

Notice of 2003 Annual Meeting and Proxy Statement

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2002 Annual Report to Stockholders

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**Annual  
Report**

2002 Annual Report Consolidated Financial Statements

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## To Our Shareholders

The persistent downturn in the telecommunications and electronics markets was the major factor in Agilent's 2002 results. We are obviously not pleased to report a decline in orders and revenue and a loss for the year. However, we did make substantial progress in returning the company to profitability as we moved through 2002, achieving break-even on an earnings-before-goodwill (EBG) basis in the fourth quarter.<sup>1</sup>

This year we also strengthened Agilent for long-term success in two ways. We made investments in R&D that are driving product and technology breakthroughs, and we became much more competitive by transforming many aspects of our operations. None of these achievements would have been possible without Agilent's people, who made superb contributions in 2002 under extremely trying conditions. In this letter I'll describe what we are doing to return to sustained profitability, the actions we're taking to build the company for the long term, and the outlook for fiscal 2003.

### Our Top Priority: Restoring Profitability

At the start of the year we expected a slow but gradual improvement in the telecom and semiconductor markets, in which demand had fallen so sharply in 2001. During the first two quarters of 2002 we did see a slight improvement in the semiconductor market, and our overall orders and revenue increased. But conditions weakened again in the middle of 2002 and the outlook for 2003 declined. It was clear that we had to size the company for profitability at a much lower level of business.

In August 2002 we announced reductions in the number of Agilent employees that went beyond our previously announced plans to reduce the workforce by 8,000 people. The latest round of reductions will lower our workforce by about another 2,500 people, with many of these people scheduled to leave the company by the end of the first quarter of 2003.

These workforce reductions have been and remain very difficult for all of us. But they are a painful necessity in light of the business climate. By the end of 2002, we had completed the 8,000-person workforce reduction and had lowered our total costs, on an annual basis, by about \$1.2 billion.

These workforce reductions, combined with other efforts to streamline our cost structure and reduce discretionary spending, enabled us to lower our total costs and expenses by 21 percent in 2002, on an EBG basis, compared with 2001. Our inventory reductions, along with capital spending that was about \$580 million lower this year than in fiscal 2001, were the key factors in our significant improvement in asset management.

Another key to restoring profitability is to deliver a steady stream of innovative new products. In 2002 we spent \$1.1 billion on research and development (R&D), on an EBG basis, compared with \$1.3 billion in 2001. We maintained our investments in high-priority R&D efforts to help our customers pursue new opportunities and get the most out of their current technology investments.

New products drove market share gains in 2002 in communications test; semiconductor test; semiconductor solutions for PCs and cellular phones; and life sciences and chemical analysis. In the fourth quarter of 2002, we believe we outgrew our markets by about \$125 million in revenue compared with the fourth quarter of 2001. We plan to spend approximately \$1 billion on R&D in fiscal 2003 in order to leverage our market share gains and to take full advantage of any recovery in our markets.

New products were also critical to the widespread customer recognition we received this year. We won 14 industry and customer awards, including recognition from Cisco Systems, Celestica, Solectron, Brocade and Logitech.

In the fourth quarter of 2001, Agilent reported a loss, on an EBG basis, of \$275 million. In Q2 of 2002, our EBG loss was \$112 million, and in Q4 of this year we lost \$2 million. We're encouraged by this progress, and we are determined to return to profitability in 2003.

### **Major Progress in Transforming How We Operate**

Since Agilent became an independent company in November 1999, we have worked hard to transform our operations. These efforts take many forms but have a common goal: to make Agilent even more competitive by improving our speed, flexibility and cost-effectiveness. In 2002 we made excellent strides in this effort.

In June 2002 we launched the first phase of our new enterprise resource planning (ERP) system. This is a highly complex, ambitious program that will reduce more than 2,000 legacy information systems and applications to just a handful of best-in-class integrated information systems. The benefits from this work will be substantial. We will generate real-time information that our people and customers need. We will be able to manage assets more efficiently and share information much more readily than we can now. In short, the ERP system will enable us to function much more effectively as a single company.

Startup issues after the ERP launch made it difficult for us to meet customer expectations and had a significant impact on our third-quarter financial results. Our people performed heroically to resolve these issues and to stabilize the system in our fourth quarter.

We will continue to roll out the ERP system through fiscal 2003, and we expect to realize substantial savings from the implementation beginning in the second half of fiscal 2003. We will also apply what we have learned to the implementation of our new customer relationship management (CRM) system. This rollout is planned for the first quarter of 2003.

Progress in operations during 2002 was not limited to new information systems. We reduced the worldwide space we use by 1.6 million square feet, which saved about \$90 million. We improved our on-time delivery rate and reduced the time between receipt of an order and delivery to the customer.

We will work to build on these accomplishments in our operations through 2003. Our progress in this area complements and supports our work to maintain product and technology leadership.

### **A Resilient Agilent Culture**

Workforce reductions, navigating the downturn and the launch of our ERP system posed daunting challenges to our people and culture in 2002. I'm extremely proud of how our employees responded. They worked tirelessly to create a large number of outstanding new products and to deliver the operational improvements we achieved, while also actively supporting our citizenship-related efforts. During 2002, we were proud to be ranked 31st on Fortune magazine's annual survey of "Best Places to Work," an improvement from our ranking of 46th the previous year. The company was also named to comparable lists in other countries, including Korea (#3), Australia (#5), India (#6) and Singapore (#1). In our latest employee survey, 85 percent of our employees said they would recommend Agilent as a great place a work – a powerful testament to the culture we are building together.

### **Senior Management Changes**

In early 2002, Adrian Dillon became executive vice president and chief financial officer after Bob Walker decided to leave the company. Adrian is making a major contribution to the evolution of our financial metrics and reporting. During the year we also named Bill Sullivan our chief operating officer, after Alain Couder left Agilent to pursue other opportunities. Bill brings a superb track record and broad skills to the urgent task of our operational transformation. In

November 2002 Jerry Grinstein, Agilent's chairman of the board, announced his plans to retire effective after the 2003 Annual Meeting. Until that time, Jerry will serve as our lead director and David Lawrence will succeed him following the meeting. Jerry was instrumental in helping us launch Agilent as an independent company, and I'm very appreciative of all he has contributed.

### **Business Outlook**

Our top priority is to return to profitability as quickly as possible, and we believe we can achieve modest profitability in 2003. The overall outlook for 2003 is highly dependent on the pace of recovery in our markets. We believe we can achieve a revenue increase of 5 to 10 percent, based primarily on our strong new-product introductions that will enable us to build on our market share gains and enter new markets. We will continue our vigilance on costs and expenses, and we will move ahead aggressively on the operational improvements that have begun to yield very promising results.

During 2003 we will continue to strive for the right balance between the short-term challenges of a difficult environment and the long-term goals we are pursuing. The last two years have not diminished our belief in Agilent's potential or in the opportunities we are addressing. We have the people, the products and the customer relationships that success demands, and we are committed to building on these strengths during 2003.



Ned Barnholt  
Chairman, President and Chief Executive Officer

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<sup>1</sup>Agilent's EBG amounts exclude from earnings amortization of goodwill and other intangibles, acquisition and divestiture related items, and other one-time and non-recurring items such as restructuring.

# Agilent at a Glance

Agilent delivers innovative technologies, solutions and services to a wide range of customers in communications, electronics, life sciences and chemical analysis. The breadth and depth of our expertise enable us to offer solutions across our customers' entire product life cycle from research and development to manufacturing to installation and management. With insight gained from this unique and comprehensive perspective, we can help our customers get the best products and services to market quickly and profitably.

| Business Group                    | 2002 Net Revenue     | Description  |
|-----------------------------------|----------------------|--|
| Test and Measurement              | <b>\$3.3</b> billion | Our test and measurement business provides standard and customized solutions that are used in the design, development, manufacture, installation, deployment and operation of electronic equipment and systems and communications networks and services. These solutions include test and measurement instruments and systems; automated test equipment; communications network monitoring, management and optimization tools; and software design tools and associated services.            |
| Semiconductor Products            | <b>\$1.6</b> billion | Our semiconductor products business is a leading supplier of semiconductor components, modules and assemblies for high-performance communications systems. We design, develop and manufacture products for the networking and personal systems markets.  |
| Life Sciences & Chemical Analysis | <b>\$1.1</b> billion | Our life sciences and chemical analysis business provides application-focused solutions that include instruments, software, consumables and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products.  |
| Agilent Labs                      |                      | Agilent Laboratories is Agilent Technologies' central research organization. Agilent Labs engages in two types of research: 1) applied research that leads to technology that can be transferred to Agilent's existing businesses in communications, life sciences and electronics, and 2) research that creates new businesses that are outside of Agilent's current markets but within Agilent's fields of interest. Agilent Labs also provides technology integration across the company. |

More than half of Agilent’s revenue is generated from outside of the United States. With customers in more than 110 countries, our global presence offers a distinct competitive advantage. Agilent’s manufacturing, R&D, sales and support capabilities around the world give our customers the flexibility they need in today’s competitive environment

Agilent provides technologies, solutions and services to help our customers accelerate vital progress in their industries ... to make dreams **real**.

| Key Products   | Markets and Customers  |
|--|--|
| <p>We design, develop and manufacture test and design products that range from single-unit electronic measurement devices to large scale integrated-circuit test solutions. We provide communications equipment test solutions; installation, maintenance and operations support solutions for communications service providers; general purpose test solutions; semiconductor automated test equipment; and high-frequency electronic design tools.</p>   | <p>The markets for our test and measurement products comprise three major customer groups: communications test, general purpose test and semiconductor test. We sell our test and measurement solutions to customers across a broad array of industries. Our customers include Agilent Financial Services, ASE Test, ASML, Intel Corporation, Lockheed Martin Corporation, Motorola, Nokia, Samsung, SBC Communications and United States Department of Defense.</p> |
| <p>Our major product areas include networking and personal systems. Within networking, we provide fiber optics products and high speed digital integrated circuits. In personal systems, our products are targeted for use in applications such as mobile phones, printers, PC peripherals and consumer electronics. Products are radio frequency and microwave communications devices, including FBAR duplexers and E-pHEMT power amplifiers; infrared emitters, detectors and transceiver modules; printing application specific integrated circuits (ASICs); optical image sensors and processors, optical position sensors, light emitting diodes (LEDs) and optocouplers.</p> | <p>We sell to a broad array of customers in networking and personal systems. We sell to original equipment manufacturers directly, including Hewlett-Packard, Cisco Systems, Huawei, Logitech, Nortel Networks™, and Samsung. We also sell to contract manufacturers, including Celestica, Flextronics, Jabil Circuit, Sanmina-SCI Systems and Solectron.</p>  |
| <p>Our seven key product categories include microarrays, microfluidics, gas chromatography, liquid chromatography, mass spectrometry, software and informatics, and related consumables and services.</p>  | <p>We sell our products and services to a broad array of customers in the life sciences and pharmaceutical as well as chemical analysis markets. Life sciences customers include Merck, GlaxoSmithKline, Pfizer, Aventis, and Pharmacia. Chemical analysis customers include Boehringer Ingelheim, Dow Chemical, BASF AG, E.I. du Pont de Nemours and Company and Akzo Nobel.</p>  |
| <p><b>Agilent Sales and Support</b></p>  | <p>Agilent sells and distributes its products and services through its direct sales force as well as a number of alternate channels, including distributors, resellers, telephone and electronic commerce. Our businesses provide a range of services and customer support, including systems integration, technical and product support, consulting and knowledge services.</p>   |

*Nortel Networks is a trademark of the Nortel Networks Corporation.*

## Officers

Edward W. (Ned) Barnholt  
Chairman of the Board of Directors, President and Chief Executive Officer

Bryon J. Anderson  
Senior Vice President, General Manager, Electronic Products and Solutions Group

Dick M. Chang  
Senior Vice President and General Manager, Semiconductor Products Group

Adrian T. Dillon  
Executive Vice President and Chief Financial Officer

William R. Hahn  
Senior Vice President, Corporate Relations

Jean M. Halloran  
Senior Vice President, Human Resources

Dorothy D. Hayes  
Vice President and Controller

Didier Hirsch  
Vice President and Treasurer

Larry C. Holmberg  
Senior Vice President Sales, Marketing and Customer Support

Marie Oh Huber  
Vice President, Assistant General Counsel and Assistant Secretary

D. Craig Nordlund  
Senior Vice President, General Counsel and Secretary

Thomas A. Saponas  
Senior Vice President and Chief Technology Officer

William P. Sullivan  
Executive Vice President and Chief Operating Officer

Jack P. Trautman  
Senior Vice President and General Manager, Automated Test Group

Chris van Ingen  
Senior Vice President and General Manager, Life Sciences and Chemical Analysis Group

Thomas E. White  
Senior Vice President and General Manager, Communications Solutions Group

## Directors

Edward W. (Ned) Barnholt  
Chairman of the Board of Directors, President and Chief Executive Officer\*

James G. Cullen  
Retired President and Chief Operating Officer Bell Atlantic Corporation (now known as Verizon)

Gerald Grinstein\*  
Lead Director, Agilent Technologies, Inc. and Retired Chairman of the Board, Agilent Technologies, Inc., Delta Airlines and Burlington Northern Santa Fe Corporation

Robert J. Herbold  
Executive Vice President (part time), Microsoft Corporation

Walter B. Hewlett  
Independent Researcher and Director, Center for Computer Assisted Research in the Humanities and Public Policy Institute of California

Heidi Kunz  
Executive Vice President and Chief Financial Officer, Gap, Inc.

David M. Lawrence, M.D.  
Chairman Emeritus of Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals

A. Barry Rand  
Chairman Emeritus, Former Chairman and CEO, Avis Group Holdings, Inc.

## Board Committees

Audit and Finance Committee  
Heidi Kunz, Chairperson  
Robert J. Herbold  
Walter B. Hewlett

Compensation Committee  
David M. Lawrence, M.D., Chairperson  
James G. Cullen  
Gerald Grinstein\*  
A. Barry Rand

Nominating/Corporate Governance Committee  
Gerald Grinstein, Chairperson\*  
James G. Cullen  
Robert J. Herbold  
Walter B. Hewlett  
Heidi Kunz  
David M. Lawrence  
A. Barry Rand

Executive Committee  
Gerald Grinstein, Chairperson\*  
Edward W. (Ned) Barnholt

*All listed officers, except William R. Hahn, Didier Hirsch and Marie Oh Huber, are executive officers of Agilent under Section 16 of the Securities Exchange Act of 1934.*

\* Effective November 20, 2002, in anticipation of Gerald Grinstein's planned retirement at the 2003 Annual Meeting of Stockholders, Edward W. Barnholt succeeded Mr. Grinstein as Chairman of the Board of Directors and Mr. Grinstein was appointed Lead Director. After Mr. Grinstein retires he will be succeeded by Dr. David M. Lawrence.

Agilent's annual meeting of shareholders will take place on Tuesday, March 4, 2003 at 10:00 a.m. at the South San Francisco Conference Center, 255 South Airport Boulevard, South San Francisco, California.

**Investor Information**

Please see the full and audited financial statements and footnotes contained in this booklet. To receive paper copies of the annual report, proxy statement, Form 10-K, earnings announcements and other financial information, people in the United States and Canada should call our toll-free number: (877) 942-4200. People calling from outside the United States and Canada should dial: (402) 573-9919. You can also access financial information at Agilent's Investor Relations Web site. The address is <http://www.investor.agilent.com>.

**Corporate Governance, Business Conduct and Ethics**

Agilent's corporate governance guidelines, the charters of our Audit and Finance Committee, Compensation Committee and Nominating /Corporate Governance Committee as well as Agilent's Standards of Business Conduct are available on the Investor Relations Web site at <http://www.investor.agilent.com>. You can also request a hard copy of any of this information by contacting (877) 942-4200 (in the United States or Canada) or (402) 573-9919 (outside the United States and Canada).

**Transfer Agent and Registrar**

Please contact our transfer agent, at the phone number or address listed below, with any questions about stock certificates, transfer of ownership or other matters pertaining to your stock account.

Computershare Investor Services  
P.O. Box A3504  
Chicago, IL 60690-3504  
United States

If calling from anywhere within the United States and Canada: (877) 309-9856.

If calling from outside the United States: (312) 588-4672.

The e-mail address for general shareholder inquiries for Computershare is: [web.queries@computershare.com](mailto:web.queries@computershare.com).

**Investor Contact**

Agilent Technologies, Inc.  
Investor Relations Department  
395 Page Mill Road  
Palo Alto, CA 94306

You can also contact the Investor Relations Department via e-mail at the Agilent Investor Relations Web site at <http://www.investor.agilent.com>. Click on "Email Notification" to send a message.

**Agilent Headquarters**

Agilent Technologies, Inc.  
395 Page Mill Road  
Palo Alto, CA 94306  
Phone: (650) 752-5000

## Common Stock

Agilent is listed on the New York Stock Exchange and our ticker symbol is “A.” There were approximately 71,353 registered shareholders as of December 2, 2002. Since we plan to retain future earnings to maximize the growth and development of our company, we do not anticipate paying cash dividends in the foreseeable future. We do not currently offer direct purchase of Agilent shares from the company or a dividend re-investment plan (DRIP).

*The following tables summarize the high and low stock prices by period for Agilent’s common stock.*

| <b>Fiscal 2001</b>                      | <b>High</b> | <b>Low</b> |
|---|-------------|------------|
| First Quarter (ended January 31, 2001)  | \$68.00     | \$38.06    |
| Second Quarter (ended April 30, 2001)   | \$55.00     | \$25.00    |
| Third Quarter (ended July 31, 2001)     | \$41.18     | \$26.20    |
| Fourth Quarter (ended October 31, 2001) | \$32.70     | \$18.00    |
| <b>Fiscal 2002</b>                      | <b>High</b> | <b>Low</b> |
| First Quarter (ended January 31, 2002)  | \$33.30     | \$22.06    |
| Second Quarter (ended April 30, 2002)   | \$38.00     | \$24.83    |
| Third Quarter (ended July 31, 2002)     | \$31.25     | \$16.00    |
| Fourth Quarter (ended October 31, 2002) | \$18.88     | \$10.50    |

This Annual Report, including the letter titled “To Our Shareholders,” contains forward-looking statements (including, without limitation, information regarding projected revenue, profitability, earnings, cash flow, R&D spending, savings from restructuring programs, breakeven cost structure, and overall financial results; the status, impact and benefits of the ERP and CRM systems implementations; and the outlook for the general economy and for the markets that Agilent serves) that involve risks and uncertainties that could cause results of Agilent to differ materially from management’s current expectations. These risks include the ability to execute successfully through the current economic downturn and an upturn, the ability to meet and achieve the benefits of our cost reduction goals and otherwise successfully adapt our cost structures to changes in business conditions, competitive and pricing pressures, the successful implementation of Agilent’s ERP and CRM systems and the ability to realize the benefits from these and other IT systems investments, the ability to improve asset performance to adapt to the current economic slowdown and other changes in demand, the ability to successfully introduce new products, and other risks detailed in Agilent’s filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended Oct. 31, 2002 as well as any subsequent filings made after December 20, 2002.

The materials contained in this annual report are as of January 9, 2003, unless otherwise noted. The content of this annual report contains time-sensitive information that is accurate only as of this date. If any portion of this annual report is redistributed at a later date, Agilent will not be reviewing or updating the material in this presentation.

This Annual Report contains the full, audited financials and notes thereto contained in the following section of this booklet with the tab “Annual Report Financials”. Within the Annual Report Financials, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risks, Uncertainties and Other Factors That May Affect Future Results” for more complete information on each of our businesses and Agilent as a whole.