

ARCHIVED REPORT

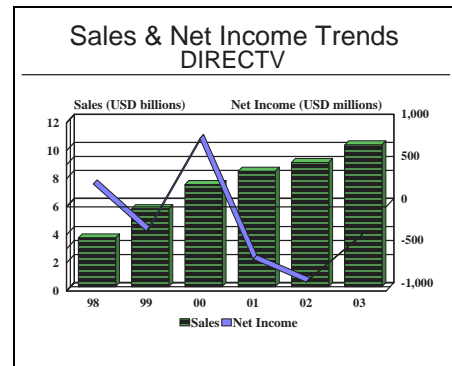
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Hughes Electronics (DIRECTV Group) - Archived 1/2006

Outlook

- In December 2003, Rupert Murdoch's News Corporation successfully gained a controlling interest in Hughes Electronics
- Hughes changed its name to DIRECTV to more accurately reflect its business
- Company has been divesting assets that do not relate to DIRECTV
- Following this transition to a consumer-based service company, this report will be archived in 2006



Headquarters

DIRECTV Group Inc (Hughes Electronics Corporation)
2250 East Imperial Highway
El Segundo, CA 90245
Telephone: (310) 964-0808
Web site: <http://www.directv.com>

On March 16, 2004, Hughes Electronics Corporation changed its name to The DIRECTV Group, Inc. The name of the company was changed to better reflect management's strategy of focusing on the DIRECTV businesses.

The old Hughes Electronics was a world leader in the design, manufacture, and marketing of advanced electronic systems. Originally a wholly owned subsidiary of General Motors Corporation, the unit was formed on December 31, 1985, when General Motors acquired Hughes Aircraft Company from the Howard Hughes Medical Institute.

In October 1997, the first in a series of divestitures began when Hughes Aircraft merged with Raytheon in a

deal valued at \$10.1 billion. This deal was followed by another in October 2000, when Boeing acquired three units within Hughes Electronics Corporation – Hughes Space and Communications Company, Hughes Electron Dynamics, and Spectrolab Inc – in addition to Hughes Electronics' interest in HRL, the company's primary research laboratory. The four operations are now part of Boeing's newest subsidiary, Boeing Satellite Systems Inc.

Finally, in late 2003 GM successfully completed the split-off of Hughes Electronics via an acquisition by News Corporation. The DIRECTV Group, Inc. is now 34 percent owned by Fox Entertainment Group, which is approximately 82 percent owned by News Corporation Ltd.

Today, DIRECTV is comprised of two units: DIRECTV US and DIRECTV Latin America.

As of early 2005, DIRECTV employed about 11,800 people worldwide.

Structure and Personnel

Chase Carey
President and Chief Executive Officer
Bruce B. Churchill
Executive Vice President and Chief Financial Officer

Patrick T. Doyle
Senior Vice President, Treasurer, Controller and
Chief Accounting Officer
Eddy W. Hartenstein

Vice Chairman
 Larry D. Hunter
 Executive Vice President, General Counsel and
 Secretary
 Rupert Murdoch

Chairman
 Romulo G. Pontual
 Executive Vice President and Chief Technology
 Officer

Product Areas

The systems, products, and services offered by Hughes Electronics are designed, developed, tested, and manufactured under the following company organizational and management structure:

1. DIRECTV US
2. DIRECTV Latin America
2. Hughes Network Systems
3. PanAmSat Corporation (*sold 8/04*)

DIRECTV Inc offers 185 channels of digital-quality television entertainment and information programming via satellite through the first high-powered, all-digital, direct-to-home television distribution service in North America. DirecTV programming is beamed from three Hughes HS 601 satellites directly to an 18-inch receiving antenna and set-top box. DirecTV's direct-to-home digital satellite television programming is also beamed to Latin America and the Caribbean through the Galaxy Latin America partnership, and to Japan through the DirecTV Japan partnership.

Hughes Network Systems Inc provides telecommunications equipment, satellite ground-based equipment, and satellite communications services. With an

estimated worldwide market share in excess of 60 percent, Hughes Network Systems is the world's leading supplier of satellite-based private business networks, and is a leader in wireless telephone networks and digital cellular mobile systems. HNS is also developing SPACEWAY, a more advanced satellite broadband communications platform that is expected to provide customers with high-speed, two-way data communications on a more cost-efficient basis than systems that are currently available.

PanAmSat Corporation operates a global network of satellites that provide broadcast and telecommunications services to hundreds of customers worldwide. PanAmSat's fleet includes the premier cable and broadcast television satellites in the United States, Latin America, the Indian subcontinent, and the Asia-Pacific region. The company offers satellite platforms for direct-to-home television services in Latin America, South Africa, the Middle East, and India, as well as live transmission services for news, sports, and special events coverage worldwide. PanAmSat also provides global satellite-based telecommunications services and Internet access.

Facilities

Hughes Network Systems, 11717 Exploration Lane, Germantown, MD 20876. Telephone: (301) 428-5500. Web site: <http://www.hns.com> This operation provides broadband satellite network solutions for businesses and consumers.

PanAmSat, 20 Westport Road, Wilton, CT 06897. Telephone: (203) 210-8000. Web site:

<http://www.panamsat.com> PanAmSat Corporation, a commercial provider of satellite-based communications services, operates a global network of 21 satellites that enables it to relay video programming and digital communications for customers worldwide. *Acquired by KKR in August 2004.*

Corporate Overview

DIRECTV segments its businesses into three major sectors: Direct-to-Home Broadcast, Satellite Services, and Network Services.

Within these categories, the Direct-to-Home Broadcast business generates 79 percent of the company's revenues, the Satellite Services business contributes 8 percent of the company's revenues, and Network Services makes up the remaining 13 percent of sales.

New Products and Services

Spaceway. In March 1999, Hughes Electronics announced a \$1.4 billion investment in the first system of the advanced Spaceway global broadband satellite network. Spaceway will provide bandwidth-on-demand – the ability to transmit and receive data, video, voice, audio, and multimedia broadcasts with customers using and paying for only the amount of bandwidth needed for the specific application, be it e-mail or high-bandwidth, high-speed corporate networks.

The first two of these satellites, Spaceway 1 and Spaceway 2, will launch in 2005 with programming being offered to consumers by the middle of the year.

These satellites will have the capacity for more than 500 local HD channels. With these satellites, DIRECTV will have the ability to bring local HD programming to most of the U.S. population, as well as continuing to expand standard-definition local offerings and other enhancements.

The next two satellites, DIRECTV 10 and DIRECTV 11, will launch in early 2007. These satellites will have the capacity for more than 1,000 additional local HD channels, more than 150 national HD channels, and other new programming offerings. These satellites will provide DIRECTV the capability to bring local and national HD programming and other advanced services to every U.S. household.

All the satellites will be built by Boeing.

Plant Expansion/Organization Update

Name Changed to DIRECTV. In March 2004, Hughes Electronics Corporation changed its company name to "The DIRECTV Group, Inc." In addition, the company has changed its ticker symbol on the New York Stock Exchange to "DTV," from the current "HS" symbol.

President and Chief Executive Officer Chase Carey said, "The future of this company is centered on DIRECTV and DIRECTV will drive both our strategy and shareholder value going forward. Our new name better reflects our commitment to building our business around DIRECTV, the established leader in digital multichannel television service in the United States. With more than 12.2 million customers, the DIRECTV name and brand resonates with consumers and this name change reaffirms and reinforces that our future lies with this business."

Mergers/Acquisitions/Divestitures

Hughes Network Systems Assets Sold. In December 2004, DIRECTV announced an agreement to sell a 50% interest in a new entity that will own substantially all of the remaining net assets of Hughes Network Systems to SkyTerra. The deal is valued at \$251.0 million in cash, which is subject to a closing adjustment, and 300,000 shares of SkyTerra common stock.

Hughes Software Systems Sold. In June 2004, Hughes Network Systems entered into definitive agreements to sell its holding of 54.96 percent (18,667,491 shares) in Hughes Software Systems Limited (HSS) to Flextronics International Ltd. The DIRECTV Group's equity stake in HSS has been valued at approximately \$226 million, making this transaction one of the largest cross border M&A deals in India, particularly in the information technology sector.

PanAmSat Sold to KKR. In April 2004, PanAmSat and its 80.5 percent stakeholder, The DIRECTV Group, Inc.

signed a definitive transaction agreement with affiliates of Kohlberg Kravis Roberts & Co. (KKR) for the sale of PanAmSat Corp. at \$23.50 in cash per share. The aggregate transaction value, including the assumption of approximately \$750 million of net debt, is approximately \$4.3 billion. The move was undertaken to further focus the company on its DIRECTV operations. The deal was completed in August 2004.

News Corporation Acquires Hughes. In December 2003, General Motors, Hughes Electronics, and The News Corporation Ltd. successfully completed the split-off of Hughes from GM and the acquisition by News Corporation of 34 percent of the outstanding common stock of Hughes. In the transactions, GM split off Hughes by distributing Hughes common stock to the holders of GM Class H common stock in exchange for the shares that they own. Simultaneously, GM sold its 19.8 percent economic interest in Hughes to News Corporation in exchange for cash and News Corporation Preferred American Depositary Shares (Preferred ADSs). News Corporation then acquired from the former GM Class H common stockholders an additional 14.2 percent of the outstanding shares of Hughes common stock in exchange for News Corporation Preferred ADSs.

GM sold 80 percent of its 19.8 percent retained economic interest in Hughes to News Corporation for approximately \$3.1 billion in cash. GM sold the remaining 20 percent of its retained economic interest in Hughes to News Corporation for approximately 28.6 million News Corporation Preferred ADSs, which was determined using an exchange ratio of 0.52083 News Corporation Preferred ADSs for each share of Hughes common stock, as per the agreements among GM, Hughes and News Corporation.

Immediately prior to the close of the Hughes transaction, there were 1,109,270,842 shares of GM Class H common stock outstanding. As a result of the transactions, GM Class H common stockholders received about 0.8232 shares of Hughes common stock and about 0.0921 News Corporation Preferred ADSs for each share of GM Class H common stock held immediately prior to the closing of the transaction.

After completion of the transactions, News Corporation transferred its entire 34 percent interest in Hughes to Fox Entertainment Group, Inc in exchange for two promissory notes totaling \$4.5 billion and approximately 74.5 million shares of Class A common stock of Fox Entertainment Group valued at \$27.99 per share. As a result of the transfer, News Corporation's equity interest in Fox Entertainment Group increased to approximately 82.0 percent from approximately 80.6 percent, while its voting power remained at approximately 97 percent.

The acquisition plan was first announced in April 2003.

Boeing Settlement. In July 2003, Hughes refunded \$360 million to Boeing, related to the purchase of satellite operations. The settlement is in relation to a price dispute over Boeing's \$3.75 billion acquisition of Hughes' satellite manufacturing operations in 2000.

Hughes & EchoStar Terminate Merger. In December 2002, Hughes Electronics Corporation and EchoStar Communications Corporation reached a settlement to terminate the proposed merger of Hughes and EchoStar, effective immediately. Under terms of the settlement, EchoStar paid Hughes \$600 million in cash, and Hughes will retain its 81 percent ownership position in PanAmSat. The companies reached this settlement because the proposed merger could not be completed within the time allowed by the merger agreement. This was due to action taken by the Department of Justice, 23 states, the District of Columbia, and Puerto Rico to block the merger, as well as the Federal Communications Commission's decision to send the merger application to a hearing. The two companies announced plans to merge in October 2001.

Telocity Acquired. In April 2001, Hughes Electronics completed its \$180 million cash acquisition of all outstanding shares of common stock of Telocity Delaware Inc. With its acquisition of Telocity, Hughes becomes the only company with the ability to offer on a national basis a portfolio of consumer entertainment and information services that includes digital multichannel television and high-speed wired and satellite broadband Internet access.

Boeing Acquires Hughes Satellite Units. In October 2000, Boeing completed its acquisition of Hughes' space and communications business and related operations for \$3.75 billion in cash. The transaction boosted Boeing's space and communications revenues and earnings by more than a third, and will provide for substantial future growth. It would be accretive to earnings per share in its first full year of operations, 2001. Initially, the addition of the Hughes businesses will create an entity with annual revenues approaching \$10 billion. The acquisition was first announced in January 2000.

As part of the deal, Boeing also acquired Hughes Electron Dynamics, a leading supplier of electronic components for satellites, and Spectrolab, a premier provider of solar cells and panels for satellites. The three businesses have a combined workforce of about 9,000 employees, primarily in the Los Angeles area.

The new business unit, now called Boeing Satellite Systems, is part of Boeing's Space and Communications group, led by President Jim Albaugh. Boeing Satellite Systems is headquartered in El Segundo, California,

under the leadership of Tig Krekel, former president of Hughes Space and Communications.

Hughes Acquires PRIMESTAR. In January 1999, Hughes Electronics reached an agreement with PRIMESTAR Inc to acquire the 2.3 million subscriber PRIMESTAR direct broadcast satellite (DBS) medium-power business and related Tempo high-power satellite assets in two transactions valued at approximately \$1.82 billion. The combination of DirecTV and PRIMESTAR, along with United States Satellite Broadcasting (USSB), the premium multichannel movie service, advances DirecTV's position as the premier digital multichannel video platform in the United States.

Hughes Acquires USSB. In December 1998, Hughes Electronics signed a definitive merger agreement with United States Satellite Broadcasting Company Inc (USSB) to acquire the business and assets of USSB in a transaction valued at approximately \$1.3 billion. Hughes will combine its DirecTV business with USSB's assets and business at the 101° West longitude orbital slot, which will further strengthen DirecTV's position as the nation's largest DBS television service. The transaction also includes USSB's three frequencies at 110°WL, which DirecTV used to launch Spanish-language services in 1999.

Stake in PanAmSat Increased. In May 1998, Hughes Electronics announced that it had reached agreements to acquire the interest of Grupo Televisa SA in PanAmSat Corporation, as well as a portion of the shares owned by a group of founding shareholders of the original PanAmSat company. The purchases will increase the Hughes ownership of PanAmSat from 71.5 percent to 81 percent, thereby allowing Hughes to consolidate PanAmSat's results of operations for income tax purposes. Hughes does not intend to increase its ownership in PanAmSat beyond 81 percent. Hughes will pay \$60 per share in cash for Grupo Televisa's approximately 11.2 million shares and for about 2.9 million shares from the founding shareholder group, for a total consideration of approximately \$850 million.

Teaming/Competition/Joint Ventures

Mobile User Objective System. In March 2002, Boeing formed a team composed of Harris, SAIC, ViaSat, and Hughes Network Systems to compete for the Pentagon's next-generation satellite-based communications system, known as the Mobile User Objective System (MUOS). The new system will replace the Navy's current UHF Follow-On satellites.

America Online. In May 1999, Hughes Electronics announced partnership agreements with America Online Inc that are key to the ongoing development of AOL TV. Two of Hughes' units, DirecTV Inc of El Segundo and Hughes Network Systems of Germantown,

Maryland, will collaborate with AOL to extend connected interactivity to television. AOL TV will give its members the ability to connect to a new AOL-interactive service designed to enhance the television-viewing experience. In June 1999, AOL made a \$1.5 billion strategic investment in Hughes, aimed at accelerating growth of this and other programs.

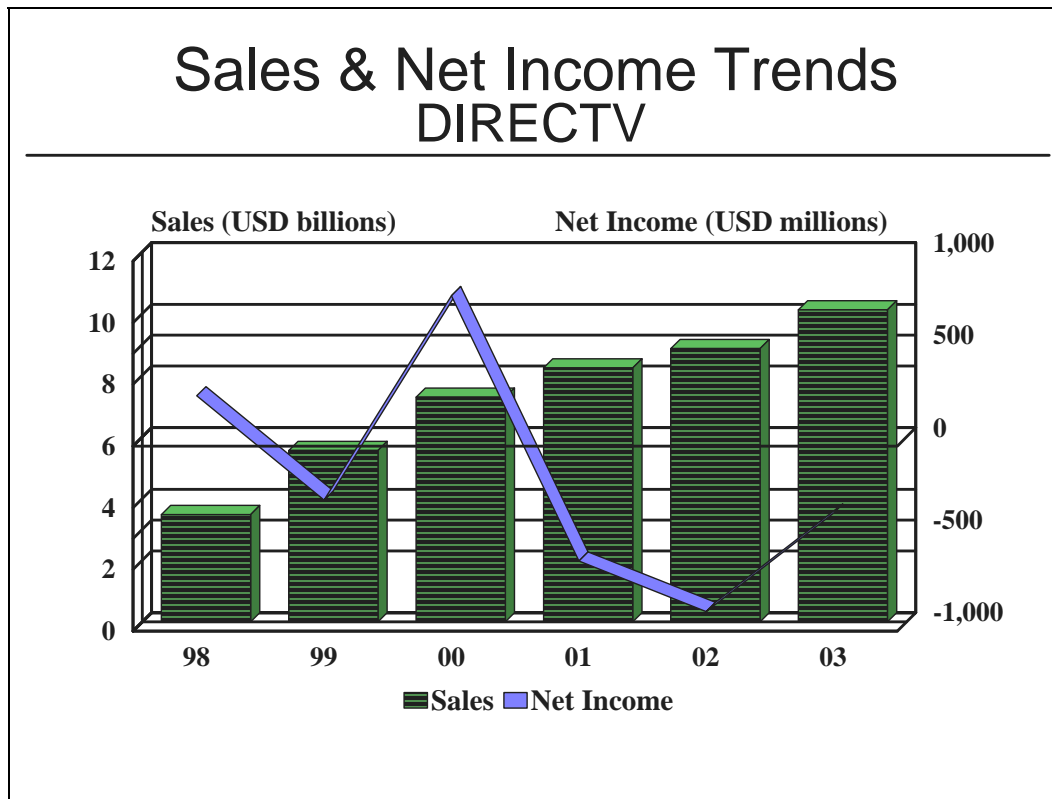
Mobile Satellite Services Consortium. In 1990, a Hughes Network System Inc subsidiary teamed with seven companies to propose a system that will enable satellite

communications from cars, planes, or boats. The consortium has submitted an application to the FCC for a communications system with a service base that will cover the U.S. and extend into Canada and Mexico. Hughes Communications Mobile Satellite Services Inc, MCCA American Satellite Services Corp, McCaw Space Technologies, and Skylink Corporation are general partners in the consortium.

Financial Results/Corporate Statistics

DIRECTV's sales for 2003 rose 14 percent to \$10.1 billion, compared to \$8.86 billion in 2002. The company posted a loss of \$361.8 million, compared to a loss of \$893.8 million in 2002. The recent losses were primarily due to the sale of Hughes' satellite manufacturing businesses in 2000 and to an increase in depreciation and amortization expenses in the Direct-To-Home Broadcast segment and at PanAmSat. The 2000 jump in income was due to a gain realized on the sale of its satellite business to Boeing during the period. The 1999 decline was attributable to charges incurred at the Network Systems segment, which included the \$272.1 million charge related to the discontinued wireless product lines. Key historical results are shown in the following table.

Y/E December 31	1998	1999	2000	2001	2002	2003
(USD millions)						
Net Sales	3,480.6	5,560.3	7,287.6	8,237.2	8,862.5	10,121.2
Net Income	271.7	-291.3	813.0	-621.6	-893.8	-361.8
R&D Expenditures	92.6	98.8	104.5	85.8	71.7	57.7

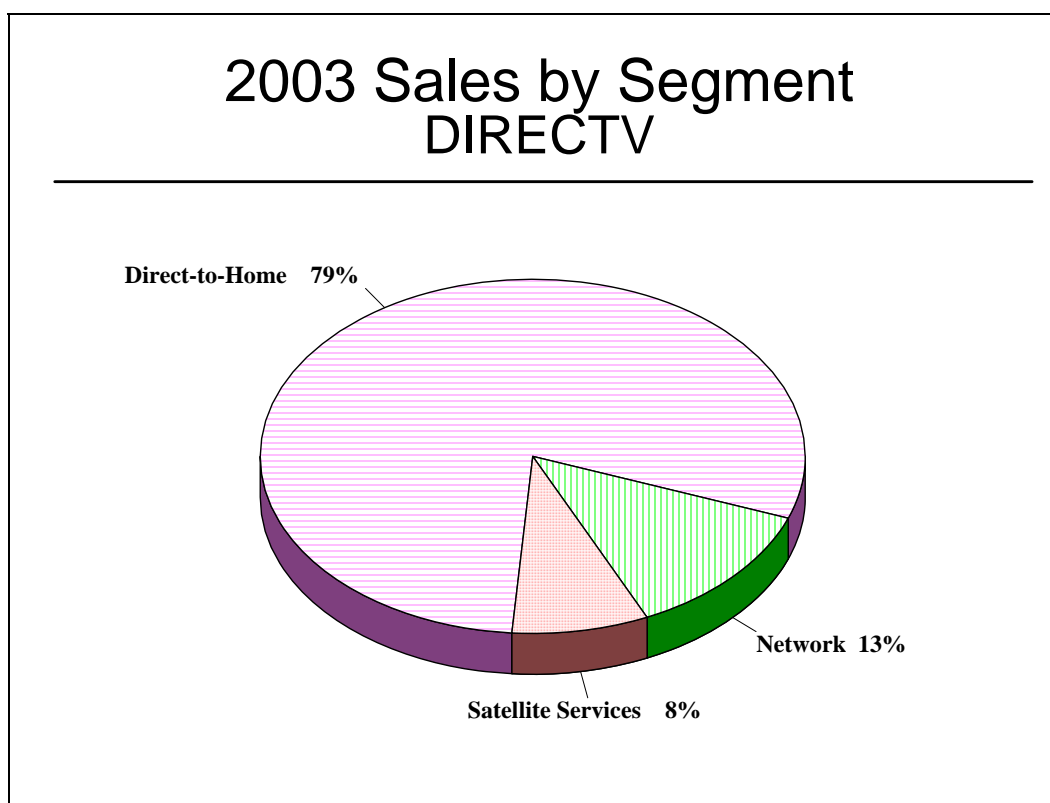


Industry Segments

Segment results for the past five years are shown in following charts.

SALES	1999	2000	2001	2002	2003
(USD millions)					
Direct-to-Home Broadcast	3,785.0	5,238.0	6,279.6	7,120.9	8,291.9
Satellite Services	810.6	1,023.6	870.1	812.3	831.0
Network Systems	1,384.7	1,409.8	1,325.8	1,169.9	1,322.0
Eliminations & Other	-420.0	-383.8	-238.3	-240.6	-323.7
TOTAL	5,560.3	7,287.6	8,237.2	8,862.5	10,121.2

OPERATING INCOME	1999	2000	2001	2002	2003
(USD millions)					
Direct-to-Home Broadcast	-292.1	-557.9	-546.6	-212.8	187.8
Satellite Services	338.3	356.6	165.3	255.9	278.2
Network Systems	-227.3	-63.5	-149.0	-150.5	-73.7
Eliminations & Other	-246.9	-89.3	-84.2	-44.9	-246.5
TOTAL	-428.0	-354.1	-614.5	-152.3	145.8

**Strategic Outlook**

In late 2003, General Motors finally completed the long process of divesting Hughes Electronics. Over the past few years, Hughes' parent, GM, has been divesting units in order to better focus on its automotive operations. In 1997, when the company sold its Hughes Aircraft unit to Raytheon for \$9.5 billion, it retained the satellite operation. As Hughes Electronics, thanks to its

Space & Communications operation, grew in valuation, GM made its move and put the unit up for sale.

EchoStar attempted to nab the prize in 2001 in a deal valued at \$25.8 billion. The deal, if approved, would have combined the nation's No. 1 satellite television company – Hughes' DirecTV unit – with EchoStar, the No. 2 player.

And that was the deal's downfall.

Both the FCC and the Justice Department weighed in against the deal, citing that the combination would stifle consumer choice by reducing competition in most areas. With such heavy opposition, the deal collapsed.

As expected, this failure allowed an early suitor, media tycoon Rupert Murdoch, to return to the table. Prior to the EchoStar attempt, the News Corporation, Murdoch's media arm, participated in 18 months of drawn-out negotiations for the operation but walked away after not getting the deal it wanted.

In hindsight, leaving the table was very shrewd. Following the failed deal with EchoStar, Hughes was vulnerable and News Corporation's revised bid of an estimated \$6.6 billion was a steal compared to its original 2001 bid of \$25 billion.

With the deal successfully consummated, DIRECTV's management has begun selling off operations that don't specifically relate to television provider services. As such, this company falls out of the purview of this service and this report will be archived in 2006.

Prime Award Summary

Total prime awards to Hughes Electronics, exclusive of Hughes Aircraft, are currently unavailable.

Program Activity

Some important aerospace and government programs currently under way at Hughes are listed below. The briefs are intended to provide a listing of programs that are of major importance to the company. For detailed information or analysis of specific aerospace and defense programs or equipment, please refer to the appropriate Forecast International binder (for example, *Aircraft*, *Military Vehicles*, *Warships*, *Missiles*, *Electronic Systems*, and *Gas Turbines*). The company's core business interests are Space Systems Services.

Space System Programs

U.S. DBS (DIRECTV)

Direct broadcast satellite (DBS) television systems allow TV signals to be broadcast directly from a satellite to a home receiver without the intermediary of a local TV station or cable system. In June 1994, Hughes Communications Inc began its DIRECTV DBS service, providing Hughes with a head start on the

competition. Its \$200 million, 2,700 kilogram, high-powered DBS-1 satellite, the first of two spacecraft to serve its DIRECTV system, was successfully launched aboard an Ariane rocket from Kourou, French Guiana, in December 1993. A total of seven DirecTV satellites are currently in service.

Spaceway

This is a constellation of broadband communications satellites. The Spaceway satellites will be used in a unique new global broadband satellite network to provide two-way, high-bandwidth and high-speed communications for broadband and multimedia applications, from Internet access to LAN/WAN solutions. The largest of the various Hughes proposals for Spaceway involved 28 satellites to provide global coverage. This may still be on the drawing board as the ultimate plan for Spaceway. For now, however, Hughes is focusing on getting the initial spacecraft situated in orbit and operational.

U.S. Contract Awards

No major contracts have been awarded to Hughes Electronics from the United States government in the past two years (contracts as of press date).

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