

## The Spirit of Imaginative Change



Managing for long-term growth and profitability, while consistently and appropriately investing in technology to maintain competitive leadership.



**MOTOROLA**

MOTOROLA | c3



William J. Weisz died December 17, 1997 at the age of 70. During his long and distinguished career at Motorola, he rose from junior development engineer in 1948 to president in 1970, chief operating officer in 1972, vice chairman in 1980, chief executive officer from 1986 to 1988 and chairman of the board of directors from 1993 until May 1997. Bill's enduring contributions will be remembered by Motorolans everywhere.

## Profile

Motorola is one of the world's leading providers of wireless communications, semiconductors and advanced electronic systems, components and services. Major equipment businesses include cellular telephone, two-way radio, paging and data communications, personal communications, automotive, defense and space electronics and computers. Motorola semiconductors power communication devices, computers and millions of other products.

## Contents

To Our Stockholders and Other Friends 1

Motorola at a Glance 14

Condensed Consolidated Financial Statements 17

Condensed Notes to Consolidated Financial Statements 20

Five Year Financial Summary 23

Directors and Management Board of Motorola, Inc. 24

CEO Quality Awards and Dan Noble Fellows 24

Stockholder Reference Information Inside Back Cover

## Financial Highlights

(Dollars in millions, except as noted)

Motorola, Inc. and Subsidiaries

Years ended December 31	1997	1996
Net sales	\$29,794	\$27,973
Earnings before income taxes	1,816	1,775
% to sales	6.1%	6.3%
Net earnings	1,180	1,154
% to sales	4.0%	4.1%
Diluted earnings per common share (in dollars)	1.94	1.90
Research and development expenditures	2,748	2,394
Capital expenditures	2,874	2,973
Working capital	4,181	3,324
Current ratio	1.46	1.42
Return on average invested capital <sup>1</sup>	8.4%	8.4%
Return on average stockholders' equity	9.4%	10.0%
% of net debt to net debt plus equity <sup>2</sup>	12.4%	13.4%
Book value per common share (in dollars)	22.21	19.88
Year-end employment (in thousands)	150	139

<sup>1</sup>Average invested capital is defined as stockholders' equity plus long and short-term debt less short-term investments (including those short-term investments categorized as cash equivalents).

<sup>2</sup>Net debt is defined as notes payable and current portion of long-term debt plus long-term debt less short-term investments and cash equivalents.



## On the Cover

The spirit of innovation has guided the renewal of Motorola, from the car radios of the 1930s, to the StarTAC® cellular phone of today, to the new industries of the future, such as global satellite communications.

# To Our Stockholders and Other Friends

The year 1997 was one of significant renewal for Motorola – one that included management changes, a return to growth in profits, the departure from certain nonstrategic businesses and the beginning of industries such as low-earth-orbit satellite manufacturing.

Sales in 1997 rose 7% to \$29.8 billion from \$28.0 billion in 1996. Earnings were \$1.18 billion, or \$1.94 per share (diluted), up from \$1.15 billion or \$1.90 per share, in 1996. Detailed results appear in the 1998 Proxy Statement, as well as on the Internet at [www.motorola.com](http://www.motorola.com).

It was a year of renewed growth in the Cellular Products and Semiconductor Products segments and continued strong

growth in the Land Mobile Products segment. The Messaging, Information and Media segment had lower sales and operating profits, reflecting weakness in the paging industry in the United States and in Asia, as well as a charge related to the planned exit from the retail analog modem business. Motorola also had charges relating to its exit from the dynamic random access memory and MacOS® compatible computer businesses.



*Christopher B. Galvin  
Chief Executive Officer*



*Robert L. Growney  
President and Chief Operating Officer*

## Discipline in a dynamic world

*Since the birth of the corporation, Motorolans have taken risks to create new industries, while practicing financial discipline to benefit long-term stockholders.*

Motorola takes significant risk in developing new technology, starting new industries and segments, and opening new regions and markets. But Motorola takes *very little* balance sheet risk. Throughout its history, Motorola has phased out businesses with limited potential to focus on new technologies and new markets throughout the world. We have been involved in the creation of each



*Research and Development spending has climbed steadily in the last five years.*

of the major industries in which we compete today. This growth strategy requires significant long-term investment. Research and development expenses rose to \$2.748 billion in 1997.

Despite the risks involved in expanding into new markets

and technologies, Motorola's balance sheet remains strong. The ratio of net debt to net debt plus equity declined to 12.4% at the end of 1997 from 13.4% a year ago.



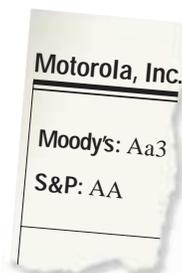
*Thin and light, yet  
with bright images  
and vibrant colors,  
Field Emission  
Displays will enable  
a new generation of  
electronic products.*

The rotation of presidents among Motorola's sectors and regions continued in 1997, following the management succession plan under which Gary L. Tooker was elected Chairman of the Board. Members of the Board of Directors and the Management Board are listed on page 24.

We are still facing challenges in 1998, as we expect the economic conditions in



certain markets in Asia that affected results in the fourth quarter of 1997 to continue for at least the first half of 1998. We will continue to control costs, but we will also continue our global investments where appropriate, as well as our strategic investments in technology. We remain confident that Motorola is building the foundation for continued profitable growth in the years to come.



*Motorola's strong balance sheet is reflected by a credit rating of AA from Standard & Poor's and Aa3 from Moody's Investors Service.*

## Building and investing in core technologies

We continue to see exciting potential in extensions of our core technologies.

Despite dramatic growth, the worldwide market penetration for cellular telephones and pagers is still only about 3% for each. In 1997 we introduced a broad line of advanced cellular handsets in major digital formats. We have more than 80 Global System for Mobile Communications (GSM) infrastructure contracts



worldwide and have launched 38 Code Division Multiple Access (CDMA) systems.



*JAZZ™,  
Motorola's  
smallest word  
message pager,  
measures 2.39"  
x 1.5" x .66"  
(60.8 x 38 x  
16.8mm) and  
delivers complete  
text messages.*

Our Wireless Local Loop systems often act as the primary phone system in emerging markets.

We shipped our 20 millionth pager based on our FLEX™ high-capacity messaging protocol, which is rapidly emerging as a global standard. The technology has enabled the extension of basic one-way



*The iDEN® i600 digital handset enables a user to hold a conference call at the push of a button.*

paging into two-way and voice messaging. Paging penetration rates in some of the world's most populous emerging markets are still less than 1%.

Integrated digital wireless communications for workgroups on the move represent the leading edge of our core two-way radio business. These iDEN® systems can combine mobile tele-

phone, conferencing, text messaging and data in a single unit. Other advanced

*Motorola's StarTAC® cellular phones incorporate breakthrough technologies from design through manufacturing, enabling people to stay in touch anywhere, anytime.*



two-way radio systems continue to serve public safety agencies and industries such as oil refineries and power generation.

We continue to build on our core strength in space communications. For almost 40 years, Motorola equipment has maintained a vital link between space-bound explorers and their earth-bound counterparts.

The Mars Pathfinder is the latest in a long list of such programs.

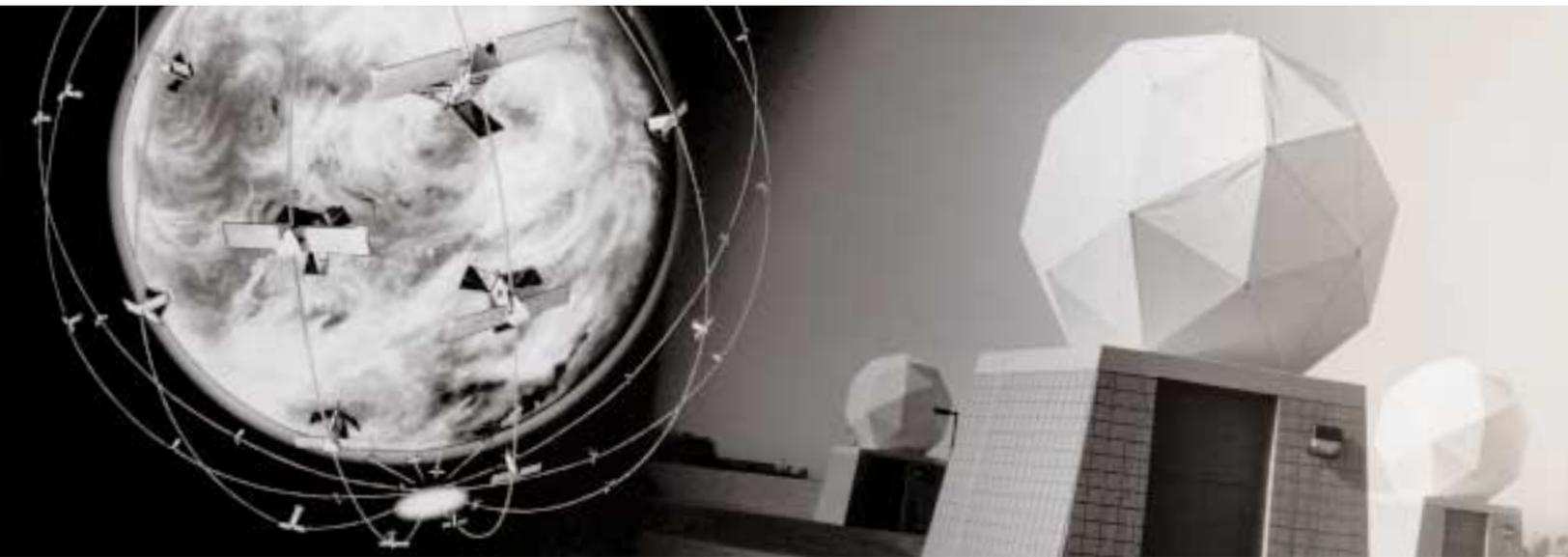


*A Motorola transponder aboard the Pathfinder spacecraft sends scientific data from Mars to Earth.*

## Creating new industries and segments

*As prime contractor for the IRIDIUM® global communication system, Motorola created the low-earth-orbit satellite industry and set a record for the number of satellites deployed in an eight-month period.*

With the development of the IRIDIUM® global personal communications system, Motorola has created a new industry – manufacturing and deploying 46 Low-Earth-Orbit (LEO) satellites in just eight months. Building on our systems design and integrated manufacturing techniques, we are able to produce a satellite in less than 25 days, at a cost 80% less than that of previous generations of satellites.



The IRIDIUM® system is scheduled to begin commercial service later in 1998.



*The Cable Router, which resides at the cable operator's headend, manages up to 5,000 CyberSURFR® cable modems.*

The digital communications system of 66 LEO satellites is to provide subscribers with worldwide voice, data, fax and paging capability using a hand-held phone and pager. It sets the stage for future generations of systems that could deliver services such as desktop videoconferencing, broadcast news and entertainment.



*This telephone is used in a telematics system that gives drivers access to security and information services.*

Building on the integration of cellular telephone and satellite technologies, Motorola is creating products for telematics, designed to provide security, information, convenience and entertainment from a central service center to drivers and their passengers.

Our technology also is leading the way to the creation of telephone systems over hybrid fiber coaxial cable. During 1997 we also shipped infrastructure to support over



2 million cable modems in more than 100 cities on five continents.

Our new Smartcard Systems Business is developing solutions for industries ranging from transit to finance. Our entrance into this market, coupled with our 1993 acquisition of Indala Corp., a provider of security and access control systems, paves the way for Motorola to participate actively in the growing smart card industry.



*Motorola intends to make smart cards a universal convenience that will change the way we work, live and play.*

## Market-driven organizational strength

The rotation of leadership among Motorola's major businesses is positioning the company for competing in the next quarter century. For example, during 1997 the Semiconductor Products Sector began charting a new direction to better meet the changing needs of customers by providing total system solutions. Drawing on its broad range of technologies, the sector has aligned its businesses closer to



customers. The realignment reflects the sector's global nature, with major groups headquartered in Europe, Asia and the United States.



*The Motorola MPX2700AS Pressure Sensor provides speed control for Polaris personal watercraft.*

The new organization includes four market-focused groups and a Semiconductor Components Group. The Consumer Systems Group covers the technology found in products ranging from games and digital cameras to computer printers, smart cards and



*The MMAS40GWB is Motorola's premier accelerometer sensor for automotive and industrial uses.*

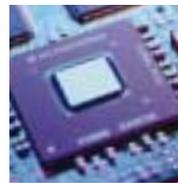
high-definition television. The Transportation Systems Group focuses on automotive applications from engine and power train control to digital sound systems. The EV1 electric vehicle from General Motors contains more than 700 Motorola semiconductors.

The Wireless Subscriber Systems Group is driving Motorola's digital signal processing architecture. The move from analog to digital technologies will more

*Motorola invests in the most advanced semiconductor wafer fabrication and assembly facilities in the world. Customers are designing Motorola embedded chips into products ranging from automobiles to computer printers.*



than triple the amount of silicon used in wireless devices such as cellular telephones. Other markets served include devices that tap into a data source such as the Internet. The Networking and Computing Systems Group creates the embedded silicon technology that is used by most major switch manufacturers. Most of the routers running the Internet use Motorola processors.



*The PowerPC 750™ microprocessor was named "Editor's Choice Best RISC Processor" for 1997 by Microprocessor Report.*

## Regionalization

*Motorola's global presence enables it to create products designed for the specific needs of customers in all parts of the world.*

You can find Motorola people in more than 1,100 locations in 45 countries today.

We have more than 65 manufacturing facilities worldwide, and we are opening more and more research and development centers close to the customers we serve throughout the world. To enhance our ability to seize global opportunities, we made a series of changes in our regional and staff structure in 1997.



*Motorola's most rapid growth is taking place in Latin America, part of the Americas Region.*

The new Americas Region reflects the growing importance of Latin America, where Motorola's sales have increased rapidly.

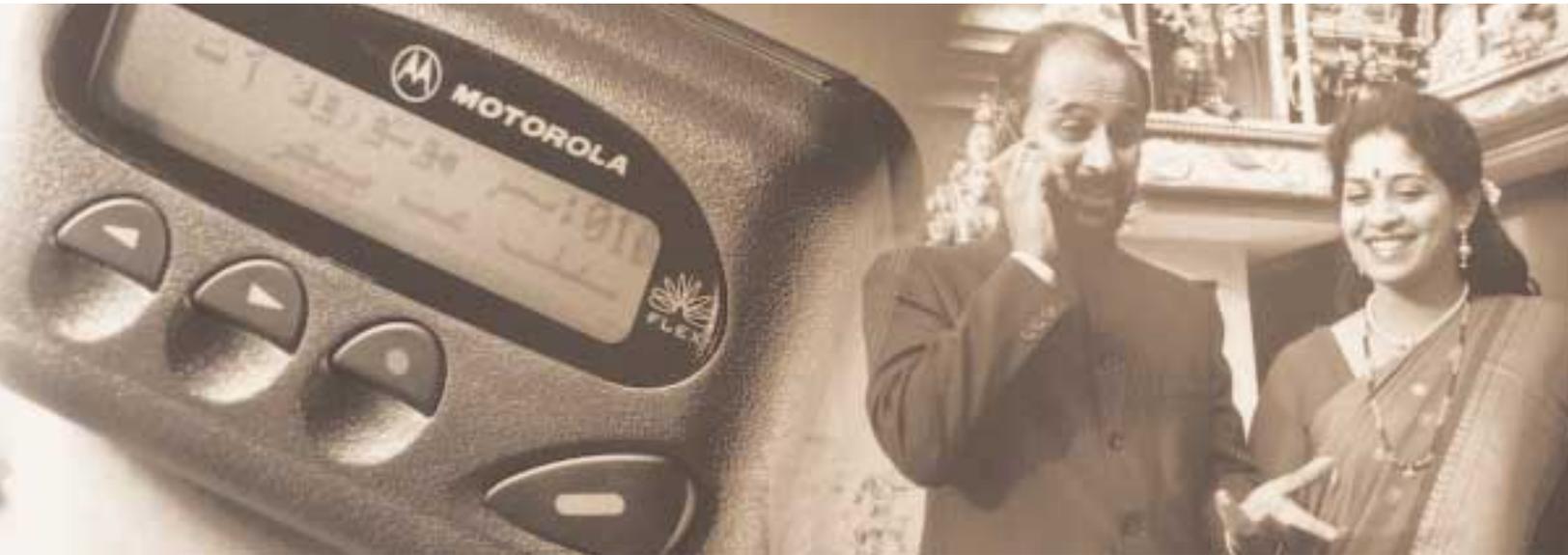
The region is benefiting from improved governmental stability and a trend toward privatization. It is estimated that half of the region's 490 million people have never used a phone. We added

new facilities in Brazil and Mexico during 1997, and we are expanding our presence throughout the region.



*As Official Supplier Partner to the Union of European Football Associations, Motorola is providing advanced communications technology.*

Another of our regional organizations includes Europe, the Middle East and Africa. We have had a manufacturing presence in Western Europe for 30 years, and today, we are penetrating new markets in Central and Eastern Europe, as well as the Middle East and Africa, where demand for wireless communications continues to grow.



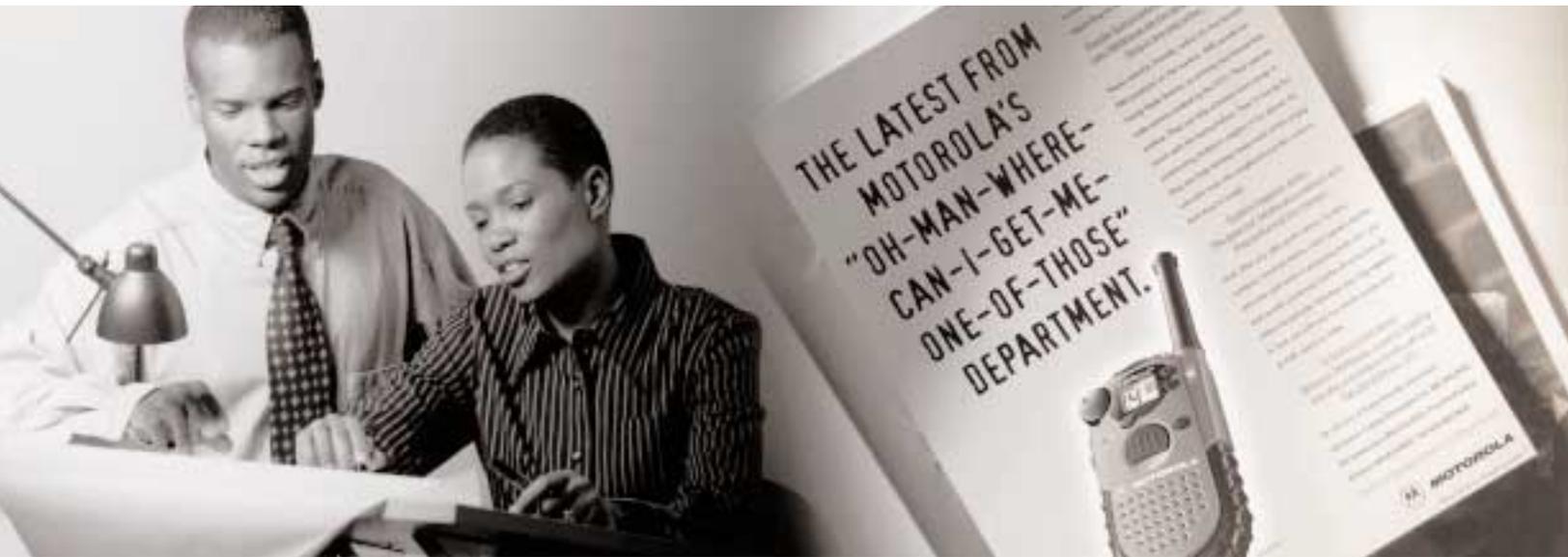
We also continue to see long-term growth potential in Asia, although current conditions in certain markets are reducing the rate of sales growth. Our manufacturing presence in Asia should help lessen the impact of expected lower economic growth and greater pricing pressures. India continues to represent a major opportunity for growth.



*Nippon  
Motorola Ltd.*

## Connecting with the consumer

Over the years, Motorola has earned a reputation among its customers as a company whose quality products enable them to solve problems and do the things they want to do. Today, as our products move more and more into the consumer arena, we are working very hard to build equity in the Motorola name and identity, especially in parts of the world where people are not as familiar with the company.



*The TalkAbout™ two-way radio is a winner of four industry awards including Popular Science magazine's "Best of What's New."*

We know that we cannot succeed unless we commit ourselves to excellence in marketing throughout the world. This involves getting into a dialog with the people who use our products to better understand how Motorola improves people's lives. We are developing the marketing strategies that can make us the most competitive provider of products and services to consumers.



*The Wordline FLX™ word message pager brings full-word messaging and information updates.*

Motorola enables consumers to improve the way they live and work in ways they never expected. We give people freedom, mobility and convenience. In doing so, we are building the tools that people need for success in the next century. We provide

access to information, and we develop products that help people lead safer and healthier lives, wherever they are, anywhere in the world.

*Drawing on creative resources throughout the world, Motorola is enhancing brand awareness through print, television and point-of-purchase display.*



We are confident that throughout Motorola, this spirit of renewal and re-focusing to focus on our customers will create a more dynamic enterprise that will increase value to stockholders over the long term.



*The StarTAC® wearable cellular telephone has become one of the most preferred cellular phones on the market.*

For the Management Board,

Christopher B. Galvin  
Chief Executive Officer

Robert L. Growney  
President and Chief Operating Officer

**Semiconductor  
Products Sector**

**Cellular  
Subscriber Sector**

**Cellular Networks  
and Space Sector**

**Business Activities**

Designs, produces and distributes integrated semiconductor solutions and components for the consumer, networking and computing, transportation and wireless communications markets worldwide.

Designs, manufactures and distributes a full range of wireless telephone products for worldwide markets.

Designs and manufactures equipment for wireless telephone systems, advanced electronic systems and satellite communications for commercial and government customers and is responsible for forming joint-venture telecom operating companies worldwide.

**Representative Products**



M•CORE™ Low-Power Memory Efficient 32-bit microRISC Architecture



MicroDigital M75 TDMA Digital Cellular Telephone



M-Cellcity™ GSM Base Station



IRIDIUM® System Satellite

**Organization**

Consumer Systems Group  
Networking and Computing Systems Group  
Semiconductor Components Group  
Transportation Systems Group  
Wireless Subscriber Systems Group  
Asia-Pacific and Japan Region  
Americas Region  
Europe, Middle East and Africa Region

Pan American Cellular Subscriber Group  
European Cellular Subscriber Division  
Greater China and Central Asia Division  
Japan, Eastern Asia and Pacific Division

Cellular Infrastructure Group  
Network Management Group  
Space and Systems Technology Group

## Land Mobile Products Sector

Designs, manufactures and distributes analog and digital two-way voice and data radio products and systems for applications worldwide, from on-site to wide-area communications.



MTP300 Dimetra™ TETRA-Compliant Two-Way Radio

## Messaging, Information and Media Sector

Designs, manufactures and distributes a variety of messaging products, including pagers and paging systems, wireless and wireline data communications products, infrastructure equipment and systems, handwriting-recognition products, image communications products and services, and Internet software products.



CyberSURFR® Wave Cable Modem



PageWriter™ 2000 Pocket Message Center

## Automotive, Component, Computer and Energy Sector

Designs and manufactures a broad range of electronic components, modules and integrated electronic systems and products for automotive, computer, industrial, transportation, navigation, communication, energy systems, consumer and lighting markets.



StarTAC® Desktop Charger



MVME2700 Single Board Computer

Radio Network Solutions Group  
Radio Products Group  
Integrated Digital Enhanced Network (iDEN) Group  
Network Services and Strategy Group  
Worldwide Accessories and Aftermarket Division

Messaging Systems Products Group  
Information Systems Group  
Multimedia Group  
Lexicus Division  
Platform Software Division

Automotive and Industrial Electronics Group  
Component Products Group  
Energy Systems Group  
Flat Panel Display Division  
Motorola Computer Group  
Motorola Lighting, Inc.

## 1997 Net Sales by Business Segment

(In percentages)



- Cellular Products 40%
- Semiconductor Products 21%
- Land Mobile Products 16%
- Messaging, Information and Media Products 13%
- Other Products 10%

## 1997 Market Sales by Region

(In percentages)



- United States 42%
- Europe 19%
- China 11%
- Asia-Pacific 9%
- Latin America 7%
- Japan 6%
- Rest of World 6%

## Management's Responsibility for Financial Statements

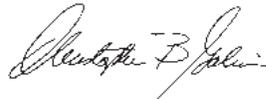
Management is responsible for the preparation, integrity and objectivity of the consolidated financial statements and other financial information presented in this report. The accompanying consolidated financial statements were prepared in accordance with generally accepted accounting principles, applying certain estimates and judgments as required.

Motorola's internal controls are designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of assets. Such controls are based on established written policies and procedures, are implemented by trained, skilled personnel with an appropriate segregation of duties and are monitored through a comprehensive internal audit program. These policies and procedures prescribe that the Company and all its employees are to maintain the highest ethical standards and that its business practices throughout the world are to be conducted in a manner which is above reproach.

*Motorola, Inc. and*

KPMG Peat Marwick LLP, independent auditors, are retained to audit Motorola's financial statements. Their accompanying report is based on audits conducted in accordance with generally accepted auditing standards, which include the consideration of the Company's internal controls to establish a basis for reliance thereon in determining the nature, timing and extent of audit tests to be applied.

The Board of Directors exercises its responsibility for these financial statements through its Audit Committee, which consists entirely of independent non-management Board members. The Audit Committee meets periodically with the independent auditors and with the Company's internal auditors, both privately and with management present, to review accounting, auditing, internal controls and financial reporting matters.



Christopher B. Galvin  
Chief Executive Officer



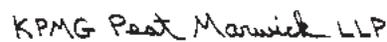
Carl F. Koenemann  
Executive Vice President  
and Chief Financial Officer

## Independent Auditors' Report

### **The Board of Directors and Stockholders of Motorola, Inc.:**

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheets of Motorola, Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997, appearing in the appendix to the proxy statement for the 1998 Annual Meeting of Shareholders of the Corporation (not presented herein); and in our report dated January 12, 1998, also appearing in that proxy statement appendix, we expressed an unqualified opinion on those consolidated financial

statements. In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly presented, in all material respects, in relation to the consolidated financial statements from which it has been derived.



KPMG Peat Marwick LLP  
Chicago, Illinois  
February 16, 1998

## Consolidated Statements of Earnings

<i>(Dollars in millions, except per share amounts)</i>	<i>Motorola, Inc. and Subsidiaries</i>		
Years ended December 31	<b>1997</b>	1996	1995
<i>Net sales</i>	<b>\$29,794</b>	\$27,973	\$27,037
<i>Costs and expenses</i>			
Manufacturing and other costs of sales	<b>20,003</b>	18,990	17,545
Selling, general and administrative expenses	<b>5,515</b>	4,715	4,642
Depreciation expense	<b>2,329</b>	2,308	1,919
Interest expense, net	<b>131</b>	185	149
Total costs and expenses	<b>27,978</b>	26,198	24,255
<i>Net gain on Nextel asset exchange (Note 1)</i>	–	–	443
<i>Earnings before income taxes<sup>1</sup></i>	<b>1,816</b>	1,775	3,225
<i>Income taxes provided on earnings<sup>1</sup></i>	<b>636</b>	621	1,177
<i>Net earnings<sup>1</sup></i>	<b>\$ 1,180</b>	\$ 1,154	\$ 2,048
<i>Basic earnings per common share<sup>1</sup></i>	<b>\$ 1.98</b>	\$ 1.95	\$ 3.47
<i>Diluted earnings per common share<sup>1</sup></i>	<b>\$ 1.94</b>	\$ 1.90	\$ 3.37
<i>Diluted weighted average common shares outstanding</i>	<b>612.2</b>	609.0	609.7

<sup>1</sup> 1995 earnings before income taxes, income taxes provided on earnings, net earnings, basic earnings per common share and diluted earnings per common share would have been \$2,782, \$1,001, \$1,781, \$3.02 and \$2.93, respectively, without the one-time gain on the exchange of 800 megahertz Specialized Mobile Radio business, systems and licenses in the U.S. to Nextel Communications, Inc. for shares of Nextel stock as described in Note 1.

## Consolidated Statements of Stockholders' Equity

<i>(Dollars in millions, except per share amounts)</i>	Common Stock and Additional Paid-in Capital			Retained Earnings		
Years ended December 31	<b>1997</b>	1996	1995	<b>1997</b>	1996	1995
Balances at January 1	<b>\$3,185</b>	\$3,257	\$3,138	<b>\$8,610</b>	\$7,728	\$5,917
Net earnings	–	–	–	<b>1,180</b>	1,154	2,048
Conversion of zero coupon notes	<b>7</b>	7	23	–	–	–
Unrealized net gain (loss) on certain investments	<b>559</b>	(103)	85	–	–	–
Stock options exercised and other	<b>17</b>	24	11	–	–	–
Dividends declared (\$.48 per share in 1997, \$.46 in 1996 and \$.40 in 1995)	–	–	–	<b>(286)</b>	(272)	(237)
Balances at December 31	<b>\$3,768</b>	\$3,185	\$3,257	<b>\$9,504</b>	\$8,610	\$7,728

See accompanying condensed notes to consolidated financial statements.

## Consolidated Balance Sheets

(Dollars in millions, except per share amounts)

Motorola, Inc. and Subsidiaries

December 31	1997	1996
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,445	\$ 1,513
Short-term investments	335	298
Accounts receivable, net	4,847	4,035
Inventories	4,096	3,220
Deferred income taxes	1,726	1,580
Other current assets	787	673
Total current assets	13,236	11,319
Property, plant and equipment, net	9,856	9,768
Other assets	4,186	2,989
Total assets	\$27,278	\$24,076
<b>Liabilities and Stockholders' Equity</b>		
<i>Current liabilities</i>		
Notes payable and current portion of long-term debt	\$ 1,282	\$ 1,382
Accounts payable	2,297	2,050
Accrued liabilities	5,476	4,563
Total current liabilities	9,055	7,995
Long-term debt	2,144	1,931
Deferred income taxes	1,522	1,108
Other liabilities	1,285	1,247
<i>Stockholders' equity</i>		
Common stock, \$3 par value		
Authorized shares: 1997 and 1996, 1,400		
Issued and outstanding shares: 1997, 597.4; 1996, 593.4	1,792	1,780
Preferred stock, \$100 par value issuable in series		
Authorized shares: 0.5 (none issued)	—	—
Additional paid-in capital	1,976	1,405
Retained earnings	9,504	8,610
Total stockholders' equity	13,272	11,795
Total liabilities and stockholders' equity	\$27,278	\$24,076

See accompanying condensed notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

<i>(Dollars in millions)</i>	<i>Motorola, Inc. and Subsidiaries</i>		
Years ended December 31	1997	1996	1995
<b>Operating</b>			
Net earnings	<b>\$ 1,180</b>	\$ 1,154	\$ 2,048
Add (deduct) non-cash items			
Depreciation	<b>2,329</b>	2,308	1,919
Deferred income taxes	<b>(98)</b>	(160)	(55)
Amortization of debt discount and issue costs	<b>10</b>	8	12
Gain on Nextel asset exchange	<b>–</b>	–	(267)
Gain on disposition of investments in affiliated companies	<b>(116)</b>	(78)	(111)
Change in assets and liabilities, net of effects of acquisitions and dispositions			
Accounts receivable, net	<b>(812)</b>	101	(653)
Inventories	<b>(880)</b>	308	(856)
Other current assets	<b>(114)</b>	(69)	(100)
Accounts payable and accrued liabilities	<b>1,157</b>	398	1,172
Other assets and liabilities	<b>(60)</b>	220	156
Net cash provided by operating activities	<b>2,596</b>	4,190	3,265
<b>Investing</b>			
Acquisitions and advances to affiliated companies	<b>(286)</b>	(346)	(563)
Proceeds from dispositions of investments in affiliated companies	<b>248</b>	119	252
Capital expenditures	<b>(2,874)</b>	(2,973)	(4,225)
Other changes to property, plant and equipment, net	<b>324</b>	242	(11)
(Increase) decrease in short-term investments	<b>(37)</b>	52	(32)
Net cash used for investing activities	<b>(2,625)</b>	(2,906)	(4,579)
<b>Financing</b>			
Net increase (decrease) in commercial paper and short-term borrowings	<b>(100)</b>	(260)	686
Proceeds from issuance of debt	<b>312</b>	55	851
Repayment of debt	<b>(102)</b>	(37)	(74)
Issuance of common stock	<b>137</b>	7	71
Payment of dividends	<b>(286)</b>	(261)	(236)
Net cash provided by (used for) financing activities	<b>(39)</b>	(496)	1,298
Net increase (decrease) in cash and cash equivalents	<b>\$ (68)</b>	\$ 788	\$ (16)
Cash and cash equivalents, beginning of year	<b>\$ 1,513</b>	\$ 725	\$ 741
Cash and cash equivalents, end of year	<b>\$ 1,445</b>	\$ 1,513	\$ 725

## Supplemental Cash Flow Information

<i>(Dollars in millions)</i>			
Years ended December 31	1997	1996	1995
<b>Cash paid during the year for:</b>			
Interest	<b>\$211</b>	\$237	\$193
Income taxes	<b>\$611</b>	\$506	\$947

See accompanying condensed notes to consolidated financial statements.

## 1. Summary of Significant Accounting Policies

**Consolidation and Investments:** The consolidated financial statements include the accounts of Motorola, Inc. and all majority-owned subsidiaries (the Company) in which it has control. The Company's investments in non-controlled entities in which it has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method. The Company's investments in other entities are carried at their historical cost. Certain of these cost-based investments are marked-to-market at the balance sheet date to reflect their fair value with the unrealized gains and losses, net of tax, included in a separate component of stockholders' equity.

**Cash Equivalents:** The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Revenue Recognition:** The Company uses the percentage-of-completion method to recognize revenues and costs associated with most long-term contracts. For contracts involving certain new technologies, revenues and profits or parts thereof are deferred until technological feasibility is established, customer acceptance is obtained and other contract-specific factors have been completed. For other product sales, revenue is recognized at the time of shipment, and reserves are established for price protection and cooperative marketing programs with distributors.

**Inventories:** Inventories are valued at the lower of average cost (which approximates computation on a first-in, first-out basis) or market (i.e., net realizable value or replacement cost).

**Property, Plant and Equipment:** Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally using the declining-balance method, based on the estimated useful lives of the assets (buildings and building equipment, 5-40 years; machinery and equipment, 2-12 years).

**Fair Values of Financial Instruments:** The fair values of financial instruments are determined based on quoted market prices and market interest rates as of the end of the reporting period.

**Foreign Currency Translation:** The Company's European and Japanese operations and certain non-consolidated affiliates use the respective local currencies as the functional currency. For all other operations, the Company uses the U.S. dollar as the functional currency. The effects of translating the financial position and results of operations of local functional currency operations into U.S. dollars are included in a separate component of stockholders' equity.

**Foreign Currency Transactions:** The effects of remeasuring the non-functional currency assets or liabilities into the functional currency as well as gains and losses on hedges of existing assets or liabilities are marked-to-market, and the result is recorded within selling, general and administrative expenses in the statement of earnings. Gains and losses on financial instruments which hedge firm future commitments are deferred until such time as the underlying transactions are recognized or recorded immediately when the transaction is no longer expected to occur. Foreign exchange financial instruments which hedge investments in foreign subsidiaries are marked-to-market, and the results are included in stockholders' equity. Other gains or losses on financial instruments which do not qualify as hedges are recognized immediately as income or expense.

**Use of Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications and Restatement:** Certain amounts in prior years' financial statements and related notes have been reclassified to conform to the 1997 presentation.

After discussions with the Securities and Exchange Commission regarding the 1995 sale of its U.S. 800 megahertz Specialized Mobile Radio business, systems and licenses to Nextel Communications, Inc. for shares of Nextel stock, the Company restated its 1995 historical financial statements and has made resulting reclassifications to the December 31, 1996 Consolidated Balance Sheet. As a result, the Company has amended its Form 10-K for the year ending December 31, 1996 originally filed on March 25, 1997, to reflect the restatement and reclassifications.

**Recent Accounting Pronouncements:** The Company has adopted and retroactively applied the requirements of Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," to all periods presented. This change did not have a material impact on the computation of the earnings per share data.

## **2. Information by Industry Segment and Geographic Region**

The Company operates predominantly in the wireless communication, semiconductor technology and advanced electronics industries. Operations involve the design, manufacture and sale of a diversified line of products, which include, but are not limited to, cellular phones and systems; semiconductors, including discrete semiconductors and integrated circuits; two-way radios, pagers, data communication, personal communications equipment and systems; and automotive, defense and space electronic products. As of and for the years ended December 31, 1997, 1996 and 1995, manufacturing and distribution operations in any one non-U.S. country did not account for more than 10% of consolidated net sales or total assets.

Sales and operating profits by geographical area are measured by the locale of the revenue-producing operations. Operating profits (revenues less operating expenses) exclude general corporate expenses, net interest and income taxes. Intersegment and intergeographic transfers are accounted for on an arm's length pricing basis.

Identifiable assets (excluding intersegment receivables) are the Company's assets that are identified with classes of similar products or operations in each geographic area. Corporate assets primarily include cash, marketable securities, equity investments and the administrative headquarters of the Company.

In 1997, 1996 and 1995, no single customer or group under common control represented 10% or more of the Company's sales. The equity in net assets of non-U.S. subsidiaries amounted to \$7.3 billion at December 31, 1997 and \$6.2 billion at December 31, 1996.

Information for 1996 and 1995 has been reclassified to reflect the realignment of various business units. The Cellular Products segment includes the Cellular Subscriber Sector, the Cellular Infrastructure Group and the Network Management Group (formerly included in the General Systems segment). Results of the Motorola Computer Group (formerly included in the General Systems segment) are now included in the Other Products segment. The results of Indala Corp., formerly in the Other Products segment, have been moved to the Land Mobile Products segment.

(Dollars in millions, except as noted)

Motorola, Inc. and Subsidiaries

Industry segment information

Years ended December 31	Net Sales			Operating Profit					
	1997	1996	1995	1997		1996		1995	
Cellular Products	\$11,934	\$10,804	\$10,211	\$1,398	11.7%	\$1,288	11.9%	\$1,278	12.5%
Semiconductor Products	8,003	7,858	8,539	332	4.2%	382	4.9%	1,218	14.3%
Land Mobile Products	4,926	4,008	3,618	588	11.9%	498	12.4%	316	8.7%
Messaging, Information and Media Products	3,793	3,958	3,681	80	2.1%	90	2.3%	310	8.4%
Other Products	4,316	4,058	3,775	(41)	(0.9)%	80	2.0%	127	3.4%
Adjustments and eliminations	(3,178)	(2,713)	(2,787)	(43)	—	(29)	—	(48)	—
Industry segment totals	\$29,794	\$27,973	\$27,037	2,314	7.8%	2,309	8.3%	3,201	11.8%
General corporate expenses				(367)		(349)		(270)	
Net gain on Nextel asset exchange				—		—		443	
Interest expense, net				(131)		(185)		(149)	
Earnings before income taxes				\$1,816	6.1%	\$1,775	6.3%	\$3,225	11.9%

Years ended December 31	Assets			Capital Expenditures			Depreciation Expense		
	1997	1996	1995	1997	1996	1995	1997	1996	1995
Cellular Products	\$ 8,021	\$ 6,314	\$ 5,842	\$ 900	\$ 673	\$ 731	\$ 534	\$ 474	\$ 431
Semiconductor Products	7,947	7,889	7,938	1,153	1,416	2,530	1,169	1,160	909
Land Mobile Products	2,538	2,130	2,118	228	159	171	168	162	157
Messaging, Information and Media Products	2,391	2,506	2,527	149	275	357	219	243	204
Other Products	2,974	2,256	2,094	178	196	314	191	221	171
Adjustments and eliminations	(458)	(262)	(224)	—	—	—	—	—	—
Industry segment totals	23,413	20,833	20,295	2,608	2,719	4,103	2,281	2,260	1,872
General corporate	3,865	3,243	2,443	266	254	122	48	48	47
Consolidated totals	\$27,278	\$24,076	\$22,738	\$2,874	\$2,973	\$4,225	\$2,329	\$2,308	\$1,919

Geographic area information

Years ended December 31	Net Sales			Operating Profit					
	1997	1996	1995	1997		1996		1995	
United States	\$21,809	\$20,614	\$19,187	\$1,076	4.9%	\$1,249	6.1%	\$1,681	8.8%
Other nations	18,032	16,883	16,954	1,488	8.3%	1,430	8.5%	1,901	11.2%
Adjustments and eliminations	(10,047)	(9,524)	(9,104)	(250)	—	(370)	—	(381)	—
Geographic totals	\$29,794	\$27,973	\$27,037	2,314	7.8%	2,309	8.3%	3,201	11.8%
General corporate expenses				(367)		(349)		(270)	
Gain on Nextel asset exchange				—		—		443	
Interest expense, net				(131)		(185)		(149)	
Earnings before income taxes				\$1,816	6.1%	\$1,775	6.3%	\$3,225	11.9%

December 31	Assets		
	1997	1996	1995
United States	\$14,000	\$12,797	\$12,552
Other nations	10,064	8,604	8,197
Adjustments and eliminations	(651)	(568)	(454)
Geographic totals	23,413	20,833	20,295
General corporate assets	3,865	3,243	2,443
Consolidated totals	\$27,278	\$24,076	\$22,738

## Five Year Financial Summary

(Dollars in millions, except per share amounts and other data)

Motorola, Inc. and Subsidiaries

Years ended December 31	1997	1996	1995	1994	1993
<b>Operating Results</b>					
Net sales	<b>\$29,794</b>	\$27,973	\$27,037	\$22,245	\$16,963
Manufacturing and other costs of sales	<b>20,003</b>	18,990	17,545	13,760	10,351
Selling, general and administrative expenses	<b>5,515</b>	4,715	4,642	4,381	3,776
Depreciation expense	<b>2,329</b>	2,308	1,919	1,525	1,170
Interest expense, net	<b>131</b>	185	149	142	141
Total costs and expenses	<b>27,978</b>	26,198	24,255	19,808	15,438
Net gain on Nextel asset exchange	—	—	443	—	—
Earnings before income taxes	<b>1,816</b>	1,775	3,225	2,437	1,525
Income taxes provided on earnings	<b>636</b>	621	1,177	877	503
Net earnings	<b>\$ 1,180</b>	\$ 1,154	\$ 2,048	\$ 1,560	\$ 1,022
Net earnings as a percent of sales	<b>4.0%</b>	4.1%	7.6%	7.0%	6.0%
<b>Per Share Data</b> (in dollars) <sup>1</sup>					
Diluted earnings per common share	<b>\$ 1.94</b>	\$ 1.90	\$ 3.37	\$ 2.66	\$ 1.78
Diluted weighted average common shares outstanding	<b>612.2</b>	609.0	609.7	591.7	582.6
Dividends declared	<b>\$ 0.480</b>	\$ 0.460	\$ 0.400	\$ 0.310	\$ 0.220
<b>Balance Sheet</b>					
Total assets	<b>\$27,278</b>	\$24,076	\$22,738	\$17,495	\$13,498
Working capital	<b>4,181</b>	3,324	2,717	3,008	2,324
Long-term debt	<b>2,144</b>	1,931	1,949	1,127	1,360
Total debt	<b>3,426</b>	3,313	3,554	2,043	1,915
Total stockholders' equity	<b>\$13,272</b>	\$11,795	\$10,985	\$ 9,055	\$ 6,409
<b>Other Data</b>					
Current ratio	<b>1.46</b>	1.42	1.35	1.51	1.53
Return on average invested capital	<b>8.4%</b>	8.4%	16.7%	17.5%	15.3%
Return on average stockholders' equity	<b>9.4%</b>	10.0%	20.2%	21.1%	17.8%
Capital expenditures	<b>\$ 2,874</b>	\$ 2,973	\$ 4,225	\$ 3,322	\$ 2,187
% to sales	<b>9.6%</b>	10.6%	15.6%	14.9%	12.9%
Research and development expenditures	<b>\$ 2,748</b>	\$ 2,394	\$ 2,197	\$ 1,860	\$ 1,521
% to sales	<b>9.2%</b>	8.6%	8.1%	8.4%	9.0%
Year-end employment (in thousands)	<b>150</b>	139	142	132	120

<sup>1</sup>Per share data reflects the requirements of SFAS 128.

## Directors and Management Board of Motorola, Inc.

### Directors

*Gary L. Tooker*  
Chairman of the Board  
Motorola, Inc.

*Ronnie C. Chan*  
Chairman,  
Hang Lung Development Group

*H. Laurance Fuller*  
Chairman of the Board and  
Chief Executive Officer  
Amoco Corporation

*Christopher B. Galvin*  
Chief Executive Officer  
Motorola, Inc.

*Robert W. Galvin*  
Chairman of the Executive Committee  
of the Board, Motorola, Inc.

*Robert L. Growney*  
President and Chief Operating Officer  
Motorola, Inc.

*Anne P. Jones*  
Consultant; formerly member of the  
Federal Communications Commission

*Donald R. Jones*  
Retired; formerly Executive Vice President  
and Chief Financial Officer, Motorola, Inc.

*Judy C. Lewent*  
Senior Vice President and  
Chief Financial Officer  
Merck & Co., Inc.

*Walter E. Massey*  
President,  
Morehouse College

*John F. Mitchell*  
Vice Chairman of the Board  
Motorola, Inc.

*Thomas J. Murrin*  
Dean of Duquesne University's School  
of Business Administration

*Nicholas Negroponte*  
Director of Media Laboratory,  
Massachusetts Institute of Technology

*John E. Pepper, Jr.*  
Chairman of the Board and  
Chief Executive,  
Procter & Gamble Company

*Samuel C. Scott III*  
President and Chief Operating Officer,  
Corn Products International

*B. Kenneth West*  
Senior Consultant for Corporate  
Governance to Teachers Insurance and  
Annuity Association, College Retirement  
Equities Fund; Former Chairman of the  
Board and Chief Executive Officer,  
Harris Bankcorp, Inc.

*Dr. John A. White*  
Chancellor,  
University of Arkansas

### Director Emeritus

*Elmer H. Wavering*  
Formerly Vice Chairman and  
Chief Operating Officer,  
Motorola, Inc.

### Management Board

*Keith J. Bane*  
Executive Vice President,  
President, Americas Region

*Robert L. Barnett*  
Executive Vice President,  
President, Land Mobile Products Sector

*Arnold S. Brenner*  
Executive Vice President,  
President, Global Government Relations  
and Standards

*Christopher B. Galvin*  
Chief Executive Officer

*Glenn A. Gienko*  
Executive Vice President,  
Director of Human Resources

*Merle L. Gilmore*  
Executive Vice President,  
President, Europe, Middle East and  
Africa Region

*Robert L. Growney*  
President and Chief Operating Officer

*Carl F. Koenemann*  
Executive Vice President,  
Chief Financial Officer

*Fred Kuznik*  
Executive Vice President,  
President, Cellular Subscriber Sector

*A. Peter Lawson*  
Senior Vice President,  
General Counsel and Secretary  
to the Board

*James A. Norling*  
Executive Vice President,  
President, Messaging, Information and  
Media Sector

*Hector de J. Ruiz*  
Executive Vice President,  
President, Semiconductor Products Sector

*Jack M. Scanlon*  
Executive Vice President,  
President, Cellular Networks and  
Space Sector

*Frederick T. Tucker*  
Executive Vice President,  
President, Automotive, Component,  
Computer and Energy Sector

*Richard W. Younts*  
Executive Vice President,  
President, Asia Pacific Region

## CEO Quality Awards and Dan Noble Fellows

The Chief Executive Office Quality Award is Motorola's highest award for quality performance. Winners in 1997 were:

### Cellular Networks and Space Sector

*Cellular Infrastructure Group, GSM Products Division software organization, Base Station Systems, Operation and Maintenance Center and the Iridium Earth Terrestrial Controller Communications Subsystem*

### Land Mobile Products Sector

*iDEN Technology Division  
Schaumburg, Ill.*

*Worldwide Sourcing/Materials  
Management Organizations*

*The Customer's Center For Systems Integration (CSSI)  
Schaumburg, Ill.*

### Semiconductor Products Sector

*Smart MOS 3A Process Transfer Team  
Toulouse, France and Tempe, Ariz.*

**The Dan Noble Fellow** is the highest honorary award that can be made to a technologist within Motorola. It recognizes outstanding technical creativity, innovative ability and productive achievements. It is named for Dan Noble, a visionary technological pioneer, former Vice Chairman of Motorola and Chairman of its Science Advisory Board.

Fellows chosen in 1997 were:

*Steve Bunch*  
Cellular Subscriber Sector

*Joe Heck*  
Land Mobile Products Sector

*Mike Sasuta*  
Land Mobile Products Sector

*Bary Bertiger*  
Cellular Networks and Space Sector

*Jim Long*  
Cellular Networks and Space Sector

*Phil Rasky*  
Corporate Research

*Larry Connell*  
Corporate Research

*Clinton Kuo*  
Semiconductor Products Sector

*Marc Chason*  
Automotive, Component, Computer  
and Energy Sector

*Reuven Meidan*  
Cellular Infrastructure Group  
Motorola Israel

## Stockholder Reference Information

### Transfer Agent, Registrar, Dividend Disbursing Agent and Dividend Reinvestment Agent

Harris Trust and Savings Bank  
Corporate Trust Operations Division  
P.O. Box 755  
311 West Monroe Street  
14th Floor  
Chicago, IL 60690 USA  
(312) 461-2339  
(800) 704-4098

### Investor Relations

Security analysts, investment professionals and shareholders should direct their business-related inquiries to:

Investor Relations, Motorola, Inc.  
Corporate Offices  
1303 East Algonquin Road  
Schaumburg, IL 60196 USA

Or call: (800) 262-8509  
Internet address:  
[www.motorola.com/investor](http://www.motorola.com/investor)

### Common Stock

Motorola common stock is listed on the New York, Chicago, London and Tokyo Stock Exchanges.

### Annual Meeting of Stockholders

The annual meeting will be held on May 4, 1998. A notice of the meeting, together with a form of proxy and a proxy statement, will be mailed to

stockholders on or about March 23, 1998, at which time proxies will be solicited by the Board of Directors.

### Proxy Statement

A copy of the Proxy Statement may be obtained without charge. Contact the Investor Relations Dept. as listed above.

The statement is available on the Internet at [www.motorola.com/investor](http://www.motorola.com/investor).

### Form 10-K

After the close of each fiscal year, Motorola submits a report on Form 10-K to the Securities and Exchange Commission containing certain addi-

tional information concerning its business. A copy of this report may also be obtained without charge from Investor Relations.

The form 10-K is available on the Internet at [www.motorola.com/investor](http://www.motorola.com/investor).

### Auditors

KPMG Peat Marwick LLP  
303 East Wacker Drive  
Chicago, IL 60601 USA

### Business Risks

Statements which are not historical facts, including statements about economic conditions in Asia, investment strategies, uses for digital communications systems, telephone technology advances, the use of silicon in wireless technology and growth in emerging markets are forward-looking and involve risks and uncertainties. Such risks and uncertainties could (and in some cases have) caused Motorola's results to differ from those in

the forward-looking statements. Factors that could cause results to differ include, but are not limited to, the outcome of various efforts to stabilize economic conditions in Asia; the potential that weak economic conditions in Southeast Asia could spread to countries where Motorola does sizable business, including China and Japan; pricing pressures or a change in demand for products; product technology development and commercialization

risks and uncertainties; the ability of Motorola to recruit and retain highly skilled employees in a competitive market; steady growth in emerging markets; the success of actions taken to improve performance; and the factors described in the Company's Securities and Exchange Commission filings, including the 1998 Proxy Statement appendix and Form 10-K for the year ended 1997.

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