2001 Annual Report to Stockholders

Annual Report

To Our Shareholders

The dramatic slowdown in the communications and semiconductor markets defined Agilent's second year as an independent company. After very strong growth in 1999 and 2000, the decline in demand in these markets was unprecedented in its speed and severity. Our customers had manufacturing capacity and inventories far greater than what they needed, and consumers spent less on personal computers and printers. The downturn worsened as we moved through 2001, and our financial results — orders down substantially, lower revenue and a loss for the year — reflect the fact that well over half our revenue comes from markets that contracted sharply in 2001.

During the year we worked to strike the right balance between navigating the difficult short term while continuing to build Agilent for long-term success. First, we moved quickly to mitigate the effects of the downturn. We cut back our discretionary spending, implemented company-wide pay cuts, canceled or delayed programs, and took many other actions to lower spending and conserve cash. This year's annual report, which is much shorter and includes far fewer graphic elements than in previous years, is just one way we're spending less.

At the same time, we took many actions to position Agilent for long-term success, and here the 2001 story was much better. We had our best year ever for new-product introductions, and we strengthened our presence in promising new markets. At the same time, we made progress in our operational initiatives and the transformation of Agilent's culture. In this letter, I'll review our results, describe some of these accomplishments and touch on our priorities for fiscal 2002.

A Very Difficult Year

Much lower demand in the communications and semiconductor markets drove a 39 percent decline in total orders in 2001 compared with fiscal 2000. In our test and measurement and semiconductor products businesses, which serve those markets, orders were down 43 and 49 percent, respectively, compared with 2000. These declines include the impact of about $1 billion of canceled orders, many of which had been placed in 2000, when demand was very strong. Even though we proactively canceled many of these orders because our customers were not going to take delivery within six months, this level of cancellations shows the depth of weakness in our key markets.

A bright spot was our chemical analysis business, where total net revenue increased 7 percent compared with 2000 and we achieved a substantial profit improvement. Within chemical analysis, net revenue in our pharmaceutical and life sciences business grew 20 percent. We're steadily establishing Agilent as a key provider of enabling tools and application solutions for customers in the life sciences, such as the researchers who are expanding our understanding of how diseases develop and creating advanced therapies to treat them.

At the beginning of fiscal 2001, based on customer inputs and external market indicators, we believed the downturn would be relatively short and not overly severe. So we cut back on contract and temporary workers, we reduced travel and we lowered discretionary spending of all kinds. In April, as the situation deteriorated, we accelerated our actions to reduce costs, including a company-wide, 10-percent pay reduction.

By the end of July it was clear that we had to size the company for a much lower level of business in the near- and mid-term. We announced plans to reduce our workforce by about 4,000 people, the continuation of the pay cuts, and a company-wide, two-week shutdown in the first fiscal quarter of 2002. In November, it was apparent that an improvement in demand would be slow and gradual, so we implemented a second workforce reduction that will affect another 4,000 people.

Our employees did a great job all year in reducing discretionary spending. By the fourth quarter, total selling, general and administrative spending was down 30 percent, on an earnings-before-goodwill basis, from the fourth quarter of 2000. We expect the workforce

reduction of about 8,000 people, along with related site consolidations, ongoing progress on operations and other process improvements, to eliminate about $1.2 billion in annualized costs starting in the second half of fiscal 2002.

As a result of this cost-cutting, our new-product strength and some reduction in order cancellations, we believe we will begin operating profitably some time in the second half of fiscal 2002, without any major improvement in the business climate.

Appropriate Investments for Growth

During the year we built on our leadership position in many markets and expanded our presence in a number of areas, including optical- and wireless-communications test, semiconductor components, operations support systems for network and service management, and life sciences. Outstanding new products were crucial to these results. We had more than 150 major introductions, and by the end of 2001, these new products, and our ability to compete in new markets, were helping slightly to offset sluggish demand.

Our investments in R&D are the key to a steady stream of new products. In 2001 we increased our R&D investment to about $1.3 billion. We did pare back some R&D programs selectively to help lower costs while preserving the broad and deep strengths of Agilent Labs and our business-based R&D teams.

In 2001 we aggressively managed our business portfolio to sharpen our focus and enhance our growth potential. We sold our healthcare business to Philips after deciding that the investments needed to reinvigorate this business would reduce our ability to capitalize on other opportunities. We completed seven acquisitions and invested in five companies through Agilent Ventures, our in-house, venture capital group. Agilent Ventures is helping us gain access to leading-edge technologies in communications and life sciences at early stages of development.

Making Agilent Easier to Do Business With

In May 2000, we launched a company-wide effort to make Agilent easier for customers to do business with. We are radically simplifying hundreds of processes and standardizing on best-in-class tools and systems. This effort enabled us to lower operating costs by several hundred million dollars in fiscal 2001.

For example, we streamlined our information technology (IT) systems and cut spending on legacy IT systems by 50 percent as we implemented the first phase of a major systems transformation. We reduced our customer-services operations from 40 sites to five and made it a lot easier for customers to reach the right person at Agilent quickly. We consolidated manufacturing from more than 40 sites and are driving to lower this number by about half. We streamlined dozens of human-resource (HR) processes and systems and were able to reduce total HR spending by half compared with a year ago. We improved our ability to deliver products and systems at the customer's requested delivery date.

The industry recognition that we achieved this year shows that we didn't make progress in cost reduction at the expense of customer satisfaction. We won the President's Customer Satisfaction Award from Cisco — that company's highest supplier honor. Nortel Networks and Celestica also recognized Agilent as an outstanding supplier this year.

Making Agilent a High-performance Company

This year we continued our work to transform Agilent's culture. We're building on the best of our heritage while instilling the values and behaviors — especially speed, focus and accountability — we need for long-term success.

We worked to implement the pay cuts and workforce reductions in ways that were consistent with our commitment to treat people fairly and with dignity. We expanded our efforts to

strengthen workforce diversity and inclusiveness that are so crucial to our ability to innovate. Again this year we won substantial industry recognition for the culture we're building. We were No. 46 on Fortune magazine's ''100 Best Companies to Work for in America.'' Our Singapore operations were ranked No. 1, and Malaysia No. 4, in the ''Best Employers in Asia'' survey done by Hewitt Associates and Dow Jones publications. Agilent was No. 8 overall in a survey of France's best employers in the high-tech industry conducted by Electronique International.

Senior Management Changes

During 2001, Randall Tobias left Agilent's board of directors. In November 2000, we added A. Barry Rand to the board. We'll miss Randy's wise counsel, and we're grateful for his contributions to the company. Barry was most recently chief executive officer and chairman of the board of Avis Group. Prior to that, he spent more than 20 years at Xerox Corporation in a variety of senior management positions.

In November 2001, executive vice president and chief financial officer (CFO) Bob Walker announced his decision to leave the company. Bob made enormous contributions to Agilent over the past two years. His broad knowledge and passion for the company have left an indelible legacy. Adrian Dillon, who joins Agilent as our new executive vice president and CFO, has compiled an impressive record in 22 years at the Eaton Corporation, and he makes a great addition to our executive team.

We also added two outstanding executives to the senior management staff in 2001: Larry Holmberg as Senior Vice President, Sales, Marketing and Customer Support, and Chris van Ingen as Senior Vice President, Chemical Analysis Group. Larry and his team are working to strengthen our long-standing relationships with a ''who's who'' of industry leaders. In chemical analysis, Chris and his team brought renewed energy and focus and achieved very good results.

Priorities for 2002

Our top priority for fiscal 2002 is to become profitable again, and we're not counting on a significant improvement in our markets to do so. Another key priority is to continue the operational initiatives that began to bear fruit in 2001. This year we will focus on the major systems transformation that we started in 2000, as well as on continued improvements in manufacturing, on-time delivery and procurement. We have a major opportunity to achieve further progress on customer satisfaction by becoming more focused, faster and leaner.

Finally, we will be guided in everything we do by our values – innovation, integrity, trust and respect for all our people as well as speed, focus and accountability. This was a very trying year for Agilent's customers and employees. The challenges we faced were substantial, but our enduring strengths are intact. Agilent is a market leader in all its businesses. In communications and semiconductors, the underlying drivers of demand — such as the growth of wireless and the need for network bandwidth — are still in place, and they provide major opportunities for us. We have the ability to innovate that is so crucial to our long-term success, and we have long-standing relationships with customers who lead their industries.

I believe the most important decisions we make during tough economic times are those that get the company ready for when conditions improve. As we start 2002, we're well positioned to emerge from the downturn as a much more competitive and efficient company. We're determined to strike the right balance between navigating the short-term environment while continuing to build on our substantial strengths for a very exciting future.

Ned Barnholt
President and Chief Executive Officer

Agilent at a Glance

Business Group	2001 Net Revenue	Description
Test and Measurement	**$5.4** billion	Agilent creates and enables emerging technologies and solutions that make the next communications and electronics transformation real. As the leading provider of test and measurement equipment for the electronics industry, Agilent's test and measurement business enables designers and manufacturers of semiconductors, computers, peripherals, consumer-electronics and communications solutions to accelerate the high-volume delivery of their next-generation products.
Semiconductor Products	**$1.9** billion	The semiconductor products business is a leading supplier of semiconductor components, modules and assemblies for high-performance communications systems. The semiconductor products business designs, develops and manufactures products for the networking, wireless, computing and printing markets.
Chemical Analysis	**$1.1** billion	The chemical analysis business provides applications, solutions, and services that enable customers to identify, quantify, analyze and test the biological or atomic, molecular and physical properties of substances and products.
Agilent Labs	One of the world's leading industrial research centers, Agilent Laboratories creates technological innovations that drive growth and profitability for Agilent. Agilent Labs draws on the talents of more than 425 researchers and support staff around the world. Its research staff is tightly aligned with the research and development teams of our businesses. Agilent Labs is a key contributor to the company's new-business generation effort.	

Key Products	Markets and Customers
We produce current- and next-generation test products and solutions in fiber-optics, broadband, radio frequency and microwave; network service testing, management and monitoring; general-purpose instruments; automated test equipment for semiconductors and printed circuit boards; and high-frequency electronic design tools.	Communications network equipment manufacturers and service providers; component manufacturers and contract manufacturers; semiconductor manufacturers, aerospace and defense suppliers and information processing providers. Examples include Samsung, Verizon, General Electric, Ericsson, NEC, Solectron, Mitsubishi, Infineon, Motorola, Murata, Boeing, IBM and Hewlett-Packard.
Fiber-optic communications devices and integrated circuits (ICs) for high-speed local-, metropolitan- and wide-area networks; radio-frequency, microwave and infrared devices and ICs for wireless communications products and infrastructure; application-specific ICs for computing and printing; optical image and position sensors for digital cameras and computer mice; optoelectronic devices.	A broad array of original equipment manufacturers and contract manufacturers in the communications and computing industries, including Cisco, Hitachi, EMC, Hewlett-Packard, Solectron, Logitech, Nokia, Alcatel, Huawei Technologies and Samsung.
Microarrays, bioanalyzers, bioinformatic software, gas and liquid chromatographs, mass spectrometry systems and related supplies and consumables, such as LabChips ®, chromatograph columns, and chemical and biological reagents.	A broad array of customers in the pharmaceutical, chemical and environmental industries, including Merck, Glaxo/Wellcome, Amgen, Monsanto, Bayer and the U.S. Department of Agriculture.

Methods of Distribution and Services

Agilent sells and distributes its products and services through its direct sales force as well as a number of alternate channels, including distributors, mail order, 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.

Officers

Edward W. (Ned) Barnholt
President and Chief Executive Officer

Alain A. Couder
Executive Vice President and Chief Operating Officer

Robert R. Walker*
Executive Vice President and Chief Financial Officer

Byron J. Anderson
Senior Vice President
Electronic Products and Solutions

William R. Hahn
Senior Vice President
Corporate Relations

Jean M. Halloran
Senior Vice President
Human Resources

Dorothy D. Hayes
Vice President
Controller

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

D. Craig Nordlund
Senior Vice President
General Counsel and Secretary

Thomas A. Saponas
Senior Vice President
Chief Technology Officer

John E. Scruggs
Senior Vice President
Automated Test

William P. Sullivan
Senior Vice President
Semiconductor Products

Chris van Ingen
Senior Vice President
Chemical Analysis

Thomas White
Senior Vice President
Communications Solutions

Didier Hirsch
Vice President
Treasurer

Marie Oh Huber
Vice President
Assistant General Counsel and Assistant Secretary

Directors

Gerald Grinstein
Non-executive Chairman of the Board

Edward W. (Ned) Barnholt
President and Chief Executive Officer
Agilent Technologies

James Cullen
Retired President and Chief Operating Officer
Bell Atlantic Corporation

Thomas E. Everhart
President Emeritus
California Institute of Technology

Robert J. Herbold
Executive Vice President
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 of the Board and Chief Executive Officer
Kaiser Foundation Health Plan, Inc.
and Kaiser Foundation Hospitals

A. Barry Rand
Former Chairman and CEO Avis Group Holdings, Inc. and senior adviser with Cendant Corporation

Board Committees

Executive Committee
Grinstein (Chair), Barnholt

Audit and Finance Committee
Kunz (Chair), Everhart, Herbold, Hewlett

Compensation Committee
Lawrence (Chair), Cullen, Grinstein, Rand

Nominating Committee
Grinstein (Chair), Cullen, Everhart, Herbold, Hewlett, Kunz, Lawrence, Rand

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

---

* Effective December 3, 2001, Adrian T. Dillon succeeded Robert R. Walker as Executive Vice President and Chief Financial Officer of Agilent.

Agilent's annual meeting of shareholders will take place on Friday, February 22, 2002 at 10:00 a.m. at the Flint Center for the Performing Arts, 21250 Stevens Creek Boulevard, Cupertino, California.

Investor Information

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 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.

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.

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.

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 74,768 registered shareholders as of December 26, 2001. 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.

Fiscal 2000	**High**	**Low**
First Quarter (ended January 31, 2000)	$ 79.25	$40.00
Second Quarter (ended April 30, 2000)	$159.00	$71.00
Third Quarter (ended July 31, 2000)	$100.75	$40.75
Fourth Quarter (ended October 31, 2000)	$ 63.00	$38.80

Fiscal 2001	**High**	**Low**
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

This annual report, including the letter titled ''To Our Shareholders,'' contains forward-looking statements (including, without limitation, information regarding projected reductions in costs, projected profitability, and projected operational transformations such as systems transformation, improvements in manufacturing, on-time delivery and procurement), that involve risks and uncertainties that could cause results of Agilent Technologies to differ materially from management's current expectations. These risks include: the ability to execute successfully through the current economic downturn; the effects of the actions we have taken in response to the recent slowdown, including implementing workforce reductions; the timely ability to adapt manufacturing capacity to weak industry orders; the ability to quickly adapt cost structures to align with decreased levels of business; the ability to manage inventory levels to adapt to the current economic slow-down and setbacks in our customers' businesses; the successful redesign and implementation of our business processes and systems; our ability to successfully introduce new products; and other risks detailed in our filings with the U.S. Securities and Exchange Commission, including, without limitation: our Annual Report on Form 10-K for the year ended Oct. 31, 2000, Quarterly Report on Form 10-Q for the quarter ended July 31, 2001, and Current Reports on Form 8-K filed June 29, 2001, Aug. 15, 2001, Nov. 13, 2001, Nov. 16, 2001, Nov. 19, 2001, Nov. 20, 2001 and Nov. 27, 2001, as well as any subsequent filings made after January 2, 2002.

The materials contained in this annual report are as of December 26, 2001, 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.

LabChip is a U.S. registered trademark of Caliper Technologies Corporation.

2001 Financial Report

Financials

TABLE OF CONTENTS

	Page
Selected Financial Data	1
Management's Discussion and Analysis of Financial Condition and Results of Operations	3
Statement of Management Responsibility	24
Report of Independent Accountants	25
Consolidated Statement of Earnings	26
Consolidated Balance Sheet	27
Consolidated Statement of Cash Flows	28
Consolidated Statement of Stockholders' Equity	29
Notes to Consolidated Financial Statements	30
Quarterly Summary	52

Financials

SELECTED FINANCIAL DATA
(Unaudited)

	Years Ended October 31,				
	2001	2000	1999	1998	1997
	(In millions, except per share amounts)				
CONSOLIDATED STATEMENT OF EARNINGS DATA (1, 2, 3, 4):					
Net revenue	$8,396	$9,361	$6,830	$6,612	$6,577
(Loss) earnings from continuing operations before taxes	$ (477)	$1,018	$ 463	$ 191	$ 633
(Loss) earnings from continuing operations	$ (406)	$ 672	$ 306	$ 126	$ 418
Net earnings from discontinued operations, net of taxes	$ 6	$ 85	$ 206	$ 131	$ 125
Gain from the sale of discontinued operations, net of taxes	$ 646	–	–	–	–
Earnings before cumulative effect of changes in accounting principles	$ 246	$ 757	$ 512	$ 257	$ 543
Cumulative effect of adopting SFAS No. 133, net of taxes	$ (25)	–	–	–	–
Cumulative effect of adopting SAB 101, net of taxes	$ (47)	–	–	–	–
Net earnings	$ 174	$ 757	$ 512	$ 257	$ 543
Net (loss) earnings per share – Basic:					
(Loss) earnings from continuing operations	$(0.89)	$ 1.49	$ 0.81	$ 0.33	$ 1.10
Net earnings from discontinued operations	$ 0.01	$ 0.19	$ 0.54	$ 0.35	$ 0.33
Gain from the sale of discontinued operations	$ 1.41	–	–	–	–
Cumulative effect of adopting SFAS No. 133	$(0.05)	–	–	–	–
Cumulative effect of adopting SAB 101	$(0.10)	–	–	–	–
Net earnings	$ 0.38	$ 1.68	$ 1.35	$ 0.68	$ 1.43
Net (loss) earnings per share – Diluted:					
(Loss) earnings from continuing operations	$(0.89)	$ 1.48	$ 0.81	$ 0.33	$ 1.10
Net earnings from discontinued operations	$ 0.01	$ 0.18	$ 0.54	$ 0.35	$ 0.33
Gain from the sale of discontinued operations	$ 1.41	–	–	–	–
Cumulative effect of adopting SFAS No. 133	$(0.05)	–	–	–	–
Cumulative effect of adopting SAB 101	$(0.10)	–	–	–	–
Net earnings	$ 0.38	$ 1.66	$ 1.35	$ 0.68	$ 1.43
Average shares used in computing basic net earnings per share	458	449	380	380	380
Average shares used in computing diluted net earnings per share	458	455	380	380	380

	October 31,				
	2001	2000	1999	1998	1997
	(In millions)				
CONSOLIDATED BALANCE SHEET DATA (1, 4):					
Working capital	$2,797	$2,476	$1,275	$1,010	$ 937
Total assets	$7,986	$8,330	$5,364	$4,922	$4,950
Stockholders' equity	$5,659	$5,265	$3,382	$3,022	$3,110

(1) Consolidated financial data and notes for all periods present Agilent's healthcare solutions business as a discontinued operation. See Note 3 ''Discontinued Operations'' to the consolidated financial statements.

(2) Loss from continuing operations for the year ended October 31, 2001 includes a pre-tax gain of $269 million relating to the sale of surplus land in California, a pre-tax restructuring charge of $154 million primarily relating to severance expenses and a pre-tax asset impairment charge of $74 million. Earnings from continuing operations for the year ended October 31, 1999 includes a pre-tax asset impairment charge of $51 million. See Note 12, ''Restructuring and Asset Impairment,'' to the consolidated financial statements. Earnings from continuing operations for the year ended October 31, 1998 includes a pre-tax restructuring charge of $155 million.

(3) Consolidated statement of earnings data for the year ended October 31, 2001 and 2000 includes the impact of the sale of certain portions of our portfolio of lease assets to Tyco Capital Corporation. In 2001, net proceeds from this sales transaction were $287 million and we recognized $254 million in net revenue from continuing operations and $131 million in cost of products from continuing operations. In 2000, net proceeds from this sales transaction were $234 million and we recognized $197 million in net revenue from continuing operations and $83 million in cost of products from continuing operations. See Note 4, ''Acquisitions and Dispositions,'' to the consolidated financial statements.

(4) The historical financial data from 1997 through 1999 was carved out from the historical financial information of Hewlett-Packard using the historical results of operations and historical bases of the

assets and liabilities of the Hewlett-Packard businesses that comprise our company. We began accumulating retained earnings on November 1, 1999. Therefore, the historical financial data from 1997 through 1999 is not indicative of our future performance and does not reflect what our consolidated financial position and results of operations would have been had we operated as a separate, stand-alone entity during the periods presented.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Unaudited)

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Annual Report. The following discussion contains forward-looking statements including, without limitation, statements regarding the anticipated completion of transactions and our liquidity position and our expected overall growth that involve risks and uncertainties. Our actual results could differ materially from the results contemplated by these forward-looking statements due to certain factors, including those discussed below in ''Factors That May Affect Future Results'' and elsewhere in this Annual Report.

Overview

Our company, incorporated in Delaware in May 1999, is a global diversified technology organization that provides enabling solutions to high growth markets within the communications, electronics and life sciences industries. Prior to our initial public offering of 15.9 percent of our stock in November 1999, we were a wholly-owned subsidiary of Hewlett-Packard Company (''HP''). HP distributed the remaining 84.1 percent of our stock to its stockholders on June 2, 2000 in the form of a stock dividend.

Basis of Presentation

Our fiscal year end is October 31. Unless otherwise stated, all years refer to our fiscal year.

The 2001 and 2000 consolidated financial statements reflect the results of operations, changes in cash flows, and the financial position of our businesses. We began accumulating retained earnings on November 1, 1999.

The 1999 consolidated financial statements were prepared using HP's historical bases in the assets and liabilities and our historical results of operations. The 1999 consolidated financial statements include allocations of certain HP corporate expenses, including centralized research and development, legal, accounting, employee benefits, real estate, insurance services, information technology services, treasury and other HP corporate and infrastructure costs. The expense allocations were determined on bases that HP and we considered to be a reasonable reflection of the utilization of services provided to us or the benefit received by us. Therefore, the financial information presented in this Annual Report for 1999 is not necessarily indicative of what our consolidated financial position, results of operations or cash flows would have been had we been a separate, stand-alone entity in 1999.

Discontinued Operations

On August 1, 2001, we completed the sale of our healthcare solutions business to Koninklijke Philips Electronics, N.V. (''Philips'') pursuant to an Asset Purchase Agreement for a total purchase price of $1.7 billion. Philips paid initial proceeds of $1.6 billion to us on August 1, 2001, with further payments to follow pursuant to the terms of the Asset Purchase Agreement dated as of November 17, 2000, as amended and supplemented by the Amendment and Supplemental Agreement, dated as of August 1, 2001. The total purchase price is subject to adjustment based on the determination of the final purchased net assets and on our performance of certain services for Philips. Since August 1, 2001 we have received approximately $80 million of the $100 million purchase price holdback in additional proceeds from Philips. We expect to receive the remaining proceeds in 2002.

Our consolidated financial statements reflect our healthcare solutions business as discontinued operations in accordance with Accounting Principles Board Opinion No. 30 ''Reporting the

Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions'' (''APB 30''). The financial position, results of operations and cash flows of our healthcare solutions business have been classified as discontinued, and prior periods have been restated, including the reallocation of general overhead charges to our three remaining business segments. We recorded an after-tax gain of $646 million as a result of this transaction. We do not expect material adjustments to the gain when the determination of the final purchased net assets and the performance of certain services are complete.

We are restricted from competing in the development, manufacturing, selling or servicing of certain medical products for five years. For incremental fees, we have provided certain support services to Philips after August 1, 2001 and we will continue to provide those services in the future. A portion of these fees offset costs that include an element of fixed costs which are recognized in selling, general and administrative expenses.

Restructuring and Asset Impairment

In 2001, as a result of the economic downturn that has impacted many of the markets that we serve, we have taken steps to restructure our businesses. We have announced measures to cut discretionary costs, to reduce the size of our workforce and to reduce the number of sites that we occupy. On August 20, 2001, we announced a plan to reduce our workforce by approximately 4,000, or about nine percent, by the middle of 2002. In November 2001, we announced a further reduction of 4,000 jobs, combined with other measures designed to restore profitability in the latter half of 2002. The total cost of these plans is estimated to be $350 million, of which $154 million was recognized in 2001. Of this amount, $79 million was included in cost of products and services, $17 million was included in research and development expenses and $58 million was included in selling, general and administrative expenses. As of October 31, 2001, $65 million in severance benefits had been paid and the remainder of the restructuring liability is expected to be utilized during 2002. In the second half of 2001, we reduced our workforce by approximately 3,000 employees.

In June 2001 we recognized a $74 million asset impairment charge with respect to our decision to cancel the development of a software system for our customer support activities. We have entered into an agreement with HP to extend our use of their legacy customer support systems in place of the one that we were developing. The decision to continue the use of HP's systems enabled us to reduce costs at a critical time, minimize disruption to our customers and businesses and to focus on our customers' needs.

In 1999, we recognized an impairment loss of $51 million related to a building that was under construction to house manufacturing operations for eight-inch CMOS semiconductor wafers. At the time construction was stopped, only the building shell was complete; we concluded that the highest fair value to be realized from this building was based on selling it for use as an office or general use facility.

Acquisitions

On January 5, 2001, we acquired Objective Systems Integrators, Inc. (''OSI'') for approximately $716 million. Of this total, $690 million was cash and the remainder represents the fair value of options granted. Using the purchase method of accounting, the purchase price was allocated to tangible and intangible assets including goodwill. The original goodwill balance of $593 million is being amortized over three years. The net book value of goodwill associated with this acquisition at October 31, 2001 was $432 million. OSI is a leading provider of next-generation operations-support-system software for communications service providers and has become part of the test and measurement business.

In July 1999, HP entered into an agreement with Yokogawa Electric Corporation (''Yokogawa'') to acquire Yokogawa's 25 percent equity interest in Agilent Technologies Japan, Ltd. for approximately $521 million. In the initial step, which occurred in January 2000, we purchased approximately 10.4 percent of Agilent Technologies Japan, Ltd. shares from Yokogawa for approximately $206 million. In the second step, which occurred in April 2000, we purchased approximately 10.4 percent of additional Agilent Technologies Japan, Ltd. shares from Yokogawa for approximately $216 million. In January 2001, we completed our acquisition of Yokogawa's 25 percent equity interest in Agilent Technologies Japan, Ltd. by purchasing the remaining 4.2 percent interest for approximately $99 million. Of the total purchase price, $243 million was allocated to tangible assets and $278 million was attributed to goodwill which is being amortized over 10 years. The remaining net book value of goodwill associated with this acquisition was $240 million at October 31, 2001.

In addition to the OSI and Yokogawa acquisitions, we acquired several other companies during 2001, 2000, and 1999 which were not significant to our consolidated financial position, results of operations or cash flows. These acquisitions were accounted for under the purchase method. The results of operations of the acquired companies were included prospectively from the date of acquisition and the acquisition cost was allocated to the acquired tangible and identifiable intangible assets and liabilities based on fair market values at the date of acquisition. Residual amounts were recorded as goodwill. In-process research and development write-offs have not been significant. Goodwill is amortized on a straight-line basis over its estimated economic life, generally three to five years except as noted above.

The net book value of goodwill and other intangible assets was $1.1 billion at October 31, 2001 and $467 million at October 31, 2000.

Sale of Leasing Portfolio

In the fourth quarter of 2000, we entered into an asset purchase agreement with Tyco Capital Corporation (''Tyco Capital'') pursuant to which we have sold them substantially all of our leasing portfolio (''Tyco Capital sale'') over the course of the last five quarters. The impact on our consolidated cash flows and results of operations of the lease portfolio sale is shown below.

	Year Ended October 31, 2001	Year Ended October 31, 2000
Net proceeds from Tyco Capital sale	$287	$234
Product revenue	$254	$197
Cost of products	$131	$ 83

Our service revenues and cost of services were reduced in 2001 as our portfolio of operating leases was purchased by Tyco Capital. Correspondingly, product revenue and cost of products increased as a direct result of the Tyco Capital sale. We expect future operating lease revenue to be further reduced because we also entered into a vendor financing arrangement with Tyco Capital whereby Tyco Capital will provide equipment financing and leasing services to our customers on a global basis. This agreement has been in place since the fourth quarter of 2000. As a result of this agreement and the Tyco Capital sale our lease revenue and associated costs have declined. Lease revenues as a percentage of service revenues for each of the last three fiscal years were 5.1 percent in 2001, 23.5 percent in 2000 and 22.6 percent in 1999.

Property Transactions

In February 2001, we sold a parcel of surplus land in San Jose, California for $287 million in cash, resulting in a pre-tax gain of approximately $269 million. In August 2001, we invested in the leasehold of several municipal properties in southern California for a total value of $289 million.

Cyclical Business and General Economic Conditions

The sales of our products and services are dependent, to a large degree, on customers whose industries are subject to cyclical trends in the demand for their products. Shifts in the semiconductor market, electronics industry, computer industry and telecommunications markets, as well as rapidly shifting global economic conditions, have had and will have significant impacts on our businesses.

In 2001, an economic downturn reduced consumer and capital spending in many of the worldwide markets that we serve. It also has created an imbalance of supply and demand in the wireless and semiconductor manufacturing industries. We are uncertain as to how long and how severe the current downturn may be in these markets. In 2001, net revenue and net earnings were down 10 percent and 77 percent, respectively, compared to 2000. Substantially all of the impacts of this decline occurred in our test and measurement and semiconductor products businesses. Our earnings from continuing operations in 2000 declined 184 percent to a loss from continuing operations in 2001. Additionally, as a capital equipment provider, our revenue is driven by the capital expenditure budgets and spending patterns of our customers who often delay or accelerate purchases in reaction to variations in their businesses and in the economy. We expect some portions of our businesses to remain cyclical in the future. Given that a high proportion of our costs are fixed, variability in revenue as a result of these business cycles could disproportionately affect our quarterly and annual results.

Our revenue and operating results for 2000 compared to 1999 improved as a result of growth in the communications and electronics markets.

Impact of Foreign Currencies

We sell our products in many countries and a portion of our net revenue and costs and expenses are denominated in foreign currencies, especially in the Japanese yen and the Euro. Our foreign currency exposures are hedged as part of our global risk management program, which is designed to minimize short-term exposure to foreign currency fluctuations. Movements in exchange rates net of our hedging activities had no material effect on our net revenues or operating expenses in the periods presented.

Adoption of New Accounting Standards

Effective November 1, 2000, we adopted Statement of Financial Account Standards (''SFAS'') No. 133, ''Accounting for Derivative Instruments and Hedging Activities,'' as amended by SFAS No. 138, ''Accounting for Certain Derivative Instruments and Certain Hedging Activities''. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, and requires that all derivatives be recognized as either assets or liabilities on the balance sheet and carried at fair value. Changes in the fair value of the derivative instruments are recognized in earnings or stockholders' equity, depending on the intended use of the instrument. The adoption of SFAS No. 133 in November 2000 resulted in a cumulative pre-tax reduction in earnings of $41 million ($25 million after-tax) primarily relating to the valuation of certain warrants to purchase securities and a pre-tax increase in other comprehensive income of $10 million.

We enter into certain foreign exchange contracts, primarily forwards and purchased options, to hedge exposures to changes in foreign currency exchange rates. We do not use derivative financial instruments for speculative or trading purposes.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101, ''Revenue Recognition in Financial Statements'' (''SAB 101''). During the fourth quarter of 2001, we adopted SAB 101 retroactive to the beginning of the fiscal year. The cumulative effect of the adoption, reflecting the deferral of net revenue and cost of products from

October 31, 2000, resulted in a cumulative pre-tax reduction in earnings of $74 million ($47 million after tax). As a result of adopting SAB 101, delivery is considered to have occurred when title and risk of loss have transferred to the customer. For the fiscal year ended October 31, 2001, the net impact on 2001 net revenue, including amounts deferred at October 31, 2001, was an increase of $67 million of net revenue and $29 million of cost of products which were included in the cumulative effect adjustment. The results for the first three quarters of 2001 have been restated in accordance with SAB 101. Pro forma amounts for the periods beginning before November 1, 2000 have not been presented, as the effect of the change could not be reasonably determined.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, ''Business Combinations'' and SFAS No. 142, ''Goodwill and Other Intangible Assets''. As a result of SFAS No. 141, all acquisitions completed after June 30, 2001 are accounted for using the purchase method of accounting. The adoption of SFAS No. 141 had no material impact on our consolidated financial statements. We plan to adopt SFAS No. 142 in the first quarter of 2003. SFAS No. 142 requires that goodwill resulting from acquisitions completed after June 30, 2001 not be amortized. Until we adopt the new standard, we will continue to amortize goodwill existing at June 30, 2001 and to test all goodwill for impairment using the current method, that uses an undiscounted cash flow test. After adoption, we will stop amortizing all goodwill and will begin to test goodwill for impairment pursuant to SFAS No. 142, that applies a fair-value-based test. We are assessing the further impacts of SFAS No. 142 on our consolidated financial position and results of operations.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, ''Accounting for the Impairment or Disposal of Long-Lived Assets'' which addresses financial accounting and reporting for the impairment and disposal of long-lived assets. We will be required to adopt SFAS No. 144 no later than fiscal year 2003. We are currently assessing the impact of SFAS No. 144 and do not believe that it will have a material impact on our consolidated financial statements.

Results of Continuing Operations

Net Revenue

	Years Ended October 31,			2001 over 2000	2000 over 1999
	2001	2000	1999	% Change	% Change
	(In millions)				
U.S.	$3,373	$3,992	$2,912	(15.5)%	37.1%
International	5,023	5,369	3,918	(6.4)%	37.0%
Total	$8,396	$9,361	$6,830	(10.3)%	37.1%

	Years Ended October 31,			2001 over 2000	2000 over 1999
	2001	2000	1999	% Change	% Change
	(In millions)				
Products	$7,485	$8,299	$5,895	(9.8)%	40.8%
Services and other (a)	911	1,062	935	(14.2)%	13.6%
Total	$8,396	$9,361	$6,830	(10.3)%	37.1%

% of Total Net Revenue	Years Ended October 31, 2001	2000	1999	2001 over 2000 Ppts Change	2000 over 1999 Ppts Change
Products	89.2	88.7	86.3	0.5	2.4
Services and other(a)	10.8	11.3	13.7	(0.5)	(2.4)
Total	100.0	100.0	100.0	—	—

(a) Services and other includes revenue generated from servicing our installed base of products, warranty extensions, consulting and operating lease revenue. Our operating lease revenue has decreased in 2001 as a result of the Tyco Capital sale, as described more fully above.

Excluding the Tyco Capital sale of $254 million in 2001 and $197 million in 2000, net revenue for 2001 decreased 11.2 percent compared to 2000 and net revenue for 2000 increased 34.2 percent compared to 1999. The decrease in net revenue for 2001 compared to 2000 related primarily to a slowdown in the telecommunications, semiconductor and computer industries, which has severely impacted our customers' ability to purchase our products. The increase in net revenue for 2000 compared to 1999 was spurred by continued growth in net revenue from the communications and electronics markets. This was especially due to the robust demand for our wireless, fiber-optics, networking and imaging components within our semiconductor products business and for most products throughout our test and measurement business. Increased demand in Asia also contributed to net revenue growth in 2000.

The decrease in domestic net revenue for 2001 compared to 2000 came primarily from our businesses which serve the communications and electronics markets. This slowdown has impacted our net revenue in the United States somewhat more severely than other parts of the world. In contrast, the increase in domestic net revenue for 2000 compared to 1999 came primarily from our businesses which serve the communications and electronics markets. The increase in international net revenue for 2000 compared to 1999 was primarily attributable to increased demand in Asia, particularly in Taiwan, Korea and Japan. There was minimal currency impact on net revenue growth in 2000.

The decrease in product revenue for 2001 compared to 2000 was primarily driven by a slowdown in communications and electronics markets. The net revenue growth in 2000 was primarily due to growth in our businesses which serve the communications and electronics markets, a strengthening of the semiconductor industry and increased demand in Asia. The decline in service revenue for 2001 is primarily the result of the Tyco Capital sale and the decline in service contract renewal rates. Generally, there is a lag between service revenue trends and product revenue trends. This lag occurs because service revenue is directly related to the size of our installed base of products not covered by warranty.

Costs and Expenses

As a % of Net Revenue	Years Ended October 31, 2001	2000	1999	2001 over 2000 Ppts Change	2000 over 1999 Ppts Change
Cost of products as a percentage of product revenue	62.3%	49.9%	52.6%	12.4	(2.7)
Cost of services and other as a percentage of services and other revenue	55.1%	55.7%	56.6%	(0.6)	(0.9)
Total costs as a percentage of total net revenue	61.5%	50.6%	53.1%	10.9	(2.5)
Research and development	16.1%	12.1%	12.9%	4.0	(0.8)
Selling, general and administrative	31.7%	27.5%	27.8%	4.2	(0.3)

Excluding the Tyco Capital sale and restructuring charges of $79 million in 2001, cost of products and services as a percentage of net revenue for 2001 increased 10.1 percentage points compared to 2000. The increase was primarily attributable to decreased sales volume and increased charges for excess and obsolete inventory. During 2001, cost of products as a percentage of product revenue has increased due to these same factors mentioned above and higher discounts offered to our customers. Excluding the Tyco Capital sale in 2000 and the impairment charge of $51 million in 1999, cost of products and services as a percentage of net revenue in 2000 decreased 1.6 percentage points compared to 1999. The decrease in 2000 was primarily attributable to higher volumes in the test and measurement and semiconductor products businesses as well as a more profitable product mix in the semiconductor products business.

Research and development expenses increased in 2001 compared to 2000 as a result of continuing expenditures toward new product introductions. Our research and development efforts focus on potential new products covering a wide variety of technologies, none of which is individually significant to our operations.

Selling, general and administrative expenses increased in 2001 compared to 2000 primarily due to goodwill amortization relating to our 2001 acquisition of OSI. As a result of various cost-cutting initiatives in 2001, selling, general and administrative expenses before the effect of goodwill and other intangible amortization, restructuring and asset impairment charges declined 12 percent compared to 2000.

General overhead costs of $88 million in 2001, $225 million in 2000 and $194 million in 1999 previously allocated to our healthcare solutions segment have been reallocated to each of the three remaining segments.

(Loss) Earnings from Operations

	Years Ended October 31,			2001 over 2000	2000 over 1999
	2001	2000	1999	Change	Change
	(In millions)				
(Loss) earnings from operations	$(778)	$924	$422	(184.2)%	119.0%
Operating (deficit) margin	(9.3)%	9.9%	6.2%	(19.2 points)	3.7 points

Excluding the Tyco Capital sale, we had a loss from operations of $901 million in 2001 compared to earnings from operations of $810 million in 2000 and $422 million in 1999. Excluding the restructuring charges and Tyco Capital sale, we had a loss from operations of $447 million in 2001 compared to earnings from operations of $925 million in 2000 and $463 million in 1999. The decrease in 2001 compared to 2000 was primarily due to the fact that net revenue declined much more rapidly than costs and expenses in the test and measurement and semiconductor businesses. Increased goodwill amortization related to recent acquisitions also contributed to the decrease. The decrease was partially offset by the performance of our chemical analysis business. The increase in 2000 compared to 1999 was primarily due to strong results in the test and measurement and semiconductor products businesses. These improved results were partially offset by flat performance from our chemical analysis business and additional on-going costs associated with operating on our own as an independent company.

Financials

Other Income (Expense), Net

	Years Ended October 31,			2001 over 2000	2000 over 1999
	2001	2000	1999	% Change	% Change
	(In millions)				
Other income (expense), net	$301	$94	$41	220.2%	129.3%

Other income (expense), net increased $207 million to $301 million in 2001 from $94 million in 2000. The increase was primarily due to the sale of land in San Jose, California which resulted

in a pre-tax gain of $269 million. The increase in other income (expense), net for 2001 compared to 2000 was partially offset by higher interest expense due to a higher average debt balance. Other income (expense), net increased $53 million to $94 million in 2000 from $41 million in 1999. The increase was primarily due to a pre-tax gain of $29 million related to the sale of equity investments that no longer supported our business strategies and interest income earned on the initial cash funding received from HP in 1999.

We sold assets related to portions of our businesses to third parties during 2001, 2000 and 1999. Gross proceeds from these dispositions were $13 million in 2001, immaterial in 2000 and $71 million in 1999. Gains from the dispositions, included in other income (expense), net in the consolidated statement of earnings, were $9 million in 2001, immaterial in 2000 and $50 million in 1999.

(Benefit) Provision for Taxes

The effective tax rate for continuing operations in 2001 was 19 percent. For 2000 and 1999, the effective rate was 34 percent.

In 2001, the change in the tax rate for continuing operations is due to the tax benefits arising from the losses caused by the recent global economic downturn. This is offset by the impact of non-deductible goodwill from the acquisition of OSI. Taxes on the sale of our healthcare solutions business are reflected in the gain from sale of discontinued operations. Our future effective tax rate will continue to be calculated using an estimate of our pre-tax income and will be subject to the impact of future profitability, the effects of business acquisitions and dispositions, as well as changes in the mix of our pre-tax earnings among jurisdictions with varying statutory rates.

Segment Results

In 2001, our management changed its measure of the profitability of each of the business segments to exclude goodwill and other intangible amortization and non-recurring items such as restructuring charges. These items have been excluded for all periods presented.

Test and Measurement

Our test and measurement business provides test instruments, standard and customized test, measurement and monitoring instruments and systems for the design, manufacture and support of electronics and communications devices and software for the design of high-frequency electronic and communications devices and networks.

	Years Ended October 31,			2001 over 2000	2000 over 1999
	2001	2000	1999	Change	Change
	(In millions)				
Net revenue from products	$4,763	$5,298	$3,400	(10.1)%	55.8%
Net revenue from services and other	669	810	682	(17.4)%	18.8%
Total net revenue	5,432	6,108	4,082	(11.1)%	49.6%
(Loss) earnings from operations	(141)	706	250	(120.0)%	182.4%
Operating margin (deficit)	(2.6)%	11.6%	6.1%	(14.2) points	5.5 points

Net Revenue

Net revenue for 2001 decreased 11.1 percent compared to 2000. Excluding the Tyco Capital sale, total net revenue for 2001 declined 12.4 percent compared to 2000. The slowdown in the telecommunications and semiconductor industries was the main factor that caused the decline in net revenue for 2001. The slowdown was particularly sharp in the second half of 2001 as we

became increasingly dependent on incoming orders which declined in virtually all of the product lines of our test and measurement businesses. Net revenue for 2000 increased 49.6 percent compared to 1999. The increase in 2000 was attributable to strong growth in the sales of our products to the optical, wireless and networking markets. In addition, third-party manufacturing contractors added capacity to meet demand and increased their purchases of our test and measurement products.

Excluding the Tyco Capital sale, net revenue from products for 2001 decreased 11.6 percent compared to 2000. The decrease in net revenue from products was primarily due to a slowdown in telecommunications and semiconductor industries. Net revenue from services and other for 2001 decreased 17.4 percent compared to 2000 primarily due to the Tyco Capital sale. In addition, certain customers have chosen not to renew their service contracts. Excluding the Tyco Capital sale, net revenue from products for 2000 increased 50.1 percent compared to 1999. The increase was primarily due to the growing communications market and the increased demand in Asia. Net revenue from services and other for 2000 increased 18.8 percent compared to 1999.

Costs and Expenses

The following table shows the percentage point increase or decrease in our test and measurement business' costs and expenses as a percentage of net revenue for 2001, 2000 and 1999.

Increase/(decrease) as a % of Net Revenue	2001 over 2000 Ppts Change	2000 over 1999 Ppts Change
Cost of products and services	11.2	(0.9)
Research and development	3.7	(2.2)
Selling, general and administrative	(0.7)	(2.3)

Cost of products and services as a percentage of net revenue increased in 2001 compared to 2000 primarily due to increased charges for excess and obsolete inventory. Excluding the impacts of these charges, cost of products and services as a percentage of net revenue increased 5.4 percentage points in 2001 from 2000. Due to the fixed nature of our manufacturing costs, lower than anticipated manufacturing volumes contributed to the increase in cost of products and services as a percentage of net revenue.

The increase in research and development expenses as a percentage of net revenue in 2001 compared to 2000 was primarily due to our continuing expenditures toward new product introductions.

(Loss) Earnings from Operations

Loss from operations in 2001 was a result of reduced demand, which led to fewer sales and increased charges for excess and obsolete inventory. Excluding the Tyco Capital sale, loss from operations was $263 million compared to earnings from operations of $594 million in 2000 and $250 million in 1999. The increase in 2000 compared to 1999 resulted primarily from higher net revenue.

Semiconductor Products

Our semiconductor products business provides fiber optic communications devices and assemblies, components and integrated circuits for wireless, networking, computing and printing applications, image sensors and general-purpose opto-electronic components.

	Years Ended October 31,			2001 over 2000 Change	2000 over 1999 Change
	2001	2000	1999		
	(In millions)				
Net revenue	$1,850	$2,213	$1,722	(16.4)%	28.5%
(Loss) earnings from operations	(183)	248	155	(173.8)%	60.0%
Operating (deficit) margin	(9.9)%	11.2%	9.0%	(21.1 points)	2.2 points

Net Revenue

The decrease in net revenue for 2001 compared to 2000 was primarily due to a sharp decline in demand for our semiconductor products. The global economic slowdown led to lower volumes in virtually all product lines of our semiconductor products business. Total net revenue for 2001 included $35 million of non-recurring royalty revenue relating to changes in our agreement with Adaptec Inc. The increase in 2000 compared to 1999 was the result of strong growth in all semiconductor products including wireless, networking and imaging components. Networking component growth was the result of growth in the sales of fiber-optic transceivers and high-speed networking products tailored for Metro Area Network (MAN), as well as storage area networking products and Gigabit Ethernet Local Area Network (LAN) applications. Imaging products for digital cameras and optical mice also achieved particularly strong growth in 2000. As a percentage of net revenue for the semiconductor products business, revenue from sales to HP, consisting primarily of application-specific integrated circuits and motion control products, was 30.7 percent for 2001, 30.3 percent for 2000 and 37.0 percent for 1999.

In 2000, we expanded our existing joint venture relationship with Philips to develop our manufacturing of light-emitting diodes (''LED'') and transferred a portion of our LED business into the joint venture. LEDs are used for various lighting and display purposes. Since we do not have a majority ownership interest in the joint venture, the revenue, costs and expenses of the LED business transferred to the joint venture are no longer consolidated in our results. Instead, we record our portion of the joint venture's net earnings or loss in other income (expense), net, which in 2000, was minimal. Adjusting the 1999 base for revenues relating to the LED business and our exit from the microprocessor business, net revenue growth for 2000 would have been 40.3 percent.

Costs and Expenses

The following table shows the percentage point increase or decrease in our semiconductor products business's costs and expenses as a percentage of its net revenue for 2001, 2000 and 1999.

Increase/(decrease) as a % of Net Revenue	2001 over 2000 Ppts Change	2000 over 1999 Ppts Change
Cost of products	12.0	(3.2)
Research and development	6.7	0.5
Selling, general and administrative	2.4	0.5

The increase in cost of products as a percentage of net revenue in 2001 compared to 2000 was primarily due to increased inventory charges for excess and obsolete inventory as a result of reduced demand for our semiconductor products. In addition, due to the fixed nature of our manufacturing costs, lower than anticipated manufacturing volumes contributed to the increase in cost of products as a percentage of net revenue. Unfavorable mix and large shipments to single customers carrying deep discounts impacted cost of products as a percentage of net revenue unfavorably. Excluding the impacts of increased inventory charges, cost of products as a percentage of net revenue for 2001 increased 7.7 percentage points compared to 2000. Cost of products as a percentage of net revenue for 2000 decreased 3.2 percentage points compared to 1999. The decrease related primarily to increased volumes and a more favorable product mix.

The increase in research and development expenses as a percentage of net revenue in 2001 compared to 2000 was driven by a continued commitment to develop new products in the fiber optics, high-speed networking, and image position sensor businesses.

(Loss) Earnings from Operations

The loss from operations in 2001 compared to earnings from operations in 2000 resulted primarily from lower net revenue and higher cost of products and expenses as a percentage of net revenue. The increase in 2000 compared to 1999 resulted from higher net revenue and lower cost of products as a percentage of net revenue, partially offset by higher operating expenses.

Chemical Analysis

Our chemical analysis business provides analytical instruments, systems and services for chromatography, spectroscopy, bio-instrumentation and consumables to the chemical and life science markets.

	Years Ended October 31,			2001 over 2000 Change	2000 over 1999 Change
	2001	2000	1999		
	(In millions)				
Net revenue from products	$ 872	$ 788	$ 773	10.7%	1.9%
Net revenue from services and other	242	252	253	(4.0)%	(0.4)%
Total net revenue	$1,114	$1,040	$1,026	7.1%	1.4%
Earnings from operations	118	41	91	187.8%	(54.9)%
Operating margin	10.6%	3.9%	8.9%	6.7 points	(5.0 points)

Net Revenue

The increase in net revenue for 2001 compared to 2000 was the result of increased sales of our products in the life sciences market moderated by decreased sales of our products in our traditional chemical and petrochemical markets. Net revenue from products including liquid chromatography equipment, bioanalyzers and microarrays grew more than 19.6 percent in 2001 compared to 2000. Net revenue growth in 2000 as compared to 1999, was essentially flat as our products sold to the pharmaceutical and life sciences markets was partially offset by weakness in our traditional chemical and environmental markets. New product releases contributed to increased sales of our liquid chromatography and mass spectrometry products. Services and other revenue decreased slightly in 2001 compared to 2000 while it was flat in 2000 compared to 1999.

Costs and Expenses

The following table shows the percentage point increase and decrease in our chemical analysis business costs and expenses as a percentage of its net revenue for 2001, 2000 and 1999.

Increase/(decrease) as a % of Net Revenue	2001 over 2000 Ppts Change	2000 over 1999 Ppts Change
Cost of products and services	(0.5)	0.9
Research and development	(1.0)	2.4
Selling, general and administrative	(5.1)	1.6

Cost of products and services as a percentage of net revenue was relatively flat in 2001 compared to 2000. Additional depreciation expense related to increased spending in manufacturing capacity for microarrays was offset by cost controls and improved operational efficiencies. The increase in 2000 compared to 1999 was primarily due to start-up costs for life sciences products.

The decrease in selling, general and administrative expenses as a percentage of net revenue for 2001 compared to 2000 reflected our efforts to reduce cost structures and discretionary

expenses. In 2000, the increase resulted primarily from increased life sciences research and development activities, higher infrastructure costs and branding expenses relating to operating on our own.

Earnings from Operations

The increase in earnings from operations in 2001 compared to 2000 was primarily due to higher net revenue and reduced spending resulting from our cost reduction measures. In addition, operational efficiencies arising out of manufacturing centralization efforts begun in fiscal 2000 and increased volumes contributed to the increase. The decrease in earnings from operations in 2000 compared to 1999 was primarily due to higher infrastructure costs and branding expenses related to the costs of operating on our own as well as planned research and development in life sciences to launch new products.

Healthcare Solutions — Discontinued Operations

Our healthcare solutions business has been classified as a discontinued operation. The table below shows the results of our healthcare solutions business before general overhead allocations and net of the costs of divestiture. Results for the year ended October 31, 2001 include operations from November 1, 2000 to May 31, 2001, the measurement date in accordance with APB 30. The net loss from discontinued operations of $58 million for the two-month period following our May 31, 2001 measurement date has been included in the gain from sale of discontinued operations. The after-tax gain resulting from the sale of our healthcare solutions business including this loss was $646 million.

The following table shows the detailed results of operations of our discontinued healthcare solutions business for 2001, 2000 and 1999. These results are also included in our condensed consolidated statement of earnings as net earnings from discontinued operations for the years ended 2001, 2000 and 1999.

	Years Ended October 31,		
	2001(a)	2000	1999
	(In millions)		
Net revenue	$765	$1,412	$1,501
Costs and expenses	747	1,283	1,182
Earnings from discontinued operations	18	129	319
Other income (expense), net	3	17	5
Earnings from discontinued operations before taxes	21	146	324
Provision for taxes	15	61	118
Net earnings from discontinued operations	$ 6	$ 85	$ 206

(a) Includes operations from November 1, 2000 to May 31, 2001, the measurement date.

Financial Condition

Liquidity and Capital Resources

Our financial position remained strong at October 31, 2001, with cash and cash equivalents of $1,170 million.

Cash usage from our continuing operations was $114 million in 2001. We generated cash from continuing operations of $536 million in 2000 compared to $341 million in 1999. In 2001, accounts payable used cash of $480 million and income tax payable used cash of $472 million offset by a decrease in outstanding accounts receivable totaling $933 million. In 2000 and 1999, cash from continuing operations was primarily a result of net earnings. In addition, lower cash

from continuing operations in 1999 resulted from a significant increase in accounts receivable due to particularly strong shipments in October 1999.

Net cash utilized for investing activities was $1,365 million for 2001 compared to $1,062 million for 2000 and $336 million for 1999. In all periods, capital expenditures for property, plant and equipment and business acquisitions, partially offset by proceeds from divestitures and the disposal of excess, unused or retired assets constituted substantially all of our cash used in investing activities. We used $904 million for acquiring several businesses and $881 million for investments in property, plant and equipment in 2001. We used $634 million in 2000 to pay for the first and second installments of the purchase of Yokagawa's minority interest in Agilent Technologies Japan, Ltd. along with investments in several other companies. We purchased the remaining 4.2 percent of Agilent Technologies Japan, Ltd.'s shares owned by Yokogawa in January 2001. HP provided the funding for the entire Yokogawa transaction in November 1999. In 2001, we sold the remaining portion of our portfolio of lease assets to Tyco Capital. Net proceeds from these sales transactions were $287 million.

We have two revolving credit facilities with no outstanding balances at the end of 2001. Those facilities are a $250 million facility that terminates on November 5, 2005 and a 364-day $250 million facility that terminated on November 2, 2001. In November 2001, we extended the latter facility to November 1, 2002. As of November 19, 2001, the revolving credit facilities were amended to reflect new debt covenants. In addition to these committed facilities, we have access to uncommitted credit lines through our banking partners.

On January 5, 2001, we acquired Objective Systems Integrators, Inc. for a total purchase price of $716 million. Of this total, $690 million was cash and the remainder represents the fair value of options granted.

In February 2001, we sold surplus land in San Jose, California for $287 million, net of transaction costs. In August 2001, we invested in the leasehold of several municipal properties in southern California for a total value of $289 million.

On August 1, 2001 we completed the sale of our healthcare solutions business to Philips and received approximately $1.6 billion in cash at that time. We have subsequently received approximately $80 million in proceeds relating to the sale. Cash flows from discontinued operations include the proceeds from the sale and cash used in the operations of the healthcare solutions business during the year up until the date of sale.

On November 27, 2001, we announced the closing of a private offering of $1.15 billion aggregate principal amount of 3 percent senior convertible debentures due 2021. We intend to use the net proceeds of the offering for working capital and general corporate purposes, and to fund potential acquisitions and restructuring costs. The debentures are convertible into our common stock at a conversion price of $32.22 per share. The debentures are redeemable at our option beginning in December 2004, and holders of the debentures have the ability to require us to repurchase the debentures, in whole or in part, on specified dates in 2006, 2011 and 2016.

Prior to November 1, 1999, cash receipts associated with our businesses were transferred to HP on a daily basis and HP provided funds to cover our disbursements. Accordingly, we reported no cash or cash equivalents at October 31, 1999 and 1998. In accordance with our separation agreement with HP, as of November 1, 1999, HP retained some of our assets and liabilities and transferred to us some of the assets and liabilities related to its business. In November and December 1999, HP made cash payments to us totaling $1.3 billion to fund our working capital and other needs of our operations as a separate, stand-alone entity. In addition, HP transferred approximately $0.5 billion to fund our acquisition of Yokogawa's 25 percent minority interest in Agilent Technologies Japan, Ltd. The net proceeds of our initial public offering of $2.1 billion were received in November 1999 and immediately distributed to HP as a dividend.

Of the total $1.8 billion received from HP, $1.1 billion was classified as net cash provided by financing activities and $0.7 billion was classified among several categories as net cash provided by operating activities in the consolidated statement of cash flows for the year ended October 31, 2000.

Our liquidity is affected by many factors, some of which are based on the normal ongoing operations of our businesses and some of which arise from fluctuations related to global economies and markets. We believe that cash on hand plus the proceeds from our bond offering will be sufficient to satisfy our working capital, capital expenditure, research and development and restructuring requirements for the foreseeable future. However, we may require or choose to obtain additional debt or equity financing in the future. We cannot assure that additional financing, if needed, will be available on favorable terms.

Factors That May Affect Future Results

Our operating results and financial condition could continue to be harmed if the industries into which we sell our products, such as the communications, electronics and semiconductor industries, remain depressed.

The current economic downturn has resulted in reduced purchasing and capital spending in many of the markets that we serve worldwide. In particular, the communications, semiconductor and electronics industries are currently in a downward cycle characterized by diminished product demand, excess manufacturing capacity and the erosion of average selling prices.

We are uncertain how long the current downturn will last. The terrorist attacks on September 11, 2001 may exacerbate this downturn or cause it to linger. Any further decline in our customers' markets or in general economic conditions would likely result in a further reduction in demand for our products and services and could harm our consolidated financial position, results of operations, cash flows and stock price. In addition, we may be required to secure additional debt or equity financing, and we cannot assure you that such financing will be available when required on acceptable terms.

The actions we have taken in response to the recent slowdown in demand for our products and services could have long-term adverse effects on our business.

Our semiconductor and test and measurement businesses have been experiencing lower revenues due to decreased or cancelled customer orders. Orders for our products and services have decreased in five of the past six quarters. To scale back our operations and decrease our expenses in response to this decrease in demand for our products and services and decrease in our revenue, we have reduced our workforce, frozen hiring, cut back significantly on our use of temporary workers and reduced discretionary spending. We also have initiated short-term facility closures to reduce production levels.

Earlier this year we announced our plan to reduce our workforce by approximately 4,000 people, or about 9 percent, by the middle of 2002. In addition, from May 1 to October 31 of this year, we instituted a 10 percent reduction in pay applicable to all employees globally, wherever legally permissible. The reduction in pay took effect via a 10 percent reduction in hours for certain employees, in accordance with local law. On November 15, 2001, we announced that we intend to further reduce our workforce by approximately 4,000 people. We also announced that we would reinstate the 10 percent pay reduction for approximately 2,000 of our senior managers starting from the first quarter fiscal 2002 and that we would effectively reduce the salaries of our other employees by 5 percent, wherever legally permissible, effective February 2002. In addition to these measures, we are continuing our initiatives to streamline our operations.

There are several risks inherent in our efforts to transition to a new cost structure. These include the risk that we will not be able to reduce expenditures quickly enough to restore profitability and may have to undertake further restructuring initiatives that would entail

additional charges. In addition, there is the risk that cost-cutting initiatives will impair our ability to effectively develop and market products and remain competitive in the industries in which we compete. Each of the above measures could have long-term effects on our business by reducing our pool of technical talent, decreasing or slowing improvements in our products, making it more difficult for us to respond to customers, limiting our ability to increase production quickly if and when the demand for our products increases and limiting our ability to hire and retain key personnel. These circumstances could cause our earnings to be lower than they otherwise might be.

As demand for our products does not match our manufacturing capacity, our earnings may continue to suffer.

Because we cannot immediately adapt our production capacity and related cost structures to rapidly changing market conditions, when demand does not meet our expectations, our manufacturing capacity will likely exceed our production requirements. Currently, we have excess manufacturing capacity as a result of the recent decrease in purchasing and capital spending in the communications, electronics and semiconductor industries. The fixed costs associated with excess manufacturing capacity have adversely affected, and may continue to adversely affect, our earnings. Conversely, if during a market upturn, we cannot increase our manufacturing capacity to meet product demand, we will not be able to fulfill orders in a timely manner, which in turn may have a negative effect on our earnings and overall business.

Failure to adjust our orders for parts due to changing market conditions could adversely affect our earnings.

Our earnings could be harmed if we are unable to adjust our orders for parts to market fluctuations. In order to secure components for the production of products, we may enter into non-cancelable purchase commitments with vendors, or at times make advance payments to suppliers, which could impact our ability to adjust our inventory to declining market demands. Prior commitments of this type have resulted in an excess of parts as demand for our communications, semiconductor and electronics products has decreased. For example, in the year ended October 31, 2001 we incurred a charge of approximately $459 million for inventory-related charges. If the demand for our products continues to decrease, we may experience an excess of parts again and be forced to incur additional charges. By contrast, during a market upturn, our results could be materially and adversely impacted if we cannot increase our parts supply quickly enough to meet increasing demand for our products. Certain parts may be available only from a single supplier or a limited number of suppliers. In addition, suppliers may cease manufacturing certain components that are difficult to substitute without significant reengineering of our products. Suppliers may also extend lead times, limit supplies or increase prices due to capacity constraints or other factors.

Fluctuations in our quarterly operating results may cause volatility in the price of our common stock and the debentures.

Given the nature of the markets in which we participate, we cannot reliably predict future revenue and profitability. As demand for our products has decreased in recent periods, our quarterly sales and operating results have become highly dependent on the volume and timing of orders received during the quarter, which are difficult to forecast. The reduction in the backlog of our orders also has significantly affected our ability to efficiently plan production and inventory levels, which has led to fluctuations in operating results. In addition, a significant portion of our operating expenses is relatively fixed in nature due to our significant sales, research and development and manufacturing costs. If we cannot adjust spending quickly enough to compensate for a revenue shortfall, this may magnify the adverse impact of a revenue shortfall on our results of operations. Fluctuations in our operating results may cause volatility in the price of our common stock and the debentures.

We are in the process of implementing new information systems, and problems with the redesign and implementation of these new systems could interfere with our operations.

We are in the process of implementing new information systems to eventually replace our current systems, which are largely based on legacy systems that we created when we were a part of Hewlett-Packard. We may not be successful in implementing these new systems and transitioning data. As a part of this effort, we are implementing new enterprise resource planning software applications to manage our business operations. Failure to smoothly and successfully implement this and other systems could temporarily interrupt our operations and adversely impact our ability to run our business. In addition, any failure or significant downtime in our legacy or new information systems could prevent us from taking customer orders, shipping products or billing customers and could harm our business.

If we do not introduce successful new products and services in a timely manner, our products and services will become obsolete, and our operating results will suffer.

We generally sell our products in industries that are characterized by rapid technological changes, frequent new product and service introductions and changing industry standards. Without the timely introduction of new products, services and enhancements, our products and services will become technologically obsolete over time, in which case our revenue and operating results would suffer. The success of our new product and service offerings will depend on several factors, including our ability to:

- properly identify customer needs;
- innovate and develop new technologies, services and applications;
- successfully commercialize new technologies in a timely manner;
- manufacture and deliver our products in sufficient volumes on time;
- differentiate our offerings from our competitors' offerings;
- price our products competitively; and
- anticipate our competitors' announcements of new products, services or technological innovations.

Economic, political and other risks associated with international sales and operations could adversely affect our results of operations.

Since we sell our products worldwide, our business is subject to risks associated with doing business internationally. We anticipate that revenue from international operations will continue to represent a substantial portion of our total revenue. In addition, many of our manufacturing facilities and suppliers are located outside the United States. Accordingly, our future results could be harmed by a variety of factors, including:

- interruption to transportation flows for delivery of parts to us and finished goods to our customers;
- changes in foreign currency exchange rates;
- changes in a specific country's or region's political or economic conditions;
- trade protection measures and import or export licensing requirements;
- negative consequences from changes in tax laws;
- difficulty in staffing and managing widespread operations;
- differing labor regulations;

- differing protection of intellectual property; and
- unexpected changes in regulatory requirements.

The terrorist attacks on September 11, 2001 and the U.S. and international response could exacerbate these risks. For example, there may be an increased risk of political unrest in regions such as Southeast Asia, where we have significant manufacturing operations. This could disrupt our ability to manufacture products or important parts as well as cause interruptions and/or delays in our ability to transport products to our customers or parts to other locations for continued manufacture and assembly. Any such delay or interruption could have an adverse effect on our results of operations.

Our business will suffer if we are not able to retain and hire key personnel.

Our future success depends partly on the continued service of our key research, engineering, sales, marketing, manufacturing, executive and administrative personnel. If we fail to retain and hire a sufficient number of these personnel, we will not be able to maintain or expand our business. Although the labor market has changed dramatically within the past year, and our attrition rate has dropped, there is still intense competition for certain highly technical specialties in geographic areas where we continue to recruit.

Our acquisitions, strategic alliances, joint ventures and divestitures may result in financial results that are different than expected.

In the normal course of business, we frequently engage in discussions with third parties relating to possible acquisitions, strategic alliances, joint ventures and divestitures. As a result of such transactions, our financial results may differ from the investment community's expectations in a given quarter. In addition, acquisitions and strategic alliances may require us to integrate a different company culture, management team and business infrastructure. We may have difficulty developing, manufacturing and marketing the products of a newly-acquired company in a way that enhances the performance of our combined businesses or product lines to realize the value from expected synergies. Depending on the size and complexity of an acquisition, our successful integration of the entity depends on a variety of factors, including:

- the retention of key employees;
- the management of facilities and employees in separate geographic areas;
- the retention of key customers; and
- the integration or coordination of different research and development, product manufacturing and sales programs and facilities.

A successful divestiture depends on various factors, including our ability to:

- effectively transfer liabilities, contracts, facilities and employees to the purchaser;
- identify and separate the intellectual property to be divested from the intellectual property that we wish to keep; and
- reduce fixed costs previously associated with the divested assets or business.

All of these efforts require varying levels of management resources, which may divert our attention from other business operations. If we do not realize the expected benefits or synergies of such transactions, our consolidated financial position, results of operations and stock price could be negatively impacted.

If sales of custom integrated circuits to Hewlett-Packard decline, our semiconductor products revenue will suffer, and we are limited in our ability to sell these integrated circuits to other companies.

Historically, our semiconductor products business has sold custom products to Hewlett-Packard and has engaged in product development efforts with divisions of Hewlett-Packard. For the twelve months ended October 31, 2001, Hewlett-Packard accounted for approximately 6.8 percent of our total net revenue and approximately 30.7 percent of our semiconductor products business' net revenue.

We have a license agreement with Hewlett-Packard that covers integrated circuit technology used in custom integrated circuits for Hewlett-Packard's printers, scanners and computers. The license agreement provides that, until November 2002 in some cases and until November 2009 in other cases, we are prohibited, with some exceptions, from using this integrated circuit technology for the development and sale of integrated circuits for use in inkjet products, printer products (including printer supplies, accessories and components), document scanners and computing products to third parties other than Hewlett-Packard.

Although we have entered into a supply agreement for the sale to Hewlett-Packard of custom integrated circuits used in printers, scanners and computers, the agreement does not require Hewlett-Packard to purchase a minimum amount of product from us. In the event that Hewlett-Packard reduces its purchases of our custom integrated circuits, we would be unable to address this reduction through sales of these kinds of integrated circuits for these types of products to other customers.

We may face significant costs in order to comply with laws and regulations regarding the manufacture, processing, and distribution of chemicals, or regarding notification about chemicals, and if we fail to comply, we could be subject to civil or criminal penalties or be prohibited from distributing our products.

Some of our chemical analysis business' products are used in conjunction with chemicals whose manufacture, processing, distribution and notification requirements are regulated by the United States Environmental Protection Agency under the Toxic Substances Control Act, and by regulatory bodies in other countries with laws similar to the Toxic Substances Control Act. We must conform the manufacture, processing, distribution of and notification about these chemicals to these laws and adapt to regulatory requirements in all countries as these requirements change. If we fail to comply with these requirements in the manufacture or distribution of our products, then we could be made to pay civil penalties, face criminal prosecution and, in some cases, be prohibited from distributing our products in commerce until the products or component substances are brought into compliance.

Environmental contamination from past operations could subject us to unreimbursed costs and could harm on-site operations and the future use and value of the properties involved.

Some of our properties are undergoing remediation by Hewlett-Packard for subsurface contaminations that were known at the time of our separation from Hewlett-Packard. Hewlett-Packard has agreed to retain the liability for this subsurface contamination, perform the required remediation and indemnify us with respect to claims arising out of that contamination. The determination of the existence and cost of any additional contamination caused by us could involve costly and time-consuming negotiations and litigation. In addition, Hewlett-Packard will have access to our properties to perform remediation. While Hewlett-Packard has agreed to minimize interference with on-site operations at those properties, remediation activities and subsurface contamination may require us to incur unreimbursed costs and could harm on-site operations and the future use and value of the properties. We cannot be sure that Hewlett-Packard will fulfill its indemnification or remediation obligations.

We have agreed to indemnify Hewlett-Packard for any liability associated with contamination from past operations at all other properties transferred from Hewlett-Packard to us other than those properties currently undergoing remediation by Hewlett-Packard. While we are not aware of any material liabilities associated with existing subsurface contamination at any of those properties, subsurface contamination may exist, and we may be exposed to material liability as a result of the existence of that contamination.

Environmental contamination caused by ongoing operations could subject us to substantial liabilities in the future.

Our semiconductor and other manufacturing processes involve the use of substances regulated under various international, federal, state and local laws governing the environment. We may be subject to liabilities for environmental contamination, and these liabilities may be substantial. Although our policy is to apply strict standards for environmental protection at our sites inside and outside the United States, even if not subject to regulations imposed by foreign governments, we may not be aware of all conditions that could subject us to liability.

We and our customers are subject to various governmental regulations, compliance with which may cause us to incur significant expenses, and if we fail to maintain satisfactory compliance with certain regulations, we may be forced to recall products and cease their manufacture and distribution, and we could be subject to civil or criminal penalties.

Our businesses are subject to various significant international, federal, state and local, health and safety, packaging, product content and labor regulations. These regulations are complex, change frequently and have tended to become more stringent over time. We may be required to incur significant expenses to comply with these regulations or to remedy violations of these regulations. Any failure by us to comply with applicable government regulations could also result in cessation of our operations or portions of our operations, product recalls or impositions of fines and restrictions on our ability to carry on or expand our operations. In addition, because many of our products are regulated or sold into regulated industries, we must comply with additional regulations in marketing our products.

Our products and operations are also often subject to the rules of industrial standards bodies, like the International Standards Organization, as well as regulation of other agencies such as the United States Federal Communications Commission. We also must comply with work safety rules. If we fail to adequately address any of these regulations, our businesses will be harmed.

Our chemical analysis products are used in the drug design and production processes to test compliance with the Toxic Substances Control Act, the Federal Food, Drug and Cosmetic Act and similar regulations. Therefore, we must continually adapt our chemical analysis products to changing regulations.

We are subject to laws and regulations governing government contracts, and our failure to address these laws and regulations or comply with government contracts could harm our business.

We have agreements relating to the sale of our products to government entities and, as a result, we are subject to various statutes and regulations that apply to companies doing business with the government. The laws governing government contracts differ from the laws governing private contracts. For example, many government contracts contain pricing terms and conditions that are not applicable to private contracts. We are also subject to investigation for compliance with the regulations governing government contracts.

Third parties may claim that we are infringing their intellectual property, and we could suffer significant litigation or licensing expenses or be prevented from selling products.

Third parties may claim that we are infringing their intellectual property rights, and we may be found to infringe those intellectual property rights. While we do not believe that any of our products infringe the valid intellectual property rights of third parties, we may be unaware of intellectual property rights of others that may cover some of our technology, products and services.

Any litigation regarding patents or other intellectual property could be costly and time-consuming and could divert our management and key personnel from our business operations. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Claims of intellectual property infringement might also require us to enter into costly royalty or license agreements. However, we may not be able to obtain royalty or license agreements on terms acceptable to us, or at all. We also may be subject to significant damages or injunctions against development and sale of certain of our products.

We often rely on licenses of intellectual property useful for our businesses. We cannot assure you that these licenses will be available in the future on favorable terms or at all. In addition, our position with respect to the negotiation of licenses has changed as a result of our separation from Hewlett-Packard. In the past, as a part of Hewlett-Packard, we benefited from our access to Hewlett-Packard's entire intellectual property portfolio when asserting counterclaims and negotiating cross-licenses with third parties. Our current patent cross-license agreement with Hewlett-Packard gives us only a limited right to sublicense a portion of Hewlett-Packard's intellectual property portfolio. Accordingly, we may be unable to obtain agreements on terms as favorable as we may have been able to obtain if we could have sublicensed Hewlett-Packard's entire intellectual property portfolio. Nothing restricts Hewlett-Packard from competing with us other than some restrictions on the use of patents licensed to Hewlett-Packard by us.

Third parties may infringe our intellectual property, and we may expend significant resources enforcing our rights or suffer competitive injury.

Our success depends in large part on our proprietary technology. We rely on a combination of patents, copyrights, trademarks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our operating results.

Our pending patent and trademark registration applications may not be allowed, or competitors may challenge the validity or scope of these patents or trademark registrations. In addition, our patents may not provide us a significant competitive advantage.

We may be required to spend significant resources to monitor and police our intellectual property rights. We may not be able to detect infringement and our competitive position may be harmed before we do so. In addition, competitors may design around our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture market share.

If we suffer loss to our factories, facilities or distribution system due to catastrophe, our operations could be seriously harmed.

Our factories, facilities and distribution system are subject to catastrophic loss due to fire, flood, terrorism or other natural or man-made disasters. In particular, several of our facilities could be subject to a catastrophic loss caused by earthquake due to their location. We have significant facilities in areas with above average seismic activity, such as our production facilities, headquarters and Agilent Laboratories in California and our production facilities in Washington and Japan. If any of these facilities were to experience a catastrophic loss, it could disrupt our

operations, delay production, shipments and revenue, and result in large expenses to repair or replace the facility. We self-insure against such losses and do not carry catastrophic insurance policies to cover potential losses resulting from earthquakes.

Periodic power supply problems in California could harm our business.

Our corporate headquarters, a portion of our research and development activities, other critical business operations and a certain number of our suppliers are located in California. California has experienced periodic power shortages. Power outages could cause disruptions to our operations and the operations of our suppliers, distributors, resellers and customers. We self-insure against such disruptions and do not carry catastrophic insurance policies to cover potential losses resulting from power shortages or outages. In addition, California has recently experienced rising energy costs that could negatively impact our results.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Agilent Technologies' 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 have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect the effects of certain estimates and judgments made by management.

Management maintains an effective system of internal control that is designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded and executed in accordance with management's authorization. The system is continuously monitored by direct management review and by internal auditors who conduct audits throughout the company. We select and train qualified people who are provided with and expected to adhere to Agilent Technologies' standards of business conduct. These standards, which set forth strong principles of business ethics and conduct, are a key element of our control system.

Our consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants. Their audits were conducted in accordance with auditing standards generally accepted in the United States of America, and included a review of financial controls and tests of accounting records and procedures as they considered necessary in the circumstances.

The Audit and Finance Committee of the Board of Directors, which consists of outside directors, meets regularly with management, the internal auditors and the independent accountants to review accounting, reporting, auditing and internal control matters. The committee has direct and private access to both the internal auditors and the independent accountants.

Edward W. Barnholt
President and
Chief Executive Officer

Adrian T. Dillon
Executive Vice President and
Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of Agilent Technologies, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, cash flows and stockholders' equity present fairly, in all material respects, the financial position of Agilent Technologies, Inc. and its subsidiaries at October 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in the notes to the consolidated financial statements, the company adopted Statement of Financial Accounting Standards No. 133, ''Accounting for Derivative Instruments and Hedging Activities'' and changed its method of revenue recognition as of November 1, 2000.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

San Jose, California
November 15, 2001,
except for Note 19 which is as of November 27, 2001

Financials

AGILENT TECHNOLOGIES, INC.

CONSOLIDATED STATEMENT OF EARNINGS

	Years Ended October 31,		
	2001	2000	1999
	(In millions, except per share amounts)		
Net revenue:			
Products	$7,485	$8,299	$5,895
Services and other	911	1,062	935
Total net revenue	8,396	9,361	6,830
Costs and expenses:			
Cost of products	4,664	4,143	3,098
Cost of services and other	502	592	529
Total costs	5,166	4,735	3,627
Research and development	1,349	1,129	879
Selling, general and administrative	2,659	2,573	1,902
Total costs and expenses	9,174	8,437	6,408
(Loss) earnings from operations	(778)	924	422
Other income (expense), net	301	94	41
(Loss) earnings from continuing operations before taxes	(477)	1,018	463
(Benefit) provision for taxes	(71)	346	157
(Loss) earnings from continuing operations	(406)	672	306
Net earnings from discontinued operations (net of taxes of $15 million, $61 million and $118 million in 2001, 2000 and 1999, respectively)	6	85	206
Gain from sale of discontinued operations (net of taxes of $422 million)	646	–	–
Earnings before cumulative effect of changes in accounting principles	246	757	512
Cumulative effect of adopting SFAS No. 133 (net of tax benefit of $16 million)	(25)	–	–
Cumulative effect of adopting SAB 101 (net of tax benefit of $27 million)	(47)	–	–
Net earnings	$ 174	$ 757	$ 512
Net earnings per share — Basic:			
(Loss) earnings from continuing operations	$(0.89)	$ 1.49	$ 0.81
Net earnings from discontinued operations	0.01	0.19	0.54
Gain from sale of discontinued operations	1.41	–	–
Cumulative effect of adopting SFAS No. 133	(0.05)	–	–
Cumulative effect of adopting SAB 101	(0.10)	–	–
Net earnings	$ 0.38	$ 1.68	$ 1.35
Net earnings per share — Diluted:			
(Loss) earnings from continuing operations	$(0.89)	$ 1.48	$ 0.81
Net earnings from discontinued operations	0.01	0.18	0.54
Gain from sale of discontinued operations	1.41	–	–
Cumulative effect of adopting SFAS No. 133	(0.05)	–	–
Cumulative effect of adopting SAB 101	(0.10)	–	–
Net earnings	$ 0.38	$ 1.66	$ 1.35
Average shares used in computing net earnings per share:			
Basic	458	449	380
Diluted	458	455	380

The accompanying notes are an integral part of these consolidated financial statements.

AGILENT TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEET

	October 31, 2001	October 31, 2000
	(In millions, except par value and share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$1,170	$ 996
Accounts receivable, net	977	1,938
Inventory	1,491	1,610
Net investment in lease receivable	237	–
Other current assets	924	595
Total current assets	4,799	5,139
Property, plant and equipment, net	1,848	1,685
Goodwill and other intangible assets, net	1,070	467
Other assets	269	442
Net investment in discontinued operations	–	597
Total assets	$7,986	$8,330
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 386	$ 857
Notes payable and short-term borrowings	6	110
Employee compensation and benefits	576	679
Deferred revenue	279	322
Other accrued liabilities	755	695
Total current liabilities	2,002	2,663
Other liabilities	325	402
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; $.01 par value; 125 million shares authorized; none issued and outstanding	–	–
Common stock; $.01 par value; 2 billion shares authorized; 461 million shares at October 31, 2001 and 454 million shares at October 31, 2000 issued and outstanding	5	5
Additional paid-in capital	4,723	4,508
Retained earnings	931	757
Accumulated comprehensive loss	–	(5)
Total stockholders' equity	5,659	5,265
Total liabilities and stockholders' equity	$7,986	$8,330

The accompanying notes are an integral part of these consolidated financial statements.

AGILENT TECHNOLOGIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended October 31,		
	2001	2000	1999
	(In millions)		
Cash flows from operating activities:			
Net (loss) earnings from continuing operations	$ (478)	$ 672	$ 306
Adjustments to reconcile net (loss) earnings from continuing operations to net cash (used in) provided by operating activities:			
Depreciation and amortization	734	460	440
Inventory-related charges	459	70	105
Deferred taxes	(94)	(59)	(12)
Non-cash restructuring and asset impairment charges	161	8	51
Gain on sale of assets	(315)	(29)	–
Gain on divestitures	(132)	(123)	(50)
Adoption of SFAS No. 133	41	–	–
Changes in assets and liabilities:			
Accounts receivable	933	(697)	(297)
Inventory	(373)	(431)	(151)
Accounts payable	(480)	356	75
Accrued compensation and benefits	(145)	149	(22)
Income taxes payable	(472)	235	–
Other current assets and liabilities	(8)	4	(41)
Other long-term assets and liabilities	55	(79)	(63)
Net cash (used in) provided by operating activities	(114)	536	341
Cash flows from investing activities:			
Investments in property, plant and equipment	(881)	(803)	(429)
Dispositions of property, plant and equipment			
Land sale	287	–	–
Equipment lease portfolio sale	287	234	–
Other	59	99	71
Net investment in lease	(289)	–	–
Sale of equity investments	74	60	–
Purchase of equity investments	(27)	(32)	–
Acquisitions, net of cash acquired	(904)	(634)	(55)
Proceeds from dispositions	13	–	71
Other, net	16	14	6
Net cash used in investing activities	(1,365)	(1,062)	(336)
Cash flows from financing activities:			
IPO proceeds	–	2,068	–
IPO proceeds transferred to Hewlett-Packard	–	(2,068)	–
Issuance of common stock under employee stock plans	150	84	–
Net (payments) proceeds from notes payable and short-term borrowings	(113)	110	–
Financing from (transfer to) Hewlett-Packard	–	1,081	(152)
Net cash provided by (used in) financing activities	37	1,275	(152)
Net proceeds and cash provided by discontinued operations	1,616	247	147
Change in cash and cash equivalents	174	996	–
Cash and cash equivalents at beginning of year	996	–	–
Cash and cash equivalents at end of year	$ 1,170	$ 996	$ –

The accompanying notes are an integral part of these consolidated financial statements.

AGILENT TECHNOLOGIES, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock						
	Number of Shares	Par Value	Additional Paid-in Capital	Stockholder's Net Investment	Retained Earnings	Other Comprehensive Loss	Total
	(In millions, except number of shares in thousands)						
Balance as of October 31, 1998	–	$ –	$ –	$ 3,022	$ –	$ –	$ 3,022
Net earnings	–	–	–	512	–	–	512
Net cash transfers to Hewlett-Packard Company	–	–	–	(152)	–	–	(152)
Transfer to common stock and additional paid-in capital	380,000	4	3,378	(3,382)	–	–	–
Balance as of October 31, 1999	380,000	4	3,378	–	–	–	3,382
Components of comprehensive income:							
Net earnings	–	–	–	–	757	–	757
Unrealized loss on investment, net of tax	–	–	–	–	–	(5)	(5)
Total comprehensive income							752
Shares issued in the IPO	72,000	1	2,067	–	–	–	2,068
Proceeds from IPO transferred to Hewlett-Packard	–	(1)	(2,067)	–	–	–	(2,068)
Shares issued for employee benefit plans and other	1,976	1	109	–	–	–	110
Cash funding from Hewlett-Packard	–	–	1,858	–	–	–	1,858
Transfer of net assets to Hewlett-Packard	–	–	(853)	–	–	–	(853)
Tax benefit associated with stock option exercises	–	–	16	–	–	–	16
Balance as of October 31, 2000	453,976	5	4,508	–	757	(5)	5,265
Components of comprehensive income:							
Net earnings	–	–	–	–	174	–	174
Reclassification adjustment relating to warrants	–	–	–	–	–	22	22
Reclassification adjustment relating to derivatives	–	–	–	–	–	(6)	(6)
SFAS No. 133 cumulative transition adjustment	–	–	–	–	–	6	6
Change in unrealized loss on investment, net of tax	–	–	–	–	–	(24)	(24)
Unrealized gain on derivatives, net of tax	–	–	–	–	–	7	7
Total comprehensive income							179
Shares issued for employee benefit plans and other	5,594	–	150	–	–	–	150
Issuance of common shares and options for acquisitions	1,461	–	70	–	–	–	70
Other additional paid in capital	–	–	(5)	–	–	–	(5)
Balance as of October 31, 2001	461,031	$ 5	$ 4,723	$ –	$931	$ –	$ 5,659

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Overview and Basis of Presentation

Agilent Technologies, Inc. (Agilent), incorporated in Delaware in May 1999, is a global technology leader in communications, electronics and life sciences. Prior to Agilent's initial public offering of 15.9 percent of its stock in November 1999, Agilent was a wholly-owned subsidiary of Hewlett-Packard Company (''HP''). HP distributed the remaining 84.1 percent of Agilent's stock to its stockholders on June 2, 2000 in the form of a stock dividend.

On August 1, 2001 Agilent completed the sale of its healthcare solutions business to Koninklijke Philips Electronics, N.V. The results of the healthcare solutions business are presented as discontinued operations for all periods in the consolidated financial statements included herein. See Note 3 ''Discontinued Operations''.

Agilent's fiscal year end is October 31. Unless otherwise stated, all years and dates refer to Agilent's fiscal year.

The consolidated 1999 financial information was prepared using HP's historical bases in the assets and liabilities and the historical results of operations of Agilent. Agilent began accumulating retained earnings on November 1, 1999.

2. Summary of Significant Accounting Policies

Basis of presentation. The accompanying financial data has been prepared by Agilent pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (''SEC''). Certain amounts in the consolidated balance sheet, statement of earnings and statement of cash flows for 2000 and 1999 have been reclassified to conform to the presentation in 2001.

Principles of consolidation. The consolidated financial statements include the accounts of Agilent and its wholly- and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of estimates. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in Agilent's consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue recognition. Revenue from product sales, net of trade discounts and allowances, is recognized once delivery has occurred provided that persuasive evidence of an arrangement exists, the price is fixed or determinable, and collectibility is reasonably assured. Delivery is considered to have occurred when title and risk of loss have transferred to the customer. For sales that include customer-specified acceptance criteria, revenue is recognized after the acceptance criteria have been met. For products that include installation, revenue for the entire arrangement is recognized once the installation is complete, unless the installation is considered to be a separate element, in which case the revenue relating to installation is deferred. Provisions are established for estimated costs that may be incurred for product warranties. Revenue from services, including operating leases, is recognized over the contractual period or as services are rendered and accepted by the customer.

Shipping and handling costs. Agilent's shipping and handling costs charged to its customers are included in net revenue and the associated expense is recorded in total costs for all periods presented.

Goodwill and purchased intangible assets. Goodwill and purchased intangible assets are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally three to ten years. Goodwill resulting from acquisitions completed after June 30, 2001 has not been amortized in accordance

with the requirements of Statement of Financial Accounting Standards (''SFAS'') No. 142, ''Goodwill and Other Intangible Assets''.

Advertising. Advertising costs are expensed as incurred and amounted to $115 million in 2001, $178 million in 2000, and $117 million in 1999.

Taxes on earnings. Income tax expense is based on earnings before taxes. Deferred tax assets and liabilities are recognized principally for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Prior to June 3, 2000, Agilent's operating results were included in HP's consolidated U.S. and state income tax returns and in tax returns of certain HP foreign subsidiaries. The provision for taxes in Agilent's consolidated financial statements for 1999 was determined on a separate return basis.

Net (loss) earnings per share. Basic net (loss) earnings per share is computed by dividing net (loss) earnings (numerator) by the weighted average number of common shares outstanding (denominator) during the period excluding the dilutive effect of stock options and other employee stock plans. Diluted net (loss) earnings per share gives effect to all potentially dilutive common stock equivalents outstanding during the period. In computing diluted net (loss) earnings per share, the average stock price for the period is used in determining the number of shares assumed to be purchased from the proceeds of stock option exercises. Diluted net loss per share for 2001 excludes the potentially dilutive effect of common stock equivalents as their effect is antidilutive.

Cash and cash equivalents. Agilent classifies investments as cash equivalents if their original maturity is three months or less. Cash equivalents are stated at cost, which approximates fair value.

Fair value of financial instruments. The carrying values of certain of the Company's financial instruments, including cash and cash equivalents, accrued compensation, and other accrued liabilities, approximate fair value because of their short maturities. The fair values of investments are determined using quoted market prices for those securities or similar financial instruments.

Concentration of credit risk. Agilent sells the majority of its products through its direct sales force. No single customer accounted for 10 percent or more of the combined accounts receivable balance at October 31, 2001 and 2000. Credit risk with respect to accounts receivable is generally diversified due to the large number of entities comprising Agilent's customer base and their dispersion across many different industries and geographies. Agilent performs ongoing credit evaluations of its customers' financial condition, and requires collateral, such as letters of credit and bank guarantees, in certain circumstances.

Derivative instruments. Agilent enters into foreign exchange contracts, primarily forward contracts and purchased options, to hedge exposures to changes in foreign currency exchange rates. These contracts are designated at inception as hedges of the related foreign currency exposures, which include committed and anticipated foreign currency sales and assets and liabilities that are denominated in currencies other than the U.S. dollar. To achieve hedge accounting, contracts must reduce the foreign currency exchange rate risk otherwise inherent in the amount and duration of the hedged exposures and comply with established risk management policies; hedging contracts generally mature within three to six months. Agilent does not use derivative financial instruments for speculative or trading purposes.

When hedging sales-related exposure, foreign exchange contract expirations are set so as to occur in the same month the hedged shipments occur, allowing realized gains and losses on the contracts to be recognized in net revenue in the same periods in which the related revenues are recognized. When hedging balance sheet exposure, realized gains and losses on foreign exchange

contracts are recognized in other income (expense), net in the same period as the realized gains and losses on remeasurement of the foreign currency denominated assets and liabilities occur. The gains and losses, which have not been material, are included in cash flows from operating activities in the consolidated statement of cash flows.

Agilent may also, from time to time, acquire warrants to purchase securities of other companies as part of strategic relationships.

Inventory. Inventory is valued at standard cost which approximates actual cost computed on a first-in, first-out basis, not in excess of market value.

Property, plant and equipment. Property, plant and equipment are stated at cost less accumulated depreciation. Additions, improvements and major renewals are capitalized; maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or disposed of, the assets and related accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss is reflected in operations. Depreciation is provided using accelerated methods, principally over fifteen to forty years for buildings and improvements and three to ten years for machinery and equipment, including equipment leased to customers under operating leases. Depreciation of leasehold improvements is provided using the straight-line method over the life of the asset or the term of the lease or the asset, whichever is shorter.

Capitalized software. Agilent capitalizes certain internal and external costs incurred to acquire or create internal use software in accordance with Statement of Position 98-1, ''Accounting for the Costs of Computer Software Developed or Obtained for Internal Use''. Capitalized software is included in property, plant, and equipment under machinery and equipment and is amortized over its useful life when development is complete.

Impairment of long-lived assets. Agilent continually monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets, including intangible assets, may not be recoverable. When such events or changes in circumstances are present, Agilent assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, Agilent recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets.

Foreign currency translation. Agilent uses the U.S. dollar as its functional currency. Foreign currency assets and liabilities are remeasured into U.S. dollars at current exchange rates except for inventory, property, plant and equipment, other assets and deferred revenue which are remeasured at historical exchange rates. Revenue and expenses are generally translated at average exchange rates in effect during each period, except for those expenses related to balance sheet amounts that are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in consolidated net earnings. The effect of foreign currency exchange rate fluctuations on Agilent's cash and cash equivalents denominated in foreign currencies was not material.

Recent accounting pronouncements. In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, ''Business Combination'' and SFAS No. 142, ''Goodwill and Other Intangible Assets''. As a result of SFAS No. 141, all acquisitions completed after June 30, 2001 are accounted for using the purchase method of accounting. The adoption of SFAS No. 141 had no material impact on Agilent's consolidated financial statements. Agilent plans to adopt SFAS No. 142 in the first quarter of 2003. SFAS No. 142 requires that goodwill resulting from acquisitions completed after June 30, 2001 not be amortized. Until Agilent adopts the new standard, Agilent will continue to amortize goodwill existing at June 30, 2001 and to test all goodwill for impairment using the current method, that uses an undiscounted cash flow test.

After adoption, Agilent will stop amortizing all goodwill and will begin to test goodwill for impairment pursuant to SFAS No. 142, that applies a fair-value-based test. Agilent is assessing the further impacts of SFAS No. 142 on its consolidated financial position and results of operations.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, ''Accounting for the Impairment or Disposal of Long Lived Assets'' which addresses financial accounting and reporting for the impairment and disposal of long-lived assets. Agilent will be required to adopt SFAS No. 144 no later than fiscal year 2003. Agilent is currently assessing the impact of SFAS No. 144 and does not believe that it will have a material impact on its consolidated financial position, results of operations or cash flows.

3. Discontinued Operations

On August 1, 2001, Agilent completed the sale of its healthcare solutions business to Koninklijke Philips Electronics, N.V. (''Philips'') pursuant to an Asset Purchase Agreement for a total purchase price of $1.7 billion. Philips paid initial proceeds of $1.6 billion to Agilent on August 1, 2001, with further payments to follow pursuant to the terms of the Asset Purchase Agreement dated as of November 17, 2000, as amended and supplemented by the Amendment and Supplemental Agreement, dated as of August 1, 2001 (collectively, the ''Asset Purchase Agreement''). The total purchase price is subject to adjustment based on the determination of the final purchased net assets and Agilent's performance of certain services for Philips. Since August 1, 2001 Agilent has received approximately $80 million of the $100 million purchase price holdback in additional proceeds from Philips. Agilent expects to receive the remaining proceeds in 2002.

Agilent's consolidated financial statements reflect its healthcare solutions business as discontinued operations in accordance with Accounting Principles Board Opinion No. 30 ''Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions'' (''APB 30''). The financial position, results of operations and cash flows of Agilent's healthcare solutions business have been classified as discontinued, and prior periods have been restated, including the reallocation of general overhead charges to Agilent's three remaining reporting segments. Agilent recorded an after-tax gain of $646 million as a result of this transaction. Agilent does not expect material adjustments to the gain when the determination of the final purchased net assets and the performance of certain services are complete.

The following table shows the results of operations of Agilent's healthcare solutions business.

	Years Ended October 31,		
	2001(a)	2000	1999
		(In millions)	
Net revenue	$765	$1,412	$1,501
Costs and expenses	747	1,283	1,182
Earnings from discontinued operations	18	129	319
Other income (expense), net	3	17	5
Earnings from discontinued operations before taxes	21	146	324
Provision for taxes	15	61	118
Net earnings from discontinued operations	$ 6	$ 85	$ 206

(a) Includes operations from November 1, 2000 to May 31, 2001, the measurement date.

The following table shows the components of the gain on sale of discontinued operations.

	2001
	(In millions)
Proceeds not subject to contingency	$1,771
Book value of assets and liabilities sold	(495)
Book value of assets and liabilities written off	(98)
Net loss from operations post-measurement date	(58)
Costs of disposition	(52)
Gain on sale before taxes	1,068
Taxes	(422)
Gain from sale of discontinued operations, net of taxes	$ 646

The following table shows the component assets and liabilities of Agilent's net investment in discontinued operations.

	October 31, 2000
	(In millions)
Current assets	$516
Property, plant and equipment, net	56
Goodwill and other intangible assets, net	90
Other assets	30
Current liabilities	(95)
Net investment in discontinued operations	$597

Certain notes to these consolidated financial statements have been restated to reflect Agilent's presentation of discontinued operations. Generally, information in the notes has been restated where amounts were included in net earnings from, or net investment in, discontinued operations.

4. Acquisitions and Dispositions

On January 5, 2001, Agilent acquired Objective Systems Integrators, Inc. (''OSI'') for approximately $716 million. Of this total, $690 million was cash and the remainder represents the fair value of options granted. Using the purchase method of accounting, the purchase price was allocated to tangible and intangible assets including goodwill. The original goodwill balance of $593 million is being amortized over 3 years. The net book value of goodwill associated with this acquisition at October 31, 2001 was $432 million. OSI is a leading provider of next-generation operations-support-system software for communications service providers and has become part of Agilent's test and measurement business.

In July 1999, HP entered into an agreement with Yokogawa Electric Corporation (''Yokogawa'') to acquire Yokogawa's 25 percent equity interest in Agilent Technologies Japan, Ltd. for approximately $521 million. In the initial step, which occurred in January 2000, Agilent purchased approximately 10.4 percent of Agilent Technologies Japan, Ltd. shares from Yokogawa for approximately $206 million. In the second step, which occurred in April 2000, Agilent purchased approximately 10.4 percent of additional Agilent Technologies Japan, Ltd. shares from Yokogawa for approximately $216 million. In January 2001, Agilent completed its acquisition of Yokogawa's 25 percent equity interest in Agilent Technologies Japan, Ltd. by purchasing the

remaining 4.2 percent interest for approximately $99 million. Of the total purchase price, $243 million was allocated to tangible assets and $278 million was attributed to goodwill which is being amortized over 10 years. The remaining net book value of goodwill associated with this acquisition was $240 million at October 31, 2001.

In addition to the OSI and Yokogawa acquisitions, Agilent acquired several other companies during 2001, 2000, and 1999 which were not significant to its consolidated financial position, results of operations or cash flows. These acquisitions were accounted for under the purchase method of accounting. The results of operations of the acquired companies were included prospectively from the date of acquisition and the acquisition cost was allocated to the acquired tangible and identifiable intangible assets and liabilities based on fair values at the date of acquisition. Residual amounts were recorded as goodwill. In-process research and development write-offs have not been significant. Goodwill is amortized on a straight-line basis over its estimated economic life, generally three to five years except as noted above.

The net book value of goodwill and other intangible assets was $1.1 billion at October 31, 2001 and $467 million at October 31, 2000.

Unaudited pro forma statement of earnings information has not been presented because the effects of these acquisitions were not material on either an individual or an aggregated basis.

Dispositions. In the fourth quarter of 2000, Agilent entered into an asset purchase agreement with Tyco Capital Corporation (''Tyco Capital'') pursuant to which Agilent has sold them substantially all of its leasing portfolio (''Tyco Capital sale'') over the course of the last five quarters. The impact on Agilent's consolidated cash flows and results of operations of the lease portfolio sale is shown below.

	Year Ended October 31, 2001	Year Ended October 31, 2000
Net proceeds from Tyco Capital sale	$287	$234
Product revenue	$254	$197
Cost of products	$131	$ 83

Agilent also entered into a vendor financing arrangement with Tyco Capital whereby Tyco Capital will provide equipment financing and leasing services to Agilent's customers on a global basis. This agreement has been in place since the fourth quarter of 2000.

In addition to the Tyco Capital sale and the sale of the healthcare solutions business, Agilent sold assets related to portions of its businesses to third parties during 2001, 2000, and 1999. Gross proceeds from these dispositions were $13 million in 2001, immaterial in 2000, and $71 million in 1999. Gains from the dispositions, included in other income (expense), net, in the consolidated statement of earnings, were $9 million in 2001, immaterial in 2000, and $50 million in 1999.

5. Adoption of SAB 101

In December 1999, the U.S. Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101, ''Revenue Recognition in Financial Statements'' (''SAB 101''). During the fourth quarter of 2001, Agilent adopted SAB 101 retroactive to the beginning of the fiscal year. The cumulative effect of the adoption resulted in a charge to fiscal 2001 net earnings of $47 million (net of income taxes of $27 million) or $0.10 per basic and diluted share. As a result of adopting SAB 101, delivery is considered to have occurred when title and risk of loss have transferred to the customer. For the fiscal year ended October 31, 2001, the net impact on 2001 revenues including amounts deferred at October 31, 2001 was an increase of $67 million of

revenue and $29 million of cost of products which were included in the cumulative effect adjustment. The results for the first three quarters of 2001 have been restated in accordance with SAB 101. Pro forma amounts for the periods beginning before November 1, 2000 have not been presented, as the effect of the change could not reasonably be determined.

6. Financial Instruments

Effective November 1, 2000, Agilent adopted SFAS No. 133, ''Accounting for Derivative Instruments and Hedging Activities,'' as amended by SFAS No. 138, ''Accounting for Certain Derivative Instruments and Certain Hedging Activities''. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, and requires that all derivatives be recognized as either assets or liabilities on the balance sheet and carried at fair value. Changes in the fair value of the derivative instruments are recognized in earnings or stockholders' equity, depending on the intended use of the instrument.

If derivative instruments are designated and qualify as a fair value hedge, changes in value of the derivative are recognized in earnings in the current period, along with the offsetting gain or loss on the hedged item attributable to the hedged risk. If derivative instruments are designated and qualify as a cash flow hedge, changes in the value of the effective portion of the derivative instrument are recognized in other comprehensive income, a component of stockholders' equity. These amounts are reclassified and recognized in earnings when either the forecasted transaction occurs or it becomes probable the forecasted transaction will not occur. Changes in the fair value of the ineffective portion of derivative instruments are recognized in earnings in the current period. Ineffectiveness in 2001 was not significant.

Agilent enters into certain foreign exchange contracts, primarily forwards and options, to hedge exposures to changes in foreign currency exchange rates. Agilent does not use derivative financial instruments for speculative or trading purposes.

Agilent may also, from time to time, invest in warrants to purchase securities of other companies as strategic investments.

The adoption of SFAS No. 133 on November 1, 2000 resulted in a cumulative pre-tax reduction to income of $41 million ($25 million after tax) and a pre-tax increase in other comprehensive income of $10 million. During the year ended October 31, 2001, pre-tax gains of $6 million were recorded in other income from continuing operations related to the value of derivative transactions. Pre-tax gains of $1 million were recorded in other comprehensive income during 2001 related to derivative instruments. Discontinued operation results for the year ended October 31, 2001 include pre-tax losses of $1 million related to the value of derivative transactions. Net deferred gains and losses of $7 million related to hedging activities reported in accumulated comprehensive loss at October 31, 2001 are expected to be reclassified to earnings within 12 months.

7. (Loss) Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted net earnings per share computations for the periods presented below.

	For the Years Ended October 31,		
	2001	2000	1999
	(In millions, except per share data)		
Numerator:			
(Loss) earnings from continuing operations	$(406)	$672	$306
Net earnings from discontinued operations, net of taxes	6	85	206
Gain from the sale of discontinued operations, net of taxes	646	–	–
Earnings before cumulative effect of changes in accounting principles	246	757	512
Cumulative effect of adopting SFAS No. 133, net of taxes	(25)	–	–
Cumulative effect of adopting SAB 101, net of taxes	(47)	–	–
Net earnings	$ 174	$757	$512
Denominators:			
Basic weighted average shares	458	449	380
Potentially dilutive common stock equivalents — stock options and other employee stock plans	–	6	–
Diluted weighted average shares	458	455	380

Options to purchase 63.7 million shares of common stock at a weighted average exercise price of $46 per share were outstanding during 2001 but were not included in the computation of diluted net earnings per share because the options were antidilutive for 2001. The options, which expire no later than 2010, were still outstanding at the end of 2001.

See Note 19 ''Subsequent Events'' for a discussion of Agilent's senior convertible debentures, which may be dilutive in 2002.

8. Supplemental Cash Flow Information

Cash paid for income taxes in 2001 was $450 million and in 2000 was $546 million. No amounts were paid for income taxes in 1999 as HP made such payments on Agilent's behalf. Cash paid for interest was $28 million in 2001 and was not material in 2000 and 1999.

Non-cash transactions in 2001 primarily related to the issuance of common stock under various employee stock plans in the amount of $26 million and acquisitions in the amount of $71 million.

9. Inventory

	October 31,	
	2001	2000
	(In millions)	
Finished goods	$ 400	$ 356
Work in progress	239	340
Raw materials	852	914
	$1,491	$1,610

Inventory-related charges of $459 million and $70 million were recorded in total cost of products in 2001 and 2000, respectively.

10. Property, Plant and Equipment, Net

	October 31,	
	2001	2000
	(In millions)	
Land	$ 148	$ 155
Buildings and leasehold improvements	1,767	1,556
Machinery and equipment	2,210	2,109
	4,125	3,820
Accumulated depreciation	(2,277)	(2,135)
	$ 1,848	$ 1,685

Agilent has sold substantially all of its portfolio of operating leases to Tyco Capital. See Note 4 ''Acquisitions and Dispositions''. Equipment under operating leases was $23 million at October 31, 2001 and $201 million at October 31, 2000 and is included in machinery and equipment. Accumulated depreciation related to equipment under operating leases was $4 million at October 31, 2001 and $49 million at October 31, 2000. At October 31, 2001, minimum future rentals on noncancelable operating leases with original terms of one year or longer were not material.

11. Taxes on Earnings

The (benefit) provision for income taxes is comprised of:

	Years Ended October 31,		
	2001(a)	2000	1999
	(In millions)		
U.S. federal taxes from continuing operations:			
Current	$ 22	$ 77	$ 63
Deferred	(105)	(42)	(15)
Non-U.S. taxes from continuing operations:			
Current	(38)	310	104
Deferred	20	(18)	3
State taxes from continuing operations, net of federal benefit	(13)	19	2
Total from continuing operations:	(114)	346	157

(a) The benefit for income taxes on continuing operations in 2001 includes $71 million tax benefit from operations, $16 million tax benefit from adoption of SFAS No. 133 and $27 million tax benefit from adoption of SAB 101.

The significant components of deferred tax assets, for which no valuation allowance was required, and deferred tax liabilities included on the consolidated balance sheet are:

	October 31, 2001		October 31, 2000	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
	(In millions)			
Inventory	$229	$ 9	$157	$ 7
Property, plant and equipment	62	6	71	5
Warranty reserves	30	—	34	—
Retiree medical benefits	54	—	70	—
Other retirement benefits	—	44	15	54
Employee benefits, other than retirement	189	4	220	22
Unremitted earnings of foreign subsidiaries	—	203	—	160
Other	135	24	110	19
	$699	$290	$677	$267

The current portion of the net deferred tax asset is $494 million at October 31, 2001 and $304 million at October 31, 2000 and is included in other current assets.

Tax benefits of $11 million in 2001 and $16 million in 2000 associated with the exercise of employee stock options were recognized in stockholders' equity.

The differences between the U.S. federal statutory income tax rate and Agilent's effective tax rate are:

	Years Ended October 31, 2001	2000	1999
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	2.2	2.1	0.7
Lower rates in other jurisdictions, net	6.1	(4.0)	(5.6)
Goodwill	(19.8)	2.0	0.4
Other, net	(4.5)	(1.1)	3.5
	19.0%	34.0%	34.0%

The domestic and foreign components of earnings from continuing operations before taxes are:

	Years Ended October 31, 2001	2000	1999
U.S. continuing operations	$(487)	$ 66	$ 84
Non-U.S. continuing operations	(105)	952	379
	$(592)	$1,018	$463

As a result of certain employment and capital investment actions undertaken by Agilent, income from manufacturing activities in certain countries is subject to reduced tax rates, and in some cases is wholly exempt from taxes, for tax years through 2010. The income tax benefits

attributable to the tax status of these subsidiaries are estimated to be $37 million in 2001, $41 million in 2000, and $31 million in 1999.

Agilent has not provided for U.S. federal income and foreign withholding taxes on $871 million of non-U.S. subsidiaries' undistributed earnings as of October 31, 2001 because such earnings are intended to be reinvested indefinitely. Where excess cash has accumulated in Agilent's non-U.S. subsidiaries and it is advantageous for tax or foreign exchange reasons, subsidiary earnings are remitted.

12. Restructuring and Asset Impairment

In 2001, Agilent has taken steps to restructure its businesses as a result of the economic downturn that has impacted many of the markets that Agilent serves. Agilent has announced measures to cut discretionary costs, to reduce the size of its workforce and to reduce the number of sites that Agilent occupies. On August 20, 2001, Agilent announced a plan to reduce its workforce by approximately 4,000, or about nine percent, by the middle of next year. The total cost of this plan is estimated to be $175 million, of which $154 million was recognized this fiscal year. Of this amount, $79 million was included in cost of products and services, $17 million was included in research and development expenses and $58 million was included in selling, general and administrative expenses. As of October 31, 2001, $65 million in severance benefits had been paid and the remainder of the restructuring liability is expected to be utilized during 2002. In the second half of 2001, Agilent reduced its workforce by approximately 3,000 employees.

In June 2001 Agilent recognized a $74 million asset impairment charge with respect to its decision to cancel the development of a software system for Agilent's customer support activities. Agilent has entered into an agreement with HP to extend its use of their legacy customer support systems in place of the one that Agilent was developing. The decision to continue the use of HP's systems enabled Agilent to reduce costs at a critical time, minimize disruption to Agilent's customers and businesses and to focus on Agilent's customers' needs.

In 1999, Agilent recognized an impairment loss of $51 million related to a building that was under construction to house manufacturing operations for eight-inch CMOS semiconductor wafers. At the time construction was stopped, only the building shell was complete; Agilent concluded that the highest fair value to be realized from this building was based on selling it for use as an office or general use facility.

13. Stock Based Compensation

Employee stock purchase plans. Prior to February 2, 2000, virtually all Agilent employees were able to contribute up to ten percent of their base compensation to the quarterly purchase of HP's common stock under the Hewlett-Packard Stock Purchase Plan (the ''HP Plan''). Under the provisions of the HP Plan, employee contributions to purchase shares were partially matched with shares contributed by HP. These matching shares generally vested over two years. After February 2, 2000, Agilent implemented the Agilent Technologies, Inc. Employee Stock Purchase Plan (the ''Legacy Plan'') that was similar to the HP Plan and allowed eligible employees to contribute up to ten percent of their base compensation to the purchase of Agilent common stock. Under the provisions of the Legacy Plan, employee contributions were partially matched with shares contributed by Agilent. These matching shares also generally vested over two years. On June 2, 2000, all unvested matching shares of HP stock held by our employees were forfeited and replaced by Agilent common stock of equivalent value. Compensation expense for the matching provision for both the HP Plan and the Legacy Plan was measured using the fair value of shares on the date of purchase by HP for the HP Plan and by Agilent for the Legacy Plan and was recognized by Agilent over the two-year vesting period. Compensation expense under both plans

was $28 million in 2001, $34 million in 2000 and $39 million in 1999. The amount in 1999 was allocated from HP. At October 31, 2001, 9,802,100 shares of Agilent common stock had been authorized for issuance under the Legacy Plan and 3,344,371 of these shares had been issued.

Effective October 31, 2000, purchases and contributions under the Legacy Plan ceased. All unvested matching shares under the Legacy Plan will maintain their original vesting terms based on the employee's continued employment with Agilent. Vesting of these matching shares will be completed no later than October 31, 2002.

Effective November 1, 2000, Agilent adopted a new plan, the Agilent Technologies, Inc. Employee Stock Purchase Plan (the ''Agilent 423(b) Plan''). Under the provisions of the Agilent 423(b) Plan, eligible employees may contribute up to 10 percent of their base compensation to purchase shares of Agilent common stock at 85 percent of the lower of the fair market value at the entry date or purchase date as defined by the Agilent 423(b) Plan. As of October 31, 2001, 35,000,000 shares of Agilent common stock were authorized for issuance under the Agilent 423(b) Plan and 1,828,674 of these shares have been issued.

Incentive compensation plans. Prior to November 1999, certain of Agilent's employees participated in HP's stock-based incentive compensation plans under which they received stock options and other equity based awards. On September 17, 1999, Agilent adopted the Agilent Technologies, Inc. 1999 Stock Plan (the ''Agilent stock plan'') and subsequently reserved 67,800,000 shares of Agilent common stock for issuance under the plan. Stock options, stock appreciation rights, stock awards and cash awards may be granted under the Agilent stock plan. Options granted under the Agilent stock plan may be either ''incentive stock options,'' as defined in section 422 of the Internal Revenue Code, or non-statutory. Options generally vest at a rate of 25 percent per year over a period of four years from the date of grant. The exercise price for incentive stock options may not be less than 100 percent of the fair market value of the underlying Agilent stock on the date the stock award is granted.

At October 31, 2001, shares registered and available for option and restricted stock grants were 19,918,011. In February 2001, Agilent's shareholders approved an additional 45,000,000 shares to be available for option and restricted stock grants. The stock based compensation expense related to Agilent employees' discounted options, stock appreciation rights and restricted stock was $8 million in 2001, $24 million in 2000, and was not material in 1999. The amount for 1999 was allocated from HP.

Effective June 2000, a majority of the HP awards held by Agilent employees were converted to Agilent awards of equivalent value. The conversion of HP options into Agilent options was done in such a manner that (1) the aggregate intrinsic value of the options immediately before and after the exchange is the same, (2) the ratio of the exercise price per option to the market value per option is not reduced, and (3) the vesting provisions and options period of the replacement Agilent options are the same as the original vesting terms and option period of the HP options.

The following table summarizes option activity for the years ended October 31, 2001 and 2000:

	Shares (000)	Weighted-Average Exercise Price
Outstanding options as of November 1, 1999	—	$ —
Converted from HP	17,667	31
Granted	30,202	59
Exercised	(645)	23
Cancelled	(1,333)	59
Outstanding as of October 31, 2000	45,891	$48
Granted	20,758	40
Exercised	(1,114)	20
Cancelled	(1,879)	72
Outstanding as of October 31, 2001	63,656	$46
Options exercisable as of October 31, 2000	10,914	$26
Fair market value of options granted and converted during fiscal 2000		$48
Options exercisable as of October 31, 2001	25,196	$40
Fair market value of options granted during fiscal 2001		$45

The following table summarizes information about all options outstanding at October 31, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (000)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable (000)	Weighted-Average Exercise Price
$0 – 25	5,824	5.6 years	$ 14	4,365	$ 12
$26 – 50	40,032	9.1 years	37	15,593	36
$51 – 75	4,342	9.9 years	61	1,065	62
$76 – 100	13,182	9.4 years	78	4,069	77
$101 and over	276	9.4 years	119	104	119
	63,656		$ 46	25,196	$ 40

Pro forma information. Agilent has elected to follow the accounting provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," for stock-based compensation granted to Agilent employees. Accordingly, compensation expense is recognized only when options are granted with a discounted exercise price. Any compensation expense is recognized ratably over the associated service period, which is generally the option vesting term.

Pro forma net earnings and net earnings per share information, as required by SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), has been determined as if Agilent had accounted for all employee stock options granted, including shares under the Agilent 423(b) Plan to Agilent employees under SFAS No. 123's fair value method. The fair value of these options

was estimated at grant date using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2001	2000	1999 (1)
Risk-free interest rate for options	4.25%	5.75%	5.53%
Risk-free interest rate for the Agilent 423(b) Plan	3.68-6.04%	—	—
Dividend yield	0%	0%	1.00%
Volatility	77%	67%	30%
Expected option life	5.5 years	7 years	7 years
Expected life for the Agilent 423(b) Plan	6 months-2 years	—	—

(1) Assumptions for HP Options for the years 1999.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the four-year average vesting period of the options. The pro forma effect of recognizing compensation expense in accordance with SFAS No. 123 would have been to reduce Agilent's reported net earnings by $503 million in 2001 and by $281 million in 2000 and $38 million in 1999. Had compensation expense been recorded by Agilent in accordance with SFAS No. 123, the effect would have been to reduce basic net earnings per share by $1.10 and $0.63 in 2001 and 2000, respectively, and diluted net earnings per share by $1.10 and $0.62 in 2001 and 2000, respectively. In comparison, the effect would have been to reduce both basic and diluted net earnings per share by $0.10 in 1999. These pro forma amounts include amortized fair values attributable to options granted after October 31, 1995 only, and therefore are not representative of future pro forma amounts. These amounts were calculated using all options granted to employees across all segments of Agilent's business operations.

14. Retirement Plans and Postretirement Benefits

General. Substantially all of Agilent's employees are covered under various Agilent defined benefit and defined contribution plans. Additionally, Agilent sponsors postretirement health care benefits and a death benefit under the Survivor Protection Plan to U.S. employees.

Sale of healthcare solutions business. In the United States, employees of the healthcare solutions business (''HSG employees'') were offered a choice of terminating and remaining in the Agilent Retirement Plan or terminating and taking a distribution from the Agilent Retirement Plan. In the funded status table below, amounts relating to settlements of HSG employees' benefit obligations are treated as regular plan payments. Additionally, eligible HSG employees (i.e. those who qualified for retirement on August 1, 2001) were offered an opportunity to elect to receive benefits under the Agilent Continued Group Medical and SeniorMed Program. Generally, outside the United States, subject to local statutory or other practical limitations, HSG employees' Projected Benefit Obligations — calculated in accordance with the Asset Purchase Agreement — were transferred to Philips along with an equal amount of assets. Amounts reported in this footnote reflect Agilent's continuing operations excluding the healthcare solutions business, except where noted.

Spin-off from HP. On or before June 2, 2000, Agilent assumed responsibility for pension, deferred profit-sharing, 401(k) and other post retirement benefits from HP for current and former employees whose last work assignment prior to the distribution date was with Agilent. These current and former employees are collectively referred to as ''Agilent Employees.'' In the U.S., the Hewlett-Packard Company Retirement Plan and Deferred Profit-Sharing Plan Master Trust, was converted to the Group Trust for the Hewlett-Packard Company Deferred Profit-Sharing Plan and Retirement Plan and the Agilent Technologies, Inc. Deferred Profit-Sharing Plan and Retirement Plan (the ''Group Trust'') and a pro rata share of the assets of the Group Trust were assigned to

the Agilent Retirement Plan Trust and the Agilent Deferred Profit-Sharing Trust. Outside the U.S., generally, a pro rata share of the HP pension assets, if any, were transferred or otherwise assigned to the Agilent entity in accordance with local law or practice. The pro rata share was in the same proportion as the projected benefit obligation for Agilent Employees was to the total projected benefit obligation of HP and Agilent combined. For all the periods presented, the consolidated financial statements include the trust assets, liabilities and expenses that were assigned to Agilent.

Pension and deferred profit-sharing plans. Worldwide pension and deferred profit-sharing costs included in earnings from continuing operations were $106 million in 2001, $69 million in 2000 and $111 million in 1999. The 1999 amount was an allocation from HP.

U.S. employees who meet eligibility criteria are provided benefits under Agilent's Retirement Plan (''Retirement Plan''). Defined benefits are generally based on an employee's average pay during the final five years of employment and length of service. For eligible service through October 31, 1993, the benefit payable under the defined benefit plan is reduced by any amounts due to the eligible employee under Agilent's fixed and frozen defined contribution deferred profit-sharing plan (''DPSP''), which was closed to new participants in November 1993.

The combined status of the Retirement Plan and DPSP for U.S. Agilent Employees follows.

	October 31,	
	2001	2000
	(In millions)	
Fair value of plan assets	$1,717	$2,379
Retirement benefit obligation	$1,968	$2,309

Eligible employees outside the U.S. generally receive retirement benefits under various retirement plans based upon factors such as years of service and employee compensation levels. Eligibility is generally determined in accordance with local statutory requirements.

Postretirement benefit plans. In addition to receiving pension benefits, eligible Agilent Employees may participate in Agilent's Continued Group Medical and SeniorMed Program that provides benefits to U.S. retired employees. Substantially all of Agilent's current U.S. employees could become eligible for these benefits, and the existing benefit obligation relates primarily to those employees. Once participating in the medical plan, retirees may choose from managed-care and indemnity options, with their contributions dependent on options chosen and length of service.

401(k) defined contribution plan. Agilent's U.S. eligible employees may participate in the Agilent Technologies, Inc. 401(k) Plan (the ''Agilent Savings Accumulation Plan'' or ''ASAP''), which was established as a supplemental retirement program. Assets and liabilities related to Agilent employees were transferred to Agilent by HP effective June 2, 2000. Beginning February 1, 1998, enrollment in TAXCAP/ASAP became automatic for employees who meet eligibility requirements unless they decline participation. Under the ASAP program, Agilent matches contributions by employees up to a maximum of 4 percent of an employee's annual compensation. Prior to November 1, 2000, the maximum combined contribution to the Legacy Plan and ASAP was 25 percent of an employee's annual eligible compensation subject to certain regulatory and plan limitations. Beginning November 1, 2000, the maximum contribution to the Agilent 423(b) Plan and ASAP was 10 percent and 20 percent, respectively, of an employee's annual eligible compensation subject to certain regulatory and plan limitations. Agilent's expense included in earnings from continuing operations related to ASAP was $53 million in 2001, $48 million in 2000 and $44 million in 1999. The 1999 amount was an allocation from HP.

Components of net periodic cost. For the years ended October 31, 2001, 2000 and 1999, net pension and postretirement benefit costs for Agilent are comprised of:

	Pensions						U.S. Postretirement Benefit Plans		
	U.S. Plans			Non-U.S. Plans					
	2001	2000	1999	2001	2000	1999	2001	2000	1999
					(In millions)				
Service cost — benefits earned during the period	$ 87	$ 74	$ 72	$ 44	$ 51	$ 54	$ 13	$ 10	$ 10
Interest cost on benefit obligation	41	35	25	42	39	38	24	18	14
Expected return on plan assets	(56)	(51)	(30)	(59)	(58)	(57)	(36)	(33)	(17)
Amortization and deferrals:									
Actuarial (gain) loss	(10)	(12)	3	6	(1)	(4)	(18)	(10)	(6)
Transition obligation (asset)	—	(3)	(3)	—	—	—	—	—	—
Prior service cost	1	2	2	1	1	1	—	(4)	(3)
Net plan costs	$ 63	$ 45	$ 69	$ 34	$ 32	$ 32	$(17)	$(19)	$ (2)
Curtailment gain	(28)	—	—	(4)	—	—	(7)	—	—
Settlement loss	1	—	—	21	—	—	—	—	—
Other	—	—	—	7	—	—	—	—	—
Total net plan costs	$ 36	$ 45	$ 69	$ 58	$ 32	$ 32	$(24)	$(19)	$ (2)
Distribution of net plan costs:									
Continuing operations	$ 32	$ 40	$ 62	$ 55	$ 29	$ 29	$(23)	$(17)	$ (2)
Discontinued operations	4	5	7	3	3	3	(1)	(2)	—
Total net plan costs	$ 36	$ 45	$ 69	$ 58	$ 32	$ 32	$(24)	$(19)	$ (2)

Funded status. As of October 31, 2001 and 2000, the funded status of the defined benefit and postretirement benefit plans is:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		U.S. Postretirement Benefit Plans	
	2001	2000	2001	2000	2001	2000
			(In millions)			
Change in fair value of plan assets:						
Fair value — beginning of year	$ 655	$ 477	$807	$706	$ 426	$ 306
Actual return on plan assets	(164)	172	(64)	99	(108)	110
Employer contributions	1	13	60	84	—	—
Participants' contributions	—	—	8	7	4	5
Change in population estimate	—	16	—	8	—	15
Benefits paid	(41)	(23)	(10)	(10)	(11)	(10)
Currency impact	—	—	(9)	(87)	—	—
Divestiture of Healthcare Solutions Business	—	—	(60)	—	—	—
Other	—	—	14	—	—	—
Fair value — end of year	451	655	746	807	311	426

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		U.S. Postretirement Benefit Plans	
	2001	2000	2001	2000	2001	2000
			(In millions)			
Change in benefit obligation:						
Benefit obligation — beginning of year	585	434	821	773	317	238
Reclassification of plans	—	—	—	—	—	14
Service cost	87	74	44	51	13	10
Interest cost	41	35	42	39	24	18
Participants' contributions	—	—	8	—	4	5
Plan amendment	—	—	(17)	—	—	59
Change in population estimate	—	12	—	7	—	5
Actuarial (gain) loss	73	53	4	48	40	(22)
Benefits paid	(41)	(23)	(13)	(10)	(11)	(10)
Currency impact	—	—	(12)	(87)	—	—
Divestiture of Healthcare Solutions Business	(43)	—	(63)	—	(7)	—
Other	—	—	7	—	—	—
Benefit obligation — end of year	702	585	821	821	380	317
Plan assets in excess of (less than) benefit obligation	(251)	70	(75)	(14)	(69)	109
Unrecognized net actuarial (gain) loss	129	(160)	191	102	(102)	(304)
Unrecognized prior service cost (benefit) related to plan changes	8	10	(8)	8	3	3
Unrecognized net transition asset*	—	—	(1)	(1)	—	—
Net prepaid (accrued) costs	$(114)	$ (80)	$107	$ 95	$(168)	$(192)
Amounts recognized in the consolidated balance sheet consist of:						
Prepaid (accrued) defined benefit plan costs	(114)	(80)	107	86	—	—
Prepaid defined benefit plan costs allocated to discontinued operations	—	—	—	9	—	—
(Accrued) post retirement benefits costs	—	—	—	—	(168)	(192)
Net prepaid (accrued) costs**	$(114)	$ (80)	$107	$ 95	$(168)	$(192)

* Amortized over periods ranging from 10 to 22 years.

** The asset and pension obligation amounts that will be transferred to Philips for the sale of Agilent's healthcare solutions business are subject to final adjustment. The final amounts to be transferred to Philips are not expected to be materially different from the estimated amounts.

Plan assets consist primarily of listed stocks and bonds.

Defined benefit plans whose benefit obligations are in excess of the fair value of the plan assets are:

	U.S. Defined Benefit Plans October 31,		Non-U.S. Defined Benefit Plans October 31,	
	2001	2000	2001	2000
	(In millions)		(In millions)	
Aggregate benefit obligation	$(702)	$(50)	$(579)	$(541)
Aggregate fair value of plan assets	$ 451	—	$ 483	$ 506

The non-current portion of the liability for retirement and post retirement benefits plans is included in other liabilities and totaled $169 million at October 31, 2001 and $221 million at October 31, 2000.

Assumptions. The assumptions used to measure the benefit obligations and to compute the expected long-term return on assets for Agilent's defined benefit and postretirement benefit plans are:

	Years Ended October 31,		
	2001	2000	1999
U.S. defined benefit plans:			
Discount rate	7.0%	7.5%	7.25%
Average increase in compensation levels	5.5%	6.0%	5.0%
Expected long-term return on assets	9.0%	9.0%	9.0%
Non-U.S. defined benefit plans:			
Discount rate	2.5 – 6.5%	3.0 – 6.5%	3.3 – 6.0%
Average increase in compensation levels	3.5 – 5.5%	3.5 – 5.5%	3.5 – 5.3%
Expected long-term return on assets	6.5 – 8.5%	6.1 – 8.5%	6.1 – 8.5%
U.S. postretirement benefits plans:			
Discount rate	7.0%	7.5%	7.25%
Expected long-term return on assets	9.0%	9.0%	9.0%
Current medical cost trend rate	7.75%	7.75%	8.2%
Ultimate medical cost trend rate	5.5%	5.5%	5.5%
Medical cost trend rate decreases to ultimate rate in year	2007	2007	2007

Assumed health care trend rates could have a significant effect on the amounts reported for health care plans. A one-percentage point change in the assumed health care cost trend rates for the year ended October 31, 2001 would have the following effects:

	1 Percentage Point Increase	1 Percentage Point Decrease
	(In millions)	
Effect on total service and interest cost components	$ 9	$ (7)
Effect on postretirement benefit obligations	$69	$(54)

15. Notes Payable and Short-term Borrowings

Notes payable and short-term borrowings. Notes payable and short-term borrowings as of October 31, 2001 consisted of notes payable to banks of $4 million and the current portion of capitalized leases of $2 million dollars. The average interest rate for the notes payable to banks

was 9.0 percent. For 2000, notes payable and short-term borrowings consisted of notes payable to banks of $106 million and other short-term debt of $4 million dollars.

Lines of Credit. Agilent has two revolving credit facilities with no outstanding balances at the end of 2001. Those facilities are a $250 million facility that terminates on November 5, 2005 and a 364-day $250 million facility that terminated on November 2, 2001. In November 2001, Agilent extended the latter facility to November 1, 2002. See Note 19 ''Subsequent Events'' for changes to debt arrangements after October 31, 2001. In addition to these committed facilities, Agilent has access to uncommitted credit lines through its banking partners.

16. Commitments

Operating Lease Commitments: Agilent leases certain real and personal property from unrelated third parties under non-cancelable operating leases. Future minimum lease payments under leases at October 31, 2001 were $98 million for 2002, $86 million for 2003, $63 million for 2004, $52 million for 2005, $40 million for 2006 and $105 million thereafter. Certain leases require Agilent to pay property taxes, insurance and routine maintenance, and include escalation clauses. Rent expense was $100 million in 2001, $69 million in 2000 and $102 million in 1999.

17. Contingencies

Agilent is involved in lawsuits, claims, investigations and proceedings, including patent, commercial and environmental matters that arise in the ordinary course of business. There are no such matters pending that Agilent expects to be material in relation to its business, consolidated financial condition, results of operations or cash flows.

18. Segment Information

Description of segments. Agilent is a diversified technology company that provides enabling solutions to customers in high growth markets within the communications, electronics, and life science industries. The results of our healthcare solutions business, previously reported as a segment, are disclosed in Note 3 ''Discontinued Operations'' above.

Agilent organizes its business operations into three major groups — test and measurement, semiconductor products, and chemical analysis, each of which comprises a reportable segment. The segments were determined based primarily on how management views and evaluates Agilent's operations. Other factors, including customer base, homogeneity of products, technology and delivery channels, were also considered in determining Agilent's reportable segments.

Agilent includes the following businesses:

- test and measurement, which provides test instruments, standard and customized test, measurement and monitoring instruments and systems for the design, manufacture and support of electronics and communications devices, and software for the design of high-frequency electronic and communications devices and networks. The test and measurement business includes operating segments that have been aggregated based on the similarity of the nature of their products and services, their production processes, their class of customers, their distribution methods and their economic characteristics;
- semiconductor products, which provides fiber optic communications devices and assemblies, components and integrated circuits for wireless, networking, computing and printing applications, image sensors and general-purpose opto-electronic components; and
- chemical analysis, which provides analytical instruments, systems and services for chromatography, spectroscopy, bio-instrumentation and consumables.

Segment revenue and profit. The accounting policies used to derive reportable segment results are generally the same as those described in Note 2, ''Summary of Significant Accounting Policies.'' In 2000 and 1999, internal revenue and earnings from continuing operations include transactions between segments that are intended to reflect an arm's length transfer at the best price available for comparable external customers.

A significant portion of the segments' expenses arise from shared services and infrastructure that Agilent (HP for 1999) has historically provided to the segments in order to realize economies of scale and to efficiently use resources. These expenses include costs of centralized research and development, legal, accounting, employee benefits, real estate, insurance services, information technology services, treasury and other Agilent corporate (HP in 1999) infrastructure costs. These expenses are allocated to the segments and the allocations have been determined on a basis that Agilent considered to be a reasonable reflection of the utilization of services provided to or benefits received by the segments. A different result could be arrived at for any segment if costs were specifically identified to each segment.

In 2001, Agilent's management changed its measure of the profitability of each of the business segments to exclude goodwill and other intangible amortization and certain non-recurring items included within ''Corporate and Other.'' Agilent also changed its definition of segment assets to include all assets, including an allocation of assets previously held at corporate. Information provided in respect of prior periods has been restated to reflect these changes.

The following tables reflect the results of Agilent's reportable segments under Agilent's management reporting system. These results are not necessarily a depiction that is in conformity with accounting principles generally accepted in the United States of America. The performance of each segment is measured based on several metrics, including (loss) earnings from operations. These results are used, in part, by management, in evaluating the performance of, and in allocating resources to, each of the segments.

	Test and Measurement	Semiconductor Products	Chemical Analysis	Total Segments
		(In millions)		
Year Ended October 31, 2001:				
Total net revenue	$5,432	$1,850	$1,114	$8,396
Depreciation expense	$ 198	$ 149	$ 33	$ 380
(Loss) earnings from continuing operations	$ (141)	$ (183)	$ 118	$ (206)
Year Ended October 31, 2000:				
External revenue	$6,108	$2,213	$1,040	$9,361
Internal revenue	–	51	–	51
Total net revenue	$6,108	$2,264	$1,040	$9,412
Depreciation expense	$ 184	$ 171	$ 34	$ 389
Earnings from continuing operations	$ 706	$ 248	$ 41	$ 995

	Test and Measurement	Semiconductor Products	Chemical Analysis	Total Segments
		(In millions)		
Year Ended October 31, 1999:				
External revenue	$4,082	$1,722	$1,026	$6,830
Internal revenue	4	40	–	44
Total net revenue	$4,086	$1,762	$1,026	$6,874
Depreciation expense	$ 202	$ 177	$ 38	$ 417
Earnings from continuing operations	$ 210	$ 166	$ 120	$ 496

Reconciliation to Agilent, as Reported

	Years Ended October 31, 2001	2000	1999
		(In millions)	
Net revenue from continuing operations:			
Total reportable segments	$8,396	$9,412	$6,874
Elimination of internal revenue	–	(51)	(44)
Total net revenue, as reported	$8,396	$9,361	$6,830
(Loss) earnings from continuing operations before taxes:			
Total reportable segments' earnings from operations	$ (206)	$ 995	$ 496
Total amortization of goodwill and other non-operational one-time items	(572)	(71)	(74)
Other income (expense), net	301	94	41
Total (loss) earnings from continuing operations before taxes, as reported	$ (477)	$1,018	$ 463
Depreciation and amortization expense:			
Total reportable segments depreciation	$ 380	$ 389	$ 417
Corporate amortization expense	354	71	23
Total depreciation and amortization expense, as reported	$ 734	$ 460	$ 440

Major Customers. No customer represented 10 percent or more of Agilent's total net revenue in 2001 or 2000. In 1999 HP accounted for approximately 12 percent of Agilent's total net revenue.

The equity investment totals disclosed for each segment represent equity method investments directly managed by the segment.

	Test and Measurement	Semiconductor Products	Chemical Analysis	Total Segments
		(In millions)		
As of October 31, 2001:				
Assets	$5,310	$1,714	962	$7,986
Capital expenditures	495	304	82	881
Investment in equity-method investees	21	14	0	35
As of October 31, 2000:				
Assets	$4,924	$1,904	$804	$7,632
Capital expenditures	553	203	47	803
Investment in equity-method investees	16	46	20	82

Total segment assets at October 31, 2000 excluded $698 million of assets allocated to the healthcare solutions business which were determined under Agilent's management reporting system. Net investment in discontinued operations at October 31, 2000 of $597 million was determined using accounting principles generally accepted in the United States of America.

Geographic Information

	United States	Japan	Rest of the World	Total
		(In millions)		
Net revenue (based on location of customer):				
Year ended October 31, 2001	$3,373	$1,083	$3,940	$8,396
Year ended October 31, 2000	3,992	1,032	4,337	9,361
Year ended October 31, 1999	2,912	759	3,159	6,830
Long-lived assets (all non-current assets):				
October 31, 2001	$1,796	$ 539	$ 852	$3,187
October 31, 2000	1,316	356	922	2,594

19. Subsequent Events

On November 15, 2001, Agilent announced that it would eliminate an additional 4,000 jobs, which is approximately 10 percent of its workforce by the middle of 2002.

On November 19, 2001, Agilent's revolving credit agreements were amended. Among other changes, the financial covenants were changed to limit the amount of debt that the company can have relative to the sum of shareholders' equity and debt, to limit the amount of cash used for future acquisitions and to require certain minimum amounts of earnings before interest, tax, depreciation and amortization on a rolling four-quarter basis.

On November 27, 2001, Agilent announced the closing of a private offering of $1.15 billion aggregate principal amount of 3 percent senior convertible debentures due 2021. Agilent intends to use the net proceeds of the offering for working capital and general corporate purposes and to fund potential acquisitions and restructuring costs. The debentures are convertible into Agilent's common stock at a conversion price of $32.22 per share. Consequently Agilent's future diluted earnings per share may be reduced. The debentures are redeemable at Agilent's option beginning in December 2004, and holders of the debentures have the ability to require Agilent to repurchase the debentures, in whole or in part, on specified dates in 2006, 2011 and 2016.

QUARTERLY SUMMARY
(Unaudited)

	Three Months Ended			
	January 31	April 30	July 31	October 31
	(In millions, except per share amounts)			
2001				
Net revenue				
As reported	$ 2,548	$ 2,382	$ 1,806	$ 1,606
Impact of SAB 101 adjustment	17	24	13	N/A
	$ 2,565	$ 2,406	$ 1,819	$ 1,606
Total costs				
As reported	$ 1,277	$ 1,406	$ 1,146	$ 1,317
Impact of SAB 101 adjustment	7	11	2	N/A
	$ 1,284	$ 1,417	$ 1,148	$ 1,317
Earnings (loss) from operations				
As reported	$ 284	$ (62)	$ (342)	$ (692)
Impact of SAB 101 adjustment	10	13	11	N/A
	$ 294	$ (49)	$ (331)	$ (692)
Earnings (loss) from continuing operations				
As reported	$ 181	$ 83	$ (214)	$ (449)
Impact of SAB 101 adjustment	(7)	6	(6)	N/A
	$ 174	$ 89	$ (220)	$ (449)
Net earnings (loss) from discontinued operations	(2)	13	(5)	–
Gain from sale of discontinued operations, net of taxes	–	–	–	646
(Loss) earnings from operations before cumulative effect of changes in accounting principles	172	102	(225)	197
Cumulative effect of adopting SFAS No 133, net of taxes	(25)	–	–	–
Cumulative effect of adopting SAB 101, net of taxes	(47)	–	–	–
Net earnings (loss)	$ 100	$ 102	$ (225)	$ 197
Net earnings per share – Basic:				
Earnings (loss) from continuing operations				
As reported	$ 0.39	$ 0.18	$ (0.47)	$ (0.98)
Impact of SAB 101 adjustment	(0.01)	0.01	(0.01)	N/A
	0.38	0.19	(0.48)	(0.98)
Net earnings (loss) from discontinued operations	–	0.03	(0.01)	–
Gain from sale of discontinued operations, net of taxes	–	–	–	1.41
Cumulative effect of adopting SFAS No. 133, net of taxes	(0.06)	–	–	–
Cumulative effect of adopting SAB 101, net of taxes	(0.10)	–	–	–
Net earnings (loss)	$ 0.22	$ 0.22	$ (0.49)	$ 0.43
Net earnings per share – Diluted:				
Earnings (loss) from continuing operations				
As reported	$ 0.38	$ 0.18	$ (0.47)	$ (0.98)
Impact of SAB 101 adjustment	(0.01)	0.01	(0.01)	N/A
	0.37	0.19	(0.48)	(0.98)

	Three Months Ended			
	January 31	April 30	July 31	October 31
	(In millions, except per share amounts)			
Net earnings (loss) from discontinued operations	–	0.03	(0.01)	–
Gain from sale of discontinued operations, net of taxes	–	–	–	1.41
Cumulative effect of adopting SFAS No. 133, net of taxes	(0.06)	–	–	–
Cumulative effect of adopting SAB 101, net of taxes	(0.10)	–	–	–
Net earnings (loss)	$ 0.21	$ 0.22	$ (0.49)	$ 0.43
Average shares used in computing net earnings per share:				
Basic	455	456	459	460
Diluted	466	461	459	460
Range of common stock prices on NYSE	$38.06-68.00	$ 25.00-55.00	$ 26.20-41.18	$18.00-32.70
2000				
Net revenue	$ 1,851	$ 2,142	$ 2,351	$ 3,017
Total costs	$ 955	$ 1,069	$ 1,189	$ 1,522
Earnings from operations	$ 104	$ 184	$ 189	$ 447
Earnings from continuing operations	$ 88	$ 140	$ 143	$ 301
Net earnings from discontinued operations	$ 43	$ 26	$ 12	$ 4
Net earnings	$ 131	$ 166	$ 155	$ 305
Net earnings per share – Basic:				
Earnings from continuing operations	$ 0.20	$ 0.31	$ 0.31	$ 0.66
Net earnings from discontinued operations	$ 0.10	$ 0.06	$ 0.03	$ 0.01
Net earnings	$ 0.30	$ 0.37	$ 0.34	$ 0.67
Net earnings per share – Diluted:				
Earnings from continuing operations	$ 0.20	$ 0.31	$ 0.31	$ 0.65
Net earnings from discontinued operations	$ 0.10	$ 0.05	$ 0.03	$ 0.01
Net earnings	$ 0.30	$ 0.36	$ 0.34	$ 0.66
Average shares used in computing net earnings per share:				
Basic	439	452	453	454
Diluted	440	457	461	462
Range of common stock prices on NYSE	$40.00-79.25	$71.00-159.00	$40.75-100.75	$38.80-63.00

WWW. AGILENT.COM

© 2002 Agilent Technologies, Inc.

Printed in U.S.A. January, 2002

Printed on recycled paper with 30% post-consumer waste

5988-5331ENUC

Agilent Technologies