UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended June 30, 2004

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-14595

FOX ENTERTAINMENT GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**95-4066193** **(I.R.S. Employer** **Identification No.)**
1211 Avenue of the Americas, New York, New York **(Address of principal executive offices)**	**10036** **(Zip Code)**

(212) 852-7111

Registrant s telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, $.01 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes x No ¨

The aggregate market value of the Class A common stock and the Class B common stock held by non-affiliates of the registrant as of December 31, 2004 was approximately $5,464,248,000 (based on the closing price on such date as reported on the New York Stock Exchange Composite Transactions).

As of March 2, 2004, 426,959,080 shares of Class A Common Stock, par value $.01 per share, and 547,500,000 shares of Class B Common Stock, par value $.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Fox Entertainment Group, Inc. s proxy statement to be filed with the Securities and Exchange Commission within 120 days of June 30, 2004 pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, are incorporated by reference into Part III of this report.

EXPLANATORY NOTE

This Form 10-K/A hereby amends Part II Item 8 of Fox Entertainment Group, Inc. s Annual Report on Form 10-K for the fiscal year ended June 30, 2004, which was filed on September 10, 2004. This amendment includes only the Annual Financial Statements for The DIRECTV Group, Inc., for the fiscal year ended December 31, 2004. No other changes are being made by means of this filing.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

* previously filed

THE DIRECTV GROUP, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of The DIRECTV Group, Inc.

El Segundo, California

We have audited the accompanying consolidated balance sheets of The DIRECTV Group, Inc. (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included Financial Statement Schedule I and II. These financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 consolidated financial statements present fairly, in all material respects, the financial position of The DIRECTV Group, Inc. at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 2 of the Notes to the Consolidated Financial Statements, effective January 1, 2002, The DIRECTV Group, Inc. changed its method of accounting for goodwill and other intangible assets to conform to Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, effective July 1, 2003, The DIRECTV Group, Inc. adopted Financial Accounting Standards Board Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities an interpretation of ARB No. 51, and effective January 1, 2004, The DIRECTV Group, Inc. changed its method of accounting for subscriber acquisition, upgrade and retention costs.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

February 28, 2005

THE DIRECTV GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2004	**2003**	**2002**
	(Dollars in Millions, Except Per Share Amounts)		
Revenues	$ 11,360.0	$ 9,372.2	$ 8,185.4
Operating Costs and Expenses, exclusive of depreciation and amortization expense shown separately below			
Broadcast programming and other costs of sale	4,996.5	4,510.5	4,214.3
Subscriber service expenses	779.9	656.5	643.7
Subscriber acquisition costs:			
Third party customer acquisitions	2,009.8	1,439.6	1,385.7
Direct customer acquisitions	694.0	395.4	189.8
Upgrade and retention costs	1,002.4	412.0	277.5
Broadcast operations expenses	196.7	197.3	131.3
General and administrative expenses	1,268.9	1,143.5	1,076.0
Asset impairment charges	1,693.2		
Depreciation and amortization	838.0	754.9	676.7
Total Operating Costs and Expenses	13,479.4	9,509.7	8,595.0
Operating Loss	(2,119.4)	(137.5)	(409.6)
Interest income	50.6	28.4	17.5
Interest expense	(131.9)	(156.3)	(188.6)
Reorganization (expense) income	43.0	(212.3)	
Other, net	397.6		425.5
Loss From Continuing Operations Before Income Taxes, Minority Interests and Cumulative Effect of Accounting Changes	(1,760.1)	(477.7)	(155.2)
Income tax benefit	690.6	104.3	42.2
Minority interests in net (earnings) losses of subsidiaries	13.1	(1.9)	(1.9)
Loss from continuing operations before cumulative effect of accounting changes	(1,056.4)	(375.3)	(114.9)
Income (loss) from discontinued operations, net of taxes	(582.3)	78.1	(97.6)
Loss before cumulative effect of accounting changes	(1,638.7)	(297.2)	(212.5)
Cumulative effect of accounting changes, net of taxes	(310.5)	(64.6)	(681.3)
Net Loss	(1,949.2)	(361.8)	(893.8)
Preferred stock dividends			(46.9)
Net Loss Attributable to Common Stockholders	$ (1,949.2)	$ (361.8)	$ (940.7)
Basic and Diluted Loss Per Common Share:			
Loss from continuing operations before cumulative effect of accounting changes	$ (0.77)	$ (0.27)	$ (0.12)
Income (loss) from discontinued operations, net of taxes	(0.42)	0.06	(0.07)

Cumulative effect of accounting changes, net of taxes	(0.22)	(0.05)	(0.51)
Net Loss	$ (1.41)	$ (0.26)	$ (0.70)
Weighted average number of common shares outstanding (in millions)-Basic and Diluted	1,384.8	1,382.5	1,343.1

Reference should be made to the Notes to the Consolidated Financial Statements.

THE DIRECTV GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	**2003**
	(Dollars in Millions, Except Share Data)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,830.0	$ 1,779.5
Accounts and notes receivable, net of allowances of $121.7 and $112.7	918.6	896.3
Inventories, net	124.4	270.3
Prepaid expenses and other	377.0	1,087.9
Assets of businesses held for sale	521.1	6,381.6
Total Current Assets	4,771.1	10,415.6
Satellites, net	1,560.4	2,408.2
Property, net	1,135.1	1,791.6
Goodwill, net	3,044.1	3,034.1
Intangible Assets, net	2,227.1	568.5
Investments and Other Assets	1,586.6	819.4
Total Assets	$ 14,324.4	$ 19,037.4
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 1,290.9	$ 1,425.7
Unearned subscriber revenues and deferred credits	261.5	170.3
Short-term borrowings and current portion of long-term debt	19.8	226.2
Accrued liabilities and other	881.7	937.5
Liabilities of businesses held for sale	240.6	3,139.6
Total Current Liabilities	2,694.5	5,899.3
Long-Term Debt	2,409.5	2,434.8
Other Liabilities and Deferred Credits	1,665.4	832.8
Deferred Income Taxes		216.6
Commitments and Contingencies		
Minority Interests	47.9	22.8
Stockholders Equity		
Common stock and additional paid-in capital $0.01 par value, 3,000,000,000 shares authorized, 1,385,814,459 shares and 1,383,649,451 shares issued and outstanding at December 31, 2004 and December 31, 2003, respectively	10,869.9	10,817.5
Retained earnings (deficit)	(3,338.1)	(1,388.9)
Subtotal Stockholders Equity	7,531.8	9,428.6
Accumulated Other Comprehensive Income (Loss)		
Minimum pension liability adjustment	(41.4)	(48.8)
Accumulated unrealized gains on securities and derivatives	22.0	271.4
Accumulated foreign currency translation adjustments	(5.3)	(20.1)

Total Accumulated Other Comprehensive Income (Loss)	(24.7)	202.5
Total Stockholders Equity	7,507.1	9,631.1
Total Liabilities and Stockholders Equity	$ 14,324.4	$ 19,037.4

Reference should be made to the Notes to the Consolidated Financial Statements.

THE DIRECTV GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Common Shares	Common Stock and Additional Paid-In Capital	Preferred Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity	Comprehensive Income (Loss)
			(Dollars in Millions, Except Share Data)				
Balance at January 1, 2002	200	$ 9,561.2	$ 1,498.4	$ (86.4)	$ 98.7	$ 11,071.9	
Net Loss				(893.8)		(893.8)	$ (893.8)
Preferred stock			1.6	(1.6)			
Preferred stock dividends				(45.3)		(45.3)	
Stock options exercised		7.7				7.7	
Cancellation of Series A Preferred Stock		1,500.0	(1,500.0)				
Issuance of Series B Convertible Preferred Stock		(914.1)	914.1				
Other		(3.0)				(3.0)	
Minimum pension liability adjustment					(15.0)	(15.0)	(15.0)
Foreign currency translation adjustments:							
Unrealized gains					1.6	1.6	1.6
Less: reclassification adjustment for net losses recognized during the period					48.9	48.9	48.9
Unrealized losses on securities and derivatives:							
Unrealized holding losses					(96.8)	(96.8)	(96.8)
Less: reclassification adjustment for net gains recognized during the period					(99.1)	(99.1)	(99.1)
Comprehensive loss							$ (1,054.2)
Balance at December 31, 2002	200	10,151.8	914.1	(1,027.1)	(61.7)	9,977.1	
Net Loss				(361.8)		(361.8)	$ (361.8)
Conversion of Series B Convertible Preferred Stock into Class B common stock and common stock split	1,481,891,553	914.1	(914.1)				
Adjustment to GM stock holdings in connection with the News Corporation transactions	(98,301,304)						
Special cash dividend paid to General Motors		(275.0)				(275.0)	
Tax benefit to General Motors		(25.1)				(25.1)	
Stock options exercised	59,002	17.7				17.7	
Other		34.0				34.0	
Minimum pension liability adjustment					(16.5)	(16.5)	(16.5)
Foreign currency translation adjustments					6.0	6.0	6.0
Unrealized gains (losses) on securities and derivatives:							
Unrealized holding gains					275.3	275.3	275.3
Less: reclassification adjustment for net gains recognized during the period					(0.6)	(0.6)	(0.6)
Comprehensive loss							$ (97.6)
Balance at December 31, 2003	1,383,649,451	10,817.5		(1,388.9)	202.5	9,631.1	
Net Loss				(1,949.2)		(1,949.2)	$ (1,949.2)
Stock options exercised	2,139,782	23.0				23.0	
Stock-based compensation expense		57.1				57.1	
DIRECTV Latin America reorganization		(31.5)				(31.5)	
Other	25,226	3.8				3.8	

Minimum pension liability adjustment					7.4	7.4	7.4
Foreign currency translation adjustments					14.8	14.8	14.8
Unrealized losses on securities and derivatives:							
Unrealized holding losses					(5.6)	(5.6)	(5.6)
Less: reclassification adjustment for net gains recognized during the period					(243.8)	(243.8)	(243.8)
Comprehensive loss							$ (2,176.4)
Balance at December 31, 2004	1,385,814,459	$ 10,869.9	$	$ (3,338.1)	$ (24.7)	$ 7,507.1	

Reference should be made to the Notes to the Consolidated Financial Statements.

THE DIRECTV GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2004	**2003**	**2002**
	(Dollars in Millions)		
Cash Flows from Operating Activities			
Loss from continuing operations before cumulative effect of accounting changes	$ (1,056.4)	$ (375.3)	$ (114.9)
Adjustments to reconcile loss from continuing operations before cumulative effect of accounting changes to net cash provided by operating activities:			
Depreciation and amortization	838.0	754.9	676.7
Asset impairment charges	1,693.2		
Equity losses from unconsolidated affiliates	0.2	81.5	70.1
Net gain from sale of investments	(396.5)	(7.5)	(84.1)
Net unrealized (gain) loss on investments		(79.4)	180.6
Stock-based compensation expense	57.1	10.5	
Net gain on exit of DIRECTV Japan business			(41.1)
Loss on disposal of assets	24.9	10.4	49.3
Deferred income taxes and other	(850.5)	(61.1)	155.3
Accounts receivable credited against Pegasus purchase price	(220.2)		
Change in other operating assets and liabilities			
Accounts and notes receivable	18.8	(103.4)	(63.2)
Inventories	23.2	(40.4)	120.8
Prepaid expenses and other	(20.8)	(14.4)	240.2
Accounts payable	(46.7)	339.7	(156.4)
Accrued liabilities	(101.7)	203.4	38.4
Other	266.0	68.3	(359.8)
Net Cash Provided by Operating Activities	228.6	787.2	711.9
Cash Flows from Investing Activities			
Proceeds from sale of businesses	2,918.4		
Proceeds from sale of investments	510.5	29.8	322.4
Cash paid for acquired assets	(997.3)		
Investment in companies, net of cash acquired	(388.5)	(11.8)	(27.0)
Payment received on note receivable from PanAmSat			1,725.0
Net sale (purchase) of short-term investments	7.6	(43.5)	
Expenditures for property	(476.4)	(410.6)	(497.8)
Expenditures for satellites	(546.7)	(336.8)	(456.7)
Other	5.5	33.0	0.3
Net Cash Provided by (Used in) Investing Activities	1,033.1	(739.9)	1,066.2
Cash Flows from Financing Activities			
Net decrease in notes and loans payable	(6.2)	(515.3)	(1,100.8)
Long-term debt borrowings	1.2	2,627.3	1.1
Repayment of long-term debt	(214.8)	(18.8)	(183.3)
Debt issuance costs	(2.4)	(68.8)	(44.1)
Stock options exercised	23.0	17.7	5.1
Repayment of obligations under capital lease	(12.0)		
Special cash dividend paid to General Motors		(275.0)	

Preferred stock dividends paid to General Motors			(68.7)
Payment of Raytheon settlement			(134.2)
Net Cash Provided by (Used in) Financing Activities	(211.2)	1,767.1	(1,524.9)
Net cash provided by continuing operations	1,050.5	1,814.4	253.2
Net cash used in discontinued operations		(429.5)	(155.0)
Net increase in cash and cash equivalents	1,050.5	1,384.9	98.2
Cash and cash equivalents at beginning of the year	1,779.5	394.6	296.4
Cash and cash equivalents at end of the year	$ 2,830.0	$ 1,779.5	$ 394.6
Supplemental Cash Flow Information			
Cash paid for interest	$ 137.4	$ 174.1	$ 166.2
Cash (paid) received for income taxes	(49.2)	29.2	356.6

Reference should be made to the Notes to the Consolidated Financial Statements.

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Description of Business

We are a leading provider of digital television entertainment in the United States and Latin America. On March 16, 2004, we changed our corporate name from Hughes Electronics Corporation to The DIRECTV Group, Inc. Effective on March 17, 2004, our ticker symbol on the New York Stock Exchange was changed from HS to DTV. Our name was changed to better reflect our commitment to building our business around the DIRECTV businesses and had no impact on our common stock or the rights of stockholders.

Our principal operations are carried out through the following three segments:

DIRECTV U.S. Segment

The DIRECTV Holdings LLC and subsidiaries, or DIRECTV U.S., segment consists of the DIRECTV digital multi-channel entertainment business located in the United States. DIRECTV U.S. launched its direct-to-home, or DTH, service in 1994 and is the largest provider of DTH digital television services and the second largest multi-channel video programming distribution, or MVPD, provider in the United States.

DIRECTV Latin America Segment

DIRECTV Latin America, or DTVLA, is a leading provider of DTH digital television services throughout Latin America, which includes South America, Central America, Mexico and the Caribbean. DTVLA provides a wide selection of high-quality, local and international programming under the DIRECTV brand. When we refer to DTVLA, we refer to a group of companies that combine to provide the DIRECTV service throughout Latin America. The most significant DTVLA companies include DIRECTV Latin America, LLC, or DLA LLC, which we own approximately 85.9% of as of December 31, 2004, as well as the consolidated local operating companies, or LOCs, selling the DIRECTV service to subscribers in Latin America. On March 18, 2003, DLA LLC filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in order to address its financial and operational challenges. In February 2004, DLA LLC announced the confirmation of its Plan of Reorganization by the U.S. Bankruptcy Court and its emergence from Chapter 11. On October 8, 2004, we entered into a series of transactions with News Corporation, Grupo Televisa, S.A., or Televisa, Globo Comunicacoes e Participacoes S.A., or Globo, and Liberty Media International, Inc., or Liberty, which we refer to as the Sky Transactions. The Sky Transactions are designed to consolidate our DTH platforms with those of Sky Latin America in each of the major territories served in that region. Total cash consideration for the equity interests in the Sky Latin America platforms is approximately $580 million, of which we paid $398 million in October 2004. The remainder is subject to adjustment and will be paid at the completion of the transactions. See Notes 3 and 18 for more information related to these events.

Network Systems Segment

Hughes Network Systems, Inc., or HNS, constitutes our Network Systems segment. HNS is a leader in the market for satellite-based private business networks (commonly known as VSATs) and consumer broadband Internet access, both marketed under the DIRECWAY® brand. In 2004, we completed the sale of HNS set-top receiver manufacturing operations to Thomson Inc., or Thomson, and the sale of HNS 55% ownership interest in Hughes Software Systems Limited, or HSS, to Flextronics Sales & Marketing (L-A) Ltd., or Flextronics. Also in December 2004, we announced an agreement to sell a 50% interest in a new entity that will own substantially all of the remaining net assets of HNS. See Note 3 for more information related to these transactions.

Discontinued Operations

During 2004, we completed the sale of our approximately 80.4% interest in PanAmSat Corporation, or PanAmSat. We announced, in December of 2002, that DIRECTV Broadband, Inc., or DIRECTV Broadband,

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

would close its high-speed Internet service business. Revenues, operating costs and expenses, and other non-operating results for the discontinued operations of PanAmSat, which formerly comprised the Satellite Services segment, HSS, which was a component of the Network Systems segment, and DIRECTV Broadband have been excluded from our results from continuing operations for all periods presented herein. Consequently, the financial results of PanAmSat, HSS and DIRECTV Broadband are presented in our Consolidated Statements of Operations in a single line item entitled Income (loss) from discontinued operations, net of taxes. The related assets and liabilities of PanAmSat and HSS are presented in the Consolidated Balance Sheets in line items entitled Assets of businesses held for sale and Liabilities of businesses held for sale as of December 31, 2003. Assets of businesses held for sale and Liabilities of businesses held for sale in the Consolidated Balance Sheets as of December 31, 2004 include substantially all of the remaining assets and liabilities of HNS.

News Corporation Transactions

On December 22, 2003, we, General Motors Corporation, or GM, and News Corporation completed a series of transactions that resulted in the split-off of the Company from GM and the simultaneous sale of GM s 19.8% interest in us to News Corporation. GM received approximately $3.1 billion in cash and 28.6 million News Corporation Preferred American Depository Shares, or ADSs, in these transactions. GM split-off the Company by distributing the Company s common stock to the holders of the GM Class H common stock in exchange for their GM Class H common shares on a one-for-one basis. Immediately after the split-off, News Corporation acquired an additional 14.2% of our outstanding common stock from the former GM Class H common stockholders, which provided News Corporation with a total of 34% of our outstanding common stock. GM Class H common stockholders received about 0.8232 shares of our common stock and about 0.09207 News Corporation Preferred ADSs for each share of GM Class H common stock held immediately prior to the closing of the transactions. In addition, we paid to GM a special cash dividend of $275 million in connection with the transactions. Upon completing these transactions, News Corporation transferred its 34% interest in us to its 82% owned subsidiary, Fox Entertainment Group, Inc.

For us, the transactions represented an exchange of equity interests by investors. As such, we continue to account for our assets and liabilities at historical cost and did not apply purchase accounting. We recorded the $275 million special cash dividend payment to GM as a reduction to additional paid-in capital. We also recorded a $25.1 million decrease to additional paid-in capital representing the difference between our consolidated tax receivable from GM as determined on a separate return basis and the receivable determined pursuant to the amended income tax allocation agreement between GM and us. See Note 10 for additional discussion regarding the amended income tax allocation agreement.

Upon completion of the transactions in 2003, we expensed related costs of about $132 million that primarily included investment advisor fees of about $49 million, retention benefits of about $65 million and severance benefits of about $15 million. In addition, certain of our employees earned about $36 million in additional retention benefits during 2004 subsequent to the completion of the News Corporation transactions. See Note 16 for more information about retention benefits.

Note 2: Basis of Presentation and Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying financial statements are presented on a consolidated basis and include our accounts and those of our domestic and foreign subsidiaries that we own more than 50% or otherwise control after elimination of intercompany accounts and transactions. We allocate earnings and losses to minority interests only to the extent of a minority investor s investment in a subsidiary.

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Use of Estimates in the Preparation of the Consolidated Financial Statements

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, which requires us to make estimates and assumptions that affect amounts reported herein. Management bases its estimates and assumptions on historical experience and on various other factors that are believed to be reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be affected by changes in those estimates.

Reclassifications

Beginning in the fourth quarter of 2004, we report payments in transit drawn on bank accounts at financial institutions where we have no cash on deposit in Accounts payable instead of our previous practice of deducting these payments in transit from Cash and cash equivalents. Payments in transit were $25.3 million at December 31, 2004 and $59.4 million at December 31, 2003.

Beginning in the third quarter of 2004, we changed the categories of operating costs and expenses included in the Consolidated Statements of Operations to a presentation that adds clarity and ease of understanding of the results of operations of our DTH businesses. Also, we disaggregated the Direct-To-Home Broadcast segment, which included the DIRECTV U.S. and DIRECTV Latin America businesses. We now report the DIRECTV U.S. and DIRECTV Latin America businesses as separate segments as provided by Statement of Financial Accounting Standards, or SFAS, No. 131, Disclosures about Segments of an Enterprise and Related Information.

Beginning on January 1, 2004, we allocate pension and other postretirement benefit expenses to our subsidiaries.

We reclassified prior period information in the consolidated financial statements to conform to the current period presentation.

Revenue Recognition

We generally recognize sales as services are rendered or products are shipped. We recognize DTH subscription and pay-per-view revenues when programming is broadcast to subscribers. We recognize subscriber fees for multiple set-top receivers, DIRECTV- The Guide, warranty services and equipment rental as revenue, monthly as earned. We recognize advertising revenue when the related services are performed. We record programming payments received from subscribers in advance of the broadcast as deferred revenues until earned.

We derive a small percentage of revenues from long-term contracts for the sale of wireless communications systems. We recognize sales under long-term contracts primarily using the percentage-of-completion (cost-to-cost) method of accounting. Under this method, we record sales 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 we expect to be realized on long-term contracts are based on estimates of total sales value and costs at completion. We review and revise these estimates periodically throughout the lives of the contracts, and record adjustments to profits resulting from such revisions in the accounting period in which we make the revisions. We record estimated losses on contracts in the period in which they are identified.

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Broadcast Programming and Other Costs of Sale

We recognize the costs of television programming distribution rights when we distribute the related programming. We recognize the costs of television programming rights to distribute live sporting events for a season or tournament using the straight-line method over the course of the season or tournament. However, we recognize the costs for live sporting events with multi-year contracts and minimum guarantee payments based on the ratio of each period s revenues to the estimated total contract revenues to be earned over the contract period. We evaluate estimated total contract revenues at least annually. If we determine that the minimum guarantee on an individual contract exceeds the estimated total contract revenues, we would recognize a loss equal to the amount of such difference immediately.

We defer advance payments in the form of cash and equity instruments from programming content providers for carriage of their signal and recognize them as a reduction of programming costs on a straight-line basis over the related contract term. We record equity instruments at fair value based on quoted market prices or values determined by management, which may include independent third-party valuations. We also record the amortization of a provision for above-market programming contracts that we recorded in connection with the 1999 acquisition of certain premium subscription programming contracts from United States Satellite Broadcasting Company, Inc., or USSB, as a reduction of programming costs. We determined the provision based upon an independent third-party appraisal and recorded the provision at its net present value, with interest expense recognized over the remaining term of the contract. We record the current and long-term portions of these deferred credits in the Consolidated Balance Sheets in Unearned subscriber revenues and deferred credits and Other Liabilities and Deferred Credits and amortize these deferred credits using the interest method over the related contract terms.

Subscriber Acquisition Costs

Subscriber acquisition costs, or SAC, in the Consolidated Statements of Operations consist of costs incurred to acquire new DIRECTV subscribers through third parties and our direct customer acquisition program.

Effective January 1, 2004, we changed our method of accounting for subscriber acquisition costs to expense all subscriber acquisition costs as incurred as subscribers activate the DIRECTV service. Previously, we deferred a portion of subscriber acquisition costs, equal to the amount of profit to be earned from the subscriber, typically over the 12 month subscriber contract, and amortized these costs to expense over the contract period. We included the deferred portion of the costs in Prepaid expenses and other in the Consolidated Balance Sheets. See Accounting Changes below for further discussion of the change in accounting method.

Third party customer acquisition costs represent direct costs we incur to acquire new DIRECTV subscribers through third parties, which include our national retailers as well as independent satellite television retailers, dealers, regional Bell operating companies and others. These costs also consist of third party commissions, print and television advertising and subsidies we incur for DIRECTV System equipment, if any. Although paid in advance, the retailer or dealer earns substantially all commissions paid for third party customer acquisitions over 12 months from the date of subscriber activation. Should the subscriber cancel DIRECTV service during the 12 month service period, we are reimbursed for the unearned portion of the commission by the retailer or dealer and record a decrease to third party acquisition costs.

Direct customer acquisition costs consist primarily of hardware, installation, advertising, marketing and customer call center expenses associated with new DIRECTV subscribers added through our direct customer acquisition program.

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Upgrade and Retention Costs

Upgrade and retention costs in the Consolidated Statements of Operations consist primarily of costs for loyalty programs offered to existing subscribers. The costs for loyalty programs include the costs of installing or providing hardware under our movers program (for subscribers relocating to a new residence), multiple set-top receiver offers, DVR (digital video recorder) and local channel upgrade programs and other similar initiatives, and third party commissions we incur for the sale of additional set-top receivers to existing subscribers.

Effective January 1, 2004, we changed our method of accounting for upgrade and retention costs to expense the cost of installation and hardware under our loyalty programs. Previously, we deferred a portion of upgrade and retention costs equal to the amount of profit to be earned from the subscriber, typically over the 12 month subscriber contract, and amortized these costs to expense over the contract period. We included the deferred portion of the costs in Prepaid expenses and other in the Consolidated Balance Sheets. See Accounting Changes below for further discussion of the change in accounting method.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments we purchase with original maturities of three months or less.

Inventories

We state inventories at the lower of cost or market principally using the average cost method.

The following table sets forth the amounts we recorded for inventories, net, at December 31:

	2004	2003
	(Dollars in Millions)	
Finished goods	$ 124.6	$ 158.3
Productive material and supplies		64.2
Work in process		81.1
Total	124.6	303.6
Less provision for excess or obsolete inventory	0.2	33.3

Inventories, net	$ 124.4	$ 270.3

Property, Satellites and Depreciation

We carry property and satellites at cost. Satellite costs include construction costs, launch costs, launch insurance, incentive obligations, direct development costs and capitalized interest. Capitalized satellite costs represent satellites under construction and the cost of successful satellite launches. Capitalized customer leased set-top receiver costs include the cost of hardware and installation. We generally compute depreciation using the straight-line method over the estimated useful lives of the assets. We amortize leasehold improvements over the lesser of the life of the asset or term of the lease.

Goodwill and Intangible Assets

Intangible assets with indefinite lives consist of Federal Communications Commission, or FCC, licenses for DTH broadcasting frequencies, or Orbital Slots. We do not amortize goodwill and Orbital Slots, but rather they

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

are subject to write-down, as needed, based upon an impairment analysis that occurs at least annually, or sooner if an event occurs or circumstances change that would more likely than not result in an impairment loss. We amortize other intangible assets using the straight-line method over their estimated useful lives, which range from 2 to 12 years.

Step one of the annual two-part goodwill impairment test requires a comparison of the fair value of each reporting unit with its respective carrying value, including goodwill. If the reporting unit carrying value exceeds the fair value, step two of the impairment test is performed to measure the amount of the impairment loss, if any. Step two requires the comparison of the implied value of the reporting unit goodwill with the carrying amount of that goodwill. The implied value of goodwill is equal to the excess of the fair value of the reporting unit determined in step one over the fair value of its net tangible and intangible assets. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, we will recognize an impairment loss in an amount equal to that excess. For Orbital Slots, we complete the annual impairment test by comparing the fair value of Orbital Slots to their carrying values. If the carrying value of the Orbital Slots exceeds its fair value, we will recognize an impairment loss in an amount equal to that excess.

We perform our annual impairment test for goodwill and Orbital Slots during the fourth quarter of each year, using the present value of expected future cash flows and other techniques for determining fair value. Changes in estimates of future cash flows or changes in market values could result in a write-down of the asset in a future period. If an impairment loss results from the annual impairment test, we will record the loss as a pre-tax charge to operating income.

Valuation of Long-Lived Assets

We evaluate the carrying value of long-lived assets to be held and used, other than goodwill and intangible assets with indefinite lives, when events or circumstances warrant such a review. We consider the carrying value of a long-lived asset impaired when the anticipated undiscounted future cash flow from such asset is separately identifiable and is less than its carrying value. In that event, we recognize a loss based on the amount by which the carrying value exceeds the fair value of the long-lived asset. We determine fair value primarily using the estimated future cash flows associated with the asset under review, discounted at a rate commensurate with the risk involved, or other valuation techniques. We determine losses on long-lived assets to be disposed of in a similar manner, except that we reduce the fair values for the cost of disposal. Changes in estimates of future cash flows could result in a write-down of the asset in a future period.

Foreign Currency

Some of our foreign operations have determined the local currency to be their functional currency. Accordingly, these foreign entities translate assets and liabilities from their local currencies to U.S. dollars using year-end exchange rates while income and expense accounts are translated at the average rates in effect during the year. We record the resulting translation adjustment as part of accumulated other comprehensive income (loss), or OCI, a separate component of stockholders equity. We also record translation adjustments for foreign currency denominated equity investments as part of OCI.

We also have foreign operations where the U.S. dollar has been determined as the functional currency. We recognize gains and losses resulting from remeasurement of the foreign currency denominated assets, liabilities and transactions into the U.S. dollar currently in the Consolidated Statements of Operations.

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Investments and Financial Instruments

We maintain investments in equity securities of unaffiliated companies. We carry non-marketable equity securities at cost. We consider marketable equity securities available-for-sale and carried at current fair value based on quoted market prices with unrealized gains or losses (excluding other-than-temporary losses), net of taxes, reported as part of OCI. We continually review our investments to determine whether a decline in fair value below the cost basis is other-than-temporary. We consider, among other factors: the magnitude and duration of the decline; the financial health and business outlook of the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors; and our intent and ability to hold the investment. If we judge the decline in fair value to be other-than-temporary, we write-down the cost basis of the security to fair value and recognize the amount in the Consolidated Statements of Operations as part of Other, net and record it as a reclassification adjustment from OCI.

We account for investments in which we own at least 20% of the voting securities or have significant influence under the equity method of accounting. We record equity method investments at cost and adjust for the appropriate share of the net earnings or losses of the investee. We record investee losses up to the amount of the investment plus advances and loans made to the investee, and financial guarantees made on behalf of the investee. In certain instances, this can result in our recognizing investee earnings or losses in excess of our ownership percentage.

The carrying value of cash and cash equivalents, accounts and notes receivable, investments and other assets, accounts payable, and amounts included in accrued liabilities and other meeting the definition of a financial instrument or debt approximated fair value at December 31, 2004 and 2003.

We carry all derivative financial instruments in the Consolidated Balance Sheets at fair value based on quoted market prices. We use derivative contracts to minimize the financial impact of changes in the fair value of recognized assets, liabilities and unrecognized firm commitments, or the variability of cash flows associated with forecasted transactions in accordance with internal risk management policies. We recognize changes in fair value of designated, qualified and effective fair value hedges in earnings as offsets to the changes in fair value of the related hedged items. We defer changes in fair value of designated, qualified and effective cash flow hedges and record these charges as a component of OCI until the hedged transactions occur and we recognize them in earnings. We immediately recognize the ineffective portion and changes related to amounts excluded from the effectiveness assessment of a hedging derivative s change in fair value in the Consolidated Statements of Operations in Other, net. We assess, both at the inception of the hedge and on an on-going basis, whether the derivatives are highly effective. We discontinue hedge accounting prospectively when hedge instruments are no longer highly effective.

Debt Issuance Costs

We defer costs we incur to issue debt and amortize these costs to interest expense using the straight-line method over the term of the respective obligation.

Stock-Based Compensation

We grant restricted stock units and common stock options to our employees. On January 1, 2003, we adopted the fair value based method of accounting for stock-based employee compensation of SFAS No. 123, Accounting for Stock-Based Compensation as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of SFAS No. 123. Under this method, we recognize compensation expense equal to the fair value of the stock-based award at grant over the course of its

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

vesting period. We elected to follow the prospective method of adoption, which resulted in the recognition of fair value based compensation cost in the Consolidated Statements of Operations for stock options and other stock-based awards granted to employees or modified on or after January 1, 2003. We accounted for stock options, restricted stock units and other stock-based awards granted prior to January 1, 2003 under the intrinsic value method of Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees.

As a result of the completion of the News Corporation transactions on December 22, 2003, all outstanding GM Class H common stock based awards converted to awards based on our common stock. Under SFAS No. 123, we considered the conversion a modification of all outstanding awards, and accordingly, have accounted for all awards under the fair value based method subsequent to the completion of the News Corporation transactions.

The following table presents the effect on loss from continuing operations before cumulative effect of accounting changes of recognizing compensation cost as if the fair value based method had been applied to all outstanding and unvested stock options and restricted stock units for the years ended December 31:

	2004	**2003**	**2002**
	(Dollars in Millions, Except Per Share Amounts)		
Reported loss from continuing operations before cumulative effect of accounting changes	$ (1,056.4)	$ (375.3)	$ (114.9)
Add: Stock compensation cost, net of taxes, included above	36.8	11.9	3.2
Deduct: Total stock compensation cost, net of taxes, under the fair value based method	(36.8)	(107.8)	(174.9)
Pro forma loss from continuing operations before cumulative effect of accounting changes	$ (1,056.4)	$ (471.2)	$ (286.6)
Basic and diluted loss from continuing operations before cumulative effect of accounting changes per common share:			
Reported	$ (0.77)	$ (0.27)	$ (0.12)
Pro forma	(0.77)	(0.34)	(0.21)

The 2004 stock compensation costs include the cost of options granted to our CEO to replace stock options that News Corporation, his former employer, cancelled and the cost associated with former employees of News Corporation who retained their News Corporation stock options and are now employed by us. The 2003 stock compensation cost includes a charge of $15.2 million, net of tax, resulting from the acceleration of vesting for 11.5 million stock options as a result of the completion of the News Corporation transactions.

The stock compensation costs presented in the table above exclude compensation cost related to stock options issued by PanAmSat to its employees.

The stock compensation costs presented in the table above are not necessarily indicative of the amounts that we will report in future periods.

Income Taxes

We determine income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under SFAS No. 109, we determine deferred tax assets and liabilities based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which we expect the differences to reverse. We must make certain estimates and judgments in determining income tax provisions, assessing the likelihood of recovering our deferred tax assets, and evaluating tax positions.

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In addition, the calculation of our tax liabilities involves evaluations and judgments of uncertainties in interpretations of complex tax regulations by various taxing authorities. We provide for the appropriate amount when it is probable and estimable that an income tax liability will be due. As additional information becomes available, or we resolve these uncertainties with the taxing authorities, revisions to those liabilities may be required resulting in additional provision or benefit from income taxes in our Consolidated Statements of Operations. While it is often difficult to predict the final outcome or the timing of resolution, we believe that our accruals reflect the most probable outcome of known tax contingencies. For a discussion of our current tax matters, see Note 21.

Advertising and Research and Development Costs

We expense advertising and research and development costs as incurred and include these expenses in General and administrative expenses in the Consolidated Statements of Operations. Advertising expenses, net of payments received from programming content providers for marketing support, were $170.1 million in 2004, $199.0 million in 2003 and $189.1 million in 2002. Expenditures for research and development were $49.0 million in 2004, $54.6 million in 2003 and $66.2 million in 2002.

Market Concentrations and Credit Risk

We sell programming services and extend credit, in amounts generally not exceeding $100 each, to a large number of individual residential subscribers throughout the United States and Latin America. As applicable, we maintain allowances for anticipated losses.

Accounting Changes

Subscriber Acquisition, Upgrade and Retention Costs. Effective January 1, 2004, we changed our method of accounting for subscriber acquisition, upgrade and retention costs. Previously, we deferred a portion of these costs, equal to the amount of profit to be earned from the subscriber, typically over the 12 month subscriber contract, and amortized to expense over the contract period. We now expense all subscriber acquisition, upgrade and retention costs as incurred as subscribers activate the DIRECTV service. We determined that expensing such costs was preferable to the prior accounting method after considering the accounting practices of competitors and companies within similar industries and the added clarity and ease of understanding our reported results for investors. As a result of the change, on January 1, 2004, we expensed our deferred subscriber acquisition cost balance of $503.9 million that was included in Prepaid expenses and other in the Consolidated Balance Sheets as of December 31, 2003 as a cumulative effect of accounting change. The amount of the cumulative effect was $310.5 million, net of taxes. Had the new method of accounting been applied during the years ended December 31, 2003 and 2002, operating costs would have increased by $89.3 million and $117.0 million, respectively.

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table sets forth our loss from continuing operations before cumulative effect of accounting changes and net loss attributable to common stockholders on a pro forma basis as if the change in accounting for subscriber acquisition, upgrade and retention costs had been applied retroactively:

	2004	2003	2002
	(Dollars in Millions, Except Per Share Amounts)		
Reported loss from continuing operations before cumulative effect of accounting changes	$ (1,056.4)	$ (375.3)	$ (114.9)
Reported basic and diluted loss per common share	(0.77)	(0.27)	(0.12)
Pro forma loss from continuing operations	(1,056.4)	(430.3)	(184.6)
Pro forma basic and diluted loss per common share	(0.77)	(0.31)	(0.17)
Reported net loss attributable to common stockholders	(1,949.2)	(361.8)	(940.7)
Reported basic and diluted loss per common share	(1.41)	(0.26)	(0.70)
Pro forma net loss attributable to common stockholders	(1,638.7)	(416.8)	(1,010.4)
Pro forma basic and diluted loss per common share	(1.18)	(0.30)	(0.75)

Revenue Recognition. In November 2002, the Emerging Issues Task Force, or EITF, reached a consensus on Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. EITF Issue No. 00-21 requires the allocation of revenues into separate units of accounting for transactions that involve more than one deliverable and contain more than one unit of accounting. We elected to apply the accounting required by EITF Issue No. 00-21 prospectively to transactions entered into after June 30, 2003. The adoption of this standard did not have a significant impact on our consolidated results of operations or financial position.

Variable Interest Entities. In January 2003, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities an interpretation of ARB No. 51, or FIN 46. FIN 46 requires the consolidation of a variable interest entity, or VIE, where an equity investor achieves a controlling financial interest through arrangements other than voting interests, and it is determined that the investor will absorb a majority of the expected losses and/or receive the majority of residual returns of the VIE. We applied this interpretation beginning on July 1, 2003 for entities created prior to February 1, 2003. We determined that the partially-owned LOCs providing DIRECTV programming services in Venezuela and Puerto Rico, of which we owned 19.5% and 40.0%, respectively, are VIEs. As a result, on July 1, 2003, we began consolidating the Venezuelan and Puerto Rican LOCs resulting in an increase in total assets of $55.1 million, which included $29.1 million of cash. The adoption of this interpretation resulted in us recording an after-tax charge of $64.6 million to cumulative effect of accounting changes in the Consolidated Statements of Operations.

Prior to July 1, 2003, we accounted for our investments in the Venezuelan and Puerto Rican LOCs under the equity method of accounting and, through June 30, 2003, reflected approximately 75.0% of their net income or loss in Other, net in the Consolidated Statements of Operations due to the accumulation of net losses in excess of other investors investments.

Stock-Based Compensation. As discussed above, beginning on January 1, 2003, we adopted the fair value based method of accounting for stock-based employee compensation of SFAS No. 123, Accounting for Stock-Based Compensation as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of SFAS No. 123. Under this method, compensation expense equal to the fair value of the stock-based award at grant is recognized over the course of its vesting period. We elected to follow the prospective method of adoption, which resulted in the recognition of fair value based compensation cost in the Consolidated Statements of Operations for stock options and other stock-based awards granted to employees or modified on or after January 1, 2003.

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Goodwill and Other Intangible Assets. We adopted SFAS No. 142, Goodwill and Other Intangible Assets on January 1, 2002. As a result of completing the required transitional impairment test, we determined that the carrying value of reporting unit goodwill exceeded the fair value of that goodwill and that all of the goodwill recorded at DTVLA and DIRECTV Broadband, $631.8 million and $107.9 million, respectively, was impaired. In the fourth quarter of 2002, we also recorded a $16.0 million charge representing our share of the goodwill impairment of an equity method investee. As a result, we recorded a charge to Cumulative effect of accounting changes, net of taxes, of $681.3 million ($755.7 million pre-tax) as of January 1, 2002 in the Consolidated Statements of Operations.

New Accounting Standards

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, or SFAS No. 123R. SFAS No. 123R, which replaces SFAS No. 123 and supersedes APB Opinion No. 25, requires that compensation cost relating to share-based payment transactions be recognized in the financial statements, based on the fair value of the equity or liability instruments issued. SFAS No. 123R is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005 and applies to all awards granted, modified, repurchased or cancelled after the effective date. We do not expect the adoption of this standard to have a significant impact on our consolidated results of operations or financial position.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29, or SFAS No. 153. SFAS No. 153 eliminates the exception for nonmonetary exchanges of similar productive assets of APB Opinion No. 29 and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not expect the adoption of this standard to have a significant impact on our consolidated results of operations or financial position.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4, or SFAS No. 151. SFAS No. 151 amends ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for idle facility expense, freight, handling costs and wasted material. SFAS No. 151 requires that these types of costs be recognized as current period expenses. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect the adoption of this standard to have a significant impact on our consolidated results of operations or financial position.

Note 3: Acquisitions, Divestitures and Other Transactions

Acquisitions

Sky Transactions

On October 8, 2004, we entered into a series of transactions with News Corporation, Televisa, Globo and Liberty that provide for the Sky Transactions. The Sky Transactions are designed to strengthen the operating and financial performance of DTVLA by consolidating the DTH platforms of DTVLA and Sky Latin America into a single platform in each of the major territories served in the region. Total cash consideration for the equity interests in the Sky Latin America platforms is approximately $580 million, of which we paid $398 million in October 2004. The remainder is subject to adjustment and will be paid at the completion of the transactions.

In Brazil, DIRECTV Brasil and Sky Brasil have agreed to merge, with our DIRECTV Brasil customers migrating to the Sky Brasil platform. In addition, we intend to acquire the interests of News Corporation and

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Liberty in Sky Brasil upon completion, acquiring in excess of 70% of the merged platform. The transactions in Brazil are subject to local regulatory approval which has been requested but not yet granted. We intend to consolidate the operations of Sky Brasil only upon receipt of approval from the appropriate regulatory bodies. If we do not obtain required regulatory approvals, we may consider selling or shutting down DIRECTV Brasil with the expectation that following such an alternative transaction, we would be able to obtain regulatory approval to purchase the interests of News Corporation and Liberty in Sky Brasil.

In Mexico, DTVLA s local affiliate is in the process of closing its operations and has sold its subscriber list to Sky Mexico. In addition, we will acquire the interest of News Corporation and, jointly with Televisa, the interest of Liberty in Sky Mexico. We will receive up to a 15% equity interest in Sky Mexico as consideration for DIRECTV Mexico s subscriber list, which is expected to occur in late 2005. The amount of equity we expect to receive is impacted by the successful migration and retention of DIRECTV Mexico s subscribers to Sky Mexico and is subject to final verification. Upon consummation of these transactions, we anticipate having an equity interest of approximately 43% in Sky Mexico, which will not be a controlling interest.

In the rest of the region, we have acquired the interests of News Corporation and Liberty and have agreed to acquire the interests of Globo and Televisa in Sky Multi-Country Partners and certain related businesses, or PanAmericana, which own DTH platforms in Colombia and Chile. DTVLA intends to migrate the Sky Colombia and Sky Chile subscribers to the DTVLA platform in 2005. However, the transaction in Colombia is subject to local regulatory approval.

The cash consideration of approximately $580.0 million relates to the acquisition of the News Corporation s and Liberty s interests in Sky Brasil and Sky Mexico for approximately $362.0 million and $315.0 million, respectively, offset by the assumption of Sky s PanAmericana entities net liabilities of approximately $91.9 million. In the fourth quarter of 2004, we paid approximately $398.0 million of the total cash consideration, principally related to the prepayment of the Sky Brasil interests. The prepayments made by us related specifically to our acquisition of the Sky Brasil interests must be refunded by News Corporation should the transactions be terminated due to the inability to obtain local regulatory approval. We will consolidate the operations of Sky Brasil and have agreed to guarantee all of Sky Brasil s approximately $210.0 million of outstanding bank debt as well as all of their long-term transponder obligations upon receipt of local regulatory approval. We will not consolidate the operations of Sky Mexico, however, upon successful completion of the transaction, we have agreed to guarantee our attributable share of approximately $88.0 million of bank debt as well as our attributable share of their long-term transponder obligations in proportion to our ownership percentage. We began consolidating Sky s PanAmericana entities on October 8, 2004 and have recorded approximately $12.4 million of goodwill based on our preliminary allocation of purchase price, which is subject to adjustment. We have recorded the prepaid amounts and the present value of News Corporation s future reimbursement related to our assumption of certain liabilities of Sky s PanAmericana entities in Investments and Other Assets in our Consolidated Balance Sheets as of December 31, 2004.

Darlene Investments LLC, or Darlene, has filed suit alleging fraud, self-dealing and violation of fiduciary, contractual and other duties against us and certain of our subsidiaries (including DLA LLC), News Corporation and others seeking, among other things, injunctive relief to preclude the consummation of the Sky Transactions. See Note 21 for more information regarding this case.

NRTC Contract Rights

On June 2, 2004, DIRECTV U.S. and the National Rural Telecommunications Cooperative, or NRTC, announced an agreement, effective June 1, 2004, to end the NRTC s exclusive DIRECTV service distribution

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

agreement to certain rural territories in the United States and all related agreements. As consideration, DIRECTV U.S. agreed to pay the NRTC approximately $4.4 million per month through June 2011, or $322.1 million on a present value basis, calculated using an estimated incremental annual borrowing rate of 4.3%. As a result of this agreement, DIRECTV U.S. now has the right to sell its services in all territories across the United States. The present value of the cash payments to be made to the NRTC plus fees paid associated with the transaction, the total of which amounted to $334.1 million, were recorded in Accrued liabilities and other and Other Liabilities and Deferred Credits, with a corresponding amount recorded as distribution rights in Intangible Assets, net in the Consolidated Balance Sheets. The distribution rights intangible asset is being amortized to expense over seven years, which represents the remaining life of the DIRECTV service distribution agreement.

NRTC Member Subscribers

In connection with the NRTC transaction described above, during the second and third quarters of 2004, all NRTC members, excluding Pegasus Satellite Television, Inc., or Pegasus, elected to sell their subscribers to DIRECTV U.S. DIRECTV U.S. paid $187.2 million in the third quarter of 2004 for members electing a lump-sum payout plus additional fees associated with the transaction and recorded $198.3 million in Accrued liabilities and other and Other Liabilities and Deferred Credits for those members electing the long-term payment option of seven years plus interest. As a result, DIRECTV U.S. recorded a subscriber related intangible asset in Intangible Assets, net in the Consolidated Balance Sheets amounting to $385.5 million, which is being amortized over the estimated subscriber lives of approximately six years.

The total obligations owed to the NRTC and its members electing the long-term payment option amounted to $487.8 at December 31, 2004 and is payable approximately as follows: $63.3 million in 2005, $67.1 million in 2006, $71.2 million in 2007, $75.5 million in 2008, $80.2 million in 2009 and $130.5 million thereafter.

Pegasus Subscribers

On August 27, 2004, DIRECTV U.S. acquired the subscribers and certain assets, consisting primarily of subscriber accounts receivable, of Pegasus for a total purchase price of $987.9 million. The total cash consideration DIRECTV U.S. paid to Pegasus amounted to $773.0 million, which is the total purchase price net of amounts owed by Pegasus for programming and other services, and a May 2004 $63 million judgment in favor of DIRECTV U.S. As a result of the transaction, DIRECTV U.S. recorded a subscriber related intangible asset in Intangible Assets, net in the Consolidated Balance Sheets amounting to $951.3 million, which is being amortized over the estimated subscriber lives of approximately five years.

Other

As part of an arrangement with Telesat, DIRECTV U.S. agreed to provide Telesat the use of the DIRECTV 3 satellite, which was previously used as an in-orbit spare, through the end of its useful life and in return Telesat agreed to allow DIRECTV U.S. the use of its 72.5 WL orbital location through 2008. As additional consideration for DIRECTV U.S. use of 72.5 WL, DIRECTV U.S. also agreed to allow Telesat to use DIRECTV 5 or a similar satellite for a five year period, subject to certain conditions, beginning at the end of 2008. Upon receipt of final approval from the FCC in the third quarter of 2004, DIRECTV U.S. transferred DIRECTV 3 to Telesat and relocated DIRECTV 5, which was also an in-orbit spare, to 72.5 WL to provide additional local channels and other programming in the United States. These transactions have been recorded as an exchange of similar productive assets based on the net book values of the assets exchanged. As a result, we recorded a $162.6 million 72.5 WL orbital license intangible asset, which is equal to the $71.5 million net book value of the DIRECTV 3 satellite transferred from satellites, net, and an accrual for deferred lease revenues of $91.1 million, representing the value of the transferred satellite over the five year lease period. The 72.5 WL orbital license intangible asset is being amortized over the four year contract period, and the deferred lease revenues will be recognized as an offset to depreciation expense during the five year lease period beginning at the end of 2008.

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Divestitures

Hughes Network Systems

On December 6, 2004, we announced an agreement to sell a 50% interest in a new entity that will own substantially all of the remaining net assets of HNS, including the assets of the SPACEWAY business, to SkyTerra. The assets of the SPACEWAY business exclude rights to the first two satellites designed for the SPACEWAY program, SPACEWAY 1 and SPACEWAY 2, which will be used to support DIRECTV U.S. DTH satellite broadcasting business. The SPACEWAY assets include the rights related to the third SPACEWAY satellite which is currently under construction, as well as rights to a contemplated fourth SPACEWAY satellite and certain ground equipment and related intellectual property. We will retain a 50% interest in the new company and receive $251 million in cash, which is subject to closing adjustments, and 300,000 shares of SkyTerra common stock. Under the terms of this transaction, SkyTerra will be responsible for the day-to-day management of the new company. We recognized a pre-tax charge of $190.6 million to Asset impairment charges on the Consolidated Statements of Operations in the fourth quarter of 2004 related to this transaction. We expect the SkyTerra transaction to close in the first half of 2005 and it is subject to certain regulatory approvals, receipt of financing and other customary closing conditions. Following the closing of this transaction, we will no longer consolidate HNS, but rather will account for our investment under the equity method of accounting.

The carrying amounts of major classes of HNS assets and liabilities that have been included in Assets of businesses held for sale and Liabilities of businesses held for sale on the Consolidated Balance Sheets as of December 31, 2004 were as follows:

	December 31, 2004 (Dollars in Millions)
Total current assets	$ 314.3
Total assets	521.1