MANAGING CHANGE

POSITIONING FOR THE FUTURE

MOTOROLA

1998 Summary Annual Report

MOTOROLA is a global leader in providing integrated communications solutions and embedded electronic solutions. These include:

- Software-enhanced wireless telephone, two-way radio, messaging and satellite communications products and systems, as well as networking and Internet-access products, for consumers, network operators, and commercial, government and industrial customers.
- Embedded semiconductor solutions for customers in the consumer, networking and computing, transportation, and wireless communications markets.
- Embedded electronic systems for automotive, communications, imaging, manufacturing systems, computer and consumer markets.

CONTENTS

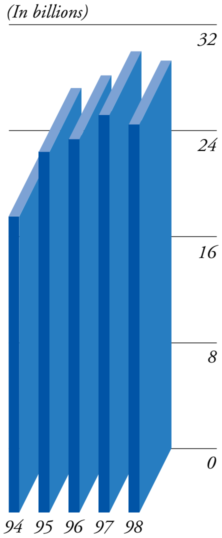
FINANCIAL HIGHLIGHTS

(Dollars in millions, except as noted)	*Motorola, Inc. and Subsidiaries*	
Years ended December 31	**1998**[1]	1997[2]
Net sales	**$29,398**	$29,794
Earnings (loss) before income taxes	**(1,374)**	1,816
% to sales	**(4.7)%**	6.1%
Net earnings (loss)	**(962)**	1,180
% to sales	**(3.3)%**	4.0%
Diluted earnings (loss) per common share (in dollars)	**(1.61)**	1.94
Research and development expenditures	**2,893**	2,748
Capital expenditures	**3,221**	2,874
Working capital	**2,091**	4,181
Current ratio	**1.18**	1.46
Return on average invested capital	**(6.2)%**	8.4%
Return on average stockholders' equity	**(7.6)%**	9.4%
% of net debt to net debt plus equity	**26.8%**	12.4%
Book value per common share (in dollars)	**20.33**	22.21
Year-end employment (in thousands)	**133**	150

[1] *The loss before income taxes, net loss and diluted loss per common share include special charges of $1.9 billion pre-tax, or $2.19 per share after-tax, resulting primarily from manufacturing consolidation, cost reduction and restructuring programs.*
[2] *Earnings before income taxes, net earnings and diluted earnings per common share include special charges of $306 million pre-tax, or 32 cents per share after-tax, resulting primarily from restructuring decisions to exit several unprofitable businesses.*

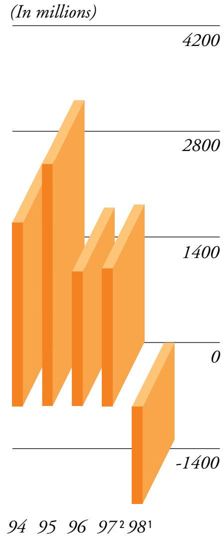
NET SALES

(In billions)



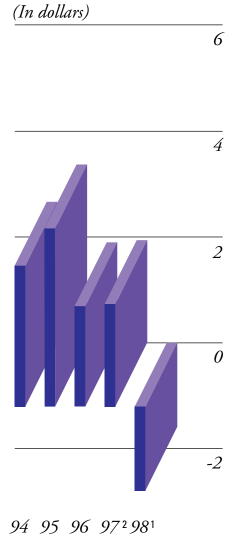
EARNINGS (LOSS) BEFORE INCOME TAXES

(In millions)



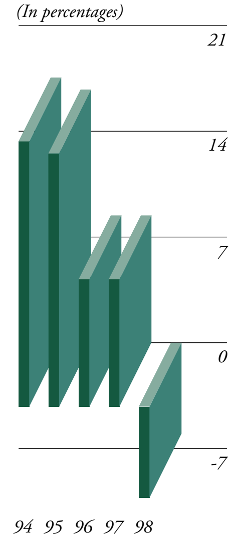
DILUTED EARNINGS (LOSS) PER SHARE

(In dollars)



RETURN ON AVERAGE INVESTED CAPITAL

(In percentages)



TO OUR STOCKHOLDERS AND OTHER FRIENDS

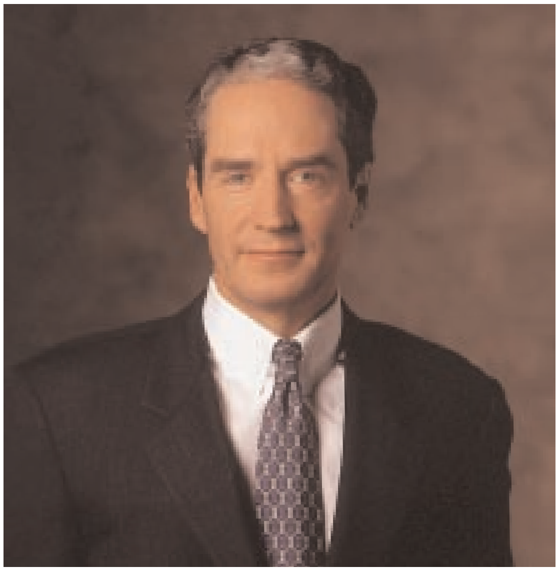
When we began 1998, we had established plans to continue our progress from 1997 in upgrading Motorola's delivery of digital products and networks, refining the company's portfolio of businesses and improving its overall profitability. Regrettably, the impact of the Asian currency crisis on our pricing and resulting lack of profitability moved us from a year of planned changes to the need to engage a major global corporation turnaround. As its leadership, we took dramatic and decisive action in order to regain our credibility with our customers and our shareholders. Motorola now has new organization structures that serve markets with solutions, new leadership, new strategy, new culture and a relentless focus on performance excellence, which has been welcomed by our customers, consumers and the investing public.

In the summer, we announced comprehensive manufacturing consolidation, cost reduction and restructuring programs. We realigned our communications businesses into a single market-focused entity, the Communications Enterprise, to provide our customers with integrated communications solutions. We continued the renewal of businesses that provide embedded electronic solutions – the Semiconductor Products Sector and the Integrated Electronic Systems Sector.

By the end of the year, we enhanced our portfolio of digital cellular telephones and improved the network stability of our cellular infrastructure system offerings. We continue to make timely progress on creating integrated customer solutions. We believe the measures we have taken can restore Motorola as a premier investment. As we liberate the power of technology, we seek to bring prosperity to customers, stockholders and partners, and to improve the lives of consumers.

FINANCIAL RESULTS Sales in 1998 were $29.4 billion, down 1% from $29.8 billion in 1997. The decline is attributable to lost sales from various non-strategic and poorly performing businesses that we decided to exit. The full-year loss, including special charges, was $962 million, or $1.61 per share, compared with earnings of $1.18 billion, or $1.94 per share, in 1997. The 1998 loss includes special charges of $1.9 billion pre-tax, or $2.19 per share after-tax, resulting primarily from manufacturing consolidation, cost reduction and restructuring programs. The 1997 earnings also include special charges against pre-tax earnings of $306 million, or 32 cents a share after tax, resulting primarily from restructuring decisions to exit several unprofitable businesses that no longer had strategic value to the company. Detailed results appear in the 1999 Proxy Statement, as well as on the Internet at www.motorola.com/investor.

The renewal programs announced in June generated more than $300 million of continuing profit improvement in the second half of 1998. We now think the programs may achieve an annualized rate of $1 billion of profit improvement by mid-1999, well above the original goal of $750 million.



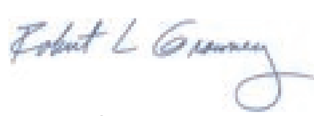
Christopher B. Galvin
Chief Executive Officer

Robert L. Growney
President and Chief Operating Officer

MANAGEMENT TRANSITION In February 1999, Motorola's Board of Directors elected Chris Galvin chairman of the Board, effective June 1, 1999, in addition to his responsibilities as chief executive officer. Gary L. Tooker, the present chairman, reconfirmed his intention to retire at age 60. He will serve as vice chairman of the Board from June 1 through the end of 1999, to assist with the chairman's transition issues. Gary will retire as an officer and employee of the company at the end of 1999 and remain as a member of the Board of Directors. Bob Growney will continue as president and chief operating officer. Gary has served Motorola with an extraordinary work ethic and loyalty over the last 37 years. We appreciate his many leadership contributions, especially in building our semiconductor business and advancing Motorola's position as a global corporation.

THE FUTURE Factors beyond our control, such as economic uncertainty in parts of Asia and Latin America, may continue to affect our worldwide businesses. At the same time, underlying demand remains strong for wireless communications and is beginning to improve in embedded solutions. Motorola's transition to a leaner, more responsive consumer-, customer- and market-focused organization is designed to return the corporation to substantially improved profitability and sales growth. We expect continued market share gains from our new and expanding portfolio of digital cellular telephones. Motorola is focused on performance improvement and continuing change management, which is intended to please our customers, consumers and stockholders worldwide.

Christopher B. Galvin
Chief Executive Officer



Robert L. Growney
President and Chief Operating Officer

MANAGING CHANGE

POSITIONING FOR THE FUTURE

In the 1980s, Motorola recognized the potential of wireless communications for emerging economies and invested heavily in Asia. These investments paid off handsomely in the early 1990s.

As a result of our strong Asian presence, we were also among the first to feel the impact of the financial crisis and recession in the region. That impact became more obvious at other global corporations later in 1998. While Motorola remains confident of the long-term growth potential of Asia, we have responded quickly to a rapidly changing global marketplace by stepping up our comprehensive renewal programs, based on four key objectives:

GLOBAL LEADERSHIP IN CORE BUSINESSES

Our primary objective is attaining global leadership in our core businesses. As we have heard from many of our customers, Motorola's decentralized business structure was not conducive to delivering optimal solutions to our customers. The "new" Motorola is, first and foremost, customer-focused and driven. We have responded to our customers by realigning our business groups to ensure a superior customer experience. We have shifted our product development philosophy to a market-focused delivery of products. We have strengthened our marketing efforts to enhance brand equity.

TOTAL SOLUTIONS THROUGH PARTNERSHIPS

A second objective is to proceed up the value chain to provide total solutions. One of the biggest differences in the new Motorola is that we recognize that we alone cannot provide those solutions. An increasing number of our customers have told us that in order to stay competitive, they need to see both competition and – at the same time – more cooperation among their suppliers and partners. Today's customers are wary of getting trapped in an inflexible relationship or a singular technology roadmap. This signals a fundamental shift in how leaders must view their businesses. While in the past, companies defined their success around controlling their value chains, the future will go to those who view their business world as an ecosystem: a business community that thrives or dies by virtue of the overall health of its participants. You will continue to see Motorola entering into new and innovative partnerships and aligning with best-of-breed providers in multiple industries, often with competitors. As a market maker, our success depends on the success of an entire market – our partners and the industry-at-large – not just our own well-being.

PLATFORMS FOR FUTURE LEADERSHIP A third objective is developing new platforms for future global leadership. The days of building closed, turnkey architectures are gone. Looking forward, our platform objective is to generate architectural leverage. Successful market makers will need to build open, extensible frameworks upon which other companies can build and add value. We will do this by creating superior integration components.

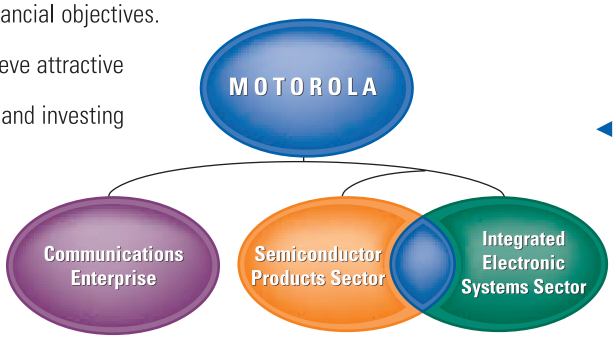
70%

UNIT GROWTH RATE OF DIGITAL CELLULAR PHONES
compared to 1997

With a focus on strengthening its position in core businesses, Motorola introduced a broad array of digital products in 1998. The dual-band V3620 wireless telephone, left, weighing 2.7 ounces, is the smallest and lightest in the industry. The iDEN® system combines dispatch with paging and telephone interconnectivity for Nextel and other customers. Our new portfolio of digital cellular products helped us achieve a unit growth rate of almost 70% over 1997. Committed to performance excellence, Motorola's pursuit of quality is directed toward delighting the customer.

PERFORMANCE EXCELLENCE Our final business objective is performance excellence. Our initiatives to improve quality and reduce cycle time have taken on renewed urgency, both in terms of the manufacturing process and the cycles of creating new products and bringing them to market. Today, we are broadening and integrating the pursuit of quality. The Six Sigma℠ quality process provided the foundation for much of the progress we achieved over the past decade. It remains a fundamental initiative in our corporation and is being adopted by other fine corporations. We are now also applying the concepts to the realm of consumer preference – of delighting the customer.

We have a clear set of financial objectives. We want to consistently achieve attractive financial returns by selecting and investing in a forward-looking business portfolio that provides self-funding revenue growth potential of 15% or more over the long term. The goal is to provide an average return on assets of 13% to 15% per year, equivalent to a 16% to 18% return on equity. And we intend to do it with a strong balance sheet. This gives us operational and financial flexibility. Motorola is not simply relying on revenue growth to recover its profitability. Our manufacturing consolidation, cost reduction and restructuring programs are also an important part of our effort to restore our financial performance and increase shareholder value. The market-focused business entities described on the following pages are committed to providing the integrated solutions that our customers need.



Motorola's new organization focuses on integrated communications solutions and embedded electronic solutions. Additional information is on page 14.

FROM PRODUCT-BASED BUSINESSES TO **INTEGRATED COMMUNICATIONS SOLUTIONS**

Motorola has realigned its communications businesses into a single entity, the Communications Enterprise, to focus on the customer. About 70% of our 1998 sales came from communications. Our challenge is to be a leader in the fastest-growing segments of the industry.

When we started working on the new structure, we asked our key customers what they wanted from Motorola. The answer was loud and clear: integrated communications solutions. We weren't organized that way. We had businesses based on products – cellular phones, pagers and two-way radios. But those markets are overlapping, and we brought our businesses together to provide integrated solutions to these markets. Global satellite communications have become a reality, and wireless and wireline markets are converging. We have seen the integration of voice, data and Internet access. New distribution channels are evolving. This is a new world of convergence, of total solutions and services. The focus is on productivity and connectivity.

We serve this marketplace from a position of strength. Our global presence in sales, manufacturing and servicing gives us the ability to create future markets.

Even before the introduction of our latest line of digital wireless products, we were a leader in digital technology. We contributed core intellectual property to the development of GSM (Global System for Mobile Communications). We were the first to deploy a constellation of low-earth-orbit satellites using packet-switched TDMA (Time Division Multiple Access). The most comprehensive TDMA digital technology today is found in our iDEN® communication systems that combine dispatch with paging and telephone interconnect for Nextel and other customers. We invented digital voice and two-way pagers, and we were the first company to move police systems from analog to digital.

To build on our strengths, we knew that we needed to improve relationships with integrated network operators, sharpen our consumer and brand knowledge, and form alliances to widen our leadership. We also needed more cost-competitive products.

Our new organization focuses on three key customer categories: consumers, telecom network operators, and commercial, government and industrial users.

SOLUTIONS FOR THE CONSUMER We address the consumer arena through our Personal Communications Sector (PCS), which includes cellular phones, pagers and consumer two-way radios. PCS delivers integrated solutions that enable consumers to take their world with them, fulfilling the promise that they can carry voice or data communications anywhere they go, anytime they want.

In cellular, we expect the installed base of wireless users to reach between 415 and 430 million at year-end 1999, up from approximately 300 million at the end of 1998. And we see a billion subscribers worldwide in the year 2004.

We are repositioning our paging business so that it can make a solid profit contribution even at slower industry growth rates. The use of pagers among teens and young adults continues to grow. There is substantial opportunity for advanced messaging applications that apply Internet-based interconnectivity to paging services. We've seen intense interest in new services such as sports, financial

50x

FACTOR BY WHICH E-MAIL MESSAGES WILL INCREASE
by the year 2005

Personal networking is a shared vision across all the businesses in the Communications Enterprise. We are providing the tools that enable people to remain connected to their personal network of friends and family, as well as business colleagues and information, wherever they go. Advanced messaging devices such as the PageWriter™ 2000X apply Internet-based interconnectivity to paging service.

markets and weather. We will apply our competence in advanced messaging to other product areas as well, such as smart cellular phones. Another area of potential growth is the linking of machines and other devices in industries ranging from automobiles to home automation.

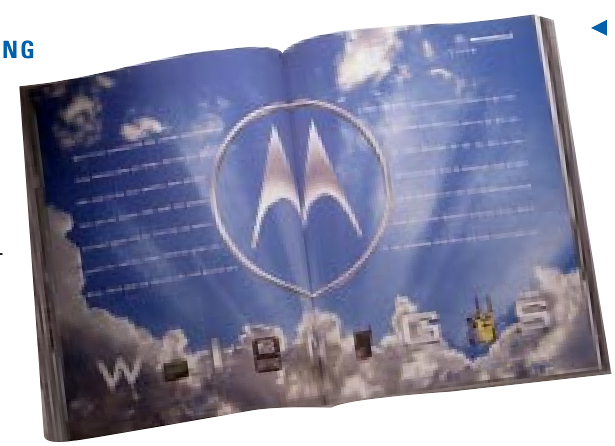
Demand for consumer and retail business radio products is also growing rapidly. Our vision is to embed the utility of wireless two-way communications in every consumer lifestyle. Target markets include families and outdoors and sports enthusiasts. As consumers embraced this vision, sales of our TalkAbout® radios more than doubled in 1998.

PERSONAL NETWORKING

To address the shift to Internet-based communications, we've combined resources from several business units to form our Internet and Networking Group. Both business and personal communications needs are exploding. In the United States alone, we see a future where annual e-mail messages will increase by a factor of 50 by the year 2005.

We participate in the Wireless Application Protocol Forum, an alliance of the three largest wireless equipment manufacturers, whose charter is to create a global wireless specification that works across different network technology types.

Our acquisition of Starfish Software and investment in Symbian are part of an effort to make software widely available to connect wireless devices to desktop computers and corporate networks. Our new suite of software and



The Motorola Wings™ global consumer advertising campaign shows how our products give consumers the freedom to "take their world with them."

Motorola is rapidly becoming the acknowledged industry leader in digital, global, satellite-based communications systems and networks.

Motorola has been designated as the intended prime contractor for Teledesic, which plans to offer fixed service with multimedia capabilities, including data, video and voice, to every point on earth.

The Iridium® system achieved commercial availability in November. Motorola will continue to play a significant role in Iridium's future. In addition to the completed contract to build and deploy the space system, we have a five-year, $2.8 billion contract for operation and maintenance of the Iridium system.

SOLUTIONS FOR COMMERCIAL, GOVERNMENT AND INDUSTRIAL CUSTOMERS Customers in the commercial, government and industrial communications systems arena are increasingly looking for a single supplier to provide complete solutions, which include services as well as equipment, and to integrate and operate their communications and operational information systems.

Reflecting the trend toward broader solutions, Motorola was awarded a contract from the United States Navy to design and develop, as well as provide systems integration, concept testing and training, for a new digital, software programmable radio. It is designed to route voice, data and video across a wide variety of wireline and wireless paths.

Motorola unveiled its M-Smart™ family of platforms for smart card products, which provides an unparalleled range of flexibility, functionality and security to the smart card industry. Motorola announced the Professional radio, a global series of high-performance two-way radios that are tailored to user needs and regulatory requirements in different regional markets.

FLEXIBILITY FOR MAXIMUM GROWTH The Communications Enterprise gives us the flexibility to redeploy investment to the businesses with the highest growth potential. Since July, when the Enterprise was announced, we have reassigned more than 600 engineers to digital cellular projects, moving them from projects that provided lower growth potential.

We expect the market for telecom equipment to grow from $218 billion today to $328 billion by 2002. The segments of the market where Motorola participates represent some $70 billion in industry sales today, or about a third of the total market. While we intend to remain strong in the wireless access and infrastructure market, our challenge is to expand into higher-growth and higher-value-added segments of tomorrow's market.

▼ **Motorola's personal networking vision is brought to life through synchronization products acquired in the purchase of Starfish Software.**

The analog-to-digital migration is a growth driver in our two-way radio business. The XTS™ 3000R radio, right, operates on digital systems based on the APCO Project 25 standard for public safety markets. In Europe, TETRA (Terrestrial Trunked Radio) is the new digital trunking standard, and we continue to win awards including recent contracts in several countries. The handset below is for use on the world's first public national TETRA network operated by Dolphin Telecommunications Ltd.

#1

GLOBAL SUPPLIER OF TWO-WAY RADIOS

services will allow all of our wireless devices to synchronize seamlessly between themselves and the Internet and corporate intranets. Imagine all your personal information – phone books, calendars, to-do lists – up to date, synchronized and available on all your information devices.

SOLUTIONS FOR NETWORK OPERATORS We address the needs of network operators through several business units, including our Network Solutions Sector (NSS), Satellite Communications Group and Global Telecom Solutions Group.

In cellular technology, Motorola has contracts for more than 90 GSM systems worldwide, and contracts for CDMA networks in 16 countries. In early 1999, NSS signed an agreement with Alcatel for the joint development, marketing and delivery of complete CDMA network solutions, as well as cooperative development for third-generation systems based on circuit switching.

The emergence of higher-speed data applications is shifting the transport media from circuit switched hierarchical systems to packet-based peer-to-peer systems. The Internet Protocol (IP) is ideally suited for this.

In early 1999, NSS announced plans for a strategic alliance with Cisco Systems, Inc. to deliver the world's first all-IP platform for the wireless industry. The goal of the alliance is to unite different standards for wireless services throughout the world and to introduce an open, Internet-based platform for integrated data, voice and video services over cellular networks.

We are working to improve our relationships with major telecom operators around the world through our Global Telecom Solutions Group. The group seeks to develop a comprehensive understanding of each network operator's business model, issues and challenges.

GLOBAL COMMUNICATIONS We also see exciting opportunities in satellite communications. Our position as an integrator of terrestrial and satellite communications systems is unique.

EMBEDDED ELECTRONIC SOLUTIONS

We are entering an age where electronics will be in nearly every product we touch and use. Motorola is delivering embedded solutions to the world's leading manufacturers of those consumer and industrial products. No other company offers such a broad portfolio, from chips to systems-on-a-chip, from electronic components and modules to fully integrated systems. As our DigitalDNA™ brand suggests, Motorola works hand-in-hand with customers that embed our best ideas and technology into their products, so they can create the leading-edge, intuitive, easy-to-use products that make everyday life better. Motorola's intimate understanding of our customers' needs and our ability to deliver solutions has been rewarded by the industry. Today, approximately 30% of Motorola's sales come from the two sectors operating in this arena: the Semiconductor Products Sector (SPS) and the Integrated Electronic Systems Sector (IESS).

SEMICONDUCTOR PRODUCTS SECTOR SPS began the first phase of its restructuring in 1997, when it realigned itself from a product-driven business to a market-based organization focused on embedded customer solutions. In 1998, SPS entered the second phase of its restructuring, focusing its investments on high-growth, high-potential markets such as wireless communications, transportation and Internet networking.

SPS has built the most seamless portfolio of embedded core technologies in the semiconductor industry. The M•CORE™ family of low-power, low-cost processors includes the implementation of Java™ software. The port of the popular programming language to M•CORE enables customers to deliver devices requiring the power, portability, scalability and flexibility of Java software in a reduced memory environment.

Other new M•CORE™ products include the M200 family for digital cameras, cellular phones and pagers, and the M300 processor family for mathematically intensive applications such as portable games, digital versatile disc players, camcorders and engine controls. An M•CORE-based global positioning satellite (GPS) chipset is accelerating development of next-generation navigation and tracking devices for automotive and wireless communication applications.

The PowerPC® architecture currently is being used in more than 1,000 designs for networking, telecommunications, consumer, automotive and industrial control embedded applications. New chips operating at speeds of up to 400 MHz (megahertz) and at 1.9 volts make the PowerPC architecture ideal for a new range of mobile and desktop applications. A new software supplement to the Microsoft® Platform Builder allows developers to more quickly produce Windows CE® products based on software and using PowerPC processors.

Motorola continues to be the No. 1 global supplier of automotive semiconductors. In a venture with Volvo Car Corp., SPS plans to develop next-generation platforms to reduce wiring content by up to 50%. Motorola and AMP Inc. plan to begin a joint center for the development of automotive mechatronics (intelligent connection) devices.

#1

GLOBAL PRODUCER OF EMBEDDED PROCESSORS

Motorola offers the industry's widest spectrum of embedded microprocessors and microcontrollers. SPS shipped its three-millionth DragonBall™ high-performance processor that powers the connected organizer from Palm Computing, Inc., a 3Com company. Motorola was cited as "best in class" for each of 15 key supplier attributes in a survey of its embedded marketplace sponsored by *Electronic Engineering Times* magazine.

Motorola's Streamaster™ brand of highly advanced consumer multimedia technology is an open, extensible interactive entertainment architecture. It combines the key functions of a broadband router, a network computer and a digital home theater platform.

As the world's No. 1 producer of embedded processors, SPS also achieved a milestone in 1998 with the shipment of the 30-millionth unit of an integrated multi-protocol microprocessor used in networking and telecom products.

SPS is increasingly seeking out external competencies through a range of partnering, joint ventures and direct investments. With Lucent Technologies, it is developing next-generation digital signal processors, or DSPs, at the new Star*Core Design Center in Atlanta, and cross-licensing existing DSP architectures. The advanced DSP cores are designed to enable manufacturers to develop products such as hand-held wireless devices for surfing the Web, cellular phones with video capability and devices that recognize speech.

In partnership with Advanced Micro Devices, Inc., SPS plans to cross-license patents and to jointly develop common process technology platforms for microprocessors and embedded flash memory featuring copper interconnects.

As part of Motorola's licensing agreement with Sun Microsystems, Inc. to use and distribute the full family of Java™ software technologies, SPS is seizing the opportunity to incorporate Java technology across its silicon systems.

◀ **The Motorola i1000™ integrated digital handset is the first product based on the low-power, high-performance M-CORE™ architecture, part of Motorola's portfolio of embedded core semiconductor technologies.**

The convergence of communication, navigation, computing and automotive technologies offers an unprecedented flow of information to and from drivers, passengers and vehicles. Motorola is developing telematics systems for more automotive manufacturers than any other company, including the Tele Aid™ system for Mercedes-Benz, which will offer 24-hour roadside assistance, emergency response and other services using wireless communication and global positioning system technologies.

#1

GLOBAL SUPPLIER OF AUTOMOTIVE ELECTRONICS

To focus its investments on selected high-growth market segments and on the most advanced, cost-effective facilities for future leadership, the restructured SPS expects to reduce the number of semiconductor products it offers by 50% by the end of 1999. SPS already has pruned 20% of its portfolio, including DRAMs, field-programmable gate arrays, opto-couplers and chemical sensors, among others. In manufacturing, SPS closed several major sites and consolidated manufacturing operations. It will increasingly utilize foundry manufacturing capacity for less advanced processes and products, thereby reducing future capital investment requirements. SPS intends to move from 14% foundry outsourcing in 1998 to 30% by 2000 and 50% by 2002.

INTEGRATED ELECTRONIC SYSTEMS SECTOR

In 1998, the business formerly known as the Automotive, Component, Computer and Energy Sector restructured to stay competitive and to sharpen its focus on the growing opportunities in the embedded electronic systems market. IESS sold its printed circuit board operations, announced the closing of two plants and signed a definitive agreement to sell its quartz and ceramic components manufacturing business. Its strategy is to focus resources on delivering higher-value, integrated electronic systems, using a broad spectrum of technologies required by its customers.

IESS is a leading provider of electronic components and systems for customers who integrate them into their own products. These customers are increasingly relying on electronics experts to deliver more complete, feature-rich system solutions, allowing them to focus more precisely on their consumers and markets.

IESS serves a wide market base, including automotive, communications, imaging, manufacturing and computing. IESS products are the brains in MRI scanners, the electronic and communications systems in vehicles, the computing power behind navigation systems, the

Our expertise in integrated electronic systems – our DigitalDNA™ – combined with our customers' knowledge of their products and markets – enables them to develop leading-edge solutions.

energy systems that enable portable computers and mobile phones, and the power management of fluorescent lighting.

AUTOMOTIVE SYSTEMS BUSINESS Motorola is the world's largest independent automotive electronics supplier. Our customers include most of the world's leading automotive companies. This is Motorola's oldest market. Our knowledge of the customers' needs and our ability to design and manufacture electronics for the harsh automotive environment have resulted in steady growth. Motorola Lighting, which manufactures fluorescent electronic ballasts, joined forces with the automotive business to drive an expansion of our presence in the industrial electronics market.

Motorola created a new business organization in 1998, the Telematics Communications Group (TCG), to consolidate company-wide efforts in the emerging automotive communications market. We are developing telematics systems for more automotive manufacturers than any other company, including systems for Ford, General Motors, Mercedes-Benz, BMW, Nissan and Renault. For drivers and passengers, these new systems mean access to the services they want – security, roadside assistance, information, entertainment and convenience.

COMPUTER SYSTEMS BUSINESS The Motorola Computer Group (MCG) exited the commercial desktop business in 1997 to focus on the growing market for embedded computer boards and systems in the telecommunications, industrial systems and imaging markets. This refocused business has grown considerably in target markets and now leads both the CompactPCI® and VME segments. In 1998, MCG introduced and shipped the most products in its history. Those products have been well received by customers, and resulted in significant new business with such customers as Northern Telecom, Ericsson, FORE Systems, ABB Robotics and Converse. MCG's CompactPCI 8000 product line was named Product of the Year by *Computer Telephony*. The top 100 board and subassembly products selected by *The Electronics Industry Yearbook* included 42 of MCG's products.

The Energy Systems Group (ESG) offers complete energy systems solutions for portable electronics manufacturers. ESG was the first to apply both nickel-metal hydride and lithium ion technology in the communications industry. It has expanded its focus to now include serving the portable computer market, and in 1998 introduced the world's first 11-hour battery pack for the Micron GoBook™ laptop computer.

Modules from the Motorola Computer Group link ground control centers and gateways to the satellite constellation for the Iridium® system.

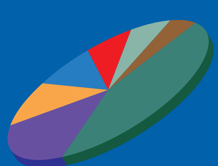
1998 Net Sales by Business Segment

(In percentages)

- *Cellular Products 42%*
- *Semiconductor Products 19%*
- *Land Mobile Products 18%*
- *Messaging, Information and Media Products 9%*
- *Other Products 12%*

1998 Market Sales by Region

(In percentages)



- *United States 41%*
- *Europe 21%*
- *China 10%*
- *Asia-Pacific 7%*
- *Latin America 8%*
- *Japan 7%*
- *Other Markets 6%*

COMMUNICATIONS ENTERPRISE

The Communications Enterprise (CE) aligns all of Motorola's communications businesses into an actively managed and coordinated unit to provide integrated communications solutions to a variety of customers and consumers around the world. The CE is made up of seven major business units and comprises about 70% of Motorola's global business.

Merle L. Gilmore
Executive Vice President, President, Communications Enterprise

Commercial, Government and Industrial Solutions Sector
Organization:
Global Marketing & Sales Group
Global Technology Development Group
Smartcard Solutions
Supply Chain Operations Group
Systems Solutions Group

Network Solutions Sector
Organization:
Customer Solutions Group
Network Systems Group

Personal Communications Sector
Organization:
Americas Group
Asia Pacific Group
Consumer Solutions Group
Europe, Middle East and Africa Group
Personal Networks Group
Technology and Product Realization Group

Global Telecom Solutions Group

Internet and Networking Group

Network Management Group

Satellite Communications Group

SEMICONDUCTOR PRODUCTS SECTOR

As the world's No. 1 producer of embedded processors, the Semiconductor Products Sector (SPS) offers multiple DigitalDNA™ embedded solutions that enable customers in the consumer, networking and computing, transportation and wireless communications markets to create new business opportunities. In addition, SPS provides high-volume and unique discrete, analog and digital semiconductors that are used in virtually every type of electronic equipment.

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

Organization:
Imaging and Entertainment Solutions
Networking and Computing Systems Group
Semiconductor Components Group
Transportation Systems Group
Wireless Subscriber Systems Group

INTEGRATED ELECTRONIC SYSTEMS SECTOR

The Integrated Electronic Systems Sector (IESS) designs and manufactures a broad range of electronic components, modules and integrated electronic systems and products for automotive, industrial, transportation, navigation, communication, energy systems, consumer and lighting markets.

Joseph M. Guglielmi
Executive Vice President, President, Integrated Electronic Systems Sector

Organization:
Automotive and Industrial Electronics Group
Energy Systems Group
Flat Panel Display Division
Motorola Computer Group
Telematics Communications Group

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Motorola, Inc. and Subsidiaries

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.

KPMG 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 and Legal Committee, which consists entirely of independent non-management Board members. The Audit and Legal 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
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, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998, appearing in the appendix to the proxy statement for the 1999 Annual Meeting of Stockholders of the Corporation (not presented herein); and in our report dated January 13, 1999, 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 LLP

KPMG LLP
Chicago, Illinois
February 22, 1999

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts) *Motorola, Inc. and Subsidiaries*

Years ended December 31	**1998**	1997	1996
Net sales	**$29,398**	$29,794	$27,973
Costs and expenses			
Manufacturing and other costs of sales	**20,886**	20,003	18,990
Selling, general and administrative expenses	**5,493**	5,188	4,715
Restructuring and other charges	**1,980**	327	–
Depreciation expense	**2,197**	2,329	2,308
Interest expense, net	**216**	131	185
Total costs and expenses	**30,772**	27,978	26,198
Earnings (loss) before income taxes	**(1,374)**	1,816	1,775
Income tax provision (benefit)	**(412)**	636	621
Net earnings (loss)	**$ (962)**	$ 1,180	$ 1,154
Basic earnings (loss) per common share	**$ (1.61)**	$ 1.98	$ 1.95
Diluted earnings (loss) per common share	**$ (1.61)**	$ 1.94	$ 1.90
Diluted weighted average common shares outstanding	**598.6**	612.2	609.0

See accompanying condensed notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(In millions, except per share amounts)		*Motorola, Inc. and Subsidiaries*
December 31	**1998**	1997
Assets		
Current assets		
Cash and cash equivalents	**$ 1,453**	$ 1,445
Short-term investments	**171**	335
Accounts receivable, net	**5,057**	4,847
Inventories	**3,745**	4,096
Deferred income taxes	**2,362**	1,726
Other current assets	**743**	787
Total current assets	**13,531**	13,236
Property, plant and equipment, net	**10,049**	9,856
Other assets	**5,148**	4,186
Total assets	**$28,728**	$27,278
Liabilities and Stockholders' Equity		
Current liabilities		
Notes payable and current portion of long-term debt	**$ 2,909**	$ 1,282
Accounts payable	**2,305**	2,297
Accrued liabilities	**6,226**	5,476
Total current liabilities	**11,440**	9,055
Long-term debt	**2,633**	2,144
Deferred income taxes	**1,188**	1,522
Other liabilities	**1,245**	1,285
Stockholders' equity		
Preferred stock, $100 par value issuable in series		
Authorized shares: 0.5 (none issued)	**–**	–
Common stock, $3 par value		
Authorized shares: 1998 and 1997, 1,400		
Issued and outstanding: 1998, 601.1; 1997, 597.4	**1,804**	1,793
Additional paid-in capital	**1,894**	1,720
Retained earnings	**8,254**	9,504
Non-owner changes to equity	**270**	255
Total stockholders' equity	**12,222**	13,272
Total liabilities and stockholders' equity	**$28,728**	$27,278

See accompanying condensed notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions, except per share amounts) *Motorola, Inc. and Subsidiaries*

	Common Stock and Additional Paid-in Capital	Non-owner Changes to Equity: Fair Value Adjustment to Certain Cost-based Investments	Non-owner Changes to Equity: Foreign Currency Translation Adjustments	Non-owner Changes to Equity: Minimum Pension Liability Adjustment	Retained Earnings	Comprehensive Earnings (Loss)
Balances at January 1, 1996	$3,261	$ 77	$ (81)	$ –	$7,728	
Net earnings					1,154	1,154
Conversion of zero coupon notes	7					
Fair value adjustment to certain cost-based investments:						
Reversal of prior period adjustment		(77)				(77)
Recognition of current period unrecognized (loss)		(26)				(26)
Change in foreign currency translation adjustments			(40)			(40)
Stock options and other	64					
Dividends declared ($.46 per share)					(272)	
Balances at December 31, 1996	$3,332	$ (26)	$ (121)	$ –	$8,610	$1,011
Net earnings					1,180	1,180
Conversion of zero coupon notes	7					
Fair value adjustment to certain cost-based investments:						
Reversal of prior period adjustment		26				26
Recognition of current period unrecognized gain		533				533
Change in foreign currency translation adjustments			(119)			(119)
Minimum pension liability adjustment				(38)		(38)
Stock options and other	174					
Dividends declared ($.48 per share)					(286)	
Balances at December 31, 1997	$3,513	$ 533	$ (240)	$ (38)	$9,504	$1,582
Net loss					(962)	(962)
Conversion of zero coupon notes	3					
Fair value adjustment to certain cost-based investments:						
Reversal of prior period adjustment		(533)				(533)
Recognition of current period unrecognized gain		476				476
Change in foreign currency translation adjustments			34			34
Minimum pension liability adjustment				38		38
Stock options and other	182					
Dividends declared ($.48 per share)					(288)	
Balances at December 31, 1998	**$3,698**	**$ 476**	**$ (206)**	**$ –**	**$8,254**	**$ (947)**

See accompanying condensed notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)			*Motorola, Inc. and Subsidiaries*
Years ended December 31	**1998**	1997	1996
Operating			
Net earnings (loss)	**$ (962)**	$ 1,180	$ 1,154
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Restructuring and other charges	**1,980**	327	–
Depreciation	**2,197**	2,329	2,308
Deferred income taxes	**(933)**	(98)	(162)
Amortization of debt discount and issue costs	**11**	10	8
Gain on disposition of investments in affiliates, net of acquisition charges	**(146)**	(116)	(78)
Change in assets and liabilities, net of effects of acquisitions and dispositions:			
Accounts receivable	**(238)**	(812)	101
Inventories	**254**	(880)	308
Other current assets	**31**	(114)	(69)
Accounts payable and accrued liabilities	**(658)**	830	398
Other assets and liabilities	**(515)**	(60)	220
Net cash provided by operating activities	**1,021**	2,596	4,188
Investing			
Acquisitions and advances to affiliates	**(786)**	(286)	(346)
Proceeds from dispositions of investments in affiliates	**371**	248	121
Capital expenditures	**(3,221)**	(2,874)	(2,973)
Proceeds from dispositions of property, plant and equipment	**507**	443	282
Sales (purchases) of short-term investments	**164**	(37)	52
Net cash used for investing activities	**(2,965)**	(2,506)	(2,864)
Financing			
Proceeds from (repayment of) commercial paper and short-term borrowings	**1,627**	(100)	(260)
Proceeds from issuance of debt	**773**	312	55
Repayment of debt	**(293)**	(102)	(37)
Issuance of common stock	**99**	137	7
Payment of dividends	**(288)**	(286)	(261)
Net cash provided by (used for) financing activities	**1,918**	(39)	(496)
Effect of exchange rate changes on cash and cash equivalents	**34**	(119)	(40)
Net increase (decrease) in cash and cash equivalents	**$ 8**	$ (68)	$ 788
Cash and cash equivalents, beginning of year	**$ 1,445**	$ 1,513	$ 725
Cash and cash equivalents, end of year	**$ 1,453**	$ 1,445	$ 1,513

Supplemental Cash Flow Information

Cash paid during the year for:			
Interest	**$ 286**	$ 211	$ 237
Income taxes	**$ 388**	$ 611	$ 506

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 (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 operations. 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: Certain amounts in prior years' financial statements and related notes have been reclassified to conform to the 1998 presentation.

Recent Accounting Pronouncements: As of January 1, 1998, the Company implemented Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income"; SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information"; and SFAS 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits."

SFAS No. 130, which is solely a financial statement presentation standard, requires the Company to disclose non-owner changes included in equity but not included in net earnings or loss. These changes include the fair value adjustment to certain cost-based investments, the foreign currency translation adjustments and the minimum pension liability adjustment.

SFAS No. 131 establishes standards for the way public business enterprises report information about operating segments in annual financial statements and in interim financial reports issued to shareholders. The Company has restated the previously reported annual segment operating results to conform to the Statement's management approach.

SFAS No. 132 only modifies the financial statement presentation of the Company's pension and postretirement benefit obligations and does not impact the measurement of such obligations.

During 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which will be effective for the Company's fiscal year 2000. The Company is currently assessing the impact of this new statement but does not expect any material effect on its consolidated financial position, liquidity or results of operations.

2. Finance Subsidiary

The Company's finance subsidiary purchases customer obligations under long-term contracts from the Company.

The finance subsidiary's interest revenue is included in the Company's consolidated net sales. Interest expense totaled $37 million in 1998, $13 million in 1997 and $14 million in 1996, and is included in manufacturing and other costs of sales. In addition, long-term finance receivables of $1.1 billion and $353 million at December 31, 1998 and 1997 are included in other assets.

Summary financial data of consolidated finance subsidiary

	1998	1997	1996
Total revenue	**$ 72**	$ 29	$ 36
Net earnings	**21**	11	14
Total assets	**1,330**	457	341
Total debt	**(1,155)**	(366)	(261)
Stockholder's investments and advances	**$ 175**	$ 91	$ 80

3. Information by Segment and Geographic Region

The Company implemented Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," as of January 1, 1998. This Statement establishes standards for the way public business enterprises report information about operating segments in annual financial statements and in interim financial reports issued to shareholders. This Statement is not required to be applied to interim financial statements in the initial year of application. The Company has restated the previously reported annual segment operating results to conform to the Statement's management approach.

The Company's operations are predominantly in the wireless communication, semiconductor technology and advanced electronics industries and involve the design, manufacture and sale of a diversified line of products. The Company's reportable segments have been determined based on the nature of the products offered to customers, which include, but are not limited to, cellular phones and systems; semiconductors (including discrete semiconductors and integrated circuits); two-way radios and personal communications equipment and systems; and pagers and data communications equipment and systems. Automotive, defense and space electronic products are part of the Other Products segment.

The accounting policies of the segments are the same as those described in Note 1 Summary of Significant Accounting Policies. Segment operating results are measured based on profit (loss) before tax adjusted, if necessary, for certain segment specific items. Intersegment and intergeographic sales are accounted for on an arm's length pricing basis. Intersegment sales included in adjustments and eliminations were $2.8 billion, $3.2 billion and $2.7 billion for the years ended December 31, 1998, 1997 and 1996, respectively. These sales were primarily from the Semiconductor Products segment and the Integrated Electronic Systems Sector (formerly the Automotive, Component, Computer and Energy Sector) included in the Other Products segment. Intersegment sales from the Semiconductor Products segment were $1.6 billion, $1.8 billion and $1.6 billion for the years ended December 31, 1998, 1997 and 1996, respectively. For these same periods, intersegment sales from the Integrated Electronic Systems Sector were $0.9 billion, $1.0 billion and $0.9 billion, respectively. Net sales by geographic region are measured by the location of the revenue-producing operations.

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

In 1998, 1997 and 1996, no single customer or group under common control represented 10% or more of the Company's sales.

In July 1998, the Company's communications-related businesses were realigned into the Communications Enterprise, a structure intended to enable integrated solutions and improved responsiveness to the needs of distinct customer segments. For this year-end reporting, the Company continues to use the previous segments.

(Dollars in millions) *Motorola, Inc. and Subsidiaries*

Segment information

	Net Sales			Operating Profit (Loss) Before Tax					
Years ended December 31	**1998**	1997	1996	**1998**		1997		1996	
Cellular Products	**$12,483**	$11,934	$10,804	**$ 482**	**3.9%**	$1,283	10.8%	$1,162	10.8%
Semiconductor Products	**7,314**	8,003	7,858	**(1,225)**	**(16.8)%**	168	2.1%	186	2.4%
Land Mobile Products	**5,397**	4,926	4,008	**729**	**13.5%**	542	11.0%	452	11.3%
Messaging, Information and Media Products	**2,633**	3,793	3,958	**(699)**	**(26.5)%**	41	1.1%	46	1.2%
Other Products	**4,385**	4,326	4,061	**(544)**	**(12.4)%**	(85)	(2.0)%	30	0.7%
Adjustments and eliminations	**(2,814)**	(3,188)	(2,716)	**14**	**(0.5)%**	(48)	1.5%	(29)	1.1%
Segment totals	**$29,398**	$29,794	$27,973	**(1,243)**	**(4.2)%**	1,901	6.4%	1,847	6.6%
General corporate				**(131)**		(85)		(72)	
Earnings (loss) before income taxes				**$(1,374)**	**(4.7)%**	$1,816	6.1%	$1,775	6.3%

	Assets			Capital Expenditures			Depreciation Expense		
Years ended December 31	**1998**	1997	1996	**1998**	1997	1996	**1998**	1997	1996
Cellular Products	**$ 9,282**	$ 8,021	$ 6,314	**$ 607**	$ 900	$ 673	**$ 411**	$ 534	$ 474
Semiconductor Products	**8,232**	7,947	7,889	**1,783**	1,153	1,416	**1,178**	1,169	1,160
Land Mobile Products	**2,720**	2,538	2,130	**270**	228	159	**183**	168	162
Messaging, Information and Media Products	**2,043**	2,391	2,506	**97**	149	275	**164**	219	243
Other Products	**3,111**	2,974	2,256	**199**	178	196	**216**	191	221
Adjustments and eliminations	**(420)**	(458)	(262)	**–**	–	–	**–**	–	–
Segment totals	**24,968**	23,413	20,833	**2,956**	2,608	2,719	**2,152**	2,281	2,260
General corporate	**3,760**	3,865	3,243	**265**	266	254	**45**	48	48
Consolidated totals	**$28,728**	$27,278	$24,076	**$3,221**	$2,874	$2,973	**$2,197**	$2,329	$2,308

	Interest Income			Interest Expense			Net Interest		
Years ended December 31	**1998**	1997	1996	**1998**	1997	1996	**1998**	1997	1996
Cellular Products	**$ 7**	$ 2	$ 1	**$ 90**	$ 41	$ 57	**$ (83)**	$ (39)	$ (56)
Semiconductor Products	**12**	12	15	**116**	71	103	**(104)**	(59)	(88)
Land Mobile Products	**2**	5	2	**20**	14	16	**(18)**	(9)	(14)
Messaging, Information and Media Products	**15**	18	22	**22**	28	36	**(7)**	(10)	(14)
Other Products	**5**	2	2	**21**	5	–	**(16)**	(3)	2
Segment totals	**41**	39	42	**269**	159	212	**(228)**	(120)	(170)
General corporate	**44**	46	22	**32**	57	37	**12**	(11)	(15)
Consolidated totals	**$85**	$85	$64	**$301**	$216	$249	**$(216)**	$(131)	$(185)

Geographic area information

	Net Sales			Assets		
Years ended December 31	**1998**	1997	1996	**1998**	1997	1996
United States	**$20,397**	$21,809	$20,614	**$14,932**	$14,000	$12,797
United Kingdom	**5,709**	5,254	4,571	**2,083**	2,098	1,816
Other Nations	**12,812**	12,778	12,312	**8,804**	7,966	6,788
Adjustments and eliminations	**(9,520)**	(10,047)	(9,524)	**(851)**	(651)	(568)
Geographic totals	**$29,398**	$29,794	$27,973	**24,968**	23,413	20,833
General corporate				**3,760**	3,865	3,243
Consolidated totals				**$28,728**	$27,278	$24,076

FIVE-YEAR FINANCIAL SUMMARY

(Dollars in millions, except as noted) *Motorola, Inc. and Subsidiaries*

Years ended December 31	**1998**	1997	1996	1995	1994
Operating Results					
Net sales	**$29,398**	$29,794	$27,973	$27,037	$22,245
Manufacturing and other costs of sales	**20,886**	20,003	18,990	17,545	13,760
Selling, general and administrative expenses	**5,493**	5,188	4,715	4,642	4,381
Restructuring and other charges	**1,980**	327	–	–	–
Depreciation expense	**2,197**	2,329	2,308	1,919	1,525
Interest expense, net	**216**	131	185	149	142
Total costs and expenses	**30,772**	27,978	26,198	24,255	19,808
Net gain on Nextel asset exchange	**–**	–	–	443	–
Earnings (loss) before income taxes	**(1,374)**	1,816	1,775	3,225	2,437
Income tax provision (benefit)	**(412)**	636	621	1,177	877
Net earnings (loss)	**$ (962)**	$ 1,180	$ 1,154	$ 2,048	$ 1,560
Net earnings (loss) as a percent of sales	**(3.3)%**	4.0%	4.1%	7.6%	7.0%
Per Share Data (in dollars)					
Diluted earnings (loss) per common share	**$ (1.61)**	$ 1.94	$ 1.90	$ 3.37	$ 2.66
Diluted weighted average common shares outstanding	**598.6**	612.2	609.0	609.7	591.7
Dividends declared	**$ 0.480**	$ 0.480	$ 0.460	$ 0.400	$ 0.310
Balance Sheet					
Total assets	**$28,728**	$27,278	$24,076	$22,738	$17,495
Working capital	**2,091**	4,181	3,324	2,717	3,008
Long-term debt	**2,633**	2,144	1,931	1,949	1,127
Total debt	**5,542**	3,426	3,313	3,554	2,043
Total stockholders' equity	**$12,222**	$13,272	$11,795	$10,985	$ 9,055
Other Data					
Current ratio	**1.18**	1.46	1.42	1.35	1.51
Return on average invested capital	**(6.2)%**	8.4%	8.4%	16.7%	17.5%
Return on average stockholders' equity	**(7.6)%**	9.4%	10.0%	20.2%	21.1%
Capital expenditures	**$ 3,221**	$ 2,874	$ 2,973	$ 4,225	$ 3,322
% to sales	**11.0%**	9.6%	10.6%	15.6%	14.9%
Research and development expenditures	**$ 2,893**	$ 2,748	$ 2,394	$ 2,197	$ 1,860
% to sales	**9.8%**	9.2%	8.6%	8.1%	8.4%
Year-end employment (in thousands)	**133**	150	139	142	132

BOARD OF DIRECTORS OF MOTOROLA, INC.

Directors

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

Ronnie C. Chan
Chairman,
Hang Lung Development Group

H. Laurance Fuller
Co-Chairman,
BP Amoco, p.l.c.

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
Commissioner of the Federal
Communications Commission

Donald R. Jones
Retired; formerly
Chief Financial Officer,
Motorola, Inc.

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

Dr. Walter E. Massey
President,
Morehouse College

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,
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

Dr. John A. White
Chancellor,
University of Arkansas

Elmer Wavering, director emeritus and a former vice chairman and chief operating officer of Motorola, died November 20, 1998 at the age of 91. He helped develop the first commercially successful car radio and the automotive alternator. He inspired generations of Motorolans and will be remembered as a towering figure in the history of automotive electronics.

Gary L. Tooker will step down as chairman of the Board of Directors on June 1, 1999, and will retire as an officer and employee of Motorola at the end of the year. In addition to his leadership as former chief executive officer of Motorola, he has been a leader in the semiconductor industry and a vigorous champion of liberalization of the global marketplace.

His distinguished 37-year career at Motorola began in 1962, when he joined the Semiconductor Division after graduating from Arizona State University with a degree in electrical engineering. Since that time, he has held a series of increasingly responsible positions in marketing, product and operations management and corporate management. He became vice president and general manager of the International Semiconductor Division in 1980 and general manager of the Semiconductor Products Sector in 1981. He moved to corporate headquarters as chief corporate staff officer in 1986 and was elected to the Board of Directors the same year. He was named chief operating officer in 1988, president in 1990, vice chairman and chief executive officer in 1993 and chairman in 1996. He will continue as vice chairman of the Board from June 1 until the end of 1999, and will remain as a member of the Board after his retirement.

During his career, Motorola became one the world's largest semiconductor companies as well as a leader in global wireless communications. Tooker served as chairman of the Board of Directors of the Semiconductor Industry Association and American Electronics Association. He envisioned the potential of the global information infrastructure and, as chairman of the Pacific Basin Economic Council, led efforts to promote free trade and open markets. He has also been a vigorous proponent of educational reform and life-long learning and has served as a role model for community service.

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

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 3, 1999. 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, 1999, 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.

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 additional 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.

Auditors

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601 USA

Business Risks

Statements that are not historical facts, including statements about the impact of Motorola's renewal programs on profitability, the impact of economic uncertainty in parts of Asia and Latin America, market share for digital cellular telephones, the success of business and financial objectives and their impact on future performance, projected number of wireless phone users, the future of the paging business, growth in the Internet-based communication business, Motorola's role in Iridium's future, growth in the telecom equipment market, and SPS's future product portfolio and foundry outsourcing plans are forward-looking and involve risks and uncertainties.

Motorola wishes to caution the reader that the factors below and those in Motorola's 1999 Proxy Statement appendix and its other SEC filings could cause Motorola's results to differ materially from those in the forward-looking statements. These factors include: Motorola's ability to continue to successfully implement its renewal programs to improve profitability; the efforts to revive affected economies in Asia and to stabilize economies in certain parts of Latin America and other emerging markets; continued or increased pricing pressure on Motorola's products, particularly wireless communications products and semiconductors; continued recovery from the worldwide semiconductor industry recession; product technology development and commercialization risks; Motorola's success in partnering with other industry leaders to meet customer product and service requirements; Motorola's ability to compete as customers demand open architechtures; continued significant growth in demand for wireless communications equipment; steady growth in emerging markets; and the ability of Motorola to recruit and retain highly skilled employees in a competitive market.

This entire report has been printed on recycled paper.

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