation, its domestic and foreign subsidiaries which are more than 50% owned and related entities, which are under common ownership and common management. Delco's share of earnings or losses of associated companies in which at least 20%, but not more than 50%, of the voting securities are owned is included in combined operating results under the equity method of accounting.

The combined financial statements include allocations of corporate expenses from Hughes Electronics including financial, legal, tax, corporate communications, and human resources. In addition, GM provides certain services to and administers certain programs for Delco, including payroll administration, employee medical insurance and property and casualty insurance, financial, legal, tax and human resources. These costs have been charged to Delco 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.

NOTE 2: INVENTORIES

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

Major Classes of Inventories:

	JUNE 30, 1997	DECEMBER 31, 1996
	-----	-----
	(DOLLARS IN MILLIONS)	
Productive materials, work in process, vehicles and supplies.....	\$469.3	\$492.2
Finished product and service parts.....	188.4	196.1
	-----	-----
Total.....	\$657.7	\$688.3
	=====	=====

DELCO

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONCLUDED)  
(UNAUDITED)

NOTE 3: CONTINGENT LIABILITIES

In the normal course of business, Delco is subject to potential liability under product recall announced by vehicle original equipment manufacturers, such as GM, as they relate to products manufactured and sold by Delco. Delco is also subject to potential liability under government regulations and various claims and legal actions which are pending or may be asserted against them. Some of the pending actions purport to be class actions. The aggregate ultimate liability of Delco under these potential recalls, government regulations, claims and actions was not determinable at June 30, 1997. In the opinion of management, such liability is not expected to have a material adverse effect on Delco's combined operations or financial position.

INDEPENDENT AUDITORS' REPORT

Hughes Electronics Corporation:

We have audited the Combined Balance Sheet of Delco Electronics Corporation and Related Entities ("Delco") as of December 31, 1996 and 1995 and the related Combined Statements of Income and Parent Company's Net Investment and of Cash Flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of Delco'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 Delco at December 31, 1996 and 1995 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the combined financial statements, effective January 1, 1994 Delco changed its method of accounting for postemployment benefits.

Indianapolis, Indiana  
October 3, 1997

DELCO

COMBINED STATEMENT OF INCOME AND  
PARENT COMPANY'S NET INVESTMENT

YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
	(DOLLARS IN MILLIONS)		
<b>REVENUES</b>			
Net sales			
General Motors and affiliates.....	\$4,990.2	\$5,176.9	\$4,916.0
Outside customers.....	569.9	580.3	644.7
Other Income, net			
Interest Income--General Motors and Hughes			
Electronics.....	180.2	183.0	139.0
Other.....	22.2	12.6	11.6
Total Revenues.....	5,762.5	5,952.8	5,711.3
<b>COSTS AND EXPENSES</b>			
Cost of sales and other operating charges, exclusive of items listed below.....	4,421.0	4,452.8	4,414.3
Selling, general, and administrative expenses..	276.5	260.6	192.3
Depreciation and amortization.....	204.4	155.6	145.0
Total Costs and Expenses.....	4,901.9	4,869.0	4,751.6
INCOME BEFORE INCOME TAXES.....	860.6	1,083.8	959.7
Income taxes.....	325.8	411.3	364.7
Income before cumulative effect of accounting change.....	534.8	672.5	595.0
Cumulative effect of accounting change.....	--	--	35.2
NET INCOME.....	534.8	672.5	559.8
Parent Company's Net Investment, beginning of period.....	3,402.1	2,949.5	2,566.7
Net distributions to Parent Company.....	(274.8)	(219.9)	(177.0)
PARENT COMPANY'S NET INVESTMENT, END OF PERIOD...	\$3,662.1	\$3,402.1	\$2,949.5

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



DELCO  
 COMBINED BALANCE SHEET  
 DECEMBER 31, 1996 AND 1995

	DECEMBER 31,	
	1996	1995
	(DOLLARS IN MILLIONS)	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents.....	\$ 741.0	\$ 926.1
Accounts receivable (less allowances)		
General Motors and affiliates.....	82.3	135.1
Trade receivables.....	170.9	169.4
Notes receivable--Hughes Electronics.....	1,976.2	1,239.1
Contracts in process.....	112.5	178.8
Inventories.....	688.3	555.6
Deferred income taxes.....	76.4	56.1
Prepaid expenses.....	10.4	16.0
	3,858.0	3,276.2
Notes receivable--Hughes Electronics.....	200.0	500.0
Property, net.....	1,066.1	1,083.4
Investments and Other Assets--principally at cost (less allowances).....	139.0	122.8
Deferred Income Taxes.....	201.0	204.0
	\$5,464.1	\$5,186.4
<b>LIABILITIES AND PARENT COMPANY'S NET INVESTMENT</b>		
Current Liabilities		
Accounts payable		
General Motors and affiliates.....	\$ 35.2	\$ 56.2
Other trade payables.....	322.2	257.4
Advances on Contracts.....	40.9	108.1
Loan payable to General Motors.....	27.8	19.3
Income taxes payable.....	59.7	58.0
Accrued liabilities		
General Motors and affiliates.....	44.1	59.8
Other liabilities.....	204.3	209.1
	734.2	767.9
Other Liabilities and Deferred Credits.....	48.8	58.9
Postretirement Benefits Other Than Pensions.....	1,019.0	957.5
Commitments and Contingent Liabilities		
Parent Company's Net Investment.....	3,662.1	3,402.1
	\$5,464.1	\$5,186.4

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

DELCO

COMBINED STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
	(DOLLARS IN MILLIONS)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before cumulative effect of accounting change.....	\$ 534.8	\$ 672.5	\$ 595.0
Adjustments to reconcile income before cumulative effect of accounting change to net cash provided by operating activities			
Depreciation and amortization.....	204.4	155.6	145.0
Provision for postretirement benefits other than pensions, net of cash payments.....	61.5	42.9	102.6
Net loss on sale of property.....	19.5	11.8	5.2
Deferred income taxes*.....	(17.3)	(26.8)	(81.7)
Change in other operating assets and liabilities			
Accounts receivable.....	51.3	(76.7)	217.6
Contracts in process.....	66.3	(9.7)	(90.9)
Inventories.....	(132.7)	3.8	(51.2)
Accounts payable.....	43.8	(45.2)	15.6
Advances on contracts.....	(67.2)	52.5	1.4
Income taxes payable.....	1.7	8.4	(23.9)
Accrued liabilities.....	(20.5)	(141.9)	156.9
Other*.....	(40.3)	(2.9)	(39.7)
Net Cash Provided by Operating Activities.....	705.3	644.3	951.9
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in companies, net of cash acquired....	--	(63.2)	--
Expenditures for property and special tools.....	(196.5)	(264.1)	(165.7)
Proceeds from disposal of property.....	9.5	10.4	7.7
Increase in notes receivable--Hughes Electronics.....	(437.1)	(390.8)	(138.3)
Net Cash Used in Investing Activities.....	(624.1)	(707.7)	(296.3)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase (decrease) in loans payable to General Motors.....	8.5	(33.8)	(8.6)
Net distributions to Parent Company.....	(274.8)	(219.9)	(177.0)
Net Cash Used in Financing Activities.....	(266.3)	(253.7)	(185.6)
Net (decrease) increase in cash and cash equivalents.....	(185.1)	(317.1)	470.0
Cash and cash equivalents at beginning of the year.....	926.1	1,243.2	773.2
Cash and cash equivalents at end of the year.....	\$ 741.0	\$ 926.1	\$1,243.2

\*1994 amounts exclude the effect of accounting change.

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

## NOTES TO COMBINED FINANCIAL STATEMENTS

## NOTE 1: BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

## Organization and Combination

On January 16, 1997, Hughes Electronics Corporation ("Hughes Electronics"), General Motors Corporation ("GM"), the parent of Hughes Electronics, and Raytheon Company ("Raytheon") announced a series of planned transactions that would include:

- . The tax-free spin-off of 100% of the defense business of Hughes Electronics ("Hughes Defense") to holders of GM's \$1 2/3 par value and Class H Common Stocks followed immediately by the tax-free merger of that business with Raytheon, after which there would be outstanding two classes of Raytheon/Hughes Defense common stock;
- . The transfer of Delco Electronics Corporation and Related Entities ("Delco"), from Hughes Electronics to GM and a reallocation of the derivative interest in the earnings of Delco currently held by GM Class H common stockholders to holders of GM \$1 2/3 par value Common Stock; and
- . The recapitalization of GM Class H Common Stock into a GM tracking stock linked to the telecommunications and space business of Hughes Electronics ("Hughes Telecom"). GM would continue to own 100% of Hughes Telecom.

The planned transactions are subject to approval by holders of GM \$1 2/3 par value and Class H Common Stocks. In addition, the merger of Hughes Defense with Raytheon, which is contingent upon the spin-off of the Hughes Defense, is subject to approval by the stockholders of Raytheon. The planned transactions also are subject to a variety of regulatory approvals.

Delco is not a legal entity. The combined financial statements present the financial position, results of operations and cash flows of Delco, which consists primarily of operations included in the Automotive Electronics segment of Hughes Electronics, certain other Hughes Electronics businesses and certain Hughes Electronics Corporate assets, liabilities, income and expenses attributable to Delco. Delco includes the accounts of Delco Electronics Corporation, its domestic and foreign subsidiaries which are more than 50% owned and related entities, which are under common ownership and common management. Delco's share of earnings or losses of associated companies in which at least 20%, but not more than 50%, of the voting securities are owned is included in combined operating results under the equity method of accounting.

The combined financial statements include allocations of corporate expenses from Hughes Electronics including financial, legal, tax, corporate communications, and human resources. In addition, GM provides certain services to and administers certain programs for Delco, including payroll administration, employee medical insurance and property and casualty insurance, financial, legal, tax and human resources. These costs have been charged to Delco 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.

Delco participates in a centralized cash management system wherein cash receipts are transferred to and cash disbursements are funded by Hughes Electronics daily. Hughes Electronics maintains records of net amounts of cash transferred to Hughes Electronics from Delco and allocates interest income to Delco at rates which approximate the average rate of return on Hughes Electronics' cash portfolio. Such interest income aggregated \$32.8 million in 1996, \$49.5 million in 1995 and \$32.7 million in 1994. GM also allocates interest income to Delco based on amounts owed to Delco by GM during any given month as a result of sales of products manufactured by Delco and sold to GM and affiliates. Such interest income is based on rates which approximate the average rate of return on GM's cash portfolio and aggregated \$10.2 million in 1996, \$8.5 million in 1995 and \$7.3 million in 1994.

Delco operates in one segment and designs and manufactures modern, high-technology electronics for use in automobiles and light trucks, including radios, controls for engines and transmissions, ignition modules, pressure sensors, navigation and communication systems, modules and sensors for airbags, controllers for anti-lock brakes, climate control, dashboard instrumentation, vehicle security electronics and other automotive electronic products. Delco also designs and manufactures certain components for military vehicles.

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Sales to GM affiliates and to outside customers are generally recognized as products are shipped or services are rendered. Estimated losses on contracts are recorded when identified.

Sales under long-term contracts are recognized 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 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.

Product-Related Expenses

Advertising and sales promotion, research and development and other product-related costs are charged to expense as incurred; provisions for estimated expenses related to product warranty are made at the time the products are sold. Advertising expense amounted to \$12.5 million in 1996, \$16.1 million in 1995 and \$16.2 million in 1994. Research and development expense was \$502.4 million in 1996, \$526.8 million in 1995 and \$516.8 million in 1994.

Cash Flows

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

Net cash provided by operating activities reflects cash payments for income taxes of \$343.1 million, \$438.1 million and \$446.4 million in 1996, 1995 and 1994, respectively.

Inventories

Inventories are stated at the lower of cost or market primarily using the weighted average cost and the first-in, first-out (FIFO) methods.

Major Classes of Inventories:

	1996	1995
	-----	-----
	(DOLLARS IN MILLIONS)	
Productive material, work in process, vehicles and supplies.....	\$492.2	\$397.6
Finished product and service parts.....	196.1	158.0
	-----	-----
Total.....	\$688.3	\$555.6
	=====	=====

## NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

## Property and Depreciation

Property is carried at cost. Depreciation is provided based on estimated useful lives of groups of property generally using accelerated methods, which accumulate depreciation of approximately two-thirds of the depreciable cost during the first half of the estimated useful lives.

Expenditures for special tools are amortized over their estimated useful lives, primarily using the units of production method. Amortization is applied directly to the asset account. Replacement of special tools for reasons other than changes in products is charged directly to cost of sales.

## Income Taxes

Delco, along with other Hughes Electronics businesses and subsidiaries, joins with GM in filing a consolidated U.S. federal income tax return. Current and deferred income taxes are computed by Hughes Electronics and allocated to Delco according to principles established by Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." Deferred income tax assets and liabilities reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes, as measured by applying currently enacted tax laws. Provision has also been made for U.S. federal income tax to be paid on that portion of the undistributed earnings of the foreign subsidiaries that has not been deemed permanently reinvested.

## Foreign Currency

Most of Delco's foreign operations have determined the local currency to be their functional currency. Accordingly, most foreign entities translate assets and liabilities from their local currencies to U.S. dollars using year-end exchange rates. Income and expense accounts are translated at the average rates in effect during the year. Net foreign currency transaction gains (losses) included in the Combined Statement of Income amounted to \$1.8 million in 1996, (\$2.8) million in 1995 and (\$0.6) million in 1994.

## Market Concentrations and Labor Force

Sales to GM and affiliates, consisting of various automotive electronic component parts, comprised approximately 89.7% of total sales in 1996, 89.9% in 1995 and 88.4% in 1994.

Delco, on a world-wide basis, has a concentration of labor supply in employees working under collective bargaining agreements, which represent approximately 88% of its hourly work force.

## New Accounting Standards and Accounting Changes

In June 1997, the Financial Accounting Standards Board issued SFAS Nos. 130 and 131. SFAS 130, "Reporting Comprehensive Income," establishes accounting standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. This statement requires that all items required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," establishes accounting standards for the way that public enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. Delco will adopt SFAS Nos. 130 and 131 on January 1, 1998, as required.

## NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

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

Effective January 1, 1994, Delco adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." The Statement requires accrual of the costs of benefits provided to former or inactive employees after employment, but before retirement. The unfavorable cumulative effect of adopting this Standard was \$35.2 million, net of income taxes. The charge primarily related to extended disability benefits which are accrued on a service-driven basis.

## NOTE 3: RELATED-PARTY TRANSACTIONS

In the ordinary course of its operations Delco sells its products to and purchases certain products and services from GM and affiliates. In addition, Delco receives allocations of corporate expenses and enters into other transactions with Hughes Electronics and GM and affiliates. The following summarizes Delco's significant transactions with such related parties.

## Sales and Purchases

The amounts due from and to GM and affiliates result from sales of products to and purchases of materials, vehicles and services from units controlled by GM. Vehicles purchased from GM amounted to approximately \$87.6 million in 1996, \$80.8 million in 1995 and \$64.0 million in 1994. Other purchases from GM and affiliates, including computer systems services provided by Electronic Data Systems Corporation prior to its split-off from GM in May, 1996, amounted to approximately \$75.0 million in 1996, \$176.1 million in 1995 and \$167.4 million in 1994.

## Allocations of Expenses

Allocations of corporate expenses from Hughes Electronics amounted to \$19.4 million in 1996, \$18.8 million in 1995 and \$12.8 million in 1994, and are included in Selling, general and administrative expenses in the Combined Statement of Income. Costs charged to Delco by GM for services provided were not material.

## Notes Receivable and Interest Income

Notes receivable from Hughes Electronics bear interest at rates ranging from the London Interbank Offered Rate ("LIBOR") plus 0.15% to a rate of 9.5%. Delco recorded interest income related to the notes receivable from Hughes Electronics of \$137.2 million in 1996, \$125.0 million in 1995 and \$99.0 million in 1994.

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

Loan Payable

The loan payable to GM bears interest at a rate which approximates LIBOR plus 0.15% (5.8% at December 31, 1996) and matures December 31, 1997. Interest expense paid to GM amounted to \$1.6 million in 1996, \$3.2 million in 1995 and \$2.9 million in 1994.

NOTE 4: PROPERTY, NET

	ESTIMATED USEFUL LIVES (YEARS)	1996		1995	
		(DOLLARS IN MILLIONS)			
Land and improvements.....	--	\$ 33.4	\$	29.8	
Buildings and leasehold improvements.....	40	318.8		311.1	
Machinery and equipment.....	5-15	1,556.0	1,507.8		
Furniture, fixtures, and office machines.....	5-15	23.4	25.2		
Construction in progress.....	--	131.5	152.6		
Total.....		2,063.1	2,026.5		
Less accumulated depreciation.....		1,084.7	1,011.1		
Net real estate, plants, and equipment.....		978.4	1,015.4		
Special tools--less amortization.....	1-3	87.7	68.0		
Property, net.....		\$1,066.1	\$1,083.4		

NOTE 5: OTHER ACCRUED LIABILITIES

	1996	1995
	(DOLLARS IN MILLIONS)	
Payrolls and other compensation.....	\$139.7	\$ 99.9
Contract-related provisions.....	6.8	39.0
Other.....	57.8	70.2
Total.....	\$204.3	\$209.1

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 6: INCOME TAXES

The income tax provision consisted of the following:

	1996	1995	1994
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
U.S. federal, state and foreign taxes currently payable.....	\$343.1	\$438.1	\$446.4
U.S. federal, state and foreign deferred tax liabilities (assets)--net.....	(17.3)	(26.8)	(81.7)
	-----	-----	-----
Total income tax provision.....	\$325.8	\$411.3	\$364.7*
	=====	=====	=====

-----  
\*Excluding effect of accounting change.

Income before income taxes included the following components:

	1996	1995	1994
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
U.S. income.....	\$767.7	\$ 992.5	\$892.6
Foreign income.....	92.9	91.3	67.1
	-----	-----	-----
Total.....	\$860.6	\$1,083.8	\$959.7
	=====	=====	=====

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:

	1996	1995	1994
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
Expected tax at U.S. statutory income tax rate...	\$301.2	\$379.3	\$335.9
U.S. state and local income taxes.....	30.1	38.0	31.8
Foreign tax rate differential.....	(10.0)	(6.1)	(5.6)
Other.....	4.5	0.1	2.6
	-----	-----	-----
Combined income tax provision.....	\$325.8	\$411.3	\$364.7*
	=====	=====	=====

-----  
\*Excluding effect of accounting change.



## NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

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

	1996		1995	
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
	(DOLLARS IN MILLIONS)			
Postretirement benefits other than pensions.....	\$427.3	\$ --	\$376.2	\$ --
Accrued expenses.....	42.9	--	92.8	--
Employee benefits.....	9.0	13.4	9.0	6.9
Depreciation.....	--	99.5	--	94.5
Tax on unremitted earnings of foreign subsidiaries.....	--	93.4	--	82.8
Other.....	12.3	5.9	18.5	52.2
Subtotal.....	491.5	212.2	496.5	236.4
Valuation allowance.....	(1.9)	--	--	--
Total deferred taxes.....	\$489.6	\$212.2	\$496.5	\$236.4

Provision has been made for U.S. federal income taxes to be paid on that portion of the undistributed earnings of foreign subsidiaries that has not been deemed permanently reinvested. At December 31, 1996 and 1995, undistributed earnings of foreign subsidiaries amounted to approximately \$407.2 million and \$346.9 million, respectively. Repatriation of all accumulated foreign earnings would have resulted in tax liabilities of \$108.3 million and \$97.2 million, respectively, for which Delco has provided deferred tax liabilities of \$93.4 million and \$82.8 million, respectively.

At December 31, 1996, Delco had \$5.7 million of foreign operating loss carryforwards which expire in 2001. The valuation allowance includes a provision for all of the foreign operating loss carryforwards.

## NOTE 7: RETIREMENT AND INCENTIVE PLANS

Substantially all the U.S. employees of Delco participate in the defined benefit and defined contribution pension plans of GM. Plans covering represented U.S. employees generally provide benefits of stated amounts for each year of service, as well as significant supplemental benefits for U.S. employees who retire with 30 years of service before normal retirement age. The benefits provided by the plans covering U.S. salaried employees are generally based on years of service and the employee's salary history. Certain nonqualified pension plans covering U.S. executives are based on targeted wage replacement percentages and are unfunded. The accumulated plan benefit obligation and plan net assets for the employees of Delco are not determined separately; however, GM charged Delco \$53.1 million in 1996, \$50.9 million in 1995 and \$93.3 million in 1994, for benefits earned by these U.S. employees in those years. Various foreign employees are covered under other pension plans, which are not material to Delco.

Certain eligible employees of Delco participate in the Hughes Electronics Corporation Incentive Plan pursuant to which shares, rights, or options to acquire GM Class H Common Stock may be granted through May 31, 1997. 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 non-qualified options generally expire 10 years from the dates of grant and are subject to earlier termination under certain conditions.

## NOTE 8: OTHER POSTRETIREMENT BENEFITS

Substantially all of the U.S. employees of Delco participate in various postretirement medical, dental, vision and life insurance plans of GM. SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," requires that the cost of such benefits be recognized in the combined financial statements during the period U.S. employees provide service to Delco.

DELCO

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

The components of non-pension postretirement benefit cost are set forth below:

	1996	1995	1994
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
Benefits earned during the year.....	\$ 24.2	\$22.2	\$ 34.8
Interest accrued on benefits earned in prior years..	83.2	82.9	88.5
Net amortization.....	(1.8)	(5.3)	10.3
	-----	-----	-----
Total non-pension postretirement benefit cost.....	\$105.6	\$99.8	\$133.6
	=====	=====	=====

The following table displays the components of Delco's net postretirement benefit obligation as recognized in the Combined Balance Sheet at December 31, 1996 and 1995:

	1996	1995
	-----	-----
	(DOLLARS IN MILLIONS)	
Accumulated postretirement benefit obligation attributable to		
Current Retirees.....	\$ 549.0	\$ 528.1
Fully eligible active plan participants.....	194.9	162.7
Other active plan participants.....	388.5	383.2
	-----	-----
Accumulated postretirement benefit obligation.....	1,132.4	1,074.0
Unrecognized net amount resulting from changes in plan experience and actuarial assumptions.....	(80.0)	(83.1)
	-----	-----
Net postretirement benefit obligation.....	1,052.4	990.9
Less current portion.....	33.4	33.4
	-----	-----
Net long-term postretirement benefit obligation....	\$1,019.0	\$ 957.5
	=====	=====

The following table summarizes the principal assumptions used in determining the actuarial value of the accumulated postretirement benefit obligation:

	1996	1995	1994
	-----	-----	-----
Weighted average discount rate.....	7.8%	7.5%	8.8%
Weighted average discount rate of increase in future compensation levels related to pay-related life insurance.....	4.4%	4.3%	4.2%
Base weighted average health-care cost trend rate(1).....	6.5%	6.5%	8.7%
Ultimate sustained weighted average health-care cost trend rate in 2002(2).....	5.0%	5.0%	5.5%

- 
- (1) Current year trend rate assumed at beginning of year is adjusted to actual in determining year-end obligations.
  - (2) Rate remains at 6.5% through 1999, and then decreases on a linear basis through 2002, to the ultimate weighted average trend rate of 5.0%

A one percentage point increase in each future year of the weighted average health-care cost trend rate would increase the accumulated postretirement benefit obligation at December 31, 1996 by approximately \$114.0 million, and increase the service and interest cost components of the 1996 postretirement benefit expense by approximately \$12.8 million.

Delco has disclosed in the combined 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, Delco does not admit or otherwise acknowledge that such amounts or existing postretirement benefit plans of Delco (other than pensions) represent legally enforceable liabilities of Delco.

## NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

## NOTE 9: PROFIT SHARING PLANS

Most U.S. employees of Delco participate in profit sharing plans which provide a range of percentage payouts when Delco's U.S. income before income taxes exceeds certain minimum thresholds. Delco distributed profit sharing payouts of approximately \$14 million in 1996, \$19 million in 1995 and \$18 million in 1994.

## NOTE 10: DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

The total notional amount of foreign exchange-forward contracts entered into by Hughes on behalf of Delco at December 31, 1996 and 1995, was approximately \$28.9 million and \$8.6 million, respectively. Delco's open contracts extend for periods averaging six months.

## NOTE 11: FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments reflect the estimated amounts Delco would receive or pay to terminate the contracts at the reporting date, which takes into account the current unrealized gains or losses on open contracts that are deferred and recognized when the offsetting gains and losses are recognized on the related hedged items. The fair value of foreign exchange-forward contracts is estimated based on foreign exchange rate quotes at the reporting date. At December 31, 1996 and 1995, the estimated fair value of open contracts held by Hughes Electronics on behalf of Delco which were in a net gain (loss) position, was \$1.9 million and \$(0.1) million, respectively. No amounts were recorded on the Combined Balance Sheet for these contracts in 1996 and 1995. The fair value of related party notes receivable from Hughes Electronics is not determinable due to the lack of a market for such instruments. For all financial instruments not described above, fair value approximates book value.

## NOTE 12: COMMITMENTS AND CONTINGENT LIABILITIES

In July 1993, Delco entered into an agreement with Electronic Data Systems Corporation ("EDS") whereby EDS is the primary supplier of Delco's data processing services through December 31, 1998. Delco does not guarantee minimum service payments to EDS, however Delco must use EDS' services in accordance with GM's master service agreement with EDS.

In the normal course of business, Delco is subject to potential liability under product recalls announced by vehicle original equipment manufacturers, such as GM, as they relate to products manufactured and sold by Delco. Delco is also subject to potential liability under government regulations and various claims and legal actions which are pending or may be asserted against them. Some of the pending actions purport to be class actions. The aggregate ultimate liability of Delco under these potential recalls, government regulations, claims and actions was not determinable at December 31, 1996. In the opinion of management, such liability is not expected to have a material adverse effect on Delco's combined operations or financial position.

DELCO

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 13: SEGMENT REPORTING

Delco operates in one business segment: the design and manufacture of modern high-technology electronics for use in automobiles.

Geographic Segments

Delco has foreign operations in Europe, Asia Pacific, Mexico and South America, which are included in Other Geographic Areas below. Sales and revenues between geographic areas are made at negotiated selling prices.

	UNITED STATES	OTHER GEOGRAPHIC AREAS	ELIMINATIONS	COMBINED
1996				
(DOLLARS IN MILLIONS)				
Net Sales and Revenues				
Sales to GM and Affiliates.....	\$4,934.1	\$ 56.1	--	\$4,990.2
Sales to unaffiliated customers....	415.1	154.8	--	569.9
Other Income.....	184.8	17.6	--	202.4
Sales among geographic areas.....	81.9	654.1	\$(736.0)	--
Total.....	\$5,615.9	\$882.6	\$(736.0)	\$5,762.5
Income before cumulative effect of accounting change.....	\$ 438.8	\$ 96.0	--	\$ 534.8
Total Assets.....	\$5,046.8	\$549.4	\$(132.1)	\$5,464.1

	UNITED STATES	OTHER GEOGRAPHIC AREAS	ELIMINATIONS	COMBINED
1995				
(DOLLARS IN MILLIONS)				
Net Sales and Revenues				
Sales to GM and Affiliates.....	\$5,125.5	\$ 51.4	--	\$5,176.9
Sales to unaffiliated customers....	462.5	117.8	--	580.3
Other Income.....	182.5	13.1	--	195.6
Sales among geographic areas.....	88.5	651.5	\$(740.0)	--
Total.....	\$5,859.0	\$833.8	\$(740.0)	\$5,952.8
Income before cumulative effect of accounting change.....	\$ 576.4	\$ 96.1	--	\$ 672.5
Total Assets.....	\$4,717.7	\$567.7	\$( 99.0)	\$5,186.4

	UNITED STATES	OTHER GEOGRAPHIC AREAS	ELIMINATIONS	COMBINED
1994				
(DOLLARS IN MILLIONS)				
Net Sales and Revenues				
Sales to GM and Affiliates.....	\$4,903.0	\$ 13.0	--	\$4,916.0
Sales to unaffiliated customers....	570.1	74.6	--	644.7
Other Income.....	140.9	9.7	--	150.6
Sales among geographic areas.....	90.9	623.2	\$(714.1)	--
Total.....	\$5,704.9	\$720.5	\$(714.1)	\$5,711.3
Income before cumulative effect of accounting change.....	\$ 536.9	\$ 58.1	--	\$ 595.0
Total Assets.....	\$4,533.2	\$445.0	\$(135.8)	\$4,842.4

DELCO

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONCLUDED)

Export sales from the U.S. were as follows:

	1996	1995	1994
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
Asia Pacific.....	\$ 181.3	\$ 185.5	\$ 164.3
Europe.....	214.2	209.1	143.3
Other North America (Canada and Mexico).....	833.7	953.4	737.9
Other.....	42.3	40.8	27.9
	-----	-----	-----
Total.....	\$1,271.5	\$1,388.8	\$1,073.4
	=====	=====	=====

APPENDIX E

HUGHES TELECOM

COMBINED FINANCIAL STATEMENTS

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HUGHES TELECOM

COMBINED STATEMENT OF INCOME AND  
PARENT COMPANY'S NET INVESTMENT  
(UNAUDITED)

	SIX MONTHS ENDED	
	JUNE 30,	
	1997	1996
	(DOLLARS IN MILLIONS)	
REVENUES		
Product sales.....	\$1,423.8	\$1,278.7
Direct broadcast, leasing and other services.....	811.4	552.7
Other income, net.....	477.8	104.5
Total Revenues.....	2,713.0	1,935.9
COSTS AND EXPENSES		
Cost of products sold.....	1,096.8	945.2
Broadcast programming and other costs.....	466.6	369.9
Selling, general, and administrative expenses.....	458.5	303.0
Depreciation and amortization.....	118.8	89.2
Amortization of GM purchase accounting adjustments related to Hughes Aircraft Company.....	10.6	10.6
Interest expense.....	43.5	21.6
Total Costs and Expenses.....	2,194.8	1,739.5
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS.....	518.2	196.4
Income taxes.....	213.3	84.7
Minority interests in losses of subsidiaries.....	21.9	15.4
NET INCOME.....	326.8	127.1
Parent Company's Net Investment, beginning of period.....	2,491.6	2,608.9
Net contributions from (distributions to) Parent Company..	792.5	(197.9)
PARENT COMPANY'S NET INVESTMENT, END OF PERIOD.....	\$3,610.9	\$2,538.1

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

HUGHES TELECOM  
COMBINED BALANCE SHEET  
(UNAUDITED)

	JUNE 30, 1997	DECEMBER 31, 1996
	-----	-----
	(DOLLARS IN MILLIONS)	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents.....	\$ 342.8	\$ 6.7
Accounts and notes receivable (less allowances).....	526.5	444.8
Contracts in process, less advances and progress payments of \$67.6 and \$54.2.....	450.4	402.5
Inventories.....	642.8	472.9
Deferred subscriber acquisition costs.....	99.7	97.5
Prepaid expenses and other, including deferred income taxes of \$39.6 and \$26.7.....	132.9	111.3
	-----	-----
<b>Total Current Assets.....</b>	<b>2,195.1</b>	<b>1,535.7</b>
	-----	-----
Satellites, net.....	2,220.4	1,056.6
	-----	-----
Property, net.....	776.5	701.1
	-----	-----
Net Investment in Sales-type Leases.....	310.3	320.6
	-----	-----
Intangible Assets, net of amortization of \$281.0 and \$262.5.....	2,824.9	478.6
	-----	-----
Investments and Other Assets--principally at cost (less allowances).....	849.9	386.6
	-----	-----
<b>Total Assets.....</b>	<b>\$9,177.1</b>	<b>\$4,479.2</b>
	=====	=====
<b>LIABILITIES AND PARENT COMPANY'S NET INVESTMENT</b>		
<b>Current Liabilities</b>		
Accounts payable.....	\$ 367.1	\$ 364.3
Advances on contracts.....	158.5	287.8
Deferred revenues.....	194.0	142.8
Accrued liabilities.....	581.7	486.8
	-----	-----
<b>Total Current Liabilities.....</b>	<b>1,301.3</b>	<b>1,281.7</b>
	-----	-----
Long-Term Debt.....	2,372.5	--
	-----	-----
Deferred Gains on Sales and Leasebacks.....	230.0	234.8
	-----	-----
Accrued Operating Leaseback Expense.....	87.3	107.8
	-----	-----
Other Liabilities and Deferred Credits.....	257.0	137.6
	-----	-----
Deferred Income Taxes.....	273.5	204.1
	-----	-----
Minority Interests.....	643.1	21.6
	-----	-----
Redeemable Preferred Stock of a Subsidiary.....	401.5	--
	-----	-----
<b>Contingencies</b>		
Parent Company's Net Investment.....	3,610.9	2,491.6
	-----	-----
<b>Total Liabilities and Parent Company's Net     Investment.....</b>	<b>\$9,177.1</b>	<b>\$4,479.2</b>
	=====	=====

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



HUGHES TELECOM

COMBINED STATEMENT OF CASH FLOWS  
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	----- 1997	1996 -----
	(DOLLARS IN MILLIONS)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income.....	\$ 326.8	\$127.1
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Depreciation and amortization.....	118.8	89.2
Amortization of GM purchase accounting adjustments related to Hughes Aircraft Company.....	10.6	10.6
Net gain on sales of investments and businesses.....	(489.7)	(120.3)
Gross profit on sales-type leases.....	(33.6)	(47.9)
Deferred income taxes and other.....	20.9	14.2
Change in other operating assets and liabilities		
Accounts receivable.....	(70.8)	(52.0)
Contracts in process.....	(47.9)	(47.3)
Inventories.....	(169.9)	(77.0)
Deferred subscriber acquisition costs.....	(2.2)	--
Collections of principal on net investment in sales- type leases.....	11.5	18.5
Accounts payable.....	(131.7)	83.6
Advances on contracts.....	(139.9)	57.1
Deferred revenues.....	51.2	12.7
Accrued liabilities.....	103.7	15.4
Deferred gains on sales and leasebacks.....	(4.8)	(35.8)
Other.....	(82.3)	(29.4)
Net Cash (Used in) Provided by Operating Activities.....	(529.3)	18.7
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in companies, net of cash acquired.....	(1,466.2)	--
Expenditures for property.....	(90.6)	(133.2)
Increase in satellites.....	(130.4)	(92.9)
Proceeds from sale and leaseback of satellite transponders.	--	252.0
Proceeds from disposal of property.....	1.0	13.8
Net Cash (Used in) Provided by Investing Activities.....	(1,686.2)	39.7
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in notes and loans payables.....	1,759.1	--
Proceeds from sale of minority interest in subsidiary.....	--	137.5
Contributions from (distributions to) Parent Company.....	792.5	(197.9)
Net Cash Provided by (Used in) Financing Activities.....	2,551.6	(60.4)
Net increase (decrease) in cash and cash equivalents.....	336.1	(2.0)
Cash and cash equivalents at beginning of the year.....	6.7	7.6
Cash and cash equivalents at end of the year.....	\$ 342.8	\$ 5.6
	=====	=====

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

HUGHES TELECOM

NOTES TO COMBINED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1: BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

The accompanying unaudited combined financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. In the opinion of management, all adjustments (consisting of only normal recurring items) which are necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year.

On January 16, 1997, Hughes Electronics Corporation ("Hughes Electronics"), General Motors Corporation ("GM"), the parent of Hughes Electronics, and Raytheon Company ("Raytheon") announced a series of planned transactions that would include:

- . The tax-free spin-off of 100% of the defense business of Hughes Electronics ("Hughes Defense") to holders of GM's \$1 2/3 par value and Class H Common Stocks followed immediately by the tax-free merger of that business with Raytheon, after which there would be outstanding two classes of Raytheon/Hughes Defense common stock;
- . The transfer of Delco Electronics Corporation and Related Entities ("Delco"), from Hughes Electronics to GM and a reallocation of the derivative interest in the earnings of Delco currently held by GM Class H common stockholders to holders of GM \$1 2/3 par value common stock; and
- . The recapitalization of GM Class H Common Stock into a GM tracking stock linked to the Telecommunications and Space business of Hughes ("Hughes Telecom"). GM would continue to own 100% of Hughes Telecom.

On July 14, 1997, GM received a ruling from the Internal Revenue Service that its contemplated spin-off of Hughes Defense would be tax-free to GM and its stockholders. The planned transactions must be approved by holders of GM \$1 2/3 par value and Class H common stocks, among a number of other conditions. In addition, the merger of Hughes Defense and Raytheon is subject to antitrust clearance and approval by Raytheon stockholders. No assurance can be given that the above transactions will be completed. GM expects to solicit stockholders' approval of the planned transactions during the fourth quarter of 1997, after certain conditions are satisfied.

Hughes Telecom is not a legal entity. The combined financial statements present the financial position, results of operations and cash flows of Hughes Telecom, which consists primarily of the operations included in the Telecommunications and Space segment of Hughes Electronics, certain other Hughes Electronics businesses and certain Hughes Electronics Corporate assets, liabilities, income and expenses attributable to Hughes Telecom. All transactions and balances between the entities included in the combined financial statements have been eliminated. All Hughes Telecom amounts due from or payable to other Hughes Electronics businesses have been reported in Parent Company's Net Investment.

The combined financial statements include allocations of corporate expenses from Hughes Electronics 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 Telecom 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.

HUGHES TELECOM

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

(UNAUDITED)

NOTE 2: INVENTORIES

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

Major Classes of Inventories

	JUNE 30, 1997	DECEMBER 31, 1996
	-----	-----
	(DOLLARS IN MILLIONS)	
Productive material and supplies.....	\$128.4	\$106.4
Work in process.....	387.4	271.6
Finished goods.....	127.0	94.9
	-----	-----
Total.....	\$642.8	\$472.9
	=====	=====

NOTE 3: OTHER INCOME, NET

Other income, net for the six months ended June 30, 1997 includes a \$489.7 million pre-tax gain recognized in connection with the PanAmSat Merger. The six month period ended June 30, 1996 amount includes a \$120.3 million pre-tax gain from the sale of a 2.5% equity interest in DIRECTV(R) to AT&T.

NOTE 4: CONTINGENCIES

Hughes Telecom 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 balances under this agreement at June 30, 1997 totaled \$181.9 million. Hughes Telecom has certain rights regarding the administration of the program and the losses from qualifying accounts under this program accrue to Hughes Telecom, subject to certain indemnity obligations of the finance company. Hughes Telecom 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.

In conjunction with its performance on long-term contracts, Hughes Telecom is contingently liable under standby letters of credit and bonds in the amount of \$135.0 million at June 30, 1997. In Hughes Telecom's past experience, no material claims have been made against these financial instruments. In addition, Hughes Telecom has guaranteed up to \$150.0 million of certain American Mobile Satellite Corporation ("AMSC") bank debt due June, 2001. Hughes Telecom owns approximately 27% of the common stock of AMSC. Hughes Telecom has also guaranteed up to \$172.1 million of a Surfin Ltd. revolving credit facility which expires July, 1999. Hughes Telecom owns approximately 39% of Surfin Ltd.

Hughes Telecom 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 Telecom under these government regulations, and under these claims and actions, was not determinable at December 31, 1996. In the opinion of Hughes Electronics and Hughes Telecom management, such liability is not expected to have a material adverse effect on the Hughes Telecom's combined operations or financial position.

Hughes Telecom has maintained a suit against the U.S. Government since September 1973, regarding the government's infringement and use of a Hughes Telecom patent (the "Williams Patent") covering "Velocity

HUGHES TELECOM

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONCLUDED)

(UNAUDITED)

Control and Orientation of a Spin Stabilized Body," principally satellites. On June 17, 1994, the U.S. Court of Claims awarded Hughes Telecom damages of \$114.0 million. Because Hughes Telecom 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 Telecom \$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 Hughes Telecom's 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 Telecom currently remain in effect pending reconsideration of the case by the CAFC. Hughes Telecom is unable to estimate the duration of this reconsideration process. While no amount has been recorded in the financial statements of Hughes Telecom to reflect the \$114.0 million award, a resolution of this matter could result in a gain that would be material to the earnings of GM attributable to Class H Common Stock.

INDEPENDENT AUDITORS' REPORT

Hughes Electronics Corporation:

We have audited the Combined Balance Sheet of the Telecommunications and Space Business of Hughes Electronics Corporation and subsidiaries ("Hughes Telecom") as of December 31, 1996 and 1995 and the related Combined Statements of Income and Parent Company's Net Investment and of Cash Flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of Hughes Telecom'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 Telecom at December 31, 1996 and 1995 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the combined financial statements, effective January 1, 1994 Hughes Telecom changed its method of accounting for postemployment benefits.

Los Angeles, California  
October 3, 1997

HUGHES TELECOM

COMBINED STATEMENT OF INCOME AND  
PARENT COMPANY'S NET INVESTMENT

YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
	(DOLLARS IN MILLIONS)		
<b>REVENUES</b>			
Product sales.....	\$3,070.6	\$2,650.4	\$2,386.1
Direct broadcast, leasing and other services...	1,029.0	592.6	387.4
Other income (expense), net.....	74.9	(32.4)	(10.0)
<b>Total Revenues.....</b>	<b>4,174.5</b>	<b>3,210.6</b>	<b>2,763.5</b>
<b>COSTS AND EXPENSES</b>			
Cost of products sold.....	2,241.3	2,084.5	1,939.0
Broadcast programming and other costs.....	653.8	350.0	167.4
Selling, general and administrative expenses...	805.1	510.6	374.1
Depreciation and amortization.....	197.5	182.0	141.8
Amortization and adjustment of GM purchase accounting adjustments related to Hughes Aircraft Company.....	21.0	27.2	21.2
Interest expense.....	45.9	65.1	55.9
<b>Total Costs and Expenses.....</b>	<b>3,964.6</b>	<b>3,219.4</b>	<b>2,699.4</b>
<b>INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS.....</b>			
Income tax provision (benefit).....	100.0	(10.4)	20.6
Minority interests in net losses of subsidiaries.	52.6	4.6	--
<b>Income before cumulative effect of accounting change.....</b>	<b>162.5</b>	<b>6.2</b>	<b>43.5</b>
<b>Cumulative effect of accounting change.....</b>	<b>--</b>	<b>--</b>	<b>2.3</b>
<b>NET INCOME.....</b>	<b>162.5</b>	<b>6.2</b>	<b>41.2</b>
<b>Parent Company's Net Investment, beginning of period.....</b>			
Net (distributions to) contributions from Parent Company.....	(279.8)	301.7	286.5
<b>PARENT COMPANY'S NET INVESTMENT, END OF PERIOD...</b>	<b>\$2,491.6</b>	<b>\$2,608.9</b>	<b>\$2,301.0</b>

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

HUGHES TELECOM  
 COMBINED BALANCE SHEET  
 DECEMBER 31, 1996 AND 1995

	DECEMBER 31,	
	1996	1995
	(DOLLARS IN MILLIONS)	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents.....	\$ 6.7	\$ 7.6
Accounts and notes receivable (less allowances).....	444.8	327.6
Contracts in process, less advances and progress payments of \$54.2 and \$68.0.....	402.5	456.9
Inventories.....	472.9	376.4
Deferred subscriber acquisition costs.....	97.5	--
Prepaid expenses and other, including deferred income taxes of \$26.7 and \$16.3.....	111.3	74.4
	1,535.7	1,242.9
Total Current Assets.....		
Satellites, net.....	1,056.6	1,096.0
Property, net.....	701.1	561.2
Net Investment in Sales-type Leases.....	320.6	264.7
Intangible Assets, net of amortization of \$262.5 and \$241.2..	478.6	499.9
Investments and Other Assets--principally at cost (less allowances).....	386.6	383.0
	\$4,479.2	\$4,047.7
	=====	=====
<b>LIABILITIES AND PARENT COMPANY'S NET INVESTMENT</b>		
<b>Current Liabilities</b>		
Accounts payable.....	\$ 364.3	\$ 249.7
Advances on contracts.....	287.8	190.2
Deferred revenues.....	142.8	29.1
Accrued liabilities.....	486.8	489.2
	1,281.7	958.2
Total Current Liabilities.....		
Deferred Gains on Sales and Leasebacks.....	234.8	183.2
Accrued Operating Leaseback Expense.....	107.8	69.1
Other Liabilities and Deferred Credits.....	137.6	62.7
Deferred Income Taxes.....	204.1	125.4
Minority Interests.....	21.6	40.2
Commitments and Contingencies		
Parent Company's Net Investment.....	2,491.6	2,608.9
	\$4,479.2	\$4,047.7
Total Liabilities and Parent Company's Net Investment....	=====	=====

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

HUGHES TELECOM

COMBINED STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

	YEARS ENDED DECEMBER		
	31,		
	1996	1995	1994
	(DOLLARS IN MILLIONS)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income.....	\$ 162.5	\$ 6.2	\$ 41.2
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization.....	197.5	182.0	141.8
Amortization of GM purchase accounting adjustments related to Hughes Aircraft Company..	21.0	27.2	21.2
Net (gain) loss on investments and businesses sold and held for sale.....	(120.3)	49.0	35.0
Gross profit on sales-type leases.....	(51.8)	(62.9)	(56.1)
Deferred income taxes and other.....	91.9	(76.9)	(22.5)
Change in other operating assets and liabilities			
Accounts receivable.....	(117.2)	(114.8)	(26.4)
Contracts in process.....	54.4	175.6	(90.4)
Inventories.....	(96.5)	(113.2)	69.4
Deferred subscriber acquisition costs.....	(97.5)	--	--
Collections of principal on net investment in sales-type leases.....	31.2	19.6	10.6
Accounts payable.....	114.6	2.8	111.9
Advances on contracts.....	97.6	8.6	(58.3)
Accrued liabilities.....	(7.9)	132.4	95.0
Deferred revenues.....	113.7	22.5	6.6
Deferred gains on sales and leasebacks.....	(57.2)	(27.1)	(27.1)
Other.....	(5.7)	(154.7)	(50.5)
Net Cash Provided by Operating Activities.....	330.3	76.3	201.4
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditures for property.....	(263.5)	(171.9)	(144.6)
Increase in satellites.....	(191.6)	(223.7)	(349.9)
Proceeds from sale and leaseback of satellite transponders.....	252.0	--	--
Proceeds from disposal of property.....	14.2	1.9	2.2
Proceeds from sales of investments and businesses..	--	17.5	--
Net Cash Used in Investing Activities.....	(188.9)	(376.2)	(492.3)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from sale of minority interest in subsidiary.....	137.5	--	--
(Distributions to) contributions from Parent Company.....	(279.8)	301.7	286.5
Net Cash (Used in) Provided by Financing Activities.....	(142.3)	301.7	286.5
Net (decrease) increase in cash and cash equivalents.	(0.9)	1.8	(4.4)
Cash and cash equivalents at beginning of the year...	7.6	5.8	10.2
Cash and cash equivalents at end of the year.....	\$ 6.7	\$ 7.6	\$ 5.8

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



## NOTES TO COMBINED FINANCIAL STATEMENTS

## NOTE 1: BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

On January 16, 1997, Hughes Electronics Corporation ("Hughes Electronics"), General Motors Corporation ("GM"), the parent of Hughes Electronics and Raytheon Company ("Raytheon"), announced a series of planned transactions that would include:

- . The tax-free spin-off of 100% of the defense business of Hughes Electronics ("Hughes Defense") to holders of GM's \$1 2/3 par value and Class H Common Stocks followed immediately by the tax-free merger of that business with Raytheon, after which there would be outstanding two classes of Raytheon/Hughes Defense common stock;
- . The transfer of Delco Electronics Corporation and Related Entities ("Delco"), from Hughes Electronics to GM and a reallocation of the derivative interest in the earnings of Delco currently held by GM Class H common stockholders to holders of GM \$1 2/3 par value Common Stock; and
- . The recapitalization of GM Class H Common Stock into a GM tracking stock linked to the telecommunications and space business of Hughes ("Hughes Telecom"). GM would continue to own 100% of Hughes Telecom.

The planned transactions are subject to approval by holders of GM \$1 2/3 par value and Class H Common Stocks. In addition, the merger of Hughes Defense and Raytheon, which is contingent upon the spin-off of Hughes Defense, is subject to approval by the stockholders of Raytheon. The planned transactions also are subject to a variety of regulatory approvals.

Hughes Telecom is not a legal entity. The combined financial statements present the financial position, results of operations and cash flows of Hughes Telecom, which consists primarily of the operations included in the Telecommunications and Space segment of Hughes Electronics, certain other Hughes Electronics businesses and certain Hughes Electronics Corporate assets, liabilities, income and expenses attributable to Hughes Telecom. All transactions and balances between the entities included in the combined financial statements have been eliminated. All Hughes Telecom amounts due from or payable to other Hughes Electronics businesses have been reported in Parent Company's Net Investment.

The combined financial statements include allocations of corporate expenses from Hughes Electronics 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 Telecom 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.

Hughes Telecom participates in a centralized cash management system wherein cash receipts are transferred to and cash disbursements are funded by Hughes Electronics daily. Accordingly, the Combined Balance Sheet includes only cash and cash equivalents held by Hughes Telecom, consisting principally of cash held at operating subsidiaries. Interest expense in the Combined Statement of Income and Parent Company's Net Investment includes an allocated share of total Hughes Electronics interest expense.

Hughes Telecom 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 Telecom also provides a broad range of satellite-related services and is a leader in the U.S. 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. It also provides communications equipment and services in the mobile communications and packet switching markets.

## NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

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

## 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 under long-term contracts, DTH broadcast subscriptions and outright sales, sales-type leases and operating lease contracts with customers to provide satellite transponders, transponder capacity and related services.

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 Combined Balance Sheet.

Lease contracts qualifying for capital lease treatment (typically based on the term of the lease) are accounted for as sales-type leases. For sales-type lease transactions related to completed satellite transponders, at the time a customer enters into a sales-type lease, revenues are recognized at the net present value of the future minimum lease payments. The cost basis of the transponder is removed and charged to cost of sales. During the term of the lease, that portion of each periodic lease payment deemed to be attributable to interest income is recognized as income in each respective period. The balance of each periodic lease payment represents principal repayment and is recognized as a reduction of net investment in sales-type leases. Interest income from sales-type leases of \$41.0 million, \$26.9 million and \$14.3 million is included in product sales for the years ended December 31, 1996, 1995 and 1994. 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 each respective lease term. Differences between operating lease payments received and revenues recognized are deferred and included in accounts receivable.

HUGHES TELECOM

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

Hughes Telecom has entered into agreements for the sale and leaseback of certain of its satellite transponders. Gains resulting from such transactions are deferred and amortized over the leaseback period. The leaseback transactions have been classified as operating leases and, therefore, the cost and associated depreciation related to satellite transponders sold are not included in the accompanying combined financial statements. 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 provided by operating activities reflects cash payments for interest made by Hughes Telecom and by Hughes Electronics on behalf of Hughes Telecom of \$58.8 million, \$79.7 million and \$69.9 million in 1996, 1995 and 1994, respectively. Cash payments for income taxes made by Hughes Electronics on behalf of Hughes Telecom amounted to \$31.7 million, \$118.7 million and \$86.8 million in 1996, 1995 and 1994, respectively.

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, and \$138.0 million of the 1996 amount is 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

	1996	1995
	-----	-----
	(DOLLARS IN MILLIONS)	
Productive material and supplies.....	\$106.4	\$ 95.5
Work in process.....	271.6	178.6
Finished goods.....	94.9	102.3
	-----	-----
Total.....	\$472.9	\$376.4
	=====	=====

Deferred Subscriber Acquisition Costs

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

## NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

## Property, Satellites and Depreciation

Property and Satellites are carried at cost. Satellite costs include construction costs, launch costs, launch insurance, and capitalized interest. Depreciation is computed generally using the straight line method over the estimated useful lives of the assets. Recoverability of these assets is periodically evaluated by assessing whether the net book value can be recovered over its remaining life through undiscounted cash flows generated by the asset.

## Intangible Assets

Effective December 31, 1985, GM acquired Hughes Aircraft Company ("HAC"), now a wholly owned subsidiary of Hughes Electronics including certain of the operations of Hughes Telecom. The acquisition of HAC was accounted for as a purchase. The excess of the purchase price over the net tangible assets acquired, \$4,244.7 million, was assigned to intangible assets, primarily goodwill. The portion of such intangible assets and related amortization attributable to Hughes Telecom has been reflected in the accompanying combined financial statements.

Intangible assets are amortized using the straight-line method over periods not exceeding 40 years. Recoverability is periodically evaluated by assessing whether the unamortized carrying amount can be recovered over its remaining life through undiscounted cash flows generated by underlying tangible assets.

## Software Development Costs

Other assets includes 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 were \$87.0 million and \$68.3 million at December 31, 1996 and 1995, respectively, net of accumulated amortization of \$86.1 million and \$74.6 million, respectively.

## Income Taxes

Hughes Telecom, along with other Hughes Electronics businesses and subsidiaries, joins with GM in filing a consolidated U.S. federal income tax return. Current and deferred income taxes are computed by Hughes and allocated to Hughes Telecom according to principles established by SFAS No. 109, "Accounting for 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 Electronics has paid Hughes Telecom's share of the consolidated income tax liability. The income taxes that would have been paid by Hughes Telecom if it were a separate taxpayer but which were not paid under Hughes Electronics' policy results in an increase in the Parent Company's Net Investment.

## Research and Development

Expenditures for research and development are charged to costs and expenses as incurred and amounted to \$99.3 million in 1996, \$83.2 million in 1995 and \$89.6 million in 1994.

## Foreign Currency

Substantially all of Hughes Telecom's foreign operations have determined the local currency to be their functional currency. Accordingly, most foreign entities translate assets and liabilities from their local currencies to U.S. dollars using year-end exchange rates. Income and expense accounts are translated at the average rates in effect during the year. Foreign currency transaction net gains and losses included in the combined operating results were not material in all years presented.

## Financial Instruments

Hughes Electronics enters into foreign exchange-forward contracts on behalf of Hughes Telecom to reduce Hughes Telecom's exposure to fluctuations in foreign currency exchange rates. Such foreign exchange-forward contracts are accounted for in the accompanying combined financial statements as hedges to the extent they are designated as, and are effective as, hedges of firm foreign currency commitments.

## Market Concentrations

Sales under U.S. Government contracts were 22.0%, 28.7% and 30.3% of net sales in 1996, 1995 and 1994, respectively. Hughes Telecom sells 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.

## New Accounting Standards and Accounting Changes

In June 1997, the Financial Accounting Standards Board issued SFAS Nos. 130 and 131. SFAS 130, "Reporting Comprehensive Income," establishes accounting standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. This statement requires that all items required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," establishes accounting standards for the way public enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. Hughes Telecom will adopt SFAS Nos. 130 and 131 on January 1, 1998, as required.

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

Effective January 1, 1994, Hughes Telecom adopted SFAS 112, "Employers' Accounting for Postemployment Benefits." This Statement requires accrual of the costs of benefits provided to former or inactive employees after employment, but before retirement. The adoption of this new accounting standard reduced net income in 1994 by \$2.3 million.

## NOTE 3: RELATED-PARTY TRANSACTIONS

In the ordinary course of its operations, Hughes Telecom provides telecommunications services and sells electronic components to, and purchases sub-components from, related parties. In addition, Hughes Telecom receives allocations of corporate expenses and interest costs from Hughes Electronics and GM.

HUGHES TELECOM

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

The following table summarizes the significant related party transactions between Hughes Telecom and other GM and Hughes Electronics entities:

	1996	1995	1994
	(DOLLARS IN MILLIONS)		
Revenues.....	\$ 57.3	\$ 59.2	\$ 52.9
Costs and expenses			
Purchases.....	241.5	144.0	113.5
Allocation of corporate expenses.....	77.4	62.3	72.6
Allocated interest.....	56.0	78.7	68.0

Interest was allocated to Hughes Telecom based on Hughes Telecom's average adjusted net operating assets for the years ended 1996, 1995 and 1994. Hughes Telecom capitalized interest of \$12.9 million, \$14.6 million and \$14.0 million for 1996, 1995 and 1994, respectively, as part of the cost of its satellites under construction.

NOTE 4: OTHER INCOME (EXPENSE)

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

During 1995, Hughes Telecom recorded a \$46.0 million pre-tax charge for the estimated loss on disposition of a business unit (including \$6.0 million related to the write-off of GM purchase accounting adjustments) and completed the divestiture of Hughes LAN Systems, for which a pre-tax charge of \$35.0 million was taken in 1994.

NOTE 5: PROPERTY AND SATELLITES, NET

	ESTIMATED USEFUL LIVES (YEARS)	1996	1995
		(DOLLARS IN MILLIONS)	
Land and improvements.....	10-20	\$ 47.5	\$ 48.4
Buildings and unamortized leasehold improvements.....	30-45	272.4	227.8
Machinery and equipment.....	3-10	879.0	655.3
Furniture, fixtures and office machines...	5-8	67.6	48.1
Construction in progress.....	--	107.2	203.0
Total.....		1,373.7	1,182.6
Less accumulated depreciation.....		672.6	621.4
Property, net.....		\$ 701.1	\$ 561.2
Satellites.....	9-15	\$1,400.1	\$1,353.0
Less accumulated depreciation.....	--	343.5	257.0
Total.....		\$1,056.6	\$1,096.0

NOTE 6: LEASING ACTIVITIES

Future minimum lease payments due from customers under noncancellable satellite transponder operating leases, exclusive of amounts due from sublessees reported below are \$159.1 million in 1997, \$124.4 million in 1998, \$91.8 million in 1999, \$83.0 million in 2000, \$68.9 million in 2001 and \$169.5 million thereafter.

HUGHES TELECOM

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

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

	1996	1995
	-----	-----
	(DOLLARS IN MILLIONS)	
Total minimum lease payments.....	\$696.7	\$533.0
Allowance for doubtful accounts.....	(18.0)	(16.7)
Less unearned interest income.....	(337.5)	(232.8)
	-----	-----
Total net investment in sales-type leases.....	341.2	283.5
Less current portion.....	(20.6)	(18.8)
	-----	-----
Total.....	\$320.6	\$264.7
	=====	=====

Future minimum payments due from customers under sales-type leases as of December 31, 1996 are \$62.3 million in 1997, \$68.6 million in 1998, \$74.0 million in 1999, \$74.2 million in 2000, \$74.2 million in 2001 and \$343.4 million thereafter.

In February 1996, Hughes Telecom 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 1991 and 1992, Hughes Telecom entered into agreements for the sale and leaseback of certain transponders on SBS-6 and Galaxy VII, respectively, resulting in deferred gains of \$96.1 million in 1991 and \$180.0 million in 1992, 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. As of December 31, 1996, the future minimum leaseback amounts payable to lessors under the operating leasebacks and the future minimum sublease amounts due from sublessees under noncancelable subleases are as follows:

	MINIMUM LEASEBACK PAYMENTS	SUBLEASE AMOUNTS DUE
	-----	-----
	(DOLLARS IN MILLIONS)	
1997.....	\$110.4	\$ 68.9
1998.....	107.3	56.4
1999.....	133.3	40.4
2000.....	164.7	40.5
2001.....	90.9	40.2
Thereafter.....	366.6	149.4
	-----	-----
Total.....	\$973.2	\$395.8
	=====	=====

NOTE 7: ACCRUED LIABILITIES

	1996	1995
	-----	-----
	(DOLLARS IN MILLIONS)	
Payrolls and other compensation.....	\$117.9	\$105.6
Contract-related provisions.....	209.7	269.0
Reserve for consumer finance and rebate programs.....	120.5	--
Other.....	38.7	114.6
	-----	-----
Total.....	\$486.8	\$489.2
	=====	=====

HUGHES TELECOM

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 8: INCOME TAXES

The income tax provision (benefit) consisted of the following:

	1996	1995	1994
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
U.S. federal, state and foreign taxes currently payable.....	\$ 31.7	\$118.7	\$86.8
U.S. federal, state and foreign deferred tax liabilities (assets)--net.....	68.3	(129.1)	(66.2)
	-----	-----	-----
Total income tax provision (benefit).....	\$100.0	\$(10.4)	\$20.6*
	=====	=====	=====

- - - - -  
\*Excluding effect of accounting change.

Income (loss) before income taxes included the following components:

	1996	1995	1994
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
U.S. income (loss).....	\$206.2	\$(10.4)	\$65.5
Foreign income (loss).....	3.7	1.6	(1.4)
	-----	-----	-----
Total.....	\$209.9	\$(8.8)	\$64.1
	=====	=====	=====

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

	1996	1995	1994
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
Expected tax at U.S. statutory income tax rate...	\$ 73.5	\$(3.1)	\$ 22.4
U.S. state and local income taxes.....	8.9	(0.4)	2.7
Purchase accounting adjustments.....	7.3	9.5	7.3
Foreign sales corporation tax benefit.....	(24.0)	(19.7)	(15.7)
Investment tax credits.....	--	(5.0)	--
Minority interests in partnerships' losses.....	17.7	2.0	--
Losses of equity method investee.....	14.8	4.2	1.9
Other.....	1.8	2.1	2.0
	-----	-----	-----
Combined income tax provision (benefit).....	\$100.0	\$(10.4)	\$ 20.6*
	=====	=====	=====

- - - - -  
\*Excluding effect of accounting change.



HUGHES TELECOM

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

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

	1996		1995	
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
	(DOLLARS IN MILLIONS)			
Profits on long-term contracts.	\$124.8	\$133.3	\$103.8	\$142.1
Sales and leasebacks.....	119.6		88.4	
Depreciation.....		255.2		209.0
Sale of equity interest in DIRECTV.....		48.7		
Other.....	49.6	23.9	70.6	8.3
Subtotal.....	294.0	461.1	262.8	359.4
Valuation allowance.....	(10.3)		(12.5)	
Total deferred taxes.....	\$283.7	\$461.1	\$250.3	\$359.4

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, 1996 and 1995, undistributed earnings of foreign subsidiaries amounted to approximately \$5.3 million and \$5.1 million, respectively. Repatriation of all accumulated earnings would have resulted in tax liabilities of \$0.5 million in both years.

At December 31, 1996, Hughes Telecom had \$6.9 million of foreign operating loss carryforwards which expire in varying amounts between 1997 and 2001. The valuation allowance includes a provision for all of the foreign operating loss carryforwards.

NOTE 9: RETIREMENT AND INCENTIVE PLANS

Certain employees of Hughes Telecom and other Hughes Electronics businesses participate in contributory and non-contributory defined benefit retirement plans (the "Plans") maintained by Hughes Electronics. These Plans are available to substantially all full-time employees of Hughes Telecom. Benefits are based on years of service and compensation earned during a specified period of time before retirement. The accumulated plan benefit obligations and plan net assets for the employees of Hughes Telecom have not been separately determined and are not included in the Combined Balance Sheet. However, the fair value of plan assets exceeds the accumulated plan benefit obligations related to these Plans. In addition, employees of Hughes Telecom and other Hughes Electronics businesses participate in certain other postretirement and postemployment benefit plans, principally health and life insurance plans, which are unfunded. The accumulated postretirement and postemployment benefit obligations related to employees of Hughes Telecom have not been separately determined and are not included in the Combined Balance Sheet. Hughes Telecom recorded expenses related to the pension, postretirement and postemployment benefits plans of approximately \$27.6 million, \$8.9 million and \$6.9 million in 1996, 1995 and 1994, respectively.

Certain eligible employees of Hughes Telecom participate in the Hughes Electronics Corporation Incentive Plan pursuant to which shares, rights, or options to acquire GM Class H Common Stock may be granted through May 31, 1997. 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 non-qualified options generally expire 10 years from the dates of grant and are subject to earlier termination under certain conditions.

## NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

Employees of Hughes Telecom also participate in other Hughes health and welfare plans. Charges related to these plans were \$63.9 million, \$53.8 million and \$53.7 million in 1996, 1995 and 1994, respectively.

## NOTE 10: SPECIAL PROVISION FOR RESTRUCTURING

In 1992, Hughes Electronics recorded a special restructuring charge of \$1,237.0 million primarily attributable to redundant facilities and related employment costs. Approximately \$156.6 million was attributable to Hughes Telecom and comprehended a reduction of Hughes Telecom's employment, a major facilities consolidation, and a reevaluation of certain business lines that no longer met Hughes Telecom's strategic objectives. Restructuring costs of \$19.4 million, \$44.7 million and \$39.7 million attributable to Hughes Telecom were charged against the reserve during 1996, 1995 and 1994, respectively. The remaining liability attributable to Hughes Telecom of \$23.9 million relates primarily to reserves for excess facilities. It is expected that these costs will be expended predominantly during the next year.

## NOTE 11: ACQUISITION OF PANAMSAT CORPORATION

In May 1997, Hughes Telecom and PanAmSat Corporation merged their respective satellite services operations into a new publicly-held company, which retained the name PanAmSat. Hughes Telecom 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 Electronics, which borrowed such funds from GM. PanAmSat is a leading provider of international satellite services.

## NOTE 12: DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

The total notional amount of foreign exchange-forward contracts entered into by Hughes Telecom at December 31, 1996 and 1995, was approximately \$1.0 million and \$4.0 million, respectively. The total notional amount of foreign exchange-forward contracts entered into by Hughes Electronics on behalf of Hughes Telecom at December 31, 1996 and 1995, was approximately \$34.0 million and \$97.0 million, respectively.

## NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

## NOTE 13: FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments reflect the estimated amounts Hughes Telecom would receive or pay to terminate the contracts at the reporting date, which takes into account the current unrealized gains or losses on open contracts that are deferred and recognized when the offsetting gains and losses are recognized on the related hedged items. The fair value of foreign exchange-forward contracts is estimated based on foreign exchange rate quotes at the reporting date. At December 31, 1996 and 1995, the total estimated fair value of open contracts, which were in a net gain position, was \$2.3 million and \$11.3 million, respectively. No amounts were recorded on the Combined Balance Sheet for these contracts in 1996 and 1995. For all financial instruments not described above, fair value approximates book value.

The carrying amount of the net investment in sales-type leases approximates its fair value because the interest rates implicit in the leases approximate current market rates.

## NOTE 14: COMMITMENTS AND CONTINGENCIES

Hughes Telecom signed agreements in 1995 and 1996 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 Telecom 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 balances under this agreement at December 31, 1996 totaled \$194.5 million. Hughes Telecom has certain rights regarding the administration of the program and the losses from qualifying accounts under this program accrue to Hughes Telecom, subject to certain indemnity obligations of the finance company. Hughes Telecom 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.

In December 1994, Hughes Electronics 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 Hughes Electronics. Baseline service payments to CSC are expected to aggregate approximately \$1.5 billion over the term of the eight-year agreement. Based on historical usage, approximately 10% of the costs incurred under the agreement are attributable to Hughes Telecom. The contract is cancelable by Hughes Electronics with substantial early termination penalties.

At December 31, 1996, minimum future commitments under noncancelable operating leases having lease terms in excess of one year, exclusive of satellite transponders leaseback payments disclosed in Note 6, are primarily for real property and aggregated \$223.3 million, payable as follows: \$42.5 million in 1997, \$29.7 million in 1998, \$23.0 million in 1999, \$21.4 million in 2000, \$19.8 million in 2001 and \$86.9 million thereafter. Certain of these leases contain escalation clauses and renewal or purchase options. Rental expenses under operating leases were \$53.4 million in 1996, \$55.6 million in 1995 and \$64.9 million in 1994.

## NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

Hughes Telecom has commitments to purchase minimum quantities of certain electronic components totaling approximately \$129.0 million. In conjunction with its performance on long-term contracts, Hughes Telecom is contingently liable under standby letters of credit and bonds in the amount of \$152.5 million at December 31, 1996. In Hughes Telecom's past experience, no material claims have been made against these financial instruments. In addition, Hughes Telecom has guaranteed up to \$150.0 million of certain American Mobile Satellite Corporation ("AMSC") bank debt due June, 2001. Hughes Telecom owns approximately 27% of the common stock of AMSC. Hughes Telecom has also guaranteed up to \$150.0 million of a Surfin Ltd. revolving credit facility which expires July, 1999. Hughes Telecom owns approximately 39% of Surfin Ltd.

Hughes Telecom 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 Telecom under these government regulations, and under these claims and actions, was not determinable at December 31, 1996. In the opinion of Hughes Electronics and Hughes Telecom management, such liability is not expected to have a material adverse effect on the Hughes Telecom's combined operations or financial position.

Hughes Telecom has maintained a suit against the U.S. Government since September 1973, regarding the government's infringement and use of a Hughes Telecom 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 Telecom damages of \$114.0 million. Because Hughes Telecom 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 Telecom \$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 Hughes Telecom's 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 Telecom currently remain in effect pending reconsideration of the case by the CAFC. Hughes Telecom is unable to estimate the duration of this reconsideration process. While no amount has been recorded in the financial statements of Hughes Telecom to reflect the \$114.0 million award, a resolution of this matter could result in a gain that would be material to the earnings of GM attributable to GM Class H Common Stock.

## NOTES TO COMBINED FINANCIAL STATEMENTS--(CONTINUED)

## NOTE 15: SEGMENT REPORTING

The Satellite Manufacturing segment is a world leader in the design and construction of satellites and related components. The Network Systems segment includes satellite-based business networks, wireless communications equipment and other communications services. The Direct-to-Home Broadcast segment provides digital programming services via satellite, primarily to residential consumers, both in the U.S. and in foreign countries. The Satellite Services segment is engaged in selling, leasing and operating satellite transponders and provides services for cable television systems, news companies and private business networks. The Avicom segment provides equipment for in-flight entertainment and communications for passengers of commercial airlines.

	SATELLITE MANUFACTURING	NETWORK SYSTEMS	DIRECT-TO- HOME BROADCAST	SATELLITE SERVICES	AVICOM	INTERCOMPANY ELIMINATIONS AND OTHER	TOTAL
	(DOLLARS IN MILLIONS)						
1996							
Revenues.....	\$2,050.2	\$1,067.4	\$ 744.4	\$ 483.4	89.7	\$ (260.6)	\$4,174.5
Operating Profit (Loss)							
(1).....	181.7	116.1	(310.9)	243.0	(8.1)	(40.9)	180.9
Identifiable Assets (2).	1,085.4	958.7	1,077.1	1,275.5	102.9	(20.4)	4,479.2
Depreciation and Amortization.....	52.1	28.3	67.3	58.5	2.9	9.4	218.5
Capital Expenditures (3).....	87.8	45.3	63.5	308.7	2.0	(55.9)	451.4
1995							
Revenues.....	\$1,716.8	\$ 909.2	\$ 241.0	\$ 394.0	49.5	\$ (99.9)	\$3,210.6
Operating Profit (Loss)							
(1).....	116.8	64.6	(159.0)	166.3	(61.9)	(38.1)	88.7
Identifiable Assets (2).	1,014.0	778.3	842.9	1,138.0	135.3	139.2	4,047.7
Depreciation and Amortization.....	51.4	25.2	48.6	76.5	8.3	(0.8)	209.2
Capital Expenditures (3).....	53.2	50.5	107.5	280.5	4.2	(49.4)	446.5
1994							
Revenues.....	\$1,462.4	\$ 813.6	\$ 108.3	\$ 331.5	\$ 75.6	\$ (27.9)	\$2,763.5
Operating Profit (Loss)							
(1).....	92.8	68.9	(44.0)	106.7	(79.7)	(14.7)	130.0
Identifiable Assets (2).	936.8	848.9	682.0	868.4	133.4	193.2	3,662.7
Depreciation and Amortization.....	47.4	23.5	23.5	54.1	2.1	12.4	163.0
Capital Expenditures (3).....	35.6	36.8	265.4	114.7	1.4	(53.5)	400.4

(1) Operating profit and depreciation and amortization include purchase accounting adjustments associated with GM's purchase of Hughes Aircraft Company related to Hughes Telecom of \$17.7 million in 1996, 1995 and 1994, respectively, attributable to Satellite Manufacturing; \$3.3 million in 1996, 1995 and 1994, respectively, attributable to Satellite Services; and \$6.2 million and \$0.2 million in 1995 and 1994, respectively, attributable to Avicom.

(2) Identifiable assets of the Satellite Manufacturing and Satellite Services segments include the unamortized purchase accounting adjustments associated with the purchase of Hughes Aircraft Company attributable to Hughes Telecom. Satellite Manufacturing includes unamortized purchase accounting adjustments of \$395.1 million in 1996, \$412.8 million in 1995 and \$430.5 million in 1994. Satellite Services includes unamortized purchase accounting adjustments of \$72.9 million in 1996, \$76.2 million in 1995 and \$79.5 million in 1994. Avicom includes unamortized purchase accounting adjustments of \$6.2 million in 1994.

(3) Expenditures related to satellites are included in the segments as follows: \$259.2 million, \$234.9 million and \$59.2 million in 1996, 1995 and 1994, respectively, for the Satellite Services segment; and \$53.1 million and \$209.5 million in 1995 and 1994, respectively, for the Direct-To-Home Broadcast segment.

HUGHES TELECOM

NOTES TO COMBINED FINANCIAL STATEMENTS--(CONCLUDED)

A reconciliation of operating profit shown above to Income before Income Taxes shown in the Combined Statement of Income and Parent Company's Net Investment follows:

	1996	1995	1994
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
Operating Profit.....	\$180.9	\$88.7	\$130.0
Other Income--net.....	74.9	(32.4)	(10.0)
Allocated Interest Expense.....	(45.9)	(65.1)	(55.9)
	-----	-----	-----
Income (Loss) before Income Taxes and minority interests.....	\$209.9	\$ (8.8)	\$ 64.1
	=====	=====	=====

Export sales from the U.S. were as follows:

	1996	1995	1994
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
Europe.....	\$ 640.1	\$305.3	\$164.8
Asia.....	651.0	560.7	467.5
Latin America.....	88.2	34.9	85.6
Africa.....	30.4	14.8	6.2
Other.....	19.5	47.7	46.4
	-----	-----	-----
Total.....	\$1,429.2	\$963.4	\$770.5
	=====	=====	=====

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS OF HE HOLDINGS.

Delaware General Corporation Law

Under Section 145 of the Delaware General Corporation Law, HE Holdings is empowered to indemnify its directors and officers in the circumstances therein provided. Certain portions of Section 145 are summarized below:

Section 145(a) of the Delaware General Corporation Law provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful.

Section 145(b) of the Delaware General Corporation Law provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

Section 145(c) of the Delaware General Corporation Law provides that to the extent that a director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 145(a) and (b), or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Section 145(d) of the Delaware General Corporation Law provides that any indemnification under Section 145(a) and (b) (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 145(a) and (b). Such determination shall be made (1) by a majority vote of the directors who were not parties to such action, suit or proceeding, even though less than a quorum, or (2) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (3) by the stockholders.

Section 145(e) of the Delaware General Corporation Law provides that expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall



ultimately be determined that such person is not entitled to be indemnified by the corporation as authorized in Section 145. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the board of directors deems appropriate.

Section 145(f) of the Delaware General Corporation Law provides that the indemnification and advancement of expenses provided by, or granted pursuant to, Section 145 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

Section 145(g) of the Delaware General Corporation Law provides that a corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's capacity as such, whether or not the corporation would have the power to indemnify such person against such liability under Section 145.

#### Amended and Restated Certificate of Incorporation

The Amended and Restated Certificate of Incorporation of HE Holdings (the "HE Holdings Certificate of Incorporation") provides that no director of HE Holdings shall be personally liable to HE Holdings or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption or limitation is prohibited under the Delaware General Corporation Law as it currently exists or as it may be amended in the future.

The HE Holdings Certificate of Incorporation also provides that HE Holdings shall indemnify each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director or officer of HE Holdings (whether the basis of such action, suit or proceeding is alleged action in an official capacity as a director or officer or in any other capacity while serving as a director or officer) to the fullest extent authorized by the Delaware General Corporation Law as it currently exists or as it may be amended in the future, against all expense, liability and loss (including attorneys' fees, judgment, fines, payments in settlement and excise taxes or penalties arising under ERISA) reasonably incurred or suffered by such person. Such indemnification shall continue as to a person who ceases to be a director or officer of HE Holdings and shall inure to the benefit of such person's heirs, executors and administrators. HE Holdings shall not be required to indemnify a person in connection with such action, suit or proceeding initiated by such person if it was not authorized by the HE Holdings Board.

The HE Holdings Certificate of Incorporation also provides that HE Holdings shall pay the expenses of directors and officers incurred in defending any such action, suit or proceeding in advance of its final disposition; provided, however, that, if and to the extent that the Delaware General Corporation Law requires, the payment of expenses incurred by a director or officer in advance of the final disposition of an action, suit or proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should be ultimately determined that the director or officer is not entitled to be indemnified under the HE Holdings Certificate of Incorporation or otherwise. If a claim for indemnification or advancement of expenses by an officer or director under the HE Holdings Certificate of Incorporation is not paid in full within thirty calendar days after a written claim therefor has been received by HE Holdings, the claimant may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled also to be paid the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any action, suit or proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to HE Holdings) that the claimant has not met the standard of conduct which makes it permissible under the Delaware General Corporation Law for HE Holdings to indemnify the claimant for the amount claimed. HE Holdings shall have the burden of proving such defense. Neither the failure of HE Holdings to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because the claimant has met the applicable

standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by HE Holdings that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct. The right to indemnification and the payment of expenses conferred on any person by the HE Holdings Certificate of Incorporation shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the HE Holdings Certificate of Incorporation or the Amended and Restated By-Laws of HE Holdings, agreement, vote of stockholders or disinterested directors or otherwise.

Any repeal or modification of these provisions of the HE Holdings Certificate of Incorporation by the stockholders of HE Holdings shall not adversely affect any limitation on the personal liability of directors for, or any rights of directors in respect of, any cause of action, suit or claim accruing or arising prior to the repeal or modification.

The HE Holdings Certificate of Incorporation also provides that HE Holdings may maintain insurance to protect itself and any director, officer, employee or agent of HE Holdings or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not HE Holdings would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

A copy of the HE Holdings Certificate of Incorporation is filed as Exhibit 3(a) to this Registration Statement.

#### Transaction Agreements

The Raytheon Merger Agreement provides that New Raytheon shall indemnify and defend each individual who is or was an officer or director (as well as such individual's heirs and legal representatives) of Raytheon or HE Holdings or any of their respective subsidiaries prior to the Raytheon Merger Effective Time against all losses, claims, damages, costs, expenses, liabilities or judgments or amounts that are paid in settlement with the approval of New Raytheon arising out of or in connection with any claim, action, suit, proceeding or investigation based in whole or in part on, or arising in whole or in part out of, (1) the fact that such person is or was a director or officer of Raytheon or HE Holdings, whether pertaining to any matter existing or occurring at or prior to the effective time of the Raytheon Merger (but in the case of HE Holdings, only insofar as relating to the defense business of HE Holdings) and (2) the Raytheon Merger Agreement or the transactions contemplated by that agreement, in each case to the full extent Raytheon or HE Holdings would have been permitted under the Delaware General Corporation Law, their certificates of incorporation and their by-laws to indemnify such person.

The Raytheon Merger Agreement also provides that New Raytheon shall pay the expenses of directors and officers (including their heirs and legal representatives) reasonably incurred in defending any action or proceeding in advance of its final disposition to the full extent permitted by law upon receipt of the undertaking contemplated by Section 145(e) of the Delaware General Corporation Law. New Raytheon will use its commercially reasonable efforts to assist in the vigorous defense of any such matter, provided that New Raytheon shall not be liable for any settlement of any claim effected without its written consent, which consent shall not be unreasonably withheld.

In the Master Separation Agreement, Delco and Hughes Telecom will agree to indemnify and defend the directors and officers of HE Holdings and New Raytheon against any losses, claims, damages, liabilities or actions arising, whether prior to or following the Hughes Reorganization, out of or in connection with the liabilities, assets and businesses of Delco and Hughes Telecom, respectively. Hughes Telecom will also agree to indemnify the directors and officers of HE Holdings and New Raytheon against any losses, claims, damages, liabilities or actions arising out of any breach of its representations and warranties to HE Holdings concerning the sufficiency of the assets of HE Holdings immediately following the GM Spin-Off Merger. Delco and Hughes Telecom will agree to reimburse the directors and officers of HE Holdings and New Raytheon for any legal or

other expenses reasonably incurred in connection with the investigation or defense of any such loss, claim, damage, liability or action. The amount of indemnification provided under the Master Separation Agreement shall be increased to take account of any net tax cost incurred by the director or officer arising from the receipt or accrual of an indemnification payment (grossed up for such increase) and reduced to take account of any net tax benefit realized by the director or officer arising from incurring or paying such loss or other liability.

In the Spin-Off Separation Agreement, General Motors will agree to indemnify and defend the directors and officers of HE Holdings from and against all losses relating to, arising from or due to: (1) any breach by General Motors or its affiliates (excluding HE Holdings after the spin-off of HE Holdings) of the Spin-Off Separation Agreement, (2) any untrue statement of a material fact or any omission to state a material fact in the Hughes Defense Registration Statement or the Registration Statement on Form S-4 of Hughes Defense, as amended and including exhibits, to register with the SEC the shares of Class B Common Stock relating to HE Holdings prior to the Raytheon Merger or the Hughes Transactions (except the Raytheon Merger or plans regarding New Raytheon after the Raytheon Merger and other forward-looking information regarding New Raytheon) and (3) any breach of the representation of General Motors in the Implementation Agreement that the execution and delivery of the Transaction Agreements by, and the consummation of the transactions on the part of, General Motors or any of its subsidiaries (excluding HE Holdings after the Hughes Reorganization) will conflict with, or result in a breach of, any provision of the certificates of incorporation or by-laws of General Motors or any such subsidiary. The amount of indemnification provided for under the Spin-Off Separation Agreement shall be increased to take account of any net tax cost incurred by the director or officer arising from the receipt or accrual of an indemnification payment (grossed up for such increase) and reduced to take account of any net tax benefit realized by the director or officer arising from incurring or paying such loss or other liability.

In the Tax Sharing Agreement, from and after the Distribution Date (as defined therein), General Motors and Hughes Telecom jointly and severally shall indemnify and hold harmless the directors and executive officers of HE Holdings from and against (1) all Income Tax Liabilities (as defined therein) incurred by any member of the GM Consolidated Group (as defined therein) in respect of the Distribution (as defined therein) or the Raytheon Merger, (2) all costs, expenses and damages associated with stockholder litigation or controversies arising in connection with any proposed tax assessment or controversy with respect to the Distribution or the Raytheon Merger, (3) without duplication, all Income Tax Liabilities which Hughes Telecom (or any other member of the GM Group (as defined herein)) is required to pay, or reimburse HE Holdings for, pursuant to Section 2 thereof, and (4) all Income Taxes (as defined therein) incurred by any member of the Hughes Group (as defined therein) by reason of the breach by Hughes Telecom or General Motors of any of its covenants hereunder and, in any case, any related costs and expenses (including, without limitation, reasonable attorneys' fees and expenses).

Insurance

To be provided by amendment.

ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

The following documents are exhibits to this Registration Statement.

EXHIBIT NUMBER -----	DESCRIPTION -----
2(a)	Form of Agreement and Plan of Merger by and between General Motors Corporation and GM Mergeco Corporation (included as Appendix A to the Solicitation Statement/Prospectus which forms a part of this Registration Statement). Executed Agreement and Plan of Merger to be included as Appendix A to the Solicitation Statement/Prospectus by amendment.
2(b)	Agreement and Plan of Merger by and between HE Holdings, Inc. and Raytheon Company, dated as of January 16, 1997 (filed as Exhibit 2(a) to the Current Report on Form 8-K of General Motors Corporation, dated January 16, 1997, and incorporated herein by reference).

EXHIBIT  
NUMBER  
-----

DESCRIPTION  
-----

- 2(c) Implementation Agreement by and between General Motors Corporation and Raytheon Company, dated as of January 16, 1997 (filed as Exhibit 2(b) to the Current Report on Form 8-K of General Motors Corporation, dated January 16, 1997, and incorporated herein by reference).
- 2(d) Form of Master Separation Agreement among General Motors Corporation, Hughes Network Systems, Inc., Delco Electronics Corporation and HE Holdings, Inc.\*
- 2(e) Form of Hughes Spin-Off Separation Agreement by and between HE Holdings, Inc. and General Motors Corporation.\*
- 2(f) Form of Tax Sharing Agreement among General Motors Corporation, HE Holdings, Inc. and Hughes Network Systems, Inc.\*
- 3(a) Amended Certificate of Incorporation of HE Holdings, Inc.\*
- 3(b) By-Laws of HE Holdings, Inc.\*
- 3(c) Form of Amended and Restated Certificate of Incorporation of HE Holdings, Inc.\*
- 3(d) Form of Amended and Restated By-Laws of HE Holdings, Inc.\*
- 4(a) Form of Amended and Restated Certificate of Incorporation of HE Holdings, Inc. (filed as Exhibit 3(c) above).
- 4(b) Form of Amended and Restated By-Laws of HE Holdings, Inc. (filed as Exhibit 3(d) above).
- 5 Opinion of Weil, Gotshal & Manges LLP (to be filed by amendment).
- 8(a) Form of Opinion of Kirkland & Ellis (executed opinion to be filed by amendment).\*
- 8(b) Form of Opinion of Weil, Gotshal & Manges LLP (executed opinion to be filed by amendment).\*
- 10 Material Contracts of HE Holdings (to be filed by amendment).
- 21 Subsidiaries of HE Holdings, Inc. (giving effect to the Hughes Reorganization).\*
- 23(a) Consent of Deloitte & Touche LLP, independent auditors.\*
- 23(b) Consent of Coopers & Lybrand L.L.P., independent auditors.\*
- 23(c) Consent of Ernst & Young LLP, independent auditors.\*
- 23(d) Consent of Arthur Andersen LLP, independent auditors.\*
- 23(e) Consent of Weil, Gotshal & Manges LLP included in Exhibit 5 above.
- 23(f) Form of Consent of Kirkland & Ellis (included in Exhibit 8(a) above).\*
- 23(g) Form of Consent of Weil, Gotshal & Manges LLP (included in Exhibit 8(b) above).\*
- 23(h) Consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated.\*
- 23(i) Consent of Salomon Brothers Inc.\*
- 23(j) Consent of Goldman, Sachs & Co.\*
- 99 Consents of Persons About to Become Directors (to be filed by amendment).

-----  
\* Filed herewith.

FAIRNESS OPINIONS

Incorporated as Appendix B to the Solicitation Statement/Prospectus which forms a part of this Registration Statement.

ITEM 22. UNDERTAKINGS.

The undersigned Registrant hereby undertakes:

1. That, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

2. That prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this Registration Statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

3. That every prospectus (i) that is filed pursuant to the paragraph immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Securities Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to this Registration Statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

4. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is assessed by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

5. To respond to requests for information that is incorporated by reference into this Solicitation Statement/Prospectus pursuant to Items 4, 10(b), 11 or 13 of this form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of this Registration Statement through the date of responding to the request.

6. To supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in this Registration Statement when it became effective.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THE REGISTRANT HAS DULY CAUSED THIS REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF LOS ANGELES, STATE OF CALIFORNIA, ON OCTOBER 6, 1997.

HE Holdings, Inc.

/s/ John C. Weaver  
By: \_\_\_\_\_  
John C. Weaver  
President and Chief Operating  
Officer

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS ON \_\_\_\_\_, 1997 IN THE CAPACITIES INDICATED.

SIGNATURE  
-----

TITLE  
-----

/s/ John C. Weaver

President and Chief Operating Officer

\_\_\_\_\_  
(John C. Weaver)

/s/ Roxanne S. Austin

Senior Vice President and Chief Financial  
Officer

\_\_\_\_\_  
(Roxanne S. Austin)

/s/ Charles S. Ream

Vice President

\_\_\_\_\_  
(Charles S. Ream)

/s/ Michael T. Smith

Chairman of the Board of Directors

\_\_\_\_\_  
(Michael T. Smith)

/s/ C. Michael Armstrong

Director

\_\_\_\_\_  
(C. Michael Armstrong)

Detach Consent Card Here

-----  
-----  
CONSENT TO ACTION OF STOCKHOLDERS WITHOUT A MEETING  
REVOCABLE CONSENT SOLICITED ON BEHALF OF  
GENERAL MOTORS CORPORATION

The undersigned, a common stockholder of General Motors Corporation ("General Motors" or "GM"), acting with respect to all of the shares of Common Stock, par value \$1 2/3 per share ("GM \$1 2/3 Common Stock"), and/or GM Class H Common Stock, par value \$0.10 per share ("GM Class H Common Stock" and, together with the GM \$1 2/3 Common Stock, the "GM Common Stock"), as applicable, held by the undersigned on October , 1997 (the "Record Date"), hereby consents, withholds consent or abstains as specified on the reverse side with respect to the taking of corporate action without a meeting pursuant to Section 228 of the Delaware General Corporation Law. All capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Solicitation Statement/Prospectus (the "Solicitation Statement/Prospectus") furnished herewith to stockholders of General Motors who held shares of GM Common Stock on the Record Date.

FAILURE TO EXECUTE AND RETURN THIS CONSENT CARD WILL BE DEEMED TO BE A VOTE TO ABSTAIN, AND A VOTE TO ABSTAIN WILL HAVE THE EFFECT OF A VOTE AGAINST THE CORPORATE ACTION DESCRIBED ON THE REVERSE SIDE OF THIS CARD.

Stockholders wishing to approve the action set forth herein should mark the "Consent" box on the reverse side of this consent card. Those opposing any such action should register their position by marking the "Withhold Consent" or "Abstain" box on the reverse side of this consent card or by not returning this consent card. Unless you otherwise indicate on this consent card, this consent card will be voted as set forth on the reverse side with respect to all shares of both classes of GM Common Stock held by the undersigned on the Record Date, and if no choice is indicated but this consent card is otherwise completed, you will be deemed to have consented to the action set forth on the reverse side of this consent card. By executing this card, the undersigned hereby revokes any and all prior consents and hereby affirms that, as of the Record Date, the undersigned had the power to deliver a consent for the number of shares represented by this consent.

SIGNED BUT UNMARKED CARDS WILL BE DEEMED TO GIVE CONSENT TO THE ACTION SET FORTH ON THE REVERSE SIDE OF THIS CARD.

Consummation of the Hughes Transactions is conditioned upon receiving the consent of the holders of (1) a majority of the outstanding shares of GM \$1 2/3 Common Stock, voting as a separate class, and (2) a majority of the outstanding shares of GM Class H Common Stock, voting as a separate class. Unless previously revoked, this consent will be effective when and if delivered along with consents representing the percentages of shares indicated in the immediately preceding sentence to General Motors (but no sooner than 20 business days following the mailing of the Solicitation Statement/Prospectus to GM common stockholders).

PLEASE SIGN AND DATE ON REVERSE SIDE

C O N S E N T

Detach Consent Card Here

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-----  
PLEASE MARK VOTES AS IN THIS EXAMPLE.

X

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FAILURE TO EXECUTE AND RETURN THIS CONSENT CARD WILL BE DEEMED TO BE A VOTE TO  
ABSTAIN, AND A VOTE TO ABSTAIN WILL HAVE THE EFFECT OF A VOTE AGAINST THE  
CORPORATE ACTION DESCRIBED BELOW.

-----  
THE BOARD OF DIRECTORS OF GENERAL MOTORS CORPORATION RECOMMENDS STOCKHOLDERS  
CONSENT TO THE PROPOSAL BELOW.  
-----

Consent [ ]

Withhold [ ]  
Consent

Abstain [ ]

1. PROPOSAL: APPROVAL OF THE HUGHES TRANSACTIONS, INCLUDING THE HUGHES  
REORGANIZATION, THE GM SPIN-OFF MERGER AGREEMENT AND RELATED TRANSACTIONS

The approval of the Hughes Transactions, including the Hughes Reorganization,  
the GM Spin-Off Merger (including the Hughes Defense Spin-Off and the  
recapitalization and conversion of GM Class H Common Stock into New GM Class  
H Common Stock), the Master Separation Agreement and all of the other  
agreements contemplated thereby and the consummation of the other  
transactions and events contemplated by the GM Spin-Off Merger Agreement,  
including the adoption of the GM Spin-Off Merger Agreement.  
When shares are held by joint tenants, both must sign. When signing as  
attorney-in-fact, executor, administrator, trustee, guardian, corporate  
officer or partner, please give full title as such. If a corporation, please  
sign in corporate name by President or other authorized officer. If a  
partnership, please sign in partnership name by authorized person.

Signature \_\_\_\_\_ Signature, if held jointly \_\_\_\_\_  
Title \_\_\_\_\_ Dated: \_\_\_\_\_

IN ORDER FOR THIS CONSENT CARD TO BE VALID, IT MUST BE DATED. PLEASE  
DATE AND SIGN THIS CARD EXACTLY AS YOUR NAME APPEARS HEREON, AND RETURN IT  
PROMPTLY IN THE ENCLOSED ENVELOPE.



CONSENT TO ACTION OF STOCKHOLDERS WITHOUT A MEETING  
REVOCABLE CONSENT SOLICITED ON BEHALF OF  
GENERAL MOTORS CORPORATION

COMMON

The undersigned, a common stockholder of General Motors Corporation ("General Motors" or "GM"), acting with respect to all of the shares of Common Stock, par value \$1 2/3 per share ("GM \$1 2/3 Common Stock"), held by the undersigned on October , 1997 (the "Record Date"), hereby consents, withholds consent or abstains as specified on the reverse side with respect to the taking of corporate action without a meeting pursuant to Section 228 of the Delaware General Corporation Law. All capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Solicitation Statement/Prospectus (the "Solicitation Statement/Prospectus") furnished herewith to stockholders of General Motors who held shares of GM common stock on the Record Date.

FAILURE TO EXECUTE AND RETURN THIS CONSENT CARD WILL BE DEEMED TO BE A VOTE TO ABSTAIN, AND A VOTE TO ABSTAIN WILL HAVE THE EFFECT OF A VOTE AGAINST THE CORPORATE ACTION DESCRIBED ON THE REVERSE SIDE OF THIS CARD.

Stockholders wishing to approve the actions set forth herein should mark the "Consent" box on the reverse side of this consent card. Those opposing such action should register their position by marking the "Withhold Consent" or "Abstain" box on the reverse side of this consent card or by not returning this consent card. Unless you otherwise indicate on this consent card, this consent card will be voted as set forth on the reverse side with respect to all shares of GM \$1 2/3 Common Stock held by the undersigned on the Record Date, and if no choice is indicated but this consent card is otherwise completed, you will be deemed to have consented to the action set forth on the reverse side of this consent card. By executing this card the undersigned hereby revokes any and all prior consents and hereby affirms that, as of the Record Date, the undersigned had the power to deliver a consent for the number of shares represented by this consent.

SIGNED BUT UNMARKED CARDS WILL BE DEEMED TO GIVE CONSENT TO THE ACTION SET FORTH ON THE REVERSE SIDE OF THIS CARD.

Consummation of the Hughes Transactions is conditioned upon receiving the consent of the holders of (1) a majority of the outstanding shares of GM \$1 2/3 Common Stock, voting as a separate class, and (2) a majority of the outstanding shares of GM Class H Common Stock, voting as a separate class. Unless previously revoked, this consent will be effective when and if delivered along with consents representing the percentages of shares indicated in the immediately preceding sentence to General Motors (but no sooner than 20 business days following the mailing of the Solicitation Statement/Prospectus to GM common stockholders).

PLEASE SIGN AND DATE ON REVERSE SIDE

COMMON

[X] PLEASE MARK VOTES AS IN THIS EXAMPLE.

FAILURE TO EXECUTE AND RETURN THIS CONSENT CARD WILL BE DEEMED TO BE A VOTE TO ABSTAIN, AND A VOTE TO ABSTAIN WILL HAVE THE EFFECT OF A VOTE AGAINST THE CORPORATE ACTION DESCRIBED BELOW.

THE BOARD OF DIRECTORS OF GENERAL MOTORS CORPORATION RECOMMENDS STOCKHOLDERS CONSENT TO THE PROPOSAL BELOW.

PROPOSAL: APPROVAL OF THE HUGHES TRANSACTIONS, INCLUDING THE HUGHES REORGANIZATION, THE GM SPIN-OFF MERGER AGREEMENT AND RELATED TRANSACTIONS

WITHHOLD  
CONSENT [ ]    CONSENT [ ]    ABSTAIN [ ]

The approval of the Hughes Transactions, including the Hughes Reorganization, the GM Spin-Off Merger (including the Hughes Defense Spin-Off and the recapitalization and conversion of GM Class H Common Stock into New GM Class H Common Stock), the Master Separation Agreement and all of the other agreements contemplated thereby and the consummation of the other transactions and events contemplated by the GM Spin-Off Merger Agreement, including the adoption of the GM Spin-Off Merger Agreement.

When shares are held by joint tenants, both must sign. When signing as attorney-in-fact, executor, administrator, trustee, guardian, corporate officer or partner, please give full title as such. If a corporation, please sign in corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Signature \_\_\_\_\_ Dated: \_\_\_\_\_

Signature \_\_\_\_\_ Dated: \_\_\_\_\_

CONSENT TO ACTION OF STOCKHOLDERS WITHOUT A MEETING  
REVOCABLE CONSENT SOLICITED ON BEHALF OF  
GENERAL MOTORS CORPORATION CLASS H

The undersigned, a common stockholder of General Motors Corporation ("General Motors" or "GM"), acting with respect to all of the shares of Class H Common Stock, par value \$0.10 per share ("GM Class H Common Stock"), held by the undersigned on October 1, 1997 (the "Record Date"), hereby consents, withholds consent or abstains as specified on the reverse side with respect to the taking of corporate action without a meeting pursuant to Section 228 of the Delaware General Corporation Law. All capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Solicitation Statement/Prospectus (the "Solicitation Statement/Prospectus") furnished herewith to stockholders of General Motors who held shares of GM common stock on the Record Date.

FAILURE TO EXECUTE AND RETURN THIS CONSENT CARD WILL BE DEEMED TO BE A VOTE TO ABSTAIN, AND A VOTE TO ABSTAIN WILL HAVE THE EFFECT OF A VOTE AGAINST THE CORPORATE ACTION DESCRIBED ON THE REVERSE SIDE OF THIS CARD.

Stockholders wishing to approve the action set forth herein should mark the "Consent" box on the reverse side of this consent card. Those opposing such action should register their position by marking the "Withhold Consent" or "Abstain" box on the reverse side of this consent card or by not returning this consent card. Unless you otherwise indicate on this consent card, this consent card will be voted as set forth on the reverse side with respect to all shares of GM Class H Common Stock held by the undersigned on the Record Date, and if no choice is indicated but this consent card is otherwise completed, you will be deemed to have consented to the action set forth on the reverse side of this consent card. By executing this card the undersigned hereby revokes any and all prior consents and hereby affirms that, as of the Record Date, the undersigned had the power to deliver a consent for the number of shares represented by this consent.

SIGNED BUT UNMARKED CARDS WILL BE DEEMED TO GIVE CONSENT TO THE ACTION SET FORTH ON THE REVERSE SIDE OF THIS CARD.

Consummation of the Hughes Transactions is conditioned upon receiving the consent of the holders of (1) a majority of the outstanding shares of GM \$1 2/3 Common Stock, voting as a separate class, and (2) a majority of the outstanding shares of GM Class H Common Stock, voting as a separate class. Unless previously revoked, this consent will be effective when and if delivered along with consents representing the percentages of shares indicated in the immediately preceding sentence to General Motors (but no sooner than 20 business days following the mailing of the Solicitation Statement/Prospectus to GM common stockholders).

PLEASE SIGN AND DATE ON REVERSE SIDE

CLASS H

PLEASE MARK VOTES AS IN THIS EXAMPLE.

FAILURE TO EXECUTE AND RETURN THIS CONSENT CARD WILL BE DEEMED TO BE A VOTE TO ABSTAIN, AND A VOTE TO ABSTAIN WILL HAVE THE EFFECT OF A VOTE AGAINST THE CORPORATE ACTION DESCRIBED BELOW.

THE BOARD OF DIRECTORS OF GENERAL MOTORS CORPORATION RECOMMENDS STOCKHOLDERS CONSENT TO THE PROPOSAL BELOW.

PROPOSAL: APPROVAL OF THE HUGHES TRANSACTIONS, INCLUDING THE HUGHES REORGANIZATION, THE GM SPIN-OFF MERGER AGREEMENT AND RELATED TRANSACTIONS

WITHHOLD

CONSENT  CONSENT  ABSTAIN

The approval of the Hughes Transactions, including the Hughes Reorganization, the GM Spin-Off Merger (including the Hughes Defense Spin-Off and the recapitalization and conversion of GM Class H Common Stock into New GM Class H Common Stock), the Master Separation Agreement and all of the other agreements contemplated thereby and the consummation of the other transactions and events contemplated by the GM Spin-Off Merger Agreement, including the adoption of the GM Spin-Off Merger Agreement.

When shares are held by joint tenants, both must sign. When signing as attorney-in-fact, executor, administrator, trustee, guardian, corporate officer or partner, please give full title as such. If a corporation, please sign in corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Signature \_\_\_\_\_ Dated: \_\_\_\_\_

Signature \_\_\_\_\_ Dated: \_\_\_\_\_

MASTER SEPARATION AGREEMENT

dated as of

\_\_\_\_\_, 1997

among

General Motors Corporation,

Hughes Network Systems, Inc.

Delco Electronics Corporation

and

HE Holdings, Inc.

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MASTER SEPARATION AGREEMENT

This Master Separation Agreement (this "Agreement"), dated as of \_\_\_\_\_, 1997 is made by and among General Motors Corporation, a Delaware corporation ("GM"), HE Holdings, Inc., a Delaware corporation and a wholly owned subsidiary of GM ("Hughes"), Delco Electronics Corporation, a Delaware corporation and a wholly owned subsidiary of GM, and Hughes Network Systems, Inc., a Delaware corporation and a wholly owned subsidiary of GM.

RECITALS

WHEREAS, Hughes and Raytheon Company, a Delaware corporation ("Raytheon"), are parties to that certain Agreement and Plan of Merger dated as of January 16, 1997, as amended from time to time (the "Merger Agreement"), pursuant to which Raytheon's business will be combined with the Defense Business through the merger of Raytheon with and into Hughes (the "Merger"); and

WHEREAS, as a condition to entering into the Merger Agreement, Raytheon has required that Hughes be, at the time of consummation of the Merger, an independent, publicly owned company, comprising the Defense Business; and

WHEREAS, in order to satisfy such condition, the parties hereto, subject to the terms and conditions hereof, intend to effect certain transfers of assets, subject to assuming certain liabilities, as described herein; and

WHEREAS, it is the intention of the parties to this Agreement that the transfers described herein will qualify as tax-free under the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, the parties hereto also intend to enter into certain agreements governing their relationships following the effectiveness of the Merger;

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements set forth below, the parties hereto agree as follows:

ARTICLE 1

Definitions

Section 1.01. Defined Terms. (a) Capitalized terms used herein which are not otherwise defined herein shall have the meanings ascribed to them in the Merger Agreement.

(b) The following terms, as used herein, shall have the following meanings:

"Additional Delco Assets" means those certain Assets that are not presently owned by Delco or its Subsidiaries but are used primarily, or are held for use primarily, in the Automotive Electronics Business, as identified on Schedule 1.

"Additional Delco Liabilities" means all Liabilities relating to or arising out of the Additional Delco Assets.

"Additional Hughes Assets" means those certain Assets that are not presently owned by Hughes or its Subsidiaries but are used primarily, or are held for use primarily, in the Defense Business, as identified on Schedule 2.

"Additional Hughes Liabilities" means all Liabilities relating to or arising out of the Additional Hughes Assets.

"Additional Telecom Assets" means those certain Assets that are not presently owned by Telecom or its Subsidiaries but are used primarily, or are held for use primarily in, the Telecommunications and Space Business, as identified on Schedule 3.

"Additional Telecom Liabilities" means all Liabilities relating to or arising out of the Additional Telecom Assets.

"Affiliate" of any specified Person means any other Person directly or indirectly Controlling, Controlled by, or under common Control with, such specified Person.

"Ancillary Separation Agreements" means the Definitive Agreements and any other agreements entered into among the parties hereto on or prior to the Spin-Off Merger Time with respect to the relationships of the parties after the Spin-Off Merger Time, subject to Section 4.2(b) of the GM Implementation Agreement.

"Arbiter" has the meaning set forth in Section 7.01.



"Assets" means any and all assets, properties and rights, whether tangible or intangible, whether real, personal or mixed, whether fixed, contingent or otherwise, and wherever located, including, without limitation, the following:

(i) real property interests (including leases), land, plants, buildings and improvements;

(ii) machinery, equipment, vehicles, furniture and fixtures, leasehold improvements, supplies, repair parts, tools, plant, laboratory and office equipment and other tangible personal property, together with any rights or claims arising out of the breach of any express or implied warranty by the manufacturers or sellers of any of such assets or any component part thereof;

(iii) inventories, including raw materials, work-in-process, finished goods, parts, accessories;

(iv) notes, loans and accounts receivable (whether current or not current), interests as beneficiary under letters of credit, advances and performance and surety bonds;

(v) banker's acceptances, shares of stock, bonds, debentures, evidences of indebtedness, certificates of interest or participation in profit-sharing agreements, collateral-trust certificates, investment contracts, voting trust certificates, puts, calls, straddles, options, swaps, collars, caps and other securities or hedging arrangements of any kind;

(vi) financial, accounting and operating data and records including, without limitation, books, records, electronic data, notes, sales and sales promotional data, advertising materials, credit information, cost and pricing information, customer and supplier lists, reference catalogs, payroll and personnel records, minute books, stock ledgers, stock transfer records and other similar property, rights and information;

(vii) domestic and foreign patents and patent applications, together with any continuations, continuations-in-part or divisional applications thereof, and all patents issuing thereon (including reissues, renewals and re-examinations of the foregoing); invention disclosures; mask works; net lists; copyrights, and copyright applications and registrations; trademarks, servicemarks, service names, trade names, and trade dress, in each case together with any applications and registrations therefor and all appurtenant goodwill relating thereto; trade secrets, commercial and technical

information, know-how, proprietary or confidential information, including engineering, production and other designs, notebooks, processes, drawings, specifications, formulae, and technology; computer and electronic data processing programs and software (object and source code), data bases and documentation thereof; inventions (whether patented or not); and all other Intellectual Property under the laws of any country throughout the world;

(viii) Contracts and all rights therein;

(ix) prepaid expenses, deposits and retentions held by third parties;

(x) claims, causes of action, choses in action, rights under insurance policies, rights under express or implied warranties, rights of recovery, rights of set-off, and rights of subrogation;

(xi) licenses, franchises, permits, authorizations and approvals; and

(xii) goodwill and going concern value.

"Auditors' Report" has the meaning set forth in Section 7.01.

"Automotive Electronics Business" means (i) the businesses heretofore or currently engaged in by HEC and its Subsidiaries as reported in the automotive electronics segment (or its predecessor segment) in HEC's financial statements, (ii) any former or discontinued operations primarily related to such businesses as previously conducted (but excluding any former or discontinued operations that, during the time that such operations were active, previously were reported in the automotive electronics segment (or its predecessor segment) in HEC's or its predecessor's financial statements but were subsequently moved to, and are currently, or if divested, last were, reported in, the aerospace and defense systems segment, telecommunications and space segment or the corporate/other segment (or their predecessors' segments) in HEC's (or its predecessor's) financial statements), and (iii) the businesses related to the Additional Delco Assets; provided, however, that at the Spin-Off Merger Time, Delco and Hughes will each own 50% of the capital stock or other equity interest of HE Microwave LLC.

"Automotive Electronics Employees" has the meaning ascribed to such term in the Employee Matters Agreement.

"Business Day" means a day other than a Saturday, a Sunday or a day on which banking institutions located in the State of New York are authorized or obligated by law or executive order to close.

"Closing Date Balance Sheet" has the meaning set forth in Section 7.01.

"Closing Date Final Amount" has the meaning set forth in Section 7.01.

"Closing Date Financial Information" has the meaning set forth in Section 7.01.

"Closing Date Statement of Purchase Price Adjustment Amounts" has the meaning set forth in Section 7.01.

"Confidential Information" means with respect to any party hereto, (a) any Information concerning such party, its business or any of its Affiliates that was obtained by another party hereto prior to the Spin-Off Merger Time, (b) any Information concerning such party that is obtained by another party under Section 4.03, or (c) any other Information obtained by, or furnished to, another party hereto that (i) is marked "Proprietary" or "Company Private" or words of similar import by the party owning such Information, or any Affiliate of such party, or (ii) the party owning such Information has notified such other party in writing is confidential or secret; provided, however, that any Information provided by GM to any of Hughes, Telecom or Delco regarding the Defense Business, Telecommunications and Space Business or the Automotive Electronics Business, respectively, shall not be deemed Confidential Information with respect to the use of such Information in their respective businesses by Hughes, Telecom or Delco, as the case may be.

"Contracts" means any contract, agreement, lease, license, sales order, purchase order, instrument or other commitment that is binding on any Person or any part of its property under applicable law.

"Control" means the possession, direct or indirect, of the power to direct or cause the direction of the management of the policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Controlling" and "Controlled" have the corollary meanings ascribed thereto.

"Defense Business" means (i) the businesses heretofore or currently engaged in by HEC and its Subsidiaries as reported in the aerospace and defense systems segment (or its predecessor segment) in HEC's financial statements, (ii) any former or discontinued operations primarily related to such businesses as previously conducted (but excluding any

former or discontinued operations that, during the time that such operations were active, previously were reported in the aerospace and defense system segment (or its predecessor segment) in HEC's or its predecessor's financial statements but were subsequently moved to, and are currently, or if divested, last were, reported in, the telecommunications and space segment or automotive electronics segment (or their predecessors' segments) in HEC's (or its predecessor's) financial statements), (iii) the businesses related to the Additional Hughes Assets, and (iv) the other businesses set forth on Schedule 4.

"Defense Employee Arrangements" has the meaning ascribed to such term in the Employee Matters Agreement.

"Defense Employee Benefit Plans" has the meaning ascribed to such term in the Employee Matters Agreement.

"Defense Employees" has the meaning ascribed to such term in the Employee Matters Agreement.

"Definitive Agreements" has the meaning set forth in Section 2.06.

"Delco" means Delco Electronics Corporation, a Delaware corporation that, after giving effect to the HEC Reorganization (as defined in the Hughes Distribution Agreement), will be a direct Subsidiary of GM and the parent corporation of all entities owned directly or indirectly by GM that will engage after the Spin-Off Merger Time in the Automotive Electronics Business conducted immediately prior to the consummation of the transactions set forth herein.

"Delco Assets" means all of HEC's or HEC's Subsidiaries' right, title and interest (including minority interests) in and to all Assets of HEC or any of its Subsidiaries other than Hughes that are used primarily in or held primarily for use in the operations of the Automotive Electronics Business, including the Additional Delco Assets and the rights of Delco and its Subsidiaries under this Agreement and the agreements contemplated hereby (including the Ancillary Separation Agreements), but excluding the Hughes Assets, the Telecom Assets and any cash and cash equivalents.

"Delco Liabilities" means (i) all Liabilities relating primarily to, or arising primarily out of, the Automotive Electronics Business as conducted at any time prior to, on or after the Spin-Off Merger Time, including, without limitation, all Liabilities relating to or arising out of the Delco Assets, (ii) the Liabilities described on Schedule 9, (iii) the obligations of Delco created pursuant to this Agreement and the agreements contemplated hereby (including under

the Ancillary Separation Agreements) and (iv) all Liabilities with respect to Automotive Electronics Employees and Retired Automotive Electronics Employees.

"Dual Use Technology" shall mean all Intellectual Property developed by Hughes for the Defense Business (i) that is useful in the Telecommunications and Space Business as conducted immediately prior to the Spin-Off Merger Time and (ii) which covers components manufactured or processes that are to be utilized by the Telecommunications and Space Business, and, with respect to patents, patent applications and invention disclosures, shall consist of the patents, patent applications and invention disclosures set forth on Schedule 10 hereof.

"Employee Arrangements" means all employment or consulting agreements, collective bargaining agreements and all bonus and other incentive compensation, deferred compensation, disability, severance, stock award, stock option or stock purchase agreements, policies or arrangements with respect to the employment and termination of employment of any employee, officer, director or other Person employed at any time by HEC or any of its Subsidiaries.

"Employee Benefit Plan" means each employee benefit plan, as defined in Section 3(3) of ERISA, which HEC or any of its Subsidiaries maintains or to which HEC or any of its Subsidiaries has an obligation to make contributions.

"Employee Matters Agreement" means the agreement to be entered into as of the Spin-Off Merger Time among Hughes, Telecom and Delco, with respect to, among other things, certain employee benefit and liability issues.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Final Determination" means (i) with respect to federal income Taxes, a "determination" as defined in Section 1313(a) of the Code or execution of an Internal Revenue Service Form 870AD and, with respect to Taxes other than federal income Taxes, any final determination of liability in respect of a Tax that, under applicable law, is not subject to further appeal, review or modification through proceedings or otherwise (including the expiration of a statute of limitations or a period for the filing of claims for refunds, amended returns or appeals from adverse determinations) or (ii) the payment of Tax by Hughes, HEC or any of their Affiliates, whichever is responsible for payment of such Tax liability under applicable law, with respect to any item disallowed or adjusted by a Taxing authority, provided that such responsible party determines that no action should be taken to

recoup such payment and Hughes (if the responsible party is HEC or any of its Affiliates) or HEC (if the responsible party is Hughes or any of its Affiliates) agrees.

"HAC" means Hughes Aircraft Company, a Delaware corporation.

"HEC" means Hughes Electronics Corporation, a Delaware corporation and as of the date hereof, the owner of all of the capital stock of Hughes.

"HEC Reorganization" has the meaning ascribed to such term in the Hughes Distribution Agreement.

"HRL" means Hughes Research Laboratories LLC, a Delaware limited liability company.

"Hughes Assets" means all of HEC's or HEC's Subsidiaries' right, title and interest (including minority interests) in and to all Assets of HEC or any of its Subsidiaries that are used primarily in or held primarily for use in the operations of the Defense Business, including without limitation the Hughes Facilities, the Hughes Intellectual Property, the Hughes Contracts, the Additional Hughes Assets, the Assets of the Defense Employee Arrangements and the Defense Employee Benefit Plans as provided in the Employee Matters Agreement and the rights of Hughes and its Subsidiaries under this Agreement and the agreements contemplated hereby (including the Ancillary Separation Agreements), but excluding (i) the Telecom Assets, (ii) the Delco Assets and (iii) any cash and cash equivalents on the Closing Date Balance Sheet.

"Hughes Contracts" means all Contracts pursuant to which Hughes or any of its Subsidiaries (determined immediately following the Spin-Off Merger Time) are parties (other than Contracts that constitute Additional Telecom Assets or Additional Delco Assets) and the other Contracts identified on Schedule 5.

"Hughes Debt" means the Debt contemplated by the Merger Agreement to be Debt of Hughes and its Subsidiaries as of the Effective Time.

"Hughes Facilities" means the real property and facilities described on Exhibit A that currently are, or will be on or prior to the Spin-Off Merger Time, owned by, or leased to, Hughes or any of its Subsidiaries.

"Hughes Intellectual Property" means all of HEC's or HEC's Subsidiaries' right, title and interest in and to the Intellectual Property relating primarily to the Defense Business

and shall include, without limitation, the patents, patent applications, and trademarks set forth on Schedule 6 hereof. In no event shall Hughes Intellectual Property include the ownership of Dual Use Technology or any trademark, servicemark or trade or company name which contains the name "HUGHES"; provided, however, that the Hughes Intellectual Property shall include Hughes's rights under the Intellectual Property Agreements contemplated by this Agreement.

"Hughes Interim Balance Sheet" means the unaudited pro forma consolidated balance sheet as of September 30, 1996 for Hughes contained in the Hughes Interim Statements and included in the disclosure schedule to the Merger Agreement.

"Hughes Liabilities" means (i) the Hughes Debt, together with accrued and unpaid interest thereon at the Spin-Off Merger Time to the extent reflected on the Closing Date Balance Sheet (other than with respect to the Hughes Debt to be incurred in connection with the Intercompany Payment for which there will be no accrued and unpaid interest at the Spin-Off Merger Time), (ii) all Liabilities relating primarily to, or arising primarily out of, the Defense Business as conducted at any time prior to, on or after the Spin-Off Merger Time, including without limitation all Liabilities relating to or arising out of the Hughes Assets, (iii) the Liabilities described on Schedule 7, (iv) all Liabilities with respect to Defense Employees and Retired Defense Employees, (v) all Liabilities arising under the Defense Employee Arrangements and Defense Employee Benefit Plans, and (vi) the obligations of Hughes created pursuant to this Agreement, the agreements contemplated hereby (including under the Ancillary Separation Agreements) and the other Transaction Agreements (to the extent such other Transaction Agreements contain obligations or liabilities of Hughes and/or its Subsidiaries from and after the Spin-Off Merger Time).

"Hughes Spin-Off Separation Agreement" means the agreement to be entered into prior to the Effective Time between GM and Hughes, with respect to certain separation issues.

"Income Tax" has the meaning ascribed to such term in the Tax Sharing Agreement.

"Indemnifying Party" means a Person that is obligated to provide indemnification pursuant to Article 3 of this Agreement.

"Indemnitee" means a Person that is entitled to seek indemnification pursuant to Article 3 of this Agreement.

"Information" means all records, books, contracts, instruments, computer data and other data and information.

"Intellectual Property" means any and all domestic and foreign patents and patent applications, together with any continuations, continuations-in-part or divisional applications thereof, and all patents issuing thereon (including reissues, renewals and re-examinations of the foregoing); invention disclosures; mask works; net lists; copyrights, and copyright applications and registrations; trademarks, servicemarks, service names, trade names, and trade dress, in each case together with any applications and registrations therefor and all appurtenant goodwill relating thereto; trade secrets, commercial and technical information, know-how, proprietary or confidential information, including engineering, production and other designs, notebooks, processes, drawings, specifications, formulae, and technology; computer and electronic data processing programs and software (object and source code), data bases and documentation thereof; inventions (whether patented or not); and all other intellectual property under the laws of any country throughout the world.

"Intellectual Property Agreements" means all agreements to be entered into prior to the Spin-Off Merger Time between Hughes and Telecom (or between their respective Affiliates) with respect to the treatment after the Spin-Off Merger Time of Intellectual Property, all as described herein.

"Liabilities" means any and all debts, liabilities, commitments and obligations, whether fixed, contingent or absolute, matured or unmatured, liquidated or unliquidated, accrued or not accrued, known or unknown, whenever or however arising (including, without limitation, whether arising out of any Contract or tort based on negligence or strict liability) and whether or not the same would be required by generally accepted accounting principles to be reflected in financial statements or disclosed in the notes thereto.

"Loss" or "Losses" has the meaning ascribed to such terms in the Hughes Spin-Off Separation Agreement.

"Person" means an individual, partnership, limited liability company, joint venture, corporation, trust, unincorporated association, any other entity, or a government or any department or agency or other unit thereof.

"Prior Relationship" means the ownership relationships among GM, HEC, Hughes, Telecom and Delco at any time prior to giving effect to the HEC Reorganization and the Spin-Off Transactions.



"Purchase Price Adjustment Amounts" has the meaning set forth in Section 7.01.

"Representatives" means directors, officers, employees, agents, consultants, advisors, accountants, attorneys and representatives.

"Retired Automotive Electronics Employees" has the meaning ascribed to such term in the Employee Matters Agreement.

"Retired Defense Employees" means all former employees of the Defense Business as described in the Employee Matters Agreement.

"Retired Satellite Employees" has the meaning ascribed to such term in the Employee Matters Agreement.

"Satellite Employees" has the meaning ascribed to such term in the Employee Matters Agreement.

"Spin-Off Merger" means the merger of Merger Sub with and into GM pursuant to the Hughes Distribution Agreement.

"Spin-Off Merger Time" means the date and time as of which the Spin-Off Merger becomes effective.

"Spin-Off Transactions" means the Hughes Spin-Off and the Telecom Spin-Off transactions contemplated by the Hughes Distribution Agreement.

"Subsidiary" means with respect to any specified Person, any corporation or other legal entity of which such Person or any of its Subsidiaries Controls or owns, directly or indirectly, more than 50% of the stock of other equity interest entitled to vote on the election of the members to the board of directors or similar governing body.

"Tax" has the meaning ascribed to such term in the Hughes Spin-Off Separation Agreement.

"Tax Sharing Agreement" means the agreement to be entered into as of the Spin-Off Merger Time among GM, Hughes and Telecom, with respect to certain Income Tax matters.

"Telecom" means Hughes Network Systems, Inc., a Delaware corporation that, after giving effect to the HEC Reorganization, will be a direct Subsidiary of GM and the parent

corporation of all entities owned directly or indirectly by GM that will engage in the Telecommunications and Space Business after the Spin-Off Merger Time (and which will be renamed Hughes Electronics Corporation as of the Spin-Off Merger Time).

"Telecom Assets" means all of HEC's or HEC's Subsidiaries right, title and interest (including minority interests) in and to all Assets of Hughes or any of its Subsidiaries that are used primarily in or held primarily for use in the operations of the Telecommunications and Space Business, including the Additional Telecom Assets and the rights of Telecom and its Subsidiaries under this Agreement and the agreements contemplated hereby (including the Ancillary Separation Agreements), but excluding the Hughes Assets and the Delco Assets.

"Telecom Liabilities" means (i) all Liabilities relating primarily to, or arising primarily out of, the Telecommunications and Space Business as conducted at any time prior to, on or after the Spin-Off Merger Time, including without limitation all Liabilities relating to or arising out of the Telecom Assets, (ii) all Liabilities with respect to Satellite Employees and Retired Satellite Employees, (iii) the Liabilities described on Schedule 8, (iv) the obligations of Telecom created pursuant to this Agreement and the agreements contemplated hereby (including under the Ancillary Separation Agreements), (v) all other Liabilities of Hughes that are neither Delco Liabilities nor Hughes Liabilities and (vi) any Debt of Hughes or its Subsidiaries in excess of the Hughes Debt.

"Telecommunications and Space Business" means the businesses heretofore or currently engaged in by HEC and its Subsidiaries (including the businesses related to the Additional Telecom Assets), other than (i) the Automotive Electronics Business and (ii) the Defense Business.

"Third-Party Claim" means any claim, suit, arbitration, inquiry, proceeding or investigation by or before any court, governmental or other regulatory or administrative agency or commission or any arbitration tribunal asserted by a Person other than any party hereto or their respective Affiliates which gives rise to a right of indemnification hereunder.

"Transaction Agreements" has the meaning set forth in the GM Implementation Agreement.

"Transferee" means any Person that will receive a transfer of Assets pursuant to Article 2.

"Transferor" means any Person that will make a transfer of Assets pursuant to Article 2.

ARTICLE 2

Transfer and Assumption

Section 2.01. Transfer and Contribution of Assets.

(a) Subject to the terms and conditions of this Agreement:

(i) prior to the Spin-Off Merger Time, GM shall cause HEC (or shall cause HEC's appropriate Subsidiary) to transfer to Hughes (or at Hughes' election, a Subsidiary of Hughes) all of HEC's (or its Subsidiary's) right, title and interest in and to the Additional Hughes Assets;

(ii) prior to the Spin-Off Merger Time, GM shall cause HEC (or shall cause HEC's appropriate Subsidiary) to transfer to Telecom (or at Telecom's election, an Affiliate of Telecom) all of HEC's (or its Subsidiary's) right, title and interest in and to the Additional Telecom Assets;

(iii) prior to the Spin-Off Merger Time, GM shall cause HEC (or shall cause HEC's appropriate Subsidiary) to transfer to Delco (or at Delco's election, an Affiliate of Delco) all of HEC's right, title and interest in and to the Additional Delco Assets;

(iv) immediately following the actions referred to in the preceding clauses and prior to the Spin-Off Merger Time, (a) HAC will merge with and into Hughes, with Hughes as the surviving corporation, and (b) HEC will merge with and into GM, with GM as the surviving corporation; and

(v) immediately following the actions referred to in clause (iv) and prior to the Spin-Off Merger Time, Hughes shall transfer to GM all of its right, title and interest in and to the shares of capital stock of Telecom.

(b) All of the transfers of Assets to be effected pursuant to this Article 2 are hereinafter collectively referred to as the "Transfer" and the Assets so transferred are hereinafter collectively referred to as the "Transferred Assets."

(c) Notwithstanding anything in this Agreement to the contrary, Hughes shall retain and shall not transfer, convey, assign or contribute to any Person the Hughes Assets.

In addition, the parties hereto acknowledge and agree that Telecom retains the Telecom Assets and that Delco retains the Delco Assets.

(d) Each of the parties hereto acknowledges and agrees that the Transferred Assets will be transferred "as is where is" and that, except as set forth in (e) below, each Transferor makes and has made no warranty, either express or implied, including without limitation warranties of merchantability or fitness for a particular purpose, with respect to any Transferred Assets.

(e) Telecom represents and warrants to Hughes that, except for cash and cash equivalents and without giving effect to the sale or anticipated sale of, or other action with respect to, any Hughes Assets pursuant to Section 5.1(b) of the Merger Agreement, the Hughes Assets as of and immediately following the Spin-Off Merger Time (i) will include (A) all Assets owned or held by HEC and its Subsidiaries and (B) all Assets to which HEC and its Subsidiaries have contractual rights (whether through ownership, lease, license or otherwise), in the case of clause (A) and clause (B) immediately prior to the Spin-Off Merger Time which are primarily used in, or held primarily for use in, the Defense Business as such business is conducted as of the Spin-Off Merger Time and (ii) will be sufficient to conduct the Defense Business as so conducted immediately prior to the Spin-Off Merger Time.

#### Section 2.02. Assumption of Liabilities.

(a) Simultaneously with the actions referred to in Section 2.01(a) (i), Hughes, in partial consideration for the transfer of the Additional Hughes Assets, shall assume and on a timely basis pay, satisfy and discharge (or cause its Subsidiaries to pay, satisfy and discharge) in accordance with their terms any and all Additional Hughes Liabilities.

(b) Simultaneously with the actions referred to in Section 2.01(a) (ii), Telecom, in partial consideration for the transfer of the Additional Telecom Assets, shall assume and on a timely basis pay, satisfy and discharge (or cause its Subsidiaries to pay, satisfy and discharge) in accordance with their terms any and all Additional Telecom Liabilities.

(c) Simultaneously with the actions referred to in Section 2.01(a) (iii), Delco, in partial consideration for the transfer of the Additional Delco Assets, shall assume and on a timely basis pay, satisfy and discharge (or cause its Subsidiaries to pay, satisfy and discharge) in accordance with their terms, any and all Additional Delco Liabilities.

(d) Hughes hereby retains or assumes, as the case may be, and no other party hereto shall assume or have any liability with respect to, the Hughes Liabilities. Telecom

hereby retains or assumes, as the case may be, and no other party hereto shall have any liability with respect to, the Telecom Liabilities. Delco hereby retains or assumes, as the case may be, and no other party hereto shall have any liability with respect to, the Delco Liabilities.

Section 2.03. Employee Matters. Notwithstanding anything to the contrary contained in this Agreement:

(a) the rights and obligations of the parties with respect to (i) Employee Benefit Plans for the benefit of employees and former employees (and their beneficiaries) of Hughes and its Subsidiaries and (ii) all Contracts relating to medical, dental and other services entered into by Hughes and existing for the benefit of Hughes and its Subsidiaries and their employees, are subject to the provisions of Article 6; and

(b) the rights and obligations of GM and Delco with respect to the Employee Benefit Plans for the benefit of employees and former employees (and their beneficiaries) of Delco shall be governed by separate agreements between Delco and GM.

Section 2.04. Methods of Transfer and Assumption. The parties hereto agree that (i) any Transfer shall be effected by delivery by the Transferor to the Transferee of (A) with respect to those Assets which are evidenced by capital stock certificates or similar instruments, certificates duly endorsed in blank or accompanied by stock powers or other instruments of assignment executed in blank, (B) with respect to any real property interest and/or any improvements thereon, a grant deed or the equivalent thereof in accordance with local practice, and (C) with respect to all other Assets, such good and sufficient instruments of contribution, assignment, conveyance, transfer and delivery, in form and substance reasonably satisfactory to the appropriate Transferor and Transferee, as shall be necessary to vest in such Transferee, all of the Transferor's right, title and interest in and to any such Assets, (ii) the assumption of the Liabilities contemplated pursuant to Section 2.02 hereof shall be effected by delivery by the party assuming such Liability to the party which is the obligor under such Liability, of such good and sufficient instruments of assumption, in form and substance reasonably satisfactory to such two parties, as shall be necessary for the assumption of such Liabilities. Each party hereto also agrees to deliver to each other party hereto such other documents, instruments, certificates and agreements as may be reasonably requested by any such other party hereto in connection with the transactions contemplated hereby and to take such further action as may be reasonably necessary to carry out the provisions hereof, including without limitation, appropriate transfer instruments if a Hughes Asset, Telecom Asset or Delco Asset is inadvertently transferred to the incorrect Transferee. Notwithstanding any provision to the contrary contained in this Agreement, in the event and

to the extent that there is any conflict between the provisions of this Agreement and the provisions of any of the instruments of transfer or assumption referred to in this Section 2.04, the provisions of this Agreement shall prevail and govern. To the extent that any transfers contemplated hereby are not consummated prior to the Effective Time, the parties hereto covenant and agree to take all actions reasonably necessary or appropriate to complete such transfers promptly following the Effective Time.

In addition to the foregoing, each Transferor also agrees to deliver to each applicable Transferee (at such Transferee's sole expense) all tangible property included in the Transferred Assets that is reasonably requested by any such Transferee in connection with the transactions contemplated hereby.

Section 2.05. Nonassignable Contracts. Anything contained herein to the contrary notwithstanding, this Agreement shall not constitute an agreement to assign any Contract or Asset if an assignment or attempted assignment of the same without the consent of another Person would constitute a breach thereof or in any way impair the rights of a party thereunder. If any such consent is not obtained or if an attempted assignment would be ineffective or would impair such party's rights under any such Contract or Asset so that the party entitled to the benefits of such purported transfer (the "Intended Transferee") would not receive all such rights, then (x) the party purporting to make such transfer (the "Intended Transferor") shall use commercially reasonable efforts to provide or cause to be provided to the Intended Transferee, to the extent permitted by law, the benefits of any such Contract or Asset and the Intended Transferor shall promptly pay or cause to be paid to the Intended Transferee when received all moneys received by the Intended Transferor with respect to any such Contract or Asset and (y) in consideration thereof the Intended Transferee shall pay, perform and discharge on behalf of the Intended Transferor all of the Intended Transferor's Liabilities thereunder in a timely manner and in accordance with the terms thereof. In addition, the Intended Transferor shall take such other actions as may reasonably be requested by the Intended Transferee in order to place the Intended Transferee, insofar as reasonably possible, in the same position as if such Contract or Asset had been transferred as contemplated hereby and so all the benefits and burdens relating thereto, including possession, use, risk of loss, potential for gain and dominion, control and command, shall inure to the Intended Transferee. If and when such consents and approvals are obtained, the transfer of the applicable Contract or Asset shall be effected in accordance with the terms of this Agreement.

Section 2.06. Other Agreements. (a) The parties hereto are simultaneously entering into agreements embodying certain relationships between the Defense Business, the Telecommunications and Space Business and the Automotive Electronics Business after the

Effective Time. These agreements concern the operation of HRL, Income Taxes, Intellectual Property, real estate, information technology, supply arrangements, transition services, certain Government Contract matters, corporate purchasing, certain separation issues between Hughes and GM, HE Microwave LLC and employee matters (the "Definitive Agreements").

(b) The parties hereto agree to take all action as may be necessary in order to eliminate (whether through repayment, forgiveness or otherwise) as of the Spin-Off Merger Time all intercompany balances between Hughes or its Subsidiaries, on the one hand, and HEC or any of its other Subsidiaries, on the other hand (in both cases determined after giving effect to the HEC Reorganization, but without giving effect to the merger of HEC into GM).

### ARTICLE 3

#### Indemnification

Section 3.01. Indemnification by Hughes. Hughes shall indemnify, defend and hold harmless GM, HEC, Telecom, Delco and each of their respective Subsidiaries (determined after giving effect to the HEC Reorganization) and their respective successors-in-interest and each of their respective past and present Representatives against any losses, claims, damages, liabilities or actions, arising, whether prior to or following the Transfer, out of or in connection with the Hughes Liabilities (including in connection with any breach after the Spin-Off Merger Time by Hughes or any of its Subsidiaries of any terms of the Transaction Agreements), the Hughes Assets or the Defense Business, and Hughes shall reimburse such entity, each such Subsidiary, each such successor-in-interest and each such Representative for any legal or any other expenses reasonably incurred by any of them in connection with investigating or defending any such loss, claim, damage, liability or action.

Section 3.02. Indemnification by Telecom. Telecom shall indemnify, defend and hold harmless GM, HEC, Hughes, Delco and each of their respective Subsidiaries (determined after giving effect to the HEC Reorganization) and their respective successors-in-interest, including with respect to Hughes, the Surviving Corporation, and each of their respective past and present Representatives against any losses, claims, damages, liabilities or actions, arising, whether prior to or following the Transfer, out of or in connection with the Telecom Liabilities, the Telecom Assets, the Telecommunications and Space Business or a violation of the representations and warranties set forth in Section 2.01(e) hereof and, with respect to GM and its related parties, the merger of HEC with and into GM (other than any

such losses, claims, damages, liabilities or actions resulting from such merger that primarily relate to the Automotive Electronics Business), and Telecom shall reimburse such entity, each such Subsidiary, each such successor-in-interest and each such Representative for any legal or any other expenses reasonably incurred by any of them in connection with investigating or defending any such loss, claim, damage, liability or action. Such indemnification with respect to Hughes shall include any amounts paid by Hughes pursuant to Section 5.1(h) of the Merger Agreement in respect of Telecom Liabilities.

Section 3.03. Indemnification by Delco. Delco shall indemnify, defend and hold harmless GM, HEC, Hughes, Telecom and each of their respective Subsidiaries (determined after giving effect to the HEC Reorganization) and their respective successors-in-interest, including with respect to Hughes, the Surviving Corporation, and each of their respective past and present Representatives against any losses, claims, damages, liabilities or actions, arising, whether prior to or following the Transfer, out of or in connection with the Delco Liabilities, the Delco Assets or the Automotive Electronics Business and with respect to GM and its related parties, the merger of HEC with and into GM, to the extent such losses, claims, damages, liabilities or actions primarily relate to the Automotive Electronics Business, and Delco shall reimburse such entity, each such Subsidiary, each such successor-in-interest and each such Representative for any legal or any other expenses reasonably incurred by any of them in connection with investigating or defending any such loss, claim, damage, liability or action. Such indemnification with respect to Hughes shall include any amounts paid by Hughes pursuant to Section 5.1(h) of the Merger Agreement in respect of Delco Liabilities.

Section 3.04. Indemnification Procedures. (a) If any Indemnitee receives notice of the assertion of any Third-Party Claim with respect to which an Indemnifying Party is obligated under this Agreement to provide indemnification, such Indemnitee shall give such Indemnifying Party notice thereof (together with a copy of such Third-Party Claim, process or other legal pleading) promptly after becoming aware of such Third-Party Claim; provided, however, that the failure of any Indemnitee to give notice as provided in this Section 3.04 shall not relieve any Indemnifying Party of its obligations under this Section 3.04, except to the extent that such Indemnifying Party is actually prejudiced by such failure to give notice. Such notice shall describe such Third-Party Claim in reasonable detail.

(b) An Indemnifying Party, at such Indemnifying Party's own expense and through counsel chosen by such Indemnifying Party (which counsel shall be reasonably acceptable to the Indemnitee), may elect to defend any Third-Party Claim. If an Indemnifying Party elects to defend a Third-Party Claim, then, within ten Business Days after receiving notice of such Third-Party Claim (or sooner, if the nature of such Third Party



claim so requires), such Indemnifying Party shall notify the Indemnitee of its intent to do so, and such Indemnitee shall cooperate in the defense of such Third-Party Claim. Such Indemnifying Party shall pay such Indemnitee's reasonable out-of-pocket expenses incurred in connection with such cooperation. Such Indemnifying Party shall keep the Indemnitee reasonably informed as to the status of the defense of such Third Party Claim. After notice from an Indemnifying Party to an Indemnitee of its election to assume the defense of a Third-Party Claim, such Indemnifying Party shall not be liable to such Indemnitee under this Section 3.04 for any legal or other expenses subsequently incurred by such Indemnitee in connection with the defense thereof other than those expenses referred to in the preceding sentence; provided, however, that such Indemnitee shall have the right to employ one law firm as counsel, together with a separate local law firm in each applicable jurisdiction ("Separate Counsel"), to represent such Indemnitee in any action or group of related actions (which firm or firms shall be reasonably acceptable to the Indemnifying Party) if, in such Indemnitee's reasonable judgment at any time, either a conflict of interest between such Indemnitee and such Indemnifying Party exists in respect of such claim, or there may be defenses available to such Indemnitee which are different from or in addition to those available to such Indemnifying Party and the representation of both parties by the same counsel would be inappropriate, and in that event (i) the reasonable fees and expenses of such Separate Counsel shall be paid by such Indemnifying Party (it being understood, however, that the Indemnifying Party shall not be liable for the expenses of more than one Separate Counsel (excluding local counsel) with respect to any Third-Party Claim (even if against multiple Indemnitees)) and (ii) each of such Indemnifying Party and such Indemnitee shall have the right to conduct its own defense in respect of such claim. If an Indemnifying Party elects not to defend against a Third Party Claim, or fails to notify an Indemnitee of its election as provided in this Section 3.04 within the period of ten Business Days described above, the Indemnitee may defend, compromise, and settle such Third Party Claim and shall be entitled to indemnification hereunder (to the extent permitted hereunder); provided, however, that no such Indemnitee may compromise or settle any such Third-Party claim without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, the Indemnifying Party shall not, without the prior written consent of the Indemnitee, (i) settle or compromise any Third-Party Claim or consent to the entry of any judgment which does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the Indemnitee of a written release from all liability in respect of such Third-Party Claim or (ii) settle or compromise any Third-Party Claim in any manner that would be reasonably likely to have a material adverse effect on the Indemnitee.

(c) Notwithstanding the provisions of Section 3.04(b), Hughes, on the one hand, and GM, Telecom and/or Delco, on the other hand, shall jointly control the defense

of, and cooperate with each other with respect to defending, any Third-Party Claim with respect to which Hughes, on the one hand, and GM, Telecom and/or Delco, on the other hand, are claiming rights to indemnification under Sections 3.01, 3.02 or 3.03. If either Hughes, on the one hand, or GM, Telecom and/or Delco, on the other hand, fails to defend jointly any such Third-Party Claim, the other party or parties shall solely defend such Third-Party Claim and the party or parties failing to defend jointly shall use all commercially reasonable efforts to cooperate with the other party or parties in its or their defense of such Third Party Claim; provided, however, that no party may compromise or settle any such Third-Party Claim without the prior written consent of the other appropriate party or parties, which consent shall not be unreasonably withheld or delayed. All costs and expenses of any party in connection with, and during the course of, the joint control of the defense of any such Third-Party Claim shall be initially paid by the party that incurs such costs and expenses. Such costs and expenses shall be reallocated and reimbursed in accordance with the respective indemnification obligations of the parties at the conclusion of the defense of such Third-Party Claim.

Section 3.05. Certain Limitations. (a) The amount of any indemnifiable losses or other liability for which indemnification is provided under this Agreement shall be net of any amounts actually recovered by the Indemnitee from third parties (including, without limitation, amounts actually recovered under insurance policies) with respect to such indemnifiable losses or other liability. Any Indemnifying Party hereunder shall be subrogated to the rights of the Indemnitee upon payment in full of the amount of the relevant indemnifiable loss. An insurer who would otherwise be obligated to pay any claim shall not be relieved of the responsibility with respect thereto or, solely by virtue of the indemnification provision hereof, have any subrogation rights with respect thereto. If any Indemnitee recovers an amount from a third party in respect of an indemnifiable loss for which indemnification is provided in this Agreement after the full amount of such indemnifiable loss has been paid by an Indemnifying Party or after an Indemnifying Party has made a partial payment of such indemnifiable loss and the amount received from the third party exceeds the remaining unpaid balance of such indemnifiable loss, then the Indemnitee shall promptly remit to the Indemnifying Party the excess (if any) of (A) the sum of the amount theretofore paid by such Indemnifying Party in respect of such indemnifiable loss plus the amount received from the third party in respect thereof, less (B) the full amount of such indemnifiable loss or other liability.

(b) The amount of any loss or other liability for which indemnification is provided under this Agreement shall be (i) increased to take account of any net Tax cost incurred by the Indemnitee arising from the receipt or accrual of an indemnification payment hereunder (grossed up for such increase) and (ii) reduced to take account of any net Tax benefit

realized by the Indemnitee arising from incurring or paying such loss or other liability. In computing the amount of any such Tax cost or Tax benefit, the Indemnitee shall be deemed to recognize all other items of income, gain, loss, deduction or credit before recognizing any item arising from the receipt or accrual of any indemnification payment hereunder or incurring or paying any indemnified loss. Any indemnification payment hereunder shall initially be made without regard to this Section 3.05(b) and shall be increased or reduced to reflect any such net Tax cost (including gross-up) or net Tax benefit only after the Indemnitee has actually realized such cost or benefit. For purposes of this Agreement, an Indemnitee shall be deemed to have "actually realized" a net Tax cost or a net Tax benefit to the extent that, and at such time as, the amount of Taxes payable by such Indemnitee is increased above or reduced below, as the case may be, the amount of Taxes that such Indemnitee would be required to pay but for the receipt or accrual of the indemnification payment or the incurrence or payment of such Loss, as the case may be. The amount of any increase or reduction hereunder shall be adjusted to reflect any Final Determination with respect to the Indemnitee's liability for Taxes, and payments between such indemnified parties to reflect such adjustment shall be made if necessary.

(c) Any indemnification payment made under this Agreement shall be characterized for Tax purposes as if such payment were made immediately prior to the Spin-Off Merger Time.

Section 3.06. Exclusivity of Tax Indemnification. Notwithstanding anything in this Agreement to the contrary, (i) the terms of the Tax Sharing Agreement shall govern the rights and obligations among the parties with respect to indemnification relating to Income Tax and (ii) the terms of the Hughes Spin-Off Separation Agreement shall govern the rights and obligations of the parties thereto with respect to indemnification relating to the matters covered thereby.

#### ARTICLE 4

##### Access to Information

Section 4.01. Restrictions on Disclosure of Information. (a) Without limiting its obligations under any other agreement between or among the parties hereto and/or any of their respective Affiliates relating to confidentiality, each of the parties hereto agrees that it shall not, and shall not permit any of its Affiliates or Representatives to, disclose any Confidential Information to any Person, other than to such Affiliates or Representatives on a

need-to-know basis in connection with the purpose for which the Confidential Information was originally disclosed. Notwithstanding the foregoing, each of the parties hereto and its respective Affiliates and Representatives may disclose such Confidential Information, and such Information shall no longer be deemed Confidential Information, to the extent that such party can demonstrate that such Confidential Information is or was (i) available to such party outside the context of the Prior Relationship on a nonconfidential basis prior to its disclosure by the other party, (ii) in the public domain other than by the breach of this Agreement or by breach of any other agreement between or among the parties hereto and/or any of their respective Affiliates relating to confidentiality, or (iii) lawfully acquired outside the context of the Prior Relationship on a nonconfidential basis or independently developed by, or on behalf of, such party by Persons who do not have access to, or descriptions of, any such Confidential Information.

(b) Policies and Procedures. Each of the parties hereto shall maintain, and shall cause their respective Affiliates to maintain, policies and procedures, and develop such further policies and procedures as shall from time to time become necessary or appropriate, to ensure compliance with this Section 4.01.

Section 4.02. Legally Required Disclosure of Confidential Information. If any of the parties to this Agreement or any of their respective Affiliates or Representatives becomes legally required to disclose any Confidential Information, such disclosing party shall promptly notify the party owning the Confidential Information (the "Owning Party") and shall use all commercially reasonable efforts to cooperate with the Owning Party so that the Owning Party may seek a protective order or other appropriate remedy and/or waive compliance with this Section 4.02. All expenses incurred by the disclosing party in seeking a protective order or other remedy shall reasonably be borne by the Owning Party. If such protective order or other remedy is not obtained, or if the Owning Party waives compliance with this Section 4.02, the disclosing party or its Affiliate or Representative, as applicable, shall (a) disclose only that portion of the Confidential Information which its legal counsel advises it is compelled to disclose or else stand liable for contempt or suffer other similar significant corporate censure or penalty, (b) use all commercially reasonable efforts to obtain reliable assurance requested by the Owning Party that confidential treatment will be accorded such Confidential Information, and (c) promptly provide the Owning Party with a copy of the Confidential Information so disclosed, in the same form and format so disclosed, together with a description of all Persons to whom such Confidential Information was disclosed.

Section 4.03. Access to Information. Until the ten-year anniversary of the Spin-Off Merger Time, each of the parties hereto shall cooperate with and afford, and shall cause their respective Affiliates and Representatives to cooperate with and afford, to the

other party reasonable access upon reasonable advance written request to all information (other than information protected from disclosure by the attorney client privilege or work product doctrine) created prior to the Spin-Off Merger Time within such party's (or its Affiliates or Representatives') possession. Access to the requested information shall be provided so long as it relates to the requesting party's (the "Requestor") business, assets or liabilities, and access is reasonably required by the Requestor as a result of the parties' Prior Relationship for purposes of auditing, accounting, claims or litigation (except for claims or litigation between the parties hereto), employee benefits, regulatory or tax purposes or fulfilling disclosure or reporting obligations including, without limitation, Information reasonably necessary for the preparation of reports required by or filed under the Securities Exchange Act of 1934, as amended, with respect to any period entirely or partially prior to the Spin-Off Merger Time.

Access as used in this paragraph shall mean the obligation of a party in possession of Information (the "Possessor") requested by the Requestor to exert its reasonable best efforts to locate all requested Information that is owned and possessed by Possessor, its Affiliates or Representatives. The Possessor, at its own expense, shall conduct a diligent search designed to identify all requested Information and shall collect all such Information for inspection by the Requestor during normal business hours at the Possessor's place of business. Subject to confidentiality and/or security provisions as the Possessor may reasonably deem necessary, the Requestor may have all requested Information duplicated at Requestor's expense. Alternatively, the Possessor may choose to deliver, at its own expense, all requested Information to the Requestor in its original form. If so, the Possessor shall notify the Requestor in writing at the time of delivery if such Information is to be returned to the Possessor. In such case, the Requestor shall return such Information when no longer needed to the Possessor at the Possessor's expense.

In connection with providing Information pursuant to this Section 4.03, each of the parties hereto shall upon the request of the other party make available its respective employees (and those of their respective Affiliates and Representatives) to the extent that they are reasonably necessary to discuss and explain all requested Information with and to the requesting party.

During the ten-year period described above, the parties shall maintain Information in their possession at the Spin-Off Merger Time in accordance with their respective corporate records retention policies; provided, however that prior to disposing of any Information in accordance with such policies, the parties hereto shall provide written notice to the other party of its intent to dispose of such Information and shall provide such other party the opportunity to take ownership and possession of such Information (at such other party's sole

expense) within 90 days after such notice is delivered. If such other party does not confirm its intention in writing to take ownership and possession of such Information within such 90-day period, the party who possesses the Information may proceed with the disposition of such Information. Written notice of intent to dispose of Information shall include a description of the Information in detail sufficient to allow the other party to reasonably assess its potential need to retain such Information. At a minimum, the description shall include the organization that generated or received the Information, the type of Information, the contract number or program name to which the Information pertains (if applicable), and the dates of the Information.

Section 4.04. Production of Witnesses. Until the six-year anniversary of the Spin-Off Merger Time, each of the parties hereto shall use all commercially reasonable efforts, and shall cause each of their respective Affiliates to use all commercially reasonable efforts, to make available to each other, upon written request, its directors, officers, employees and other Representatives as witnesses to the extent that any such Person may reasonably be required (giving consideration to the business demands upon such Persons) in connection with any legal, administrative or other proceedings in which the requesting party may from time to time be involved; provided, however, that with respect to any legal or administrative proceedings relating to the tax liability of any of the parties hereto or any of their respective Affiliates, each of the parties hereto shall, and shall cause each of their respective Affiliates to, make their directors, officers, employees and other Representatives available as witnesses until such time as the statute of limitations for all tax years prior to and including the year in which the Merger is consummated have expired.

Section 4.05. Reimbursement. Each party to this Agreement providing access, information or witnesses to another party pursuant to Sections 4.03 or 4.04 shall be entitled to receive from the recipient, upon the presentation of invoices therefor, payment for all reasonable out-of-pocket costs and expenses (excluding allocated compensation, salary and overhead expense) as may be reasonably incurred in providing such information or witnesses.

## ARTICLE 5

### Insurance Matters

Section 5.01. Cooperation in Insurance Matters. Prior to the Spin-Off Merger Time, GM, Hughes and Telecom have maintained insurance programs which provide certain coverages for a number of entities, including GM, Hughes and Telecom, their respective Affiliates, their officers and directors, and other insured parties, including HRL (and its predecessor) and HE Microwave LLC. From and after the Spin-Off Merger Time, except as

provided herein, Hughes shall be responsible for obtaining and maintaining its own insurance program separately from the GM and/or Telecom insurance programs (which may continue to be maintained by GM and/or Telecom, as the case may be). Notwithstanding the foregoing, (1) GM and Telecom, upon the request of Hughes, shall use commercially reasonable efforts to assist Hughes in the transition to its own separate insurance coverage from and after the Spin-Off Merger Time, and shall provide Hughes with any information that is in the possession of either GM or Telecom, as the case may be, and is reasonably available and necessary to either obtain such insurance coverage or to assist Hughes in preventing gaps in its insurance coverages, (2) each of GM, Hughes, Telecom and Delco on the request of the other shall cooperate with and use commercially reasonable efforts to assist the other in the collection of proceeds from insurance claims made under any insurance policy for the benefit of any insured party, and (3) neither Hughes, GM, Telecom or Delco, nor any of their Affiliates, shall take any action that would jeopardize or otherwise interfere with any party's ability to collect any proceeds payable pursuant to any insurance policy.

Section 5.02. Claims. With respect to any Liabilities, including but not limited to any Hughes Liabilities or other claims or damages in respect of Hughes Assets arising out of events, acts, or omissions first occurring prior to the Spin-Off Merger Time, for which Hughes or any of its Affiliates, officers, directors, employees or other covered parties may be entitled to assert a claim for recovery under any policy of insurance maintained prior to the Spin-Off Merger Time (an "Insurance Policy") in accordance with the terms thereof, GM or Telecom, as the case may be, at the request of Hughes, will use their commercially reasonable efforts in asserting, or assisting Hughes in asserting, such claims under any such Insurance Policy; similarly, with respect to any Telecom Liability or Delco Liability or other claims or damages in respect of any Telecom Asset or Delco Asset arising out of events first occurring prior to the Spin-Off Merger Time which may be covered under an Insurance Policy, in accordance with the terms thereof, Hughes, at the request of Telecom or Delco, will use commercially reasonable efforts in asserting, or assisting Telecom or Delco in asserting, claims under any such Insurance Policy with respect to any Telecom Liability or Delco Liability or damages in respect of any Telecom Asset or Delco Asset; provided that in all cases (1) all reasonable and necessary costs and expenses incurred in connection with the foregoing by such asserting or assisting party shall be promptly paid or reimbursed by the requesting party, (2) to the full extent permitted by contract and law, the control and administration of such Insurance Policies, including with respect to any proposed buyouts of such Insurance Policies, shall remain with GM and Telecom, as the case may be (except that any such action taken by GM or Telecom shall treat fairly all insured parties and their respective claims and shall not unduly favor one insured party over another), (3) such claims shall be subject to (and recovery thereon shall be reduced by the amount of) any applicable deductibles, retentions, self-insurance provisions or any payment or reimbursement

obligations of GM, Telecom or any of their Subsidiaries in respect thereof, (4) Hughes, its Subsidiaries, directors and officers shall promptly pay or reimburse GM or Telecom, as the case may be, for costs and expenses incurred after the Spin-Off Merger Time which are associated with such Hughes' claims (whether such claim was made before or is made after the Spin-Off Merger Time), including but not limited to retrospective premium adjustments, (5) with respect to claims-made Insurance Policies, such claims must have been incurred and reported prior to the Spin-Off Merger Time, (6) Hughes shall report to GM any claims with respect to Insurance Policies maintained by GM, and (7) Hughes shall be responsible for providing all notices to the appropriate insurance company under Telecom's Insurance Policies with respect to any claims made by Hughes thereunder (with a copy of each such notice to insurance companies to be provided to Telecom), and provided further, that for any claims exceeding \$250,000, Hughes shall first consult with Telecom prior to the submission of such notices. Except for environmental claims and litigation referenced below, GM and Telecom and their respective insurers shall have the right to control the investigation, defense and settlement of all claims, but no such settlement may be effected without Hughes' consent (which consent shall not be unreasonably withheld or delayed) unless such settlement (i) includes a complete release of Hughes or its Subsidiaries, as the case may be, and (ii) does not require Hughes or such Subsidiaries to make payments thereunder except for applicable deductibles, self-insured retentions, retrospective premium adjustments and the like not in excess of \$50,000 per claim. As to environmental claims and/or litigation relating to Hughes Liabilities or Hughes Assets, Hughes shall have the right to control the investigation, defense and site-specific settlement thereof, but with respect to any party entitled to benefits under such Insurance Policies covering such claims, no such settlement may be effected without such party's consent, which consent shall not be unreasonably withheld or delayed, unless such settlement (a) includes a complete release of such party, (b) does not require such party to make any payment thereunder and (c) does not prejudice the insurance coverage of GM or Telecom or their respective Subsidiaries at other sites. Telecom agrees that it will, upon Hughes' request, (i) provide to Hughes summaries of any Insurance Policy in its possession purchased during the three-year period prior to the Spin-Off Merger Time and (ii) make available to Hughes copies of all Insurance Policies in its possession related to the Defense Business. The Employee Matters Agreement sets forth certain cost allocations among the parties hereto with respect to the Insurance Policies.

Each of Telecom and GM and its respective Subsidiaries, directors and officers shall promptly pay or reimburse GM or Telecom, as the case may be, for such party's cost and expenses incurred after the Spin-Off Merger Time which are associated with Telecom's or GM's claims for which Telecom or GM or any of their respective Affiliates, officers, directors, employees or other covered parties may be entitled to assert a claim for recovery under any Insurance Policies of the other in accordance with the terms thereof (whether such



claim was made before or is made after the Spin-Off Merger Time), including but not limited to retrospective premium adjustments. GM agrees that it will, upon Telecom's request, (i) provide to Telecom summaries of any Insurance Policy in its possession purchased during the three-year period prior to the Spin-Off Merger Time and (ii) make available to Telecom copies of all Insurance Policies in its possession related to the Telecommunications and Space Business.

#### ARTICLE 6

##### Employees

Section 6.01. Employee Matters. Effective as of the Spin-Off Merger Time, (a) those Defense Employees who are employed by HEC or any of its Subsidiaries, other than Hughes and Hughes' Subsidiaries, immediately prior to the Spin-Off Merger Time shall become employed by Hughes and its Subsidiaries, (b) those Satellite Employees who are employed by Hughes or its Subsidiaries immediately prior to the Spin-Off Merger Time shall become employed by Telecom or its Subsidiaries and (c) those Automotive Electronics Employees who are employed by HEC or its Subsidiaries immediately prior to the Spin-Off Merger Time shall become employed by Delco or its Subsidiaries.

#### ARTICLE 7

##### Post-Closing Adjustment

Section 7.01. Closing Date Balance Sheet. (a) Within 60 days after the Effective Time, Telecom shall deliver to its auditors a balance sheet of Hughes and its Subsidiaries as of immediately prior to the Effective Time after giving effect to the transfer of all Assets, assumptions of liabilities and consummation of all other transactions contemplated by Article 2 hereof in a format comparable to Schedule 7.01 (the "Closing Date Balance Sheet"), prepared in accordance with GAAP and using (to the extent consistent with GAAP) the same accounting methods, policies, practices and procedures with consistent classifications, judgments, and valuation and estimation methodologies as used in the preparation of the Hughes Interim Balance Sheet, including those adjustments required by this Section 7.01(a) and Section 7.01(b). The Closing Date Balance Sheet shall be accompanied by an additional schedule of information prepared by Telecom (the "Closing Date Statement of Purchase Price Adjustment Amounts"), the first column of which shall be a copy of the Closing Date Balance Sheet, and the remaining columns of which shall detail

the amounts to be eliminated from the Closing Date Balance Sheet to arrive at amounts to be included in the determination of the purchase price adjustment calculation (the "Purchase Price Adjustment Amounts") in the manner set forth in Schedule 7.01 which schedule sets forth the comparable presentation utilizing the Hughes Interim Balance Sheet instead of the Closing Date Balance Sheet; provided, however, that the calculations contemplated by the Closing Date Statement of Purchase Price Adjustment Amounts shall eliminate from the Closing Date Balance Sheet the following: the amounts set forth on the Closing Date Balance Sheet in the line items entitled "Cash," "Investments," "Goodwill, Net," "Pension Asset," "Pension and OPEB-Current Portion," "OPEB," "Pension," "Current Deferred Taxes," "Current Portion of Long Term Debt" (only to the extent the same constitutes "Debt" as defined in Section 5.2(c) of the Merger Agreement), "Short Term Borrowings" (only to the extent the same constitutes "Debt" as defined in Section 5.2(c) of the Merger Agreement), "Intercompany Accounts" (which item does not include accounts between GM and its Subsidiaries other than HEC and its Subsidiaries, on the one hand, and Hughes and its Subsidiaries, on the other hand, which are not treated as intercompany accounts), "Income Taxes Payable" (except to the extent of non-United States tax liabilities included therein), "Long Term Debt" (only to the extent the same constitutes "Debt" as defined in Section 5.2(c) of the Merger Agreement), "Noncurrent Deferred Taxes," "Stockholder's Equity" and "Other Liabilities" (to the extent included in the accounts listed on the Detail of Other Liabilities in Schedule 7.01), calculated in accordance with GAAP consistently applied. The Closing Date Statement of Purchase Price Adjustment Amounts shall state the net difference between the sum of the asset values listed as Purchase Price Adjustment Amounts and the sum of the liability values listed as Purchase Price Adjustment Amounts, in each case calculated and set forth as required hereby (such net difference being the "Closing Date Final Amount"). The Closing Date Final Amount shall be used to determine the post closing adjustment contemplated by Section 7.02. The Closing Date Balance Sheet and the Closing Date Statement of Purchase Price Adjustment Amounts are referred to collectively as the "Closing Date Financial Information."

(b) Telecom shall engage its auditors (the "Telecom Auditors") at its expense to, within 60 days after its delivery of the Closing Date Financial Information under Section 7.01(a) above: (i) read this Agreement and all other documents and instruments deemed necessary by the Telecom Auditors to discharge their obligations required under this Agreement; (ii) audit the Closing Date Balance Sheet in accordance with generally accepted auditing standards; and (iii) deliver to Surviving Corporation and Telecom a draft report in the form set forth in Exhibit B hereto (the final version of which is referred to as the "Auditors' Report") together with the Closing Date Balance Sheet to which such draft Auditors' Report relates. The Auditors' Report shall report, without qualification or other limitation arising out of the scope of the audit, that the Closing Date Balance Sheet presents

fairly the financial position of the Defense Business as of immediately prior to the Effective Time in conformity with GAAP.

The notes to the Closing Date Financial Information will state the following:

(1) the Closing Date Balance Sheet does not give effect to any purchase accounting (or similar related) adjustments, or any other accounting effects, arising from the transactions provided for in the Merger Agreement or any of the other Transaction Agreements; and

(2) the Closing Date Balance Sheet does take into account all liabilities, accruals and other adjustments on or prior to the Effective Time which would be appropriate to a balance sheet being prepared at a financial year-end including (without limitation) all liabilities and accruals relating to the Defense Business which may previously have been recorded at the corporate office or other organizational level, including (without limitation) all liabilities (A) for such charges as rentals, maintenance services, property taxes, general and product liability insurance (including self-insurance accruals), (B) arising from the employment of the employees of the Defense Business (including obligations for accrued bonuses, workers' compensation obligations (including claims filed and obligations incurred but not reported), medical, dental, severance, profit sharing, vacation time, paid time off, other insurance and business expenses) and (C) all other Hughes Liabilities required to be included on the Closing Date Balance Sheet in accordance with GAAP; provided that all intercompany balances between Hughes or its Subsidiaries, on the one hand, and HEC or its other Subsidiaries, on the other hand (in both cases determined after giving effect to the Hughes Reorganization, but without giving effect to the merger of HEC into GM), will be eliminated prior to the Effective Time (whether through repayment, forgiveness or otherwise) and will not appear as assets or liabilities on the Closing Date Balance Sheet.

The Closing Date Financial Information shall be prepared in accordance with GAAP consistently applied and use the same techniques and methodologies in determining estimates and judgments for evaluating the status of Contracts and Government Contract rate reserves as were used in preparing the Hughes Interim Statements. Reserves shall be provided, as appropriate, for all Contracts, with total estimated costs at completion (including all other overhead costs allocated to such Contracts in accordance with GAAP in a manner consistent with the methodology used in preparing the Hughes Interim Balance Sheet) in excess of the firm negotiated ceiling price based on the most recently completed Contract cost estimates. Adjustments shall have been made to reflect all other Contracts on the individual contract percentage of completion method in accordance with GAAP (using Hughes' historical methodology for determining the percentage of completion), based upon effort performed through the Effective Time, and utilizing the most recently completed Contract cost

estimates. When calculating the earnings associated with the most recently completed Contract cost estimates, adjustments shall have been provided for the difference between booked Government Contract overhead rates and the rates that are expected to be negotiated with the government for all years open for audit by the government.

Telecom covenants to make all such changes to the Closing Date Balance Sheet as shall be necessary to enable the Telecom Auditors to deliver the draft report in substantially the form set forth in Exhibit B and to deliver the Auditors' Report.

(c) Within 30 Business Days after the receipt of the Closing Date Financial Information and the draft Auditors' Report, the Surviving Corporation shall notify Telecom of any objections thereto and Telecom and the Surviving Corporation shall attempt in good faith to reach an agreement as to the matter or matters in dispute. If Telecom and the Surviving Corporation reach agreement on all matters in dispute, the terms of Section 7.02 hereof shall determine the amount and timing of any payments due to Telecom or the Surviving Corporation. If Telecom and the Surviving Corporation, notwithstanding such good faith effort, shall have failed to resolve the matter or matters in dispute within 20 Business Days after the Surviving Corporation advises Telecom of its objections, then Telecom promptly will direct the Telecom Auditors to issue the Auditors' Report and the related financial statements and Telecom will prepare the Closing Date Statement of Purchase Price Adjustment Amounts and deliver copies thereof to the Surviving Corporation and the Surviving Corporation's representative. Any remaining disputed matters shall be finally and conclusively determined by an independent auditing firm of recognized national standing (the "Arbiter") selected by Telecom and Surviving Corporation, which shall not be the regular auditing firm of Telecom or Surviving Corporation. Promptly, but not later than 30 Business Days after its acceptance of its appointment, the Arbiter shall determine (based solely on presentations by the Surviving Corporation and Telecom to the Arbiter and not by independent review) only those issues in dispute and shall render a report as to the disputes and containing a revised Closing Date Statement of Purchase Price Adjustment Amounts, which report shall be conclusive and binding upon the parties hereto. In resolving any disputed item, the Arbiter may not assign a value to any particular item greater than the greatest value for such item claimed by either party or less than the smallest value for such item claimed by either party, in each case, as presented to the Arbiter. For purposes of the Arbiter's determination of the Closing Date Final Amount, the amounts to be included shall be the appropriate amounts from the Closing Date Statement of Purchase Price Adjustment Amounts for items that are not in dispute, and the amounts determined by the Arbiter as to items that were submitted for resolution by the Arbiter.

(d) For purposes of complying with the terms set forth herein, each party shall cooperate with and make available to the other party and its Representatives, all information and access to its personnel, shall permit access to its facilities and shall permit the other party and its Representatives to make copies of all information, records, data and use commercially reasonable efforts to make available auditors' working papers (including, without limitation, all historic audit workpapers), in each case as may be reasonably required in connection with the analysis of the Hughes Interim Balance Sheet, the draft Auditors' Report, the Auditors' Report, the Closing Date Financial Information and the resolution of any dispute(s) thereunder. Without limiting the generality of the foregoing, Telecom shall cause the Telecom Auditors to make available at its office to the Surviving Corporation and its representative immediately after delivery of the draft Auditors' Report pursuant to Section 7.01(b) above the workpapers therefor (which may be copied by the Surviving Corporation if it so elects).

Section 7.02. Post-Closing Adjustment. As soon as the Auditors' Report has been delivered pursuant to the provisions set forth in Section 7.01 hereof and either all disagreements with respect to the Closing Date Final Amount have been resolved directly by Telecom and Surviving Corporation or the report of the Arbiter has been issued: (a) in the event that the Closing Date Final Amount shall exceed \$2,210,017,000 (as adjusted pursuant to the last paragraph of Section 7.02, the "Target") by \$50 million or more, then the Surviving Corporation shall pay to Telecom, in cash, the amount in excess of \$50 million by which the Closing Date Final Amount exceeds the Target, plus interest thereon from the Effective Time to the date of such payment thereof at the per annum rate equal to the rate announced by Citibank, N.A. in the City of New York as its base rate as in effect on the Effective Time; or (b) in the event that the Target shall exceed the Closing Date Final Amount by an amount greater than \$50 million, Telecom shall pay to the Surviving Corporation, in cash, the amount in excess of \$50 million by which the Target exceeds the Closing Date Final Amount, plus interest thereon from the Effective Time to the date of such payment thereof at the per annum rate equal to the rate announced by Citibank, N.A. in the City of New York as its base rate as in effect on the Effective Time. Any such cash payment pursuant to this Section 7.02 shall be made within 10 Business Days following the later of (i) the receipt by the parties of the Auditors' Report and (ii) if there shall exist a dispute between the parties as to the amount of Closing Date Final Amount, the date of receipt of the Arbiter's report, by bank wire transfer of immediately available funds to an account designated by Telecom or Surviving Corporation, as the case may be. In addition to the foregoing, any cash reflected in the Closing Date Balance Sheet shall be transferred to Telecom at the time of the cash payment referred to in this Section 7.02, or if no such payment is made, as soon as practicable after completion of the Closing Date Balance Sheet, together with interest thereon as calculated above. If Raytheon determines that an error has

been made in the calculation of cash reflected on the Closing Date Balance Sheet and provides to Telecom written support from its auditors for such determination, the resolution of the exact amount of cash to be reflected on the Closing Date Balance Sheet and therefore transferred to Telecom pursuant to the preceding sentence shall be made by the Arbiter, who also shall adjust the Closing Date Final Amount to reflect the impact (if any) of such determination on the Closing Date Statement of Purchase Price Adjustment Amounts. Any payments under this Section 7.02 shall be characterized for tax purposes as if such payment were made immediately prior to the Spin-Off Merger Time.

Anything to the contrary contained herein notwithstanding, if Hughes or any of its Affiliates, at any time from the date of the Merger Agreement through the Effective Time, sells or transfers any significant amount of Assets pursuant to Section 5.1(b) of the Merger Agreement for consideration which is (i) in excess of the net amount at which such Assets were reflected on the Hughes Interim Balance Sheet, the Target shall be increased by the amount of such excess or (ii) less than the net amount at which such Assets were reflected on the Hughes Interim Balance Sheet, the Target shall be decreased by the amount of such deficiency.

## ARTICLE 8

### Conditions

Section 8.01. Conditions to the Obligations of the Parties. The obligations of each party hereto to consummate the transactions contemplated hereby shall be subject to the condition that each of the conditions to the closing of the Merger set forth in Article 6 (other than Section 6.1(f)) of the Merger Agreement shall have been satisfied or waived by the party for whose benefit such condition exists.

ARTICLE 9

Miscellaneous

Section 9.01. Entire Agreement. This Agreement and the other Transaction Agreements constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof. The parties hereto acknowledge and agree that the form of this Agreement (including the exhibits thereto) attached as an exhibit to the GM Implementation Agreement has no force and effect and is superseded in its entirety by the terms hereof.

Section 9.02. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware regardless of the laws that might otherwise govern under principles of conflicts of laws applicable thereto.

Section 9.03. Descriptive Headings. The descriptive headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

Section 9.04. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given when delivered in person, by telecopy with answer back, by express or overnight mail delivered by a nationally recognized air courier (delivery charges prepaid), or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties as follows:

if to GM

c/o General Motors Corporation  
3031 West Grand Blvd.  
Detroit, MI 48202  
Attention: Warren G. Andersen  
Telecopy: (313) 974-0685

with copies to:

Kirkland & Ellis  
200 East Randolph Drive

Chicago, IL 60601  
Attention: Robert S. Osborne, P.C.  
Telecopy: (312) 861-2200

and

Weil, Gotshal & Manges LLP  
767 Fifth Avenue  
New York, NY 10153  
Attention: Frederick S. Green  
Telecopy: (212) 310-8007

if to Hughes:

c/o Raytheon Company  
141 Spring Street  
Lexington, MA 02173  
Attention: Christoph L. Hoffmann  
Telecopy: (617) 860-2822

with a copy to:

Wachtell, Lipton, Rosen & Katz  
51 West 52nd Street  
New York, NY 10019  
Attention: Adam O. Emmerich, Esq.  
Telecopy: (212) 403-2000



if to Telecom:

c/o Hughes Electronics Corporation  
7200 Hughes Terrace  
Los Angeles, CA 90046  
Attention: Roxanne S. Austin  
Telecopy: (310) 568-7589

with copies to:

Kirkland & Ellis  
200 East Randolph Drive  
Chicago, IL 60601  
Attention: Robert S. Osborne, P.C.  
Telecopy: (312) 861-2200

and

Weil, Gotshal & Manges LLP  
767 Fifth Avenue  
New York, NY 10153  
Attention: Frederick S. Green  
Telecopy: (212) 310-8007

if to Delco:

Delco Electronics Corporation  
One Corporate Center, M/S CT10K  
Kokomo, Indiana 46904-9005  
Attention: Frederick A. Fromm, Jr.  
Telecopy: (317) 451-0580

with copies to:

Kirkland & Ellis  
200 East Randolph Drive  
Chicago, IL 60601  
Attention: Robert S. Osborne, P.C.

Telecopy: (312) 861-2200

and

Weil, Gotshal & Manges LLP  
767 Fifth Avenue  
New York, NY 10153  
Attention: Frederick S. Green

or to such other address as the party to whom notice is given may have previously furnished to the others in writing in the manner set forth above. Any notice or communication delivered in person shall be deemed effective on delivery. Any notice or communication sent by telecopy or by air courier shall be deemed effective on the first Business Day at the place at which such notice or communication is received following the day on which such notice or communication was sent. Any notice or communication sent by registered or certified mail shall be deemed effective on the fifth Business Day at the place from which such notice or communication was mailed following the day on which such notice or communication was mailed.

Section 9.05. Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement, except for Article 3 (which is intended to be for the benefit of the Persons provided for therein and may be enforced by such Persons).

Section 9.06. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

Section 9.07. Binding Effect; Assignment. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective legal representatives and successors including the Surviving Corporation as successor to Hughes upon the consummation of the Merger. This Agreement may not be assigned by any party hereto. The Schedules and Exhibits attached hereto are an integral part of this Agreement and are incorporated into this Agreement and made a part hereof.

Section 9.08. Dispute Resolution. Except with respect to the matters described in Article 7, which shall be resolved in accordance with the terms thereof, and except as

otherwise set forth in the Definitive Agreements, resolution of any and all disputes arising from or in connection with this Agreement, whether based on contract, tort, or otherwise (collectively, "Disputes"), shall be exclusively governed by and settled in accordance with the provisions of this Section 9.08. The parties hereto shall use all commercially reasonable efforts to settle all Disputes without resorting to mediation, arbitration or otherwise. If any Dispute remains unsettled, a party hereto may commence proceedings hereunder by delivering a written notice from a Senior Vice President or comparable executive officer of such party (the "Demand") to the other parties providing reasonable description of the Dispute to the others and expressly requesting mediation hereunder. The parties hereby agree to submit all Disputes to non-binding mediation before a mediator reasonably acceptable to all parties involved in such Dispute. If, after such mediation, the parties subject to such mediation disagree regarding the mediator's recommendation, such Dispute shall be submitted to arbitration under the terms hereof, which arbitration shall be final, conclusive and binding upon the parties, their successors and assigns. The arbitration shall be conducted in Los Angeles, California by three arbitrators acting by majority vote (the "Panel") selected by agreement of the parties not later than ten (10) days after delivery of the Demand or, failing such agreement, appointed pursuant to the commercial arbitration rules of the American Arbitration Association, as amended from time to time (the "AAA Rules"). If an arbitrator so selected becomes unable to serve, his or her successors shall be similarly selected or appointed. The arbitration shall be conducted pursuant to the Federal Arbitration Act and such procedures as the parties subject to such arbitration (each, a "Party") may agree, or, in the absence of or failing such agreement, pursuant to the AAA Rules. Notwithstanding the foregoing: (i) each Party shall have the right to audit the books and records of the other Party that are reasonably related to the Dispute; (ii) each Party shall provide to the other, reasonably in advance of any hearing, copies of all documents which a Party intends to present in such hearing; and (iii) each Party shall be allowed to conduct reasonable discovery through written requests for information, document requests, requests for stipulation of fact and depositions, the nature and extent of which discovery shall be determined by the Parties; provided that if the Parties cannot agree on the terms of such discovery, the nature and extent thereof shall be determined by the Panel which shall take into account the needs of the Parties and the desirability of making discovery expeditious and cost effective. The award shall be in writing and shall specify the factual and legal basis for the award. The Panel shall apportion all costs and expenses of arbitration, including the Panel's fees and expenses and fees and expenses of experts, between the prevailing and non-prevailing Party as the Panel deems fair and reasonable. The parties hereto agree that monetary damages may be inadequate and that any party by whom this Agreement is enforce able shall be entitled to seek specific performance of the arbitrators' decision from a court of competent jurisdiction, in addition to any other appropriate relief or remedy. Notwithstanding the foregoing, in no event may the Panel award consequential, special,

exemplary or punitive damages. Any arbitration award shall be binding and enforceable against the parties hereto and judgment may be entered thereon in any court of competent jurisdiction.

Section 9.09. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

Section 9.10. Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of any party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

Section 9.11. Amendment. No change or amendment will be made to this Agreement or the Ancillary Separation Agreements except by an instrument in writing signed on behalf of each of the parties hereto.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized on the day and year first above written.

GENERAL MOTORS CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

HE HOLDINGS, INC.

By: \_\_\_\_\_  
Name:  
Title:

DELCO ELECTRONICS CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

HUGHES NETWORK SYSTEMS, INC.

By: \_\_\_\_\_  
Name:  
Title:

HUGHES SPIN-OFF SEPARATION AGREEMENT,

dated as of \_\_\_\_\_, 1997,

by and between

HE HOLDINGS, INC.

and

GENERAL MOTORS CORPORATION

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HUGHES SPIN-OFF SEPARATION AGREEMENT  
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This HUGHES SPIN-OFF SEPARATION AGREEMENT ("Agreement") is made and entered into as of \_\_\_\_\_, 1997, by and between Hughes, a Delaware corporation, and GM, a Delaware corporation. Capitalized terms used and not otherwise defined herein are defined in Section 1 below.

RECITALS  
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WHEREAS, Hughes and Raytheon desire to combine the Raytheon Business with the Hughes Business;

WHEREAS, Hughes and Raytheon have entered into the Hughes Merger Agreement, pursuant to which Raytheon shall merge with and into Hughes, with Hughes as the surviving corporation, in accordance with the terms and subject to the conditions thereof;

WHEREAS, as a condition to entering into the Hughes Merger Agreement, Raytheon has required that GM agree that, at the time of the consummation of the Hughes Merger, Hughes be an independent, publicly owned company, comprising the Defense Business;

WHEREAS, in response to such requirement, GM and Raytheon have entered into the Implementation Agreement and, as contemplated thereby, GM and Merger Sub have entered into the Hughes Distribution Agreement, pursuant to which, subject to certain terms and conditions contained therein, Merger Sub shall merge with and into GM, with GM as the surviving corporation such that, among other things, the holders of shares of GM \$1 2/3 Common Stock and the holders of shares of GM Class H Common Stock shall receive a distribution of shares of Hughes Class A Common Stock (representing all of the outstanding common stock of Hughes) in the Hughes Spin-Off;

WHEREAS, the parties intend that (a) the Hughes Merger constitute a tax-free "reorganization" within the meaning of Section 368(a) of the Code and (b) the Hughes Spin-Off qualify as a tax-free (to GM and the holders of GM Common Stock) spin-off within the meaning of Section 355 of the Code;

WHEREAS, the parties hereto have determined that in order to accomplish the objectives of the Hughes Spin-Off and to facilitate the consummation thereof, it is necessary and desirable to restructure certain intercompany relationships, allocate certain liabilities and provide mutual indemnification, all as set forth herein;

WHEREAS, the execution and delivery of this Agreement is a condition to GM's obligation to consummate the transactions contemplated by the Hughes Distribution Agreement; and

WHEREAS, concurrently with the execution and delivery of this Agreement, GM, Telecom, Delco and Hughes are entering into certain other agreements relating to the HEC Reorganization, the Hughes Spin-Off and/or the relationships of the parties thereafter, including, without limitation, as to matters such as taxes, indemnification, employee benefits, insurance, intellectual property, real property, transition services and shared research and development;

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereby agree as follows:

1. Definitions.

-----

"Active Trade or Business" means the active conduct of the trade or business (as defined in Section 355(b)(2) of the Code) conducted by Hughes immediately prior to the Effective Time.

"Affiliate" means a Hughes Affiliate, a GM Affiliate or a Raytheon Affiliate, as the case may be.

"Business" means the Hughes Business, the GM Business or the Raytheon Business, as the case may be.

"Business Day" means any day other than a Saturday, a Sunday, or a day on which banking institutions located in the State of New York are authorized or obligated by law or executive order to close.

"Claim" has the meaning set forth in Section 5.7.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, together with the rules and regulations promulgated thereunder.

"Control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

"CPR Rules" means the Rules for Non-Administered Arbitration of Business Disputes promulgated by the Center for Public Resources, as in effect on the date hereof.

"DGCL" means the General Corporation Law of the State of Delaware, as in effect on the date hereof and as the same may hereafter be amended from time to time.

"Defense Business" has the meaning ascribed to such term in the Separation Agreement.

"Delco" has the meaning ascribed to such term in the Separation Agreement.

"Dispute Notice" means written notice of any dispute between GM and Hughes arising out of or relating to this Agreement, which shall set forth, in reasonable detail, the nature of the dispute.

"Effective Time" means the date and time at which the Hughes Spin-Off Merger becomes effective.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, together with the rules and regulations promulgated thereunder.

"GM" means General Motors Corporation, a Delaware corporation.

"GM Affiliate" means a Person that, after giving effect to the Hughes Spin-Off, directly or indirectly through one or more intermediaries, is Controlled by GM.

"GM Business" means any business or operations of GM or any GM Affiliates other than the Hughes Business.

"GM Class H Common Stock" means the Class H Common Stock, par value \$0.10 per share, of GM.

"GM Class HT Common Stock" has the meaning ascribed to such term in the Hughes Distribution Agreement.

"GM Common Stock" means the GM \$1 2/3 Common Stock and the GM Class H Common Stock and, from and after the Effective Time, the GM Class HT Common Stock.

"GM \$1 2/3 Common Stock" means the Common Stock, par value \$1 2/3 per share, of GM.

"GM Disclosure Portions" means any material set forth in either the Hughes Spin-Off Registration Statement or the Hughes Merger Registration Statement (i) relating to (A) Hughes, the capital stock of Hughes, the Hughes Business, financial information and data relating to Hughes (including both historical and pro forma financial data) or (B) the GM Transactions or (ii) that otherwise does not constitute a part of a Hughes Disclosure Portion. For purposes of clause (i) (A), Hughes shall include Hughes only prior to the consummation of the Hughes Merger and shall not include Hughes as the surviving corporation of the Hughes Merger.

"GM Transactions" has the meaning ascribed to such term in the Hughes Distribution Agreement.

"GM Transfer Agent" means Boston EquiServe, L.P., in its capacity as the transfer agent for the GM Common Stock.

"HEC Reorganization" has the meaning ascribed to such term in the Hughes Distribution Agreement.

"Hughes" means HE Holdings, Inc., a Delaware corporation, after giving effect to the consummation of the HEC Reorganization, and, upon the consummation of the Hughes Merger, the surviving corporation of the Hughes Merger.

"Hughes Affiliate" means a Person that, after giving effect to the Hughes Spin-Off, directly or indirectly through one or more intermediaries, Controls, is Controlled by, or is under common Control with Hughes.

"Hughes Business" means the Defense Business and, upon the consummation of the Hughes Merger, the Raytheon Business.

"Hughes Capital Stock" means all classes or series of capital stock of Hughes.

"Hughes Class A Common Stock" means the Class A Common Stock, par value \$0.01 per share, of Hughes, as set forth in Hughes' Certificate of Incorporation as of immediately prior to the Effective Time.

"Hughes Class B Common Stock" means the Class B Common Stock, par value \$0.01 per share, of Hughes, as set forth in Hughes' Certificate of Incorporation as of immediately prior to the Effective Time.

"Hughes Common Stock" means Hughes Class A Common Stock and Hughes Class B Common Stock.

"Hughes Disclosure Portions" means all material set forth in either the Hughes Spin-Off Registration Statement or the Hughes Merger Registration Statement relating to (i) Raytheon, the capital stock of Raytheon, the Raytheon Business, financial information and data relating to Raytheon (including both historical and pro forma financial data) or (ii) the Hughes Merger, plans regarding Hughes after the Hughes Merger and other forward-looking information regarding Hughes.

"Hughes Distribution Agreement" means the Agreement and Plan of Merger by and between GM and Merger Sub, dated as of \_\_\_\_\_, 1997, as amended from time to time.

"Hughes Merger" means the merger of Raytheon with and into Hughes pursuant to the Hughes Merger Agreement, with Hughes as the surviving corporation.

"Hughes Merger Agreement" means the Agreement and Plan of Merger by and between Hughes and Raytheon, dated as of January 16, 1997, as amended from time to time.

"Hughes Merger Registration Statement" means the Registration Statement on Form S-4 filed or to be filed with the SEC by Hughes relating to the shares of Hughes Class B Common Stock to be issued in connection with the Hughes Merger, as supplemented or amended from time to time.

"Hughes Spin-Off" means the distribution of Hughes Class A Common Stock to the holders of GM Common Stock pursuant to the Hughes Spin-Off Merger.

"Hughes Spin-Off Merger" means the merger of Merger Sub with and into GM pursuant to the Hughes Distribution Agreement, with GM as the surviving corporation.

"Hughes Spin-Off Registration Statement" means the Registration Statement on Form S-4 filed or to be filed with the SEC by Hughes relating to the shares of Hughes Class A Stock to be distributed in connection with the Hughes Spin-Off, as supplemented or amended from time to time.

"Hughes Transfer Agent" means \_\_\_\_\_, in its capacity as the transfer agent for the Hughes Common Stock.

"Implementation Agreement" means the Implementation Agreement by and between GM and Raytheon, dated as of January 16, 1997, as amended from time to time.

"Indemnifying Party" means a Person that is obligated to provide indemnification under this Agreement.

"Indemnitee" means a Person that is entitled to seek indemnification under this Agreement.

"Indemnity Payment" means an amount that an Indemnifying Party is required to pay to an Indemnitee under this Agreement.

"Insurance Proceeds" means the payment received by an insured from an insurance carrier or paid by an insurance carrier on behalf of the insured, net of any applicable premium adjustment and tax effect.

"IRS" means Internal Revenue Service of the U.S. Department of Treasury or any successor agency.

"Losses" means all losses, liabilities, claims, obligations, demands, judgments, damages, dues, penalties, assessments, fines (civil or criminal), costs, liens, expenses, forfeitures, settlements, or fees, reasonable attorneys' fees and court costs, of any nature or kind, whether or not the same would properly be reflected on a balance sheet, and "Loss" means any of these.

"Merger Sub" means \_\_\_\_\_ Corporation, a Delaware corporation and a wholly-owned subsidiary of GM.

"Negotiation Period" means the period of 20 Business Days following the initial meeting of the representatives of GM and Hughes following the receipt of a Dispute Notice.

"Notice" means any notice, request, claim, demand, or other communication under this Agreement.

"Person" means an individual, partnership, joint venture, corporation, trust, unincorporated association, any other entity, or a government or any department or agency or other unit thereof.

"Prior Relationship" means the ownership relationships among GM, Hughes, Telecom and Delco at any time prior to giving effect to the consummation of the HEC Reorganization and the Hughes Spin-Off.

"Proposed Acquisition Transaction" means a transaction or series of transactions as a result of which any Person or any group of related Persons would acquire, or have the right to acquire, (i) from one or more holders of outstanding shares of Hughes Capital Stock, a number of shares of Hughes Capital Stock that would comprise more than 15% of (A) the value of all outstanding shares of Hughes Capital Stock as of the date of such transaction, or in the case of a series of transactions, the date of the last transaction of such series, or (B) the number of the issued and outstanding shares of Hughes Class A Common Stock or Hughes Class B Common Stock as of the date of such transaction, or in the case of a series of transactions, the date of the last transaction of such series, or (ii) from Hughes, all or a substantial portion of its assets or business in exchange in whole or in part for equity interests in such Person or group which are received by holders of Hughes Capital Stock.

"Proposed Stock Buyback Transaction" means a transaction or series of transactions as a result of which Hughes or a Hughes Affiliate would acquire, or have the right to acquire, one or more shares of Hughes Capital Stock.

"Proposed Stock Issuance Transaction" means a transaction or series of transactions as a result of which any Person would acquire, or have the right to acquire, from Hughes or a Hughes Affiliate, one or more shares of Hughes Capital Stock.

"Raytheon" means Raytheon Company, a Delaware corporation.

"Raytheon Affiliate" means a Person that directly or indirectly through one or more intermediaries, Controls, is Controlled by, or is under common Control with Raytheon.

"Raytheon Business" means any business or operations of Raytheon.

"Representation Date" means any date on which Hughes makes any representation (i) to the IRS or to counsel selected by GM for the purpose of obtaining a Subsequent Tax Opinion/Ruling, or (ii) to GM for the purpose of any determination required to be made by GM pursuant to Section 4.2.

"Representation Letters" means the representation letters and any other materials deliverable by GM and others in connection with the rendering by Tax Counsel and the issuance by the IRS of the Tax Opinions/Rulings, which to the extent related to Hughes, Raytheon or the Surviving Corporation (as defined in the Hughes Merger Agreement) shall be in form and substance reasonably satisfactory to Hughes and Raytheon.

"Representative" means, with respect to any Person, any of such Person's directors, officers, employees, agents, consultants, advisors, accountants or attorneys.

"Request" has the meaning set forth in Section 5.7.

"Securities Act" means the Securities Act of 1933, as amended from time to time, together with the rules and regulations promulgated thereunder.

"Separate Counsel" has the meaning set forth in Section 5.6(b).

"Separation Agreement" means the Master Separation Agreement by and among GM, Telecom, Delco and Hughes, dated as of \_\_\_\_\_, 1997, as amended from time to time.

"Service Agent" means (i) for GM, The Corporation Trust Company, with offices on the date hereof at 1209 Orange Street, Wilmington, County of New Castle, Delaware 19801; and (ii) for Hughes, The Corporation Trust Company, with offices on the date hereof at 1209 Orange Street, Wilmington, County of New Castle, Delaware.

"Subsequent Tax Opinion/Ruling" means either (i) an opinion of counsel selected by GM, in its sole and absolute discretion, confirming, in form and substance reasonably satisfactory to GM, that, as a consequence of the consummation of a subsequent transaction, (A) no income, gain or loss for U.S. federal income tax purposes will be recognized by GM, the stockholders or former stockholders of GM, or any GM Affiliate with respect to the Hughes Spin-Off and/or the Telecom Spin-Off, or (B) no income, gain or loss for U.S. federal income tax purposes will be recognized by GM, Hughes, Raytheon or any of their Affiliates, or by Hughes' stockholders (including, without limitation, GM stockholders who become Hughes stockholders as a result of the Hughes Spin-Off), with respect to the Hughes Merger; or (ii) an IRS private letter ruling to the same effect.

"Subsidiary" means with respect to any specified Person, any corporation or other legal entity of which such Person or any of its Subsidiaries Controls or owns, directly or indirectly, more than 50% of the stock or other equity interest entitled to vote on the election of members to the board of directors or similar governing body; provided, however, that for the purposes of this Agreement, neither Hughes nor any of the Subsidiaries of Hughes shall be deemed to be Subsidiaries of GM or of any of the Subsidiaries of GM.

"Tax" means (i) any income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on, minimum, estimated, or other tax, assessment, or governmental charge of any kind whatsoever imposed by any governmental authority, including any interest, penalty, or addition thereto, whether disputed or not; (ii) liability for the payment of any amounts of the type described in clause (i) above arising as a result of being (or having been) a member of any group or being (or having been) included or required to be included in any Tax Return related thereto; and (iii) liability for the payment of any amounts of the type described in clause (i) above as a result of

any express or implied obligation to indemnify or otherwise assume or succeed to the liability of any other Person.

"Tax Agreement" means the Tax Sharing Agreement by and among GM, Hughes and Telecom, dated as of \_\_\_\_\_, 1997, as amended from time to time, relating to certain tax matters.

"Tax Counsel" means Kirkland & Ellis, with respect to those Tax Opinions/Rulings deliverable to GM relating to the transactions effectuated pursuant to the Hughes Distribution Agreement, and Weil, Gotshal & Manges, LLP, with respect to the Tax Opinions/Rulings deliverable to GM and Hughes relating to the transactions effectuated pursuant to the Hughes Merger Agreement.

"Tax-Free Status of the Hughes Merger" means the nonrecognition of taxable income, gain or loss for U.S. federal income tax purposes to GM, Hughes, Raytheon and their Affiliates, and to Hughes' stockholders (including, without limitation, GM stockholders who become Hughes stockholders as a result of the Hughes Spin-Off) in connection with the Hughes Merger.

"Tax-Free Status of the Spin-Offs" means the nonrecognition of taxable gain or loss for U.S. federal income tax purposes to GM, GM Affiliates and GM's stockholders in connection with the Hughes Spin-Off and/or the Telecom Spin-Off.

"Tax Opinions/Rulings" means, collectively, the opinions of Tax Counsel and the rulings by the IRS deliverable to GM in connection with (i) the transactions contemplated by the Hughes Distribution Agreement and (ii) the transactions contemplated by the Hughes Merger Agreement.

"Tax-Related Losses" means (i) all federal, state and local Taxes (including interest and penalties thereon) imposed pursuant to any settlement, final determination, judgment or otherwise; (ii) all accounting, legal and other professional fees, and court costs incurred in connection with such taxes; and (iii) all costs and expenses that may result from adverse tax consequences to GM or GM's stockholders (including all costs, expenses and damages associated with stockholder litigation or controversies) payable by GM or GM Affiliates.

"Telecom" has the meaning ascribed to such term in the Separation Agreement.

"Telecom Spin-Off" means the spin-off of Telecom by Hughes to GM included as part of the HEC Reorganization.

"Third-Party Claim" means any claim, suit, arbitration, inquiry, proceeding or investigation by or before any court, governmental or other regulatory or administrative agency or commission or any arbitration tribunal asserted by a Person other than GM or any GM Affiliate or Hughes or any Hughes Affiliate which gives rise to a right of indemnification hereunder.

"Voting Stock" means with respect to any Person, all classes and series of the capital stock of such Person entitled to vote generally in the election of directors.



2. Certain Intercompany Matters.

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2.1 Capital Stock Matters.

(a) Recognition of Stockholders. From and after the Effective Time and until such Hughes Class A Common Stock is duly transferred in accordance with applicable law, Hughes shall regard the Persons who were record holders of GM \$1 2/3 Common Stock and the Persons who were record holders of GM Class H Common Stock, in each case as of immediately prior to the Effective Time, as the record holders of Hughes Class A Common Stock, as described in and subject to the terms of the Hughes Distribution Agreement, without requiring any action on the part of such Persons. Hughes agrees that, subject to any transfers of such stock, (i) each such holder shall be entitled to receive all dividends payable on, and exercise voting rights and all other rights and privileges with respect to, Hughes Class A Common Stock and (ii) each such holder shall be entitled, without any action on the part of any such holder, subject to Section 2.3 of the Hughes Merger Agreement, to receive one or more certificates representing the shares of Hughes Class A Common Stock then held by it.

(b) GM Representations and Warranties. GM hereby represents and warrants that, as of immediately prior to the Effective Time, (i) \_\_\_\_\_ shares of GM \$1 2/3 Common Stock and \_\_\_\_\_ shares of GM Class H Common Stock will be issued and outstanding, (ii) all of such shares will be validly issued, fully paid and nonassessable, and (iii) there will be (x) no outstanding securities of GM or any of its Subsidiaries convertible into or exchangeable for shares of GM \$1 2/3 Common Stock or GM Class H Common Stock and (y) other than stock options granted pursuant to GM's employee benefit plans and other than as provided in Article Fourth of GM's Amended and Restated Certificate of Incorporation, no outstanding subscriptions, options, warrants, rights or other arrangements or commitments to which GM is a party obligating GM to issue any shares of GM \$1 2/3 Common Stock or GM Class H Common Stock.

(c) Hughes Representations and Warranties. Hughes hereby represents and warrants that, as of immediately prior to the Effective Time, (i) 102,630,503 shares of Hughes Class A Common Stock will be issued and outstanding, (ii) all of such shares will be validly issued, fully paid and nonassessable, (iii) all of such shares will be held of record by GM, (iv) such shares shall represent all of the issued and outstanding Hughes Capital Stock, and (v) there will be (x) no outstanding securities of Hughes or any of its Subsidiaries convertible into or exchangeable for shares of Hughes Class A Common Stock and (y) no outstanding subscriptions, options, warrants, rights or other arrangements or commitments to which Hughes is a party obligating Hughes to issue any shares of Hughes Class A Common Stock.

(d) Cooperation of Transfer Agents; Stockholder Records. GM shall cooperate, and shall instruct the GM Transfer Agent to cooperate, with Hughes and the Hughes Transfer Agent, and Hughes shall cooperate, and shall instruct the Hughes Transfer Agent to cooperate, with GM and the GM Transfer Agent, in connection with the Hughes Spin-Off

and all other matters relating to (i) the issuance and delivery of certificates evidencing the shares of Hughes Class A Common Stock (and payment of cash in lieu of any fractional shares of Hughes Class B Common Stock as described in the Hughes Merger Agreement) to be distributed in respect of all shares of GM \$1 2/3 Common Stock and GM Class H Common Stock outstanding as of immediately prior to the Effective Time and (ii) the exchange of certificates evidencing the recapitalization and conversion of all shares of GM Class H Common Stock outstanding as of immediately prior to the Effective Time into shares of GM Class HT Common Stock. Following the Effective Time, GM shall instruct the GM Transfer Agent to distribute letters of transmittal, in form reasonably satisfactory to GM and Hughes, to all holders of GM Class H Common Stock as of immediately prior to the Effective Time in connection with the exchange of certificates representing shares of GM Class H Common Stock for certificates representing shares of GM Class HT Common Stock and certificates representing shares of Hughes Class A Common Stock. Following the Effective Time, GM shall instruct the GM Transfer Agent to deliver to the Hughes Transfer Agent true, correct and complete copies of the transfer records reflecting the record holders of GM \$1 2/3 Common Stock and GM Class H Common Stock, in each case as of immediately prior to the Effective Time. Upon the reasonable request of Hughes from time to time after the Effective Time in connection with any legitimate corporate purpose, GM shall cooperate, or shall instruct the GM Transfer Agent to cooperate, in providing Hughes with reasonable access to all historical share, transfer and dividend payment records with respect to the holders of GM \$1 2/3 Common Stock and GM Class H Common Stock as of immediately prior to the Effective Time.

2.2 Publicity. Hughes, with respect to Hughes and all of the Hughes Affiliates, and GM, with respect to GM and all of the GM Affiliates, agree to take all commercially reasonable action to discontinue their respective uses as promptly after the Effective Time as is commercially reasonable of any printed material that indicates a continued Prior Relationship between or among GM and Hughes or any of their respective Affiliates. This Section 2.2 shall not be deemed to prohibit the use of printed material containing appropriate and accurate references to the Prior Relationship.

2.3 Further Assurances. In addition to the actions specifically provided for elsewhere in this Agreement, each of the parties hereto shall use all commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things commercially reasonably necessary, proper or expeditious under applicable laws, regulations and agreements in order to consummate and make effective the Hughes Spin-Off as promptly as reasonably practicable. Without limiting the generality of the foregoing, each party hereto shall cooperate with the other party, and execute and deliver, or use all commercially reasonable efforts to cause to have executed and delivered, all instruments, including instruments of conveyance, assignment and transfer, and to make all filings with, and to obtain all consents, approvals or authorizations of, any domestic or foreign governmental or regulatory authority in order to make effective the Hughes Spin-Off.

3. Expenses.

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3.1 General. Except as otherwise provided in this Agreement, the Separation Agreement and the other agreements contemplated thereby, all costs and expenses of either party hereto in connection with the Hughes Spin-Off and/or the Hughes Merger shall be paid by the party that incurs such costs and expenses.

3.2 Certain Costs Relating to Hughes Common Stock. Hughes shall pay all costs of printing and engraving with respect to certificates representing Hughes Common Stock, fees of any transfer or exchange agent engaged by Hughes, and all fees relating to listing Hughes Common Stock on any domestic or foreign stock exchange or similar organization.

3.3 Certain Transactions Costs.

(a) Certain Merger Costs to be Paid by Hughes. Hughes shall pay all costs and expenses relating exclusively to the Hughes Merger, including, without limitation, all reasonable out-of-pocket costs and expenses of printing and distributing the Hughes Merger Registration Statement and any related materials (including any proxy or consent solicitation statement), the fees associated with filing the Hughes Merger Registration Statement and any related materials (including any proxy or consent solicitation statement) with the SEC, the fees associated with making any other federal, state, local or foreign governmental securities law or other regulatory filings exclusively in connection with the Hughes Merger, the fees and expenses of the Hughes Transfer Agent and any proxy or consent solicitation agents, information agents or similar consultants engaged by Raytheon in connection with effecting the Hughes Merger. Hughes shall also pay, unless otherwise agreed between GM and Hughes, the fees and expenses of Goldman, Sachs & Co. and the fees and expenses of Weil, Gotshal & Manges LLP in connection with the Hughes Merger; provided that such fees and expenses, to the extent to be paid by Hughes after the effective time of the Hughes Merger, shall be included as current liabilities on the Closing Date Balance Sheet (as defined in the Separation Agreement).

(b) Certain Merger Costs to be Paid by GM. GM or one of its subsidiaries shall pay all fees and out-of-pocket expenses of Hughes in connection with the Hughes Merger except as contemplated by Section 3.3(a).

(c) Certain Costs to be Paid by GM. GM or one of its subsidiaries shall pay all costs and expenses relating to the GM Transactions (other than as provided in Section 3.2 and other than those relating exclusively to the Hughes Merger, which are addressed in Sections 3.3(a) and 3.3(b) above), including, without limitation, all costs and expenses relating exclusively to the Hughes Spin-Off Merger, including, without limitation, all reasonable out-of-pocket costs and expenses of printing and distributing the Hughes Spin-Off Registration Statement and any related materials (including any proxy or consent solicitation statement), the fees associated with filing the Hughes Spin-Off Registration Statement and any related materials (including any proxy or consent solicitation statement) with the SEC, the fees associated with making any other federal, state, local or foreign

governmental securities law or other regulatory filings exclusively in connection with the Hughes Spin-Off Merger, and the fees and expenses of the GM Transfer Agent and any proxy or consent solicitation agents, information agents or similar consultants engaged by GM in connection with effecting the Hughes Spin-Off Merger.

4. Covenants To Preserve Tax-Free Status Of Hughes Spin-Off.  
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4.1 Representations and Warranties.

(a) Hughes. Hughes hereby represents and warrants that (i) it has examined the Tax Opinions/Rulings and the Representation Letters, and (ii) the facts presented and the representations made therein, to the extent descriptive of Hughes or the Hughes Business or Raytheon or the Raytheon Business (including, without limitation, the business purposes for the Hughes Spin-Off, Telecom Spin-Off and Hughes Merger, the representations in the Representation Letters and Tax Opinions/Rulings to the extent that they relate to Hughes or the Hughes Business or Raytheon or the Raytheon Business, and the plans, proposals, intentions and policies of Hughes or Raytheon), are true, correct and complete in all material respects.

(b) GM. GM hereby represents and warrants that (i) it has examined the Tax Opinions/Rulings and the Representation Letters, and (ii) the facts presented and the representations made therein, to the extent descriptive of GM or the GM Business (including, without limitation, the business purposes for the Hughes Spin-Off, Telecom Spin-Off, the representations in the Representation Letters and Tax Opinions/Rulings to the extent that they relate to GM or the GM Business, and the plans, proposals, intentions and policies of GM), are true, correct and complete in all material respects.

4.2 Restrictions on Hughes.

(a) Proposed Secondary Capital Stock Transactions. Until the first day after the two-year anniversary of the Effective Time, Hughes shall not enter into any Proposed Acquisition Transaction or, to the extent Hughes has the right to prohibit any Proposed Acquisition Transaction, permit any Proposed Acquisition Transaction to occur (whether by (i) redeeming rights under a stockholders rights plan, (ii) finding a tender offer to be a "permitted offer" under any such plan or otherwise causing any such plan to be inapplicable or neutralized with respect to any Proposed Acquisition Transaction, or (iii) approving any Proposed Acquisition Transaction, whether for purposes of Section 203 of the DGCL or any similar corporate statute, any "fair price" or other provision of Hughes' charter or bylaws or otherwise) unless prior to the consummation of such Proposed Acquisition Transaction GM has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Spin-Offs and the Tax-Free Status of the Hughes Merger, that such Proposed Acquisition Transaction would not jeopardize the Tax-Free Status of the Spin-Offs or the Tax-Free Status of the Hughes Merger.

The foregoing shall not prohibit Hughes from entering into a contract or agreement to consummate any Proposed Acquisition Transaction if such contract or agreement requires satisfaction of the above-described requirement prior to the consummation of such Proposed Acquisition Transaction.

(b) Proposed Primary Capital Stock Transactions.

(i) Until the first day after the two-year anniversary of the Effective Time, Hughes shall not enter into any Proposed Stock Issuance Transaction if, as a result of such Proposed Stock Issuance Transaction, Hughes would issue a number of shares of Hughes Capital Stock that, when aggregated with all other shares of Hughes Capital Stock issued pursuant to any Proposed Stock Issuance Transaction occurring prior to or simultaneously with such Proposed Stock Issuance Transaction, would cause (A) the number of shares of Hughes Class A Common Stock distributed to GM stockholders in the Hughes Spin-Off to constitute less than 80% of the total combined voting power of all outstanding shares of Voting Stock of Hughes or (B) the issuance of outstanding shares of any class or series of Hughes Capital Stock other than Voting Stock of Hughes, unless prior to the consummation of such transaction GM has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Spin-Offs and the Tax-Free Status of the Hughes Merger, that such transaction would not jeopardize the Tax-Free Status of the Spin-Offs or the Tax-Free Status of the Hughes Merger.

(ii) Until the first day after the two-year anniversary of the Effective Time, Hughes shall not enter into any Proposed Stock Buyback Transaction if, as a result of such Proposed Stock Buyback Transaction, the then-outstanding shares of Hughes Class A Common Stock would constitute less than 80% of the total combined voting power of all outstanding shares of Voting Stock of Hughes, unless prior to the consummation of such transaction GM has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Spin-Offs and the Tax-Free Status of the Hughes Merger, that such transaction would not jeopardize the Tax-Free Status of the Spin-Offs or the Tax-Free Status of the Hughes Merger.

(iii) For purposes of this Section 4.2(b), any option (including an option issued to employees or in connection with the performance of services), warrant or other security that would permit or require a Person to acquire shares of Voting Stock of Hughes or other Hughes Capital Stock (including the option, right or obligation of Hughes or a Hughes Affiliate to acquire shares of Hughes Capital Stock), or any security convertible into or exchangeable for shares of Voting Stock of Hughes or other Hughes Capital Stock, shall be treated as if it had been fully exercised, converted or exchanged at the time of issuance, whether or not such security is by its terms exercisable at such time.

(c) Amendment to Charter and Bylaws. Until the first day after the three-year anniversary of the Effective Time, Hughes shall make no amendments or changes to its charter or bylaws that would affect the composition or size of its Board of Directors, the manner in which its Board of Directors is elected, and the duties and responsibilities of its Board of Directors unless GM has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Spin-Offs and the Tax-Free Status of the Hughes Merger, that such amendment or change would not jeopardize the Tax-Free Status of the Spin-Offs or the Tax-Free Status of the Hughes Merger.

(d) Continuation of Active Trade or Business. Until the first day after the two-year anniversary of the Effective Time,

(i) Hughes shall continue to conduct the Active Trade or Business.

(ii) Subject to the last sentence of clause (d)(iii), Hughes shall not (A) liquidate, dispose of, or otherwise discontinue the conduct of any portion of the Active Trade or Business with a value in excess of \$1.0 billion or (B) dispose of any business or assets that would cause Hughes to be operated in a manner inconsistent in any material respect with the business purposes for the Hughes Spin-Off as set forth in the Representation Letters and Tax Opinions/Rulings, in each case unless GM has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Spin-Offs and the Tax-Free Status of the Hughes Merger, that such liquidation, disposition, or discontinuance would not jeopardize the Tax-Free Status of the Spin-Offs or the Tax-Free Status of the Hughes Merger.

(iii) Hughes shall not under any circumstances liquidate, dispose of, or otherwise discontinue the conduct of any portion of the Active Trade or Business if such liquidation, disposition or discontinuance would breach Section 4.2(e). Hughes shall continue the active conduct of the Active Trade or Business primarily through officers and employees of Hughes or its Subsidiaries (and not primarily through independent contractors) who are not also officers or employees of GM or of any GM Affiliates. Notwithstanding the foregoing, (A) liquidations of any of Hughes' Subsidiaries into Hughes or one or more Subsidiaries directly or indirectly controlled by Hughes shall not be deemed to breach this Section 4.2(d) and (B) Hughes shall not be prohibited from liquidating, disposing of or otherwise discontinuing the conduct of one or more trades or businesses that constituted part of the Active Trade or Business, or any portion thereof, provided that, in the case of this clause (B), the aggregate value of such trades or businesses, or portions thereof, so liquidated, disposed of or discontinued shall not exceed \$1.0 billion (as determined as of the Effective Time). For purposes of the preceding sentence and clause (d)(ii), asset retirements, sale-leaseback arrangements and discontinuances of product lines within

a trade or business the active conduct of which is continued shall not be deemed a liquidation, disposition or discontinuance of a trade or business or portion thereof.

(iv) Solely for purposes of this Section 4.2(d), Hughes shall not be treated as directly or indirectly controlling a Subsidiary unless Hughes owns, directly or indirectly, shares of capital stock of such Subsidiary constituting (i) 80% or more of the total combined voting power of all outstanding shares of Voting Stock of such Subsidiary and (ii) 80% or more of the total number of outstanding shares of each class or series of capital stock of such Subsidiary other than Voting Stock.

(v) The restrictions contained in this Section 4.2(d) shall apply only to the businesses, subsidiaries and operations of Hughes as in existence prior to the Effective Time, and shall not be deemed to apply to those businesses, subsidiaries and operations conducted by Raytheon prior to the Effective Time.

(e) Continuity of Business.

(i) Until the first day after the two-year anniversary of the Effective Time, (A) Hughes shall not voluntarily dissolve or liquidate, and (B) except in the ordinary course of business, neither Hughes nor any Subsidiaries directly or indirectly controlled by Hughes shall sell, transfer, or otherwise dispose of or agree to dispose of assets (including, for such purpose, any shares of capital stock of such Subsidiaries) that, in the aggregate, constitute more than (x) 60% of the gross assets of Hughes or (y) 60% of the consolidated gross assets of Hughes and such Subsidiaries, unless prior to the consummation of such transaction GM has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Spin-Offs and the Tax-Free Status of the Hughes Merger, that such transaction would not jeopardize the Tax-Free Status of the Spin-Offs or the Tax-Free Status of the Hughes Merger. The amount of gross assets of Hughes and such Subsidiaries shall be based on the fair market value of each such asset as of the Effective Time.

(ii) Sales, transfers or other dispositions by Hughes or any of its Subsidiaries to Hughes or one or more Subsidiaries directly or indirectly controlled by Hughes shall not be included in any determinations under this Section 4.2(e) of whether such 60% or more of the gross assets of Hughes or 60% of the consolidated gross assets of Hughes and such Subsidiaries have been sold, transferred or otherwise disposed of.

(iii) Solely for purposes of this Section 4.2(e), Hughes shall not be treated as directly or indirectly controlling a Subsidiary unless Hughes owns, directly or indirectly, shares of capital stock of such Subsidiary constituting (A) 80% or more of the total combined voting power of all outstanding shares of Voting Stock of such Subsidiary and (B) 80% or more of the total number of outstanding shares of each class or series of capital stock of such Subsidiary other than Voting Stock.

(iv) The restrictions contained in this Section 4.2(e) shall apply only to the businesses, subsidiaries and operations of Hughes as in existence prior to the Effective Time, and shall not be deemed to apply to those businesses, subsidiaries and operations conducted by Raytheon prior to the Effective Time.

(f) Recapitalizations, Reincorporations and Similar Transactions.

(i) Hughes shall not propose a plan of recapitalization or amendment to its charter or other action providing for (A) the conversion of shares of any class of Hughes Common Stock into a different class of Hughes Capital Stock, (B) a change in the absolute or relative voting rights of any class of Hughes Common Stock from the rights existing at the Effective Time, or (C) any other action having an effect similar to that described in clause (A) or (B), unless prior to the consummation of such action GM has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Spin-Offs and the Tax-Free Status of the Hughes Merger, that such action would not jeopardize the Tax-Free Status of the Spin-Offs or the Tax-Free Status of the Hughes Merger.

(ii) A Proposed Acquisition Transaction will be considered a recapitalization transaction subject to subsection 4.2(f)(i) if, as a result of such transaction, holders of Hughes Common Stock immediately before the Proposed Acquisition Transaction will own more than 50% of the common equity of the Person (or group of related Persons) acquiring the Hughes Capital Stock immediately after consummation of the Proposed Acquisition Transaction, and, in such case, the Person acquiring Hughes Capital Stock pursuant to a Proposed Acquisition Transaction shall be treated as if such Person were Hughes for purposes of this Section 4.2(f).

(g) Miscellaneous. Until the first day after the two-year anniversary of the Effective Time, Hughes shall not take, or permit any of its Subsidiaries to take, any other actions or enter into any transaction or series of transactions or agree to enter into any other transactions that would be reasonably likely to jeopardize the Tax-Free Status of the Spin-Offs or the Tax-Free Status of the Hughes Merger, including any action or transaction that would be reasonably likely to be inconsistent with any representation made in the Representation Letters, unless prior to the consummation of such action or transaction GM has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Spin-Offs and the Tax-Free Status of the Hughes Merger, that such action or transaction would not jeopardize the Tax-Free Status of the Spin-Offs or the Tax-Free Status of the Hughes Merger. Notwithstanding the foregoing, if and to the extent that any action or transaction is described in and permitted pursuant to Sections 4.2(a)-(f) such action or transaction shall not be prohibited by this Section 4.2(g).



(h) Permitted Actions and Transactions. Notwithstanding the foregoing, the provisions of Section 4.2 shall not prohibit Hughes from (i) implementing, or otherwise complying with the provisions of, any stockholders rights plan of Hughes, (ii) consummating the Hughes Merger or any of the GM Transactions, provided that the conditions to closing set forth in Sections 6.1 and 6.3 of the Hughes Merger Agreement have been satisfied or properly waived and (iii) implementing any transaction upon which the IRS has granted a favorable ruling in, or which is described in reasonable detail in, any Tax Opinions/Ruling received from the IRS.

#### 4.3 Cooperation and Other Covenants.

(a) Notice of Subsequent Hughes Actions. Each of Hughes and GM shall furnish the other with a copy of any ruling requests or other documents delivered to the IRS that relates to the Hughes Spin-Off, Telecom Spin-Off or the Hughes Merger or that could otherwise be reasonably expected to have an impact on the Tax-Free Status of the Spin-Offs or Tax-Free Status of the Hughes Merger.

#### (b) Cooperation.

(i) Each of Hughes and GM shall cooperate with the other and shall take (or refrain from taking) all such actions as the other may reasonably request in connection with obtaining any GM determination referred to in Section 4.2. Such cooperation shall include, without limitation, providing any information and/or representations reasonably requested by the other to enable either party (or counsel for such party) to obtain and maintain any Subsequent Tax Opinion/Ruling that would permit any action described in Section 4.2 to be taken by Hughes or a Hughes Affiliate. From and after any Representation Date in connection with obtaining any such determination or the receipt of a Subsequent Tax Opinion/Ruling and until the first day after the two-year anniversary of the date of such determination or receipt, neither party shall take (nor shall it refrain from taking) any action that would have caused such representation to be untrue unless the other party has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Spin-Offs and the Tax-Free Status of the Hughes Merger, that such action would not jeopardize the Tax-Free Status of the Spin-Offs and the Tax-Free Status of the Hughes Merger.

(ii) In the event that Hughes notifies GM that it desires to take one of the actions described in this Section 4.2 and GM concludes that such action would jeopardize the Tax-Free Status of the Spin-Offs or the Tax-Free Status of the Hughes Merger, GM shall, at the request of Hughes, elect either to (i) use all commercially reasonable efforts to obtain a Subsequent Tax Opinion/Ruling that would permit Hughes to take the specified action, and Hughes shall cooperate in connection with such efforts, or (ii) provide all reasonable cooperation to Hughes in connection with Hughes obtaining such a Subsequent Tax Opinion/Ruling in form and substance reasonably satisfactory to GM; provided, however, that the reasonable costs and

expenses of obtaining any such Subsequent Tax Opinion/Ruling shall be borne by Hughes.

(c) Notice.

(i) Until all restrictions set forth in Section 4.2 have expired, Hughes shall give GM written notice of any intention to effect or permit an action or transaction described in Section 4.2 and which is prohibited thereunder at such time within a period of time reasonably sufficient to enable GM to make the determination referred to in Section 4.2 or to prepare and seek any Subsequent Tax Opinion/Ruling in connection with such proposed action or transaction. Each such notice shall set forth the terms and conditions of the proposed action or transaction, including, without limitation, as applicable, the nature of any related action proposed to be taken by the Board of Directors of Hughes, the approximate number of shares of Hughes Capital Stock proposed to be transferred or issued, the approximate value of Hughes' assets (or assets of any of Hughes' Subsidiaries) proposed to be transferred, the proposed timetable for such action or transaction, and the number of shares of Hughes Capital Stock otherwise then owned by the other party to the proposed action or transaction, all with sufficient particularity to enable GM to make any such required determination, including information required to prepare and seek a Subsequent Tax Opinion/Ruling in connection with such proposed action or transaction. All information provided by Hughes to GM pursuant to this Section 4.3 shall be deemed subject to the confidentiality obligations of Article 4 of the Separation Agreement.

(ii) Promptly, but in any event within 15 days, after GM receives such written notice from Hughes, GM shall evaluate such information and notify Hughes in writing of such determination or of GM's intent to seek a Subsequent Tax Opinion/ Ruling and the proposed date for submission of the request therefor, which date shall not be more than 45 days after the date GM so notifies Hughes of GM's intent to seek a Subsequent Tax Opinion/Ruling, provided that such 45-day period shall be appropriately extended for any period of noncompliance by Hughes with Section 4.3(b). GM shall notify Hughes promptly, but in any event within two Business Days, after the receipt of a Subsequent Tax Opinion/Ruling. If GM makes a determination that an action or transaction described in Section 4.2 would jeopardize the Tax-Free Status of the Spin-Offs or Tax-Free Status of the Hughes Merger, such notice to Hughes shall set forth, in reasonable detail, the reasons therefor and the reasons for not receiving a Subsequent Tax Opinion/Ruling.

4.4 Indemnification for Tax Liabilities.

(a) General. Notwithstanding any other provision of this Agreement or any provision of any of the Tax Agreement to the contrary but subject to Section 4.4(b), Hughes shall indemnify, defend and hold harmless GM and each GM Affiliate (or any successor to any of them) against any and all Tax-Related Losses incurred by GM in connection with any

proposed tax assessment or tax controversy with respect to the Hughes Spin-Off or the Hughes Merger to the extent caused by any breach by Hughes of any of its representations, warranties or covenants made pursuant to this Agreement. All interest or penalties incurred in connection with such Tax-Related Losses shall be computed for the time period up to and including the date that Hughes pays its indemnification obligation in full.

(b) Exceptions to Hughes' Indemnification. If GM (i) makes a determination pursuant to any clause of Section 4.2, on the basis of a Subsequent Tax Opinion/Ruling or otherwise, and (ii) delivers to Hughes written notice of such determination pursuant to Section 4.3(c), Hughes shall have no obligation pursuant to Section 4.4(a), except to the extent that any Tax-Related Losses so incurred resulted from the inaccuracy, incorrectness or incompleteness of any representation provided by Hughes upon which such Subsequent Tax Opinion/Ruling and/or determination was based.

(c) Timing and Method of Tax Indemnification Payments. Hughes shall pay any amount due and payable to GM pursuant to this Section 4.4 on or before the 90th day following the earlier of agreement or determination that such amount is due and payable to GM. All payments pursuant to this Section 4.4 shall be made by wire transfer to the bank account designated by GM for such purpose, and on the date of such wire transfer Hughes shall give GM notice of the transfer.

#### 4.5 Procedure for Indemnification for Tax Liabilities.

(a) Notice of Claim. If GM receives notice of the assertion of any Third-Party Claim with respect to which Hughes may be obligated under Section 4.4 to provide indemnification, GM shall give Hughes notice thereof (together with a copy of such Third-Party Claim, process or other legal pleading) promptly after becoming aware of such Third-Party Claim; provided, however, that the failure of GM to give notice as provided in this Section shall not relieve Hughes of its obligations under Section 4.4, except to the extent that Hughes is actually prejudiced by such failure to give notice. Such notice shall describe such Third-Party Claim in reasonable detail.

##### (b) Obligation of Indemnifying Party.

(i) GM and Hughes shall jointly control the defense of, and cooperate with each other with respect to defending, any Third-Party Claim with respect to which Hughes is obligated under Section 4.4 to provide indemnification, provided that Hughes shall forfeit such joint control right with respect to a particular Third-Party Claim if Hughes or any Hughes Affiliate makes any public statement or filing, or takes any action (including, but not limited to, the filing of any submission or pleading, or the giving of a deposition or production of documents, in any administrative or court proceeding) in connection with such Third-Party Claim that is inconsistent in a material respect with any representation or warranty made by Hughes in the Agreement, the Tax Opinions/Rulings, the Representation Letters or the Hughes Merger Agreement.

(ii) Hughes and GM shall exercise their rights to jointly control the defense of any such Third-Party Claim solely for the purpose of defeating such Third-Party Claim and, unless required by applicable law, neither Hughes nor GM shall make any statements or take any actions that could reasonably result in the shifting of liability for any Losses arising out of such Third-Party Claim from the party making such statement or taking such action (or any of its Affiliates) to the other party (or any of its Affiliates).

(iii) Statements made or actions taken by either Hughes or GM in connection with the defense of any such Third-Party Claim shall not prejudice the rights of such party in any subsequent action or proceeding between the parties.

(iv) If either GM or Hughes fails to jointly defend any such Third-Party Claim, the other party shall solely defend such Third-Party Claim and the party failing to jointly defend shall use commercially reasonable efforts to cooperate with the other party in its defense of such Third-Party Claim; provided, however, that GM may not compromise or settle any such Third-Party Claim without the prior written consent of Hughes, which consent shall not be unreasonably withheld or delayed. All costs and expenses of either party in connection with, and during the course of, the joint control of the defense of any such Third-Party Claim shall be initially paid by the party that incurs such costs and expenses. Such costs and expenses shall be reallocated and reimbursed in accordance with the respective indemnification obligations of the parties at the conclusion of the defense of such Third-Party Claim.

4.6 Arbitration. Any dispute between the parties arising out of or relating to this Section 4, including the interpretation of this Section 4, or any actual or purported breach of this Section 4, shall be resolved only in accordance with the following provisions:

(a) Negotiation. GM and Hughes shall attempt in good faith to resolve any such dispute promptly through negotiations of the parties. In the event of any such dispute, either party may deliver a Dispute Notice to the other party, and within 20 Business Days after the receipt of such Dispute Notice, the appropriate representatives of GM and Hughes shall meet to attempt to resolve such dispute. If such dispute has not been resolved within the Negotiation Period, or if one of the parties fails or refuses to negotiate such dispute, the issue shall be settled by arbitration pursuant to Section 4.6(b). The results of such arbitration shall be final and binding on the parties.

(b) Arbitration Procedure. Either party may initiate arbitration with regard to such dispute by giving the other party written notice either (i) at any time following the end of the Negotiation Period, or (ii) if the parties do not meet within 20 Business Days of the receipt of the Dispute Notice, at any time thereafter. The arbitration shall be conducted by three arbitrators in accordance with the CPR Rules, except as otherwise provided in this Section 4.6. Within 20 days following receipt of the written notice of arbitration, GM and Hughes shall each appoint one arbitrator. The two arbitrators so appointed shall appoint the third arbitrator. If either GM or Hughes shall fail to appoint an arbitrator within such 20-day

period, the arbitration shall be by the sole arbitrator appointed by the other party. Whether selected by GM and Hughes or otherwise, each arbitrator selected to resolve such dispute shall be a tax attorney who is generally recognized in the tax community as a qualified and competent tax practitioner with experience in the tax area involved in the issue or issues to be resolved. Such arbitrators shall be empowered to determine whether Hughes is required to indemnify GM pursuant to Section 4.4 and to determine the amount of the related indemnification payment. Each of GM and Hughes shall bear 50% of the aggregate expenses of the arbitrators. The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. (S) (S)1-14. The place of arbitration shall be New York, New York. The final decision of the arbitrators shall be rendered no later than one year from the date of the written notice of arbitration.

4.7 Exclusive Remedies. Except for the right to pursue equitable remedies, the remedies provided in this Section 4 shall be deemed the sole and exclusive remedies of the parties with respect to the subject matters of the indemnification provisions of Section 4.4.

5. Indemnification.  
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5.1 Indemnification by Hughes. Subject to Section 5.3, from and after the Effective Time, Hughes shall indemnify, defend and hold harmless GM, all GM Affiliates and each of their respective directors, officers and employees (in their capacities as such), from and against:

(a) all Losses relating to, arising out of, or due to, directly or indirectly, any breach by Hughes or any Hughes Affiliate of any of the provisions of this Agreement;

(b) all Losses relating to, arising out of, or due to any untrue statement or alleged untrue statement of a material fact contained in the Hughes Disclosure Portions or the omission or alleged omission to state in the Hughes Disclosure Portions a material fact required to be stated therein or necessary to make the statements therein not misleading; and

(c) all Losses relating to or arising out of actions taken (or omitted to be taken) by Raytheon or any Raytheon Affiliate in violation of the Hughes Merger Agreement.

5.2 Indemnification by GM. Subject to Section 5.3, from and after the Effective Time, GM shall indemnify, defend, and hold harmless Hughes, all Hughes Affiliates, and each of their respective directors, officers and employees (in their capacities as such), from and against:

(a) all Losses relating to, arising out of, or due to, directly or indirectly, any breach by GM or any GM Affiliate of any of the provisions of this Agreement;

(b) all Losses relating to, arising out of, or due to any untrue statement or alleged untrue statement of a material fact contained in the GM Disclosure Portions or the omission or alleged omission to state in the GM Disclosure Portions a material fact required to be stated therein or necessary to make the statements therein not misleading; and

(c) all Losses relating to or arising out of any breach of the representation set forth in Section 2.4(a) of the Implementation Agreement.

5.3 Other Liabilities. (a) Except as provided in Section 5.4, this Section 5 shall not be applicable to any Tax-Related Losses, which shall be governed by Section 4 of this Agreement.

(b) This Section 5 shall not be applicable to any Losses relating to, arising out of, or due to any breach of the provisions of any other contract, agreement or understanding between GM or any GM Affiliate and Hughes or any Hughes Affiliate, which Losses shall be governed by the terms of such contract, agreement or understanding.

5.4 Tax Effects of Indemnification. (a) Any indemnification payment made under this Agreement shall be characterized for tax purposes as if such payment were made immediately prior to the Effective Time, and shall therefore be treated, to the extent permitted by law, as either (i) a distribution from Hughes to GM or (ii) a capital contribution from GM to Hughes.

(b) The amount of any Loss or Tax-Related Losses for which indemnification is provided under this Agreement shall be (i) increased to take account of net Tax cost, if any, incurred by the Indemnitee arising from the receipt or accrual of an Indemnity Payment hereunder (grossed up for such increase) and (ii) reduced to take account of net Tax benefit, if any, realized by the Indemnitee arising from incurring or paying such Loss or Tax-Related Losses. In computing the amount of any such Tax cost or Tax benefit, the Indemnitee shall be deemed to recognize all other items of income, gain, loss, deduction or credit before recognizing any item arising from the receipt or accrual of any Indemnity Payment hereunder or incurring or paying any indemnified Loss or Tax-Related Losses. Any Indemnity Payment hereunder shall initially be made without regard to this Section 5.4 and shall be increased or reduced to reflect any such net Tax cost (including gross-up) or net Tax benefit only after the Indemnitee has actually realized such cost or benefit. For purposes of this Agreement, an Indemnitee shall be deemed to have "actually realized" a net Tax cost or a net Tax benefit to the extent that, and at such time as, the amount of Taxes payable by such Indemnitee is increased above or reduced below, as the case may be, the amount of Taxes that such Indemnitee would be required to pay but for the receipt or accrual of the Indemnity Payment or the incurrence or payment of such Loss or Tax-Related Losses, as the case may be. The amount of any increase or reduction hereunder shall be adjusted to reflect any final determination (which shall include the execution of Form 870-AD or successor form) with respect to the Indemnitee's liability for Taxes, and payments between GM and Hughes to reflect such adjustment shall be made if necessary.

5.5 Effect of Insurance Upon Indemnification. The amount which an Indemnifying Party is required to pay to any Indemnitee pursuant to this Section 5 shall be reduced (including retroactively) by any Insurance Proceeds and other amounts actually recovered by such Indemnitee in reduction of the related Loss, it being understood and agreed that each of Hughes and GM shall use commercially reasonable efforts to collect any such proceeds or other amounts to which it or any of its Affiliates is entitled, without regard to whether it is the Indemnifying Party hereunder. No Indemnitee shall be required, however, to collect any such proceeds or other amounts prior to being entitled to indemnification from an Indemnifying Party hereunder. If an Indemnitee receives an

Indemnity Payment in respect of a Loss and subsequently receives Insurance Proceeds or other amounts in respect of such Loss, then such Indemnitee shall pay to such Indemnifying Party an amount equal to the difference between (a) the sum of the amount of such Indemnity Payment and the amount of such Insurance Proceeds or other amounts actually received and (b) the amount of such Loss, in each case adjusted (at such time as appropriate adjustment can be determined) to reflect any premium adjustment attributable to such claim.

#### 5.6 Procedure for Indemnification Involving Third-Party Claims.

(a) Notice of Claim. If any Indemnitee receives notice of the assertion of any Third-Party Claim with respect to which an Indemnifying Party is obligated under this Agreement to provide indemnification (other than pursuant to Section 4), such Indemnitee shall give such Indemnifying Party notice thereof (together with a copy of such Third-Party Claim, process or other legal pleading) promptly after becoming aware of such Third-Party Claim; provided, however, that the failure of any Indemnitee to give notice as provided in this Section shall not relieve any Indemnifying Party of its obligations under this Section 5, except to the extent that such Indemnifying Party is actually prejudiced by such failure to give notice. Such notice shall describe such Third-Party Claim in reasonable detail.

(b) Obligation of Indemnifying Party. An Indemnifying Party, at such Indemnifying Party's own expense and through counsel chosen by such Indemnifying Party (which counsel shall be reasonably acceptable to the Indemnitee), may elect to defend any Third-Party Claim. If an Indemnifying Party elects to defend a Third-Party Claim, then, within ten Business Days after receiving notice of such Third-Party Claim (or sooner, if the nature of such Third-Party Claim so requires), such Indemnifying Party shall notify the Indemnitee of its intent to do so, and such Indemnitee shall cooperate in the defense of such Third-Party Claim. Such Indemnifying Party shall pay such Indemnitee's reasonable out-of-pocket expenses incurred in connection with such cooperation. Such Indemnifying Party shall keep the Indemnitee reasonably informed as to the status of the defense of such Third-Party Claim. After notice from an Indemnifying Party to an Indemnitee of its election to assume the defense of a Third-Party Claim, such Indemnifying Party shall not be liable to such Indemnitee under this Section 5 for any legal or other expenses subsequently incurred by such Indemnitee in connection with the defense thereof other than those expenses referred to in the preceding sentence; provided, however, that such Indemnitee shall have the right to employ one law firm as counsel, together with a separate local law firm in each applicable jurisdiction ("Separate Counsel"), to represent such Indemnitee in any action or group of related actions (which firm or firms shall be reasonably acceptable to the Indemnifying Party) if, in such Indemnitee's reasonable judgment at any time, either a conflict of interest between such Indemnitee and such Indemnifying Party exists in respect of such claim, or there may be defenses available to such Indemnitee which are different from or in addition to those available to such Indemnifying Party and the representation of both parties by the same counsel would be inappropriate, and in that event (i) the reasonable fees and expenses of such Separate Counsel shall be paid by such Indemnifying Party (it being understood, however, that the Indemnifying Party shall not be liable for the expenses of more than one Separate Counsel (excluding local counsel) with respect to any Third-Party Claim (even if

against multiple Indemnitees)) and (ii) each of such Indemnifying Party and such Indemnitee shall have the right to conduct its own defense in respect of such claim. If an Indemnifying Party elects not to defend against a Third-Party Claim, or fails to notify an Indemnitee of its election as provided in this Section 5 within the period of ten Business Days described above, the Indemnitee may defend, compromise, and settle such Third-Party Claim and shall be entitled to indemnification hereunder (to the extent permitted hereunder); provided, however, that no such Indemnitee may compromise or settle any such Third-Party Claim without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, the Indemnifying Party shall not, without the prior written consent of the Indemnitee, (i) settle or compromise any Third-Party Claim or consent to the entry of any judgment which does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the Indemnitee of a written release from all liability in respect of such Third-Party Claim or (ii) settle or compromise any Third-Party Claim in any manner that would be reasonably likely to have a material adverse effect on the Indemnitee.

(c) Joint Defense of Certain Claims. Notwithstanding the provisions of Section 5.6(b), GM and Hughes shall jointly control the defense of, and cooperate with each other with respect to defending, any Third-Party Claim with respect to which each party is claiming that it is entitled to indemnification under Section 5.1 or 5.2. If either GM or Hughes fails to defend jointly any such Third-Party Claim, the other party shall solely defend such Third-Party Claim and the party failing to defend jointly shall use all commercially reasonable efforts to cooperate with the other party in its defense of such Third-Party Claim; provided, however, that neither party may compromise or settle any such Third-Party Claim without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed. All costs and expenses of either party in connection with, and during the course of, the joint control of the defense of any such Third-Party Claim shall be initially paid by the party that incurs such costs and expenses. Such costs and expenses shall be reallocated and reimbursed in accordance with the respective indemnification obligations of the parties at the conclusion of the defense of such Third-Party Claim.

5.7 Procedure for Indemnification Not Involving Third-Party Claims. If any Indemnitee desires to assert against an Indemnifying Party any claim for indemnification under this Section 5 other than a Third-Party Claim (a "Claim"), the Indemnitee shall deliver to the Indemnifying Party notice of its demand for satisfaction of such Claim (a "Request"), specifying in reasonable detail the amount of such Claim and the basis for asserting such Claim. Within 30 days after the Indemnifying Party has been given a Request, the Indemnifying Party shall either (i) satisfy the Claim requested to be satisfied in such Request by delivering to the Indemnitee payment by wire transfer or a certified or bank cashier's check payable to the Indemnified Party in immediately available funds in an amount equal to the amount of such Claim, or (ii) notify the Indemnitee that the Indemnifying Party contests such Claim by delivering to the Indemnitee a Dispute Notice, stating that the Indemnifying Party objects to such Claim and specifying in reasonable detail the basis for contesting such Claim. Any dispute described in clause (ii) of this Section 5.7 shall be subject to the provisions of Section 6.1.



5.8 Exclusive Remedies. Except for the right to pursue equitable remedies, the remedies provided in this Section 5 shall be deemed the sole and exclusive remedies of the parties with respect to the subject matters of the indemnification provisions of this Section 5.

6. Miscellaneous.  
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6.1 Dispute Resolution. GM and Hughes shall attempt in good faith to resolve any dispute between the parties arising out of or relating to this Agreement promptly through negotiations of the parties prior to seeking any other legal or equitable remedy.

6.2 Survival. The representations and warranties contained in this Agreement shall survive the effective time of the Hughes Merger until the expiration of all applicable statutes of limitations.

6.3 Complete Agreement. Except as otherwise set forth in this Agreement, this Agreement and the exhibits and schedules hereto shall constitute the entire agreement between the parties hereto with respect to the subject matter hereof and shall supersede all prior and contemporaneous agreements and understandings, whether written or oral, between the parties with respect to such subject matter.

6.4 Authority. Each of the parties hereto represents to the other that (a) it has the corporate power and authority to execute, deliver and perform this Agreement, (b) the execution, delivery and performance of this Agreement by it has been duly authorized by all necessary corporate action, (c) it has duly and validly executed and delivered this Agreement, and (d) this Agreement is a legal, valid and binding obligation, enforceable against it in accordance with its terms subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

6.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware (other than the laws regarding conflicts of laws) as to all matters, including matters of validity, construction, effect, performance and remedies.

6.6 Consent to Exclusive Jurisdiction. Any action, suit or proceeding arising out of any claim that the parties cannot settle through good faith negotiations (except any claim to which Section 4.6 applies) shall be litigated exclusively in the state courts of Delaware. Each of the parties hereto hereby irrevocably and unconditionally (a) submits to the jurisdiction of the state courts of Delaware for any such action, suit or proceeding, (b) agrees not to commence any such action, suit or proceeding except in the state courts of Delaware, (c) waives, and agrees not to plead or to make, any objection to the venue of any such action, suit or proceeding in the state courts of Delaware, (d) waives, and agrees not to plead or to make, any claim that any such action, suit or proceeding brought in the state courts of Delaware has been brought in an improper or otherwise inconvenient forum, (e) waives, and agrees not to plead or to make, any claim that the state courts of Delaware lack personal jurisdiction over it, and (f) waives its right to remove any such action, suit or proceeding to the federal courts except when such courts are vested with sole and exclusive jurisdiction by statute. GM and Hughes shall cooperate with each other in connection with any such

action, suit or proceeding to obtain reliable assurances that confidential treatment will be accorded any information that either party shall reasonably deem to be confidential or proprietary. Each of the parties hereto irrevocably designates and appoints its respective Service Agent as its agent to receive service of process in any such action, suit or proceeding. Each of the parties hereto further covenants and agrees that, until the expiration of all applicable statutes of limitations relating to potential claims under this Agreement, each such party shall maintain a duly appointed agent for the service of summonses and other legal process in the State of Delaware, and shall promptly notify the other party hereto of any change in the name or address of its Service Agent and the name and address of any replacement for its Service Agent, if such agent is no longer the Service Agent named herein. This Section 6.6 is meant to comply with 6 Del. C. (S) 2708.

6.7 Notices. All Notices shall be in writing and shall be deemed given upon (a) a transmitter's confirmation of a receipt of a facsimile transmission (but only if followed by confirmed delivery of a standard overnight courier the following Business Day or if delivered by hand the following Business Day), or (b) confirmed delivery of a standard overnight courier or delivered by hand, to the parties at the following addresses:

if to GM to:

General Motors Corporation  
767 Fifth Avenue  
New York, NY 10153  
Attention: Treasurer  
Telecopy No.: (212) 418-3630

with a copy to:

General Motors Corporation  
3031 West Grand Boulevard  
Detroit, MI 48202  
Attention: Warren G. Andersen, Esq.  
Telecopy No.: (313) 974-0685

with a copy (which shall not constitute effective notice) to:

Kirkland & Ellis  
200 E. Randolph Drive  
Chicago, IL 60601  
Attention: Robert S. Osborne, P.C.  
Telecopy No.: (312) 861-2200

and with a copy (which shall not constitute effective notice) to:

Weil, Gotshal & Manges LLP  
767 Fifth Avenue

New York, NY 10153  
Attention: Frederick S. Green, Esq.  
Telecopy No.: (212) 310-8007

if to Hughes, to:

HE Holdings, Inc.  
c/o Raytheon Company  
141 Spring Street  
Lexington, MA 02173  
Attention: Christoph L. Hoffmann, Esq.  
Telecopy No.: (617) 860-2822

with a copy (which shall not constitute effective notice) to:

Wachtell, Lipton, Rosen & Katz  
51 West 52nd Street  
New York, NY 10019  
Attention: Adam O. Emmerich, Esq.  
Telecopy No.: (212) 403-2000

or to such other address as either party hereto may have furnished to the other party by a Notice in writing in accordance with this Section 6.7. Any Notice delivered pursuant to Section 4 shall also be sent to GM's Chief Tax Officer.

6.8 Amendment and Modification. This Agreement may not be amended or modified in any respect except by a written agreement signed by both of the parties hereto.

6.9 Binding Effect; Assignment. This Agreement and all of the provisions hereof shall be binding upon the parties hereto and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Except with respect to a merger of either party with another Person, neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by either party hereto without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed.

6.10 Third Party Beneficiaries. The Indemnitees and their respective successors shall be third party beneficiaries of the indemnification provisions of Sections 4 and 5, as applicable, and shall be entitled to enforce those provisions, and in connection with such enforcement shall be subject to Section 6.6, in each such case as fully and to the same extent as if they were parties to this Agreement. Except as provided in the previous sentence, nothing in this Agreement, express or implied, is intended to or shall confer upon any Person any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement, and no Person (other than as provided in the previous sentence) shall be deemed a third party beneficiary under or by reason of this Agreement.

6.11 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.12 Waiver. The observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) by the party entitled to enforce such term, but such waiver shall be effective only if it is in writing signed by the party against which such waiver is to be asserted. Unless otherwise expressly provided in this Agreement, no delay or omission on the part of any party in exercising any right or privilege under this Agreement shall operate as a waiver thereof, nor shall any waiver on the part of any party of any right or privilege under this Agreement operate as a waiver of any other right or privilege under this Agreement nor shall any single or partial exercise of any right or privilege preclude any other or further exercise thereof or the exercise of any other right or privilege under this Agreement. No failure by either party to take any action or assert any right or privilege hereunder shall be deemed to be a waiver of such right or privilege in the event of the continuation or repetition of the circumstances giving rise to such right unless expressly waived in writing by the party against whom the existence of such waiver is asserted.

6.13 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof. Any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

6.14 Remedies. Each of GM and Hughes shall be entitled to enforce its rights under this Agreement specifically, to recover damages and costs (including reasonable attorneys' fees) caused by any breach of any provision of this Agreement and to exercise all other rights existing in its favor. Each of GM and Hughes acknowledges and agrees that under certain circumstances the breach by GM or any of its Affiliates or Hughes or any of its Affiliates of a term or provision of this Agreement will materially and irreparably harm the other party, that money damages will accordingly not be an adequate remedy for such breach and that the non-defaulting party, in its sole discretion and in addition to its rights under this Agreement and any other remedies it may have at law or in equity, may apply to any court of law or equity of competent jurisdiction (without posting any bond or deposit) for specific performance and/or other injunctive relief in order to enforce or prevent any breach of the provisions of this Agreement.

6.15 Performance. Each of the parties hereto shall use all commercially reasonable efforts to cause to be performed all actions, agreements and obligations set forth herein to be performed by any Affiliate of such party.

6.16 References; Construction. The table of contents and the section and other headings and subheadings contained in this Agreement and the Exhibits hereto are solely for the purpose of reference, are not part of the agreement of the parties hereto, and shall not in any way affect the meaning or interpretation of this Agreement. All references to days or months shall be deemed references to calendar days or months. All references to "\$" shall be deemed references to

United States dollars. Unless the context otherwise requires, any reference to a "Section" or "Exhibit" shall be deemed to refer to a section of this Agreement or an exhibit to this Agreement. The words "hereof," "herein" and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, unless otherwise specifically provided, they shall be deemed to be followed by the words "without limitation." This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting or causing the document to be drafted.

\* \* \* \* \*

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be  
duly executed and delivered as of the date and year first written above.

HE HOLDINGS, INC.

By: \_\_\_\_\_  
Name:  
Its:

GENERAL MOTORS CORPORATION

By: \_\_\_\_\_  
Name:  
Its:

TAX SHARING AGREEMENT

TAX SHARING AGREEMENT (the "Agreement") dated as of \_\_\_\_\_, 1997 by and among General Motors Corporation, a Delaware corporation ("GM"), HE Holdings, Inc., a Delaware corporation ("Hughes"), and Hughes Network Systems, Inc., a Delaware corporation ("Telecom").

W I T N E S S E T H  
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WHEREAS, Hughes and Raytheon Company, a Delaware corporation ("Raytheon"), have entered into an Agreement and Plan of Merger (the "Hughes Merger Agreement"), dated as of January 16, 1997, providing for the merger of Raytheon with and into Hughes (the "Hughes Merger");

WHEREAS, it is a condition to the consummation of the Hughes Merger that GM effect the spin-off of Hughes from GM (the "Distribution") and certain related transactions pursuant to the Hughes Distribution Agreement (as defined herein);

WHEREAS, for U.S. federal income tax purposes, it is intended that the Distribution qualify as a tax-free distribution under Section 355 of the Code (as defined herein);

WHEREAS, at the end of the day on which the Distribution occurs (the "Distribution Date"), Hughes' taxable year shall close for U.S. federal income tax purposes;

WHEREAS, simultaneously with the execution and delivery of this Agreement, GM and Hughes have executed and delivered the Hughes Spin-off Separation Agreement (as defined herein) which sets forth, among other things, certain representations, warranties, covenants and indemnities relating to the preservation of the tax-free status of the Distribution; and

WHEREAS, the parties hereto wish to provide for the payment of Income Taxes (as defined herein) and entitlement to refunds thereof, allocate responsibility and provide for cooperation in the filing of returns in respect of Income Taxes, and provide for certain other matters relating to Income Taxes not provided for in the Hughes Spin-off Separation Agreement;

NOW, THEREFORE, in consideration of the premises and the representations, covenants and agreements herein contained and intending to be legally bound hereby, GM, Hughes, and Telecom hereby agree as follows:

1. Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth below:

"Actually Realized" or "Actually Realizes" shall mean, for purposes of determining the timing of the incurrence of any Income Tax Liability or the realization of a Refund (or any related Income Tax cost or benefit) by a Person in respect of any payment, transaction, occurrence or event, the time at which the amount of Income Taxes paid by such Person is increased above or reduced below the amount of Income Taxes that such Person would have been required to pay but for such payment, transaction, occurrence or event.

"Allowable Tax" shall mean any Income Tax which is an allowable cost under (i) the Federal Acquisition Regulations, 48 C.F.R. Chapter 1, and associated regulations or (ii) an agreement in effect on or prior to the Distribution Date between a member of the Hughes Group or an affiliate thereof and any U.S. governmental entity.

"Business Day" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions located in the State of New York are authorized or obligated by law or executive order to close.

"Carryback" shall mean the carryback of a tax attribute (including, without limitation, a net operating loss, a net capital loss or a tax credit) by a member of the Hughes Group (i) from a Post-Distribution Taxable Period to a Straddle Period or a Pre-Distribution Taxable Period or (ii) from a Straddle Period to a Pre-Distribution Taxable Period.

"Code" shall mean the Internal Revenue Code of 1986, as amended, together with the rules and regulations promulgated thereunder.

"Combined Return" shall mean a consolidated, combined or unitary Income Tax Return that includes, or is permitted to include, one or more members of the GM Group and one or more members of the Hughes Group.

"CPR Rules" shall mean the Rules for Non-Administered Arbitration of Business Disputes promulgated by the Center for Public Resources attached hereto as Annex I.



"Dispute Notice" shall mean a written notice of a dispute between Telecom or GM and Hughes with respect to the subject matter of this Agreement, which shall set forth in reasonable detail the nature of the dispute.

"Final Determination" shall mean the final resolution of liability for any Income Tax, which resolution may be for a specific issue or adjustment or for a taxable period, (i) by Internal Revenue Service Form 870 or 870-AD (or any successor forms thereto), on the date of acceptance by or on behalf of the taxpayer, or by a comparable form under the laws of a state or local taxing jurisdiction, except that a Form 870 or 870-AD or comparable form shall not constitute a Final Determination to the extent that it reserves (whether by its terms or by operation of law) the right of the taxpayer to file a claim for refund or the right of the taxing authority to assert a further deficiency in respect of such issue or adjustment or for such taxable period (as the case may be); (ii) by a decision, judgment, decree, or other order by a court of competent jurisdiction, which has become final and unappealable; (iii) by a closing agreement or accepted offer in compromise under Sections 7121 or 7122 of the Code, or a comparable agreement under the laws of a state or local taxing jurisdiction; (iv) by any allowance of a refund or credit in respect of an overpayment of Income Tax, but only after the expiration of all periods during which such refund may be recovered (including by way of offset) by the jurisdiction imposing such Income Tax; or (v) by any other final disposition, including by reason of the expiration of the applicable statute of limitations or by mutual agreement of the parties.

"GM Consolidated Group" shall mean GM and the other members of the affiliated group of corporations (within the meaning of Section 1504(a) of the Code) of which GM is the common parent.

"GM Group" shall mean, solely for purposes of this Agreement, GM and each of the other members of the GM Consolidated Group, other than any member of the Hughes Group.

"Hughes Distribution Agreement" shall mean the Agreement and Plan of Merger by and between GM and [Mergerco] Corporation, a Delaware corporation, which provides for, among other things, the Distribution.

"Hughes Electronics" shall mean Hughes Electronics Corporation, which owns all the outstanding common stock of Hughes at the date of execution of the Hughes Merger Agreement.

"Hughes Group" shall mean, solely for purposes of this Agreement, Hughes and its subsidiaries, determined immediately after the Distribution and immediately prior to the Hughes Merger, and shall include any corporation that shall have merged or liquidated into Hughes or any of its subsidiaries or into which Hughes or any of its subsidiaries shall have merged or liquidated.

"Hughes Post-Merger Group" shall mean Hughes and the other members of the affiliated group of corporations (within the meaning of Section 1504(a) of the Code) which includes Hughes, as determined from time to time after giving effect to the Hughes Merger, and shall include Raytheon.

"Hughes Spin-off Separation Agreement" shall mean the Hughes Spin-off Separation Agreement, dated as of \_\_\_\_\_, 1997, by and between Hughes and GM.

"Income Tax" (i) shall mean (A) any United States federal, state or local (but not foreign) tax, charge, fee, impost, levy or other assessment which is based upon, measured by, or calculated with respect to (1) net income or profits (including, but not limited to, the Michigan Single Business Tax and any capital gains, gross receipts, value added or minimum tax and any tax on items of tax preference, but not including sales, use, real property gains, real or personal property, transfer or similar taxes), or (2) multiple bases (including, but not limited to, corporate franchise, doing business or occupation taxes), if one or more of the bases upon which such tax may be based, by which it may be measured, or with respect to which it may be calculated is described in clause (i)(A)(1) of this definition, together with (B) any interest and any penalties, fines, additions to tax or additional amounts imposed by any taxing authority with respect thereto and (ii) shall include any transferee liability in respect of an amount described in clause (i) of this definition.

"Income Tax Benefit" shall mean, in respect of a Person or group of Persons for any taxable period, the excess of (A) the hypothetical Income Tax Liability of such Person or group of Persons for such taxable period, calculated as if the Timing Difference, Reverse Timing Difference, increase in foreign tax credits or carryover of a Tax Attribute, as the case may be, had not occurred but with all other facts unchanged, over (B) the actual Income Tax Liability of such Person or group of Persons for such taxable period, calculated taking into account the Timing Difference, Reverse Timing Difference, increase in foreign tax credits or carryover of such Tax Attribute, as the case may be (and treating a Refund as a negative Income Tax Liability, and taking into account credits (if any), for purposes of such calculation).

"Income Tax Detriment" shall mean, in respect of any Person or group of Persons for any taxable period, the excess of (A) the actual Income Tax Liability of such Person or group of Persons for such taxable period, calculated taking into account the Timing Difference, Reverse Timing Difference or decrease in foreign tax credits, as the case may be, over (B) the hypothetical Income Tax Liability of such Person or group of Persons for such taxable period, calculated as if the Timing Difference, Reverse Timing Difference or decrease in foreign tax credits, as the case may be, had not occurred but with all other facts unchanged (and treating a Refund as a negative Income Tax Liability, and taking into account credits (if any), for purposes of such calculation).

"Income Tax Liabilities" shall mean all liabilities for Income Taxes.

"Income Tax Return" shall mean any return, report, filing, statement, questionnaire, declaration or other document required to be filed with a taxing authority in respect of Income Taxes.

"Indemnified Party" shall mean any Person which is seeking indemnification from an Indemnifying Party pursuant to the provisions of this Agreement.

"Indemnifying Party" shall mean any party hereto from which any Indemnified Party is seeking indemnification pursuant to the provisions of this Agreement.

"Look-Back Interest" shall mean interest computed under the look-back method of Section 460(b)(2) of the Code (or similar provision of state or local Income Tax law).

"Negotiation Period" shall mean the period of 20 Business Days following the initial meeting of the representatives of Telecom and Hughes following the receipt of a Dispute Notice.

"Overpayment Rate" shall mean the annual rate of interest described in Section 6621(a)(1) of the Code (or similar provision of state or local Income Tax law, as applicable), as determined from time to time.

"Person" shall mean and include any individual, partnership, joint venture, limited liability company, corporation, association, joint stock company, trust, unincorporated organization or similar entity or a governmental authority or any department or agency or other unit thereof.

"Post-Distribution Taxable Period" shall mean a taxable period that, to the extent it relates to a member of the Hughes Group, begins after the Distribution Date.

"Pre-Distribution Taxable Period" shall mean a taxable period that, to the extent it relates to a member of the Hughes Group, ends on or before the Distribution Date.

"Proceeding" shall mean any audit or other examination, judicial or administrative proceeding relating to liability for or refunds or adjustments with respect to Income Taxes.

"Refund" shall mean any refund of Income Taxes, including any reduction in Income Tax Liabilities by means of a credit, offset or otherwise.

"Reverse Timing Difference" shall mean an adjustment to an Income Tax Return which results in (x) an increase in income, gain or recapture, or a decrease in deduction, loss or credit, as calculated for Income Tax purposes, of any member of the GM Consolidated Group for any Pre-Distribution Taxable Period or the portion of a Straddle Period ending on the Distribution Date and (y) an increase in deduction, loss or credit, or a decrease in income, gain or recapture, of a member of the Hughes Post-Merger Group for a Post-Distribution Taxable Period or the portion of a Straddle Period beginning on the day after the Distribution Date.

"Straddle Period" shall mean a taxable period that, to the extent it relates to a member of the Hughes Group, includes, but does not end on, the Distribution Date.

"Tax Allocation Agreement" shall mean the Agreement for the Allocation of United States Federal Income Taxes, by and between GM, Hughes Electronics, Hughes and Delco Electronics Corporation, dated as of December 29, 1985, as amended.

"Tax Attribute" shall mean a tax attribute which is described in Section 6.d(i) or (ii) hereof.

"Timing Difference" shall mean an adjustment to an Income Tax Return which results in (x) an increase in income, gain or recapture, or a decrease in deduction, loss or credit, as calculated for Income Tax purposes, of any member of the Hughes Post-Merger Group for any Post-Distribution Taxable Period or the portion of a Straddle Period beginning on the day after the Distribution Date and (y) an increase in

deduction, loss or credit, or a decrease in income, gain or recapture, of a member of the GM Consolidated Group for a Pre-Distribution Taxable Period or the portion of a Straddle Period ending on the Distribution Date.

"Underpayment Rate" shall mean the annual rate of interest described in Section 6621(c) of the Code for large corporate underpayments of Income Tax (or similar provision of state or local Income Tax law, as applicable), as determined from time to time.

2. Filing of Income Tax Returns; Payment of Income Taxes.

a. Income Tax Returns for Pre-Distribution Taxable Periods.

(i) GM shall prepare and file or cause to be prepared and filed (A) the U.S. consolidated federal Income Tax Returns of the GM Consolidated Group required to be filed after the date hereof for all Pre-Distribution Taxable Periods, including the taxable period in which the Distribution Date occurs, (B) all other Combined Returns for Pre-Distribution Taxable Periods that are required to be filed by a member of the GM Group and (C) all other Income Tax Returns of or which include one or more members of the Hughes Group that are required to be filed (taking into account any extensions) on or prior to the Distribution Date. Subject to later reimbursement by Hughes pursuant to Section 2.d hereof, GM shall pay or cause to be paid any and all Income Taxes due with respect to such Income Tax Returns. At least 30 days prior to the earlier of (x) the due date for filing any such Income Tax Return or (y) the date by which Telecom is required by GM to deliver its portion of such Income Tax Return to GM, Telecom shall provide Hughes with a copy of those portions of such Income Tax Returns that relate exclusively to one or more members of the Hughes Group and shall identify, in a separate statement, any Income Tax elections, changes in accounting method or actions inconsistent with past practice in respect thereof. Hughes shall have the right to review and approve (which approval shall not be unreasonably withheld) such portions of each such Income Tax Return for 15 days following receipt thereof; provided, however, that Hughes shall be deemed to have unreasonably withheld its approval unless, as the basis for withholding such approval, Hughes demonstrates (by means of a written explanation in sufficient detail to permit such conclusion to be verified) that Telecom has failed to comply with the requirements of Section 2.e(i) hereof with respect to such portions of such Income Tax Returns. The failure of Hughes to propose any changes to any such Income Tax Return within such 15-day period shall be deemed to constitute Hughes' approval thereof. Telecom and Hughes shall attempt in good faith mutually to resolve any disagreements regarding such portions of such Income Tax Returns prior to the due date for filing thereof; provided, however, that if any such disagreements are not

resolved prior to such date, GM shall file (or cause to be filed) any such Income Tax Return in the form and manner in which it was prepared. Any disagreements regarding such portions of such Income Tax Returns which are not resolved prior to the filing thereof shall be promptly resolved pursuant to Section 8 hereof.

(ii) Telecom shall prepare, and Hughes shall file or cause to be filed (in the form and manner so prepared by Telecom), any Income Tax Return which (A) includes one or more members of the Hughes Group for a Pre-Distribution Taxable Period, (B) is not required to be, and is not, filed on or prior to the Distribution Date and (C) is required to be filed by a member of the Hughes Group. Telecom shall provide Hughes with each such Income Tax Return at least 30 days prior to the due date for filing thereof, and shall identify, in a separate statement, any Income Tax elections, changes in accounting method or actions inconsistent with past practice in respect thereof. Hughes shall have the right to review and approve (which approval shall not be unreasonably withheld) each such Income Tax Return for 15 days following receipt thereof; provided, however, that Hughes shall be deemed to have unreasonably withheld its approval of such Income Tax Return unless, as the basis for withholding such approval, Hughes demonstrates (by means of a written explanation in sufficient detail to permit such conclusion to be verified) that Telecom has failed to comply with the requirements of Section 2.e(i) hereof. The failure of Hughes to propose any changes to any such Income Tax Return within such 15-day period shall be deemed to constitute Hughes' approval thereof. Hughes shall pay or cause to be paid the Income Tax Liability shown due on such Income Tax Returns. No later than 5 Business Days prior to the due date for filing any such Income Tax Return (taking into account extensions), either (A) Telecom shall pay to Hughes, subject to later reimbursement by Hughes pursuant to Section 2.d hereof, the excess, if any, of (1) the Income Tax Liability shown due on such Income Tax Return over (2) the estimated Income Tax payments (including payments made in connection with an application for an extension) previously made in respect thereof by a member of the GM Consolidated Group, or (B) Hughes shall pay to Telecom the excess, if any, of (1) the amount described in clause (A)(2) of this sentence over (2) the amount described in clause (A)(1) of this sentence. Telecom and Hughes shall attempt in good faith mutually to resolve any disagreements regarding such Income Tax Returns prior to the due date for filing thereof; provided, however, that the failure to resolve all disagreements prior to such date shall not relieve Hughes of its obligation to file (or cause to be filed) any such Income Tax Return in accordance with the first sentence of this Section 2.a(ii). Any disagreements regarding such Income Tax Returns which are not resolved prior to the filing thereof shall be promptly resolved pursuant to Section 8 hereof.

(iii) Telecom shall prepare any documentation required to be filed in connection with the making of estimated Income Tax payments due in respect of Pre-Distribution Taxable Periods for which Telecom (or another member of the GM Group) is obligated to prepare an Income Tax Return hereunder and shall make any such estimated Income Tax payments, whether due before, on or after the Distribution Date.

b. Income Tax Returns for Post-Distribution Taxable Periods.

Hughes shall be responsible for (i) preparing and filing or causing to be prepared and filed all Income Tax Returns required to be filed by Hughes or any member of the Hughes Group for any Post-Distribution Taxable Period and (ii) paying the Income Tax Liability due with respect to such Income Tax Returns, subject to later reimbursement by Telecom pursuant to Sections 2.g and 2.h hereof.

c. Income Tax Returns for Straddle Periods.

(i) For U.S. federal Income Tax purposes, the taxable year of the Hughes Group shall end as of the close of the Distribution Date and, with respect to all other Income Taxes, GM (or the appropriate member of the GM Group) and Hughes shall, unless prohibited by applicable law, take all action necessary or appropriate to close the taxable period of the members of the Hughes Group as of the close of the Distribution Date. Neither any member of the GM Group nor any member of the Hughes Group shall take any position inconsistent with the preceding sentence on any Income Tax Return.

(ii) Telecom shall prepare, and Hughes shall file or cause to be filed (in the form and manner so prepared by Telecom), all Income Tax Returns of or which include the Hughes Group or any member thereof for a Straddle Period. Telecom shall provide Hughes with each such Income Tax Return at least 30 days prior to the due date for filing thereof, and shall identify, in a separate statement, any Income Tax elections, changes in accounting method or actions inconsistent with past practice in respect thereof. Hughes shall have the right to review and approve (which approval shall not be unreasonably withheld) each such Income Tax Return for 15 days following receipt thereof; provided, however, that Hughes shall be deemed to have unreasonably withheld its approval of such Income Tax Return unless, as the basis for withholding such approval, Hughes demonstrates (by means of a written explanation in sufficient detail to permit such conclusion to be verified) that Telecom has failed to comply with the requirements of Section 2.e(i) hereof. The failure of Hughes to propose any changes to any such Income Tax Return within such 15-day period shall be deemed to constitute Hughes' approval thereof. Telecom and Hughes shall attempt in good faith mutually to resolve any disagreements regarding such Income Tax Returns prior to the due date for filing thereof; provided, however, that the failure to resolve

all disagreements prior to such date shall not relieve Hughes of its obligation to file (or cause to be filed) any such Income Tax Return in accordance with the first sentence of this Section 2.c(ii). Any disagreements regarding such Income Tax Returns which are not resolved prior to the filing thereof shall be promptly resolved pursuant to Section 8 hereof.

(iii) An Income Tax Liability in respect of an Income Tax Return for a Straddle Period shall be (A) allocated to Telecom to the extent such Income Tax Liability is (1) attributable to a member of the Hughes Group for the period up to and including the Distribution Date or (2) attributable solely to the inclusion in such Income Tax Return of one or more members of the GM Group, and (B) allocated to Hughes to the extent such Income Tax Liability is (1) attributable to a member of the Hughes Group for the period subsequent to the Distribution Date or (2) attributable solely to the inclusion in such Income Tax Return of any member of the Hughes Post-Merger Group which is formed or acquired after the Distribution. The allocation of any Income Tax Liability between the portion of any Straddle Period ending on the Distribution Date and the portion of such Straddle Period after the Distribution Date shall be made by means of a closing of the books and records of the members of the Hughes Group as of the close of the Distribution Date, as if such taxable period ended as of the close of the Distribution Date; provided, that exemptions, allowances or deductions that are calculated on an annual basis (including, but not limited to, depreciation and amortization deductions) shall be allocated between the period ending on the Distribution Date and the period after the Distribution Date in proportion to the number of days in each such period. In the case of any Income Tax Liability of any member of the Hughes Group which is attributable to the ownership by such member of an equity interest in a partnership or other "flowthrough" entity for Income Tax purposes, such allocation shall be made as if the taxable period of such partnership or other "flowthrough" entity ended as of the close of the Distribution Date; provided, however, that to the extent that the information necessary to compute such allocation on the basis of an interim closing of the books of such "flowthrough" entity is not available to Telecom or Hughes, such allocation shall be made between the period ending on the Distribution Date and the period after the Distribution Date in proportion to the number of days in each such period.

(iv) Hughes shall pay or cause to be paid the Income Tax Liability due with respect to any Straddle Period. No later than 5 Business Days prior to the due date for filing any such Income Tax Return (taking into account extensions), either (A) Telecom shall pay to Hughes, subject to later reimbursement by Hughes pursuant to Section 2.d hereof, the excess, if any, of (1) the portion of the Income Tax Liability for such Straddle Period which is allocable to Telecom pursuant to Section 2.c(iii) hereof over (2) the estimated Income Tax payments (including payments made in connection with an application for an extension) made in respect of such Straddle Period by a member of the GM



Consolidated Group on or prior to the Distribution Date, or (B) Hughes shall pay to Telecom the excess, if any, of (1) the amount described in clause (A)(2) of this sentence over (2) the amount described in clause (A)(1) of this sentence.

(v) Telecom shall prepare any documentation required to be filed in connection with the making of estimated Income Tax payments due in respect of Straddle Periods for which Hughes (or another member of the Hughes Group) is obligated to file an Income Tax Return hereunder. Hughes shall make any such estimated Income Tax payments which are due on or after the Distribution Date.

d. Allowable Taxes.

(i) The Hughes Group's allocable share of an Income Tax Liability which is attributable to Allowable Taxes for all Pre-Distribution Taxable Periods and the portion of any Straddle Period ending with the Distribution Date shall be determined in a manner consistent with prior practice of Hughes Electronics and in accordance with the applicable Cost Accounting Standards Board Disclosure Statements of Hughes Electronics. (A copy of the statement dated as of July 19, 1996 is annexed hereto as Annex II.)

(ii) As soon as practicable after (A) the filing of any Income Tax Return for a Pre-Distribution Taxable Period or a Straddle Period in respect of an Allowable Tax or (B) a redetermination of the liability shown as due on any such Income Tax Return that results in an adjustment of payments to or from the relevant U.S. governmental entity pursuant to an agreement or under applicable law, Telecom shall provide Hughes with a written statement setting forth the difference, if any, between (x) the amount of such Allowable Tax that is allocable to the Hughes Group for such taxable period and (y) the amount of such Allowable Tax previously allocated to the Hughes Group. Such statement shall contain sufficient information to allow Hughes to verify the amount of Allowable Tax, and Telecom shall provide Hughes with any information reasonably requested to enable Hughes to complete the calculations required by Section 2.d(iii) hereof.

(iii) No later than 90 days after delivery by Telecom to Hughes of a statement of allocable Income Tax pursuant to Section 2.d(ii) hereof for any taxable period, Hughes shall provide to Telecom a schedule setting forth the following calculation: (A) if the amount described in clause (x) of Section 2.d(ii) exceeds the amount described in clause (y) thereof, the portion of such excess (plus interest, if any) for which the Hughes Group is entitled to be reimbursed by the relevant U.S. governmental entity (or other contracting party) under the relevant contracts and applicable law, and (B) if the amount described in clause (y) of Section 2.d(ii) exceeds the amount described in clause (x) thereof,

the portion of such excess which the Hughes Group is obligated to reimburse to the relevant U.S. governmental entity (or other contracting party) under the relevant contracts and applicable law. In each case, such calculation shall be made (1) without giving effect to any decision by the Hughes Group not to seek reimbursement of any amount to which it is entitled or to any credit or offset for any amount which is not related to such Allowable Tax and (2) in accordance with the applicable disclosed or established cost accounting practices of the Hughes Group, consistently applied, and applicable law; provided, that, with respect to interest, such calculation shall be consistent with the final decision in the pending action titled Lockheed Corporation v. Widnall, 95-1025 (Fed. Cir.). Such schedule shall set forth separately the reimbursement amount for each contract requiring payments of more than \$10,000, but may aggregate the reimbursement amounts for all contracts requiring payments of \$10,000 or less. Within 5 days after delivery of such schedule, either Hughes shall pay to Telecom the amount shown thereon (in the case of an amount described in clause (A) of this Section 2.d(iii)), notwithstanding any disagreement of Telecom therewith (which disagreement shall be resolved pursuant to Section 2.d(iv) hereof), or Telecom shall pay to Hughes the amount shown thereon (in the case of an amount described in clause (B) of this Section 2.d(iii)).

(iv) Telecom shall have the right to review the schedule delivered by Hughes pursuant to Section 2.d(iii) hereof for 90 days after the delivery thereof. Hughes shall provide Telecom with any information reasonably requested to enable Telecom to complete its review. The parties shall attempt in good faith mutually to resolve any disagreements regarding such schedule. Any disagreements that the parties do not resolve within such 90-day period shall be referred to a nationally recognized independent accounting firm mutually agreed to by Hughes and Telecom, whose determination shall be final and binding on the parties. To the extent that the amount shown on such schedule, as revised to take into account the resolution of any disagreements therewith in accordance with this Section 2.d(iv), differs from the amount shown in the original schedule delivered pursuant to Section 2.d(iii) hereof, Hughes shall pay to Telecom (or Telecom shall pay to Hughes) an amount equal to such difference, with interest thereon at the Overpayment Rate from the date of payment pursuant to Section 2.d(iii).

e. Preparation of Income Tax Returns.

(i) GM (or such member of the GM Group as shall be responsible for the preparation of such Income Tax Returns) shall, in its sole and absolute discretion, determine the entities to be included in a Combined Return and, subject to any right of review and approval by Hughes contained in Section 2 hereof, make or revoke any Income Tax elections, adopt or change any accounting methods, and determine any other

position taken on or in respect of an Income Tax Return for a Pre-Distribution Taxable Period or a Straddle Period that is required to be filed after the date of the Hughes Merger Agreement; provided, however, that GM (or any such member) shall prepare all such Income Tax Returns and take all such actions, to the extent such Income Tax Returns or actions relate to the Hughes Group, in a manner consistent with past practice to the extent that to do otherwise would result in a significant adverse effect on the Income Tax Liability of the Hughes Group in a Post-Distribution Taxable Period (after giving effect to any inconsistency with past practice which has a beneficial effect on the Income Tax Liability of the Hughes Group in a Post-Distribution Taxable Period), except (A) in the case of a state or local Income Tax Return, to the extent that such Income Tax Return is required to be, and is, consistent with the U.S. consolidated federal Income Tax Return of the GM Consolidated Group or (B) as required by applicable law or as a result of a Final Determination (in which case, GM (or such member) shall provide Hughes with written notice of its intent to take any such inconsistent position at least 15 Business Days prior to filing the relevant Income Tax Return) or (C) where Hughes has approved, or been deemed to have approved, an inconsistency with past practice having an adverse effect on the Hughes Group, which inconsistency with past practice was specifically identified in a separate statement provided by Telecom in connection with an Income Tax Return or portion thereof supplied to Hughes in accordance with the provisions of Section 2 hereof.

(ii) Hughes shall, and shall cause each member of the Hughes Group to, execute such documents and take such actions as shall be reasonably requested by GM or Telecom to cause those members of the Hughes Group or Hughes Post-Merger Group designated by GM or Telecom to be included in any Combined Return (whether it relates to a Pre-Distribution Taxable Period or a Straddle Period). Without limiting the foregoing, Hughes (on behalf of itself and each member of the Hughes Group) agrees to file a Combined Return with GM or any member of the GM Group wherever required to do so by applicable law or wherever the option to do so is elected by any member of the GM Group. Except as required by applicable law or as a result of a Final Determination, Hughes shall not, and shall cause each member of the Hughes Post-Merger Group not to, take any position with respect to a specific item of income, deduction, gain, loss or credit on an Income Tax Return for a Post-Distribution Taxable Period that is directly inconsistent with a position taken on a previously filed Income Tax Return of or which included a member of the Hughes Group for a Pre-Distribution Taxable Period or a Straddle Period with respect to such item (including, without limitation, the claiming of a deduction previously claimed on any such Income Tax Return). If Hughes believes in good faith that, under applicable law or as a result of a Final Determination, Hughes or a member of the Hughes Post-Merger Group must take such an inconsistent position, Hughes shall provide Telecom with written notice of its intent to take any such inconsistent position at least 15

Business Days prior to filing the relevant Income Tax Return and to consult in good faith with Telecom concerning the extent to which such inconsistency is so mandated.

f. Redeterminations of Income Tax Liability. If the Income Tax Liability attributable to the Hughes Group or a member thereof is redetermined for a Pre-Distribution Taxable Period or a Straddle Period as part of a Final Determination, then, except as provided in the Hughes Spin-Off Separation Agreement, the payments required to be made by a party hereto pursuant to Section 2 hereof shall be recomputed by substituting the amount of the Income Tax Liability as so redetermined. A party hereto which is liable to make a payment by reason of such redetermination to another party hereto shall make such payment with interest thereon, computed at the Underpayment Rate, from the due date for filing the Income Tax Return for which the Income Tax Liability was redetermined until the date of payment pursuant to this Section 2.f (but without duplication of the amount of interest included in the Income Tax Liability as so redetermined). Such payment shall be made no later than 5 Business Days prior to the date that payment is due to the relevant taxing authority by reason of such redetermination.

g. Look-Back Interest. Notwithstanding Sections 2.b and 2.c hereof, if Look-Back Interest is allocable to a Pre-Distribution Taxable Period or the portion of a Straddle Period ending on the Distribution Date, (i) Telecom shall pay or cause to be paid to Hughes the amount of any such interest required to be paid to a taxing authority by a member of the Hughes Group, net of any tax benefit therefrom allowable to a member of the Hughes Group and (ii) Hughes shall pay or cause to be paid to Telecom the amount of any such interest which a member of the Hughes Group shall be entitled to receive from a taxing authority, net of any tax cost incurred thereon. If Hughes files, causes to be filed or is included in an Income Tax Return setting forth an amount described in the preceding sentence, Hughes shall deliver to Telecom, no later than 45 Business Days prior to the due date for filing of such Income Tax Return, a schedule setting forth in reasonable detail the calculation of such amount. Telecom shall have the right to review and approve (which approval shall not be unreasonably withheld) such calculation for 30 Business Days. The failure of Telecom to propose any change to such calculation within such 30-Business Day period shall be deemed to constitute Telecom's approval thereof. Telecom shall pay to Hughes, or Hughes shall pay to Telecom (as the case may be), the amount required by this Section 2.g, no later than 5 Business Days prior to the due date for filing any such Income Tax Return. If Telecom notifies Hughes that a member of the Hughes Group is entitled to receive Look-Back Interest in respect of a Pre-Distribution Taxable Period or the portion of a Straddle Period ending on the Distribution Date, Hughes shall claim such amount on the relevant Income Tax Return, and shall not be relieved from the obligation to make a payment to Telecom in respect thereof by reason of its failure to do so.

h. Flowthrough Entities. If the Income Tax Liability of any member of the Hughes Group for a Post-Distribution Taxable Period is increased or decreased as a result of the ownership by such member of an equity interest in a partnership or other "flowthrough" entity for Income Tax purposes and, in accordance with the principle set forth in the last sentence of Section 2.c(iii) hereof, such increase or decrease is allocable to a Pre-Distribution Taxable Period, (i) Telecom shall pay or cause to be paid to Hughes the amount of any such increase in Income Tax Liability, and (ii) Hughes shall pay or cause to be paid to Telecom the amount of any such decrease in Income Tax Liability. If Hughes files, causes to be filed or is included in an Income Tax Return setting forth an amount described in the preceding sentence, Hughes shall deliver to Telecom, no later than 45 Business Days prior to the due date for filing of such Income Tax Return, a schedule setting forth in reasonable detail the calculation of such amount. Telecom shall have the right to review and approve (which approval shall not be unreasonably withheld) such calculation for 30 Business Days. The failure of Telecom to propose any change to such calculation within such 30-Business Day period shall be deemed to constitute Telecom's approval thereof. Telecom shall pay to Hughes, or Hughes shall pay to Telecom (as the case may be), the amount required by this Section 2.h, no later than 5 Business Days prior to the due date for filing any such Income Tax Return (taking into account extensions).

i. Review and Approval of Income Tax Returns. Notwithstanding anything in this Agreement to the contrary, Hughes shall have no right to review and approve any Income Tax Return the due date for filing of which (or, in the case of the portion of any Income Tax Return described in Section 2.a(i) hereof that relates to the Hughes Group, the date by which such portion is required by GM to be delivered to GM) is prior to, or less than 30 days after, the Distribution; provided, that (i) Telecom shall, upon request by Hughes after the Distribution, provide Hughes with copies of any such Income Tax Returns (or portions thereof), and (ii) this sentence shall not be construed to relieve GM of its undertakings set forth in Section 2.e(i) hereof.

### 3. Indemnification for Income Taxes.

a. Indemnification by GM and Telecom. Except as otherwise provided in the Hughes Spin-off Separation Agreement, from and after the Distribution Date, GM and Telecom jointly and severally shall indemnify and hold each member of the Hughes Group and their respective directors, officers, employees, affiliates, agents, successors and assigns harmless from and against (i) all Income Tax Liabilities incurred by any member of the GM Consolidated Group in respect of the Distribution or the Hughes Merger, (ii) all costs, expenses and damages associated with stockholder litigation or controversies arising in connection with any proposed tax assessment or controversy with respect to the Distribution

or the Hughes Merger, (iii) without duplication, all Income Tax Liabilities which Telecom (or any other member of the GM Group) is required to pay, or reimburse Hughes for, pursuant to Section 2 hereof, and (iv) all Income Taxes incurred by any member of the Hughes Group by reason of the breach by Telecom or GM of any of its covenants hereunder and, in any case, any related costs and expenses (including, without limitation, reasonable attorneys' fees and expenses).

b. Indemnification by Hughes. From and after the Distribution Date, Hughes shall indemnify and hold each member of the GM Group and their respective directors, officers, employees, affiliates, agents, successors and assigns harmless from and against (i) all Income Tax Liabilities which Hughes (or any other member of the Hughes Group or the Hughes Post-Merger Group) is required to pay, or reimburse GM or Telecom for, under Section 2 hereof and (ii) all Income Taxes incurred by any member of the GM Group or Hughes Group by reason of the breach by Hughes of any of its covenants hereunder and, in either case, any related costs and expenses (including, without limitation, reasonable attorneys' fees and expenses). Nothing in this Agreement shall limit Hughes' indemnification obligations under the Hughes Spin-off Separation Agreement.

c. Payment. Subject to the following sentence, the Indemnifying Party shall pay to the Indemnified Party, no later than 45 Business Days after the Indemnifying Party receives from the Indemnified Party calculations thereof (in sufficient detail so as to permit the Indemnifying Party to understand such calculations), the amount that the Indemnifying Party is required to pay the Indemnified Party under this Section 3 by reason of a Final Determination. The failure of the Indemnifying Party to notify the Indemnified Party in writing of its disagreement with such calculations within 20 Business Days of receiving such calculations shall be deemed to constitute the Indemnifying Party's agreement therewith. Any dispute regarding such calculations shall be resolved in accordance with Section 8 hereof.

#### 4. Refunds; Foreign Tax Credits.

a. Refunds. Except to the extent provided in Sections 6.a and 6.d hereof, Telecom shall be entitled to all Refunds (and any interest thereon received from the applicable taxing authority) in respect of Income Taxes for all Pre-Distribution Taxable Periods and the portion of any Straddle Period ending on the Distribution Date, subject to later reimbursement of Hughes pursuant to Section 2.d(iii) hereof. Except to the extent provided in Section 6.b or 6.d hereof, Hughes shall be entitled to all Refunds (and any interest thereon received from the applicable taxing authority) in respect of Income Taxes for all Post-Distribution Taxable Periods and the portion of any Straddle Period beginning after

the Distribution Date. A party receiving a Refund to which another party is entitled pursuant to this Section 4.a shall pay the amount to which such other party is entitled within 10 days after such Refund is Actually Realized. Telecom shall be permitted to file, and Hughes shall fully cooperate with Telecom in connection with, any claim for Refund in respect of an Income Tax for which Telecom (or any other member of the GM Group) is responsible pursuant to Section 2 hereof.

b. Foreign Tax Credits.

(i) If, as a result of the payment by the Hughes Group after the Distribution Date of a foreign tax, there is an increase in the foreign tax credits allowed to a member of the GM Group for Income Tax purposes, Telecom shall pay to Hughes the amount of any Income Tax Benefit Actually Realized therefrom, including interest (computed at the Overpayment Rate) from the original due date (without extensions) of the Income Tax Return for the taxable period in which such Income Tax Benefit is Actually Realized (or, if later, the date which is 45 days after the date of receipt of the notice described in the next sentence) through the date of payment under this Section 4.b(i) (but without duplication of the amount of interest, if any, included in the Income Tax Benefit Actually Realized). Hughes shall provide written notice to Telecom of any such payment of a foreign tax, together with any documentation reasonably requested by Telecom to enable Telecom to verify and substantiate such payment. Until such time as any such foreign tax credit has been utilized by GM or any member of the GM Group, Telecom shall, in connection with each U.S. federal Income Tax Return filed by or on behalf of a member of the GM Group, provide Hughes with a statement, signed by Telecom's chief financial officer, setting forth a good faith calculation of the extent to which any such foreign tax credit was utilized on such Income Tax Return, which calculation shall be final and binding upon the parties (subject to adjustment in the event of a subsequent Final Determination). Any tax attribute arising from the carryforward of any such foreign tax credit shall not be subject to Section 6.d hereof.

(ii) If, as a result of the receipt by the Hughes Group after the Distribution Date of a refund of foreign tax (including by means of a credit or offset), there is a decrease in the foreign tax credits allowed to a member of the GM Group for Income Tax purposes, Hughes shall pay to Telecom the amount of any Income Tax Detriment Actually Realized by the GM Group therefrom, including interest (computed at the Underpayment Rate) from the original due date (without extensions) of the Income Tax Return for the taxable period in which such Income Tax Detriment is Actually Realized through the date of payment under this Section 4.b(ii) (but without duplication of the amount of interest, if any, included in the Income Tax Detriment Actually Realized). Hughes shall provide written notice to Telecom of the nature and amount of any such refund. Telecom

shall provide Hughes with any documentation reasonably requested by Hughes to enable Hughes to verify and substantiate the amount of any such Income Tax Detriment resulting therefrom.

5. Income Tax Contests.

a. Notification. Hughes shall, promptly upon receipt of notice thereof by any member of the Hughes Group, notify Telecom in writing of any communication with respect to any pending or threatened Proceeding in connection with an Income Tax Liability (or an issue related thereto) for which a member of the GM Group may be responsible pursuant to this Agreement. Hughes shall include with such notification a true, correct and complete copy of any written communication, and an accurate and complete written summary of any oral communication, so received by a member of the Hughes Group. The failure of Hughes timely to forward such notification in accordance with the immediately preceding sentence shall not relieve Telecom of its obligation to pay such Income Tax Liability or indemnify the Hughes Group therefor, except and to the extent that the failure timely to forward such notification actually prejudices the ability of Telecom to contest such Income Tax Liability or increases the amount of such Income Tax Liability.

b. Pre-Distribution Taxable Periods. GM (or such member of the GM Group as GM shall designate) shall have the sole right to represent the interests of the members of the Hughes Group in any Proceeding relating to Pre-Distribution Taxable Periods and to employ counsel of its choice at its expense; provided, that if the resolution of any such Proceeding reasonably could be expected to have a material adverse effect on the Income Tax Liability of the Hughes Group for Post-Distribution Taxable Periods or on its liability for Allowable Taxes, GM (or such designee) shall act in good faith in defending or resolving any such Proceeding on the merits, without regard to the provisions of Section 6 hereof.

c. Straddle Periods. GM (or such member of the GM Group as GM shall designate) and Hughes jointly shall represent the interests of the Hughes Post-Merger Group (or any member thereof) in any Proceeding relating to any Straddle Period. Neither party shall settle any dispute relating to an Income Tax Liability attributable to a member of the Hughes Group for a Straddle Period without the consent of the other party (which consent shall not be unreasonably withheld); provided, however, that if GM (or such designee) proposes a settlement of such an Income Tax Liability, and Hughes does not consent thereto, the liability of Telecom (and any other member of the GM Group) under this Agreement in respect of such Income Tax Liability shall be limited to the portion of the proposed settlement amount attributable to the portion of the Straddle Period ending on the



Distribution Date. Any disputes regarding the conduct or resolution of any such Proceeding shall be resolved pursuant to Section 8; provided, that no such resolution shall affect the limitation on the liability of Telecom and the GM Group set forth in the immediately preceding sentence. All costs, fees and expenses paid to third parties in the course of such Proceeding shall be borne by Telecom and Hughes in the same ratio as the ratio in which, pursuant to the terms of this Agreement, Telecom and Hughes would share the responsibility for payment of the Income Taxes asserted by the taxing authority in its claim or assessment if such claim or assessment were sustained in its entirety; provided, however, that in the event that any party hereto retains its own advisors or experts in connection with any such Proceeding, the costs and expenses thereof shall be borne solely by such party.

d. Post-Distribution Taxable Periods. Hughes shall have the sole right to represent the interests of the Hughes Group (or any member thereof) in any Proceedings relating to a Post-Distribution Taxable Period.

e. Power of Attorney. Each member of the Hughes Group shall execute and deliver to GM (or such member of the GM Group as GM shall designate) any power of attorney or other document requested by GM (or such designee) in connection with any Proceeding described in Section 5.b or 5.c hereof.

6. Timing Differences; Reverse Timing Differences; Apportionment of Tax Attributes; Carrybacks.

a. Timing Differences. If an adjustment to an Income Tax Return pursuant to a Final Determination results in a Timing Difference, then for each Post-Distribution Taxable Period or portion of a Straddle Period beginning on the day after the Distribution Date in which a member of the Hughes Post-Merger Group Actually Realizes an Income Tax Detriment by reason of such Timing Difference, Telecom shall pay to Hughes an amount equal to such Income Tax Detriment, including interest (computed at the Underpayment Rate for the taxing jurisdiction in which such Income Tax Detriment is Actually Realized) from the original due date (without extensions) for filing of the Income Tax Return for such taxable period through the date of payment under this Section 6.a; provided, however, that, subject to the last sentence of Section 6.c(i) hereof, the aggregate payments which Telecom shall be required to make under this Section 6.a with respect to a Timing Difference shall not exceed the aggregate amount of the Income Tax Benefits Actually Realized by a member of the GM Consolidated Group for all Pre-Distribution Taxable Periods and the portion of a Straddle Period ending on the Distribution Date by reason of such Timing Difference, including interest (computed at the Overpayment Rate for the taxing jurisdiction in which such Income Tax Benefit is Actually Realized) from the

original due date (without extensions) for filing of the Income Tax Return for such taxable period through the date of payment under this Section 6.a. Upon request, Telecom shall provide Hughes with a statement, signed by Telecom's chief financial officer and certified by Telecom's independent accounting firm, setting forth calculations in detail sufficient to permit Hughes to verify Telecom's compliance with this Section 6.a.

b. Reverse Timing Differences. If an adjustment to an Income Tax Return pursuant to a Final Determination results in a Reverse Timing Difference, then, subject to the last sentence of Section 6.c(ii) hereof, for each Post-Distribution Taxable Period or portion of a Straddle Period beginning on the day after the Distribution Date in which a member of the Hughes Post-Merger Group Actually Realizes an Income Tax Benefit by reason of such Reverse Timing Difference, Hughes shall pay to Telecom an amount equal to such Income Tax Benefit, including interest (computed at the Overpayment Rate for the taxing jurisdiction in which such Income Tax Benefit is Actually Realized) from the original due date (without extensions) for filing of the Income Tax Return for such taxable period through the date of payment under this Section 6.b; provided, however, that the aggregate payments which Hughes shall be required to make under this Section 6.b with respect to a Reverse Timing Difference shall not exceed the aggregate amount of the Income Tax Detriments Actually Realized by a member of the GM Consolidated Group (whether in one or more taxable periods, and whether such taxable periods end before, after or on the Distribution Date) by reason of such Reverse Timing Difference, including interest (computed at the Underpayment Rate for the taxing jurisdiction in which such Income Tax Detriment is Actually Realized) from the original due date (without extensions) for filing of the Income Tax Return for such taxable period through the date of payment under this Section 6.b. Upon request, Hughes shall provide Telecom with a statement, signed by Hughes' chief financial officer and certified by Hughes' independent accounting firm, setting forth calculations in detail sufficient to permit Telecom to verify Hughes' compliance with this Section 6.b.

c. Notification of Timing Differences and Reverse Timing Differences.

(i) In the event of an adjustment to an Income Tax Return of any member of the Hughes Post-Merger Group which Hughes reasonably believes will result in a Timing Difference, Hughes shall deliver notice in writing of such adjustment to Telecom. Telecom (or the appropriate member of the GM Group) (A) shall take such action as shall be legally available and necessary or appropriate to preserve the opportunity of the members of the GM Consolidated Group to obtain a Refund in respect of taxable periods for which Income Tax Returns already shall have been filed, and to obtain the Income Tax

Benefits resulting from such Timing Difference to the maximum extent permitted by applicable law, and (B) shall provide Hughes with written notice of the timing and amount of any Income Tax Benefits Actually Realized by the GM Group as a result of such Timing Difference or which would have been Actually Realized by the GM Group but for a failure to take the actions described in clause (A) of this sentence. The failure to have taken such actions as shall have been legally available and necessary or appropriate to obtain the Income Tax Benefits resulting from such Timing Difference shall not relieve Telecom from the obligation to make the payments that would have been due from Telecom under Section 6.a hereof had GM (or the appropriate members of the GM Consolidated Group) taken such actions.

(ii) In the event of an adjustment to an Income Tax Return of any member of the GM Consolidated Group which GM (or such other member of the GM Group as shall be designated by GM) reasonably believes will result in a Reverse Timing Difference, GM (or such other member) shall deliver notice in writing of such adjustment to Hughes. Hughes shall take, and shall cause the appropriate member of the Hughes Post-Merger Group to take, such action as shall be legally available and necessary or appropriate to preserve the opportunity of the appropriate members of the Hughes Post-Merger Group to obtain a Refund in respect of taxable periods for which Income Tax Returns already shall have been filed, and shall take such positions as shall be consistent with obtaining the Income Tax Benefits resulting from such Reverse Timing Difference for such taxable periods for which Income Tax Returns shall not have been filed. For all such taxable periods, Hughes (A) shall take all actions necessary or appropriate and legally available to obtain the Income Tax Benefits resulting from such Reverse Timing Difference to the maximum extent permitted by applicable law and (B) shall provide Telecom with written notice of the timing and amount of any Income Tax Benefits Actually Realized by the Hughes Post-Merger Group as a result of such Reverse Timing Difference or which would have been Actually Realized by the Hughes Post-Merger Group but for a failure to take the actions described in clause (A) of this sentence. The failure to have taken such actions as shall have been legally available and necessary or appropriate to obtain the Income Tax Benefits resulting from such Reverse Timing Difference shall not relieve Hughes from the obligation to make the payments that would have been due from Hughes under Section 6.b had Hughes (or the appropriate members of the Hughes Post-Merger Group) taken such actions.

d. Apportionment of Tax Attributes.

(i) If the GM Consolidated Group has a consolidated net operating loss, a consolidated net capital loss, a consolidated unused investment credit, a consolidated unused foreign tax credit or a consolidated excess charitable contribution (as

such terms are used in Treasury Regulation Section 1.1502-79) that arises in a Pre-Distribution Taxable Period (including the taxable period in which the Distribution Date occurs) and can be carried to a taxable period ending after the Distribution Date, the portion, if any, of such Tax Attribute which shall be apportioned to Hughes or any member of the Hughes Group and treated as a carryover to the first Post-Distribution Taxable Period of Hughes (or such member) shall be determined in accordance with Treasury Regulation Section 1.1502-79; provided, however, that the portion, if any, of any consolidated unused foreign tax credit which shall be apportioned to Hughes or such member shall be determined separately with respect to each of the items of income listed in Section 904(d) of the Code.

(ii) No consolidated U.S. federal Income Tax attribute of the GM Consolidated Group, other than those described in Section 6.d(i) hereof (including, but not limited to, any minimum tax credit or general business credit but excluding tax basis and earnings and profits), and no consolidated, combined or unitary state or local Income Tax attribute arising in respect of a Combined Return shall be apportioned to Hughes or any member of the Hughes Group, except as GM (or such member of the GM Group as GM shall designate) determines is otherwise required under the provisions of applicable law; provided, that any credits which are earned by a member of the Hughes Group for purposes of the Arizona Corporate Income Tax in a Post-Distribution Taxable Period by reason of the continuation of an employee position in any Post-Distribution Taxable Period shall not be deemed to have arisen in respect of a Combined Return even though such position was created prior to the Distribution Date; and provided further, that any such credits which are earned in a Pre-Distribution Taxable Period by reason of the creation or continuation of an employee position in a Pre-Distribution Taxable Period and which are carried forward to a Post-Distribution Taxable Period shall not be considered to have been earned in a Post-Distribution Taxable Period.

(iii) GM (or its designee) shall determine the portion, if any, of any Tax Attribute, which must be apportioned to Hughes or to any member of the Hughes Group in accordance with this Section 6.d and applicable law and shall provide written notice of the calculation thereof to Hughes as soon as practicable after the information necessary to make such calculation becomes available to GM.

(iv) Hughes shall prepare or cause to be prepared and file or cause to be filed all Income Tax Returns for which it is responsible under this Agreement so as to take into account, to the extent permitted by applicable law, any Tax Attribute apportioned to Hughes or any member of the Hughes Group as calculated pursuant to Section 6.d(iii) hereof. Until such time as any such Tax Attribute has been utilized by Hughes or any member of the Hughes Group (or would have been so utilized had Hughes complied with

the requirements of the previous sentence), Hughes shall, in connection with each Income Tax Return filed by or on behalf of a member of the Hughes Group, provide GM with a statement, signed by Hughes' chief financial officer and certified by Hughes' independent accounting firm, setting forth in reasonable detail a calculation of the extent to which any such Tax Attribute was utilized on such Income Tax Return (or would have been so utilized had Hughes complied with the requirements of the previous sentence).

(v) If any Tax Attribute is carried forward to an Income Tax Return of Hughes or any other member of the Hughes Post-Merger Group for any Post-Distribution Taxable Period or the portion of any Straddle Period beginning after the Distribution Date, Hughes shall pay to GM (or its designee) the amount of any Income Tax Benefit Actually Realized by a member of the Hughes Post-Merger Group as a result of the carryover of such Tax Attribute, including interest (computed at the Overpayment Rate) from the original due date (without extensions) of the Income Tax Return for the taxable period in which such Income Tax Benefit is Actually Realized through the date of payment under this Section 6.d(v) (but without duplication of the amount of interest, if any, included in the Income Tax Benefit Actually Realized); provided, however, that the failure of Hughes to comply with the requirements of the first sentence of Section 6.d(iv) hereof shall not relieve Hughes of the obligation to make the payment that it would be required to make pursuant to this Section 6.d(v) were Hughes to have complied with such requirements.

(vi) If there is a Final Determination that results in any change to or adjustment of the portion of any Tax Attribute which shall have been apportioned to Hughes or to any member of the Hughes Group pursuant to this Section 6.d, then GM (or its designee) shall make a payment to Hughes, or Hughes shall make a payment to GM (or its designee), as may be necessary to adjust the payments between Hughes and GM (or its designee) to reflect the payments that would have been made under Section 6.d(v) had the adjusted amount of the Tax Attribute been taken into account in computing the payments due under Section 6.d(v) hereof.

e. Present Value Determination. To the extent any Income Tax Benefit or Income Tax Detriment is not Actually Realized when a Timing Difference or Reverse Timing Difference occurs or in a taxable period to which a Tax Attribute is carried forward, Telecom and Hughes shall attempt in good faith to agree (i) upon the present value of the Income Tax Benefits and Income Tax Detriments reasonably expected to be Actually Realized, and (ii) to base the payments due to or from Telecom or Hughes under Sections 6.a, 6.b or 6.d(v) hereof on such present values; provided, however, that such parties shall be under no obligation to reach such an agreement. Section 8 hereof shall not apply if the parties shall not have reached such an agreement.

f. Carrybacks. Except to the extent otherwise consented to by GM or prohibited by applicable law, Hughes shall elect to relinquish, waive or otherwise forego all Carrybacks. In the event that Hughes (or the appropriate member of the Hughes Group) is prohibited by applicable law to relinquish, waive or otherwise forego a Carryback (or GM consents thereto), (i) Telecom shall cooperate with Hughes, at Hughes' expense, in seeking from the appropriate taxing authority such Refund as reasonably would result from such Carryback, and (ii) Hughes shall be entitled to any Income Tax Benefit Actually Realized by a member of the GM Group (including any interest thereon received from such taxing authority), to the extent that such Refund is directly attributable to such Carryback, within 10 days after such Refund is Actually Realized; provided, however, that Hughes shall indemnify and hold the members of the GM Group harmless from and against any and all collateral tax consequences resulting from or caused by any such Carryback, including (but not limited to) the loss or postponement of benefit from the use of tax attributes which are generated by a member of the GM Group or an affiliate thereof and (x) which expire unutilized, but which would have been utilized but for such Carryback, or (y) the use of which is postponed to a later taxable period than the taxable period in which such tax attributes otherwise would have been utilized but for such Carryback. If there is a Final Determination that results in any change to or adjustment of an Income Tax Benefit Actually Realized by a member of the GM Group that is directly attributable to a Carryback, then GM (or its designee) shall make a payment to Hughes, or Hughes shall make a payment to GM (or its designee), as may be necessary to adjust the payments between Hughes and GM (or its designee) to reflect the payments that would have been made under this Section 6.f had the adjusted amount of such Income Tax Benefit been taken into account in computing the payments due under Section 6.f hereof. The parties shall provide each other with sufficient information to enable the other to verify and substantiate any such adjustment.

g. Straddle Periods. For purposes of Sections 6.d and 6.f hereof, (i) a Straddle Period shall be deemed to consist of two taxable periods, the first of which shall end on the Distribution Date, and (ii) any net operating loss or other Tax Attribute which is deemed to have been generated in either of such hypothetical taxable periods shall be treated as having been carried to the other such hypothetical taxable period, to the extent such net operating loss or other Tax Attribute actually reduced the Income Tax Liability for such Straddle Period.

## 7. Cooperation and Exchange of Information.

### a. Preparation of Income Tax Returns.

(i) Hughes shall, and shall cause each member of the Hughes Group to, prepare and submit to Telecom, at Hughes' expense, all information that Telecom shall reasonably request, in such form as Telecom reasonably shall request and (i) by no later than 150 days prior to the due date (taking into account extensions), but in no case earlier than 60 days after the close of the relevant taxable period of the GM Group, (A) to enable GM to prepare the Income Tax Returns described in Section 2.a(i) hereof, and (B) to enable Telecom to prepare the Income Tax Returns described in Sections 2.a(ii) and 2.c hereof, and (ii) by the time reasonably specified by Telecom, to enable Telecom to determine the amounts of estimated tax due and to prepare any related documentation in respect of the taxable periods covered by the Income Tax Returns described in clauses (i)(A) and (B) of this sentence. In the event that Hughes (x) does not timely provide such information or (y) provides information that is incomplete or otherwise not reasonably satisfactory to Telecom and does not cure such defect within 20 days after Telecom gives notice thereof, Telecom shall be entitled to require Hughes to engage, at Hughes' expense, a nationally recognized independent accounting firm reasonably acceptable to Telecom to gather and provide, in the manner set forth in the preceding sentence, the information which Hughes is required to provide under this Section 7.a.

(ii) Telecom shall, and shall cause each member of the GM Group to, prepare and submit to Hughes, at Telecom's expense, all information that Hughes reasonably shall request to enable Hughes to prepare any Income Tax Returns which Hughes is responsible to prepare in accordance with Section 2 hereof. In the event that Telecom (x) does not timely provide such information or (y) provides information that is incomplete or otherwise not reasonably satisfactory to Hughes and does not cure such defect within 20 days after Hughes gives notice thereof, Hughes shall be entitled to require Telecom to engage, at Telecom's expense, a nationally recognized independent accounting firm reasonably acceptable to Hughes to gather and provide, in the manner set forth in the preceding sentence, the information which Telecom is required to provide under this Section 7.a.

b. Cooperation and Exchange of Information. Each party hereto, on behalf of itself and each of its affiliates, agrees to provide each other party with such cooperation and information as such other party reasonably shall request in connection with the preparation or filing of any Income Tax Return or claim for Refund, the determination and payment of estimated Income Taxes, the determination of the amount of Allowable Taxes which are to be reimbursed to or by a governmental entity, or the conduct of any Proceeding. Such cooperation and information shall include, without limitation, upon reasonable notice (i) promptly forwarding copies of appropriate notices and forms or other communications (including, without limitation, information document requests, revenue agent's reports and similar reports, notices of proposed adjustments and notices of

deficiency) received from or sent to any taxing authority or any other administrative, judicial or governmental authority, (ii) providing copies of all relevant Income Tax Returns, together with accompanying schedules and related workpapers, documents relating to rulings or other determinations by taxing authorities, and such other records concerning the ownership and tax basis of property, or other relevant information which such Person or its affiliates may possess, (iii) the provision of such additional information and explanations of documents and information provided under this Agreement (including statements, certificates and schedules delivered by either party) as shall be reasonably requested by the other party, (iv) the execution of any document that may be necessary or reasonably helpful in connection with the filing of an Income Tax Return, a claim for a Refund, or in connection with any Proceeding, including such waivers, consents or powers of attorney as may be necessary for such party to exercise its rights under this Agreement, and (v) the use of the parties' reasonable efforts to obtain any documentation from a governmental authority or a third party that may be necessary or reasonably helpful in connection with any of the foregoing. It is expressly the intention of the parties to this Agreement to take all actions requested by Telecom that shall be necessary to establish Telecom as the sole agent for Income Tax purposes (to the extent that GM is not otherwise the sole agent for such purpose) of each member of the Hughes Group with respect to all Income Tax Returns of the Hughes Group for Pre-Distribution Taxable Periods and for any Combined Return for a Straddle Period. Upon reasonable notice, the parties hereto shall make their, or shall cause their affiliates to make their, employees and facilities available on a mutually convenient basis to provide explanation of any documents or information provided hereunder. Any information obtained under this Section 7 shall be kept confidential, except as otherwise reasonably may be necessary in connection with the filing of Income Tax Returns or claims for Refund or in conducting any Proceeding.

c. Record Retention. GM and Hughes agree to retain all Income Tax Returns, related schedules and workpapers, and all material records and other documents as required under Section 6001 of the Code and the regulations promulgated thereunder (and any similar provision of state or local Income Tax law) existing on the date hereof or created in respect of (i) any taxable period that ends on or before or includes the Distribution Date or (ii) any taxable period which may be subject to a claim hereunder (including by reason of a Timing Difference or a Reverse Timing Difference), until the later of (x) the expiration of the statute of limitations (including extensions) for the taxable periods to which such Income Tax Returns and other documents relate and (y) the Final Determination of any payments which may be required in respect of such taxable periods under this Agreement. From and after the end of the period described in the preceding sentence of this Section 7.c, if a member of the GM Group or a member of the Hughes Post-Merger Group wishes to dispose of any such records and documents, then GM or Hughes (as the case may be) shall provide



written notice thereof to the other party and shall provide such other party (at such other party's sole expense) the opportunity to take possession of any such records and documents within 90 days after such notice is delivered; provided, however, that if such other party does not, within such 90-day period, confirm its intention to take possession of such records and documents, GM or Hughes (as the case may be) may destroy or otherwise dispose of such records and documents.

d. Remedies.

(i) Hughes hereby acknowledges and agrees that (A) the failure of any member of the Hughes Group to comply with the provisions of this Section 7 may result in substantial harm to the GM Group, including the inability to determine or appropriately substantiate an Income Tax Liability (or a position in respect thereof) for which the GM Group (or a member thereof) would be responsible under this Agreement or appropriately defend against an adjustment thereto by a taxing authority, and (B) the remedies available to the GM Group for the breach by a member of the Hughes Group of its obligations hereunder shall include (without limitation) the indemnification by Hughes of the GM Group for any Income Tax Liability incurred or any Income Tax benefit lost or postponed by reason of such breach and the forfeiture by the Hughes Group of any related rights to indemnification by GM or Telecom. In addition, if any member of the Hughes Group fails to provide (x) any cooperation or information requested pursuant to Section 7.a by the dates specified therein or (y) any other information requested pursuant to this Agreement within a reasonable period, as determined in good faith by the party requesting such information, then, without limiting any other remedy available to any member of the GM Group for breach of Hughes' obligations under this Agreement, Telecom shall have the right to engage a nationally recognized accounting firm of its choice to gather such information. Hughes agrees to permit any such nationally recognized accounting firm full access to all appropriate records or other information in the possession of any member of the Hughes Group during normal business hours, and promptly to reimburse or pay directly all costs and expenses in connection with the engagement of such accountants.

(ii) Telecom hereby acknowledges and agrees that (A) the failure of any member of the GM Group to comply with the provisions of this Section 7 may result in substantial harm to the Hughes Group, including the inability to determine or appropriately substantiate an Income Tax Liability (or a position in respect thereof) for which the Hughes Group (or a member thereof) would be responsible under this Agreement or appropriately defend against an adjustment thereto by a taxing authority, and (B) the remedies available to the Hughes Group for the breach by a member of the GM Group of its obligations hereunder shall include (without limitation) the indemnification by GM and

Telecom of the Hughes Group for any Income Tax Liability incurred or any Income Tax benefit lost or postponed by reason of such breach and the forfeiture by the GM Group of any related rights to indemnification by Hughes. In addition, if any member of the GM Group fails to provide any information requested pursuant to this Agreement within a reasonable period, as determined in good faith by the party requesting such information, then, without limiting any other remedy available to any member of the Hughes Group for breach of GM's obligations under this Agreement, Hughes shall have the right to engage a nationally recognized accounting firm of its choice to gather such information. Telecom agrees to permit any such nationally recognized accounting firm full access to all appropriate records or other information in the possession of any member of the GM Group during normal business hours, and promptly to reimburse or pay directly all costs and expenses in connection with the engagement of such accountants.

e. Reliance.

(i) If any member of the Hughes Group supplies information to a member of the GM Group in connection with an Income Tax Liability and an officer of a member of the GM Group signs a statement or other document under penalties of perjury in reliance upon the accuracy of such information, then upon the written request of such member of the GM Group identifying the information being so relied upon, the chief financial officer of such member of the Hughes Group shall certify in writing the accuracy and completeness of the information so supplied. Hughes agrees to indemnify and hold harmless each member of the GM Group and its directors, officers and employees from and against any fine, penalty, or other cost or expense of any kind (other than a liability for income tax) attributable to a member of the Hughes Group having supplied a member of the GM Group with inaccurate or incomplete information in connection with an Income Tax Liability.

(ii) If any member of the GM Group supplies information to a member of the Hughes Group in connection with an Income Tax Liability and an officer of a member of the Hughes Group signs a statement or other document under penalties of perjury in reliance upon the accuracy of such information, then upon the written request of such member of the Hughes Group identifying the information being so relied upon, the chief financial officer of such member of the GM Group shall certify in writing the accuracy and completeness of the information so supplied. Telecom agrees to indemnify and hold harmless each member of the Hughes Group and its directors, officers and employees from and against any fine, penalty, or other cost or expense of any kind (other than a liability for income tax) attributable to a member of the GM Group having supplied a member of the

Hughes Group with inaccurate or incomplete information in connection with an Income Tax Liability.

8. Resolution of Disputes.

a. Negotiation. Telecom and Hughes shall attempt in good faith promptly to resolve any dispute arising in connection with this Agreement. In the event of any such dispute, either party may deliver a Dispute Notice to the other party, and within 20 Business Days of the receipt of such Dispute Notice, the appropriate representatives of Telecom and Hughes shall meet to attempt to resolve the dispute. If the dispute has not been resolved within the Negotiation Period, or if one of the parties fails or refuses to negotiate the dispute, the issue shall be settled by arbitration pursuant to this Section 8, which shall be final and binding on the parties. Nothing in this Section 8 shall be construed to extend the time periods set forth in this Agreement during which any party may make a payment, deliver a notice, provide information, grant or withhold approval or consent or take any other action.

b. Arbitration Procedure. Either party may initiate arbitration by giving the other party a written notice (the "Arbitration Notice") either (i) within one year following the end of the Negotiation Period, or (ii) if the parties do not meet within 20 Business Days of the receipt of the Dispute Notice, within one year thereafter. The arbitration shall be in accordance with the CPR Rules, except as otherwise provided in this Section 8. The arbitrators shall allow all discovery permitted by the Federal Rules of Civil Procedure. The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. (S) 1-14. The place of arbitration shall be Los Angeles, California or such other location as shall be mutually agreed by the parties. Any deadlines specified in this Section 8 may be extended by mutual agreement of the parties.

c. Selection of Arbitrators. Telecom and Hughes shall make every reasonable effort to jointly select the arbitrator. If Telecom and Hughes are unable to agree on the designated arbitrator within 20 Business Days after either party gives the Arbitration Notice, then the arbitration shall be by a panel of three arbitrators. Telecom and Hughes shall each appoint one arbitrator. The two arbitrators so appointed shall appoint the third arbitrator. If either Telecom or Hughes shall fail to appoint an arbitrator within such 20-Business Day period, the arbitration shall be by the sole arbitrator appointed by the other party. Whether jointly selected by Telecom and Hughes or otherwise, each arbitrator shall be an attorney who is generally recognized in the tax community as a qualified and competent tax practitioner with experience in the tax area involved in the issue or issues to be resolved.

d. Settlement Proposal. Each party shall present an overall settlement proposal to the arbitrator which shall encompass all issues to be resolved. The two proposals shall set the outer limits of the range within which the arbitrator can make a determination as to the appropriate settlement result. All costs of the arbitration process shall be borne by the party determined by the arbitrator to have lost the arbitration. In the event the arbitrator makes a determination which reflects a 50-50 settlement, Telecom and Hughes shall share equally the costs of the arbitration. In the event the arbitrator makes a determination which reflects a divided settlement, the arbitrator shall determine the proportion in which the parties shall share the costs of arbitration.

e. Time and Method of Making Payments Determined by Arbitration. All amounts determined by arbitration to be payable by one party to the other shall be due and payable on or before the 90th calendar day following the determination that such amount is payable.

#### 9. Payments.

a. Method of Payment. All payments required by this Agreement shall be made by (i) wire transfer to the appropriate bank account as may from time to time be designated by the parties for such purpose; provided, that on the date of such wire transfer notice of the transfer is given to the recipient thereof in accordance with Section 11 hereof, or (ii) any other method agreed to by the parties. All payments due under this Agreement shall be deemed to be paid when available funds are actually received by the payee.

b. Interest. Any payment required by this Agreement that is not made on or before the date required hereunder shall bear interest, from and after such date through the date of payment, at the Underpayment Rate.

c. Characterization of Payments. For all tax purposes, the parties hereto agree to treat, and to cause their respective affiliates to treat, (i) any payment, required by this Agreement as either a contribution by GM or Hughes or a distribution by Hughes to GM, as the case may be, occurring immediately prior to the Distribution and (ii) any payment of interest or non-Federal Income Taxes by or to a taxing authority as taxable or deductible, as the case may be, to the party entitled under this Agreement to retain such payment or required under this Agreement to make such payment, in either case except as otherwise mandated by applicable law; provided, that in the event it is determined as a result of a Final Determination that any such treatment is not permissible, the payment in question

shall be adjusted to place the parties in the same after-tax position they would have enjoyed absent such Final Determination.

10. Existing Tax Allocation Agreement. The Tax Allocation Agreement shall be amended as of the Distribution Date to exclude the members of the Hughes Group and to provide that any rights or obligations of the members of the Hughes Group existing thereunder shall be fully and finally settled without any payment by or to any member of the Hughes Group.

11. Notices. Notices, requests, permissions, waivers, and other communications hereunder shall be in writing and shall be deemed to have been duly given upon (a) a transmitter's confirmation of a receipt of a facsimile transmission (but only if followed by confirmed delivery of a standard overnight courier the following Business Day or if delivered by hand the following Business Day), or (b) confirmed delivery of a standard overnight courier or delivered by hand, to the parties at the following addresses (or at such other addresses for a party as shall be specified by like notice):

If to GM, to:

General Motors Corporation  
General Motors Building  
3044 West Grand Boulevard  
Detroit, MI 48202  
Attention: Anton H. Zidansek  
Telecopy No.: (313) 974-7414

with a copy to:

Kirkland & Ellis  
200 East Randolph Drive  
Chicago, IL 60601  
Attention: Robert S. Osborne, Esq.  
Telecopy No.: (312) 861-2200

and a copy to:

Weil, Gotshal & Manges LLP

767 Fifth Avenue  
New York, NY 10153  
Attention: Frederick S. Green, Esq.  
Telecopy No.: (212) 310-8007

If to Hughes, to:

Raytheon Company  
141 Spring Street  
Lexington, MA 02173  
Attention: Frederick E. Wallach  
Telecopy No.: (617) 860-2519

with a copy to:

Wachtell, Lipton, Rosen & Katz  
51 West 52nd Street  
New York, NY 10019  
Attention: Adam O. Emmerich, Esq.  
Telecopy No: (212) 403-2200

If to Telecom, to:

Hughes Network Systems, Inc.  
7200 Hughes Terrace  
Los Angeles, CA 90045  
Attention: Patrick T. Doyle  
Telecopy No.: (310) 568-7096

with a copy to:

Kirkland & Ellis  
200 East Randolph Drive  
Chicago, IL 60601  
Attention: Robert S. Osborne, Esq.  
Telecopy No.: (312) 861-2200

and a copy to:

Weil, Gotshal & Manges LLP  
767 Fifth Avenue  
New York, NY 10153  
Attention: Frederick S. Green, Esq.  
Telecopy No.: (212) 310-8007

Such names and addresses may be changed by notice given in accordance with this Section 11.

12. Designation of Affiliate. GM may assign any of its rights or obligations (or the rights or obligations of Telecom) under this Agreement to any member of the GM Group as it shall designate; provided, however, that no such assignment shall relieve GM or Telecom (as the case may be) of any obligation to make a payment hereunder to Hughes to the extent such designee fails to make such payment.

13. Entire Agreement. This Agreement, together with the Hughes Spin-off Separation Agreement, contains the entire understanding of the parties hereto with respect to the subject matter contained herein, and supersedes and cancels all prior agreements, negotiations, correspondence, undertakings and communications of the parties, oral or written, respecting such subject matter.

14. Amendment. This Agreement may be amended, modified or supplemented only by a written agreement signed by all of the parties hereto.

15. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without reference to choice of law principles, including matters of construction, validity and performance.

16. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same original.

17. Effective Date; Term. This Agreement shall become effective only upon the occurrence of the Distribution Date and shall continue in effect until otherwise agreed to in writing by the parties hereto.

18. Titles and Headings. Titles and headings to sections herein are included for convenience of reference only and are not intended to be a part, or to affect the meaning or interpretation, of this Agreement.

19. Successors and Assigns. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns.

20. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner.



IN WITNESS WHEREOF, each of the parties has caused this Tax Sharing Agreement to be executed on its behalf by its officers thereunto duly authorized, all as of the day and year first written above.

GENERAL MOTORS CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

HE HOLDINGS, INC.

By: \_\_\_\_\_  
Name:  
Title:

HUGHES NETWORK SYSTEMS, INC.

By: \_\_\_\_\_  
Name:  
Title:

CERTIFICATE OF AMENDMENT  
OF  
CERTIFICATE OF INCORPORATION  
OF  
HUGHES AIRCRAFT COMPANY

Hughes Aircraft Company, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify:

FIRST: That the sole stockholder of the Corporation did consent to and adopt the following resolution setting forth a proposed amendment to the Certificate of Incorporation of the Corporation:

RESOLVED, That Article 1 of the Certificate of Incorporation of this corporation is hereby amended to read as follows:

"1. The name of the corporation is HE Holdings, Inc."

SECOND: That this amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said corporation has caused this certificate to be signed by its Chairman of the Board and attested by its Secretary this 8th day of December, 1995.

HUGHES AIRCRAFT COMPANY

By: /s/ Michael T. Smith

-----  
M. T. Smith  
Chairman of the Board

Attest:

By: /s/ R. M. Hall

-----  
R. M. Hall  
Secretary

CERTIFICATE OF INCORPORATION  
OF  
HUGHES AIRCRAFT COMPANY

FIRST: The name of the corporation is HUGHES AIRCRAFT COMPANY

SECOND: Its principal office in the State of Delaware is located at 1209 Orange Street, in the City of Wilmington, County of New Castle. The name and address of its resident agent is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

THIRD: The nature of the business, or objects or purposes to be transacted, promoted or carried on are:

To manufacture, build, construct, fabricate, assemble, rebuild, repair or otherwise produce or maintain, to design, invent, improve, or otherwise create or develop, to purchase, lease or otherwise acquire, to hold, use or operate, to sell, assign, transfer, lease, charter, convey, mortgage, pledge or otherwise realize upon or dispose of, and generally to deal in and with airplanes, helicopters, gliders, tow planes, and other aircraft of any kind or description whatsoever, and any, and all parts thereof and materials therefor, including motors, machines, tools, equipment, instruments, devices, appliances, apparatus, supplies and accessories of every kind or description, relating to, or useful in connection with, air-borne transportation.

To transport persons and property by airplanes, helicopters, gliders, tow planes, or other aircraft of any kind or description, and to conduct and operate air lines and other transport service for the transportation of pass-

engers, mail, merchandise and freight by air, including transportation by any other means on land or water between flying fields, stations and terminals, or as incident to, or necessary or useful in the carrying on of a general air-borne passenger, freight and transportation business.

To build, make, construct, purchase, lease or otherwise acquire, to own, occupy, possess or otherwise hold, to maintain, operate, improve or otherwise use, to sell, assign, transfer, lease, convey, mortgage, pledge or otherwise realize upon or dispose of, and generally to deal in and with, buildings, plants, factories, airports, flying fields, terminals, depots, radio stations and equipment, structures, equipment, facilities and all other property and things of every kind or description necessary, relating to, or useful in connection with, any of the business, objects or purposes of this corporation.

To establish, operate, manage and control establishments for the training and instruction of personnel necessary and desirable in connection with such operations.

To manufacture, design, assemble, purchase, or otherwise acquire, own, hold, install, repair, service, maintain and otherwise use, sell, distribute, mortgage, pledge, lease, license the manufacture, sale and distribution of, and otherwise dispose of, at wholesale, retail, on commission or otherwise, electronic and radionic devices, apparatus, equipment and products of all kinds, and radio broadcasting and receiving devices, apparatus and equipment, television transmitting and receiving devices, apparatus and equipment, sound recording and reproducing devices, mechanical and electrical products of all kinds and any devices, parts, accessories, materials, ma-

chinery and equipment used or useful in connection therewith.

To manufacture, produce, purchase or otherwise acquire, sell, mortgage, pledge, assign, transfer or otherwise encumber or dispose of, distribute, rent, lease, operate, exhibit or otherwise deal in or with motion pictures, motion picture photoplays and sound and/or talking pictures of every character and description, motion picture films, lights, cameras, lenses, projecting machines, sound or voice recording and reproducing apparatus, including any innovations of the same, and any machinery, apparatus, equipment, devices and materials of every kind and character necessary or desirable in any such business, or for use in the motion picture or sound or talking picture industry or in theatrical presentations of any kind, to build, establish, produce, lease, rent, purchase, or otherwise acquire control, manage, and to mortgage, encumber and dispose of and to maintain, operate, manage and control theatres and other places and property, both real and personal, for the production, distribution, or exhibition of motion pictures, photoplays and sound and/or talking pictures or dramatic, operatic, musical, vaudeville or public amusement of any character, or other performances; and to produce dramatic, operatic, musical, vaudeville or public amusement or theatrical presentations of any kinds; to edit, publish, produce and circulate magazines, periodicals, literatures, pamphlets or other printed matter relating to motion pictures or the motion pictures industry, or theatrical presentations or any other character of public amusement or entertainment; to purchase or otherwise acquire, deal in, handle, sell, pledge or otherwise dispose of literary artistic and other material; and to engage, employ and otherwise acquire, use, contract for, sell and otherwise dispose

of the service of authors, playwrights, scenario writers, artists, technicians, actors and actresses, directors, recording and reproducing engineers, and other persons necessary or desirable in connection with or incident to or in any wise appertaining to either or any or all of the foregoing purposes; to make advancements of funds and to lend money and/or to extend credits to any person, firm, corporation or association or persons for the advancement or accomplishment of either, any or all of the corporate purposes or objects herein set forth, and to take any kind of security desirable therefor, and to take an interest in any enterprise or business to which such loans or credits may be extended as a profit sharing in such business or enterprise and as compensation in whole or in part for such loans or extensions of credits, as the Board of Directors may, at any time, deem desirable.

To transmit, broadcast, receive, exhibit, reproduce or otherwise traffic in plays, pictures, motion pictures, sound and/or talking pictures, vaudeville, musical and/or theatrical presentations and/or public amusement of any kind, by means of wireless, radio and/or any other process, means, method or device which may now be used or which may hereafter be known, discovered, used or invented.

To manufacture, purchase or otherwise acquire, own, mortgage, pledge, sell, assign and transfer or otherwise encumber or dispose of and to invest, trade and deal in and with goods, wares and merchandise and real and personal property of every class and description.

To mine, dig for or otherwise obtain from the earth, petroleum, rock or carbon oils, natural gas and other volatile mineral substances; to manufacture, refine, prepare for market, buy, sell and transport the same in the crude or refined con-

dition; to acquire for these purposes gas and oil lands, leaseholds and other interests in real estate and gas, oil and other rights; to construct and maintain conduits and lines of tubing and piping for the transportation of natural gas or oil for the public generally as well as for the use of said corporation; to transport such oil and gas by means of such pipes, tank cars or otherwise and to sell and supply the same to others; to lay, buy, sell and operate pipes, pipelines and storage tanks to be used for the purpose of transporting and storing oils and gas, and of doing a general pipeline and storage business; to construct and maintain gas wells, oil wells and refineries and to buy, sell and deal in gas and oil; to construct and maintain all railways, tramways, telegraph and telephone lines necessary or convenient in the prosecution of the business of the company; to buy, manufacture and sell timber from the lands of the company; to obtain and prepare for market such other valuable mineral or minerals as may be discovered in developing the lands of the company; to carry on in connection with any or all of said purposes the business of buying and selling goods, wares and merchandise; and to do and transact all business properly connected with or incidental to any or all of said objects and purposes.

To transact any manufacturing or mining business, and to purchase and sell goods, wares and merchandise used for such business.

To transact any manufacturing or mining business, and to purchase and sell goods, wares and merchandise used for such business.

To establish and maintain an oil business with authority to contract for the lease and purchase of the right to

prospect for, develop and use coal and other minerals, petroleum and gas; also the right to erect, build and own all necessary oil tanks, cars and pipes necessary for the operation of the business of the same.

To establish and maintain a drilling business, with authority to own and operate drilling rigs, machinery, tools and apparatus necessary in the boring, or otherwise sinking of wells in the production of oil, gas or water, or either, and the purchase and sale of such goods, wares and merchandise used for such business.

To supervise and manage properties for other persons, corporations and associations; to act as agent, broker or attorney in fact for any other person, corporation or association; to negotiate sales, leases, mortgages and contracts affecting real or personal property of other persons, corporations or associations wherever situated; and generally to maintain, conduct and carry on the business of agent and broker in the real estate, insurance or other lawful business.

To acquire, and pay in cash, stock or bonds of this corporation or otherwise, the good will, rights, assets and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.

To acquire, hold, use, sell, assign, lease, grant licenses in respect of, mortgage or otherwise dispose of letters patent of the United States or any foreign country, patent rights, licenses and privileges, inventions, improvements and processes, copyrights, trademarks and trade names, relating to or useful in connection with any business of this corporation.

To acquire by purchase, subscription or otherwise, and to receive, hold, own, guarantee, sell, assign, exchange, transfer, mortgage, pledge or otherwise dispose of or deal in and with any of the shares of the capital stock, or any voting trust



certificates in respect of the shares of capital stock, scrip, warrants, rights, bonds, debentures, notes, trust receipts, and other securities, obligations, choses in action and evidences of indebtedness or interest issued or created by any corporations, joint stock companies, syndicates, associations, firms, trusts or persons, public or private, or by the government of the United States of America, or by any foreign government, or by any state, territory, province, municipality or other political subdivision or by any governmental agency, and as owner thereof to possess and exercise all the rights, powers and privileges of ownership, including the right to execute consents and vote thereon, and to do any and all acts and things necessary or advisable for the preservation, protection, improvement and enhancement in value thereof.

To enter into, make and perform contracts of every kind and description with any person, firm, association, corporation, municipality, county, state, body politic or government or colony or dependency thereof.

To borrow or raise moneys for any of the purposes of the corporation and, from time to time, without limit as to amount to draw, make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof and of the interest thereon by mortgage upon or pledge, conveyance or assignment in trust of the whole or any part of the property of the corporation, whether at the time owned or thereafter acquired, and to sell, pledge or otherwise dispose of such bonds or other obligations of the corporation for its corporate purposes.

To buy, sell or otherwise deal in notes, open accounts

and other similar evidences of debt, or to loan money and take notes, open accounts, and other similar evidences of debt as collateral security therefor.

To purchase, hold, sell and transfer the shares of its own capital stock; provided it shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital except as otherwise permitted by law, and provided further that shares of its own capital stock belonging to it shall not be voted upon directly or indirectly.

To have one or more offices, to carry on all or any of its operations and business and without restriction or limit as to amount to purchase or otherwise acquire, hold, own, mortgage, sell, convey, or otherwise dispose of real and personal property of every class and description in any of the States, Districts, Territories or colonies of the United States, and in any and all foreign countries, subject to the laws of such State, District, Territory, Colony or Country.

In general, to carry on any other business in connection with the foregoing, and to have and exercise all the powers conferred by the laws of Delaware upon corporations formed under the General Corporation Law of the State of Delaware, and to do any or all of the things hereinbefore set forth to the same extent as natural persons might or could do.

The object and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in nowise limited or restricted by reference to, or inference from, the terms of any other clause in this certificate of incorporation but the objects and purposes specified in each of the foregoing clauses of this article shall be regarded as independent objects and purposes.

FOURTH: The total number of shares of stock which the corporation shall have authority to issue is seventy-five thousand (75,000); all of such shares shall be without par value.

FIFTH: The minimum amount of capital with which the corporation will commence business is One Thousand Dollars (\$1,000,000).

SIXTH: The names and places of residences of the incorporators are as follows:

NAMES	ADDRESSES
1. Francis J. O'Hara, Jr.	Washington, D.C.
2. S. M. Brown	Wilmington, Delaware
3. A. D. Atwell	Townsend, Delaware

SEVENTH: The corporation is to have perpetual existence.

EIGHTH: The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

NINTH: In furtherance and not in limitation of the powers conferred by statute, the board of directors is expressly authorized:

To make, alter or repeal the by-laws of the corporation.

To authorize and cause to be executed mortgages and liens upon the real and personal property of the corporation.

To set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

By resolution or resolutions passed by a majority of the whole board, to designate one or more committees, each committee to consist of two or more of the directors of the

corporation, which, to the extent provided in said resolution or resolutions or in the by-laws of the corporation, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, and may have power to authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in the by-laws of the corporation or as may be determined from time to time by resolution adopted by the board of directors.

When and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power given at a stockholders' meeting duly called for that purpose, or when authorized by the written consent of the holders of a majority of the voting stock issued and outstanding, to sell, lease or exchange all of the property and assets of the corporation, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part shares of stock in, and/or other securities of, any other corporation or corporations, as its board of directors shall deem expedient and for the best interests of the corporation.

TENTH: The Board of Directors shall have power from time to time to determine whether and to what extent, and at what times and places, and under what conditions and regulation the accounts and books of the corporation, (other than the stock ledger), or any of them, shall be open to inspection of stockholders; and no stockholder shall have any right of inspecting any account, book or document of the corporation, except as conferred by statute, unless authorized by a resolution duly adopted at a regularly constituted meeting of the

Board of Directors or of the stockholders, or by the written assent, filed with the Secretary, of a majority of the directors or of the holders of a majority of the stock having voting power.

ELEVENTH: In the absence of fraud, no contract or transaction between this corporation and any other association or corporation shall be affected by the fact that any of the directors or officers of this corporation are interested in or are directors or officers of such other association or corporation, and any director or officer of this corporation individually may be a party to, or may be interested in any such contract or transaction of this Corporation; and no such contract or transaction of this corporation with any person or persons, firm, association or corporation shall be affected by the fact that any director or officer of this corporation is a party to, or interested in such contract or transaction, or in any way connected with such person or persons, firm, association or corporation; and each and every person who may become a director or officer of this corporation is hereby relieved from any liability that might otherwise exist from thus contracting with this corporation for the benefit of himself or any person, firm, association or corporation in which he may be in any wise interested.

TWELFTH: Any and all of this Corporation's directors or officers or former directors or officers or any person who may have served at this corporation's request as a director or officer of another corporation in which this corporation owns shares of capital stock or of which this corporation is a creditor, shall be indemnified against expenses actually and necessarily incurred by them in connection with the defense of any action, suit or proceeding in which they, or any of them,

are made parties, or a party, by reason of being or having been directors or officers or a director or officer of this corporation, or of such other corporation, except in relation to matters as to which any such director or officer or former director or officer or person shall be adjudged in such action, suit or proceeding to be liable for negligence or misconduct in the performance of duty. The foregoing right to indemnity shall include reimbursement of the amounts and expenses paid in settling any such action, suit or proceeding, when settling appears to be in the interest of the corporation.

THIRTEENTH: Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this corporation under the provisions of Section 3883 of the Revised Code of 1915 of said State, or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of Section 43 of the General Corporation Law of the State of Delaware, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said Court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as consequence of such compromise or arrangement, the said compromise or arrangement

and the said reorganization shall, if sanctioned by the Court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

FOURTEENTH: Meetings of stockholders may be held without the State of Delaware, if the by-laws so provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be from time to time designated by the board of directors or in the by-laws of the corporation. Elections of directors need not be by ballot unless the by-laws of the corporation shall so provide.

FIFTEENTH: The corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

WE, THE UNDERSIGNED, being each of the incorporators hereinbefore named for the purpose of forming a corporation in pursuance of the General Corporation Law of the State of Delaware, do make this certificate, hereby declaring and certifying that the facts herein stated are true, and accordingly have hereunto set our hands and seals this 17th day of December, A. D. 1953.

Frances J. O'Hara, Jr. (SEAL)

-----  
S.M. Brown (SEAL)

-----  
A.D. Atwell (SEAL)

-----

STATE OF DELAWARE        )  
                              )     SS:  
COUNTY OF NEW CASTLE    )

BE IT REMEMBERED, That on this 17th day of December, A.D. 1953, personally came before me, M. Ruth Mannering, a Notary Public for the State of Delaware, Francis J. O'Hara, Jr., S. N. Brown, and A. D. Atwell, all of the parties to the foregoing certificate of incorporation, known to me personally to be such, and severally acknowledged the said certificate to be the act and deed of the signers respectively and that the facts therein stated are truly set forth.

GIVEN under my hand and seal of office the day and year aforesaid.

M. Ruth Mannering  
-----  
Notary Public

M. RUTH MANNERING  
NOTARY PUBLIC  
APPOINTED FEB. 11, 1953  
TERM TWO YEARS  
STATE OF DELAWARE



HE HOLDINGS, INC.

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BY-LAWS

As Amended

December 8, 1992

HE HOLDINGS, INC.

BYLAWS

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HE HOLDINGS, INC.

BYLAWS

AS AMENDED DECEMBER 8, 1992

ARTICLE I - MEETING OF STOCKHOLDERS

1.1. Annual. The annual meeting of stockholders for the election of directors and the transaction of such other business as may properly be brought before the meeting shall be held on such date and at such place and time as the chairman of the board or the board of directors shall designate.

1.2. Special. Special meetings of stockholders may be called by the board of directors or the chairman of the board of directors at such place, date and time and for such purpose or purposes as shall be set forth in the notice of such meeting.

1.3. Notice of Meetings. Written notice of each meeting of stockholders shall be given by the chairman of the board and/or the secretary in compliance with the provisions of Delaware law.

1.4. List of Stockholders Entitled to Vote. The secretary shall prepare, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present.

1.5. Quorum. At each meeting of stockholders, except where otherwise provided by law or the certificate of incorporation or these by-laws, the holders of one-third of the voting power of the outstanding shares of stock entitled to vote at the meeting, present in person or by proxy, shall constitute a quorum. In the absence of a quorum, the stockholders so present may, by majority vote, adjourn the meeting from time to time in the manner provided in Section 1.9 of these by-laws until a quorum shall attend. Shares of its own stock belonging to the corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other

corporation is held, directly or indirectly, by the corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity.

1.6. Organization. The chairman of the board of directors, a vice chairman, the president or an executive vice president, or in their absence a vice president, shall preside at meetings of the stockholders. The secretary of the corporation shall act as secretary, but in his absence the presiding officer may appoint a secretary.

1.7. Voting; Proxies. Each stockholder shall be entitled to vote in accordance with the numbers of shares and voting powers of the voting shares held of record by him. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him by proxy, but such proxy, whether revocable or irrevocable, shall comply with the requirements of Delaware law. Voting at meetings of stockholders need not be by written ballot unless the holders of a majority of the outstanding shares of all classes of stock entitled to vote thereon present in person or by proxy at such meeting shall so determine. At all meetings of stockholders for the election of directors a plurality of the voting power of the shares of stock present in person or represented by proxy and entitled to vote shall be sufficient. All other elections and questions shall, unless otherwise provided by law or by the certificate of incorporation or these by-laws, be decided by the vote of the holders of a majority of the voting power of the shares of stock entitled to vote thereon present in person or by proxy at the meeting.

1.8. Fixing Date for Determination of Stockholders of Record. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, to express consent to corporate action in writing without a meeting, to receive payment of any dividend or other distribution or allotment of any rights to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix a record date. The record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors and which record date: (a) in the case of determination of stockholders entitled to vote at any meeting of stockholders or adjournment thereof, shall not be more than sixty nor less than ten days before the date of such meeting; (b) in the case of determination of stockholders entitled to express consent to corporate action in writing without a meeting, shall not be more than ten days from the date upon which the resolution fixing the record date is adopted by the board of directors; and (c) in the case of any other action, shall not be more than sixty days prior to such other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

1.9. Adjournments. Any meeting of stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

## ARTICLE II - BOARD OF DIRECTORS

2.1. Responsibility and Number. The business and affairs of the corporation shall be managed by or under the direction of a board of directors. The number of directors shall be determined from time to time by resolution of the stockholders.

2.2. Election; Resignation; Vacancies. At each annual meeting of stockholders, the stockholders shall elect directors each of whom shall hold office for a term of one year or until his successor is elected and qualified. Any director may resign at any time upon written notice to the chairman of the board or to the secretary. Any vacancy occurring in the board of directors for any cause may be filled by a majority of the remaining members of the board of directors, although such majority is less than a quorum. Each director so elected shall hold office concurrent with the term of other directors or until his successor is elected and qualified.

2.3. Regular Meetings. Unless otherwise determined by resolution of the board of directors, a meeting of the board of directors for the election of officers and the transaction of such other business as may come before it shall be held as soon as practicable following the annual meeting of stockholders, and other regular meetings of the board of directors shall be held semi-annually on a day and at such place and time as the chairman of the board shall designate.

2.4. Special Meetings. Special meetings of the board of directors may be called by the chairman of the board of directors, a vice chairman or the president, and shall be called by the secretary at the request in writing of one-third of the directors then in office. Notice of a special meeting of the board of directors shall be given by the secretary at least twenty-four hours before the special meeting.

2.5. Quorum; Vote Required for Action. At all meetings of the board of directors one-third of the whole board shall constitute a quorum for the transaction of business. Except in cases in which applicable law, the certificate of incorporation or these by-laws

otherwise provide, the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

2.6. Organization. The chairman of the board of directors, or in his absence the president, or in their absence a member of the board selected by the members present, shall preside at meetings of the board. The secretary of the corporation shall act as secretary, but in his absence the presiding officer may appoint a secretary.

2.7. Transactions with Corporation. No contract or transaction between the corporation and one or more of its directors, or between the corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers, are directors or officers, or have a financial interest, shall be void or voidable for this reason, or solely because the director or officer is present at or participates in the meeting of the board or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, (1) if the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (2) if the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (3) if the contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified, by the board of directors, a committee thereof, or the stockholders.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorizes the contract or transaction.

2.8. Ratification. Any transaction questioned in any stockholders' derivative suit on the ground of lack of authority, defective or irregular execution, adverse interest of director, officer or stockholder, non-disclosure, miscomputation, or the application of improper principles or practices of accounting may be ratified before or after judgment, by the board of directors or by the stockholders in case less than a quorum of directors are qualified; and, if so ratified, shall have the same force and effect as if the questioned transaction had been originally duly authorized, and said ratification shall be binding upon the corporation and its stockholders and shall constitute a bar to any claim or execution of any judgment in respect of such questioned transaction.

2.9. Informal Action by Directors. Unless otherwise restricted by the certificates of incorporation or these by-laws, any action required or permitted to be taken at any

meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board or committee.

2.10. Telephonic Meetings Permitted. Members of the board of directors, or any committee designated by the board, may participate in a meeting of such board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this by-law shall constitute presence in person at such meeting.

#### ARTICLE III - COMMITTEES

3.1. Committees of the Board of Directors. The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, consisting of one or more of the directors of the corporation, to be committees of the board of directors ("committees of the board"). All committees of the board may authorize the seal of the corporation to be affixed to any papers which may require it. To the extent provided in any resolution of the board of directors or these by-laws, and to the extent permissible under the laws of the State of Delaware and the certificate of incorporation, any such committee shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation.

The following committees shall be standing committees of the board: the executive committee, the finance committee, the corporate responsibility committee, the incentive and compensation committee and the audit committee. The board of directors may designate, by resolution adopted by a majority of the whole board, additional committees of the board and may prescribe for each such committee such powers and authority as may properly be granted to such committees in the management of the business and affairs of the corporation.

3.2. Committees of the Corporation. The board of directors, the executive committee, or the chairman of the board may designate committees of the corporation. Such committees shall consist of such officers of the corporation or a parent corporation as the board of directors, the executive committee, or the chairman shall determine.

Each committee of the corporation shall have and may exercise such powers, authority and responsibilities as the board of directors, the executive committee, or the chairman shall determine, and as may properly be granted to such committee under the laws of the State of Delaware, the certificate of incorporation and these by-laws. The powers,



authority and responsibilities thereby granted may include the powers, authority and responsibilities which may be granted to officers of the corporation.

3.3. Election and Vacancies. The members and chairmen of each standing committee of the board shall be elected annually by the board of directors at its first meeting after each annual meeting of stockholders or at any other time the board of directors shall determine. The members of other committees of the board may be elected at such time as the board may determine. Vacancies in any committee of the board may be filled at such time and in such manner as the board of directors shall determine.

3.4. Procedure; Quorum. Except to the extent otherwise provided in these by-laws or any resolution of the board of directors, each committee of the board and each committee of the corporation may fix its own rules of procedure.

A majority of the members (but in no event less than two) of the executive committee shall be necessary to constitute a quorum. The members necessary to constitute a quorum of any other committee of the board or committee of the corporation shall be one-third of the members thereof, or such larger number as shall be set forth in the by-laws, or as shall be determined from time to time by resolution of the board of directors but in no event less than two. The vote of a majority of the members present at a meeting of a committee of the board or committee of the corporation at which meeting a quorum is present shall be the act of the committee unless the certificate of incorporation, the by-laws or a resolution of the board of directors shall require the vote of a greater number.

3.5. Executive Committee. The chairman of the board shall be the chairman of the executive committee. Other members of the executive committee shall be selected by the board of directors. During the interval between meetings of the board of directors, the executive committee shall have and may exercise all the powers, authority and responsibilities of the board of directors in the management of the business and affairs of the corporation, to the extent permissible under the laws of the State of Delaware or the certificate of incorporation. The executive committee shall have the power and authority to declare both regular and special dividends.

3.6. Finance Committee. The board of directors shall select the members of the finance committee. The chairman of the board of directors shall be the chairman of the finance committee. The finance committee shall have such powers and responsibilities concerning the financial affairs of the corporation as the board of directors may from time to time assign to it.

3.7. Corporate Responsibility Committee. The board of directors shall select the members of the corporate responsibility committee and shall designate the chairman of the committee. The committee shall be responsible for formulating policies for the corporation and monitoring the implementation of such policies to insure compliance of the corporation with governmental and other legal regulations applicable to the operations of the corporation. The committees' areas of responsibility shall include compliance by the corporation with the Foreign Corrupt Practices Act, compliance with governmental procurement laws, regulation and policies and the overall discharge of the corporation's legal and ethical responsibilities.

3.8. Incentive and Compensation Committee. The board of directors shall select the members of the incentive and compensation committee and shall designate the chairman of the committee. No officer of the corporation shall be a member of the committee. No member of the committee shall be eligible to participate in any plan falling within the jurisdiction of the committee. The committee shall have and may exercise the powers and authority granted to it by any incentive compensation plan for employees of the corporation or any of its subsidiaries, and such other powers, authority and responsibilities as may be determined by the board of directors.

The committee shall determine the compensation of: (a) employees of the corporation who are directors of the corporation, and (b) after receiving and considering the recommendation of the chairman of the board of directors and the president of the corporation, all other employees of the corporation who are officers of the corporation or who occupy such other positions as may be designated by the committee.

Where any employee benefit or incentive compensation plan affects employees of the corporation or its subsidiaries and the compensation of such employees is determined or subject to review by the committee, such plan shall first be submitted to the committee for its review. Any such plan or amendment or modification shall be made effective with respect to such employees only if and to the extent approved by the committee.

3.9. Audit Committee. The board of directors shall select the members of the audit committee and shall designate the chairman of the committee. No officer of the corporation or member of the finance committee shall be a member of the audit committee. The members of the audit committee shall not be eligible to participate in any incentive compensation plan for employees of the corporation or any of its subsidiaries. The selection by the committee of accountants for the ensuing calendar year shall be made annually in advance of the annual meeting of stockholders and shall be submitted to the stockholders for ratification or rejection at such meeting. The audit committee shall have and may exercise such powers, authority and responsibilities as are normally incident to the functions of an audit committee or as may be determined by the board of directors.

ARTICLE IV - OFFICERS

4.1. Elected Officers. The officers of the corporation shall be elected by the board of directors. There shall be a chairman of the board, a president, one or more executive vice presidents, one or more senior vice presidents, one or more vice presidents, a secretary, a treasurer, a controller and a general counsel. The chairman of the board and the president shall be members of the board of directors and the executive committee. The board of directors may also elect persons to hold such other offices as the board of directors shall determine, including the office of vice chairman of the board. A person may hold any number of offices. Elected officers shall hold their offices at the pleasure of the board of directors, or until their earlier resignation.

4.2. Chairman of the Board of Directors. The chairman of the board of directors shall be the chief executive officer of the corporation and shall have the general executive responsibility for the conduct of the business and affairs of the corporation. He shall preside at meetings of the stockholders and shall be the chairman of the executive committee. He shall have and exercise such other powers, authority and responsibilities as the board of directors may determine.

In the absence of or during the disability of the chairman of the board, the president shall have and exercise the powers, authority and responsibilities of the chairman of the board.

4.3. Vice Chairmen of the Board of Directors. The board of directors may designate one or more vice chairmen of the board of directors who shall be members of the board of directors and of the executive committee. Each vice chairman shall have such powers and shall perform such duties as may be assigned to him by the board of directors or the chairman of the board.

4.4. President. The president shall be the chief operating officer of the corporation and shall have general operational responsibility for the world-wide operations of the corporation and the production and marketing of the corporation's principal products. He shall be a member of the executive committee. He shall have and exercise such other powers, authority and responsibilities as the board of directors may determine.

In the absence of or during the disability of the president, the chairman of the board shall have and exercise the powers, authority and responsibilities of the president.

4.5. Executive Vice Presidents. The board of directors shall elect one or more executive vice presidents of the corporation with such powers, authority and responsibilities as may be determined by the board of directors.

4.6. Senior Vice Presidents. The board of directors shall elect one or more senior vice presidents of the corporation with such powers, authorized responsibilities as may be determined by the board of directors.

4.7. Vice Presidents. The board of directors shall elect one or more vice presidents of the corporation with such powers, authority and responsibilities as may be determined by the board of directors.

4.8. Treasurer. The board of directors shall elect a treasurer with such powers, authority and responsibilities as may be determined by the board of directors or the executive committee. The treasurer shall have custody of all funds and securities of the corporation and shall perform all acts incident to the position of treasurer. He shall render such accounts and reports as may be required by the board of directors or the executive committee. The records books and accounts of the office of the treasurer shall, during the usual hours for business at the office of the treasurer, be open to the examination of any director.

4.9. Secretary. The board of directors shall elect a secretary with such powers, authority and responsibilities as may be determined by the board of directors or the chairman of the board. The secretary shall keep the minutes of all meetings of stockholders and directors and of such committees as to which he may be so directed. He shall give all required notices and shall have charge of such books and papers as the board of directors may require. He shall submit such reports to the board of directors or to any of the committees of the board or committees of the corporation as the board of directors or any such committee may require.

4.10. Controller. The board of directors shall elect a controller with such powers, authority and responsibilities as may be determined by the board of directors or the executive committee. The controller shall be in charge of the accounts of the corporation and shall perform all acts incident to the position of controller. He shall submit such reports and records to the board of directors or to any of the committees of the board or committee of the corporation as the board of directors or any such committee may require.

4.11. General Counsel. The board of directors shall elect a general counsel who shall be the chief legal officer of the corporation. He shall have general control of all matters of legal import concerning the corporation and shall have such other powers, authority and responsibilities as may be determined by the board of directors, the executive committee or the chairman of the board.

4.12. Subordinate Officers. The board of directors and the executive committee may, from time to time, appoint one or more assistant secretaries, assistant treasurers, assistant controllers, and such other subordinate officers as the board of directors or such committee may deem advisable. Such subordinate officers shall have such powers, authority and responsibilities as the board of directors or the executive committee may from time to time determine. The board of directors may grant to any other committee of the board, committee of the corporation or chairman of the board the power and authority to appoint subordinate officers and to prescribe their respective terms of office, powers, authority and duties. Such subordinate officers shall hold their positions at the pleasure of the board of directors or the appropriate committee.

In the interval between annual organizational meetings of the board of directors, or of the executive committee, the chairman of the board shall have the power and authority to appoint such subordinate officers. Such subordinate officers shall serve until the first meeting of the board of directors or of the executive committee, as appropriate, immediately following the annual meeting of stockholders.

4.13. Resignation, Removal, Suspension and Vacancies. Any officer may resign at any time by giving written notice to the chairman of the board, the president or the secretary. Unless stated in the notice of resignation, the acceptance thereof shall not be necessary to make it effective. It shall take effect at the time specified therein or, in the absence of such specification, it shall take effect upon the receipt thereof.

Any officer elected by the board of directors may be suspended or removed at any time by the affirmative vote of a majority of the whole board. Any subordinate officer of the corporation appointed by the board of directors or a committee of the board, or committee of the corporation, may be suspended or removed at any time by a majority vote of a quorum of the board of directors, or of the committee appointing such subordinate officer.

The chairman of the board may suspend the powers, authority, responsibilities and compensation of any elected officer or appointed subordinate officer for a period of time sufficient to permit the board or the appropriate committee a reasonable opportunity to consider and act upon a resolution relating to the reinstatement, further suspension or removal of such person.

As appropriate, the board of directors, the executive committee, and/or the chairman of the board may fill any vacancy created by the resignation, death, retirement or removal of an officer in the same manner as provided for the election or appointment of such person.

ARTICLE V - INDEMNIFICATION

5.1. Right to Indemnification of Directors and Officers. Subject to the other provisions of this article, the corporation shall indemnify and advance expenses to every director and officer (and to such person's heirs, executors, administrators or other legal representatives) in the manner and to the full extent permitted by applicable law as it presently exists, or may hereafter be amended, against any and all amounts (including judgments, fines, payments in settlement, attorneys fees and other expenses) reasonably incurred by or on behalf of such person in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative ("a proceeding"), in which such director or officer was or is made or is threatened to be made a party or is otherwise involved by reason of the fact that such person is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director, officer, employe, fiduciary or member of any other corporation, partnership, joint venture, trust, organization or other enterprise. The corporation shall not be required to indemnify a person in connection with a proceeding initiated by such person if the proceeding was not authorized by the board of directors of the corporation.

5.2. Advancement of Expenses of Directors and Officers. The corporation shall pay the expenses of directors and officers incurred in defending any proceeding in advance of its final disposition ("advancement of expenses"); provided, however, that the payment of expenses incurred by a director or officer in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should be ultimately determined that the director or officer is not entitled to be indemnified under this article or otherwise.

5.3. Claims by Officers or Directors. If a claim for indemnification or advancement of expenses by an officer or director under this article is not paid in full within ninety days after a written claim therefor has been received by the corporation, the claimant may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the corporation shall have the burden of proving that the claimant was not entitled to the requested indemnification or advancement of expenses under applicable law.

5.4. Indemnification of Employes. Subject to the other provisions of this article, the corporation may indemnify and advance expenses to every employe who is not a director or officer (and to such person's heirs, executors, administrators or other legal representatives) in the manner and to the full extent permitted by applicable law as it presently exists, or may hereafter be amended against any and all amounts (including judgments, fines, payments in settlement, attorneys fees and other expenses) reasonably incurred by or on behalf of such person in connection with any threatened,

pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative ("a proceeding"), in which such employe was or is made or is threatened to be made a party or is otherwise involved by reason of the fact that such person is or was an employe of the corporation, or is or was serving at the request of the corporation as a director, officer, employe, fiduciary or member of any other corporation, partnership, joint venture, trust, organization or other enterprise. The ultimate determination of entitlement to indemnification of employes who are not officers and directors shall be made by the board of directors or by a committee of the board of directors in such manner as the board or such committee shall determine. The corporation shall not be required to indemnify a person in connection with a proceeding initiated by such person if the proceeding was not authorized by the board of directors of the corporation.

5.5. Advancement of Expenses of Employes. The advancement of expenses of an employe who is not an officer or director shall be made by or in the manner provided by resolution of the board of directors or by a committee of the board of directors or of the corporation.

5.6. Non-Exclusivity of Rights. The rights conferred on any person by this Article V shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision or the certificate of incorporation, these by-laws, agreement, vote of stockholders or disinterested directors or otherwise.

5.7. Other Indemnification. The corporation's obligation, if any, to indemnify any person who was or is serving at its request as a director, officer or employe of another corporation, partnership, joint venture, trust, organization or other enterprise shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, joint venture, trust, organization or other enterprise.

5.8. Insurance. The board of directors may, to the full extent permitted by applicable law as it presently exists, or may hereafter be amended from time to time, authorize an appropriate officer or officers to purchase and maintain at the corporation's expense insurance (a) to indemnify the corporation for any obligation which it incurs as a result of the indemnification of directors, officers and employes under the provisions of this Article V, and (b) to indemnify or insure directors, officers and employes against liability in instances in which they may not otherwise be indemnified by the corporation under the provisions of this Article V.

5.9. Amendment or Repeal. Any repeal or modification of the foregoing provisions of this Article V shall not adversely affect any right or protection hereunder of any person

in respect of any act or omission occurring prior to the time of such repeal or modification.

#### ARTICLE VI - MISCELLANEOUS

6.1. Offices. The registered office of the corporation shall be located at 1209 Orange Street, Wilmington, New Castle County, Delaware, and the name of the registered agent in charge thereof shall be The Corporation Trust Company. The corporation may also have other offices without as well as within the State of Delaware. The books of the corporation may be kept outside the State of Delaware.

6.2. Certificates. Every holder of stock shall be entitled to have a certificate signed by or in the name of the corporation by the chairman or a vice chairman of the board of directors, or the president or a vice president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the corporation, certifying the number of shares owned by him in the corporation. The form of such certificates and the signatures thereon shall comply with the requirements of Delaware law. The corporation shall maintain a record of the holders of each certificate and transfer stock and issue new certificates to replace lost, stolen or destroyed certificates only pursuant to the applicable requirements of Delaware law as they presently exist, or may be amended from time to time.

6.3. Seal. The corporate seal shall have inscribed upon it the name of the corporation, the year of its organization and the words "Corporate Seal," and "Delaware." The seal shall be in charge of the secretary. Duplicate seals may be kept and used by any Assistant Secretary.

6.4. Fiscal Year. The fiscal year of the corporation shall be such fiscal year as is established from time to time by resolution of the board of directors or the executive committee.

6.5. Notice. Any notice required to be given by these by-laws may be given personally or it may be given in writing by depositing the notice in the post office or letter box in a postpaid envelope directed to such address as appears on the books of the corporation, or, in default of other address, to the general post office in Wilmington, New Castle County, Delaware. Such notice shall be deemed to be given at the time of mailing, except as otherwise provided in these by-laws. In addition, except as otherwise required by law or these by-laws, notice need not be given of any adjourned meeting other than by announcement at the meeting which is being adjourned.



6.6. Waiver of Notice. Whenever any notice is required to be given, a waiver thereof in writing, signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice.

6.7. Voting of Stocks Owned by the Corporation. The board of directors, the executive committee or the chairman of the board may authorize any person, and delegate to one or more other officers, the authority to authorize any person in behalf of the corporation to attend, vote and grant proxies to be used at any meeting of stockholders of any corporation in which Hughes Aircraft Company may hold stock.

6.8. Form of Records. Any records maintained by the corporation in the regular course of its business, including its stock ledger, books of account, and minute books, may be kept on, or be in the form of, punch cards, magnetic tape, photographs, microphotographs, or any other information storage device, provided that the records so kept can be converted into clearly legible form with a reasonable time. The corporation shall so convert any records so kept upon the request of any person entitled to inspect the same.

6.9. Amendment of By-Laws. The board of directors shall have power to adopt, amend or repeal the by-laws at any regular or special meeting of the directors. The stockholders shall also have power to adopt, amend or repeal the by-laws at any annual or special meeting.

AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
HE HOLDINGS, INC.

HE Holdings, Inc. (the "Corporation"), a corporation organized and existing under the General Corporation law of the State of Delaware (the "DGCL"), does hereby certify as follows:

1. The present name of the Corporation is HE Holdings, Inc. The Corporation was originally incorporated under the name "Hughes Aircraft Company" and its original certificate of incorporation was filed with the office of the Secretary of State of the State of Delaware on December 17, 1953.

2. This Amended and Restated Certificate of Incorporation was duly adopted by the Board of Directors of the Corporation and by the sole stockholder of the Corporation in accordance with Sections 228, 242 and 245 of the DGCL.

3. This Amended and Restated Certificate of Incorporation restates and integrates and further amends the certificate of incorporation of the Corporation, as heretofore amended (the "Certificate of Incorporation").

4. Upon the filing (the "Effective Time") of this Certificate of Incorporation pursuant to the DGCL, each share of the Corporation's common stock, no par value per share, issued and outstanding immediately prior to the Effective Time (the "Old Common Stock") shall be reclassified as and changed into 102,630,503 validly issued, fully paid, and non-assessable shares of Class A Common Stock, par value \$.01 per share ("Hughes Class A Common Stock"), without any action by the holder thereof. At the Effective Time, each share certificate that theretofore represented a share or shares of Old Common Stock shall thereafter represent the reclassified share or shares of Hughes Class A Common Stock.

5. The text of the Certificate of Incorporation is amended and restated in its entirety as follows:

Article I  
Name

The name of the corporation (which is hereinafter referred to as the "Corporation") is: "HE Holdings, Inc."

Article II  
Registered Agent

The address of the Corporation's registered office in the State of Delaware is The Corporation Trust Center, 1209 Orange Street in the City of Wilmington, County of New Castle. The name of the Corporation's registered agent at such address is The Corporation Trust Company.

Article III  
Purpose

The purpose of the Corporation shall be to engage in any lawful act or activity for which corporations may be organized and incorporated under the General Corporation Law of the State of Delaware (the "DGCL").

Article IV  
Capital Stock

Section 1. The Corporation is authorized to issue \_\_\_\_\_ shares of capital stock, of which (a) \_\_\_\_\_ shares shall be shares of Common Stock, \$.01 par value per share ("Common Stock"), and which shares of Common Stock shall be divided into two classes, \_\_\_\_\_ shares of Common Stock shall be shares of Class A Common Stock ("Class A Common Stock") and \_\_\_\_\_ shares of Common Stock shall be shares of Class B Common Stock ("Class B Common Stock"), and (b) \_\_\_\_\_ shares shall be shares of Preferred Stock, \$.01 par value per share ("Preferred Stock").

Section 2. Common Stock. The powers, preferences and rights, and the qualifications, limitations and restrictions of the Common Stock are as follows:

(a) Voting. The voting rights of the holders of record of shares of Class A Common Stock and Class B Common Stock on the relevant record date for each annual or special meeting of stockholders of the Corporation shall be as set forth below:

(i) With respect to the election or removal of directors (x) the holders of record of shares of Class B Common Stock shall be entitled to one (1) vote for each share of Class B Common Stock standing in each such person's name on the stock transfer records of the Corporation, which votes shall represent in the aggregate 19.9% of the total voting power of all holders of Common Stock entitled to vote thereon, and (y) the holders of record of shares of Class A Common Stock shall be entitled to such number of votes for each share of Class A Common Stock standing in each such person's name on the stock transfer records of the Corporation as shall be necessary to entitle the holders of all shares of Class A Common Stock to vote, in the aggregate, 80.1% of the total voting power of all holders of Common Stock entitled to vote thereon. Promptly following the fixing of a record date for each annual or special meeting of stockholders at which directors are to be elected or a vote with respect to removal is to be taken, the Board of Directors of the Corporation (the "Board") shall determine the number of votes per share of Class A Common Stock that each holder of record of Class A Common Stock shall be entitled to cast to implement the foregoing. The determination of such number of votes by the Board shall be final and shall be set forth in the notice of such meeting of stockholders delivered to the holders of Common Stock.

(ii) With respect to all matters on which holders of Common Stock shall be entitled to vote other than the election or removal of directors, each share of Class A Common Stock and each share of Class B Common Stock shall be entitled to cast one (1) vote per share, and the approval of any such matter shall require the affirmative vote of the holders of the shares of Class A Common Stock and the shares of Class B Common Stock outstanding at the relevant record date, with each class voting separately, in each case acting by such vote as would be required under applicable law were such class of Common Stock the only class of Common Stock of the Corporation then outstanding (or by such greater vote than would be required under applicable law as may be set forth herein or in the by-laws of the Corporation), as well as the approval of the holders of any class or series of Preferred Stock which may be entitled to vote thereon.

(b) Dividends. Subject to the rights of the holders of any class or series of outstanding Preferred Stock, and subject to any other provisions hereof and

applicable law, holders of shares of Class A Common Stock and holders of shares of Class B Common Stock shall be entitled to receive such dividends and other distributions in cash, stock or property of the Corporation as may be declared thereon by the Board from time to time out of assets or funds of the Corporation legally available therefor; provided that if a dividend or other distribution on any Common Stock is declared or paid by the Corporation (which declaration and payment shall be solely in the discretion of the Board), including, but not limited to, dividends or other distributions payable in cash, Common Stock or options or warrants to purchase Common Stock or securities exchangeable for or convertible into Common Stock, or other securities or property of the Corporation, such dividend or other distribution shall be declared and paid to the holders of Class A Common Stock and Class B Common Stock, and the holders of shares of Class A Common Stock and the holders of shares of Class B Common Stock shall be entitled to receive the same amount per share of any such dividends and other distributions in cash, securities or property of the Corporation (and with respect to dividends or distributions not in cash, in the same form); provided, however, that nothing in this Article IV shall prevent the declaration of a dividend or other distribution of shares of Class A Common Stock to holders of Class A Common Stock and shares of Class B Common Stock to holders of Class B Common Stock so long as, immediately following such dividend or other distribution, the number of shares of Class A Common Stock and Class B Common Stock then outstanding bears the same relationship to each other as did the number of shares of Class A Common Stock and Class B Common Stock outstanding immediately prior to such dividend or other distribution.

(c) Split, Subdivision or Combination. In the case of any split, sub division, combination or reclassification of Class A Common Stock or Class B Common Stock, the shares of Class B Common Stock or Class A Common Stock, as the case may be, shall also be split, subdivided, combined or reclassified so that the number of shares of Class A Common Stock and Class B Common Stock outstanding immediately following such split, subdivision, combination or reclassification shall bear the same relationship to each other as did the number of shares of Class A Common Stock and Class B Common Stock outstanding immediately prior to such split, subdivision, combination or reclassification.

(d) Liquidation, Dissolution, Mergers, etc. In the event of any liquidation, dissolution or winding up (either voluntary or involuntary) of the Corporation, the holders of Class A Common Stock and the holders of Class B Common Stock shall be entitled to receive the assets and funds of the Corporation available for distribution, after payments to creditors and to the holders of any

Preferred Stock of the Corporation that may at the time be outstanding, in proportion to the number of shares held by them, respectively, without regard to class. In the event of any corporate merger, consolidation, purchase or acquisition of property or stock, or other reorganization in which any consideration is to be received by the holders of Class A Common Stock or the holders of Class B Common Stock, the holders of Class A Common Stock and the holders of Class B Common Stock shall receive the same type and amount of consideration on a per share basis.

(e) Repurchases, etc. The Corporation shall not directly or indirectly redeem, purchase, repurchase or otherwise acquire for consideration (including, without limitation, by directly or indirectly assisting or supporting any other person or entity in any direct or indirect redemption, purchase, repurchase or other acquisition for consideration), and shall not directly or indirectly in any other fashion agree to, facilitate, condone or support in any way or manner whatsoever any direct or indirect redemption, purchase, repurchase or other acquisition for consideration by any person or entity of, any shares of Common Stock unless such redemption, purchase, repurchase or other acquisition is effected ratably in accordance with the number of outstanding shares of Class A Common Stock and Class B Common Stock, is for consideration of the same type and amount as to shares of Class A Common Stock and shares of Class B Common Stock, and is not in any other way prejudicial to the rights of the holders of one class of Common Stock in favor of the other class of Common Stock; provided, however, that in the case of an offer to purchase shares of Common Stock by the Corporation made to all holders of Common Stock, the Corporation shall purchase shares of Common Stock ratably in accordance with the number of shares of each class of Common Stock tendered thereunder.

(f) Rights Otherwise Identical. Except as expressly set forth herein, the rights of the holders of Class A Common Stock and the rights of the holders of Class B Common Stock shall be in all respects and for all purposes and in all circumstances absolutely and completely identical, and the Corporation shall not in any other manner directly or indirectly take any other action or in any other fashion agree to, facilitate, condone or support any transaction in which the holders of the Class A Common Stock and the Class B Common Stock are subject to discriminatory or unequal treatment.

Section 3. Preferred Stock. The Preferred Stock may be issued from time to time in one or more series. The Board is hereby authorized to provide by resolution from time to time for the issuance of shares of Preferred Stock in series and, by filing a certificate pursuant to the DGCL (hereinafter referred to as a

"Preferred Stock Designation"), to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, privileges, preferences and rights of the shares of each such series and the qualifications, limitations and restrictions thereof. The authority of the Board with respect to each series shall include, but not be limited to, determination of the following:

(a) the designation of the series, which may be by distinguishing number, letter or title;

(b) the number of shares of the series, which number the Board may thereafter (except where otherwise provided in the Preferred Stock Designation) increase or decrease (but not below the number of shares thereof then outstanding);

(c) whether dividends, if any, shall be cumulative or noncumulative, and, in the case of shares of any series having cumulative dividend rights, the date or dates or method of determining the date or dates from which dividends on the shares of such series shall be cumulative;

(d) the rate of any dividends (or method of determining such dividends) payable to the holders of the shares of such series, any conditions upon which such dividends shall be paid and the date or dates or the method for determining the date or dates upon which such dividends shall be payable;

(e) the price or prices (or method of determining such price or prices) at which, the form of payment of such price or prices (which may be cash, property or rights, including securities of the same or another corporation or other entity) for which, the period or periods within which and the terms and conditions upon which the shares of such series may be redeemed, in whole or in part, at the option of the Corporation or at the option of the holder or holders thereof or upon the happening of a specified event or events, if any;

(f) the obligation, if any, of the Corporation to purchase or redeem shares of such series pursuant to a sinking fund or otherwise and the price or prices at which, the form of payment of such price or prices (which may be cash, property or rights, including securities of the same or another corporation or other entity) for which, the period or periods within which and the terms and conditions upon which the shares of such series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

(g) the amount payable out of the assets of the Corporation to the holders of shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation;

(h) provisions, if any, for the conversion or exchange of the shares of such series, at any time or times at the option of the holder or holders thereof or at the option of the Corporation or upon the happening of a specified event or events, into shares of any other class or classes or any other series of the same or any other class or classes of stock, or any other security, of the Corporation, or any other corporation or other entity, and the price or prices or rate or rates of conversion or exchange and any adjustments applicable thereto, and all other terms and conditions upon which such conversion or exchange may be made;

(i) restrictions on the issuance of shares of the same series or of any other class or series, if any; and

(j) the voting rights, if any, of the holders of shares of the series.

Section 4. General. The Common Stock shall be subject to the express terms of the Preferred Stock and any series thereof. Except as otherwise provided by law or by the resolution or resolutions adopted by the Board designating the rights, powers and preferences of any series of Preferred Stock, the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes, and holders of Preferred Stock shall not be entitled to receive notice of any meeting of stockholders at which they are not entitled to vote. The Corporation shall be entitled to treat the person in whose name any share of its stock is registered as the owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the Corporation shall have notice thereof, except as expressly provided by applicable law.

#### Article V Stockholder Action

Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders. Except as



otherwise required by law and subject to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, special meetings of stockholders of the Corporation for any purpose or purposes may be called only by the Board pursuant to a resolution stating the purpose or purposes thereof approved by a majority of the total number of directors which the Corporation would have if there were no vacancies (the "Whole Board") or by the Chairman of the Board and any power of stockholders to call a special meeting is specifically denied. No business other than that stated in the notice shall be transacted at any special meeting.

Article VI  
Board of Directors

Section 1. Number, election and terms. The initial number of directors of the Corporation shall be fifteen (15). Except as otherwise fixed by or pursuant to the provisions of Article IV relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of the directors of the Corporation shall be hereafter fixed from time to time exclusively pursuant to a resolution adopted by a majority of the Whole Board (but shall not be less than three). The directors, other than those who may be elected by the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, one class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1998, another class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1999, and another class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 2000, with each director to hold office until such person's successor is duly elected and qualified. At each succeeding annual meeting of stockholders, directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election, with each director to hold office until such person's successor shall have been duly elected and qualified.

Section 2. Stockholder nomination of director candidates; Stockholder Proposal of Business. Advance notice of stockholder nominations for the election of directors and of the proposal of business by stockholders shall be given

in the manner provided in the By-Laws of the Corporation, as amended and in effect from time to time.

Section 3. Newly created directorships and vacancies. Except as otherwise provided for or fixed by or pursuant to the provisions of Article IV relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, (i) newly created directorships resulting from any vacancies on the Board resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board, and not by the stockholders and (ii) newly created directorships resulting from any increase in the number of directors after the adoption of a resolution by a majority of the Whole Board in accordance with Section 1 of this Article VI shall be filled by the affirmative vote of the holders of Common Stock, voting in accordance with the provisions of Section 2(a)(i) of Article IV regarding election of directors at the next succeeding annual or special meeting of stockholders. Any director appointed in accordance with clause (i) of the preceding sentence shall hold office until the next annual or special meeting of stockholders and until such director's successor shall have been duly elected and qualified. Any director elected in accordance with clause (ii) of the preceding sentence shall hold office for the remainder of the full term of the class of director in which the new directorship was created and until such director's successor shall have been duly elected and qualified. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.

Section 4. Removal. Subject to the rights of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, any director may be removed from office only for cause by the affirmative vote of the holders of the shares of Common Stock, voting together as a single class in the same manner and with the same votes per share as provided in Section 2(a)(i) of Article IV with respect to the election of directors (i.e. with the holders of Class A Common Stock having 80.1% of the total voting power to remove directors and the number of votes per share necessary to achieve such voting power determined by the Board).

Article VII  
By-Laws

The By-Laws may be altered or repealed and new By-Laws may be adopted (1) at any annual or special meeting of stockholders, by the affirmative vote of the holders of the shares of Common Stock voting in accordance with Section 2(a)(ii) of Article IV; provided, however, that in the case of any such stockholder action at a special meeting of stockholders, notice of the proposed alteration, repeal or adoption of the new By-Law or By-Laws must be contained in the notice of such special meeting, or (2) by the affirmative vote of a majority of the Whole Board.

Article VIII  
Amendment of Certificate of Incorporation

The Corporation reserves the right at any time from time to time to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, and any other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and, except as set forth in Article X, all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article.

Article IX  
Corporate Action

In addition to any other considerations which the Board may lawfully take into account, in determining whether to take or to refrain from taking corporate action on any matter, including making or declining to make any recommendation to the stockholders of the Corporation, the Board may in its discretion consider the long-term as well as short-term best interests of the Corporation (including the possibility that these interests may be best served by the continued independence of the Corporation), taking into account, and weighing as the directors deem appropriate, the effects of such action on employees, suppliers and customers of the Corporation and its subsidiaries and the effect upon communities in which offices or other facilities of the Corporation are located, and any other factors the directors consider pertinent.

Article X  
Limited Liability; Indemnification

Section 1. Limited Liability of Directors. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL as the same exists or may hereafter be amended. Neither the amendment nor repeal of Section 1 of this Article X shall eliminate or reduce the effect of Section 1 of this Article X in respect of any matter occurring, or any cause of action, suit or claim that, but for Section 1 of this Article X would accrue or arise, prior to such amendment or repeal.

Section 2. Indemnification and Insurance. (a) Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that such person, or a person of whom such person is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director or officer or in any other capacity while serving as a director or officer shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the DGCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, to the fullest extent permitted by law, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgment, fines, amounts paid or to be paid in settlement, and excise taxes or penalties arising under the Employee Retirement Income Security Act of 1974, as in effect from time to time) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director or officer, and shall inure to the benefit of such person's heirs, executors and administrators; provided, however, that, except as provided in paragraph (b) of this Section, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board. The right to indemnification conferred in this Section shall be a contract right and shall include the right

to have the Corporation pay the expenses incurred in defending any such proceeding in advance of its final disposition; any advance payments to be paid by the Corporation within 20 calendar days after the receipt by the Corporation of a statement or statements from the claimant requesting such advance or advances from time to time; provided, however, that, if and to the extent the DGCL requires, the payment of such expenses incurred by a director or officer in such person's capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section or otherwise. The Corporation may, to the extent authorized from time to time by the Board, grant rights to indemnification, and rights to have the Corporation pay the expenses incurred in defending any proceeding in advance of its final disposition, to any employee or agent of the Corporation to the fullest extent of the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

(b) Right of Claimant to Bring Suit. If a claim under paragraph (a) of this Section is not paid in full by the Corporation within 30 calendar days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standard of conduct which makes it permissible under the DGCL for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because the claimant has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by the Corporation (including its Board, independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(c) Non-Exclusivity of Rights. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Section shall not be exclusive of any other right which any person (including, without limitation, any person other than an officer or director of the Corporation) may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, By-Laws, agreement, vote of stockholders or disinterested directors or otherwise. No repeal or modification of this Article shall in any way diminish or adversely affect the rights of any director or officer of the Corporation hereunder in respect of any occurrence or matter arising prior to any such repeal or modification.

(d) Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the DGCL.

(e) Severability. If any provision or provisions of this Article X shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (1) the validity, legality and enforceability of the remaining provisions of this Article X (including, without limitation, each portion of any paragraph of this Article X containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (2) to the fullest extent possible, the provisions of this Article X (including, without limitation, each such portion of any paragraph of this Article X containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

IN WITNESS WHEREOF, the Corporation has caused this Amended and Restated Certificate of Incorporation to be duly executed this \_\_\_\_ day of \_\_\_\_\_ 1997.

By: \_\_\_\_\_  
Name:  
Title:

AMENDED AND RESTATED

BY-LAWS

OF

HE HOLDINGS, INC.

(Amended and Restated as of \_\_\_\_\_, 1997)

Incorporated under the Laws of the State of Delaware

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ARTICLE I  
Offices And Records

Section 1.1. Delaware Office. The principal office of the Corporation in the State of Delaware shall be located in the City of Wilmington, County of New Castle, and the name and address of its registered agent is The Corporation Trust Company, 1209 Orange Street in the City of Wilmington, County of New Castle.

Section 1.2. Other Offices. The Corporation may have such other offices, either within or outside the State of Delaware, as the Board of Directors of the Corporation (the "Board") may designate or as the business of the Corporation may from time to time require.

Section 1.3. Books and Records. The books and records of the Corporation may be kept outside the State of Delaware at such place or places as may from time to time be designated by the Board.



ARTICLE II  
Stockholders

Section 2.1. Annual Meeting. The annual meeting of the stockholders of the Corporation shall be held on such date and at such time as may be fixed by resolution of the Board.

Section 2.2. Special Meeting. Except as otherwise required by law and subject to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, special meetings of stockholders of the Corporation for any purpose or purposes may be called only by (i) the Board pursuant to a resolution stating the purpose or purposes thereof approved by a majority of the total number of directors which the Corporation would have if there were no vacancies (the "Whole Board") or (ii) by the Chairman of the Board. No business other than that stated in the notice shall be transacted at any special meeting.

Section 2.3. Place of Meeting. The Board or the Chairman of the Board, as the case may be, may designate the place of meeting for any annual meeting or for any special meeting of the stockholders. If no designation is so made, the place of meeting shall be the principal office of the Corporation.

Section 2.4. Notice of Meeting. Written or printed notice stating (i) the place, day and hour of the meeting, (ii) with respect to a meeting to elect or remove directors, the number of votes per share of Class A Common Stock that record holders of Class A Common Stock will have at such meeting (as such number is determined in accordance with Section 2(a)(i) of Article IV of the Certificate of Incorporation of the Corporation (the "Certificate of Incorporation")), and (iii) the purpose or purposes for which the meeting is called, shall be delivered by the Corporation not less than 10 calendar days nor more than 60 calendar days before the date of the meeting, either personally or by mail, to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail with postage thereon prepaid, addressed to the stockholder at such person's address as it appears on the stock transfer books of the Corporation. Such further notice shall be given as may be required by law. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Meetings may be held without notice if all stockholders entitled to vote are present, or if notice is waived by those not present in accordance with Section 6.4 of these By-

Laws. Any previously scheduled meeting of the stockholders may be postponed, and any special meeting of the stockholders may be canceled, by resolution of the Board upon public notice given prior to the date previously scheduled for such meeting of stockholders.

Section 2.5. Quorum and Adjournment; Voting. Except as otherwise provided by law or by the Certificate of Incorporation, the holders of a majority of the voting power of all outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (the "Voting Stock"), represented in person or by proxy, shall constitute a quorum at a meeting of stockholders, except that when specified business is to be voted on by a class or series of stock voting as a class, the holders of a majority of the shares of each such class or series shall constitute a quorum of such class or series for the transaction of such business and a quorum of each such class or series entitled to vote thereon shall be required to act. To the extent that a quorum is present with respect to consideration of and action on a particular matter or matters but a quorum is not present as to another matter or matters, consideration of and action on the matter or matters for which a quorum is present may occur, and, after such consideration and action, the meeting may be adjourned for purposes of the consideration of and action on the matter or matters for which a quorum is not present. The Chairman of the meeting may adjourn the meeting from time to time, whether or not there is such a quorum. No notice of the time and place of adjourned meetings need be given except as required by law. The stockholders present at a duly called meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 2.6. Proxies. At all meetings of stockholders, a stockholder may vote by proxy executed in writing (or in such manner prescribed by the General Corporation Law of the State of Delaware (the "DGCL")) by the stockholder, or by such person's duly authorized attorney in fact.

Section 2.7. Notice of Stockholder Business and Nominations.

(A) Annual Meetings of Stockholders.

(1) Nominations of persons for election to the Board and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Corporation's notice of meeting pursuant to Section 2.4 of these By-Laws, (b) by or at the direction of the Board, or (c) by any

stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this By-Law, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this By-Law.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A)(1) of this By-Law, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 90th calendar day nor earlier than the close of business on the 120th calendar day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 calendar days before or more than 60 calendar days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th calendar day prior to such annual meeting and not later than the close of business on the later of the 90th calendar day prior to such annual meeting or the 10th calendar day following the calendar day on which public announcement of the date of such meeting is first made by the Corporation. For purposes of determining whether a stockholder's notice shall have been delivered in a timely manner for the annual meeting of stockholders in 1998, the first anniversary of the previous year's meeting shall be deemed to be \_\_\_\_\_, 1998. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14a-11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any financial interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of

the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A) (2) of this By-Law to the contrary, in the event that the number of directors to be elected to the Board is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board at least 100 calendar days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this By-Law shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th calendar day following the day on which such public announcement is first made by the Corporation.

(B) Special Meetings of Stockholders.

Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting under Section 2.4 of these By-Laws. Nominations of persons for election to the Board may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board, or (b) provided that the Board has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in this By-Law, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this By-Law. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board, any stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Corporation's notice of meeting pursuant to such clause (b), if the stockholder's notice required by paragraph (A) (2) of this By-Law shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th calendar day prior to such special meeting and not later than the close of business on the later of the 90th calendar day prior to such special meeting or the 10th calendar day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above.

(C) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this By-Law shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this By-Law. Except as otherwise provided by law, the Certificate of Incorporation or these By-Laws, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this By-Law and, if any proposed nomination or business is not in compliance with this By-Law, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this By-Law, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this By-Law, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this By-Law. Nothing in this By-Law shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14-8 under the Exchange Act or (ii) of the holders of any series of Preferred Stock to elect directors under an applicable Preferred Stock Designation (as defined in the Certificate of Incorporation).

Section 2.8. Procedure for Election of Directors; Required Vote.  
Election of directors at all meetings of the stockholders at which directors are to be elected shall be by ballot, and, subject to the rights of the holders of any series of Preferred Stock to elect directors under an applicable Preferred Stock Designation, a plurality of the votes cast thereat shall elect directors. Except as otherwise provided by law, the Certificate of Incorporation, Preferred Stock Designation, or these By-Laws, in all matters other than the election of directors, the affirmative vote of a majority of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the matter shall be the act of the stockholders.

Section 2.9. Inspectors of Elections; Opening and Closing the Polls. The Board by resolution shall appoint, or shall authorize an officer of the Corporation to appoint, one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representatives, to act at the meetings of stockholders and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act or is able to act at a meeting of stockholders, the Chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging such person's duties, shall take and sign an oath to execute faithfully the duties of inspector with strict impartiality and according to the best of such person's ability. The inspector(s) shall have the duties prescribed by law. The Chairman of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting.

Section 2.10. No Stockholder Action by Written Consent. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders.

ARTICLE III  
Board of Directors

Section 3.1. General Powers. The business and affairs of the Corporation shall be managed under the direction of the Board. In addition to the powers and authorities by these By-Laws expressly conferred upon them, the Board may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws required to be exercised or done by the stockholders.

Section 3.2. Number and Tenure. Except as otherwise fixed by or pursuant to the provisions of Article IV of the Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of the directors of the Corporation shall be as set forth in, and fixed from time to time exclusively in the manner set forth in, Article VI of the Certificate of Incorporation.

Section 3.3. Regular Meetings. A regular meeting of the Board shall be held without other notice than this By-Law immediately after, and at the same place as, the annual meeting of stockholders. The Board may, by resolution, provide the time and place for the holding of additional regular meetings without other notice than such resolution.

Section 3.4. Special Meetings. Special meetings of the Board shall be called at the request of the Chairman of the Board, the President or a majority of the Board then in office. The person or persons authorized to call special meetings of the Board may fix the place and time of the meetings.

Section 3.5. Notice. Notice of any special meeting of directors shall be given to each director at such person's business or residence in writing by hand delivery, first-class or overnight mail, courier service or facsimile transmission, or orally by telephone. If mailed by first-class mail, such notice shall be deemed adequately delivered when deposited in the United States mails so addressed, with postage thereon prepaid, at least 5 calendar days before such meeting. If by overnight mail or courier service, such notice shall be deemed adequately delivered when the notice is delivered to the overnight mail or courier service company at least 24 hours before such meeting. If by facsimile transmission, such notice shall be deemed adequately delivered when the notice is transmitted at least 12 hours before such meeting. If by telephone or by hand delivery, the notice shall be given at least 12 hours prior to the time set for the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in the notice of such meeting, except for amendments to these By-Laws, as provided under Section 8.1. A meeting may be held at any time without notice if all the directors are present or if those not present waive notice of the meeting either before or after such meeting.

Section 3.6. Action by Consent of Board of Directors. Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

Section 3.7. Conference Telephone Meetings. Members of the Board or any committee thereof may participate in a meeting of the Board or such committee by means of conference telephone or similar communications equipment by

means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at such meeting.

Section 3.8. Quorum. Subject to Section 3.9, a whole number of directors equal to at least a majority of the Whole Board shall constitute a quorum for the transaction of business, but if at any meeting of the Board there shall be less than a quorum present, a majority of the directors present may adjourn the meeting from time to time without further notice. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board. The directors present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough directors to leave less than a quorum.

Section 3.9. Vacancies. Except as otherwise provided for or fixed by or pursuant to the provisions of Article IV of the Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, newly created directorships resulting from any increase in the number of Directors and any vacancies on the Board resulting from death, resignation, disqualification, removal or other cause shall be filled in accordance with, and any director elected to such newly created directorships shall hold office in accordance with, Article VI of the Certificate of Incorporation. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.

Section 3.10. Committees. (a) The Board, by resolution adopted by a majority of the Whole Board, may designate one or more committees which, to the extent permitted by law, may exercise such powers and have such responsibilities as shall be specified in the designating resolution. Each committee shall consist of two or more directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Each committee shall keep written minutes of its proceedings and shall report such proceedings to the Board when required.



(b) A majority of any committee may determine its action and fix the time and place of its meetings, unless the Board shall otherwise provide. Notice of such meetings shall be given to each member of the committee in the manner provided for in Section 3.5 of these By-Laws. The Board shall have power at any time to fill vacancies in, to change the membership of, or to dissolve any such committee. Nothing herein shall be deemed to prevent the Board from appointing one or more committees consisting in whole or in part of persons who are not directors of the Corporation; provided, however, that no such committee shall have or may exercise any authority of the Board.

Section 3.11. Removal. Any director may be removed from office only in accordance with Article VI of the Certificate of Incorporation.

Section 3.12. Records. The Board shall cause to be kept a record containing the minutes of the proceedings of the meetings of the Board and of the stockholders, appropriate stock books and registers and such books of records and accounts as may be necessary for the proper conduct of the business of the Corporation.

#### ARTICLE IV Officers

Section 4.1. Elected Officers. The elected officers of the Corporation shall be a Chairman of the Board, a Chief Financial Officer, a Secretary, a Treasurer, and such other officers (including, without limitation, a President, Senior Vice Presidents and Executive Vice Presidents and Vice Presidents) as the Board from time to time may deem proper. The Chairman of the Board shall be chosen from among the directors. All officers elected by the Board shall each have such powers and duties as generally pertain to their respective offices, subject to the specific provisions of this Article IV. Such officers shall also have such powers and duties as from time to time may be conferred by the Board or by any committee thereof. The Board or any committee thereof may from time to time elect, or the Chairman of the Board or President may appoint, such other officers (including one or more Vice Presidents, Controllers, Assistant Secretaries and Assistant Treasurers), as may be necessary or desirable for the conduct of the business of the Corporation. Such other officers and agents shall have such duties and shall hold their offices for such terms as shall be provided in these By-Laws or as may be prescribed by the Board or such committee or by the Chairman of the Board or President, as the case may be.

Section 4.2. Election and Term of Office. The elected officers of the Corporation shall be elected annually by the Board at the regular meeting of the Board held after the annual meeting of the stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as convenient. Each officer shall hold office until such person's successor shall have been duly elected and shall have qualified or until such person's death or until such person shall resign or be removed pursuant to Section 4.8.

Section 4.3. Chairman of the Board; Chief Executive Officer. The Chairman of the Board shall preside at all meetings of the stockholders and of the Board and shall be the Chief Executive Officer of the Corporation. The Chairman of the Board shall be responsible for the general management of the affairs of the Corporation and shall perform all duties incidental to such person's office which may be required by law and all such other duties as are properly required of such person by the Board. The Chairman of the Board shall make reports to the Board and the stockholders, and shall see that all orders and resolutions of the Board and of any committee thereof are carried into effect. The Chairman of the Board may also serve as President, if so elected by the Board. The directors also may elect a Vice-Chairman to act in the place of the Chairman upon his or her absence or inability to act.

Section 4.4. Chief Financial Officer. The Chief Financial Officer shall be the principal financial officer of the Corporation and shall have such powers and shall perform such duties as shall be assigned to such person by the Board.

Section 4.5. President. The President, if any, shall act in a general executive capacity and shall assist the Chairman of the Board in the administration and operation of the Corporation's business and general supervision of its policies and affairs. The President, if he or she is also a director, shall, in the absence of or because of the inability to act of the Chairman of the Board, perform all duties of the Chairman of the Board and preside at all meetings of stockholders and of the Board.

Section 4.6. Vice Presidents. Each Senior Vice President and Executive Vice President and any Vice President shall have such powers and shall perform such duties as shall be assigned to such person by the Board.

Section 4.7. Treasurer. The Treasurer shall exercise general supervision over the receipt, custody and disbursement of corporate funds. The Treasurer shall cause the funds of the Corporation to be deposited in such banks as

may be authorized by the Board, or in such banks as may be designated as depositories in the manner provided by resolution of the Board. The Treasurer shall have such further powers and duties and shall be subject to such directions as may be granted or imposed from time to time by the Board, the Chairman of the Board, the President, if any, or the Chief Financial Officer.

Section 4.8. Secretary. (a) The Secretary shall keep or cause to be kept in one or more books provided for that purpose, the minutes of all meetings of the Board, the committees of the Board and the stockholders; the Secretary shall see that all notices are duly given in accordance with the provisions of these By-Laws and as required by law; shall be custodian of the records and the seal of the Corporation and affix and attest the seal to all stock certificates of the Corporation (unless the seal of the Corporation on such certificates shall be a facsimile, as hereinafter provided) and affix and attest the seal to all other documents to be executed on behalf of the Corporation under its seal; and shall see that the books, reports, statements, certificates and other documents and records required by law to be kept and filed are properly kept and filed; and in general, shall perform all the duties incident to the office of Secretary and such other duties as from time to time may be assigned to the Secretary by the Board, the Chairman of the Board or the President.

(b) Assistant Secretaries shall have such of the authority and perform such of the duties of the Secretary as may be provided in these By-Laws or assigned to them by the Board or the Chairman of the Board or by the Secretary. During the Secretary's absence or inability, the Secretary's authority and duties shall be possessed by such Assistant Secretary or Assistant Secretaries as the Board, the Chairman of the Board, the President or a Vice Chairman of the Board may designate.

Section 4.9. Removal. Any officer elected, or agent appointed, by the Board may be removed by the affirmative vote of a majority of the Whole Board whenever, in their judgment, the best interests of the Corporation would be served thereby. Any officer or agent appointed by the Chairman of the Board or the President may be removed by such person whenever, in such person's judgment, the best interests of the Corporation would be served thereby. No elected officer shall have any contractual rights against the Corporation for compensation by virtue of such election beyond the date of the election of such person's successor, such person's death, such person's resignation or such person's removal, whichever event shall first occur, except as otherwise provided in an employment contract or under an employee deferred compensation plan.

Section 4.10. Vacancies. A newly created elected office and a vacancy in any elected office because of death, resignation, or removal may be filled by the Board for the unexpired portion of the term at any meeting of the Board. Any vacancy in an office appointed by the Chairman of the Board or the President because of death, resignation, or removal may be filled by the Chairman of the Board or the President.

ARTICLE V  
Stock Certificates and Transfers

Section 5.1. Stock Certificates and Transfers. The interest of each stockholder of the Corporation shall be evidenced by certificates for shares of stock in such form as the appropriate officers of the Corporation may from time to time prescribe. The shares of the stock of the Corporation shall be transferred on the books of the Corporation by the holder thereof in person or by such person's attorney, upon surrender for cancellation of certificates for at least the same number of shares, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, with such proof of the authenticity of the signature as the Corporation or its agents may reasonably require. The certificates of stock shall be signed, countersigned and registered in such manner as the Board may by resolution prescribe, which resolution may permit all or any of the signatures on such certificates to be in facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 5.2. Lost, Stolen or Destroyed Certificates. No certificate for shares of stock in the Corporation shall be issued in place of any certificate alleged to have been lost, destroyed or stolen, except on production of such evidence of such loss, destruction or theft and on delivery to the Corporation of a bond of indemnity in such amount, upon such terms and secured by such surety, as the Board or any financial officer may in its or such person's discretion require.

ARTICLE VI  
Miscellaneous Provisions

Section 6.1. Fiscal Year. The fiscal year of the Corporation shall begin on the first day of January and end on the thirty-first day of December of each year.

Section 6.2. Dividends. The Board may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by law and the Certificate of Incorporation.

Section 6.3. Seal. The corporate seal shall have inscribed thereon the words "Corporate Seal," the year of incorporation and around the margin thereof the words "Delaware."

Section 6.4. Waiver of Notice. Whenever any notice is required to be given to any stockholder or director of the Corporation under the provisions of the DGCL or these By-Laws, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at, nor the purpose of, any annual or special meeting of the stockholders or the Board or committee thereof need be specified in any waiver of notice of such meeting.

Section 6.5. Audits. The accounts, books and records of the Corporation shall be audited upon the conclusion of each fiscal year by an independent certified public accountant selected by the Board, and it shall be the duty of the Board to cause such audit to be done annually.

Section 6.6. Resignations. Any director or any officer, whether elected or appointed, may resign at any time by giving written notice of such resignation to the Chairman of the Board, the President, or the Secretary, and such resignation shall be deemed to be effective as of the close of business on the date said notice is received by the Chairman of the Board, the President, or the Secretary, or at such later time as is specified therein. No formal action shall be required of the Board or the stockholders to make any such resignation effective.

ARTICLE VII  
Contracts, Proxies, Etc.

Section 7.1. Contracts. Except as otherwise required by law, the Certificate of Incorporation, a Preferred Stock Designation, or these By-Laws, any contracts or other instruments may be executed and delivered in the name and on the behalf of the Corporation by such officer or officers of the Corporation as the Board may from time to time direct. Such authority may be general or confined to specific instances as the Board may determine. The Chairman of the Board, the President or any Senior Vice President, Executive Vice President or Vice President may execute bonds, contracts, deeds, leases and other instruments to be made or executed for or on behalf of the Corporation. Subject to any restrictions imposed by the Board or the Chairman of the Board, the President or any Senior Vice President, Executive Vice President or Vice President of the Corporation may delegate contractual powers to others under such person's jurisdiction, it being understood, however, that any such delegation of power shall not relieve such officer of responsibility with respect to the exercise of such delegated power.

Section 7.2. Proxies. Unless otherwise provided by resolution adopted by the Board, the Chairman of the Board, the President, the Chief Financial Officer, or any Senior Vice President, Executive Vice President or Vice President may from time to time appoint an attorney or attorneys or agent or agents of the Corporation, in the name and on behalf of the Corporation, to cast the votes which the Corporation may be entitled to cast as the holder of stock or other securities in any other corporation, any of whose stock or other securities may be held by the Corporation, at meetings of the holders of the stock or other securities of such other corporation, or to consent in writing, in the name of the Corporation as such holder, to any action by such other corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed in the name and on behalf of the Corporation and under its corporate seal or otherwise, all such written proxies or other instruments as he may deem necessary or proper in the premises.

ARTICLE VIII  
Amendments

Section 8.1. Amendments. The By-Laws may be altered or repealed and new By-Laws may be adopted (1) at any annual or special meeting of stockholders by the affirmative vote of the holders of shares of Common Stock in

accordance with Articles IV and VII of the Certificate of Incorporation; provided, however, that, in the case of any such stockholder action at a special meeting of stockholders, notice of the proposed alteration, repeal or adoption of the new By-Law or By-Laws must be contained in the notice of such special meeting, or (2) by the affirmative vote of a majority of the Whole Board.

[LETTERHEAD OF KIRKLAND & ELLIS]

October \_\_, 1997

General Motors Corporation  
3044 West Grand Boulevard  
Detroit, Michigan 48202

Re: Tax Opinion re the Hughes Transactions  
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Dear Sirs:

In connection with the proposal to spin off HE Holdings, Inc. ("HE Holdings") from General Motors Corporation ("GM") (the "Hughes Defense Spin-Off"), along with those other transactions jointly referred to as the "Hughes Transactions," as described in the Solicitation Statement/Prospectus contained within the Registration Statements on Form S-4 (the "Registration Statements") of GM and HE Holdings initially filed with the Securities and Exchange Commission on October \_\_, 1997, you have requested our legal opinion concerning certain United States federal income tax consequences of the Hughes Transactions. Capitalized terms used herein that are not otherwise defined herein are as such items are defined in the Registration Statements.

We have examined the Registration Statements, the private letter ruling received on July 14, 1997, (the "Ruling"), the representations made by you in the ruling request filed with the Internal Revenue Service on January 31, 1997 and in certain supplemental submissions (the "Ruling Request"), and such other documents and such legal authorities as we have deemed relevant for purposes of expressing the opinions contained herein.

Our opinion is based upon the applicable provisions of the Internal Revenue Code of 1986, as amended through the date hereof (the "Code"), Treasury regulations promulgated and proposed thereunder (the "Regulations"), current positions of the Internal Revenue Service (the "IRS") contained in published Revenue Rulings and Revenue Procedures and existing judicial decisions. In rendering this opinion, we have expressly assumed that the representations made by you and contained or described in the Registration Statement, the Ruling and the Ruling Request are true and correct.

London                      Los Angeles                      New York                      Washington D.C.



General Motors Corporation  
October \_\_, 1997  
Page 2

Based on the foregoing, and subject to the discussion set forth under the caption "Certain U.S. Federal Income Tax Considerations Relating to Certain of the Hughes Transactions" in the Registration Statements, in our opinion the material federal income tax consequences of the Hughes Transactions are as follows:

The discussion set forth under the caption "Certain U.S. Federal Income Tax Considerations Relating to Certain of the Hughes Transactions" in the Registration Statements is based upon reasonable interpretations of existing law and fairly summarizes the federal income tax considerations that are likely to be material to a holder of GM common stock.

The opinion set forth herein is based on relevant provisions of the Code, the Regulations, and interpretations of the Code and the Regulations by the courts and the IRS, all as they exist as of the date of this letter. All such provisions of the Code, Regulations, judicial decisions, and administrative interpretations are subject to change at any time and, in some circumstances, with retroactive effect. Any such change could affect any or all of the conclusions set forth in this opinion.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statements.

Very truly yours,

Kirkland & Ellis

[LETTERHEAD OF WEIL, GOTSHAL & MANGES LLP]

October \_\_, 1997

HE Holdings, Inc.  
7200 Hughes Terrace  
Los Angeles, California 90045-0066

Ladies and Gentlemen:

In connection with the Solicitation Statement/Prospectus contained within the Registration Statements on Form S-4 of General Motors Corporation, a Delaware corporation, and HE Holdings, Inc., a Delaware corporation ("HE Holdings"), initially filed with the Securities and Exchange Commission on October \_\_, 1997 (with all amendments thereto, the "Registration Statements"), you have requested our opinion with respect to the matters set forth below.

In formulating our opinion, we examined such documents as we deemed appropriate, including the Agreement and Plan of Merger, dated as of January 16, 1997 (the "Merger Agreement"), between HE Holdings and Raytheon Company, a Delaware corporation, and the Registration Statements.

Our opinion set forth below assumes (1) the accuracy of the statements and facts concerning the Merger (as such term is defined in the Merger Agreement) set forth in the Merger Agreement and the Registration Statement and (2) that the Merger is consummated in the manner contemplated by, and in accordance with the terms set forth in, the Merger Agreement and the Registration Statement.

Based upon the facts and statements set forth above, our examination and review of the documents referred to above and subject to the assumptions set forth above, we are of the opinion that the legal conclusions set forth under the heading "Certain Federal Income Tax Considerations Relating to the Raytheon Merger" in the Registration Statements are correct in all material respects. We express no opinion as to any matter other than those specifically set forth herein.

Our opinion is based on current provisions of the Internal Revenue Code of 1986, as amended, the Treasury Regulations promulgated thereunder, published pronouncements of the Internal Revenue Service and case law, any of which may be changed at any time with retroactive effect. Any change in applicable laws or the facts and circumstances surrounding the Merger, or any change or inaccuracy in the statements, facts, assumptions and representations on which we have relied, may affect the continuing validity of the opinion set forth herein. We assume no responsibility to inform you of any such change or inaccuracy that may occur or come to our attention.

The opinion expressed herein is rendered solely for your benefit in connection with the transactions described herein. This opinion may not be used or relied upon by any other person, nor may this letter or any copies thereof be furnished to a third party, filed with a governmental agency, quoted, cited or otherwise referred to without our prior written consent.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the references to this firm under the headings "Certain Federal Income Tax Considerations Relating to the Raytheon Merger" and "Legal Matters" in the Registration Statements, without admitting that we are "experts" under the Securities Act or the rules and regulations promulgated thereunder with respect to any part of the Registration Statements.

Very truly yours,

WHOLLY OWNED SUBSIDIARIES, AFFILIATES, PARTNERSHIPS, INVESTMENTS  
OF  
HE HOLDINGS, INC./HUGHES AIRCRAFT COMPANY

"-" designates first tier subsidiary  
 "+" designates second tier subsidiary  
 "." designates third tier subsidiary  
 (a) designates affiliates (not wholly owned)  
 (p) designates partnerships (not wholly owned)  
 (i) designates investments (not wholly owned)

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- - ACCSCO S.A. (a)
- - Advanced Electronics Systems International
- - Air Command Systems International S.A.S.  
 (p)
- - AMRAAM International Licensing Company  
 (p)
- - ARINC Incorporated (i)
- - Circuitos Binacionales de Tijuana S.A. de  
 C.V.
- - H & R Company (p)
- - HE Microwave Corporation (a)
- - Hughes Aircraft of Canada Limited  
 +Advanced Toll Management Corp. (a)
- - Hughes Aircraft Mississippi, Inc.
- - Hughes Aircraft-South Carolina
- - Hughes Aircraft Systems International
- - Hughes Danbury Optical Systems, Inc.
- - Hughes Data Systems
- - Hughes ESSM Co.
- - Hughes Electronic Systems (Malaysia) Sdn  
 Bhd  
 +Serampang Hughes Sdn. Bhd. (a)
- - Hughes Environmental Systems, Inc.
- - Hughes Espana S.A.  
 +Empresa Nacional de Optica S.A.  
 (ENOSA) (a)
- - Hughes Europe N.V.
- - Hughes Electronic Technologies, Inc.
- - Hughes Georgia, Inc.
- - Hughes Information Systems Company
- - Hughes International Corporation  
 +Gulf Industrial Technology Co. (a)  
 +Hughes Asia Pacific Hong Kong Limited  
 +Hughes Australia International PTY Limited
- - Hughes International GmbH
- - Hughes Middle East Limited  
 +Hughes Arabia Limited (a)
- - Hughes Missile Systems Company  
 +IRISS Company (p)  
 +Translant, Inc.
- - Hughes Nadge Corporation
- - Hughes Research Laboratories, Inc. (a)
- - Hughes STX Corporation
- - Hughes Systems Management International
- - Hughes Technical Services Company
- - Hughes Training, Inc.  
 +AMI Instruments, Inc.  
 +Hughes Simulation International, Inc.
- - Hughes Transportation Control Systems, Inc.  
 +HMK (p)
- - Hughes (U.K.) Limited  
 +Hughes Flight Training Limited  
 . Groom Aviation Limited  
 +Hughes Microelectronics Europa Limited  
 . Hughes Microelectronics Limited  
 . Hughes Microelectronics Europa  
 Espana, S.A.  
 . UKADGE Systems Limited (a)
- - i-Logix Inc. (i)
- - International Electro-Optical Industry Anonim  
 Sirketi (a)
- - International Electronics Systems, Inc.  
 +HKV (p)
- - Microelectronics and Computer Technology  
 Corporation (i)  
 +Harris-Magnavox Systems Company (p)  
 . ERAPSCO (p)  
 . Magnavox Systems, Limited
- - SJ & LA Associates (p)
- - Standard Missile Co. LLC (a)
- - Systems Building Corp.

## INDEPENDENT AUDITORS' CONSENT

We consent to: (a) the incorporation by reference in this Registration Statement of HE Holdings, Inc. on Form S-4 of our reports dated January 28, 1997 on the consolidated financial statements and financial statement schedule of General Motors Corporation and subsidiaries and on the consolidated financial statements of Hughes Electronics Corporation and subsidiaries appearing in the Annual Report on Form 10-K of General Motors Corporation for the year ended December 31, 1996 and (b) the use of our report dated March 21, 1997 on the combined financial statements of the Defense Business of Hughes Electronics Corporation and our reports dated October 3, 1997 on the combined financial statements of the Delco Electronics Corporation and Related Entities and on the combined financial statements of the Telecommunications and Space Business of Hughes Electronics Corporation appearing in the Solicitation Statement/Prospectus, which is part of this Registration Statement. We also consent to the references to us under the headings "General Motors Selected Consolidated Historical Financial Data," "Introduction to Hughes Electronics Summary Consolidated Financial Data," "Hughes Defense Summary Combined Financial Data," "Delco Summary Combined Financial Data," "Hughes Telecom Summary Combined Historical and Pro Forma Financial Data," "Hughes Defense Selected Combined Historical Financial Data," "Delco Selected Historical and Pro Forma Combined Financial Data," "Hughes Telecom Selected Historical and Pro Forma Combined Financial Data" and "Experts" in such Solicitation Statement/Prospectus.

Detroit, Michigan  
October 3, 1997

/s/ Deloitte & Touche

[LETTERHEAD OF COOPERS & LYBRAND]

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in this registration statement of HE Holdings Inc. on Form S-4 of our report dated January 20, 1997, except as to the information presented in note R for which the date is February 23, 1997 on our audits of the consolidated financial statements and financial statement schedule of Raytheon Company and Subsidiaries Consolidated. We also consent to the reference to our firm under the caption "Experts."

/s/ Coopers & Lybrand L.L.P.

Boston, Massachusetts  
October 3, 1997

We consent to the reference to our firm under the caption "Experts" in the Solicitation Statement/Prospectus in the registration statement of HE Holdings, Inc. relating to The Hughes Transactions and to the incorporation by reference therein of our report dated February 18, 1997, with respect to financial statements of the Defense Business of Texas Instruments Incorporated for the years ended December 31, 1996, 1995, and 1994.

/s/ Ernst & Young LLP

Dallas, Texas  
October 3, 1997

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in this Solicitation Statement/Prospectus on Form S-4 filed by HE Holdings, Inc. of our report dated January 27, 1997 accompanying the consolidated financial statements of PanAmSat Corporation and subsidiaries and predecessor entity as of December 31, 1996 and 1995, and for the years ended December 31, 1996, 1995 and 1994, included in or made a part of the Registration Statement on Form S-4 (File No. 333-25293) of PanAmSat Corporation.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Stamford, Connecticut  
October 3, 1997



Consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated  
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We hereby consent to the use of our opinion letter dated October 6, 1997 to the Board of Directors of General Motors Corporation included as part of Appendix B to the Solicitation Statement/Prospectus which forms a part of the Registration Statement on Form S-4 filed by HE Holdings, Inc. relating to a series of transactions involving Hughes Electronics Corporation, a wholly owned subsidiary of General Motors Corporation, and to the references to such opinion in such Solicitation Statement/Prospectus under the captions "Summary -- The Hughes Transactions", "The Hughes Transactions and the Raytheon Merger -- Special Factors -- Background of the Hughes Transactions", "The Hughes Transactions and the Raytheon Merger -- Special Factors -- Recommendations of the Capital Stock Committee and the GM Board; Fairness of the Hughes Transactions" and "The Hughes Transaction and the Raytheon Merger -- Special Factors -- Hughes Transactions Fairness Opinions: Merrill Lynch and Salomon Brothers".

In giving such consent, we do not admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission thereunder, nor do we thereby admit that we are experts with respect to any part of such Registration Statement within the meaning of the term "experts" as used in the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission thereunder.

/s/ MERRILL LYNCH, PIERCE, FENNER &  
SMITH INCORPORATED

October 6, 1997

CONSENT OF SALOMON BROTHERS INC  
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We hereby consent to the use of our name and to the description of our opinion letter, dated the date of the Solicitation Statement/Prospectus referred to below, under the captions "The Hughes Transactions--Hughes Transactions Fairness Opinion: Merrill Lynch and Salomon Brothers" in Chapter 1, "Special Factors--Background of the Hughes Transactions" in Chapter 3, "Special Factors--Recommendation of the Capital Stock Committee and the GM Board; Fairness of the Hughes Transactions" in Chapter 3 and "Special Factors--Hughes Transactions Fairness Opinion: Merrill Lynch and Salomon Brothers" in Chapter 3, and to the inclusion of such opinion letter as Appendix B to, the Solicitation Statement/Prospectus of HE Holdings, Inc., which Solicitation Statement/Prospectus is part of the Registration Statement on Form S-4 of HE Holdings, Inc. By giving such consent we do not thereby admit that we are experts with respect to any part of such Registration Statement within the meaning of the term "expert" as used in, or that we come within the category of persons whose consent is required under, the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission promulgated thereunder.

/s/SALOMON BROTHERS INC

New York, New York  
October 4, 1997

October 6, 1997

Board of Directors  
HE Holdings, Inc.  
7200 Hughes Terrace  
Los Angeles, CA 90045

Re: Registration Statement filed October 6, 1997 of HE Holdings, Inc. relating to Class A Common Stock, par value \$0.01 per share, being registered in connection with the spin-off of Hughes Electronics Corporation

Ladies and Gentlemen:

Reference is made to our opinion letter dated January 16, 1997 with respect to the fairness to (i) HE Holdings, Inc., a Delaware corporation ("Hughes"), (ii) Hughes Electronics Corporation, a Delaware corporation ("HEC"), and the holder of the outstanding shares of Common Stock, par value \$0.01 per share, of Hughes, (iii) General Motors Corporation, a Delaware corporation and the parent of HEC ("GM"), (iv) the holders of GM's Common Stock, par value \$1 2/3 per share, and (v) the holders of GM's Class H Common Stock, par value \$0.10 per share, of the Aggregate Consideration (as defined in such opinion) as contemplated by the Agreement and Plan of Merger dated as of January 16, 1997 by and between Raytheon Company, a Delaware corporation, and Hughes.

The foregoing opinion letter is provided for the information and assistance of the Board of Directors of HE Holdings, Inc. (the "Company") in connection with its consideration of the transaction contemplated therein and is not to be used, circulated, quoted or otherwise referred to for any other purpose, nor is it to be filed with, included in or referred to in whole or in part in any registration statement, proxy statement or any other document, except in accordance with our prior written consent. We understand that the Company

has determined to include our opinion in the above-referenced Registration Statement.

In that regard, we hereby consent to the reference to the opinion of our Firm under the caption "Summary--Raytheon Merger Fairness Opinion: Goldman Sachs" and "Description of the Raytheon Merger--Raytheon Merger Fairness Opinion: Goldman Sachs" and to the inclusion of the foregoing opinion in the Solicitation Statement included in the above-mentioned Registration Statement. In giving such consent, we do not hereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933 or the rules and regulations of the Securities and Exchange Commission thereunder.

Very truly yours,

/s/ Goldman, Sachs & Co.  
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(GOLDMAN, SACHS & CO.)