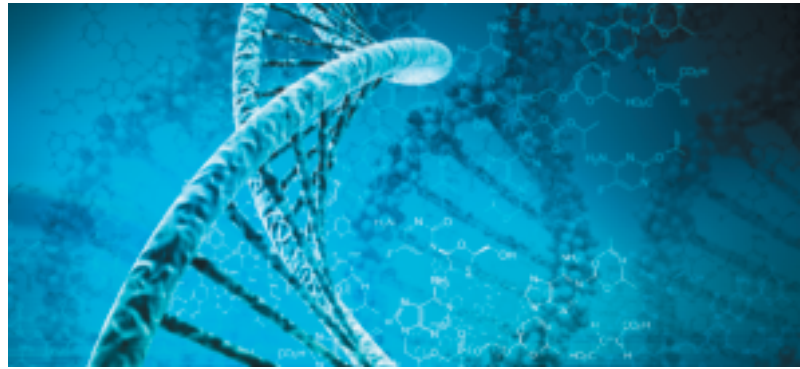


Building Two Great Companies From One



2013 ANNUAL REPORT

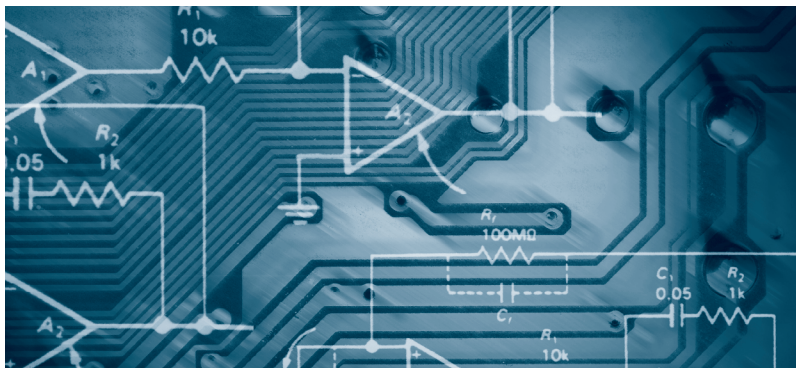
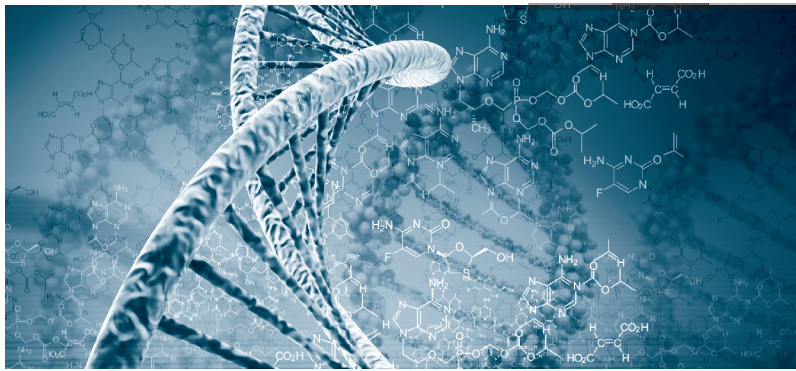
AGILENT TECHNOLOGIES, INC.

ANNUAL REPORT TO STOCKHOLDERS

ANNUAL REPORT CONSOLIDATED FINANCIAL STATEMENTS



Agilent Technologies



AGILENT TECHNOLOGIES, INC. 2013 ANNUAL REPORT

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To our Shareholders,

On Sept. 19, 2013, we announced the separation of the company in order to create two companies with greater strategy and management focus, each well positioned for growth in its respective markets. Capitalizing on the strength of our electronic measurement business, we have grown a life sciences, diagnostics and applied chemical business that is large enough to be an independent company. With the separation, we will create two unique and compelling investment profiles, each with a greater strategic focus on its distinct industries. Both companies will be positioned to attract a more focused shareholder base.

The separation of the company is expected to be completed in early November 2014. Agilent Technologies will focus 100 percent on the life science, diagnostic and applied chemical markets. Keysight Technologies, the new electronic measurement company, will focus 100 percent on the communications, computer, semiconductors, aerospace and defense and industrial markets. Agilent shareholders will receive a pro-rata distribution of shares in Keysight Technologies via a tax free spinoff. Both companies will be well capitalized, have strong balance sheets and expect investment-grade profiles. Agilent will continue to pay an annual dividend of approximately \$130 million per year, implying a yield at least equal to the current yield. Keysight will not pay an initial dividend. During the separation process, Agilent expects to continue both its dividend and a share repurchase intended to maintain the current share count. It is expected that Agilent will remain a member of the S&P 500's healthcare sector.

Keysight Technologies

We are very pleased that Ron Nersesian will be the president and CEO of Keysight Technologies. Ron has deep experience in the electronic measurement market, with a proven track record of leading the business. He has the vision, enthusiasm and industry knowledge to propel the new company to greater growth and success. Keysight Technologies will be launched with the tagline of “unlocking measurement insights for 75 years,” a recognition of its long heritage of technology leadership and innovation.

Agilent Technologies

Agilent Technologies will continue as a life sciences, diagnostics and applied chemical markets company under my leadership as president and CEO. Our new mission is to be the premier partner for our laboratory customers, as we work together to build a healthier world. Agilent will compete in a \$40 billion market from the strength of our position in food, environmental, chemical and energy markets, with enormous opportunities in the pharmaceutical, biotech, life science, academic, diagnostics and clinical markets. We believe we have a strong No. 2 position in our markets that will enable healthy growth in the future.

While Agilent has made several strategic acquisitions over the past several years to complement our organic growth rate, we are a company focused on delivering above-market organic growth. We are able to do so as a result of our R&D investment, our ability to address the needs of developing markets, and our commitment to deliver complete workflow solutions to our

customers. With a strong instrument profile for the laboratory, we will continue to expand our consumables and reagent product offerings, provide total laboratory service and support capabilities, and expand our core data system platforms to easily enable application development in the labs and correlate data from research to the clinic.

Our focus on organic growth, consistent with Agilent's operating model, will drive earnings faster than revenue, resulting in the creation of additional shareholder value.

A handwritten signature in black ink, appearing to read "Bill Sullivan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Bill Sullivan
President and Chief Executive Officer

February 5, 2014

Agilent at a Glance

Agilent is the world's premier measurement company providing core bio-analytical and electronic measurement solutions to the life sciences, diagnostics and genomics, chemical analysis, communications and electronics industries.

In June 2012, we acquired Dako A/S, a limited liability company incorporated under the laws of Denmark. Dako provides antibodies, reagents, scientific instruments and software primarily to customers in pathology laboratories.

On September 19, 2013, Agilent announced plans to separate into two publicly traded companies, one comprising of the life sciences, diagnostics and chemical analysis businesses that will retain the Agilent name and the other that will be comprised of the electronic measurement business ("EM"). The separation is expected to occur through a tax-free pro rata spin off of the EM company to Agilent shareholders and is expected to be completed early in November 2014.

In addition to the announcement to separate into two companies, we formed a new operating segment in the fourth fiscal quarter of 2013. The new life sciences and diagnostics segment was formed by the combination of the life sciences business plus the diagnostics and genomics business. Following this reorganization, Agilent has three business segments comprised of the life sciences and diagnostics business, the chemical analysis business and the electronic measurement business.

Our life sciences and diagnostics business focuses on the pharmaceutical, academic and government, bio-agriculture, food safety, clinical markets, biotechnology and contract research organization industries. Our chemical analysis business focuses on the petrochemical, environmental, forensics and food safety industries. Our electronic measurement business addresses the communications, electronics and other industries.

In addition to our three businesses, we conduct centralized manufacturing and order fulfillment through Agilent Order Fulfillment ("AOF") as well as research through Agilent Technologies Laboratories ("Agilent Labs"). Each of our three businesses, AOF and Agilent Labs, is supported by our global infrastructure organization, which provides shared services in the areas of finance, information technology, legal, workplace services and human resources.

We sell our products primarily through direct sales, but we also utilize distributors, resellers, manufacturer's representatives, telesales and electronic commerce. Of our total net revenue of \$6.8 billion for the fiscal year ended October 31, 2013, we generated 30 percent in the U.S. and 70 percent outside the U.S. As of October 31, 2013, we employed approximately 20,600 people worldwide. Our primary research and development and manufacturing sites are in California, Colorado and Delaware in the U.S. and in Australia, China, Denmark, Germany, India, Italy, Japan, Malaysia, Poland, Singapore and the United Kingdom.

Business Group	2013 Net Revenue	Description
Life Sciences and Diagnostics	\$2.3 billion	<p>Summary: Our life sciences and diagnostics business provides application-focused solutions that include reagents, instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products, as well as enable customers in the clinical and life sciences research areas to interrogate samples at the molecular level. We employed approximately 6,100 people as of October 31, 2013 in our life sciences and diagnostics business.</p> <p>Markets: The markets for our life sciences and diagnostics group include the pharmaceutical, biotechnology, contract research and contract manufacturing organization market, the academic and government market and the clinical market. The former market consists of "for-profit" companies who participate across the pharmaceutical value chain in the areas of therapeutic research, discovery & development, clinical trials,</p>

manufacturing and quality assurance and quality control. The academic and government market consists primarily of “not-for-profit” organizations and includes academic institutions, large government institutes and privately funded organizations, and plays an influential role in technology adoption and therapeutic developments for Pharma and molecular diagnostics companies. The clinical market consists primarily of pathology labs throughout the world located in hospitals, medical centers, and reference labs. The clinical market for genomics consists of high complexity clinical labs performing patient testing, including “for-profit” reference laboratories, hospital labs, and molecular diagnostic companies.

Product areas: The key product categories for the life sciences and diagnostics business include: liquid chromatography, mass spectrometry, software and informatics, lab automation and robotics, automated electrophoresis and microfluidics, NMR, MRI and XRD systems, life sciences consumables and services, pathology products, specific proteins and flow reagents, target enrichment, cytogenetic research solutions and microarrays, and PCR and qPCR Instrumentation and molecular biology reagents.

Chemical Analysis **\$1.6 billion**

Summary: Our chemical analysis business provides application-focused solutions that include instruments, software, consumables and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products. We employed approximately 3,800 people as of October 31, 2013 in our chemical analysis business.

Markets: The markets for our chemical analysis group include chemical and energy testing, environmental and forensics, and food safety markets. The natural gas and petroleum refining markets use our products to measure and control the quality of their finished products and to verify the environmental safety of their operations. Our instruments, software and workflow solutions are used by the environmental market for applications such as laboratory and field analysis of chemical pollutants in air, water, soil and solid waste. Drug testing and forensics laboratories use our instruments, software and workflow solutions for applications such as analyzing evidence associated with crime, screening athletes for performance enhancing drugs, analyzing samples for recreational drugs, or detecting and identifying biological and chemical warfare agents. Our instruments, software, and workflow solutions are used throughout the food production chain, including incoming inspection, new product development, quality control and assurance, and packaging.

Product areas: The key product categories for the chemical analysis business include: gas chromatography systems, columns and components; gas chromatography mass spectrometry systems; inductively coupled plasma mass spectrometry instruments; atomic absorption instruments; microwave plasma-atomic emission spectrometry instruments; inductively coupled plasma optical emission spectrometry instruments; software and data systems; vacuum pumps and measurement technologies; services support and consumable for our products.

Business Group	2013 Net Revenue	Description
Electronic Measurement	\$2.9 billion	<p>Summary: Our electronic measurement business provides electronic measurement instruments and systems, software design tools and related services that are used in the design, development, manufacture, installation, deployment and operation of electronics equipment, and microscopy products. Related services include start-up assistance, instrument productivity and application services and instrument calibration and repair. We also offer customization, consulting and optimization services throughout the customer's product lifecycle. Our electronic measurement business employed approximately 8,300 people as of October 31, 2013.</p> <p>Markets: The markets for our electronic measurement business include communications test and general purpose test. We market our electronic measurement products and services to network equipment manufacturers, wireless device manufacturers, and communications service providers, including component manufacturers within the supply chain for these customers. We market our general purpose test products and services to the electronics industry and other industries with significant electronic content such as the aerospace and defense, computer and semiconductor industries.</p> <p>Product areas: We divide our electronic measurement products into communications test products and general purpose test products. We sell products and services applicable to a wide range of communications networks and systems including wireless communications and microwave networks, voice, broadband, data, and fiber optic networks. Test products include electronic design automation software, vector and signal analyzers, signal generators, vector and signal analyzers, signal generators, vector network analyzers, one box testers, oscilloscopes, logic and protocol analyzers, and bit-error ratio testers. Also, we sell the following types of products into the general purpose test market: general purpose instruments, modular instruments and test software, digital test products, semiconductor and board test solutions, electronics manufacturing test equipment, atomic force microscopes and network surveillance solutions.</p>

Agilent Technologies Research Laboratories	<p>Agilent Technologies Research Laboratories is our research organization based in Santa Clara, California, with offices in Europe and Asia. The Research Labs creates competitive advantage through high-impact technology, driving market leadership and growth in Agilent’s core businesses and expanding Agilent’s measurement footprint into adjacent markets. At the cross-roads of the organization, the Research Labs are able to identify and enable synergies across Agilent’s businesses to create competitive differentiation and compelling customer value. As of the end of October 2013, Research Labs employed approximately 210 personnel worldwide.</p>
Global Infrastructure Organization	<p>We provide support to our businesses through our global infrastructure organization. This support includes services in the areas of finance, legal, workplace services, human resources and information technology. Generally these organizations are centrally operated from Santa Clara, California, with services provided worldwide. As of the end of October 2013, our global infrastructure organization employed approximately 2,200 people worldwide.</p>
Agilent Order Fulfillment Organization	<p>The Agilent Order Fulfillment (“AOF”) organization leverages our strength in manufacturing, engineering, strategic sourcing and logistics for our life sciences and diagnostics, chemical analysis and electronic measurement businesses. In general, AOF employees are dedicated to specific businesses and business headcount numbers include AOF employees. In the fourth quarter of 2013 we announced that the AOF organization had been divided into two separate operations; one dedicated to the life sciences, diagnostics and chemical analysis businesses and one dedicated to the electronic measurement business.</p>

Senior Executives

William P. Sullivan*
Chief Executive Officer
and President

Ronald S. Nersesian*
Executive Vice President, Agilent
Chief Executive Officer
and President, Keysight
Technologies, Inc.

Henrik Ancher-Jensen*
Senior Vice President, Agilent
President, Agilent Order
Fulfillment

Richard A. Burdsall
Senior Vice President,
Chief Infrastructure Officer

Gooi Soon Chai
Senior Vice President, Agilent
President, Electronic
Measurement Order
Fulfillment and Infrastructure

Solange Glaize*
Vice President, Chief
Accounting Officer

Jean M. Halloran*
Senior Vice President,
Human Resources

Didier Hirsch*
Senior Vice President and
Chief Financial Officer

Marie Oh Huber*
Senior Vice President,
General Counsel and
Secretary

Michael R. McMullen*
Senior Vice President, Agilent
President, Chemical Analysis

Shiela B. Robertson
Senior Vice President,
Corporate Development
and Strategy

Guy Séné*
Senior Vice President, Agilent
President, Electronic Measurement

Darlene J.S. Solomon, Ph.D.
Senior Vice President,
and Chief Technology Officer,
Life Sciences and Diagnostics

Fred Strohmeier*
Senior Vice President, Agilent
and President, Life Sciences and
Diagnostics

Officers

Robert Cantrell
Vice President, Treasurer

Neil P. Dougherty
Vice President, Agilent
Chief Financial Officer,
Keysight Technologies, Inc.

Lonnie G. Justice
Vice President and
General Manager,
Sales, Service and Support
Chemical Analysis Group

John Pouk
Vice President Worldwide
Sales, Life Sciences and
Diagnostics Group

Michael Tang
Vice President, Assistant
General Counsel and
Assistant Secretary

Stephen D. Williams
Vice President, Assistant
General Counsel and
Assistant Secretary, Agilent
General Counsel, Keysight
Technologies, Inc.

Directors

James G. Cullen
Chairman of the Board of
Directors of Agilent,
Retired President and
Chief Operating Officer of
Bell Atlantic Corporation
(now known as Verizon)

Paul N. Clark
Retired Chief Executive
Officer and President of
ICOS Corporation

Heidi Fields
Retired Executive Vice
President and Chief Financial
Officer of Blue Shield
of California

Robert J. Herbold
Retired Executive Vice
President of Microsoft
Corporation

Koh Boon Hwee
Managing Partner of
Credence Capital Fund II
(Cayman) Ltd.

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

A. Barry Rand
Chief Executive Officer
of AARP

William P. Sullivan,
Chief Executive Officer of
Agilent Technologies, Inc.

Tadataka Yamada, M.D.
Chief Medical and
Scientific Officer of
Takeda Pharmaceuticals
International, Inc.

Board Committees

Audit & Finance
Committee
Heidi Fields,
Chairperson
Paul N. Clark
Robert J. Herbold

Compensation Committee
Koh Boon Hwee,
Chairperson
David M. Lawrence, M.D.
A. Barry Rand
Tadataka Yamada, M.D.

Nominating/Corporate
Governance Committee
James G. Cullen
Chairperson
Paul N. Clark
Heidi Fields
Robert J. Herbold
Koh Boon Hwee
David M. Lawrence, M.D.
A. Barry Rand
Tadataka Yamada, M.D.

Executive Committee
James G. Cullen,
Chairperson
William P. Sullivan

* These individuals are executive officers of Agilent under Section 16 of the Securities Exchange Act of 1934.

Agilent's annual meeting of stockholders will take place on Wednesday, March 19, 2014 at 8:00 a.m. at Agilent's headquarters located at 5301 Stevens Creek Boulevard, Building No. 5, Santa Clara, California.

Investor Information

Please see the full and audited financial statements and footnotes contained in this booklet. To receive paper copies of the annual report, proxy statement, Form 10-K, earnings announcements and other financial information, people in the United States and Canada should call our toll-free number: (877) 942-4200. In addition, you can access this financial information at Agilent's Investor Relations Web site. The address is <http://www.investor.agilent.com>. This information is also available by writing to the address provided under the Investor Contact heading below.

Corporate Governance, Business Conduct and Ethics

Agilent's Amended and Restated Corporate Governance Standards, the charters of our Audit and Finance Committee, our Compensation Committee, our Executive Committee and our Nominating/Corporate Governance Committee, as well as our Standards of Business Conduct (including code of ethics provisions that apply to our principal executive officer, principal financial officer, principal accounting officer and senior financial officers) are available on our website at www.investor.agilent.com under "Corporate Governance". These items are also available in print to any stockholder in the United States and Canada who requests them by calling (877) 942-4200. This information is also available by writing to the company at the address provided below.

Agilent Headquarters

Agilent Technologies, Inc.
5301 Stevens Creek Boulevard
Santa Clara, CA 95051
Phone: (408) 345-8886

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
250 Royall Street
Canton, MA 02021
United States

If calling from the United States or Canada: (877) 309-9856.

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

The e-mail address for general shareholder inquiries for Computershare is: www.computershare.com/contactus.

Investor Contact

Agilent Technologies, Inc.
Investor Relations Department
5301 Stevens Creek Boulevard
Santa Clara, CA 95051

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 “Information Request” under the “Investor Information” tab to send a message.

Common Stock

Our common stock is listed on the New York Stock Exchange with the ticker symbol “A”. The following table sets forth the high and low sale prices and the dividend declarations per quarter for the 2012 and 2013 fiscal years as reported in the consolidated transaction reporting system for the New York Stock Exchange:

Fiscal 2012	High	Low	Dividends
First Quarter (ended January 31, 2012)	\$ 44.85	\$ 32.51	\$0.10
Second Quarter (ended April 30, 2012)	\$ 46.28	\$ 39.15	N/A
Third Quarter (ended July 31, 2012)	\$ 43.27	\$ 35.32	\$0.10
Fourth Quarter (ended October 31, 2012)	\$ 40.97	\$ 35.38	\$0.10
Fiscal 2013	High	Low	Dividends
First Quarter (ended January 31, 2013)	\$ 45.55	\$ 35.45	\$0.22
Second Quarter (ended April 30, 2013)	\$ 45.66	\$ 40.19	N/A
Third Quarter (ended July 31, 2013)	\$ 47.47	\$ 41.24	\$0.12
Fourth Quarter (ended October 31, 2013)	\$ 53.47	\$ 45.32	\$0.12

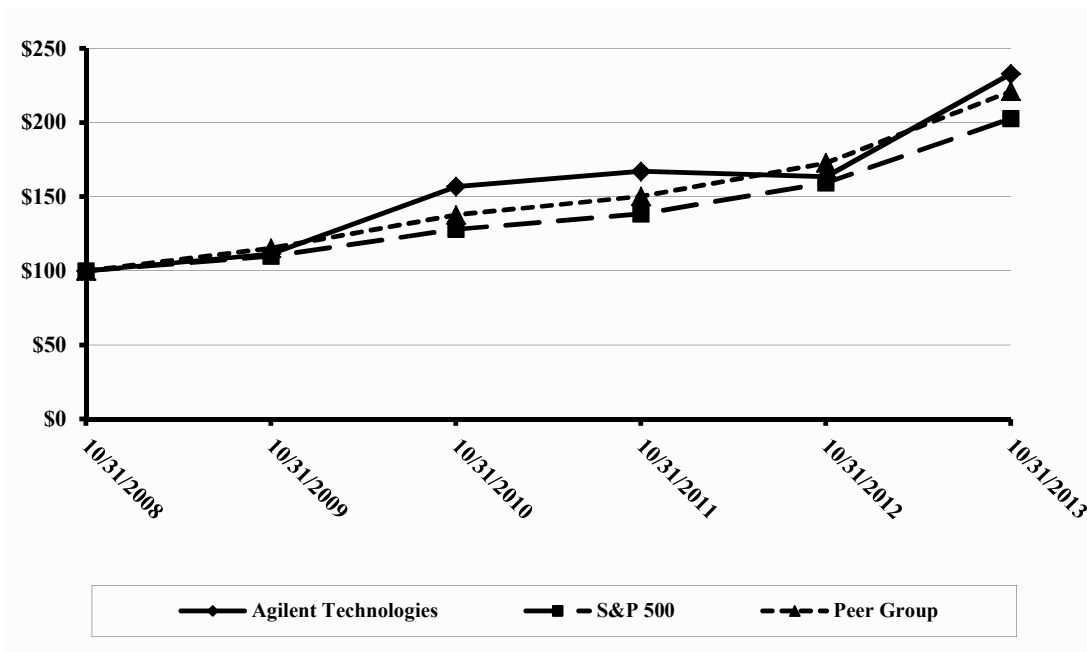
As of December 1, 2013, there were 30,054 common stockholders of record.

During fiscal 2013, we issued four quarterly dividends, one of \$0.10 per share and three of \$0.12 per share. All decisions regarding the declaration and payment of dividends are at the discretion of our Board of Directors and will be evaluated regularly in light of our financial condition, earnings, growth prospects, funding requirements, applicable law, and any other factors that our Board deems relevant. The information required by this item with respect to equity compensation plans is included under the caption *Equity Compensation Plans* in our proxy statement for the annual meeting of stockholders to be held March 19, 2014, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

STOCK PRICE PERFORMANCE GRAPH

The graph below shows the cumulative total stockholder return, assuming the investment of \$100 (and the reinvestment of any dividends thereafter) for the period beginning on October 31, 2008, and ending on October 31, 2013, on each of: Agilent's common stock; the S&P 500 Index; and our Peer Group which includes all companies in the S&P Information Technology Sector, the S&P Healthcare Sector, and the S&P Industrials Sector. A complete list of the companies in the Peer Group is provided below. Agilent's stock price performance shown in the following graph is not indicative of future stock price performance. The data for this performance graph was compiled for us by Standard and Poor's.

**Comparison of 5 Years (10/31/2008 to 10/31/2013) Cumulative Total Return
Among Agilent Technologies, the S&P 500 Index, and the Peer Group Index**



Peer Group

(Companies in the S&P Information Technology Sector, the S&P Healthcare Sector, and the S&P Industrials Sector)

3M Co	Autodesk Inc.
Abbott Laboratories	Automatic Data Processing Inc.
AbbVie Inc	Bard (C.R.) Inc
Accenture PLC	Baxter International Inc
Actavis Plc	Becton, Dickinson and Co
Adobe Systems Inc	Biogen Idec Inc
ADT Corp (The)	Boeing Co (The)
Aetna Inc.	Boston Scientific Corp
Agilent Technologies Inc	Bristol-Myers Squibb Co
Akamai Technologies Inc	Broadcom Corp
Alexion Pharmaceuticals Inc	C.H. Robinson Worldwide Inc.
Allergan Inc.	CA Inc
Altera Corp	Cardinal Health Inc
AmerisourceBergen Corp	CareFusion Corp
AMETEK Inc	Caterpillar Inc
Amgen Inc.	Celgene Corp
Amphenol Corp	Cerner Corp
Analog Devices Inc.	Cigna Corp
Apple Inc	Cintas Corp
Applied Materials Inc.	Cisco Systems Inc

Peer Group

(Companies in the S&P Information Technology Sector, the S&P Healthcare Sector, and the S&P Industrials Sector)

Citrix Systems Inc.	JDS Uniphase Corp
Cognizant Technology Solutions Corp	Johnson & Johnson
Computer Sciences Corp	Joy Global Inc
Corning Inc	Juniper Networks Inc
Covidien Plc	Kansas City Southern
CSX Corp	KLA-Tencor Corp
Cummins Inc.	L-3 Communications Holdings Inc
Danaher Corp	Laboratory Corporation of America Holdings
DaVita HealthCare Partners Inc	Lam Research Corp
Deere & Co	Life Technologies Corp
Delta Air Lines Inc.	Linear Technology Corp
DENTSPLY International Inc.	Lockheed Martin Corp
Dover Corp	LSI Corp
Dun & Bradstreet Corp (The)	Masco Corp
Eaton Corp Plc	MasterCard Inc
eBay Inc.	McKesson Corp
Edwards Lifesciences Corp	Medtronic Inc
Electronic Arts Inc.	Merck & Co Inc.
Eli Lilly and Co	Microchip Technology Inc
EMC Corp	Micron Technology Inc.
Emerson Electric Co.	Microsoft Corp
Equifax Inc.	Molex Inc.
Expeditors International of Washington Inc.	Motorola Solutions Inc
Express Scripts Holding Co	Mylan Inc
F5 Networks Inc	NetApp Inc
Fastenal Co	Nielsen Holdings NV
FedEx Corp.	Norfolk Southern Corp
Fidelity National Information Services Inc	Northrop Grumman Corp
First Solar Inc	NVIDIA Corp
Fiserv Inc.	Oracle Corp
FLIR Systems Inc	PACCAR Inc
Flowserve Corp.	Pall Corp
Fluor Corp.	Parker-Hannifin Corp
Forest Laboratories Inc	Patterson Companies Inc
General Dynamics Corp	Paychex Inc.
General Electric Co	Pentair Ltd
Gilead Sciences Inc	PerkinElmer Inc.
Google Inc	Perrigo Co
Grainger (W W) Inc.	Pfizer Inc
Harris Corp	Pitney Bowes Inc.
Hewlett-Packard Co	Precision Castparts Corp.
Honeywell International Inc.	QUALCOMM Inc.
Hospira Inc	Quanta Services Inc.
Humana Inc.	Quest Diagnostics Inc
Illinois Tool Works Inc.	Raytheon Co.
Ingersoll-Rand Plc	Red Hat Inc
Intel Corp	Regeneron Pharmaceuticals Inc
International Business Machines Corp	Republic Services Inc.
Intuit Inc.	Robert Half International Inc.
Intuitive Surgical Inc	Rockwell Automation Inc.
Iron Mountain Inc	Rockwell Collins Inc.
Jabil Circuit Inc	Roper Industries Inc.
Jacobs Engineering Group Inc.	Ryder System Inc

Peer Group

(Companies in the S&P Information Technology Sector, the S&P Healthcare Sector, and the S&P Industrials Sector)

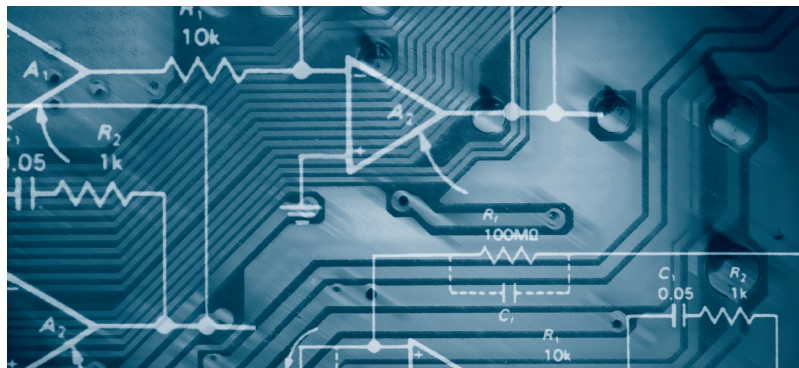
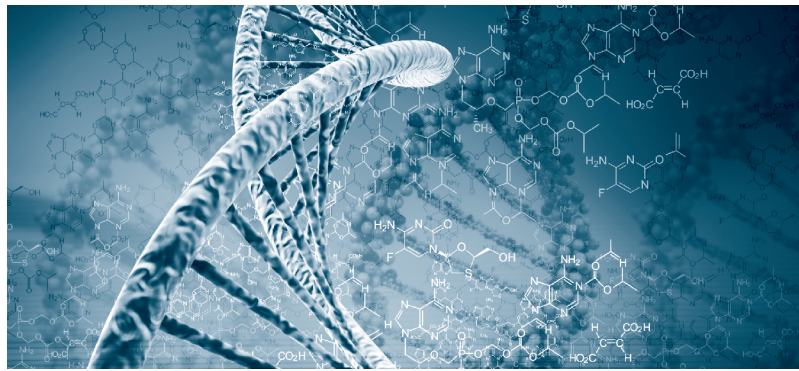
salesforce.com inc	Union Pacific Corp
SanDisk Corp	United Parcel Service Inc
Seagate Technology Plc	United Technologies Corp
Snap-On Inc	Unitedhealth Group Inc
Southwest Airlines Co.	Varian Medical Systems Inc
St. Jude Medical Inc.	Verisign Inc
Stanley Black & Decker Inc	Vertex Pharmaceuticals Inc
Stericycle Inc	Visa Inc
Stryker Corp	Waste Management Inc.
Symantec Corp	Waters Corp
TE Connectivity Ltd	WellPoint Inc
Tenet Healthcare Corp	Western Digital Corp
Teradata Corp	Western Union Co
Teradyne Inc.	Xerox Corp
Texas Instruments Inc	Xilinx Inc.
Textron Inc.	Xylem Inc
Thermo Fisher Scientific Inc	Yahoo Inc
Total System Services Inc.	Zimmer Holdings Inc
Tyco International Ltd	Zoetis Inc

Additional Information

This annual report, including the letter titled “To our shareholders,” contains forward-looking statements including, without limitation, statements regarding trends, seasonality, cyclicalities and growth in, and drivers of, the markets we sell into, our strategic direction, our future effective tax rate and tax valuation allowance, earnings from our foreign subsidiaries, remediation activities, new product and service introductions, the ability of our products to meet market needs, changes to our manufacturing processes, the use of contract manufacturers, the impact of local government regulations on our ability to pay vendors or conduct operations, our liquidity position, our ability to generate cash from operations, growth in our businesses, our investments, the potential impact of adopting new accounting pronouncements, our financial results, our purchase commitments, our contributions to our pension plans, the selection of discount rates and recognition of any gains or losses for our benefit plans, our cost-control activities, savings and headcount reduction recognized from our restructuring programs and other cost saving initiatives, uncertainties relating to Food and Drug Administration (“FDA”) and other regulatory approvals, the integration of our acquisitions and other transactions, the separation of the electronic measurement business, our stock repurchase program, our declared dividends, our transition to lower-cost regions, and the existence of economic instability, that involve risks and uncertainties. Our actual results could differ materially from the results contemplated by these forward-looking statements due to various factors, including those detailed in Agilent’s filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended October 31, 2013.

The materials contained in this annual report are as of December 19, 2013, 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 report. The information on page 7 regarding our senior executives, officers and directors is current as of February 5, 2014.

This annual report contains Agilent’s 2013 audited financial statements and notes thereto in the following section of this booklet with the tab “Annual Report Financials.” Within the Annual Report Financials, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risks, Uncertainties and Other Factors That May Affect Future Results” for more complete information on each of our businesses and Agilent as a whole.



AGILENT TECHNOLOGIES, INC. 2013 ANNUAL REPORT

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SELECTED FINANCIAL DATA
(Unaudited)

Years Ended October 31,

	2013	2012	2011	2010	2009
	(in millions, except per share data)				
Consolidated Statement of Operations Data:		(2)		(1)	
Net revenue	\$ 6,782	\$ 6,858	\$ 6,615	\$ 5,444	\$ 4,481
Income before taxes	\$ 859	\$ 1,043	\$ 1,032	\$ 692	\$ 7
Net income (loss)	\$ 724	\$ 1,153	\$ 1,012	\$ 684	\$ (31)
Net income (loss) per share — Basic:	\$ 2.12	\$ 3.31	\$ 2.92	\$ 1.97	\$ (0.09)
Net income (loss) per share — Diluted:	\$ 2.10	\$ 3.27	\$ 2.85	\$ 1.94	\$ (0.09)
Weighted average shares used in computing basic net income (loss) per share	341	348	347	347	346
Weighted average shares used in computing diluted net income (loss) per share	345	353	355	353	346
Cash dividends declared per common share	\$ 0.46	\$ 0.30	—	—	—

October 31,

	2013	2012	2011	2010	2009
	(in millions)				
Consolidated Balance Sheet Data:		(2)		(1)	
Cash and cash equivalents and short-term investments	\$ 2,675	\$ 2,351	\$ 3,527	\$ 2,649	\$ 2,493
Working capital	\$ 3,381	\$ 2,736	\$ 3,732	\$ 3,086	\$ 2,838
Long-term restricted cash and cash equivalents	\$ —	\$ —	\$ —	\$ —	\$ 1,566
Total assets	\$ 10,686	\$ 10,536	\$ 9,057	\$ 9,696	\$ 7,612
Long-term debt	\$ 2,699	\$ 2,112	\$ 1,932	\$ 2,190	\$ 2,904
Stockholders' equity	\$ 5,286	\$ 5,182	\$ 4,308	\$ 3,228	\$ 2,506

(1) Consolidated financial data includes Varian, acquired on May 14, 2010.

(2) Consolidated financial data includes Dako, acquired on June 21, 2012 and a non-recurring tax benefit relating to the reversal of U.S. valuation allowance of \$280 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this annual report. This report contains forward-looking statements including, without limitation, statements regarding trends, seasonality, cyclicity and growth in, and drivers of, the markets we sell into, our strategic direction, our future effective tax rate and tax valuation allowance, earnings from our foreign subsidiaries, remediation activities, new product and service introductions, the ability of our products to meet market needs, changes to our manufacturing processes, the use of contract manufacturers, the impact of local government regulations on our ability to pay vendors or conduct operations, our liquidity position, our ability to generate cash from operations, growth in our businesses, our investments, the potential impact of adopting new accounting pronouncements, our financial results, our purchase commitments, our contributions to our pension plans, the selection of discount rates and recognition of any gains or losses for our benefit plans, our cost-control activities, savings and headcount reduction recognized from our restructuring programs and other cost saving initiatives, uncertainties relating to Food and Drug Administration ("FDA") and other regulatory approvals, the integration of our acquisitions and other transactions, the separation of the electronic measurement business, our stock repurchase program, our declared dividends, our transition to lower-cost regions, and the existence of economic instability, that involve risks and uncertainties. Our actual results could differ materially from the results contemplated by these forward-looking statements due to various factors, including those discussed in this annual report.

Overview and Executive Summary

Agilent Technologies, Inc. ("we", "Agilent" or the "company"), incorporated in Delaware in May 1999, is the world's premier measurement company providing core bio-analytical and electronic measurement solutions to the life sciences, diagnostics and genomics, chemical analysis, communications and electronics industries. Our fiscal year end is October 31. Unless otherwise stated, all years and dates refer to our fiscal year.

On September 19, 2013, Agilent announced plans to separate into two publicly traded companies, one comprising of the life sciences, diagnostics and chemical analysis businesses that will retain the Agilent name and the other that will be comprised of the electronic measurement business ("EM"). The separation is expected to occur through a tax-free pro rata spin off of the EM company to Agilent shareholders and is expected to be completed early in November 2014. We expect to incur pre-separation expenses of \$100 million in fiscal 2014.

In addition to the announcement to separate into two companies, we formed a new operating segment in the fourth fiscal quarter of 2013. The new life sciences and diagnostics segment was formed by the combination of the life sciences business plus the diagnostics and genomics business. Following this reorganization, Agilent has three business segments comprised of the life sciences and diagnostics business, the chemical analysis business and the electronic measurement business. The historical segment financial information for the life sciences and diagnostics segment has been recast to conform to this new reporting structure in our financial statements.

On June 21, 2012, we completed our acquisition of Dako A/S through the acquisition of 100% of the share capital of Dako A/S, a limited liability company incorporated under the laws of Denmark ("Dako"), under the share purchase agreement, dated May 16, 2012. Dako provides antibodies, reagents, scientific instruments and software primarily to customers in pathology laboratories. As a result of the acquisition, Dako became a wholly-owned subsidiary of Agilent. The consideration paid was approximately \$2,143 million, of which \$1,400 million was paid directly to the seller and \$743 million was paid to satisfy the outstanding debt of Dako. Agilent funded the acquisition using existing cash. The acquisition has been accounted for in accordance with the authoritative accounting guidance and the results of Dako are included in Agilent's consolidated financial statements from the date of acquisition. The acquisition of Dako and its portfolio is another step to increase our growth in several rapidly expanding areas of diagnostics, including anatomic pathology and molecular diagnostics, as well as strengthen our existing offerings with a focus on product development to help in the fight against cancer. For additional details related to the acquisition of Dako, see Note 3, "Acquisitions".

Agilent's total orders in 2013 were \$6,827 million, a decrease of 1 percent when compared to 2012. Foreign currency movements had an unfavorable impact of approximately 2 percentage points for the year ended

October 31, 2013 when compared to 2012. The increase in orders associated with the Dako acquisition accounted for approximately 3 percentage points of total order growth for the year ended October 31, 2013 when compared to 2012. Within our life sciences and diagnostics business orders increased 16 percent in 2013 compared to 2012 with 13 percentage points of order increase attributable to the Dako acquisition. Chemical analysis orders increased 2 percent in 2013 when compared to 2012 and electronic measurement businesses orders decreased 13 percent when compared to 2012. Agilent's total orders in 2012 increased 2 percent when compared to 2011. The increase in orders associated with the Dako acquisition accounted for 2 percentage points of order growth for the year ended October 31, 2012 when compared to 2011.

Agilent's net revenue of \$6,782 million decreased 1 percent when compared to 2012. Foreign currency movements for 2013 had an unfavorable impact of approximately 1 percentage point compared to 2012. Revenue associated with the Dako acquisition accounted for approximately 4 percentage points of the revenue growth for the year ended October 31, 2013 when compared to 2012. Within our life sciences and diagnostics business revenue increased 16 percent in 2013 compared to 2012 with 13 percentage points of revenue increase attributable to the Dako acquisition. Excluding the effects of the Dako acquisition, there was growth in demand for life sciences and diagnostics products and services led by pharmaceutical and biotechnology and clinical markets. There was a decrease in demand from the academic and government market for the year ended October 31, 2013, when compared to the prior year. Within our chemical analysis business revenue grew 2 percent in 2013 compared with the prior year. There were modest increases in revenue from the food safety and petrochemical markets, but environmental and forensics markets were down when compared to the prior year. Within electronic measurement, total revenue decreased when compared to the prior year by 13 percent. General purpose markets decreased with aerospace and defense flat and computer and semi-conductor markets down when compared to 2012. Also within electronic measurement, the communications test business decreased for the year ended October 31, 2013 when compared to the prior year with wireless R&D down moderately but wireless manufacturing showing a significant shortfall compared to the prior year mostly driven by the loss of business from a large customer with whom we could not agree on contractual terms. Agilent's total net revenue in 2012 increased 4 percent when compared to 2011. The revenue increase associated with the Dako acquisition accounted for approximately 2 percentage points of revenue increase for the year ended October 31, 2012 when compared to 2011. Foreign currency movements for 2012 had an unfavorable impact of approximately 1 percentage point compared to 2011.

Net income was \$724 million in 2013 compared to net income of \$1,153 million and \$1,012 million in 2012 and 2011, respectively. In 2013, 2012 and 2011 we generated operating cash flows of \$1,152 million, \$1,228 million and \$1,260 million, respectively. As of October 31, 2013 and 2012 we had cash and cash equivalents balances of \$2,675 million and \$2,351 million, respectively.

Looking forward, in the near term we are in a slow-growth environment within electronic measurement which remains challenging. There are indications that our electronic measurement business will return to a growth position next year. We expect positive trends to continue in our other businesses.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimate that are reasonably likely to occur could materially change the financial statements. Our critical accounting policies are those that affect our financial statements materially and involve difficult, subjective or complex judgments by management. Those policies are revenue recognition, inventory valuation, share-based compensation, retirement and post-retirement plan assumptions, valuation of goodwill and purchased intangible assets, restructuring and accounting for income taxes.

Revenue recognition. We enter into agreements to sell products (hardware or software), services, and other arrangements (multiple element arrangements) that include combinations of products and services. Revenue from product sales, net of trade discounts and allowances, is recognized provided that persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured. Delivery is considered to have occurred when title and risk of loss have transferred to the customer. Revenue is reduced for estimated product returns, when appropriate. For sales that include customer-specified acceptance criteria, revenue is recognized after the acceptance criteria have been met. For products that include installation, if the installation meets the criteria to be considered a separate element, product revenue is recognized upon delivery, and recognition of installation revenue occurs when the installation is complete. Otherwise, neither the product nor the installation revenue is recognized until the installation is complete. Revenue from services is deferred and recognized over the contractual period or as services are rendered and accepted by the customer. We allocate revenue to each element in our multiple-element arrangements based upon their relative selling prices. We determine the selling price for each deliverable based on a selling price hierarchy. The selling price for a deliverable is based on our vendor specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. Revenue from the sale of software products that are not required to deliver the tangible product's essential functionality are accounted for under software revenue recognition rules. Revenue allocated to each element is then recognized when the basic revenue recognition criteria for that element have been met. The amount of product revenue recognized is affected by our judgments as to whether an arrangement includes multiple elements.

We use VSOE of selling price in the selling price allocation in all instances where it exists. VSOE of selling price for products and services is determined when a substantial majority of the selling prices fall within a reasonable range when sold separately. TPE of selling price can be established by evaluating largely interchangeable competitor products or services in standalone sales to similarly situated customers. As our products contain a significant element of proprietary technology and the solution offered differs substantially from that of competitors, it is difficult to obtain the reliable standalone competitive pricing necessary to establish TPE. ESP represents the best estimate of the price at which we would transact a sale if the product or service were sold on a standalone basis. We determine ESP for a product or service by using historical selling prices which reflect multiple factors including, but not limited to customer type, geography, market conditions, competitive landscape, gross margin objectives and pricing practices. The determination of ESP is made through consultation with and approval by management. We may modify or develop new pricing practices and strategies in the future. As these pricing strategies evolve changes may occur in ESP. The aforementioned factors may result in a different allocation of revenue to the deliverables in multiple element arrangements, which may change the pattern and timing of revenue recognition for these elements but will not change the total revenue recognized for the arrangement.

Inventory valuation. We assess the valuation of our inventory on a periodic basis and make adjustments to the value for estimated excess and obsolete inventory based upon estimates about future demand and actual usage. Such estimates are difficult to make under most economic conditions. The excess balance determined by this analysis becomes the basis for our excess inventory charge. Our excess inventory review process includes analysis of sales forecasts, managing product rollovers and working with manufacturing to maximize recovery of excess inventory. If actual market conditions are less favorable than those projected by management, additional write-downs may be required. If actual market conditions are more favorable than anticipated, inventory previously written down may be sold to customers, resulting in lower cost of sales and higher income from operations than expected in that period.

Share-based compensation. We account for share-based awards in accordance with the authoritative guidance. Under the authoritative guidance, share-based compensation expense is primarily based on estimated grant date fair value and is recognized on a straight line basis. The fair value of share-based awards for employee stock option awards was estimated using the Black-Scholes option pricing model. Shares granted under the Long-Term Performance Program ("LTTP") were valued using the Monte Carlo simulation model. The estimated fair value of restricted stock unit awards is determined based on the market price of Agilent's common stock on the date of grant adjusted for expected dividend yield. On January 17, 2012, the company's Board of Directors approved the initiation of quarterly cash dividends to the company's shareholders. The fair value of all the awards granted prior to the declaration of quarterly cash dividend was measured based on an expected dividend

yield of 0%. The Employee Stock Purchase Plan ("ESPP") allows eligible employees to purchase shares of our common stock at 85 percent of the fair market value at the purchase date.

Both the Black-Scholes and Monte Carlo simulation fair value models require the use of highly subjective and complex assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility assumption was determined using the historical volatility of Agilent's stock option over the most recent historical period equivalent to the expected life. A 10 percent increase in our estimated volatility from 39 percent to 49 percent for our most recent employee stock option grant would generally increase the value of an award and the associated compensation cost by approximately 23 percent if no other factors were changed.

For the grants awarded under the 2009 stock plan after November 1, 2010, we increased the period available to retirement eligible employees to exercise their options from three years at retirement date to the full contractual term of ten years. In developing our estimated life of our employee stock options of 5.8 years for 2011 to 2013, we considered the historical option exercise behavior of our executive employees who were granted the majority of the options in the annual grants, which we believe is representative of future behavior. See Note 4, "Share-based Compensation," to the consolidated financial statements for more information.

The assumptions used in calculating the fair value of share-based awards represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. Although we believe the assumptions and estimates we have made are reasonable and appropriate, changes in assumptions could materially impact our reported financial results.

Retirement and post-retirement benefit plan assumptions. Retirement and post-retirement benefit plan costs are a significant cost of doing business. They represent obligations that will ultimately be settled sometime in the future and therefore are subject to estimation. Pension accounting is intended to reflect the recognition of future benefit costs over the employees' average expected future service to Agilent based on the terms of the plans and investment and funding decisions. To estimate the impact of these future payments and our decisions concerning funding of these obligations, we are required to make assumptions using actuarial concepts within the framework of accounting principles generally accepted in the U.S. Two critical assumptions are the discount rate and the expected long-term return on plan assets. Other important assumptions include, expected future salary increases, expected future increases to benefit payments, expected retirement dates, employee turnover, retiree mortality rates, and portfolio composition. We evaluate these assumptions at least annually.

The discount rate is used to determine the present value of future benefit payments at the measurement date - October 31 for both U.S. and non-U.S. plans. For 2013 and 2012, the U.S. discount rates were based on the results of matching expected plan benefit payments with cash flows from a hypothetically constructed bond portfolio and increased in 2013 from the previous year. For 2013 and 2012, the discount rate for non-U.S. plans was generally based on published rates for high quality corporate bonds and remained largely unchanged. If we changed our discount rate by 1 percent, the impact would be \$8 million on U.S. pension expense and \$23 million on non-U.S. pension expense. Lower discount rates increase present values and subsequent year pension expense; higher discount rates decrease present values and subsequent year pension expense.

The company uses alternate methods of amortization as allowed by the authoritative guidance which amortizes the actuarial gains and losses on a consistent basis for the years presented. For U.S. Plans, gains and losses are amortized over the average future working lifetime. For most Non-U.S. Plans and U.S. Post-Retirement Benefit Plans, gains and losses are amortized using a separate layer for each year's gains and losses. The expected long-term return on plan assets is estimated using current and expected asset allocations as well as historical and expected returns. Plan assets are valued at fair value. If we changed our estimated return on assets by 1 percent, the impact would be \$8 million on U.S. pension expense and \$17 million on non-U.S. pension expense. For 2013, actual return on assets was above expectations which, along with contributions during the year, reduced next year's pension cost as well as improved the funded status at year end. The net periodic pension and post-retirement benefit costs recorded in operations excluding curtailments and settlements were \$58 million in 2013, \$52 million in 2012, and \$58 million in 2011.

Goodwill and purchased intangible assets. Agilent reviews goodwill for impairment annually during our fourth fiscal quarter and whenever events or changes in circumstances indicate the carrying value may not be

recoverable. As defined in the authoritative guidance, a reporting unit is an operating segment, or one level below an operating segment. We aggregated components of an operating segment that have similar economic characteristics into our reporting units. At the time of an acquisition, we assign goodwill to the reporting unit that is expected to benefit from the synergies of the combination. In the fourth quarter of 2013, we combined the life sciences and diagnostics and genomics segments to form the life sciences and diagnostics segment. As a result, Agilent now has three segments, life sciences and diagnostics, chemical analysis, and electronic measurement segments.

In September 2011, the FASB approved changes to the goodwill impairment guidance which are intended to reduce the cost and complexity of the annual impairment test. The changes provide entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The revised standard gives an entity the option to first assess qualitative factors to determine whether performing the current two-step test is necessary. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not (i.e. > 50% chance) that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test will be required. Otherwise, no further testing will be required.

The revised guidance includes examples of events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount. These include macro-economic conditions such as deterioration in the entity's operating environment or industry or market considerations; entity-specific events such as increasing costs, declining financial performance, or loss of key personnel; or other events such as an expectation that a reporting unit will be sold or a sustained decrease in the stock price on either an absolute basis or relative to peers.

The qualitative indicators replace those previously used to determine whether an interim goodwill impairment test is required. Agilent opted to early adopt this guidance for the year ended October 31, 2011.

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the provisions of authoritative guidance require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. The second step (if necessary) measures the amount of impairment by applying fair-value-based tests to the individual assets and liabilities within each reporting unit.

In fiscal year 2013, we assessed goodwill impairment for our four reporting units which consisted of two segments: chemical analysis and electronic measurement; and two reporting units under the life sciences and diagnostics segment. The first of these two reporting units related to our life sciences business and the second related to our diagnostics business. We performed a qualitative test for goodwill impairment of the following three reporting units, as of September 30, 2013: the chemical analysis segment, the electronic measurement segment, and the reporting unit relating to life sciences. Based on the results of our qualitative testing, we believe that it is more-likely-than-not that the fair value of these reporting units are greater than their respective carrying values. We performed a quantitative test for goodwill impairment of the reporting unit related to our diagnostics business as of September 30, 2013. Based on the results of our quantitative testing, the fair value was significantly in excess of the carrying value. There was no impairment of goodwill during the years ended October 31, 2013, 2012 and 2011. Each quarter we review the events and circumstances to determine if goodwill impairment is indicated.

Purchased intangible assets consist primarily of acquired developed technologies, proprietary know-how, trademarks, and customer relationships and are amortized using the straight-line method over estimated useful lives ranging from 6 months to 15 years. In-process research and development (IPR&D) is initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When the IPR&D project is complete, it is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. If an IPR&D project is abandoned, Agilent will record a charge for the value of the related intangible asset to Agilent's consolidated statement of operations in the period it is abandoned.

In July 2012, the FASB simplified the guidance for testing for impairment of indefinite-lived intangible assets other than goodwill. The changes are intended to reduce compliance costs. Agilent's indefinite-lived intangible assets are IPR&D intangible assets. The revised guidance allows a qualitative approach for testing indefinite-lived intangible assets for impairment, similar to the impairment testing guidance for goodwill. It

allows the option to first assess qualitative factors (events and circumstances) that could affect the significant inputs used in determining the fair value of the indefinite-lived intangible asset. The qualitative factors assist in determining whether it is more likely than not (meaning a likelihood of more than 50 percent) that the indefinite-lived intangible asset is impaired. An organization may choose to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to calculating its fair value. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption was permitted. Agilent adopted this guidance for the year ended October 31, 2012. Based on the quantitative test, we recorded an impairment of \$1 million in 2013 and an impairment of \$1 million in 2012, both relating to IPR&D projects that were abandoned. In all other instances we used the qualitative test and concluded that it was more likely than not that all other indefinite-lived intangible assets were not impaired. No impairments were recorded in 2011.

We continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets, including purchased intangible assets, may not be recoverable. When such events or changes in circumstances occur, we assess 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 undiscounted future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. In 2013, we recorded \$1 million of impairments of other intangibles related to cancellation of an in-process research and development project. We also recorded \$3 million of impairments related to other long-lived assets in 2013. In 2012, we recorded \$1 million of impairments of other intangibles related to the cancellation of an in-process research and development project. We also recorded \$1 of impairments related to other long-lived assets in 2012. We performed impairment analyses of purchased intangible assets in 2011 and recorded \$3 million of impairment charges primarily related to a business where we ceased operations. We also recorded \$8 million of impairments related to other long-lived assets in 2011.

Restructuring. The main component of our restructuring plan is related to workforce reductions. Workforce reduction charges are accrued when payment of benefits becomes probable that the employees are entitled to the severance and the amounts can be estimated. If the amounts and timing of cash flows from restructuring activities are significantly different from what we have estimated, the actual amount of restructuring and other related charges could be materially different, either higher or lower, than those we have recorded.

Accounting for income taxes. We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits and deductions, and in the calculation of certain tax assets and liabilities which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as interest and penalties related to uncertain tax positions. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

Significant management judgment is also required in determining whether deferred tax assets will be realized in full or in part. When it is more-likely-than-not that all or some portion of specific deferred tax assets such as net operating losses or foreign tax credit carryforwards will not be realized, a valuation allowance must be established for the amount of the deferred tax assets that cannot be realized. We consider all available positive and negative evidence on a jurisdiction-by-jurisdiction basis when assessing whether it is more likely than not that deferred tax assets are recoverable. We consider evidence such as our past operating results, the existence of losses in recent years and our forecast of future taxable income. In the fourth quarter of fiscal 2012 we released the valuation allowance for the majority of our U.S. deferred tax assets. At October 31, 2013, we continue to recognize a valuation allowance for certain U.S. state and foreign deferred tax assets. We intend to maintain a valuation allowance in these jurisdictions until sufficient positive evidence exists to support its reversal.

We have not provided for all U.S. federal income and foreign withholding taxes on the undistributed earnings of some of our foreign subsidiaries because we intend to reinvest such earnings indefinitely. Should we decide to remit this income to the U.S. in a future period, our provision for income taxes will increase materially in that period.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax

law and regulations in a multitude of jurisdictions. Although the guidance on the accounting for uncertainty in income taxes prescribes the use of a recognition and measurement model, the determination of whether an uncertain tax position has met those thresholds will continue to require significant judgment by management. In accordance with the guidance on the accounting for uncertainty in income taxes, for all U.S. and other tax jurisdictions, we recognize potential liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes and interest will be due. The ultimate resolution of tax uncertainties may differ from what is currently estimated, which could result in a material impact on income tax expense. If our estimate of income tax liabilities proves to be less than the ultimate assessment, a further charge to expense would be required. If events occur and the payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. We include interest and penalties related to unrecognized tax benefits within the provision for income taxes on the consolidated statements of operations.

As a part of our accounting for business combinations, intangible assets are recognized at fair values and goodwill is measured as the excess of consideration transferred over the net estimated fair values of assets acquired. Impairment charges associated with goodwill are generally not tax deductible and will result in an increased effective income tax rate in the period that any impairment is recorded. Amortization expenses associated with acquired intangible assets are generally not tax deductible and therefore deferred tax liabilities have been recorded for non-deductible amortization expenses as a part of the accounting for business combinations.

Adoption of New Pronouncements

See Note 2, "New Accounting Pronouncements," to the consolidated financial statements for a description of new accounting pronouncements.

Restructuring

In the second quarter of 2013, we accrued for a targeted restructuring program that is expected to reduce Agilent's total headcount by approximately 450 regular employees, representing approximately 2 percent of our global workforce. The timing and scope of workforce reductions will vary based on local legal requirements. When completed, the restructuring program is expected to result in an approximately \$50 million reduction in annual cost of sales and operating expenses. In addition we have been streamlining our manufacturing operations. As part of this action, we anticipate the reduction of approximately 250 positions to reduce our annual cost of sales.

For the year ended October 31, 2013 we accrued \$53 million associated with the headcount reductions. Within the U.S, we have substantially completed these restructuring activities. Internationally, we expect to complete the majority of these restructuring activities by the end of the second half of fiscal 2014. As of October 31, 2013, approximately 250 employees were terminated and \$29 million was paid under the targeted restructuring program and 100 employees were terminated under the streamlining of manufacturing.

Foreign Currency

Our revenues, costs and expenses, and monetary assets and liabilities are exposed to changes in foreign currency exchange rates as a result of our global operating and financing activities. We hedge revenues, expenses and balance sheet exposures that are not denominated in the functional currencies of our subsidiaries on a short term and anticipated basis. We do experience some fluctuations within individual lines of the consolidated statement of operations and balance sheet because our hedging program is not designed to offset the currency movements in each category of revenues, expenses, monetary assets and liabilities. Our hedging program is designed to hedge currency movements on a relatively short-term basis (up to a rolling twelve month period). Therefore, we are exposed to currency fluctuations over the longer term. To the extent that we are required to pay for all, or portions, of an acquisition price in foreign currencies, Agilent may enter into foreign exchange contracts to reduce the risk that currency movements will impact the U.S. dollar cost of the transaction.

Results from Operations

Orders and Net Revenue

	Years Ended October 31,			2013 over 2012 % Change	2012 over 2011 % Change
	2013	2012	2011		
		(in millions)			
Orders	\$ 6,827	\$ 6,877	\$ 6,769	(1)%	2%
Net revenue:					
Products	\$ 5,534	\$ 5,659	\$ 5,482	(2)%	3%
Services and other	\$ 1,248	\$ 1,199	\$ 1,133	4%	6%
Total net revenue	\$ 6,782	\$ 6,858	\$ 6,615	(1)%	4%

	Years Ended October 31,			2013 over 2012 Ppts Change	2012 over 2011 Ppts Change
	2013	2012	2011		
% of total net revenue:					
Products	82%	83%	83%	(1) ppt	—
Services and other	18%	17%	17%	1 ppt	—
Total	100%	100%	100%		

In general, recorded orders represent firm purchase commitments from our customers with established terms and conditions for products and services that will be delivered within six months. Agilent's total orders in 2013 were \$6,827 million, a decrease of 1 percent when compared to 2012. Foreign currency movements had an unfavorable impact of approximately 2 percentage points for the year ended October 31, 2013 when compared to 2012. The increase in orders associated with the Dako acquisition accounted for approximately 3 percentage points of total order growth for the year ended October 31, 2013 when compared to 2012. Within our life sciences and diagnostics business orders increased 16 percent in 2013 compared to 2012 with 13 percentage points of order increase attributable to the Dako acquisition. Chemical analysis orders increased 2 percent in 2013 when compared to 2012 and electronic measurement businesses orders decreased 13 percent when compared to 2012. Agilent's total orders in 2012 increased 2 percent when compared to 2011. The increase in orders associated with the Dako acquisition accounted for 2 percentage points of order growth for the year ended October 31, 2012 when compared to 2011. Within our life sciences and diagnostics business orders increased due to the Dako acquisition and were flat in chemical analysis and electronic measurement when compared to 2011.

Agilent's net revenue of \$6,782 million decreased 1 percent when compared to 2012. Foreign currency movements for 2013 had an unfavorable impact of approximately 1 percentage point compared to 2012. Revenue associated with the Dako acquisition accounted for approximately 4 percentage points of the revenue growth for the year ended October 31, 2013 when compared to 2012. Within our life sciences and diagnostics business revenue increased 16 percent in 2013 compared to 2012 with 13 percentage points of revenue increase attributable to the Dako acquisition. Excluding the effects of the Dako acquisition, there was growth in demand for life sciences and diagnostics products and services led by pharmaceutical and biotechnology and clinical markets. There was a decrease in demand from the academic and government market for the year ended October 31, 2013, when compared to the prior year. Within our chemical analysis business revenue grew 2 percent in 2013 compared with the prior year. There were modest increases in revenue from the food safety and petrochemical markets, but environmental and forensics markets were down when compared to the prior year. Within electronic measurement, total revenue decreased when compared to the prior year by 13 percent. General purposes markets decreased with aerospace and defense flat and computer and semi-conductor markets down when compared to 2012. Also within electronic measurement, the communications test business decreased for the year ended October 31, 2013 when compared to the prior year with wireless R&D down moderately but wireless manufacturing showing a significant shortfall compared to the prior year mostly driven by the loss of business from a large customer with whom we could not agree on contractual terms. Agilent's total net revenue in 2012 increased 4 percent when compared to 2011. The revenue increase associated with the Dako acquisition accounted for approximately 2 percentage points of revenue increase for the year ended October 31, 2012 when

compared to 2011. Foreign currency movements for 2012 had an unfavorable impact of approximately 1 percentage point compared to 2011. Note 21, "Segment Information" shows a reconciliation between segment revenue and net revenue.

Services and other revenue include revenue generated from servicing our installed base of products, warranty extensions and consulting. Services and other revenue increased 4 percent in 2013 as compared to 2012. The service and other revenue growth is higher than product revenue growth due to a portion of the revenue being driven more by the previously installed base than current period product sales. Services and other revenue increased 6 percent in 2012 as compared to 2011.

Backlog

Backlog represents the amount of revenue expected from orders that have already been booked, including orders for goods and services that have not been delivered to customers, orders invoiced but not yet recognized as revenue, and orders for goods that were shipped but not invoiced, awaiting acceptance by customers.

On October 31, 2013, our unfilled backlog for the electronic measurement business was approximately \$760 million, as compared to approximately \$800 million at October 31, 2012. On October 31, 2013, our unfilled backlog for the chemical analysis business was approximately \$380 million, as compared to approximately \$360 million at October 31, 2012. Within our life sciences and diagnostics business, our unfilled backlog was approximately \$520 million on October 31, 2013 as compared to approximately \$530 million at October 31, 2012. We expect that a majority of the unfilled backlog for all three businesses will be delivered to customers within six months. On average, our unfilled backlog represents approximately three months' worth of revenues. We believe backlog on any particular date, while indicative of short-term revenue performance, is not necessarily a reliable indicator of medium or long-term revenue performance.

Costs and Expenses

	Years Ended October 31,			2013 over 2012 Change	2012 over 2011 Change
	2013	2012	2011		
Gross margin on products	53.5%	53.9%	54.9%	—	(1) ppt
Gross margin on services and other	46.2%	46.1%	45.9%	—	—
Total gross margin	52.1%	52.6%	53.3%	—	(1) ppt
Operating margin	14.0%	16.3%	16.2%	(2) ppts	—
(in millions)					
Research and development	\$ 704	\$ 668	\$ 649	5%	3%
Selling, general and administrative	\$ 1,880	\$ 1,817	\$ 1,809	3%	—%

In 2013, total gross margin was flat in comparison to 2012. Increased costs, in particular, intangible amortization from the acquisition of Dako, restructuring expenses and inventory charges were offset by a decrease in variable and incentive pay. In 2012, total gross margin decreased 1 percentage point in comparison to 2011. The unfavorable impact of product mix, increased intangible amortization related to the Dako acquisition were offset by lower variable and incentive pay. Operating margins in 2013 decreased 2 percentage points compared to 2012 as a result of increased operating expenses associated with the Dako acquisition, including increased intangible asset amortization, restructuring costs, higher wages and increased inventory charges offset by lower variable and incentive pay. Operating margins in 2012 were flat when compared to 2011. This was the result of maintaining cost control through a decrease in variable and incentive pay while absorbing increases in expenditure from Dako and wage increases.

Gross inventory charges were \$48 million in 2013 and \$30 million in 2012 and 2011. Sales of previously written down inventory were \$7 million in 2013 and \$5 million in 2012 and 2011.

Our research and development efforts focus on potential new products and product improvements covering a wide variety of technologies, none of which is individually significant to our operations. We conduct

five types of research and development: basic research, foundation technologies, communications, life sciences and measurement. Our research seeks to improve on various technical competencies in electronics, software, systems and solutions, life sciences and photonics. In each of these research fields, we conduct research that is focused on specific product development for release in the short-term as well as other research that is intended to be the foundation for future products over a longer time-horizon. Some of our product development research is designed to improve on the more than 20,000 products already in production, focus on major new product releases, and develop new product segments for the future. Due to the breadth of research and development projects across all of our businesses, there are a number of drivers of this expense. We remain committed to invest significantly in research and development and have focused our development efforts on key strategic opportunities to align our business with available markets and position ourselves to capture market share.

Research and development expenditures increased 5 percent in 2013 compared to 2012. Increased expenditure was due to our continued investment in new product development and technologies, increased costs due to Dako, restructuring costs and wage increases, partially offset by lower variable and incentive pay. Research and development expenditures increased 3 percent in 2012 compared to 2011. Increased expenditure was due to increased costs due to Dako offset by lower variable and incentive pay. We remain committed to invest approximately 10 percent of revenues in research and development and have focused our development efforts on key strategic opportunities in order to align our business with available markets and position ourselves to capture market share.

Selling, general and administrative expenses increased 3 percent in 2013 compared to 2012. Increases were due to the acquisition of Dako, including amortization of intangible assets, wage increases and investments in sales channel coverage in emerging geographies and restructuring costs offset by decreases in variable and incentive pay. Selling, general and administrative expenses were flat in 2012 when compared to 2011. Increases were due to the acquisition of Dako, wage increases and investments in sales channel coverage offset by decreases in variable and incentive pay and lower commissions.

Interest expense for the years ended October 31, 2013, 2012 and 2011 was \$107 million, \$101 million and \$86 million, respectively, and relates to the interest charged on our senior notes offset by the amortization of deferred gains recorded upon termination of interest rate swap contracts.

At October 31, 2013, our headcount was approximately 20,600 compared to 20,500 in 2012 and 18,700 in 2011. A significant proportion of the increase in headcount in 2012 compared with 2011 was due to the Dako acquisition.

Income Taxes

	Years Ended October 31,		
	2013	2012	2011
		(in millions)	
Provision (benefit) for income taxes	\$ 135	\$ (110)	\$ 20

For 2013, the effective tax rate was 16 percent. The 16 percent effective tax rate is lower than the U.S. statutory rate primarily due to the mix of earnings in non-U.S. jurisdictions taxed at lower statutory rates; in particular Singapore where we enjoy tax holidays. The effective tax rate also included a \$12 million out-of-period adjustment to increase tax expense, recognized in the second quarter of 2013, associated with the write off of deferred tax assets related to foreign tax credits incorrectly claimed in prior years.

For 2012, the effective tax rate was a benefit of 11 percent. The 11 percent effective tax rate benefit reflected tax on earnings in jurisdictions that had low effective tax rates and included a \$280 million tax benefit due to the reversal of a valuation allowance for most U.S. federal and state deferred tax assets. Valuation allowances require an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction by jurisdiction basis. In the fourth quarter of 2012, management concluded that the valuation allowance for most of Agilent's U.S. federal and state deferred tax assets is no longer needed primarily due to the emergence from cumulative losses in recent years, the return to sustainable U.S. operating profits and the expectation of sustainable profitability in future periods. As of October 31, 2012, the cumulative positive evidence outweighed

the negative evidence regarding the likelihood that most of the deferred tax asset for Agilent's U.S. consolidated income tax group will be realized. Accordingly, we recognized a non-recurring tax benefit of \$280 million relating to the valuation allowance reversal. The effective tax rate also included a non-recurring tax expense of \$88 million relating to an increase in the overall residual U.S. tax expected to be imposed upon the repatriation of unremitted foreign earnings previously considered permanently reinvested. During the fourth quarter of 2012, we assessed the forecasted cash needs and overall financial position of our foreign subsidiaries and determined that a portion of previously permanently reinvested earnings would no longer be reinvested overseas. The effective tax rate was also reduced by a \$68 million tax benefit primarily associated with the recognition of previously unrecognized tax benefits and the reversal of the related interest accruals due to the reassessment of certain uncertain tax positions relating to foreign jurisdictions.

For 2011, the effective tax rate was 2 percent. The 2 percent effective tax rate reflects tax on earnings in jurisdictions that had low effective tax rates and includes a \$97 million net tax benefit primarily associated with a refund in Canada and the recognition of previously unrecognized tax benefits and the reversal of the related interest accruals due to the reassessment of certain uncertain tax positions. The income tax provision also included a \$26 million out of period adjustment to reduce the carrying value of certain U.K. deferred tax assets for which the majority was recorded in the quarter ended April 30, 2011. The overstatement of these deferred tax assets resulted in an overstatement of the U.K. valuation allowance release in the fourth quarter of 2010. For the full year, this out of period adjustment was substantially offset by other out of period adjustments. The net impact of all out of period adjustments on the effective tax rate was immaterial. Without considering interest and penalties, the effective rate reflected taxes in all jurisdictions except the U.S. and certain foreign jurisdictions in which income tax expense or benefit continued to be offset by adjustments to valuation allowances.

Agilent enjoys tax holidays in several different jurisdictions, most significantly in Singapore. The tax holidays provide lower rates of taxation on certain classes of income and require various thresholds of investments and employment or specific types of income in those jurisdictions. The tax holidays are due for renewal between 2015 and 2023. As a result of the incentives, the impact of the tax holidays decreased income taxes by \$127 million, \$122 million, and \$127 million in 2013, 2012, and 2011, respectively. The benefit of the tax holidays on net income per share (diluted) was approximately \$0.37, \$0.35, and \$0.36 in 2013, 2012 and 2011, respectively.

In accordance with the guidance on the accounting for uncertainty in income taxes, for all U.S. and other tax jurisdictions, we recognize potential liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes and interest will be due. If our estimate of income tax liabilities proves to be less than the ultimate assessment, a further charge to expense would be required. If events occur and the payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. We include interest and penalties related to unrecognized tax benefits within the provision for income taxes on the consolidated statements of operations.

In the U.S., tax years remain open back to the year 2006 for federal income tax purposes and the year 2000 for significant states. Agilent's U.S. federal income tax returns for 2006 through 2007 are currently under audit by the IRS. During the three months ended July 31, 2012, the company received a Revenue Agents Report ("RAR") for these years and filed a protest to dispute certain adjustments, the most significant of which pertains to the amount of a gain from the disposition of a business that was allocated to the U.S. for income tax purposes. There can be no assurance that the outcome of this dispute will not have a material effect on our operating results or financial condition. In other major jurisdictions where the company conducts business, the tax years generally remain open back to the year 2003. With these jurisdictions and the U.S., it is reasonably possible that there could be significant changes to our unrecognized tax benefits in the next twelve months due to either the expiration of a statute of limitation or a tax audit settlement. Given the number of years and numerous matters that remain subject to examination in various tax jurisdictions, management is unable to estimate the range of possible changes to the balance of our unrecognized tax benefits.

Segment Overview

We formed a new operating segment in the fourth fiscal quarter of 2013. The new life sciences and diagnostics segment was formed by the combination of the life sciences business plus the diagnostics and

genomics business. Following this reorganization, we have three business segments comprised of the life sciences and diagnostics business, the chemical analysis business and the electronic measurement business. The historical segment financial information for the life sciences and diagnostics segment has been recast to conform to this new reporting structure in our financial statements.

Life Sciences and Diagnostics

Our life sciences and diagnostics business provides application-focused solutions that include reagents, instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products, as well as enable customers in the clinical and life sciences research areas to interrogate samples at the molecular level. Key product categories include: liquid chromatography ("LC") systems, columns and components; liquid chromatography mass spectrometry ("LCMS") systems; laboratory software and informatics systems; laboratory automation and robotic systems; dissolution testing; nucleic acid solutions; Nuclear Magnetic Resonance, Magnetic Resonance Imaging, and X-Ray Diffraction systems; services and support for the aforementioned products; immunohistochemistry; In Situ Hybridization; Hematoxylin and Eosin staining; special staining, DNA mutation detection; genotyping; gene copy number determination; identification of gene rearrangements; DNA methylation profiling; gene expression profiling; next generation sequencing target enrichment; and automated gel electrophoresis-based sample analysis systems. We also collaborate with a number of major pharmaceutical companies to develop new potential pharmacodiagnosics, also called companion diagnostics, with the potential of identifying patients most likely to benefit from a specific targeted therapy.

Orders and Net Revenue

	Years Ended October 31,			2013 over 2012 Change	2012 over 2011 Change
	2013	2012	2011		
	(in millions)				
Orders	\$ 2,319	\$ 1,993	\$ 1,875	16%	6%
Net revenue from products	\$ 1,868	\$ 1,578	\$ 1,424	18%	11%
Net revenue from services and other	432	406	368	6%	10%
Total net revenue	\$ 2,300	\$ 1,984	\$ 1,792	16%	11%

Life sciences and diagnostics orders in 2013 grew 16 percent compared to 2012. Foreign currency movements had an unfavorable impact of 2 percentage point on order growth when compared to the prior year. Incremental orders associated with the Dako acquisition in 2013 accounted for 13 percentage points of the order growth. Excluding the impact of the Dako acquisition, order results were led by demand in the LC, genomics, services and consumables portfolios. Geographically, orders grew 16 percent in the Americas, grew 27 percent in Europe, declined 2 percent in Japan, and grew 9 percent in other Asia Pacific during 2013 when compared to 2012. Life sciences and diagnostics orders in 2012 increased 6 percent compared to 2011. Foreign currency movements had an unfavorable impact of 1 percentage point on order growth when compared to the prior year. Excluding the impact of the Dako acquisition, order growth was driven by strength in informatics, microfluidics, nucleic acid, and services. Budget constraints and cautious spending weighed on the results in 2012.

Life sciences and diagnostics net revenue in 2013 increased 16 percent compared to 2012. Revenue associated with the Dako acquisition accounted for 17 percent of our life sciences and diagnostics business and 13 percentage points of the revenue growth in 2013. Foreign currency movements for 2013 had an unfavorable impact of 1 percentage point compared to 2012. Excluding the impact of the Dako acquisition, revenue growth was led by strength in LC, consumables and services portfolios. Geographically, revenue grew 13 percent in the Americas, grew 26 percent in Europe, declined 2 percent in Japan, and grew 12 percent in other Asia Pacific during 2013 when compared to 2012. Though European countries continue to focus on addressing the financial downturn and continued austerity measures, Europe had the strongest performance with particular demand in the diagnostics and pharma markets. Life sciences and diagnostics revenue in 2012 increased 11 percent compared to 2011. Foreign currency movements for 2012 had an unfavorable impact of 2 percentage points compared to 2011. Excluding the impact of the Dako acquisition, revenue strength was led by LCMS, informatics, automation and services.

End market performance reflected slow growth across most markets in 2013. Pharmaceutical and biotech market was soft overall as budgets continued to be tightened. Customers are investing to upgrade technology, such as advanced LCMS applications, to stay ahead of the curve in biologic drugs yet still maintain an edge in chemical drugs, particularly in generic drugs and emerging markets. The academia and government market continued to see the dampening effects of the U.S. sequestration and weak macroeconomic environment in Europe, though we saw some signs of stabilization in Europe in the latter part of the 2013. The diagnostics market experienced solid growth in pathology, reagent partnerships and companion diagnostics and the clinical market remained robust during the year reflecting record volumes in the latter part of 2013 for our genomics products. Applied markets were flat as growth in food and petrochemical saw good demand from China and other emerging markets, but was largely offset by declines in environmental and forensics markets as tight government budgets continued to constrain demand in the U.S. and Europe.

Looking forward, we are optimistic about our growth opportunities in the life sciences and diagnostics markets as our broad portfolio of products and solutions are well suited to address customer needs. We continue to invest in expanding and improving our applications and solutions portfolio. We expect low spending levels to continue in academic and government markets given the U.S. budget sequestration and continued austerity in most developed countries, but we expect businesses such as consumables and services and the continued need to refresh aging instrumentation to partially offset this effect. We remain positive about our growth in our clinical and clinical research markets, as adoption of our SureSelect and HaloPlex sequencing target enrichment solutions continue. The fourth quarter of 2013 marked the commercial launch of the new Dako Omnis autostainer. First installations of this platform have taken place, and we are seeing good acceptance of orders in both the U.S. and Europe.

Gross Margin and Operating Margin

The following table shows the life sciences and diagnostics business' margins, expenses and income from operations for 2013 versus 2012, and 2012 versus 2011.

	Years Ended October 31,			2013 over 2012 Change	2012 over 2011 Change
	2013	2012	2011		
Total gross margin	54.3%	53.3%	52.0 %	1 ppt	1 ppt
Operating margin	16.4%	14.8%	13.2 %	2 ppts	2 ppts
(in millions)					
Research and development	\$ 228	\$ 195	\$ 174	17%	12%
Selling, general and administrative	\$ 645	\$ 567	\$ 522	14%	9%
Income from operations	\$ 377	\$ 295	\$ 237	28%	24%

Gross margins in 2013 increased 1 percentage point compared to 2012. The increase in gross margins was mainly due to the impact of the Dako acquisition, along with favorable volume, lower infrastructure expenses, lower variable pay, partially offset by unfavorable product mix and unfavorable standard cost. Gross margins increased 1 percentage point in 2012 compared to 2011 mainly due to the impact of the Dako acquisition, favorable volume and lower material costs, which were offset by higher infrastructure costs and unfavorable product mix.

Research and development expenses increased 17 percent in 2013 compared to 2012. The increase was due to the impact of the Dako acquisition. Research and development expenses increased 12 percent in 2012 compared to 2011, mostly due to the impact of the Dako acquisition and investments in new product development.

Selling, general and administrative expenses increased 14 percent in 2013 compared to 2012. Selling, general and administrative expenses increased 9 percent in 2012 compared to 2011. The increase was due to the impact of the Dako acquisition in both periods.

Operating margins increased by 2 percentage points in 2013 compared to 2012. The increases were mainly due to the impact of the Dako acquisition and favorable gross profit from higher revenue. Operating margins increased 2 percentage points in 2012 compared to 2011. The increase was due to the impact of the Dako acquisition, favorable gross profit from higher revenue outpacing operating expense growth.

Income from Operations

Income from operations in 2013 increased by \$82 million or 28 percent on a revenue increase of \$316 million, a 26 percent year-over-year operating margin incremental. Income from operations in 2012 increased \$58 million or 24 percent on a revenue increase of \$192 million. Operating margin incremental is measured by the increase in income from operations compared to the prior period divided by the increase in revenue compared to the prior period.

Chemical Analysis

Our chemical analysis business provides application-focused solutions that include instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products. Key product categories in chemical analysis include: gas chromatography (GC) systems, columns and components; gas chromatography mass spectrometry (GC-MS) systems; inductively coupled plasma mass spectrometry (ICP-MS) instruments; atomic absorption (AA) instruments; inductively coupled plasma optical emission spectrometry (ICP-OES) instruments; molecular spectroscopy instruments; software and data systems; vacuum pumps and measurement technologies; services and support for our products.

Orders and Net Revenue

	Years Ended October 31,			2013 over 2012 Change	2012 over 2011 Change
	2013	2012	2011		
	(in millions)				
Orders	\$ 1,642	\$ 1,604	\$ 1,589	2%	1%
Net revenue from products	\$ 1,232	\$ 1,219	\$ 1,194	1%	3%
Net revenue from services and other	362	340	324	6%	5%
Total net revenue	\$ 1,594	\$ 1,559	\$ 1,518	2%	3%

Chemical analysis orders in 2013 increased 2 percent compared to 2012. Foreign currency movements for 2013 had an unfavorable impact of 2 percentage point compared to 2012. Order results were led by solid performance in services, consumables, and ICP-MS instruments. Strength in these areas was offset by declines in GC-MS systems and flat orders in vacuum pump products. Geographically, orders were flat in the Americas, increased 5 percent in Europe, declined 14 percent in Japan (includes unfavorable currency impact of 16 percentage points), and grew 6 percent in other Asia Pacific during 2013 when compared to 2012. In the Americas the overall government spending remains weak. Total Asia Pacific orders reflected continued weakness in unfavorable currency impacts in Japan orders offset by continued growth in both China and South Asia Pacific and Korea. Chemical analysis orders in 2012 increased 1 percent compared to 2011 due to strength in services and consumables, along with GC-MS and ICP-MS instruments.

Chemical analysis net revenue in 2013 increased 2 percent compared to 2012. Foreign currency movements for 2013 had an unfavorable impact of 2 percentage point compared to 2012. Revenue growth was led by services and consumables. GC and GC-MS weaknesses were offset by strength in ICP-MS and AA and ICP-OES instruments. Geographically, revenue grew 3 percent in the Americas, grew 1 percent in Europe, declined 17 percent in Japan (including a 15 percentage point unfavorable currency impact), and grew 8 percent in other Asia Pacific. Brazil, China, and India in particular had strong revenue growth in 2013, each having double digit growth. Chemical analysis revenue grew 3 percent in 2012 compared to 2011, led by services and consumables, along with strength in ICP-MS.

Chemical analysis saw mixed growth in the core end markets. The demand to export safe and high quality food in emerging markets remains strong, and their government funding continues to drive strength for purchases of GC and GC-MS instruments. Chemical and energy end markets saw modest increases in 2013 compared to

2012, driven primarily by stronger demand in China and a bright outlook for petrochemicals in North America. In forensics, the spread of designer drugs continues to drive the need for GC-MS systems, particularly in Europe. Environmental demand in mature markets is tempered by continued government budget constraints. In emerging economies, testing to ensure the quality and safety of drinking water is a factor in economic growth and has led to the demand for GC-MS and ICP-MS instruments. Other applied markets showed mid-single digit growth, with growth in pharmaceutical and bio tech markets being offset by a decline in academic and government markets.

Strength in 2013 and our fourth quarter results reflect a positive outlook for the chemical analysis core end markets. We will continue to invest in research and development, and seek to expand our position in developing countries and emerging markets. New instrument launches over the next twelve months, as well as continued market acceptance of our new products released in 2013, will help with our product differentiation and competitive position.

Gross Margin and Operating Margin

The following table shows the chemical analysis business's margins, expenses and income from operations for 2013 versus 2012, and 2012 versus 2011.

	Years Ended October 31,			2013 over 2012 Change	2012 over 2011 Change
	2013	2012	2011		
Total gross margin	51.7%	51.4%	51.1%	—	—
Operating margin	22.3%	21.7%	20.6%	1 ppt	1 ppt
(in millions)					
Research and development	\$ 94	\$ 93	\$ 92	2%	—
Selling, general and administrative	\$ 374	\$ 371	\$ 371	1%	—
Income from operations	\$ 355	\$ 338	\$ 313	5%	8%

Gross margins in 2013 remained flat compared to 2012. Higher product discounts and unfavorable foreign currency movements were offset by favorable manufacturing overhead costs and favorable revenue volume. Gross margin also remained flat in 2012 compared to 2011, driven by higher product discounts offsetting favorable revenue volume and lower material costs.

Research and development expenses increased 2 percent in 2013 compared to 2012, driven mainly by our continued investment in instrument products. Research and development expenses remained flat in 2012 compared to 2011.

Selling, general, and administrative expenses increased 1 percent in 2013 compared to 2012 mainly due to higher infrastructure expenses and commissions partially offset by reduced discretionary expenses including marketing programs and travel. Selling, general, and administrative expenses remained flat in 2012 compared to 2011, primarily driven by investments in sales channel coverage with a focus on emerging markets being offset by lower commissions and discretionary spending.

Operating margins increased by 1 percentage point in 2013 compared to 2012. The increase was mainly due to favorable gross profit from higher revenue while holding expenses fairly flat. Operating margins increased 1 percentage point from 2012 compared to 2011, mainly due to favorable gross profit from higher revenue while holding expenses flat.

Income from Operations

Income from operations in 2013 increased by \$17 million or 5 percent on a revenue increase of \$35 million, a 49 percent year-over-year operating margin incremental. Income from operations in 2012 increased by \$25 million or 8 percent compared to 2011 on a revenue increase of \$41 million, or 60 percent year-over-year operating margin incremental.

Electronic Measurement

Our electronic measurement business provides electronic measurement instruments and systems, software design tools and related services that are used in the design, development, manufacture, installation, deployment and operation of electronics equipment, and microscopy products. Related services include start-up assistance, instrument productivity and application services and instrument calibration and repair. We also offer customization, consulting and optimization services throughout the customer's product lifecycle.

Orders and Net Revenue

	Years Ended October 31,			2013 over 2012 Change	2012 over 2011 Change
	2013	2012	2011		
	(in millions)				
Orders	\$ 2,866	\$ 3,280	\$ 3,305	(13)%	(1)%
Net revenue from products	\$ 2,434	\$ 2,862	\$ 2,875	(15)%	—
Net revenue from services and other	454	453	441	—	3%
Total net revenue	\$ 2,888	\$ 3,315	\$ 3,316	(13)%	—

Electronic measurement orders declined 13 percent in 2013 compared to 2012. Foreign currency movements had an unfavorable impact of 2 percentage points on the year-over-year compare. Orders were lower for all market segments, including aerospace and defense; industrial, computer, and semiconductor test; and communications test, which decreased year-over-year primarily due to lower wireless manufacturing demand relating to the loss of business from a large customer with whom we could not agree on contractual terms. On a geographic basis, orders declined 20 percent in the Americas, 12 percent in Japan, 7 percent in Asia Pacific excluding Japan, and 4 percent in Europe. The decline in orders in the Americas was driven by weak communications test and soft aerospace and defense demand. Japan orders were lower due to the unfavorable impact of currency movements, improving by 1 percent year-over-year in local currency. Electronic measurement orders declined 1 percent in 2012 compared to 2011; weak industrial and slightly lower aerospace and defense orders were mostly offset by growth in computer and semiconductor and communications test business.

Electronic measurement revenue declined 13 percent in 2013 compared to 2012 primarily on lower wireless manufacturing and industrial, computer and semiconductor test demand. The unfavorable impact of foreign currency movements contributed to 2 percentage points of the year-over-year decline. Revenue from the Americas decreased 19 percent on significantly lower wireless manufacturing demand and soft general purpose test business. Japan revenue was 14 percent lower year-over-year but declined only 3 percent in local currency. Asia Pacific excluding Japan decreased 7 percent, and Europe declined 6 percent when compared to last year. Revenue from products was 15 percent lower compared to 2012 while service related revenue was flat. Electronic measurement revenue was flat in 2012 compared to 2011 on flat demand in both general purpose and communications test. Within communications test, strong wireless manufacturing test revenue was offset by lower wireless R&D and broadband communications test business.

General purpose test revenue, representing approximately 66 percent of electronic measurement business, declined year-over-year on weak industrial, computer, and semiconductor test demand. Our aerospace and defense business was flat year-over-year on lower demand in the Americas offset by stronger spending in Europe. Semiconductor test revenue declined on moderating investments in new process technology and weak manufacturing demand. The shift from personal computers to lower priced, more highly integrated tablets has resulted in a reduction in test equipment demand. Uncertain global economic conditions contributed to lower industrial test business. In 2012, general purpose test represented approximately 63 percent of electronic measurement revenue with slight growth in computers and semiconductor business, flat industrial test demand, and a slight decline in aerospace and defense compared to 2011.

Communications test revenue, representing approximately 34 percent of total electronic measurement, declined year-over-year primarily due to significantly lower wireless manufacturing demand driven by the loss of

business from a large customer with whom we could not agree on contractual terms. Wireless R&D spending remained soft reflecting a cautious spending environment though long-term industry fundamentals remain intact, with continued interest in high data rate applications such as long-term evolution (LTE). In 2012, communications test represented approximately 37 percent of total electronic measurement revenue; strong wireless manufacturing test demand was offset by lower wireless R&D and broadband communications business.

The outlook across market segments remains mixed. There continues to be downward pressure on aerospace and defense demand with near-term uncertainty relating to the budget for the United States. We expect to see improvement in semiconductor test considering the order strength in the last quarter of fiscal year 2013. Communications test is expected to improve in the near term on investment in wireless R&D for next generation formats and more stable wireless manufacturing demand. Longer term growth drivers such as mobility and transformational initiatives, including modular and hand-held instrumentation, support our ongoing investments.

Gross Margin and Operating Margin

The following table shows the electronic measurement business's margins, expenses and income from operations for 2013 versus 2012 and 2012 versus 2011.

	Years Ended October 31,			2013 over 2012 Change	2012 over 2011 Change
	2013	2012	2011		
Total gross margin	56.9%	56.9%	58.4%	—	(2) ppts
Operating margin	18.9%	22.7%	22.9%	(4) ppts	—
(in millions)					
Research and development	\$ 365	\$ 375	\$ 379	(3)%	(1)%
Selling, general and administrative	\$ 733	\$ 761	\$ 798	(4)%	(5)%
Income from operations	\$ 544	\$ 751	\$ 760	(28)%	(1)%

Gross margins were flat in 2013 compared to 2012 on lower revenue. On a volume-adjusted basis, gross margins were higher year-over-year primarily due to the lower proportion of wireless manufacturing business. A decline in variable and incentive pay and reduced infrastructure spending were offset by higher inventory charges and wage increases. In 2012, gross margins declined 2 percentage points compared to 2011 on flat revenue primarily driven by the unfavorable impact of a higher proportion of lower gross margin wireless manufacturing business.

Research and development expenses declined 3 percent in 2013 compared to 2012. Reductions in development spending, variable and incentive pay, and infrastructure related expenses, and the favorable impact of currency movements were partially offset by investments in acquisitions and wage increases. Research and development expenses declined 1 percent in 2012 compared to 2011 on lower variable and incentive pay and infrastructure costs partially offset by incremental spending on acquisitions and wage increases.

Selling, general and administrative expenses decreased 4 percent in 2013 compared to 2012. Reductions in discretionary spending, lower variable and incentive pay, and the favorable impact of currency movements were partially offset by wage increases. Selling, general and administrative expenses decreased 5 percent in 2012 compared to 2011 on lower variable and incentive pay, infrastructure costs and commissions partially offset by wage increases.

Operating margins declined by 4 percentage points in 2013 compared to 2012 on lower revenue partially offset by reduced operating expenses. Operating margins were approximately the same in 2012 compared to 2011 on flat revenue with the net impact of lower gross margins mostly offset by reductions in operating expenses.

Income from Operations

Income from operations in 2013 declined by \$207 million or 28 percent compared to 2012 on a revenue decrease of \$427 million, a 48 percent year-over-year operating margin decrement, reflecting the net impact of lower revenue partially offset by expense reductions. Income from operations in 2012 decreased by \$9 million or 1 percent compared to 2011 on flat revenue, with the impact of lower gross margins mostly offset by reductions in expenses.

Financial Condition

Liquidity and Capital Resources

Our financial position as of October 31, 2013 consisted of cash and cash equivalents of \$2,675 million as compared to \$2,351 million as of October 31, 2012.

As of October 31, 2013, approximately \$2,552 million of our cash and cash equivalents is held outside of the U.S. in our foreign subsidiaries. Most of the amounts held outside of the U.S. could be repatriated to the U.S. but, under current law, would be subject to U.S. federal and state income taxes, less applicable foreign tax credits. Agilent has accrued for U.S. federal and state tax liabilities on the earnings of its foreign subsidiaries except when the earnings are considered indefinitely reinvested outside of the U.S. Repatriation could result in additional material U.S. federal and state income tax payments in future years. We utilize a variety of funding strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed.

On June 21, 2012, we completed the acquisition of Dako A/S through the acquisition of 100% of the share capital of Dako A/S, a limited liability company incorporated under the laws of Denmark (“Dako”), under the share purchase agreement, dated May 16, 2012. As a result of the acquisition, Dako has become a wholly-owned subsidiary of Agilent. The consideration paid was approximately \$2,143 million, \$1,400 million was paid directly to the seller and \$743 million was paid to satisfy the outstanding debt of Dako. Agilent funded the acquisition using existing cash. The acquisition has been accounted for in accordance with the authoritative accounting guidance and the results of Dako are included in Agilent's consolidated financial statements from the date of acquisition.

We believe our cash and cash equivalents, cash generated from operations, and ability to access capital markets and credit lines will satisfy, for the foreseeable future, our liquidity requirements, both globally and domestically, including the following: working capital needs, capital expenditures, business acquisitions, stock repurchases, cash dividends, contractual obligations, commitments, principal and interest payments on debt, and other liquidity requirements associated with our operations.

Net Cash Provided by Operating Activities

Net cash provided by operating activities was \$1,152 million in 2013 as compared to \$1,228 million provided in 2012 and \$1,260 million provided in 2011. We received \$65 million in interest rate swap proceeds and \$61 million in respect of a tax sharing settlement with Hewlett Packard Company during the year ended October 31, 2011. We paid approximately net taxes of \$110 million in 2013, as compared to net \$86 million in taxes in 2012 and net \$22 million in 2011.

In 2013, accounts receivable provided cash of \$14 million, provided cash of \$19 million in 2012 and provided cash of \$11 million in 2011. Days' sales outstanding were 47 days in 2013, 47 days in 2012 and 45 days in 2011. Accounts payable used cash of \$27 million in 2013, used cash of \$31 million in 2012 and used cash of \$35 million in 2011. Cash used in inventory was \$100 million in 2013, \$52 million in 2012 and \$208 million in 2011. Inventory days on-hand increased to 118 days in 2013 compared to 108 days in 2012 and 100 days in 2011. The increase in days on-hand was due to the reduced shipment volume within our electronic measurement business.

We contributed \$30 million, \$30 million and \$33 million to our U.S. defined benefit plans in 2013, 2012 and 2011, respectively. We contributed \$89 million, \$54 million and \$59 million to our non-U.S. defined benefit plans in 2013, 2012 and 2011, respectively. We contributed \$1 million to our U.S. post-retirement benefit plans

in 2013 and did not contribute to our U.S. post-retirement benefit plans in 2012 or 2011. Our non-U.S. defined benefit plans are generally funded ratably throughout the year. Total contributions in 2013 were \$120 million or 43 percent more than 2012. Total contributions in 2012 were \$84 million or 9 percent less than 2011. Our annual contributions are highly dependent on the relative performance of our assets versus our projected liabilities, among other factors. We expect to contribute approximately \$101 million to our U.S. and non-U.S. defined benefit plans and \$2 million to our U.S. post-retirement benefit plans during 2014.

Net Cash Provided by/Used in Investing Activities

Net cash used in investing activities in 2013 was \$248 million as compared to net cash used of \$2,366 million in 2012 primarily due to the acquisition of Dako. In 2011, net cash provided by investing activities was \$1,294 million.

Investments in property, plant and equipment were \$195 million in 2013, \$194 million in 2012 and \$188 million in 2011. Proceeds from sale of property, plant and equipment were \$2 million in 2013, zero in 2012 and \$18 million in 2011. In 2013, we invested \$21 million in acquisitions of businesses and intangible assets compared to \$2,257 million in 2012 and \$98 million in 2011. Proceeds from the sale of investment securities in 2013 were \$12 million, \$5 million in 2012 and \$16 million in 2011. The amounts of and changes in restricted cash were not material for the fiscal year ended 2012. In 2011 restricted cash decreased \$1,545 million mostly due to the reclassification of restricted cash to cash and cash equivalents following the settlement of the World Trade repurchase obligation.

Net Cash Provided by/Used in Financing Activities

Net cash used in financing activities in 2013 was \$554 million compared to \$37 million in 2012 and \$1,693 million in 2011, respectively.

Treasury stock repurchases

On November 19, 2009 our board of directors approved a share-repurchase program to reduce or eliminate dilution of basic outstanding shares in connection with issuances of stock under the company's equity incentive plans (the "2009 repurchase program"). The 2009 repurchase program did not require the company to acquire a specific number of shares and could be suspended or discontinued at any time. There was no fixed termination date for the 2009 repurchase program.

On January 16, 2013, our board of directors terminated the 2009 repurchase program and approved a new share-repurchase program (the "2013 repurchase program"). The 2013 repurchase program authorized the use of up to \$500 million to repurchase shares of the company's common stock in open market transactions, inclusive of any amounts repurchased since November 1, 2012. On May 14, 2013 we announced that our board of directors authorized an increase of \$500 million to the 2013 repurchase program bringing the cumulative authorization to \$1 billion. Unless terminated earlier by the board of directors, the 2013 repurchase program is designed to cover purchases until the end of the calendar year and any unused portion may be used in the calendar year 2014. The 2013 repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time. As of October 31, 2013, the remaining amount to be repurchased under the 2013 program is \$100 million. We repurchased the remaining \$100 million worth of shares under the 2013 repurchase program in November 2013.

For the year ended October 31, 2013, we repurchased 20 million shares for \$900 million. All such shares and related costs are held as treasury stock and accounted for using the cost method. For the year ended October 31, 2012 we repurchased approximately 5 million shares for \$172 million. For the year ended October 31, 2011 we repurchased 12 million shares for \$497 million.

On November 22, 2013 we announced that our board of directors has authorized a new share repurchase program effective upon the conclusion of the company's existing \$1 billion repurchase program. The new program is designed to reduce or eliminate dilution resulting from issuance of stock under the company's employee equity incentive programs to maintain a weighted average share count of approximately 335 million diluted shares.

Dividends

During the year ended October 31, 2013, cash dividends of \$0.46 per share, or \$156 million were declared and paid on the company's outstanding common stock. During the year ended October 31, 2012, cash dividends of \$0.30 per share, or \$104 million were declared and paid on the company's outstanding common stock. The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

On November 22, 2013 we announced that our board of directors has authorized a 10 percent increase in the quarterly dividend to \$0.132 per share. The dividend was declared on November 22, 2013 and will be paid on January 22, 2014 to all stockholders of record as of close of business on December 31, 2013.

Credit Facility

On October 20, 2011, we entered into a five-year credit agreement, which provides for a \$400 million unsecured credit facility that will expire on October 20, 2016. The company may use amounts borrowed under the facility for general corporate purposes. As of October 31, 2013 the company has no borrowings outstanding under the facility. We were in compliance with the covenants for the credit facilities during the year ended October 31, 2013.

As a result of the Dako acquisition, we have a credit facility in Danish Krone equivalent of \$9 million with a Danish financial institution. As of October 31, 2013 the company had no borrowings outstanding under the facility.

Short-term debt

On July 13, 2010, the company issued an aggregate principal amount of \$250 million in senior notes ("2013 senior notes"). The 2013 senior notes matured on July 15, 2013 and were paid in full.

On September 9, 2009, the company issued an aggregate principal amount of \$250 million in senior notes ("2012 senior notes"). The 2012 senior notes matured on September 14, 2012 and were paid in full.

Long-term debt

In September 2009, the company issued an aggregate principal amount of \$500 million in senior notes ("2015 senior notes"). The 2015 senior notes were issued at 99.69% of their principal amount. The notes will mature on September 14, 2015, and bear interest at a fixed rate of 5.50% per annum. The interest is payable semi-annually on March 14th and September 14th of each year, payments commenced on March 14, 2010.

On June 6, 2011, we terminated our interest rate swap contracts related to our 2015 senior notes that represented the notional amount of \$500 million. The asset value, including interest receivable, upon termination for these contracts was approximately \$31 million and the amount to be amortized at October 31, 2013 was \$12 million. The gain is being deferred and amortized to interest expense over the remaining life of the 2015 senior notes.

In October 2007, the company issued an aggregate principal amount of \$600 million in senior notes ("2017 senior notes"). The 2017 senior notes were issued at 99.60% of their principal amount. The notes will mature on November 1, 2017, and bear interest at a fixed rate of 6.50% per annum. The interest is payable semi-annually on May 1st and November 1st of each year and payments commenced on May 1, 2008.

On November 25, 2008, we terminated two interest rate swap contracts associated with our 2017 senior notes that represented the notional amount of \$400 million. The asset value, including interest receivable, upon termination was approximately \$43 million and the amount to be amortized at October 31, 2013 was \$22 million. The gain is being deferred and amortized to interest expense over the remaining life of the 2017 senior notes.

In July 2010, the company issued an aggregate principal amount of \$500 million in senior notes ("2020 senior notes"). The 2020 senior notes were issued at 99.54% of their principal amount. The notes will mature on July 15, 2020, and bear interest at a fixed rate of 5.00% per annum. The interest is payable semi-annually on

January 15th and July 15th of each year, payments commenced on January 15, 2011.

On August 9, 2011, we terminated our interest rate swap contracts related to our 2020 senior notes that represented the notional amount of \$500 million. The asset value, including interest receivable, upon termination for these contracts was approximately \$34 million and the amount to be amortized at October 31, 2012 was \$26 million. The gain is being deferred and amortized to interest expense over the remaining life of the 2020 senior notes.

In September 2012, the company issued an aggregate principal amount of \$400 million in senior notes ("2022 senior notes"). The senior notes were issued at 99.80% of their principal amount. The notes will mature on October 1, 2022, and bear interest at a fixed rate of 3.20% per annum. The interest is payable semi-annually on April 1st and October 1st of each year, payments commenced on April 1, 2013. We used part of the proceeds from the issuance of the 2022 senior notes to pay the 2012 senior notes.

In June 2013, the company issued aggregate principal amount of \$600 million in senior notes ("2023 senior notes"). The 2023 senior notes were issued at 99.544% of their principal amount. The notes will mature on July 15, 2023 and bear interest at a fixed rate of 3.875% per annum. Interest is payable semi annually on January 15th and July 15th of each year and payments will commence January 15, 2014.

All notes issued are unsecured and rank equally in right of payment with all of Agilent's other senior unsecured indebtedness. The company incurred issuance costs of \$5 million each in connection with the 2017 and 2023 senior notes and incurred \$3 million each in connection with the 2015, 2020 and 2022 senior notes. These costs were capitalized in other assets on the consolidated balance sheet and the costs are being amortized to interest expense over the term of the senior notes.

As of October 31, 2013, and as a result of the Dako acquisition, we have a mortgage debt, secured on buildings in Denmark, in Danish Krone equivalent of \$46 million aggregate principal outstanding with a Danish financial institution. The loan has a variable interest rate based on 3 months Copenhagen Interbank Rate ("Cibor") and will mature on September 30, 2027. Interest payments are made in March, June, September and December of each year.

Off Balance Sheet Arrangements and Other

We have contractual commitments for non-cancelable operating leases. See Note 17 "Commitments and Contingencies", to our consolidated financial statements for further information on our non-cancelable operating leases.

Our liquidity is affected by many factors, some of which are based on normal ongoing operations of our business and some of which arise from fluctuations related to global economics and markets. Our cash balances are generated and held in many locations throughout the world. Local government regulations may restrict our ability to move cash balances to meet cash needs under certain circumstances. We do not currently expect such regulations and restrictions to impact our ability to pay vendors and conduct operations throughout our global organization.

Contractual Commitments

Our cash flows from operations are dependent on a number of factors, including fluctuations in our operating results, accounts receivable collections, inventory management, and the timing of tax and other payments. As a result, the impact of contractual obligations on our liquidity and capital resources in future periods should be analyzed in conjunction with such factors.

The following table summarizes our total contractual obligations at October 31, 2013 for operations and excludes amounts recorded in our consolidated balance sheet (in millions):

	<u>Less than one year</u>	<u>One to three years</u>	<u>Three to five years</u>	<u>More than five years</u>
Operating leases	\$ 56	\$ 78	\$ 33	\$ 6
Commitments to contract manufacturers and suppliers	727	21	—	—
Other purchase commitments	70	—	—	—
Retirement plans	103	—	—	—
Total	<u>\$ 956</u>	<u>\$ 99</u>	<u>\$ 33</u>	<u>\$ 6</u>

Operating leases. Commitments under operating leases relate primarily to leasehold property, see Note 17, "Commitments and Contingencies".

Commitments to contract manufacturers and suppliers. We purchase components from a variety of suppliers and use several contract manufacturers to provide manufacturing services for our products. During the normal course of business, we issue purchase orders with estimates of our requirements several months ahead of the delivery dates. However, our agreements with these suppliers usually provide us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed. Typically purchase orders outstanding with delivery dates within 30 days are non-cancelable. Therefore, only approximately 55 percent of our reported purchase commitments arising from these agreements are firm, non-cancelable, and unconditional commitments. We expect to fulfill most of our purchase commitments for inventory within one year.

In addition to the above mentioned commitments to contract manufacturers and suppliers, we record a liability for firm, non-cancelable and unconditional purchase commitments for quantities in excess of our future demand forecasts consistent with our policy relating to excess inventory. As of October 31, 2013, the liability for our firm, non-cancelable and unconditional purchase commitments was \$5 million, compared to \$5 million as of October 31, 2012 and 2011. These amounts are included in other accrued liabilities in our consolidated balance sheet.

Other purchase commitments. We have categorized "other purchase commitments" related to contracts with professional services suppliers. Typically we can cancel these contracts within 90 days without penalties. For those contracts that are not cancelable within 90 days without penalties, we are disclosing the amounts we are obligated to pay to a supplier under each contract in that period before such contract can be cancelled. Our contractual obligations with these suppliers under "other purchase commitments" were approximately \$70 million within the next year.

Retirement Plans. Commitments under the retirement plans relate to expected contributions to be made to our U.S. and non-U.S. defined benefit plans and to our post-retirement medical plans for the next year only. Contributions after next year are impractical to estimate.

We had no material off-balance sheet arrangements as of October 31, 2013 or October 31, 2012.

On Balance Sheet Arrangements

The following table summarizes our total contractual obligations recorded in our consolidated balance sheet pertaining to our long-term debt as of October 31, 2013 (in millions):

	<u>Less than one year</u>	<u>One to three years</u>	<u>Three to five years</u>	<u>More than five years</u>
Senior notes	\$ —	\$ 1,100	\$ —	\$ 1,500
Other debt	—	—	—	46
Total	<u>\$ —</u>	<u>\$ 1,100</u>	<u>\$ —</u>	<u>\$ 1,546</u>

We have contractual obligations for interest payments on the above debts. Interest rates and payment dates are detailed in "Long-term debt".

Other long-term liabilities include \$341 million and \$320 million of liabilities for uncertain tax positions as of October 31, 2013 and October 31, 2012, respectively. We are unable to accurately predict when these amounts will be realized or released. However, it is reasonably possible that there could be significant changes to our unrecognized tax benefits in the next twelve months due to either the expiration of a statute of limitations or a tax audit settlement.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to foreign currency exchange rate risks inherent in our sales commitments, anticipated sales, and assets and liabilities denominated in currencies other than the functional currency of our subsidiaries. We hedge future cash flows denominated in currencies other than the functional currency using sales forecasts up to twelve months in advance. Our exposure to exchange rate risks is managed on an enterprise-wide basis. This strategy utilizes derivative financial instruments, including option and forward contracts, to hedge certain foreign currency exposures with the intent of offsetting gains and losses that occur on the underlying exposures with gains and losses on the derivative contracts hedging them. We do not currently and do not intend to utilize derivative financial instruments for speculative trading purposes.

Our operations generate non-functional currency cash flows such as revenues, third party vendor payments and inter-company payments. In anticipation of these foreign currency cash flows and in view of volatility of the currency market, we enter into such foreign exchange contracts as are described above to manage our currency risk. Approximately 63 percent of our revenues in 2013, 63 percent of our revenues in 2012 and 64 percent of our revenues in 2011 were generated in U.S. dollars.

We performed a sensitivity analysis assuming a hypothetical 10 percent adverse movement in foreign exchange rates to the hedging contracts and the underlying exposures described above. As of October 31, 2013 and 2012, the analysis indicated that these hypothetical market movements would not have a material effect on our consolidated financial position, results of operations or cash flows.

We are also exposed to interest rate risk due to the mismatch between the interest expense we pay on our loans at fixed rates and the variable rates of interest we receive from cash, cash equivalents and other short-term investments. We have issued long-term debt in U.S. dollars or foreign currencies at fixed interest rates based on the market conditions at the time of financing. We believe that the fair value of our fixed rate debt changes when the underlying market rates of interest change, and we may use interest rate swaps to modify such market risk.

We performed a sensitivity analysis assuming a hypothetical 10 percent adverse movement in interest rates relating to the underlying fair value of our fixed rate debt. As of October 31, 2013 and 2012, the sensitivity analyses indicated that a hypothetical 10 percent adverse movement in interest rates would result in an immaterial impact to the fair value of our fixed interest rate debt.

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and related consolidated statements of operations, cash flows and equity present fairly, in all material respects, the financial position of Agilent Technologies, Inc. and its subsidiaries at October 31, 2013 and October 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2013, based on criteria established in *Internal Control - Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP
San Jose, California
December 19, 2013

AGILENT TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF OPERATIONS

	Years Ended October 31,		
	2013	2012	2011
	(in millions, except per share data)		
Net revenue:			
Products	\$ 5,534	\$ 5,659	\$ 5,482
Services and other	1,248	1,199	1,133
Total net revenue	<u>6,782</u>	<u>6,858</u>	<u>6,615</u>
Costs and expenses:			
Cost of products	2,576	2,608	2,473
Cost of services and other	671	646	613
Total costs	<u>3,247</u>	<u>3,254</u>	<u>3,086</u>
Research and development	704	668	649
Selling, general and administrative	1,880	1,817	1,809
Total costs and expenses	<u>5,831</u>	<u>5,739</u>	<u>5,544</u>
Income from operations	951	1,119	1,071
Interest income	7	9	14
Interest expense	(107)	(101)	(86)
Other income (expense), net	8	16	33
Income before taxes	859	1,043	1,032
Provision (benefit) for income taxes	135	(110)	20
Net income	<u>\$ 724</u>	<u>\$ 1,153</u>	<u>\$ 1,012</u>
Net income per share:			
Basic	\$ 2.12	\$ 3.31	\$ 2.92
Diluted	\$ 2.10	\$ 3.27	\$ 2.85
Weighted average shares used in computing net income per share:			
Basic	341	348	347
Diluted	345	353	355
Cash dividends declared per common share	\$ 0.46	\$ 0.30	\$ —

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

AGILENT TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in millions)

	Years Ended October 31,		
	2013	2012	2011
Net income	\$ 724	\$ 1,153	\$ 1,012
Other comprehensive income (loss):			
Change in unrealized gain on investments, net of tax expense (benefit) of \$2, \$(8) and \$0	7	6	(4)
Gain on derivative instruments, net of tax expense of \$2, \$3 and \$0	8	7	—
Amounts reclassified into earnings related to derivative instruments, net of tax benefit of \$(3), \$(2) and \$(2)	(10)	(6)	3
Foreign currency translation	1	(28)	94
Net defined benefit pension cost and post retirement plan costs:			
Change in actuarial net loss, net of tax expense (benefit) of \$114, \$(61), and \$(3)	228	(175)	(38)
Change in net prior service benefit, net of tax benefit of \$(16), \$(17), and \$0	(32)	(31)	149
Other comprehensive income (loss)	<u>202</u>	<u>(227)</u>	<u>204</u>
Total comprehensive income	<u>\$ 926</u>	<u>\$ 926</u>	<u>\$ 1,216</u>

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

**AGILENT TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEET**

	October 31,	
	2013	2012
	(in millions, except par value and share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,675	\$ 2,351
Accounts receivable, net	899	923
Inventory	1,066	1,014
Other current assets	343	341
Total current assets	4,983	4,629
Property, plant and equipment, net	1,134	1,164
Goodwill	3,047	3,025
Other intangible assets, net	916	1,086
Long-term investments	139	109
Other assets	467	523
Total assets	\$ 10,686	\$ 10,536
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 432	\$ 461
Employee compensation and benefits	401	387
Deferred revenue	439	420
Short-term debt	—	250
Other accrued liabilities	330	375
Total current liabilities	1,602	1,893
Long-term debt	2,699	2,112
Retirement and post-retirement benefits	294	554
Other long-term liabilities	802	792
Total liabilities	5,397	5,351
Commitments and contingencies (Note 17)		
Total equity:		
Stockholders' equity:		
Preferred stock; \$0.01 par value; 125 million shares authorized; none issued and outstanding	—	—
Common stock; \$0.01 par value; 2 billion shares authorized; 602 million shares at October 31, 2013 and 595 million shares at October 31, 2012 issued	6	6
Treasury stock at cost; 269 million shares at October 31, 2013 and 249 million shares at October 31, 2012	(9,607)	(8,707)
Additional paid-in-capital	8,723	8,489
Retained earnings	6,073	5,505
Accumulated other comprehensive income (loss)	91	(111)
Total stockholders' equity	5,286	5,182
Non-controlling interest	3	3
Total equity	5,289	5,185
Total liabilities and equity	\$ 10,686	\$ 10,536

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

AGILENT TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended October 31,		
	2013	2012	2011
	(in millions)		
Cash flows from operating activities:			
Net income	\$ 724	\$ 1,153	\$ 1,012
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	372	301	253
Share-based compensation	85	74	72
Excess tax benefit from share-based plans	(2)	—	—
Deferred taxes	31	(158)	38
Excess and obsolete inventory and inventory related charges	48	30	30
Non-cash restructuring and asset impairment charges	3	1	10
Net gain on sale of investments	(1)	(4)	(6)
Net (gain) loss on sale of assets and divestitures	3	2	2
Other	3	5	8
Changes in assets and liabilities:			
Accounts receivable, net	14	19	11
Inventory	(100)	(52)	(208)
Accounts payable	(27)	(31)	(35)
Employee compensation and benefits	16	(54)	24
Interest rate swap proceeds	—	—	65
Other assets and liabilities	(17)	(58)	(16)
Net cash provided by operating activities	<u>1,152</u>	<u>1,228</u>	<u>1,260</u>
Cash flows from investing activities:			
Investments in property, plant and equipment	(195)	(194)	(188)
Proceeds from the sale of property, plant and equipment	2	—	18
Proceeds from lease receivable	—	80	—
Proceeds from the sale of investment securities	12	5	16
Proceeds from divestitures	—	—	1
Payment to acquire equity method investment	(21)	—	—
Purchase of other investments	(25)	—	—
Change in restricted cash, cash equivalents and investments, net	—	—	1,545
Acquisitions of businesses and intangible assets, net of cash acquired	(21)	(2,257)	(98)
Net cash provided by (used in) investing activities	<u>(248)</u>	<u>(2,366)</u>	<u>1,294</u>
Cash flows from financing activities:			
Issuance of common stock under employee stock plans	161	100	304
Treasury stock repurchases	(900)	(172)	(497)
Payment of dividends	(156)	(104)	—
Issuance of senior notes	597	399	—
Debt issuance costs	(5)	(3)	—
Repayment of senior notes	(250)	(250)	—
Purchase of non-controlling interest	(3)	(6)	—
Repayment of debts and credit facility	—	(1)	(1,500)
Excess tax benefit from share-based plans	2	—	—
Net cash used in financing activities	<u>(554)</u>	<u>(37)</u>	<u>(1,693)</u>
Effect of exchange rate movements	(26)	(1)	17
Net increase (decrease) in cash and cash equivalents	324	(1,176)	878
Cash and cash equivalents at beginning of year	2,351	3,527	2,649
Cash and cash equivalents at end of year	<u>\$ 2,675</u>	<u>\$ 2,351</u>	<u>\$ 3,527</u>

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

AGILENT TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF EQUITY

	Common Stock			Treasury Stock			Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity	Non-Controlling Interests	Total Equity
	Number of Shares	Par Value	Additional Paid-in Capital	Number of Shares	Treasury Stock at Cost	Retained Earnings				
Balance as of October 31, 2010	578,827	\$ 6	\$ 7,904	(232,683)	\$ (8,038)	\$ 3,444	(88)	\$ 3,228	\$ 8	\$ 3,236
Components of comprehensive income, net of tax:										
Net income	—	—	—	—	—	1,012	—	1,012	—	1,012
Other comprehensive income	—	—	—	—	—	—	204	204	—	204
Total comprehensive income	11,841	—	289	—	—	—	—	289	—	1,216
Share-based awards issued	—	—	—	(11,603)	(497)	—	—	(497)	—	289
Repurchase of common stock	—	—	72	—	—	—	—	72	—	(497)
Share-based compensation	—	—	—	—	—	—	—	—	—	72
Balance as of October 31, 2011	590,668	\$ 6	\$ 8,265	(244,286)	\$ (8,535)	\$ 4,456	116	\$ 4,308	\$ 8	\$ 4,316
Components of comprehensive income, net of tax:										
Net income	—	—	—	—	—	1,153	—	1,153	—	1,153
Other comprehensive loss	—	—	—	—	—	—	(227)	(227)	—	(227)
Total comprehensive income	—	—	—	—	—	(104)	—	(104)	—	926
Cash dividends declared (\$0.30 per common share)	—	—	—	—	—	—	—	—	—	(104)
Change in non-controlling interest	—	—	—	—	—	—	—	—	(5)	(5)
Share-based awards issued	4,591	—	84	—	—	—	—	84	—	84
Cumulative excess tax benefits realized from share-based awards issued	—	—	66	—	—	—	—	66	—	66
Repurchase of common stock	—	—	—	(4,500)	(172)	—	—	(172)	—	(172)
Share-based compensation	—	—	74	—	—	—	—	74	—	74
Balance as of October 31, 2012	595,259	\$ 6	\$ 8,489	(248,786)	\$ (8,707)	\$ 5,505	(111)	\$ 5,182	\$ 3	\$ 5,185
Components of comprehensive income, net of tax:										
Net income	—	—	—	—	—	724	—	724	—	724
Other comprehensive income	—	—	—	—	—	—	202	202	—	202
Total comprehensive income	—	—	—	—	—	—	—	926	—	926
Cash dividends declared (\$0.46 per common share)	—	—	—	—	—	(156)	—	(156)	—	(156)
Change in non-controlling interest	—	—	—	—	—	—	—	—	—	—
Share-based awards issued	6,370	—	147	—	—	—	—	147	—	147
Tax benefit from share based awards issued	—	—	2	—	—	—	—	2	—	2
Repurchase of common stock	—	—	—	(20,544)	(900)	—	—	(900)	—	(900)
Share-based compensation	—	—	85	—	—	—	—	85	—	85
Balance as of October 31, 2013	601,629	\$ 6	\$ 8,723	(269,330)	\$ (9,607)	\$ 6,073	91	\$ 5,286	\$ 3	\$ 5,289

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

Notes to Consolidated Financial Statements

1. Overview and Summary of Significant Accounting Policies

Overview. Agilent Technologies, Inc. ("we", "Agilent" or the "company"), incorporated in Delaware in May 1999, is a measurement company, providing core bio-analytical and electronic measurement solutions to the life sciences, diagnostics and genomics, chemical analysis, communications and electronics industries.

Agilent Separation. On September 19, 2013, Agilent announced plans to separate into two publicly traded companies, one comprising of the life sciences, diagnostics and chemical analysis businesses that will retain the Agilent name, and the other that will be comprised of the electronic measurement business ("EM"). The separation is expected to occur through a tax-free pro rata spin off of the EM company to Agilent shareholders and is expected to be completed early in November 2014.

New Segment. We formed a new operating segment in the fourth fiscal quarter of 2013. The new life sciences and diagnostics segment was formed by the combination of the life sciences business plus the diagnostics and genomics business. Following this reorganization, Agilent has three business segments comprised of the life sciences and diagnostics business, the chemical analysis business and the electronic measurement business. The historical segment financial information for the life sciences and diagnostics segment has been recast to conform to this new reporting structure in our financial statements.

Acquisition of Dako A/S. On June 21, 2012, we completed our acquisition of Dako A/S through the acquisition of 100% of the share capital of Dako A/S, a limited liability company incorporated under the laws of Denmark ("Dako"), under the share purchase agreement, dated May 16, 2012. Dako provides antibodies, reagents, scientific instruments and software primarily to customers in pathology laboratories. As a result of the acquisition, Dako became a wholly-owned subsidiary of Agilent. The consideration paid was approximately \$2,143 million, of which \$1,400 million was paid directly to the seller and \$743 million was paid to satisfy the outstanding debt of Dako. Agilent funded the acquisition using existing cash. The acquisition has been accounted for in accordance with the authoritative accounting guidance and the results of Dako are included in Agilent's consolidated financial statements from the date of acquisition. The acquisition of Dako and its portfolio was another step to increase our growth in several rapidly expanding areas of diagnostics, including atomic pathology and molecular diagnostics, as well as strengthen our existing offerings with a focus on product development to help in the fight against cancer. For additional details related to the acquisition of Dako, see Note 3, "Acquisitions".

Basis of presentation. The accompanying financial data has been prepared by us pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") and is in conformity with U.S. generally accepted accounting principles ("GAAP"). Our fiscal year end is October 31. Unless otherwise stated, all years and dates refer to our fiscal year.

In the first quarter of 2013, we adopted the updated authoritative guidance that increases the prominence of items reported in other comprehensive income. For additional details related to the updated authoritative guidance, see Note 2, "New Accounting Pronouncements".

Revisions. The statement of cash flows for the year ended October 31, 2012 has been revised to correct the presentation of the purchase of non-controlling interest from investing to financing activities and is not considered material. There was no impact on previously reported net income or the change in net cash for the year ended October 31, 2012. In Note 10, "Goodwill and Other Intangible Assets", the presentation of goodwill has been revised as of October 31, 2012 and 2011 to correct the allocation of goodwill between segments and is not considered material. There was no impact to the previously reported total balance of goodwill as of October 31, 2012 and 2011.

Reclassifications. Segment disclosure amounts have been reclassified to conform to the current year presentation with no impact on previously reported net income.

Management is responsible for the fair presentation of the accompanying consolidated financial statements, prepared in accordance with U.S. GAAP, and has full responsibility for their integrity and accuracy.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary to present fairly our consolidated balance sheet, statement of operations, statement of comprehensive income, statement of cash flows and statement of equity for all periods presented.

Principles of consolidation. The consolidated financial statements include the accounts of the company and our 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 U.S. requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates. Our critical accounting policies are those that affect our financial statements materially and involve difficult, subjective or complex judgments by management. Those policies are revenue recognition, valuation of goodwill and purchased intangible assets, inventory valuation, share-based compensation, retirement and post-retirement plan assumptions, restructuring and accounting for income taxes.

Revenue recognition. We enter into agreements to sell products (hardware and/or software), services and other arrangements (multiple element arrangements) that include combinations of products and services.

We recognize revenue, net of trade discounts and allowances, provided that (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the price is fixed or determinable and (4) collectability is reasonably assured. Delivery is considered to have occurred when title and risk of loss have transferred to the customer, for products, or when the service has been provided. We consider the price to be fixed or determinable when the price is not subject to refund or adjustments. We consider arrangements with extended payment terms not to be fixed or determinable, and accordingly we defer revenue until amounts become due. At the time of the transaction, we evaluate the creditworthiness of our customers to determine the appropriate timing of revenue recognition.

Product revenue. Our product revenue is generated predominantly from the sales of various types of test equipment. Product revenue, including sales to resellers and distributors, is reduced for estimated returns, when appropriate. For sales or arrangements that include customer-specified acceptance criteria, including those where acceptance is required upon achievement of performance milestones, revenue is recognized after the acceptance criteria have been met. For products that include installation, if the installation meets the criteria to be considered a separate element, product revenue is recognized upon delivery, and recognition of installation revenue is delayed until the installation is complete. Otherwise, neither the product nor the installation revenue is recognized until the installation is complete.

Where software is licensed separately, revenue is recognized when the software is delivered and has been transferred to the customer or, in the case of electronic delivery of software, when the customer is given access to the licensed software programs.

We also evaluate whether collection of the receivable is probable, the fee is fixed or determinable and whether any other undelivered elements of the arrangement exist on which a portion of the total fee would be allocated based on vendor-specific objective evidence.

Service revenue. Revenue from services includes extended warranty, customer and software support, consulting, training and education. Service revenue is deferred and recognized over the contractual period or as services are rendered and accepted by the customer. For example, customer support contracts are recognized ratably over the contractual period, while training revenue is recognized as the training is provided to the customer. In addition the four revenue recognition criteria described above must be met before service revenue is recognized.

Revenue Recognition for Arrangements with Multiple Deliverables. Our multiple-element arrangements are generally comprised of a combination of measurement instruments, installation or other start-up services, and/or software and/or support or services. Hardware and software elements are typically delivered at the same time and revenue is recognized upon delivery once title and risk of loss pass to the customer. Delivery of installation, start-up services and other services varies based on the complexity of the equipment, staffing levels in a geographic location and customer preferences, and can range from a few days to a few months. Service revenue is deferred and recognized over the contractual period or as services are rendered and accepted by the customer. Revenue from the sale of software products that are not required to deliver the tangible product's essential functionality are accounted for under software revenue recognition rules which require vendor specific objective evidence ("VSOE") of fair value to allocate revenue in a multiple element arrangement. Our arrangements generally do not include any provisions for cancellation, termination, or refunds that would significantly impact recognized revenue.

We have evaluated the deliverables in our multiple-element arrangements and concluded that they are separate units of accounting if the delivered item or items have value to the customer on a standalone basis and for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. We allocate revenue to each element in our multiple-element arrangements based upon their relative selling prices. We determine the selling price for each deliverable based on a selling price hierarchy. The selling price for a deliverable is based on VSOE if available, third-party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. Revenue allocated to each element is then recognized when the basic revenue recognition criteria for that element have been met.

We use VSOE of selling price in the selling price allocation in all instances where it exists. VSOE of selling price for products and services is determined when a substantial majority of the selling prices fall within a reasonable range when sold separately. TPE of selling price can be established by evaluating largely interchangeable competitor products or services in standalone sales to similarly situated customers. As our products contain a significant element of proprietary technology and the solution offered differs substantially from that of competitors, it is difficult to obtain the reliable standalone competitive pricing necessary to establish TPE. ESP represents the best estimate of the price at which we would transact a sale if the product or service were sold on a standalone basis. We determine ESP for a product or service by using historical selling prices which reflect multiple factors including, but not limited to customer type, geography, market conditions, competitive landscape, gross margin objectives and pricing practices. The determination of ESP is made through consultation with and approval by management. We may modify or develop new pricing practices and strategies in the future. As these pricing strategies evolve in changes may occur in ESP. The aforementioned factors may result in a different allocation of revenue to the deliverables in multiple element arrangements, which may change the pattern and timing of revenue recognition for these elements but will not change the total revenue recognized for the arrangement.

Deferred revenue. Deferred revenue represents the amount that is allocated to undelivered elements in multiple element arrangements. We limit the revenue recognized to the amount that is not contingent on the future delivery of products or services or meeting other specified performance conditions.

Accounts receivable, net. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Such accounts receivable has been reduced by an allowance for doubtful accounts, which is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on customer specific experience and the aging of such receivables, among other factors. The allowance for doubtful accounts as of October 31, 2013 and 2012 was not material. We do not have any off-balance-sheet credit exposure related to our customers. Accounts receivable are also recorded net of product returns.

Share-based compensation. For the years ended 2013, 2012 and 2011, we accounted for share-based awards made to our employees and directors including employee stock option awards, restricted stock units, employee stock purchases made under our Employee Stock Purchase Plan ("ESPP") and performance share awards under Agilent Technologies, Inc. Long-Term Performance Program ("LTPP") using the estimated grant date fair value method of accounting. Under the fair value method, we recorded compensation expense for all share-based awards of \$88 million in 2013, \$76 million in 2012 and \$73 million in 2011.

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. We assess the valuation of our inventory on a periodic basis and make adjustments to the value for estimated excess and obsolete inventory based on estimates about future demand. The excess balance determined by this analysis becomes the basis for our excess inventory charge. Our excess inventory review process includes analysis of sales forecasts, managing product rollovers and working with manufacturing to maximize recovery of excess inventory.

Warranty. Our standard warranty terms typically extend for one year from the date of delivery. During the second fiscal quarter of 2013 typical standard warranty arrangements within our electronic measurement business were extended from one year to three years from the date of delivery. Prior to the change in standard warranty terms, we sold extended warranties of more than one year and less than three years which were deferred. Those existing warranties greater than one year and less than three years and previously classified as extended warranties will be amortized over the original period of the warranty. We will continue to sell extended warranties for terms beyond three years within the electronic measurement business. The impact will not be material to the segment or consolidated revenue of Agilent and the anticipated increase to the warranty accrual as a result of the new arrangements will not be material to the consolidated balance sheet of Agilent. No changes were made to the standard and extended warranty terms within our other businesses. We accrue for standard warranty costs based on historical trends in warranty charges as a percentage of net product revenue. The accrual is reviewed regularly and periodically adjusted to reflect changes in warranty cost estimates. Estimated warranty charges are recorded within cost of products at the time products are sold. See Note 16, "Guarantees".

Taxes on income. Income tax expense or benefit is based on income or loss 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.

Shipping and handling costs. Our shipping and handling costs charged to customers are included in net revenue, and the associated expense is recorded in cost of products for all periods presented.

Goodwill and Purchased Intangible Assets. In September 2011, the FASB approved changes to the goodwill impairment guidance which are intended to reduce the cost and complexity of the annual impairment test. The changes provide entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The revised standard gives an entity the option to first assess qualitative factors to determine whether performing the current two-step test is necessary. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not (i.e. > 50% chance) that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test will be required. Otherwise, no further testing will be required.

The revised guidance includes examples of events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount. These include macro-economic conditions such as deterioration in the entity's operating environment or industry or market considerations; entity-specific events such as increasing costs, declining financial performance, or loss of key personnel; or other events such as an expectation that a reporting unit will be sold or a sustained decrease in the stock price on either an absolute basis or relative to peers. Agilent opted to early adopt this guidance for the year ended October 31, 2011.

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the provisions of authoritative guidance require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. The second step (if necessary) measures the amount of impairment by applying fair-value-based tests to the individual assets and liabilities within each reporting unit. As defined in the authoritative guidance, a reporting unit is an operating segment, or one level below an operating segment. We aggregated components of operating segments that have similar economic characteristics into our reporting units. In October 2013, we combined the life sciences and diagnostics and genomics segments to form the life sciences and diagnostics segment. As a result, Agilent now has three segments, life sciences and diagnostics, chemical analysis, and electronic measurement segments.

In fiscal year 2013, we assessed goodwill impairment for our four reporting units which consisted of two segments: chemical analysis and electronic measurement; and two reporting units under the life sciences and diagnostics segment. The first of these two reporting units related to our life sciences business and the second related to our diagnostics business. We performed a qualitative test for goodwill impairment of the following three reporting units, as of September 30, 2013: the chemical analysis segment, the electronic measurement segment, and the reporting unit relating to life sciences. Based on the results of our qualitative testing, we believe that it is more-likely-than-not that the fair value of these reporting units are greater than their respective carrying values. We performed a quantitative test for goodwill impairment of the reporting unit related to our diagnostics business as of September 30, 2013. Based on the results of our quantitative testing, the fair value was significantly in excess of the carrying value. There was no impairment of goodwill during the years ended October 31, 2013, 2012 and 2011. Each quarter we review the events and circumstances to determine if goodwill impairment is indicated.

Purchased intangible assets consist primarily of acquired developed technologies, proprietary know-how, trademarks, and customer relationships and are amortized using the straight-line method over estimated useful lives ranging from 6 months to 15 years. In-process research and development ("IPR&D") is initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When the IPR&D project is complete, it is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. If an IPR&D project is abandoned, Agilent will record a charge for the value of the related intangible asset to Agilent's consolidated statement of operations in the period it is abandoned.

In July 2012, the FASB simplified the guidance for testing for impairment of indefinite-lived intangible assets other than goodwill. The changes are intended to reduce compliance costs. Agilent's indefinite-lived intangible assets are IPR&D intangible assets. The revised guidance allows a qualitative approach for testing indefinite-lived intangible assets for impairment, similar to the impairment testing guidance for goodwill. It allows the option to first assess qualitative factors (events and circumstances) that could affect the significant inputs used in determining the fair value of the indefinite-lived intangible asset. The qualitative factors assist in determining whether it is more likely than not (meaning a likelihood of more than 50 percent) that the indefinite-lived intangible asset is impaired. An organization may choose to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to calculating its fair value. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption was permitted. Agilent adopted this guidance for the year ended October 31, 2012. Based on the quantitative test, we recorded an impairment of \$1 million in 2013 and an impairment of \$1 million in 2012, both relating to IPR&D projects that were abandoned. In all other instances we used the qualitative test and concluded that it was more likely than not that all other indefinite-lived intangible assets were not impaired. No impairments were recorded in 2011.

Advertising. Advertising costs are expensed as incurred and amounted to \$44 million in 2013, \$50 million in 2012 and \$55 million in 2011.

Research and development. Costs related to research, design and development of our products are charged to research and development expense as they are incurred.

Sales Taxes. Sales taxes collected from customers and remitted to governmental authorities are not included in our revenue.

Net income per share. Basic net income per share is computed by dividing net income - the numerator - by the weighted average number of common shares outstanding - the denominator - during the period excluding the dilutive effect of stock options and other employee stock plans. Diluted net income per share gives effect to all potentially dilutive common stock equivalents outstanding during the period. The dilutive effect of share-based awards is reflected in diluted net income per share by application of the treasury stock method, which includes consideration of unamortized share-based compensation expense, the tax benefits and shortfalls charged to additional paid-in capital and the dilutive effect of in-the-money options and non-vested restricted stock units. Under the treasury stock method, the amount the employee must pay for exercising stock options, unamortized share-based compensation expense and tax benefits or shortfalls are assumed proceeds to be used to repurchase hypothetical shares. See Note 6, "Net Income Per Share".

Cash, cash equivalents and short term investments. We classify investments as cash equivalents if their original or remaining maturity is three months or less at the date of purchase. Cash equivalents are stated at cost, which approximates fair value.

As of October 31, 2013, approximately \$2,552 million of our cash and cash equivalents is held outside of the U.S. in our foreign subsidiaries. Under current tax laws, most of the cash could be repatriated to the U.S. but it would be subject to U.S. federal and state income taxes, less applicable foreign tax credits. Our cash and cash equivalents mainly consist of short term deposits held at major global financial institutions, institutional money market funds, and similar short duration instruments with original maturities of 90 days or less. We continuously monitor the creditworthiness of the financial institutions and institutional money market funds in which we invest our funds.

We classify investments as short-term investments if their original maturities are greater than three months and their remaining maturities are one year or less.

Fair Value of Financial Instruments. The carrying values of certain of our financial instruments including cash and cash equivalents, accounts receivable, accounts payable, accrued compensation and other accrued liabilities approximate fair value because of their short maturities. The fair value of long-term equity investments is determined using quoted market prices for those securities when available. For those long-term equity investments accounted for under the cost or equity method, their carrying value approximates their estimated fair value. Equity method investments are reported at the amount of the company's initial investment and adjusted each period for the company's share of the investee's income or loss and dividend paid. The fair value of our long-term debt, calculated from quoted prices which are primarily Level 1 inputs under the accounting guidance fair value hierarchy, exceeds the carrying value by approximately \$112 million and \$210 million as of October 31, 2013 and 2012, respectively. The fair value of foreign currency contracts used for hedging purposes is estimated internally by using inputs tied to active markets. These inputs, for example, interest rate yield curves, foreign exchange rates, and forward and spot prices for currencies are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. See also Note 12, "Fair Value Measurements" for additional information on the fair value of financial instruments.

Concentration of credit risk. Financial instruments that potentially subject Agilent to significant concentration of credit risk include money market fund investments, time deposits and demand deposit balances. These investments are categorized as cash and cash equivalents and long-term investments. In addition, Agilent has credit risk from derivative financial instruments used in hedging activities and accounts receivable. We invest in a variety of financial instruments and limit the amount of credit exposure with any one financial institution. We have a comprehensive credit policy in place and credit exposure is monitored on an ongoing basis.

Credit risk with respect to our accounts receivable is diversified due to the large number of entities comprising our customer base and their dispersion across many different industries and geographies. Credit evaluations are performed on customers requiring credit over a certain amount and we sell the majority of our products through our direct sales force. Credit risk is mitigated through collateral such as letter of credit, bank guarantees or payment terms like cash in advance. Credit evaluation is performed by an independent team to ensure proper segregation of duties. No single customer accounted for more than 10 percent of combined accounts receivable as of October 31, 2013, or 2012.

Derivative instruments. Agilent is exposed to global foreign currency exchange rate and interest rate risks in the normal course of business. We enter into foreign exchange hedging contracts, primarily forward contracts and purchased options and, in the past, interest rate swaps to manage financial exposures resulting from changes in foreign currency exchange rates and interest rates. In the vast majority of cases, these contracts are designated at inception as hedges of the related foreign currency or interest exposures. Foreign currency exposures include committed and anticipated revenue and expense transactions and assets and liabilities that are denominated in currencies other than the functional currency of the subsidiary. Interest rate exposures are associated with the company's fixed-rate debt. For option contracts, we exclude time value from the

measurement of effectiveness. To qualify for hedge accounting, contracts must reduce the foreign currency exchange rate and interest rate risk otherwise inherent in the amount and duration of the hedged exposures and comply with established risk management policies; foreign exchange hedging contracts generally mature within twelve months and interest rate swaps, if any, mature at the same time as the maturity of the debt. In order to manage foreign currency exposures in a few limited jurisdictions we may enter into foreign exchange contracts that do not qualify for hedge accounting. In such circumstances, the local foreign currency exposure is offset by contracts owned by the parent company. We do not use derivative financial instruments for speculative trading purposes.

All derivatives are recognized on the balance sheet at their fair values. For derivative instruments that are designated and qualify as a fair value hedge, changes in value of the derivative are recognized in the consolidated statement of operations in the current period, along with the offsetting gain or loss on the hedged item attributable to the hedged risk. For derivative instruments that are designated and qualify as a cash flow hedges, changes in the value of the effective portion of the derivative instrument is recognized in accumulated comprehensive income, a component of stockholders' equity. Amounts associated with cash flow hedges are reclassified and recognized in income when either the forecasted transaction occurs or it becomes probable the forecasted transaction will not occur. Derivatives not designated as hedging instruments are recorded on the balance sheet at their fair value and changes in the fair values are recorded in the income statement in the current period. Derivative instruments are subject to master netting arrangements and qualify for net presentation in the balance sheet. Changes in the fair value of the ineffective portion of derivative instruments are recognized in earnings in the current period. Ineffectiveness in 2013, 2012 and 2011 was not material. Cash flows from derivative instruments are classified in the statement of cash flows in the same category as the cash flows from the hedged or economically hedged item, primarily in operating activities.

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 our general ledger, and the resulting gain or loss is reflected in the consolidated statement of operations. Buildings and improvements are depreciated over the lesser of their useful lives or the remaining term of the lease and machinery and equipment over three to ten years. We use the straight-line method to depreciate assets.

Leases. We lease buildings, machinery and equipment under operating leases for original terms ranging generally from one year to twenty years. Certain leases contain renewal options for periods up to six years. As of October 31, 2013 our life sciences and diagnostics segment has approximately \$4 million of lease receivables for capital leases and \$35 million of net assets for operating leases. We depreciate the assets related to the operating leases over their estimated useful lives.

Capitalized software. We capitalize certain internal and external costs incurred to acquire or create internal use software. Capitalized software is included in property, plant and equipment and is depreciated over three to five years once development is complete.

Impairment of long-lived assets. We continually monitor 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 occur, we assess 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 undiscounted future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets.

Restructuring. The main component of our restructuring plan is related to workforce reductions. Workforce reduction charges are accrued when payment of benefits becomes probable that the employees are entitled to the severance and the amounts can be estimated. If the amounts and timing of cash flows from restructuring activities are significantly different from what we have estimated, the actual amount of restructuring and other related charges could be materially different, either higher or lower, than those we have recorded.

Employee compensation and benefits. Amounts owed to employees, such as accrued salary, bonuses and vacation benefits are accounted for within employee compensation and benefits. The total amount of accrued vacation benefit was \$158 million and \$156 million as of October 31, 2013, and 2012, respectively.

Foreign currency translation. We translate and remeasure balance sheet and income statement items into U.S. dollars. For those subsidiaries that operate in a local currency functional environment, all assets and liabilities are translated into U.S. dollars using current exchange rates at the balance sheet date; revenue and expenses are translated using monthly exchange rates which approximate to average exchange rates in effect during each period. Resulting translation adjustments are reported as a separate component of accumulated other comprehensive income (loss) in stockholders' equity.

For those subsidiaries that operate in a U.S. dollar functional environment, foreign currency assets and liabilities are remeasured into U.S. dollars at current exchange rates except for nonmonetary assets and capital accounts which are remeasured at historical exchange rates. Revenue and expenses are generally remeasured at monthly exchange rates which approximate average exchange rates in effect during each period. Gains or losses from foreign currency remeasurement are included in consolidated net income. Net gains or losses resulting from foreign currency transactions, including hedging gains and losses, are reported in other income (expense), net and was \$6 million loss for fiscal year 2013, \$19 million loss for 2012 and \$1 million loss for 2011, respectively. The loss recorded for fiscal year 2012 includes \$14 million of loss associated with the settlement of currency contracts entered into for the purchase of Dako.

2. New Accounting Pronouncements

In June 2011, the FASB issued guidance related to the presentation of comprehensive income. The guidance aims to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. In the first quarter of 2013, we adopted the updated authoritative guidance that increases the prominence of items reported in other comprehensive income. The updated authoritative guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in equity and requires that changes in other comprehensive income be presented either as a single continuous statement of comprehensive income or in two but consecutive statements. The adoption of the updated authoritative guidance did impact the presentation of comprehensive income, as we have elected to present two separate but consecutive statements, but did not have an impact on our financial position or results of operations.

In December 2011, the FASB issued guidance related to the enhanced disclosures that will enable the users of financial statements to evaluate the effect or potential effect of netting arrangements of an entity's financial position. The amendments require improved information about financial instruments and derivative instruments that are either offset or subject to enforceable master netting arrangements or similar agreement. The guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. We do not expect a material impact to our consolidated financial statements due to the adoption of this guidance.

In February 2013, the FASB issued the guidance for reporting of amounts reclassified out of accumulated other comprehensive income. The revised guidance requires reporting the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures that provide additional detail about these amounts. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. The guidance is effective prospectively for annual reporting periods beginning after December 15, 2012 and interim periods within those years. Early adoption is permitted. We do not expect a material impact to our consolidated financial statements due to the adoption of this guidance.

In March 2013, the FASB issued an amendment to the accounting guidance on foreign currency matters in order to clarify the guidance for the release of cumulative translation adjustment. The guidance requires that a

parent deconsolidate a subsidiary or derecognize a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) if the parent ceases to have a controlling financial interest in that group of assets. The guidance is effective for interim and annual periods beginning on or after December 15, 2013. We do not expect a material impact to our consolidated financial statements due to the adoption of this guidance.

In July 2013, the FASB issued an amendment to the accounting guidance related to the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. The guidance requires an unrecognized tax benefit to be presented as a decrease in a deferred tax asset where a net operating loss, a similar tax loss, or a tax credit carryforward exists and certain criteria are met. This guidance is effective prospectively for annual and interim reporting periods beginning after December 15, 2013 and is consistent with our current practice.

Other amendments to GAAP in the U.S. that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.

3. Acquisitions

Acquisition of Dako

On June 21, 2012, we completed the acquisition of Dako through the acquisition of 100% of share capital of Dako, a limited liability company incorporated under the laws of Denmark, under the share purchase agreement, dated May 16, 2012. As a result of the acquisition, Dako has become a wholly-owned subsidiary of Agilent. Accordingly, the results of Dako are included in Agilent's consolidated financial statements from the date of the acquisition. For the period from June 22, 2012 to October 31, 2012, Dako's net revenue was \$126 million and net loss was \$37 million. The acquisition of Dako and its portfolio is another step to increase our growth in several rapidly expanding areas of diagnostics, including anatomic pathology and molecular diagnostics, as well as strengthen our existing offerings with a focus on product development to help in the fight against cancer.

The consideration paid was approximately \$2,143 million, of which \$1,400 million was paid directly to the seller and \$743 million was paid to satisfy outstanding debt. Agilent funded the acquisition using existing cash. In connection with the acquisition of Dako, Agilent entered into several foreign currency forward contracts to mitigate the currency exchange risk associated with the payment of the purchase price in Danish Krone and the repayment of debt in multiple currencies. The aggregate notional amount of the currencies hedged was \$1.7 billion. These foreign exchange contracts did not qualify for hedge accounting treatment and were not designated as hedging instruments. The resulting loss on settlement, on the date of acquisition, was \$14 million and was recorded in other income (expense) in the consolidated statement of operations for the year ended October 31, 2012.

The Dako acquisition was accounted for in accordance with the authoritative accounting guidance. The acquired assets and assumed liabilities were recorded by Agilent at their estimated fair values. Agilent determined the estimated fair values with the assistance of appraisals or valuations performed by third party specialists, discounted cash flow analyses, and estimates made by management. We expect to realize revenue synergies, leverage and expand the existing sales channels and product development resources, and utilize the assembled workforce. The company also anticipates opportunities for growth through expanded geographic and customer segment diversity and the ability to leverage additional products and capabilities. These factors, among others, contributed to a purchase price in excess of the estimated fair value of Dako's net identifiable assets acquired (see summary of net assets below), and, as a result, we have recorded goodwill in connection with this transaction.

All goodwill was allocated to the life sciences and diagnostics segment. We do not expect the goodwill recognized to be deductible for income tax purposes. Any impairment charges made in the future associated with goodwill will not be tax deductible.

A portion of the overall purchase price was allocated to acquired intangible assets. Amortization expense associated with acquired intangible assets is not deductible for tax purposes. Therefore, approximately \$185 million was established as a deferred tax liability for the future amortization of these intangibles and is included in "other long-term liabilities" in the table below.

The following table summarizes the allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed on the closing date of June 21, 2012 (in millions):

Cash and cash equivalents	\$ 11
Accounts receivable	96
Inventories	90
Other current assets	5
Property, plant and equipment	146
Long term investments	11
Intangible assets	738
Other assets	13
Goodwill	<u>1,382</u>
Total assets acquired	<u>2,492</u>
Accounts payable	(24)
Employee compensation and benefits	(24)
Other accrued liabilities	(47)
Long-term debt	(43)
Other long-term liabilities	<u>(211)</u>
Net assets acquired	<u><u>\$ 2,143</u></u>

The fair value of cash and cash equivalents, accounts receivable, other current assets, accounts payable and other accrued liabilities were generally determined using historical carrying values given the short-term nature of these assets and liabilities.

The fair values for acquired inventory, property, plant and equipment, and intangible assets were determined with the input from third party valuation specialists.

The fair values of certain other assets, investments, long-term debt, and certain other long-term liabilities were determined internally using historical carrying values and estimates made by management.

Valuations of intangible assets acquired

The components of intangible assets acquired in connection with the Dako acquisition were as follows (in millions):

	<u>Fair Value</u>	<u>Estimated Useful Life</u>
Developed product technology	\$ 287	8 - 9 years
Customer relationships	140	4 years
Tradenames and trademarks	128	12 years
Total intangible assets subject to amortization	<u>555</u>	
In-process research and development	183	
Total intangible assets	<u>\$ 738</u>	

As noted above, the intangible assets, including in-process research and development, were valued with input from valuation specialists. The In-Process Research and Development was valued using the multi-period excess earnings method under the income approach by discounting forecasted cash flows directly related to the products expecting to result from the projects, net of returns on contributory assets. The primary in-process project acquired relates to a major new product platform which was released and amortization began in the second quarter of fiscal 2013. See also Note 10, "Goodwill and other Intangible assets" for additional information. Total costs to complete for all Dako In- Process Research and Development were estimated at approximately \$49 million over time as of the close date.

Acquisition and integration costs directly related to the Dako acquisition totaled \$15 million and \$15 million for the years ended October 31, 2013 and 2012, respectively and were recorded in selling, general and administrative expenses. Such costs are expensed in accordance with the authoritative accounting guidance.

The following represents pro forma operating results as if Dako had been included in the company's consolidated statements of operations as of the beginning of fiscal 2011 (in millions, except per share amounts):

	<u>2012</u>	<u>2011</u>
Net revenue	\$ 7,100	\$ 6,976
Net income	\$ 1,145	\$ 909
Net income per share — basic	\$ 3.29	\$ 2.62
Net income per share — diluted	\$ 3.24	\$ 2.56

The pro forma financial information assumes that the companies were combined as of November 1, 2010 and include business combination accounting effects from the acquisition including amortization charges from acquired intangible assets, the impact on cost of sales due to the respective estimated fair value adjustments to inventory, changes to interest income for cash used in the acquisition, interest expense and currency losses associated with debt paid in connection with the acquisition and acquisition related transaction costs and tax related effects. The pro forma information as presented above is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal 2011.

The unaudited pro forma financial information for the year ended October 31, 2012 combines the historical results of Agilent for the year ended October 31, 2012 (which includes Dako after the acquisition date) and for Dako for the six months ended March 31, 2012 and the two months ended May 31, 2012.

The unaudited pro forma financial information for the year ended October 31, 2011 combines the historical results of Agilent for the year ended October 31, 2011 and for Dako the year ended December 31, 2011 (due to differences in reporting periods).

The unaudited pro financial information for the years ended October 31, 2012 and 2011 includes the fourth quarter of Dako's calendar reporting period, October 1, 2011 to December 31, 2011, in both years.

4. Share-based Compensation

Agilent accounts for share-based awards in accordance with the provisions of the revised accounting guidance which requires the measurement and recognition of compensation expense for all share-based payment awards made to our employees and directors including employee stock option awards, restricted stock units, employee stock purchases made under our ESPP and performance share awards granted to selected members of our senior management under the LTPP based on estimated fair values.

Description of Share-Based Plans

Employee stock purchase plan. Effective November 1, 2000, we adopted the ESPP. The ESPP allows eligible employees to contribute up to ten percent of their base compensation to purchase shares of our common stock at 85 percent of the closing market price at purchase date. Shares authorized for issuance in connection with the ESPP are subject to an automatic annual increase of the lesser of one percent of the outstanding shares of common stock of Agilent on November 1, or an amount determined by the Compensation Committee of our Board of Directors. Under the terms of the ESPP, in no event shall the number of shares issued under the ESPP exceed 75 million shares.

Under our ESPP, employees purchased 1,454,724 shares for \$48 million in 2013, 1,405,774 shares for \$47 million in 2012 and 1,205,431 shares for \$43 million in 2011. As of October 31, 2013, the number of shares of common stock authorized and available for issuance under our ESPP was 37,709,692. This excludes the number of shares of common stock to be issued to participants in consideration of the aggregate participant contributions totaling \$23 million as of October 31, 2013.

Incentive compensation plans. On November 19, 2008 and March 11, 2009, the Compensation Committee of Board of Directors and the stockholders, respectively, approved the Agilent Technologies, Inc. 2009 Stock Plan (the "2009 Stock Plan") to replace the Company's 1999 Stock Plan and 1999 Stock Non-Employee Director Stock Plan and subsequently reserved 25 million shares of Company common stock that may be issued under the 2009 Plan, plus any shares forfeited or cancelled under the 1999 Stock Plan. The 2009 Stock Plan provides for the grant of awards in the form of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units ("RSUs"), performance shares and performance units with performance-based conditions on vesting or exercisability, and cash awards. The 2009 Plan has a term of ten years. As of October 31, 2013, 12,522,185 shares were available for future awards under the 2009 Stock Plan.

Stock options granted under the 2009 Stock Plans 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 and generally have a maximum contractual term of ten years. The exercise price for stock options is generally not less than 100 percent of the fair market value of our common stock on the date the stock award is granted.

Effective November 1, 2003, the Compensation Committee of the Board of Directors approved the LTPP, which is a performance stock award program administered under the 2009 Stock Plan, for the company's executive officers and other key employees. Participants in this program are entitled to receive unrestricted shares of the company's stock after the end of a three-year period, if specified performance targets are met. LTPP awards are generally designed to meet the criteria of a performance award with the performance metrics and peer group comparison set at the beginning of the performance period. Based on the performance metrics the final award may vary from zero to 200 percent of the target award. The maximum contractual term for awards under the LTPP program is three years. We consider the dilutive impact of this program in our diluted net income per share calculation only to the extent that the performance conditions are met.

In March 2007, we began to issue restricted stock units under our share-based plans. The estimated fair value of the restricted stock unit awards granted under the Stock Plans is determined based on the market price of

Agilent's common stock on the date of grant adjusted for expected dividend yield. Restricted stock units generally vest, with some exceptions, at a rate of 25 percent per year over a period of four years from the date of grant.

Impact of Share-based Compensation Awards

We have recognized compensation expense based on the estimated grant date fair value method under the authoritative guidance. For all share-based awards we have recognized compensation expense using a straight-line amortization method. As the guidance requires that share-based compensation expense be based on awards that are ultimately expected to vest, estimated share-based compensation has been reduced for estimated forfeitures.

The impact on our results for share-based compensation was as follows:

	Years Ended October 31,		
	2013	2012	2011
	(in millions)		
Cost of products and services	\$ 20	\$ 16	\$ 16
Research and development	12	10	10
Selling, general and administrative	56	50	47
Total share-based compensation expense	<u>\$ 88</u>	<u>\$ 76</u>	<u>\$ 73</u>

At October 31, 2013 and 2012 there was no share-based compensation capitalized within inventory. The windfall income tax benefit realized from the exercised stock options and similar awards recognized was \$2 million in 2013 and zero in 2012 and 2011, respectively. The weighted average grant date fair value of options, granted in 2013, 2012 and 2011 was \$12.18, \$13.69 and \$12.48 per share, respectively.

Included in the 2013 expense is incremental expense for acceleration of share-based compensation related to the announced workforce reduction plan of \$3 million. In 2012 and 2011 the expense for the acceleration of share-based compensation related to the announced workforce reduction plan was immaterial. Upon termination of the employees impacted by workforce reduction, the non-vested Agilent awards held by these employees immediately vests. Employees have a period of up to three months in which to exercise the Agilent options before such options are cancelled.

Valuation Assumptions

For all periods presented, the fair value of share based awards for employee stock option awards was estimated using the Black-Scholes option pricing model. For all periods presented, shares granted under the LTPP were valued using a Monte Carlo simulation. The estimated fair value of restricted stock unit awards was determined based on the market price of Agilent's common stock on the date of grant adjusted for expected dividend yield. On January 17, 2012, the company's Board of Directors approved the initiation of quarterly cash dividends to the company's shareholders. The fair value of all the awards granted prior to the declaration of quarterly cash dividend was measured based on an expected dividend yield of 0%. The ESPP allows eligible employees to purchase shares of our common stock at 85 percent of the fair market value at the purchase date.

The following assumptions were used to estimate the fair value of employee stock options and LTTP grants.

	Years Ended October 31,		
	2013	2012	2011
Stock Option Plans:			
Weighted average risk-free interest rate	0.86%	0.88%	1.49%
Dividend yield	1%	0%	0%
Weighted average volatility	39%	38%	35%
Expected life	5.8 years	5.8 years	5.8 years
LTTP:			
Volatility of Agilent shares	37%	41%	40%
Volatility of selected peer-company shares	6%-64%	17%-75%	20%-76%
Price-wise correlation with selected peers	49%	62%	55%

Both the Black-Scholes and Monte Carlo simulation fair value models require the use of highly subjective and complex assumptions, including the option's expected life and the price volatility of the underlying stock. For all the years presented, the expected stock price volatility assumption was determined using the historical volatility of Agilent's stock options over the most recent historical period equivalent to the expected life.

For the grants awarded under the 2009 stock plan after November 1, 2010, we increased the period available to retirement eligible employees to exercise their options from three years at retirement date to the full contractual term of ten years. In developing our estimated life of our employee stock options of 5.8 years for 2011 to 2013, we considered the historical option exercise behavior of our executive employees who were granted the majority of the options in the annual grants made which we believe is representative of future behavior.

Share-based Payment Award Activity

Employee Stock Options

The following table summarizes employee stock option award activity made to our employees and directors for 2013:

	Options Outstanding	Weighted Average Exercise Price
	(in thousands)	
Outstanding at October 31, 2012	12,077	\$ 30
Granted	1,596	\$ 36
Exercised	(4,037)	\$ 28
Cancelled/Forfeited/Expired	(27)	\$ 17
Outstanding at October 31, 2013	<u>9,609</u>	<u>\$ 32</u>

Forfeited and expired options from total cancellations in 2013 were as follows:

	Options Cancelled	Weighted Average Exercise Price
	(in thousands)	
Forfeited	—	\$ —
Expired	27	\$ 17
Total Options Cancelled during 2013	<u>27</u>	<u>\$ 17</u>

The options outstanding and exercisable for equity share-based payment awards at October 31, 2013 were as follows:

Range of Exercise Prices	Options Outstanding				Options Exercisable			
	Number Outstanding (in thousands)	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Number Exercisable (in thousands)	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
\$0 - 25	1,507	2.4	\$ 20	\$ 45,750	1,507	2.4	\$ 20	\$ 45,750
\$25.01 - 30	1,051	5.9	\$ 29	22,418	691	5.8	\$ 29	14,727
\$30.01 - 40	7,045	5.6	\$ 35	112,829	3,870	3.4	\$ 34	66,448
\$40.01 & over	6	8.4	\$ 45	33	1	8.4	\$ 45	8
	<u>9,609</u>	5.1	\$ 32	<u>\$ 181,030</u>	<u>6,069</u>	3.4	\$ 30	<u>\$ 126,933</u>

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value, based on the company's closing stock price of \$50.76 at October 31, 2013, which would have been received by award holders had all award holders exercised their awards that were in-the-money as of that date. The total number of in-the-money awards exercisable at October 31, 2013 was approximately 6 million.

The following table summarizes the aggregate intrinsic value of options exercised and the fair value of options granted in 2013, 2012 and 2011:

	Aggregate Intrinsic Value (in thousands)	Weighted Average Exercise Price	Per Share Value Using Black-Scholes Model
Options exercised in fiscal 2011	\$ 164,738	\$ 27	
Black-Scholes per share value of options granted during fiscal 2011			\$ 12
Options exercised in fiscal 2012	\$ 38,188	\$ 23	
Black-Scholes per share value of options granted during fiscal 2012			\$ 14
Options exercised in fiscal 2013	\$ 71,499	\$ 28	
Black-Scholes per share value of options granted during fiscal 2013			\$ 12

As of October 31, 2013, the unrecognized share-based compensation costs for outstanding stock option awards, net of expected forfeitures, was approximately \$13 million which is expected to be amortized over a weighted average period of 2.2 years. The amount of cash received from the exercise of share-based awards granted was \$161 million in 2013, \$100 million in 2012 and \$304 million in 2011. See Note 5, "Income Taxes" for the tax impact on share-based award exercises.

Non-vested Awards

The following table summarizes non-vested award activity in 2013 primarily for our LTPP and restricted stock unit awards:

	Shares	Weighted Average Grant Price
	(in thousands)	
Non-vested at October 31, 2012	3,514	\$ 35
Granted	1,394	\$ 38
Vested	(1,251)	\$ 35
Forfeited	(76)	\$ 38
Change in LTPP shares vested in the year due to performance conditions	(35)	\$ 36
Non-vested at October 31, 2013	<u>3,546</u>	<u>\$ 37</u>

As of October 31, 2013, the unrecognized share-based compensation costs for non-vested restricted stock awards, net of expected forfeitures, was approximately \$54 million which is expected to be amortized over a weighted average period of 2.2 years. The total fair value of restricted stock awards vested was \$44 million for 2013, \$54 million for 2012 and \$43 million for 2011.

5. Income Taxes

The domestic and foreign components of income before taxes are:

	Years Ended October 31,		
	2013	2012	2011
	(in millions)		
U.S. operations	\$ 39	\$ 45	\$ 88
Non-U.S. operations	820	998	944
Total income before taxes	<u>\$ 859</u>	<u>\$ 1,043</u>	<u>\$ 1,032</u>

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

	Years Ended October 31,		
	2013	2012	2011
	(in millions)		
U.S. federal taxes:			
Current	\$ 24	\$ 6	\$ (1)
Deferred	48	(144)	—
Non-U.S. taxes:			
Current	77	41	(6)
Deferred	(24)	(22)	28
State taxes, net of federal benefit:			
Current	3	1	(11)
Deferred	7	8	10
Total provision	<u>\$ 135</u>	<u>\$ (110)</u>	<u>\$ 20</u>

The income tax provision does not reflect potential future tax savings resulting from excess deductions associated with our various share-based award plans.

The significant components of deferred tax assets and deferred tax liabilities included on the consolidated balance sheet are:

	October 31,			
	2013		2012	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
	(in millions)			
Inventory	\$ 32	\$ —	\$ 24	\$ —
Intangibles	—	214	—	239
Property, plant and equipment	18	—	11	—
Warranty reserves	25	—	21	—
Retiree medical benefits	—	—	5	—
Pension benefits	42	—	136	—
Employee benefits, other than retirement	57	—	60	—
Net operating loss, capital loss, and credit carryforwards	263	—	293	—
Unrealized gains/losses on investments	24	—	26	—
Unremitted earnings of foreign subsidiaries	—	114	—	88
Share-based compensation	54	—	57	—
Deferred revenue	27	—	27	—
Other	36	3	51	1
Subtotal	<u>578</u>	<u>331</u>	<u>711</u>	<u>328</u>
Tax valuation allowance	(85)	—	(93)	—
Total deferred tax assets or deferred tax liabilities	<u>\$ 493</u>	<u>\$ 331</u>	<u>\$ 618</u>	<u>\$ 328</u>

The significant decrease in 2013 as compared to 2012 for the deferred tax asset relating to pension benefits is due mainly to the tax effect of changes in post-retirement pension plans recognized in other comprehensive income. The deferred tax liability relating to intangible assets is due primarily to acquired intangible assets from Dako. The amortization expenses associated with acquired intangible assets are not deductible for tax purposes.

Agilent records U.S. income taxes on the undistributed earnings of foreign subsidiaries unless the subsidiaries' earnings are considered indefinitely reinvested outside the U.S. As of October 31, 2013 the Company recognized a \$114 million deferred tax liability for the overall residual tax expected to be imposed upon the repatriation of unremitted foreign earnings that are not considered permanently reinvested. As of October 31, 2013, the cumulative amount of undistributed earnings considered indefinitely reinvested was \$6.1 billion. No deferred tax liability has been recognized on the basis difference created by such earnings since it is our intention to utilize those earnings in the company's foreign operations. Because of the availability of U.S. foreign tax credits, the determination of the unrecognized deferred tax liability on these earnings is not practicable.

The breakdown between current and long-term deferred tax assets and deferred tax liabilities was as follows for the years 2013 and 2012:

	October 31,	
	2013	2012
	(in millions)	
Current deferred tax assets (included within other current assets)	\$ 115	\$ 95
Long-term deferred tax assets (included within other assets)	264	400
Current deferred tax liabilities (included within other accrued liabilities)	(4)	(2)
Long-term deferred tax liabilities (included within other long-term liabilities)	(213)	(203)
Total	<u>\$ 162</u>	<u>\$ 290</u>

Valuation allowances require an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction by jurisdiction basis. In the fourth quarter of 2012, management concluded that the valuation allowance for most of Agilent's U.S. federal and state deferred tax assets is no longer needed primarily due to the emergence from cumulative losses in recent years, the return to sustainable U.S. operating profits and the expectation of sustainable profitability in future periods. As of October 31, 2012, the cumulative positive evidence outweighed the negative evidence regarding the likelihood that most of the deferred tax asset for Agilent's U.S. consolidated income tax group will be realized. Accordingly, we recognized a non-recurring tax benefit of \$280 million relating to the valuation allowance reversal. As of October 31, 2013, we continued to maintain a valuation allowance of \$85 million until sufficient positive evidence exists to support reversal. The valuation allowance is mainly related to deferred tax assets for California R&D credits and net operating losses in the Netherlands.

At October 31, 2013, we had federal net operating loss carryforwards of approximately \$22 million and tax credit carryforwards of approximately \$113 million. The federal net operating losses expire in years beginning 2021 through 2026, and the federal tax credits begin to expire in 2018, if not utilized. At October 31, 2013, we had state net operating loss carryforwards of approximately \$161 million which expire in years beginning 2014 through 2031, if not utilized. In addition, we had net state tax credit carryforwards of \$26 million that do not expire. All of the federal and some of the state net operating loss carryforwards are subject to change of ownership limitations provided by the Internal Revenue Code and similar state provisions. At October 31, 2013, we also had foreign net operating loss carryforwards of approximately \$472 million. Of this foreign loss, \$237 million will expire in years beginning 2014 through 2022, if not utilized. The remaining \$235 million has an indefinite life. Some of the foreign losses are subject to annual loss limitation rules. These annual loss limitations in the U.S. and foreign jurisdictions may result in the expiration or reduced utilization of the net operating losses.

The authoritative guidance prohibits recognition of a deferred tax asset for excess tax benefits related to stock and stock option plans that have not yet been realized through reduction in income taxes payable. Such unrecognized deferred tax benefit totals \$150 million as of October 31, 2013 and will be accounted for as a credit to shareholders' equity, if and when realized, through a reduction in income taxes payable. The Company recognized approximately \$68 million as a credit to shareholders' equity for cumulative excess tax benefits related to stock and stock option plans that have been realized as of October 31, 2013.

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

	Years Ended October 31,		
	2013	2012	2011
		(in millions)	
Profit before tax times statutory rate	\$ 301	\$ 365	\$ 361
State income taxes, net of federal benefit	7	8	(1)
Non-U.S. income taxed at different rates	(162)	(144)	(153)
Change in unrecognized non-U.S. tax benefits	—	(68)	(97)
Valuation allowances	(8)	(280)	(84)
Other, net	(3)	9	(6)
Provision for income taxes	<u>\$ 135</u>	<u>\$ (110)</u>	<u>\$ 20</u>
Effective tax rate	<u>16%</u>	<u>(11)%</u>	<u>2%</u>

Agilent enjoys tax holidays in several different jurisdictions, most significantly in Singapore. The tax holidays provide lower rates of taxation on certain classes of income and require various thresholds of investments and employment or specific types of income in those jurisdictions. The tax holidays are due for renewal between 2015 and 2023. As a result of the incentives, the impact of the tax holidays decreased income taxes by \$127 million, \$122 million, and \$127 million in 2013, 2012, and 2011, respectively. The benefit of the tax holidays on net income per share (diluted) was approximately \$0.37, \$0.35, and \$0.36 in 2013, 2012 and 2011, respectively.

For 2013, the effective tax rate was 16 percent. The 16 percent effective tax rate is lower than the U.S. statutory rate primarily due to the mix of earnings in non-U.S. jurisdictions taxed at lower statutory rates; in particular Singapore where we enjoy tax holidays. The effective tax rate also included a \$12 million out-of-period adjustment to increase tax expense, recognized in the second quarter of 2013, associated with the write off of deferred tax assets related to foreign tax credits incorrectly claimed in prior years.

For 2012, the effective tax was a benefit of 11 percent. The 11 percent effective tax rate benefit reflected tax on earnings in jurisdictions that had low effective tax rates and includes a \$280 million tax benefit due to the reversal of a valuation allowance for most U.S. federal and state deferred tax assets. Valuation allowances require an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction by jurisdiction basis. In the fourth quarter of 2012, management concluded that the valuation allowance for most of Agilent's U.S. federal and state deferred tax assets is no longer needed primarily due to the emergence from cumulative losses in recent years, the return to sustainable U.S. operating profits and the expectation of sustainable profitability in future periods. As of October 31, 2012, the cumulative positive evidence outweighed the negative evidence regarding the likelihood that most of the deferred tax asset for Agilent's U.S. consolidated income tax group will be realized. Accordingly, the Company recognized a non-recurring tax benefit of \$280 million relating to the valuation allowance reversal. The effective tax rate also included a non-recurring tax expense of \$88 million relating to an increase in the overall residual U.S. tax expected to be imposed upon the repatriation of unremitted foreign earnings previously considered permanently reinvested. During the fourth quarter of 2012, the Company assessed the forecasted cash needs and the overall financial position of its foreign subsidiaries and determined that a portion of previously permanently reinvested earnings would no longer be reinvested overseas. The effective tax rate was also reduced by a \$68 million tax benefit primarily associated with the recognition of previously unrecognized tax benefits and the reversal of the related interest accruals due to the reassessment of certain uncertain tax positions relating to foreign jurisdictions.

For 2011, the effective tax rate was 2 percent. The 2 percent effective tax rate reflected tax on earnings in jurisdictions that had low effective tax rates and included a \$97 million net tax benefit primarily associated with a refund in Canada and the recognition of previously unrecognized tax benefits and the reversal of the related interest accruals due to the reassessment of certain uncertain tax positions. The income tax provision also included a \$26 million out of period adjustment to reduce the carrying value of certain U.K. deferred tax assets

for which the majority was recorded in the quarter ended April 30, 2011. The overstatement of these deferred tax assets resulted in an overstatement of the U.K. valuation allowance release in the fourth quarter of 2010. For the full year, this out of period adjustment was substantially offset by other out of period adjustments. The net impact of all out of period adjustments on the effective tax rate was immaterial. Without considering interest and penalties, the effective rate reflected taxes in all jurisdictions except the U.S. and certain foreign jurisdictions in which income tax expense or benefit continued to be offset by adjustments to valuation allowances.

The breakdown between current and long-term income tax assets and liabilities, excluding deferred tax assets and liabilities, was as follows for the years 2013 and 2012:

	October 31,	
	2013	2012
	(in millions)	
Current income tax assets (included within other current assets)	\$ 42	\$ 65
Long-term income tax assets (included within other assets)	34	49
Current income tax liabilities (included within other accrued liabilities)	(48)	(115)
Long-term income tax liabilities (included within other long-term liabilities)	(341)	(320)
Total	<u>\$ (313)</u>	<u>\$ (321)</u>

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax law and regulations in a multitude of jurisdictions. Although the guidance on the accounting for uncertainty in income taxes prescribes the use of a recognition and measurement model, the determination of whether an uncertain tax position has met those thresholds will continue to require significant judgment by management. In accordance with the guidance on the accounting for uncertainty in income taxes, for all U.S. and other tax jurisdictions, we recognize potential liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes and interest will be due. The ultimate resolution of tax uncertainties may differ from what is currently estimated, which could result in a material impact on income tax expense. If our estimate of income tax liabilities proves to be less than the ultimate assessment, a further charge to expense would be required. If events occur and the payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary.

The aggregate changes in the balances of our unrecognized tax benefits including all federal, state and foreign tax jurisdictions are as follows:

	2013	2012	2011
	(in millions)		
Balance, beginning of year	\$ 464	\$ 469	\$ 656
Additions for acquisitions	—	—	—
Additions for tax positions related to the current year	53	56	41
Additions for tax positions from prior years	11	40	18
Reductions for tax positions from prior years	(6)	(90)	(170)
Settlements with taxing authorities	(3)	(2)	(67)
Statute of limitations expirations	(3)	(9)	(9)
Balance, end of year	<u>\$ 516</u>	<u>\$ 464</u>	<u>\$ 469</u>

As of October 31, 2013, we had \$516 million of unrecognized tax benefits of which \$499 million, if recognized, would affect our effective tax rate.

We recognized a tax expense of \$5 million, a tax benefit of \$4 million and a tax expense of \$14 million of interest and penalties related to unrecognized tax benefits in 2013, 2012 and 2011, respectively. Interest and penalties accrued as of October 31, 2013 and 2012 were \$39 million and \$34 million, respectively.

In the U.S., tax years remain open back to the year 2006 for federal income tax purposes and the year 2000 for significant states. Our U.S. federal income tax returns for 2006 through 2007 are currently under audit by the IRS. During the three months ended July 31, 2012, we received a Revenue Agents Report (“RAR”) for these years and filed a protest to dispute certain adjustments, the most significant of which pertains to the amount of a gain from the disposition of a business that was allocated to the U.S. for income tax purposes. There can be no assurance that the outcome of this dispute will not have a material effect on our operating results or financial condition. In other major jurisdictions where we conduct business, the tax years generally remain open back to the year 2003. With these jurisdictions and the U.S., it is reasonably possible that there could be significant changes to our unrecognized tax benefits in the next twelve months due to either the expiration of a statute of limitation or a tax audit settlement. Given the number of years and numerous matters that remain subject to examination in various tax jurisdictions, we are unable to estimate the range of possible changes to the balance of our unrecognized tax benefits.

6. Net Income per Share

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

	Years Ended October 31,		
	2013	2012	2011
	(in millions)		
Numerator:			
Net income	\$ 724	\$ 1,153	\$ 1,012
Denominators:			
Basic weighted average shares	341	348	347
Potentially dilutive common stock equivalents — stock options and other employee stock plans	4	5	8
Diluted weighted average shares	<u>345</u>	<u>353</u>	<u>355</u>

The dilutive effect of share-based awards is reflected in diluted net income per share by application of the treasury stock method, which includes consideration of unamortized share-based compensation expense, the tax benefits or shortfalls charged to additional paid-in capital and the dilutive effect of in-the-money options and non-vested restricted stock units. Under the treasury stock method, the amount the employee must pay for exercising stock options and unamortized share-based compensation expense and tax benefits or shortfalls collectively are assumed proceeds to be used to repurchase hypothetical shares. An increase in the fair market value of the company's common stock can result in a greater dilutive effect from potentially dilutive awards. The total number of share-based awards issued in 2013, 2012 and 2011 were 6 million, 5 million and 12 million, respectively.

We exclude stock options with exercise prices greater than the average market price of our common stock from the calculation of diluted earnings per share because their effect would be anti-dilutive. For 2013, 2012 and 2011, options to purchase 4,200, 436,500 and 554,000 shares respectively were excluded from the calculation of diluted earnings per share. In addition, we also exclude from the calculation of diluted earnings per share, stock options, ESPP, LTPP and restricted stock awards whose combined exercise price, unamortized fair value and excess tax benefits or shortfalls collectively were greater than the average market price of our common stock because their effect would also be anti-dilutive. For the year ended 2013, 2012 and 2011, options to purchase 18,300, 1,544,600 and 115,200 shares respectively were excluded from the calculation of diluted earnings per share.

7. Supplemental Cash Flow Information

Net cash paid for income taxes was \$110 million in 2013, \$86 million in 2012, and \$22 million in 2011. Cash paid for interest was \$112 million in 2013, \$111 million in 2012 and \$95 million in 2011.

8. Inventory

	October 31,	
	2013	2012
	(in millions)	
Finished goods	\$ 552	\$ 509
Purchased parts and fabricated assemblies	514	505
Inventory	<u>\$ 1,066</u>	<u>\$ 1,014</u>

Inventory-related excess and obsolescence charges of \$48 million were recorded in total cost of products in 2013, and \$30 million each in 2012 and 2011, respectively. We record excess and obsolete inventory charges for both inventory on our site as well as inventory at our contract manufacturers and suppliers where we have non-cancellable purchase commitments.

9. Property, Plant and Equipment, Net

	October 31,	
	2013	2012
	(in millions)	
Land	\$ 131	\$ 142
Buildings and leasehold improvements	1,330	1,475
Machinery and equipment	1,019	882
Software	398	383
Total property, plant and equipment	<u>2,878</u>	<u>2,882</u>
Accumulated depreciation and amortization	(1,744)	(1,718)
Property, plant and equipment, net	<u>\$ 1,134</u>	<u>\$ 1,164</u>

Asset impairments other than restructuring were \$3 million in 2013, zero in 2012 and \$7 million in 2011. Depreciation expenses were \$181 million in 2013, \$171 million in 2012 and \$142 million in 2011. For the year ended October 31, 2012 we recorded \$15 million of accelerated depreciation related to a building classified as held and used. In accordance with the accounting guidance, it was determined that the building had been abandoned and an assessment was made of the remaining useful life of the building. The building was written down to its appropriate fair value.

10. Goodwill and Other Intangible Assets

The goodwill balances at October 31, 2013, 2012 and 2011 and the movements in 2013 and 2012 for each of our reportable segments are shown in the table below:

	Life Sciences and Diagnostics	Chemical Analysis	Electronic Measurement	Total
	(in millions)			
Goodwill as of October 31, 2011	\$ 363	\$ 760	\$ 444	\$ 1,567
Foreign currency translation impact	25	(10)	(9)	6
Goodwill arising from acquisitions	1,419	1	32	1,452
Goodwill as of October 31, 2012	<u>\$ 1,807</u>	<u>\$ 751</u>	<u>\$ 467</u>	<u>\$ 3,025</u>
Foreign currency translation impact	63	(10)	(47)	6
Goodwill arising from acquisitions and other	13	4	(1)	16
Goodwill as of October 31, 2013	<u>\$ 1,883</u>	<u>\$ 745</u>	<u>\$ 419</u>	<u>\$ 3,047</u>

We formed a new operating segment in the fourth fiscal quarter of 2013. The new life sciences and diagnostics segment was formed by the combination of the life sciences business plus the diagnostics and genomics business. The historical segment information for the life sciences and diagnostics segment has been

recast to conform to this new reporting structure. The goodwill balance as of October 31, 2011 has been revised due to miscategorization at acquisition. \$4 million of goodwill from the life sciences and diagnostics segment and \$5 million of goodwill from the chemical analysis segment has been reallocated to the electronic measurement segment. As of September 30, 2013, we assessed goodwill impairment for our reporting units and no impairment of goodwill was indicated.

The component parts of other intangible assets at October 31, 2013 and 2012 are shown in the table below:

	Other Intangible Assets		
	Gross Carrying Amount	Accumulated Amortization and Impairments	Net Book Value
	(in millions)		
As of October 31, 2012:			
Purchased technology	\$ 849	\$ 333	\$ 516
Backlog	14	14	—
Trademark/Tradename	168	27	141
Customer relationships	391	155	236
Total amortizable intangible assets	<u>\$ 1,422</u>	<u>\$ 529</u>	<u>\$ 893</u>
In-Process R&D	193	—	193
Total	<u><u>\$ 1,615</u></u>	<u><u>\$ 529</u></u>	<u><u>\$ 1,086</u></u>
As of October 31, 2013:			
Purchased technology	\$ 1,019	\$ 460	\$ 559
Backlog	14	14	—
Trademark/Tradename	176	40	136
Customer relationships	401	215	186
Total amortizable intangible assets	<u>\$ 1,610</u>	<u>\$ 729</u>	<u>\$ 881</u>
In-Process R&D	35	—	35
Total	<u><u>\$ 1,645</u></u>	<u><u>\$ 729</u></u>	<u><u>\$ 916</u></u>

In 2013, we recorded additions to goodwill of \$16 million related to the acquisition of four businesses. During the year, we also recorded \$5 million of additions and adjustments to other intangibles mostly related to the same four businesses. We recorded \$25 million of foreign exchange translation impact to other intangibles in 2013. The \$158 million decrease in in-process R&D was largely due to the completion of projects in our life sciences and diagnostics segment.

In 2012, we recorded additions to goodwill of \$1,452 million related to ten businesses including the Dako acquisition discussed in Note 3, "Acquisitions". During the year, we also recorded additions to other intangibles of \$786 million including \$183 million of Dako in-process research and development, related to the same ten businesses. We recorded \$8 million of foreign exchange translation impact to other intangibles in 2012.

Amortization of intangible assets was \$199 million in 2013, \$136 million in 2012, and \$111 million in 2011. In addition, we recorded \$1 million of impairments of other intangibles related to the cancellation of an in-process research and development project during 2013. Future amortization expense related to finite-lived existing purchased intangible assets is estimated to be \$194 million in 2014, \$181 million for 2015, \$154 million for 2016, \$106 million for 2017, \$70 million for 2018, and \$176 million thereafter.

11. Investments

Equity Investments

The following table summarizes the company's equity investments as of October 31, 2013 and 2012 (net book value):

	October 31,	
	2013	2012
	(in millions)	
Short-Term		
Cost method investments	\$ —	11
Long-Term		
Cost method investments	\$ 44	\$ 59
Trading securities	51	50
Available-for-sale investments	25	—
Equity method investments	19	—
Total	<u>\$ 139</u>	<u>\$ 109</u>

Cost method investments consist of non-marketable equity securities and two funds and are accounted for at historical cost. Trading securities are reported at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings. Investments designated as available-for-sale were reported at fair value, with unrealized gains and losses, net of tax, included in stockholders' equity. Equity method investments are reported at the amount of the company's initial investment and adjusted each period for the company's share of the investee's income or loss and dividend paid.

Investments in available-for-sale securities at estimated fair value were as follows as of October 31, 2013:

	October 31, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in millions)			
Equity securities	15	10	—	25
	<u>\$ 15</u>	<u>\$ 10</u>	<u>\$ —</u>	<u>\$ 25</u>

All of our investments, excluding trading securities, are subject to periodic impairment review. The impairment analysis requires significant judgment to identify events or circumstances that would likely have significant adverse effect on the future value of the investment. We consider various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, forecasted recovery, the financial condition and near-term prospects of the investee, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

Amounts included in other income (expense), net for realized gains on the sale of available-for-sale securities and the appropriate share of loss on equity method investments were as follows:

	Years Ended October 31,		
	2013	2012	2011
	(in millions)		
Available-for-sale investments — realized gain	\$ 1	\$ 2	\$ 6
Equity method investments - share of losses	(2)	—	—

Net unrealized gains and losses on our trading securities portfolio were \$8 million of unrealized gains in 2013, \$5 million of unrealized gains in 2012 and \$1 million of unrealized gains in 2011.

Realized gains from the sale of cost method securities were zero for 2013, \$2 million for 2012 and zero for 2011. Proceeds from the sale of cost method investments were \$11 million in 2013.

Investments in Leases

In February 2001, we sold a parcel of surplus land in San Jose, California for \$287 million in cash. In August 2001, we acquired a long-term leasehold interest in several municipal properties in southern California. In 2002, we received \$237 million in non-refundable prepaid rent related to the leasehold interests described above.

In December 2011, we terminated our leasehold interest in the municipal properties, received \$80 million in cash and recognized a loss of approximately \$2 million.

12. Fair Value Measurements

The authoritative guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market and assumptions that market participants would use when pricing the asset or liability.

Fair Value Hierarchy

The guidance establishes a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into three levels. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

Level 1 — applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 — applies to assets or liabilities for which there are inputs other than quoted prices included within level 1 that are observable, either directly or indirectly, for the asset or liability such as: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in less active markets; or other inputs that can be derived principally from, or corroborated by, observable market data.

Level 3 — applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Financial assets and liabilities measured at fair value on a recurring basis as of October 31, 2013 were as follows:

	Fair Value Measurement at October 31, 2013 Using			
	October 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in millions)				
Assets:				
Short-term				
Cash equivalents (money market funds)	\$ 1,968	\$ 1,968	\$ —	\$ —
Derivative instruments (foreign exchange contracts)	7	—	7	—
Long-term				
Trading securities	51	51	—	—
Available-for-sale investments	25	25	—	—
Total assets measured at fair value	<u>\$ 2,051</u>	<u>\$ 2,044</u>	<u>\$ 7</u>	<u>\$ —</u>
Liabilities:				
Short-term				
Derivative instruments (foreign exchange contracts)	\$ 6	\$ —	\$ 6	\$ —
Long-term				
Deferred compensation liability	51	—	51	—
Total liabilities measured at fair value	<u>\$ 57</u>	<u>\$ —</u>	<u>\$ 57</u>	<u>\$ —</u>

Financial assets and liabilities measured at fair value on a recurring basis as of October 31, 2012 were as follows:

	Fair Value Measurement at October 31, 2012 Using			
	October 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in millions)				
Assets:				
Short-term				
Cash equivalents (money market funds)	\$ 1,834	\$ 1,834	\$ —	\$ —
Derivative instruments (foreign exchange and interest rate swap)	7	—	7	—
Long-term				
Trading securities	50	50	—	—
Total assets measured at fair value	<u>\$ 1,891</u>	<u>\$ 1,884</u>	<u>\$ 7</u>	<u>\$ —</u>
Liabilities:				
Short-term				
Derivative instruments (foreign exchange contracts)	\$ 6	\$ —	\$ 6	\$ —
Long-term				
Deferred compensation liability	48	—	48	—
Total liabilities measured at fair value	<u>\$ 54</u>	<u>\$ —</u>	<u>\$ 54</u>	<u>\$ —</u>

Our money market funds, trading securities, and available-for-sale investments are generally valued using quoted market prices and therefore are classified within level 1 of the fair value hierarchy. Our derivative financial instruments are classified within level 2, as there is not an active market for each hedge contract, but the inputs used to calculate the value of the instruments are tied to active markets. Our deferred compensation liability is classified as level 2 because although the values are not directly based on quoted market prices, the inputs used in the calculations are observable.

Trading securities and deferred compensation liability are reported at fair value, with gains or losses resulting from changes in fair value recognized currently in net income. Investments designated as available-for-sale and certain derivative instruments are reported at fair value, with unrealized gains and losses, net of tax, included in stockholders' equity. Realized gains and losses from the sale of these instruments are recorded in net income.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

Long-Lived Assets

For assets measured at fair value on a non-recurring basis, the following table summarizes the impairments included in net income for the years ended October 31, 2013 and 2012:

	Years Ended October 31,	
	2013	2012
	(in millions)	
Long-lived assets held and used	\$ 2	\$ 1
Long-lived assets held for sale	\$ 1	\$ —

Long-lived assets held and used with a carrying amount of \$2 million were written down to their fair value of zero, resulting in an impairment charge of \$2 million, which was included in net income for 2013. Long-lived assets held and used with a carrying amount of \$1 million were written down to their fair value of zero, resulting in an impairment charge of \$1 million, which was included in net income for 2012.

Long-lived assets held for sale with a carrying amount of \$3 million were written down to their fair value of \$2 million, resulting in an impairment charge of \$1 million which was included in net income for 2013.

Fair values for the impaired long-lived assets were measured using level 2 inputs.

13. Derivatives

We are exposed to foreign currency exchange rate fluctuations and interest rate changes in the normal course of our business. As part of risk management strategy, we use derivative instruments, primarily forward contracts, purchased options, and interest rate swaps, to hedge economic and/or accounting exposures resulting from changes in foreign currency exchange rates and interest rates.

Fair Value Hedges

We are exposed to interest rate risk due to the mismatch between the interest expense we pay on our loans at fixed rates and the variable rates of interest we receive from cash, cash equivalents and other short-term investments. We have issued long-term debt in U.S. dollars at fixed interest rates based on the market conditions at the time of financing. The fair value of our fixed rate debt changes when the underlying market rates of interest change, and, in the past, we have used interest rate swaps to change our fixed interest rate payments to U.S. dollar LIBOR-based variable interest expense to match the floating interest income from our cash, cash

equivalents and other short term investments. As of October 31, 2013, all interest rate swap contracts had either been terminated or had expired.

On November 25, 2008, we terminated two interest rate swap contracts associated with our 2017 senior notes that represented the notional amount of \$400 million. The asset value, including interest receivable, upon termination was approximately \$43 million and the amount to be amortized at October 31, 2013 was \$22 million. On June 6, 2011, we also terminated five interest rate swap contracts associated with our 2015 senior notes that represented the notional amount of \$500 million. The asset value, including interest receivable, upon termination was approximately \$31 million and the amount to be amortized at October 31, 2013 was \$12 million. On August 9, 2011, we terminated five interest rate swap contracts related to our 2020 senior notes that represented the notional amount of \$500 million. The asset value, including interest receivable, upon termination for these contracts was approximately \$34 million and the amount to be amortized at October 31, 2013 was \$26 million. The proceeds from all such terminated interest rate swaps are recorded as operating cash flows and the gain is being deferred and amortized over the remaining life of the respective senior notes.

Cash Flow Hedges

We enter into foreign exchange contracts to hedge our forecasted operational cash flow exposures resulting from changes in foreign currency exchange rates. These foreign exchange contracts, carried at fair value, have maturities between one and twelve months. These derivative instruments are designated and qualify as cash flow hedges under the criteria prescribed in the authoritative guidance. The changes in the value of the effective portion of the derivative instrument are recognized in accumulated other comprehensive income. Amounts associated with cash flow hedges are reclassified to cost of sales in the consolidated statement of operations when the forecasted transaction occurs. If it becomes probable that the forecasted transaction will not occur, the hedge relationship will be de-designated and amounts accumulated in other comprehensive income will be reclassified to other income (expense) in the current period. Changes in the fair value of the ineffective portion of derivative instruments are recognized in earnings in the consolidated statement of operations in the current period. We record the premium paid (time value) of an option on the date of purchase as an asset. For options designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in other income (expense) over the life of the option contract. Ineffectiveness in 2013, 2012 and 2011 was not significant. For the year ended October 31, 2013, 2012 and 2011 gains and losses recognized in earnings due to de-designation of cash flow hedge contracts were not significant.

In July 2012, Agilent executed treasury lock agreements for \$400 million in connection with future interest payments to be made on our 2022 senior notes issued on September 10, 2012. We designated the treasury lock as a cash flow hedge. The treasury lock contracts were terminated on September 10, 2012 and we recognized a deferred gain in accumulated other comprehensive income of \$3 million to be amortized to interest expense over the life of the 2022 senior notes.

Other Hedges

Additionally, we enter into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the functional currency of our subsidiaries. These foreign exchange contracts are carried at fair value and do not qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in value of the derivative are recognized in other income (expense) in the consolidated statement of operations, in the current period, along with the offsetting foreign currency gain or loss on the underlying assets or liabilities.

In connection with the acquisition of Dako, Agilent entered into several foreign currency forward contracts to mitigate the currency exchange risk associated with the payment of the purchase price in Danish Krone and the repayment of debt in multiple currencies. The aggregate notional amount of the currencies hedged was \$1.7 billion. These foreign exchange contracts did not qualify for hedge accounting treatment and were not designated as hedging instruments. The resulting loss on settlement, on the date of acquisition, was \$14 million and was recorded in other income (expense) in the consolidated statement of operations for the year ended October 31, 2012.

Our use of derivative instruments exposes us to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. We do, however, seek to mitigate such risks by limiting our counterparties to major financial institutions which are selected based on their credit ratings and other factors. We have established policies and procedures for mitigating credit risk that include establishing counterparty credit limits, monitoring credit exposures, and continually assessing the creditworthiness of counterparties.

A number of our derivative agreements contain threshold limits to the net liability position with counterparties and are dependent on our corporate credit rating determined by the major credit rating agencies. The counterparties to the derivative instruments may request collateralization, in accordance with derivative agreements, on derivative instruments in net liability positions.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position as of October 31, 2013, was \$3 million. The credit-risk-related contingent features underlying these agreements had not been triggered as of October 31, 2013.

There were 151 foreign exchange forward contracts and 19 foreign exchange option contracts open as of October 31, 2013 and designated as cash flow hedges. There were 170 foreign exchange forward contracts open as of October 31, 2013 not designated as hedging instruments. The aggregated U.S. Dollar notional amounts by currency and designation as of October 31, 2013 were as follows:

Currency	Derivatives in Cash Flow Hedging Relationships		Derivatives Not Designated as Hedging Instruments
	Forward Contracts	Option Contracts	Forward Contracts
	Buy/(Sell)	Buy/(Sell)	Buy/(Sell)
	(in millions)		
Euro	\$ (23)	\$ —	\$ 243
British Pound	(17)	—	2
Canadian Dollar	(37)	—	—
Australian Dollars	11	—	9
Malaysian Ringgit	113	—	14
Japanese Yen	(56)	(97)	3
Other	(9)	—	(10)
	<u>\$ (18)</u>	<u>\$ (97)</u>	<u>\$ 261</u>

The notional amounts within derivatives not designated as hedging instruments include forward cross currency contracts of Danish Krone equivalent of \$70 million to sell Euro, \$6 million to sell Japanese Yen and \$5 million to buy other currencies.

Derivative instruments are subject to master netting arrangements and are disclosed gross in the balance sheet. The gross fair values and balance sheet location of derivative instruments held in the consolidated balance sheet as of October 31, 2013 and 2012 were as follows:

Fair Values of Derivative Instruments

Asset Derivatives			Liability Derivatives		
Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	
	October 31, 2013	October 31, 2012		October 31, 2013	October 31, 2012
(in millions)					
Derivatives designated as hedging instruments:					
Fair value hedges					
Interest rate contracts					
Other current assets	\$ —	\$ —	Other accrued liabilities	\$ —	\$ —
Other assets	\$ —	\$ —	Other long-term liabilities	\$ —	\$ —
Cash flow hedges					
Foreign exchange contracts					
Other current assets	\$ 4	\$ 4	Other accrued liabilities	\$ 4	\$ 2
	<u>\$ 4</u>	<u>\$ 4</u>		<u>\$ 4</u>	<u>\$ 2</u>
Derivatives not designated as hedging instruments:					
Foreign exchange contracts					
Other current assets	\$ 3	\$ 3	Other accrued liabilities	\$ 2	\$ 4
Total derivatives	<u>\$ 7</u>	<u>\$ 7</u>		<u>\$ 6</u>	<u>\$ 6</u>

The effect of derivative instruments for interest rate swap contracts and for foreign exchange contracts designated as hedging instruments and not designated as hedging instruments in our consolidated statement of operations were as follows:

	2013	2012	2011
	(in millions)		
Derivatives designated as hedging instruments:			
Fair Value Hedges			
Gain on interest rate swap contracts, including interest accrual, recognized in interest expense	\$ —	\$ —	\$ 27
Gain (loss) on hedged item, recognized in interest expense	\$ —	\$ 3	\$ (3)
Cash Flow Hedges			
Gain recognized in accumulated other comprehensive income	\$ 10	\$ 7	\$ —
Gain (loss) reclassified from accumulated other comprehensive income into cost of sales	\$ 13	\$ 8	\$ (5)
Treasury Lock Agreements			
Gain recognized in accumulated other comprehensive income	\$ —	\$ 3	\$ —
Derivatives not designated as hedging instruments:			
Gain (loss) recognized in other income (expense), net	\$ 7	\$ (34)	\$ 13

The estimated net amount of existing loss at October 31, 2013 that is expected to be reclassified from other comprehensive income to the cost of sales within the next twelve months is \$1 million.

14. Restructuring

In the second quarter of 2013, in response to slow revenue growth due to macroeconomic conditions, we accrued for a targeted restructuring program that is expected to reduce Agilent's total headcount by approximately 450 regular employees, representing approximately 2 percent of our global workforce. The timing and scope of workforce reductions will vary based on local legal requirements. When completed, the restructuring program is expected to result in a reduction in annual cost of sales and operating expenses.

As previously announced, we are streamlining our manufacturing operations. As part of this action, we anticipate the reduction of approximately 250 positions to reduce our annual cost of sales.

Total headcount reductions from targeted restructuring and manufacturing streamlining will be approximately 700 positions. Within the U.S, we have substantially completed these restructuring activities. Internationally, we expect to complete the majority of these restructuring activities by the end of the second half of fiscal 2014. As of October 31, 2013, approximately 250 employees were terminated under the targeted restructuring program and 100 employees were terminated under the streamlining of manufacturing.

A summary of total restructuring accrual activity is shown in the table below:

	Workforce Reduction
	(in millions)
Balance as of October 31, 2012	\$ —
Income statement expense	53
Cash payments	(29)
Balance as of October 31, 2013	\$ 24

The restructuring accruals, which totaled \$24 million at October 31, 2013, are recorded in other accrued liabilities on the consolidated balance sheet. These balances reflect estimated future cash outlays.

A summary of the charges in the consolidated statement of operations resulting from all restructuring plans is shown below:

	Year Ended October 31, 2013
	(in millions)
Cost of products and services	\$ 19
Research and development	9
Selling, general and administrative	25
Total restructuring, asset impairments and other special charges	\$ 53

15. Retirement Plans and Post Retirement Pension Plans

General. Substantially all of our employees are covered under various defined benefit and/or defined contribution retirement plans. Additionally, we sponsor post-retirement health care benefits for our eligible U.S. employees.

Agilent provides U.S. employees, who meet eligibility criteria under the Agilent Technologies, Inc. Retirement Plan ("RP"), defined benefits which are based on an employee's base or target pay during the years of employment and on length of service. For eligible service through October 31, 1993, the benefit payable under the Agilent Retirement Plan is reduced by any amounts due to the eligible employee under our defined contribution Deferred Profit-Sharing Plan ("DPSP"), which was closed to new participants as of November 1993.

In addition, in the U.S., Agilent maintains the Supplemental Benefits Retirement Plan ("SBRP"), a supplemental unfunded non-qualified defined benefit plan to provide benefits that would be provided under the RP but for limitations imposed by the Internal Revenue Code. The RP and the SBRP comprise the "U.S. Plans".

As of October 31, 2013 and 2012, the fair value of plan assets of the DPSP for U.S. Agilent Employees was \$552 million and \$534 million, respectively. Note that the projected benefit obligation for the DPSP equals the fair value of plan assets.

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

401(k) defined contribution plan. Eligible U.S. employees may participate in the Agilent Technologies, Inc. 401(k) Plan (the "401(k) Plan"). Enrollment in the 401(k) Plan is automatic for employees who meet eligibility requirements unless they decline participation. Under the 401(k) Plan, we provide matching contributions to employees up to a maximum of 4 percent of an employee's annual eligible compensation. The maximum contribution to the 401(k) Plan is 50 percent of an employee's annual eligible compensation, subject to regulatory limitations. The 401(k) Plan employer expense included in income from operations was \$25 million in 2013, \$25 million in 2012 and \$24 million in 2011.

Post-retirement medical benefit plans. In addition to receiving retirement benefits, U.S. employees who meet eligibility requirements as of their termination date may participate in the Agilent Technologies, Inc. Health Plan for Retirees. Eligible retirees who were less than age 50 as of January 1, 2005 and who retire after age 55 with 15 or more years of service are eligible for a fixed amount which can be utilized to pay for either Agilent sponsored plans and/or individual medicare plans. Eligible retirees who were at least age 50 as of January 1, 2005 and who retire after age 55 with 15 or more years of service currently choose from managed-care, indemnity options or individual medicare plans, with the company subsidization level or stipend dependent on a number of factors including eligibility and length of service. See *Plan Amendments* below for changes to these benefits.

Plan Amendments. On April 1, 2011, changes to the Agilent Technologies, Inc. Health Plan for Retirees were approved. Effective January 1, 2012, employees who were at least age 50 as of January 1, 2005 and who retire after age 55 with 15 or more years of service are eligible for fixed dollar subsidies and stipends. Grandfathered retirees receive a fixed monthly subsidy toward pre-65 premium costs (subsidy capped at 2011 levels) and a fixed monthly stipend post-65. The subsidy amounts will not increase. In connection with these changes, we reduced our Accumulated Prospective Benefit Obligation by \$194 million with the offset going to accumulated other comprehensive income.

Components of net periodic cost. The company uses alternate methods of amortization as allowed by the authoritative guidance which amortizes the actuarial gains and losses on a consistent basis for the years presented. For U.S. Plans, gains and losses are amortized over the average future working lifetime. For most Non-U.S. Plans and U.S. Post-Retirement Benefit Plans, gains and losses are amortized using a separate layer for each year's gains and losses. For the years ended October 31, 2013, 2012 and 2011, components of net periodic benefit cost and other amounts recognized in other comprehensive income were comprised of:

	Pensions						U.S. Post-Retirement Benefit Plans		
	U.S. Plans			Non-U.S. Plans			2013	2012	2011
	2013	2012	2011	2013	2012	2011			
	(in millions)								
Net periodic benefit cost (benefit)									
Service cost — benefits earned during the period	\$ 44	\$ 40	\$ 42	\$ 36	\$ 33	\$ 32	\$ 4	\$ 3	\$ 3
Interest cost on benefit obligation	24	27	28	68	74	72	12	15	21
Expected return on plan assets	(51)	(46)	(44)	(97)	(92)	(94)	(20)	(19)	(21)
Amortization of net actuarial loss	13	7	4	55	42	40	18	16	14
Amortization of prior service benefit	(12)	(12)	(12)	(1)	(1)	(1)	(35)	(35)	(26)
Net periodic benefit cost (benefit)	18	16	18	61	56	49	(21)	(20)	(9)
Curtailments and settlements	—	—	(1)	—	—	—	—	—	—
Total periodic benefit cost (benefit)	\$ 18	\$ 16	\$ 17	\$ 61	\$ 56	\$ 49	\$ (21)	\$ (20)	\$ (9)
Other changes in plan assets and benefit obligations recognized in other comprehensive (income) loss									
Net actuarial (gain) loss	\$ (122)	\$ 69	\$ 31	\$ (85)	\$ 214	\$ 40	\$ (57)	\$ 22	\$ 12
Amortization of net actuarial loss	(13)	(7)	(4)	(55)	(42)	(40)	(18)	(16)	(14)
Prior service cost (benefit)	—	—	—	—	—	6	—	—	(194)
Amortization of prior service benefit	12	12	12	1	1	1	35	35	26
Foreign currency	—	—	—	2	(5)	11	—	—	—
Total recognized in other comprehensive (income) loss	\$ (123)	\$ 74	\$ 39	\$ (137)	\$ 168	\$ 18	\$ (40)	\$ 41	\$ (170)
Total recognized in net periodic benefit cost (benefit) and other comprehensive (income) loss	\$ (105)	\$ 90	\$ 56	\$ (76)	\$ 224	\$ 67	\$ (61)	\$ 21	\$ (179)

In 2011, due to payments exceeding the sum of service cost plus interest cost in the U.S. Supplemental Benefits Retirement Plan, we recorded a \$1 million settlement gain in the income statement as required by authoritative guidance.

Funded status. As of October 31, 2013 and 2012, the funded status of the defined benefit and post-retirement benefit plans was:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		U.S. Post-Retirement Benefit Plans	
	2013	2012	2013	2012	2013	2012
	(in millions)					
Change in fair value of plan assets:						
Fair value — beginning of year	\$ 654	\$ 578	\$ 1,801	\$ 1,684	\$ 261	\$ 258
Actual return on plan assets	132	65	267	158	47	25
Employer contributions	30	30	89	54	1	—
Participants' contributions	—	—	1	—	—	—
Benefits paid	(34)	(19)	(49)	(46)	(21)	(22)
Currency impact	—	—	(64)	(49)	—	—
Fair value — end of year	<u>\$ 782</u>	<u>\$ 654</u>	<u>\$ 2,045</u>	<u>\$ 1,801</u>	<u>\$ 288</u>	<u>\$ 261</u>
Change in benefit obligation:						
Benefit obligation — beginning of year	\$ 771	\$ 637	\$ 2,117	\$ 1,830	\$ 343	\$ 319
Service cost	44	40	36	33	4	3
Interest cost	24	27	68	74	12	15
Participants' contributions	—	—	1	—	—	—
Plan amendment	—	—	—	—	—	—
Actuarial (gain) loss	(41)	87	85	280	(31)	28
Benefits paid	(35)	(20)	(49)	(46)	(21)	(22)
Curtailments	—	—	—	—	—	—
Currency impact	—	—	(59)	(54)	—	—
Benefit obligation — end of year	<u>\$ 763</u>	<u>\$ 771</u>	<u>\$ 2,199</u>	<u>\$ 2,117</u>	<u>\$ 307</u>	<u>\$ 343</u>
Overfunded (underfunded) status of PBO	<u>\$ 19</u>	<u>\$ (117)</u>	<u>\$ (154)</u>	<u>\$ (316)</u>	<u>\$ (19)</u>	<u>\$ (82)</u>
Amounts recognized in the consolidated balance sheet consist of:						
Other assets	\$ 34	\$ —	\$ 60	\$ —	\$ —	\$ —
Employee compensation and benefits	(2)	(2)	—	—	—	—
Retirement and post-retirement benefits	(13)	(115)	(214)	(316)	(19)	(82)
Net asset (liability)	<u>\$ 19</u>	<u>\$ (117)</u>	<u>\$ (154)</u>	<u>\$ (316)</u>	<u>\$ (19)</u>	<u>\$ (82)</u>
Amounts Recognized in Accumulated Other Comprehensive Income (loss):						
Actuarial (gains) losses	\$ (8)	\$ 127	\$ 525	\$ 683	\$ 119	\$ 194
Prior service costs (benefits)	(67)	(79)	(4)	(8)	(183)	(218)
Total	<u>\$ (75)</u>	<u>\$ 48</u>	<u>\$ 521</u>	<u>\$ 675</u>	<u>\$ (64)</u>	<u>\$ (24)</u>

The amounts in accumulated other comprehensive income expected to be recognized as components of net expense during 2014 are as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		U.S. Post-Retirement Benefit Plans	
	(in millions)					
Amortization of net prior service cost (benefit)	\$	(12)	\$	(1)	\$	(35)
Amortization of actuarial net loss (gain)	\$	(1)	\$	45	\$	14

Investment policies and strategies as of October 31, 2013, 2012 and 2011. In the U.S., our Agilent Retirement Plan and post-retirement benefit target asset allocations are approximately 80 percent to equities and approximately 20 percent to fixed income investments. Our DPSP target asset allocation is approximately 60 percent to equities and approximately 40 percent to fixed income investments. Approximately, 5 percent of our

U.S. equity portfolio consists of limited partnerships. The general investment objective for all our plan assets is to obtain the optimum rate of investment return on the total investment portfolio consistent with the assumption of a reasonable level of risk. Specific investment objectives for the plans' portfolios are to: maintain and enhance the purchasing power of the plans' assets; achieve investment returns consistent with the level of risk being taken; and earn performance rates of return in accordance with the benchmarks adopted for each asset class. Outside the U.S., our target asset allocation is from 37 to 60 percent to equities, from 40 to 60 percent to fixed income investments, and from zero to 6 percent to real estate investments and from zero to 7 percent to cash, depending on the plan. All plans' assets are broadly diversified. Due to fluctuations in equity markets, our actual allocations of plan assets at October 31, 2013 and 2012 differ from the target allocation. Our policy is to bring the actual allocation in line with the target allocation.

Equity securities include exchange-traded common stock and preferred stock of companies from broadly diversified industries. Fixed income securities include a global portfolio of corporate bonds of companies from diversified industries, government securities, mortgage-backed securities, asset-backed securities, derivative instruments and other. Other investments include a group trust consisting primarily of private equity partnerships as well as other investments. Portions of the cash and cash equivalent, equity, and fixed income investments are held in commingled funds.

Fair Value. The measurement of the fair value of pension and post-retirement plan assets uses the valuation methodologies and the inputs as described in Note 12.

Cash and Cash Equivalents - Cash and cash equivalents consist of short-term investment funds. The funds also invest in short-term domestic fixed income securities and other securities with debt-like characteristics emphasizing short-term maturities and quality. Cash and cash equivalents are classified as Level 1 investments except when the cash and cash equivalents are held in commingled funds, which have a daily net value derived from quoted prices for the underlying securities in active markets; these are classified as Level 2 investments.

Equity - Some equity securities consisting of common and preferred stock are held in commingled funds, which have daily net asset values derived from quoted prices for the underlying securities in active markets; these are classified as Level 2 investments. Commingled funds which have quoted prices in active markets are classified as Level 1 investments.

Fixed Income - Some of the fixed income securities are held in commingled funds, which have daily net asset values derived from the underlying securities; these are classified as Level 2 investments. Commingled funds which have quoted prices in active markets are classified as Level 1 investments.

Other Investments - Other investments includes property based pooled vehicles which invest in real estate. Market net asset values are regularly published in the financial press or on corporate websites and so these investments are classified as Level 2. Other investments also includes partnership investments where, due to their private nature, pricing inputs are not readily observable. Asset valuations are developed by the general partners that manage the partnerships. These valuations are based on proprietary appraisals, application of public market multiples to private company cash flows, utilization of market transactions that provide valuation information for comparable companies and other methods. Holdings of limited partnerships are classified as Level 3.

The following tables present the fair value of U.S. Defined Benefit Plans assets classified under the appropriate level of the fair value hierarchy as of October 31, 2013 and 2012.

	Fair Value Measurement at October 31, 2013 Using			
	October 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Cash and Cash Equivalents	\$ 8	\$ 1	\$ 7	\$ —
Equity	616	191	425	—
Fixed Income	139	17	122	—
Other Investments	19	2	—	17
Total assets measured at fair value	<u>\$ 782</u>	<u>\$ 211</u>	<u>\$ 554</u>	<u>\$ 17</u>

	Fair Value Measurement at October 31, 2012 Using			
	October 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Cash and Cash Equivalents	\$ 8	\$ 1	\$ 7	\$ —
Equity	486	134	352	—
Fixed Income	137	15	122	—
Other Investments	23	2	—	21
Total assets measured at fair value	<u>\$ 654</u>	<u>\$ 152</u>	<u>\$ 481</u>	<u>\$ 21</u>

For U.S. Defined Benefit Plans assets measured at fair value using significant unobservable inputs (level 3), the following table summarizes the change in balances during 2013 and 2012:

	Years Ended October 31.	
	2013	2012
Balance, beginning of year	\$ 21	\$ 26
Realized gains	4	3
Unrealized gains/(losses)	(2)	(2)
Purchases, sales, issuances, and settlements	(6)	(6)
Transfers in (out)	—	—
Balance, end of year	<u>\$ 17</u>	<u>\$ 21</u>

The following tables present the fair value of U.S. Post-Retirement Benefit Plans assets classified under the appropriate level of the fair value hierarchy as of October 31, 2013 and 2012.

	Fair Value Measurement at October 31, 2013 Using			
	October 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Cash and Cash Equivalents	\$ 5	\$ 2	\$ 3	\$ —
Equity	220	68	152	—
Fixed Income	52	6	46	—
Other Investments	11	1	—	10
Total assets measured at fair value	<u>\$ 288</u>	<u>\$ 77</u>	<u>\$ 201</u>	<u>\$ 10</u>

	Fair Value Measurement at October 31, 2012 Using			
	October 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Cash and Cash Equivalents	\$ 5	\$ 2	\$ 3	\$ —
Equity	189	52	137	—
Fixed Income	54	6	48	—
Other Investments	13	1	—	12
Total assets measured at fair value	<u>\$ 261</u>	<u>\$ 61</u>	<u>\$ 188</u>	<u>\$ 12</u>

For U.S. Post-Retirement Benefit Plans assets measured at fair value using significant unobservable inputs (level 3), the following table summarizes the change in balances during 2013 and 2012:

	Years Ended October 31,	
	2013	2012
Balance, beginning of year	\$ 12	\$ 15
Realized gains	2	2
Unrealized gains/(losses)	(1)	(1)
Purchases, sales, issuances, and settlements	(3)	(4)
Transfers in (out)	—	—
Balance, end of year	<u>\$ 10</u>	<u>\$ 12</u>

The following tables present the fair value of non-U.S. Defined Benefit Plans assets classified under the appropriate level of the fair value hierarchy as of October 31, 2013 and 2012:

	Fair Value Measurement at October 31, 2013 Using			
	October 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		
Cash and Cash Equivalents	\$ 10	\$ 10	\$ —	\$ —
Equity	1,078	296	782	—
Fixed Income	919	24	895	—
Other Investments	38	—	38	—
Total assets measured at fair value	<u>\$ 2,045</u>	<u>\$ 330</u>	<u>\$ 1,715</u>	<u>\$ —</u>

	Fair Value Measurement at October 31, 2012 Using			
	October 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		
Cash and Cash Equivalents	\$ 3	\$ 3	\$ —	\$ —
Equity	861	226	635	—
Fixed Income	900	19	881	—
Other Investments	37	—	37	—
Total assets measured at fair value	<u>\$ 1,801</u>	<u>\$ 248</u>	<u>\$ 1,553</u>	<u>\$ —</u>

For non-U.S. Defined Benefit Plans, there was no activity relating to assets measured at fair value using significant unobservable inputs (level 3) during fiscal year 2013 and 2012.

The table below presents the combined projected benefit obligation ("PBO"), accumulated benefit obligation ("ABO") and fair value of plan assets, grouping plans using comparisons of the PBO and ABO relative to the plan assets as of October 31, 2013 or 2012.

	2013		2012	
	<u>Benefit Obligation</u> PBO	Fair Value of Plan Assets	<u>Benefit Obligation</u> PBO	Fair Value of Plan Assets
	(in millions)			
U.S. defined benefit plans where PBO exceeds the fair value of plan assets	\$ 15	\$ —	\$ 771	\$ 654
U.S. defined benefit plans where fair value of plan assets exceeds PBO	748	782	—	—
Total	<u>\$ 763</u>	<u>\$ 782</u>	<u>\$ 771</u>	<u>\$ 654</u>
Non-U.S. defined benefit plans where PBO exceeds or is equal to the fair value of plan assets	\$ 1,697	\$ 1,482	\$ 2,117	\$ 1,801
Non-U.S. defined benefit plans where fair value of plan assets exceeds PBO	502	563	—	—
Total	<u>\$ 2,199</u>	<u>\$ 2,045</u>	<u>\$ 2,117</u>	<u>\$ 1,801</u>
	<u>ABO</u>		<u>ABO</u>	
U.S. defined benefit plans where ABO exceeds the fair value of plan assets	\$ 14	\$ —	\$ 749	\$ 654
U.S. defined benefit plans where the fair value of plan assets exceeds ABO	716	782	—	—
Total	<u>\$ 730</u>	<u>\$ 782</u>	<u>\$ 749</u>	<u>\$ 654</u>
Non-U.S. defined benefit plans where ABO exceeds or is equal to the fair value of plan assets	\$ 1,533	\$ 1,380	\$ 2,034	\$ 1,801
Non-U.S. defined benefit plans where fair value of plan assets exceeds ABO	590	665	—	—
Total	<u>\$ 2,123</u>	<u>\$ 2,045</u>	<u>\$ 2,034</u>	<u>\$ 1,801</u>

Contributions and estimated future benefit payments. During fiscal year 2014, we expect to contribute \$30 million to the U.S. defined benefit plans, \$71 million to plans outside the U.S., and \$2 million to the Post-retirement Medical Plans. The following table presents expected future benefit payments for the next 10 years.

	<u>U.S. Defined Benefit Plans</u>	<u>Non-U.S. Defined Benefit Plans</u>	<u>U.S. Post-Retirement Benefit Plans</u>
	(in millions)		
2014 \$	41	\$ 51	\$ 24
2015 \$	44	\$ 56	\$ 24
2016 \$	49	\$ 60	\$ 25
2017 \$	56	\$ 62	\$ 24
2018 \$	57	\$ 70	\$ 24
2019 - 2023	\$ 362	\$ 448	\$ 116

Assumptions. The assumptions used to determine the benefit obligations and expense for our defined benefit and post-retirement benefit plans are presented in the tables below. The expected long-term return on assets below represents an estimate of long-term returns on investment portfolios consisting of a mixture of equities, fixed income and alternative investments in proportion to the asset allocations of each of our plans. We consider long-term rates of return, which are weighted based on the asset classes (both historical and forecasted) in which we expect our pension and post-retirement funds to be invested. Discount rates reflect the current rate at which pension and post-retirement obligations could be settled based on the measurement dates of the plans - October 31. The U.S. discount rates at October 31, 2013 and 2012 were determined based on the results of matching expected plan benefit payments with cash flows from a hypothetically constructed bond portfolio. The

non-U.S. rates were generally based on published rates for high-quality corporate bonds. The range of assumptions that were used for the non-U.S. defined benefit plans reflects the different economic environments within various countries.

Assumptions used to calculate the net periodic cost in each year were as follows:

	For years ended October 31,		
	2013	2012	2011
U.S. defined benefit plans:			
Discount rate	3.25%	4.50%	5.00%
Average increase in compensation levels	3.50%	3.50%	3.50%
Expected long-term return on assets	8.00%	8.00%	8.25%
Non-U.S. defined benefit plans:			
Discount rate	1.50-4.50%	2.00-5.50%	2.00-5.25%
Average increase in compensation levels	2.50-3.00%	2.50-3.25%	2.50-3.75%
Expected long-term return on assets	4.00-6.50%	4.00-6.50%	4.00-6.75%
U.S. post-retirement benefits plans:			
Discount rate	3.50%	4.75%	5.50%
Expected long-term return on assets	8.00%	8.00%	8.25%
Current medical cost trend rate	9.00%	9.00%	10.00%
Ultimate medical cost trend rate	3.50%	4.50%	4.75%
Medical cost trend rate decreases to ultimate rate in year	2027	2026	2025

Assumptions used to calculate the benefit obligation were as follows:

	As of the Years Ending October 31,	
	2013	2012
U.S. defined benefit plans:		
Discount rate	4.50%	3.25%
Average increase in compensation levels	3.50%	3.50%
Non-U.S. defined benefit plans:		
Discount rate	1.75-4.25%	1.50-4.50%
Average increase in compensation levels	2.50-3.25%	2.50-3.00%
U.S. post-retirement benefits plans:		
Discount rate	4.25%	3.50%
Current medical cost trend rate	9.00%	9.00%
Ultimate medical cost trend rate	3.50%	3.50%
Medical cost trend rate decreases to ultimate rate in year	2028	2027

Health care trend rates do not have a significant effect on the total service and interest cost components or on the post-retirement benefit obligation amounts reported for the U.S. Post-Retirement Benefit Plan for the year ended October 31, 2013.

16. Guarantees

Standard Warranty

We accrue for standard warranty costs based on historical trends in warranty charges as a percentage of net product shipments. The accrual is reviewed regularly and periodically adjusted to reflect changes in warranty cost estimates. Estimated warranty charges are recorded within cost of products at the time products are sold. The standard warranty accrual balances are held in other accrued and other long-term liabilities on our consolidated balance sheet. Our standard warranty terms typically extend between one and three years from the date of delivery, depending on the product.

A summary of the standard warranty accrual activity is shown in the table below. The standard warranty accrual balances are held in other accrued and other long-term liabilities.

	October 31,	
	2013	2012
	(in millions)	
Balance as of October 31, 2012 and 2011	\$ 60	\$ 50
Reserve acquired upon close of Dako acquisition	—	1
Accruals for warranties including change in estimates	92	87
Settlements made during the period	(83)	(78)
Balance as of October 31, 2013 and 2012	<u>\$ 69</u>	<u>\$ 60</u>
Accruals for warranties due within one year	48	51
Accruals for warranties due after one year	21	9
Balance as of October 31, 2013 and 2012	<u>\$ 69</u>	<u>\$ 60</u>

Indemnifications to Avago

In connection with the sale of our semiconductor products business in December 2005, we agreed to indemnify Avago, its affiliates and other related parties against certain damages and expenses that it might incur in the future. The continuing indemnifications primarily cover damages and expenses relating to liabilities of the businesses that Agilent retained and did not transfer to Avago, as well as pre-closing taxes and other specified items. In our opinion, the fair value of these indemnification obligations was not material as of October 31, 2013.

Indemnifications to Verigy

In connection with the spin-off of Verigy, we agreed to indemnify Verigy and its affiliates against certain damages which it might incur in the future. These indemnifications primarily cover damages relating to liabilities of the businesses that Agilent did not transfer to Verigy, liabilities that might arise under limited portions of Verigy's IPO materials that relate to Agilent, and costs and expenses incurred by Agilent or Verigy to effect the IPO, arising out of the distribution of Agilent's remaining holding in Verigy ordinary shares to Agilent's stockholders, or incurred to effect the separation of the semiconductor test solutions business from Agilent to the extent incurred prior to the separation on June 1, 2006. On July 4, 2011, Verigy announced the completion by Advantest Corporation of its acquisition of Verigy. Verigy will operate as a wholly-owned subsidiary of Advantest and our indemnification obligations to Verigy should be unaffected. In our opinion, the fair value of these indemnification obligations was not material as of October 31, 2013.

Indemnifications to Hewlett-Packard

We have given multiple indemnities to Hewlett-Packard in connection with our activities prior to our spin-off from HP for the businesses that constituted Agilent prior to the spin-off. These indemnifications cover a variety of aspects of our business, including, but not limited to, employee, tax, intellectual property and environmental matters. The agreements containing these indemnifications have been previously disclosed as exhibits to our registration statement on Form S-1 filed on August 16, 1999. In our opinion, the fair value of these indemnification obligations was not material as of October 31, 2013.

Indemnifications to Varian Medical Systems and Varian Semiconductor Equipment Associates

In connection with our acquisition of Varian, we are subject to certain indemnification obligations to Varian Medical Systems (formerly Varian Associates, Inc. ("VAI")) and Varian Semiconductor Equipment Associates ("VSEA") in connection with the Instruments business as conducted by VAI prior to the Distribution (as described in Note 1 of Varian's Annual Report on Form 10-K filed on November 25, 2009). These indemnification obligations cover a variety of aspects of our business, including, but not limited to, employee,

tax, intellectual property, litigation and environmental matters. Certain of the agreements containing these indemnification obligations are disclosed as exhibits to Varian's Annual Report on Form 10-K filed on November 25, 2009. On November 10, 2011, Applied Materials announced that it had completed the acquisition of VSEA, which is now a wholly-owned subsidiary of Applied Materials; our indemnification obligations to VSEA should be unaffected. In our opinion, the fair value of these indemnification obligations was not material as of October 31, 2013.

Indemnifications to Officers and Directors

Our corporate by-laws require that we indemnify our officers and directors, as well as those who act as directors and officers of other entities at our request, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceedings arising out of their services to Agilent and such other entities, including service with respect to employee benefit plans. In addition, we have entered into separate indemnification agreements with each director and each board-appointed officer of Agilent which provide for indemnification of these directors and officers under similar circumstances and under additional circumstances. The indemnification obligations are more fully described in the by-laws and the indemnification agreements. We purchase standard insurance to cover claims or a portion of the claims made against our directors and officers. Since a maximum obligation is not explicitly stated in our by-laws or in our indemnification agreements and will depend on the facts and circumstances that arise out of any future claims, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, we have not made payments related to these obligations, and the fair value for these indemnification obligations was not material as of October 31, 2013.

Other Indemnifications

As is customary in our industry and as provided for in local law in the U.S. and other jurisdictions, many of our standard contracts provide remedies to our customers and others with whom we enter into contracts, such as defense, settlement, or payment of judgment for intellectual property claims related to the use of our products. From time to time, we indemnify customers, as well as our suppliers, contractors, lessors, lessees, companies that purchase our businesses or assets and others with whom we enter into contracts, against combinations of loss, expense, or liability arising from various triggering events related to the sale and the use of our products and services, the use of their goods and services, the use of facilities and state of our owned facilities, the state of the assets and businesses that we sell and other matters covered by such contracts, usually up to a specified maximum amount. In addition, from time to time we also provide protection to these parties against claims related to undiscovered liabilities, additional product liability or environmental obligations. In our experience, claims made under such indemnifications are rare and the associated estimated fair value of the liability was not material as of October 31, 2013.

In connection with the sale of several of our businesses, we have agreed to indemnify the buyers of such business, their respective affiliates and other related parties against certain damages that they might incur in the future. The continuing indemnifications primarily cover damages relating to liabilities of the businesses that Agilent retained and did not transfer to the buyers, as well as other specified items. In our opinion, the fair value of these indemnification obligations was not material as of October 31, 2013.

17. Commitments and Contingencies

Operating Lease Commitments: We lease certain real and personal property from unrelated third parties under non-cancelable operating leases. Future minimum lease payments under operating leases at October 31, 2013 were \$56 million for 2014, \$47 million for 2015, \$31 million for 2016, \$21 million for 2017, \$12 million for 2018 and \$6 million thereafter. Future minimum sublease income under leases at October 31, 2013 was \$6 million for 2014, \$5 million for 2015, \$3 million for 2016, \$2 million for 2017 and zero thereafter. Certain leases require us to pay property taxes, insurance and routine maintenance, and include escalation clauses. Total rent expense was \$90 million in 2013, \$84 million in 2012 and \$82 million in 2011.

Contingencies: We are involved in lawsuits, claims, investigations and proceedings, including, but not limited to, patent, commercial and environmental matters, which arise in the ordinary course of business. There

are no matters pending that we currently believe are reasonably possible of having a material impact to our business, consolidated financial condition, results of operations or cash flows.

On March 4, 2013, we made a report to the Inspector General of the Department of Defense (“DOD IG”) regarding pricing irregularities relating to certain sales of electronic measurement products to U.S. government agencies. We have conducted a thorough investigation with the help of external counsel, and we have approached the DOD IG with a proposed methodology for resolving possible overcharges to U.S. government purchasers resulting from these sales. Based on our investigation and our interactions with the DOD IG, we do not believe that this matter is reasonably possible of having a material impact on Agilent's financial condition, results of operations or cash flows. As of October 31, 2013, we have accrued for this matter based on our current understanding.

As part of routine internal audit activities, the Company determined that certain employees of Agilent's subsidiaries in China did not comply with the Company's Standards of Business Conduct and other policies. Based on those findings, the Company has initiated an internal investigation, with the assistance of outside counsel, relating to certain sales of our products through third party intermediaries in China. The internal investigation includes a review of compliance by our employees in China with the requirements of the U.S. Foreign Corrupt Practices Act and other applicable laws and regulations. On September 5, 2013, the Company voluntarily contacted the United States Securities and Exchange Commission and United States Department of Justice to advise both agencies of this internal investigation. We will cooperate with any government investigation of this matter. At this point, we cannot predict or estimate the duration, scope, cost, or result of this matter, or whether the government will commence any legal action, which could result in possible fines and penalties, criminal or civil sanctions, or other consequences. Accordingly, no provision with respect to these matters has been made in the Company's consolidated financial statements. Adverse findings or other negative outcomes from any governmental proceedings could have a material impact on the Company's consolidated financial statements in future periods.

18. Short-Term Debt

Credit Facility

On October 20, 2011, we entered into a five-year credit agreement, which provides for a \$400 million unsecured credit facility that will expire on October 20, 2016. The company may use amounts borrowed under the facility for general corporate purposes. As of October 31, 2013 the company has no borrowings outstanding under the facility. We were in compliance with the covenants for the credit facilities during the year ended October 31, 2013.

As a result of the Dako acquisition, we have a credit facility in Danish Krone equivalent of \$9 million with a Danish financial institution. As of October 31, 2013 the company had no borrowings outstanding under the facility.

2013 Senior Notes

On July 13, 2010, the company issued an aggregate principal amount of \$250 million in senior notes (“2013 senior notes”). The 2013 senior notes matured on July 15, 2013 and were paid in full.

2012 Senior Notes

On September 9, 2009, the company issued an aggregate principal amount of \$250 million in senior notes (“2012 senior notes”). The 2012 senior notes matured on September 14, 2012 and were paid in full.

19. Long-Term Debt

Senior Notes

The following table summarizes the company's long-term senior notes and the related interest rate swaps:

	October 31, 2013			October 31, 2012		
	Amortized Principal	Swap	Total	Amortized Principal	Swap	Total
			(in millions)			
2015 Senior Notes	500	12	512	499	18	517
2017 Senior Notes	599	22	621	599	26	625
2020 Senior Notes	498	26	524	498	29	527
2022 Senior Notes	399	—	399	399	—	399
2023 Senior Notes	597	—	597	—	—	—
Total	<u>\$ 2,593</u>	<u>\$ 60</u>	<u>\$ 2,653</u>	<u>\$ 1,995</u>	<u>\$ 73</u>	<u>\$ 2,068</u>

2015 Senior Notes

In September 2009, the company issued an aggregate principal amount of \$500 million in senior notes ("2015 senior notes"). The 2015 senior notes were issued at 99.69% of their principal amount. The notes will mature on September 14, 2015, and bear interest at a fixed rate of 5.50% per annum. The interest is payable semi-annually on March 14th and September 14th of each year, payments commenced on March 14, 2010.

On June 6, 2011, we terminated our interest rate swap contracts related to our 2015 senior notes that represented the notional amount of \$500 million. The asset value, including interest receivable, upon termination for these contracts was approximately \$31 million and the amount to be amortized at October 31, 2013 was \$12 million. The gain is being deferred and amortized to interest expense over the remaining life of the 2015 senior notes.

2017 Senior Notes

In October 2007, the company issued an aggregate principal amount of \$600 million in senior notes ("2017 senior notes"). The 2017 senior notes were issued at 99.60% of their principal amount. The notes will mature on November 1, 2017, and bear interest at a fixed rate of 6.50% per annum. The interest is payable semi-annually on May 1st and November 1st of each year and payments commenced on May 1, 2008.

On November 25, 2008, we terminated two interest rate swap contracts associated with our 2017 senior notes that represented the notional amount of \$400 million. The asset value, including interest receivable, upon termination was approximately \$43 million and the amount to be amortized at October 31, 2013 was \$22 million. The gain is being deferred and amortized to interest expense over the remaining life of the 2017 senior notes.

2020 Senior Notes

In July 2010, the company issued an aggregate principal amount of \$500 million in senior notes ("2020 senior notes"). The 2020 senior notes were issued at 99.54% of their principal amount. The notes will mature on July 15, 2020, and bear interest at a fixed rate of 5.00% per annum. The interest is payable semi-annually on January 15th and July 15th of each year, payments commenced on January 15, 2011.

On August 9, 2011, we terminated our interest rate swap contracts related to our 2020 senior notes that represented the notional amount of \$500 million. The asset value, including interest receivable, upon termination for these contracts was approximately \$34 million and the amount to be amortized at October 31, 2013 was \$26 million. The gain is being deferred and amortized to interest expense over the remaining life of the 2020 senior notes.

2022 Senior Notes

In September 2012, the company issued an aggregate principal amount of \$400 million in senior notes ("2022 senior notes"). The 2022 senior notes were issued at 99.80% of their principal amount. The notes will mature on October 1, 2022, and bear interest at a fixed rate of 3.20% per annum. The interest is payable semi-annually on April 1st and October 1st of each year, payments commenced on April 1, 2013.

2023 Senior Notes

In June 2013, the company issued aggregate principal amount of \$600 million in senior notes ("2023 senior notes"). The 2023 senior notes were issued at 99.544% of their principal amount. The notes will mature on July 15, 2023 and bear interest at a fixed rate of 3.875% per annum. The interest is payable semi annually on January 15th and July 15th of each year and payments will commence January 15, 2014.

All notes issued are unsecured and rank equally in right of payment with all of Agilent's other senior unsecured indebtedness. The company incurred issuance costs of \$5 million each in connection with the 2017 and 2023 senior notes and incurred \$3 million each in connection with the 2015, 2020 and 2022 senior notes. These costs were capitalized in other assets on the consolidated balance sheet and the costs are being amortized to interest expense over the term of the senior notes.

Other debt

As of October 31, 2013, and as a result of the Dako acquisition, we have mortgage debts, secured on buildings in Denmark, in Danish Krone equivalent of \$46 million aggregate principal outstanding with a Danish financial institution. The loans have a variable interest rate based on 3 months Copenhagen Interbank Rate ("Cibor") and will mature on September 30, 2027. Interest payments are made in March, June, September and December of each year.

20. Stockholders' Equity

Stock Repurchase Program

On November 19, 2009 our board of directors approved a share-repurchase program to reduce or eliminate dilution of basic outstanding shares in connection with issuances of stock under the company's equity incentive plans (the "2009 repurchase program"). The 2009 repurchase program did not require the company to acquire a specific number of shares and could be suspended or discontinued at any time. There was no fixed termination date for the 2009 repurchase program.

On January 16, 2013, our board of directors terminated the 2009 repurchase program and approved a new share-repurchase program (the "2013 repurchase program"). The 2013 repurchase program authorized the use of up to \$500 million to repurchase shares of the company's common stock in open market transactions, inclusive of any amounts repurchased since November 1, 2012. On May 14, 2013 we announced that our board of directors authorized an increase of \$500 million to the 2013 repurchase program bringing the cumulative authorization to \$1 billion. Unless terminated earlier by the board of directors, the 2013 repurchase program is designed to cover purchases until the end of the calendar year 2013 and any unused portion may be used in the calendar year 2014. The 2013 repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time. As of October 31, 2013, the remaining amount to be repurchased under the 2013 program is \$100 million. We repurchased the remaining \$100 million worth of shares under the 2013 repurchase program in November 2013.

For the year ended October 31, 2013, we repurchased 20 million shares for \$900 million. For the year ended October 31, 2012 we repurchased approximately 5 million shares for \$172 million. For the year ended October 31, 2011 we repurchased 12 million shares for \$497 million. All such shares and related costs are held as treasury stock and accounted for using the cost method.

On November 22, 2013 we announced that our board of directors has authorized a new share repurchase program effective upon the conclusion of the company's existing \$1 billion repurchase program. The new program is designed to reduce or eliminate dilution resulting from issuance of stock under the company's employee equity incentive programs to maintain a weighted average share count of approximately 335 million diluted shares.

Cash Dividends on Shares of Common Stock

During the year ended October 31, 2013, cash dividends of \$0.46 per share, or \$156 million were declared and paid on the company's outstanding common stock. During the year ended October 31, 2012, cash dividends of \$0.30 per share, or \$104 million were declared and paid on the company's outstanding common stock. The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

On November 22, 2013 we announced that our board of directors has authorized a 10 percent increase in the quarterly dividend to \$0.132 per share. The dividend was declared on November 22, 2013 and will be paid on January 22, 2014 to all stockholders of record as of close of business on December 31, 2013.

Accumulated other comprehensive income

The following table summarizes the components of our accumulated other comprehensive income as of October 31, 2013 and 2012, net of tax effect:

	October 31,	
	2013	2012
	(in millions)	
Unrealized gain on equity securities, net of \$2 of tax expense for 2013	\$ 7	\$ —
Foreign currency translation, net of \$102 of tax expense for 2013 and 2012	425	424
Unrealized losses on defined benefit plans, net of tax benefit of \$(64) and \$(162) for 2013 and 2012, respectively	(341)	(537)
Unrealized gains (losses) on derivative instruments, net of tax expense of \$2 and \$3 for 2013 and 2012, respectively	—	2
Total accumulated other comprehensive income (loss)	<u>\$ 91</u>	<u>\$ (111)</u>

21. Segment Information

Description of segments. We are a measurement company providing core bio-analytical and electronic measurement solutions to the life sciences, diagnostics and genomics, chemical analysis, communications and electronics industries. In the fourth fiscal quarter of 2013, we formed a new operating segment from our existing businesses. The new life sciences and diagnostics segment was formed by the combination of the life sciences business plus the diagnostics and genomics business. Following this reorganization, Agilent has three business segments comprised of the life sciences and diagnostics business, the chemical analysis business and the electronic measurement business. The historical segment financial information for the life sciences and diagnostics segment has been recast to conform to this new reporting structure in our financial statements. The three operating segments were determined based primarily on how the chief operating decision maker views and evaluates our operations. Operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Other factors, including market separation and customer specific applications, go-to-market channels, products and services and manufacturing are considered in determining the formation of these operating segments.

A description of our three reportable segments is as follows:

Our life sciences and diagnostics business provides application-focused solutions that include reagents,

instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products, as well as enable customers in the clinical and life sciences research areas to interrogate samples at the molecular level. Key product categories include: liquid chromatography systems, columns and components; liquid chromatography mass spectrometry systems; laboratory software and informatics systems; laboratory automation and robotic systems; dissolution testing; nucleic acid solutions; Nuclear Magnetic Resonance, Magnetic Resonance Imaging, and X-Ray Diffraction systems; services and support for the aforementioned products; immunohistochemistry ; In Situ Hybridization; Hematoxylin and Eosin staining; special staining, DNA mutation detection; genotyping; gene copy number determination; identification of gene rearrangements; DNA methylation profiling; gene expression profiling; next generation sequencing target enrichment; and automated gel electrophoresis-based sample analysis systems. We also collaborate with a number of major pharmaceutical companies to develop new potential pharmacodiagnosics, also called companion diagnostics, with the potential of identifying patients most likely to benefit from a specific targeted therapy.

Our chemical analysis business provides application-focused solutions that include instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products. Key product categories in chemical analysis include: gas chromatography (GC) systems, columns and components; gas chromatography mass spectrometry (GC-MS) systems; inductively coupled plasma mass spectrometry (ICP-MS) instruments; atomic absorption (AA) instruments; inductively coupled plasma optical emission spectrometry (ICP-OES) instruments; molecular spectroscopy instruments; software and data systems; vacuum pumps and measurement technologies; services and support for our products.

Our electronic measurement business provides electronic measurement instruments and systems, software design tools and related services that are used in the design, development, manufacture, installation, deployment and operation of electronics equipment, and microscopy products. Related services include start-up assistance, instrument productivity and application services and instrument calibration and repair. We also offer customization, consulting and optimization services throughout the customer's product lifecycle.

The historical segment numbers for the life sciences and diagnostics segment has been recast to conform to this new reporting structure in our financial statements.

A significant portion of the segments' expenses arise from shared services and infrastructure that we have historically provided to the segments in order to realize economies of scale and to efficiently use resources. These expenses, collectively called corporate charges, include costs of centralized research and development, legal, accounting, real estate, insurance services, information technology services, treasury and other corporate infrastructure expenses. Charges are allocated to the segments, and the allocations have been determined on a basis that we consider to be a reasonable reflection of the utilization of services provided to or benefits received by the segments. Beginning in fiscal year 2012, we created the Agilent Order Fulfillment ("AOF") organization to centralize all order fulfillment and supply organizations and operations. AOF provides resources for manufacturing, engineering, strategic sourcing and logistics to life sciences, chemical analysis and electronic measurement businesses. In general, AOF employees are dedicated to specific businesses and the associated costs are directly allocated to businesses.

The following tables reflect the results of our reportable segments under our management reporting system. These results are not necessarily in conformity with U.S. GAAP. The performance of each segment is measured based on several metrics, including adjusted income from operations. These results are used, in part, by the chief operating decision maker in evaluating the performance of, and in allocating resources to, each of the segments.

The profitability of each of the segments is measured after excluding restructuring and asset impairment charges, investment gains and losses, interest income, interest expense, acquisition and integration costs, one-time and pre-separation costs, non-cash amortization and other items as noted in the reconciliations below.

	<u>Life Sciences and Diagnostics</u>	<u>Chemical Analysis</u>	<u>Electronic Measurement</u>	<u>Total Segments</u>
	(in millions)			
Year ended October 31, 2013:				
Total net revenue	\$ 2,300	\$ 1,594	\$ 2,888	\$ 6,782
Income from operations	\$ 377	\$ 355	\$ 544	\$ 1,276
Depreciation expense	\$ 71	\$ 27	\$ 83	\$ 181
Share-based compensation expense	\$ 26	\$ 21	\$ 38	\$ 85
Year ended October 31, 2012:				
Total net revenue	\$ 1,984	\$ 1,559	\$ 3,315	\$ 6,858
Income from operations	\$ 295	\$ 338	\$ 751	\$ 1,384
Depreciation expense	\$ 57	\$ 31	\$ 83	\$ 171
Share-based compensation expense	\$ 21	\$ 18	\$ 37	\$ 76
Year ended October 31, 2011:				
Total segment revenue	\$ 1,792	\$ 1,518	\$ 3,316	\$ 6,626
Varian acquisition deferred revenue fair value adjustment	\$ (4)	\$ (7)	—	\$ (11)
Total net revenue	<u>\$ 1,788</u>	<u>\$ 1,511</u>	<u>\$ 3,316</u>	<u>\$ 6,615</u>
Income from operations	<u>\$ 237</u>	<u>\$ 313</u>	<u>\$ 760</u>	<u>\$ 1,310</u>
Depreciation expense	\$ 39	\$ 28	\$ 75	\$ 142
Share-based compensation expense	\$ 20	\$ 17	\$ 36	\$ 73

The following table reconciles reportable segments' income from operations to Agilent's total enterprise income before taxes:

	<u>Years Ended October 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in millions)		
Total reportable segments' income from operations	\$ 1,276	\$ 1,384	\$ 1,310
Restructuring related costs	(53)	—	(2)
Acceleration of depreciation for held and used assets	—	(15)	—
Asset Impairments	(3)	(1)	(9)
Transformational programs	(19)	(25)	(51)
Amortization of intangibles	(199)	(136)	(113)
Acquisition and integration costs	(29)	(74)	(54)
Acceleration of share-based compensation expense related to workforce reduction	(3)	—	—
One-time and pre-separation costs	(5)	—	—
Varian acquisition related fair value adjustments	—	—	(9)
Other	(14)	(14)	(1)
Interest Income	7	9	14
Interest Expense	(107)	(101)	(86)
Other income (expense), net	8	16	33
Income before taxes, as reported	<u>\$ 859</u>	<u>\$ 1,043</u>	<u>\$ 1,032</u>

Major customers. No customer represented 10 percent or more of our total net revenue in 2013, 2012 or 2011.

The following table presents assets and capital expenditures directly managed by each segment. Unallocated assets primarily consist of cash, cash equivalents, accumulated amortization of other intangibles and other assets.

	<u>Life Sciences and Diagnostics</u>	<u>Chemical Analysis</u>	<u>Electronic Measurement</u>	<u>Total Segments</u>
	(in millions)			
As of October 31, 2013:				
Assets	\$ 4,291	\$ 1,756	\$ 1,997	\$ 8,044
Capital expenditures	\$ 77	\$ 30	\$ 88	\$ 195
As of October 31, 2012:				
Assets	\$ 4,072	\$ 1,768	\$ 2,157	\$ 7,997
Capital expenditures	\$ 56	\$ 32	\$ 106	\$ 194

The following table reconciles segment assets to Agilent's total assets:

	<u>October 31,</u>	
	<u>2013</u>	<u>2012</u>
	(in millions)	
Total reportable segments' assets	\$ 8,044	\$ 7,997
Cash, cash equivalents and short-term investments	2,675	2,351
Prepaid expenses	198	128
Investments	139	109
Long-term and other receivables	162	161
Other	(532)	(210)
Total assets	<u>\$ 10,686</u>	<u>\$ 10,536</u>

The other category primarily represents the difference between how segments report deferred taxes and intangible assets at the initial purchased amount.

The following table presents summarized information for net revenue and long-lived assets by geographic region. Revenues from external customers are generally attributed to countries based upon the location of the Agilent sales representative. Long lived assets consist of property, plant, and equipment, long-term receivables and other long-term assets excluding intangible assets. The rest of the world primarily consists of rest of Asia and Europe.

	<u>United States</u>	<u>China</u>	<u>Japan</u>	<u>Rest of the World</u>	<u>Total</u>
	(in millions)				
Net revenue:					
Year ended October 31, 2013	\$ 2,043	\$ 1,131	\$ 628	\$ 2,980	\$ 6,782
Year ended October 31, 2012	\$ 2,218	\$ 1,078	\$ 716	\$ 2,846	\$ 6,858
Year ended October 31, 2011	\$ 2,016	\$ 1,035	\$ 700	\$ 2,864	\$ 6,615
Long-lived assets:					
October 31, 2013	\$ 601	\$ 130	\$ 715	\$ 1,446	
October 31, 2012	\$ 550	\$ 167	\$ 645	\$ 1,362	

QUARTERLY SUMMARY

(Unaudited)

	Three Months Ended			
	January 31,	April 30,	July 31,	October 31,
	(in millions, except per share data)			
2013				
Net revenue	\$ 1,680	\$ 1,732	\$ 1,652	\$ 1,718
Gross profit	880	891	856	908
Income from operations	217	213	236	285
Net income	\$ 179	\$ 166	\$ 168	\$ 211
Net income per share — Basic:	\$ 0.52	\$ 0.48	\$ 0.50	\$ 0.64
Net income per share — Diluted:	\$ 0.51	\$ 0.48	\$ 0.49	\$ 0.63
Weighted average shares used in computing net income per share:				
Basic	347	345	339	331
Diluted	352	349	343	336
Cash dividends per common share	\$ 0.22	\$ —	\$ 0.12	\$ 0.12
Range of stock prices on NYSE	\$ 35.45-45.55	\$ 40.19-45.66	\$ 41.24-47.47	\$ 45.32-53.47
2012 (1)				
Net revenue	\$ 1,635	\$ 1,733	\$ 1,723	\$ 1,767
Gross profit	874	918	890	922
Income from operations	271	300	270	278
Net income	\$ 230	\$ 255	\$ 243	\$ 425
Net income per share — Basic:	\$ 0.66	\$ 0.73	\$ 0.70	\$ 1.22
Net income per share — Diluted:	\$ 0.65	\$ 0.72	\$ 0.69	\$ 1.20
Weighted average shares used in computing net income per share:				
Basic	348	348	348	348
Diluted	352	354	353	353
Cash dividends per common share	\$ 0.10	\$ —	\$ 0.10	\$ 0.10
Range of stock prices on NYSE	\$ 32.51-44.85	\$ 39.15-46.28	\$ 35.32-43.27	\$ 35.38-40.97

(1) Consolidated financial data includes Dako acquired, acquired on June 21, 2012, and non-recurring tax benefit relating to the U.S. valuation allowance reversal in the fourth quarter of 2012 of \$280 million.

RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY AFFECT FUTURE RESULTS

Risks, Uncertainties and Other Factors That May Affect Future Results

Depressed and uncertain general economic conditions may adversely affect our operating results and financial condition.

Our business is sensitive to negative changes in general economic conditions, both inside and outside the U.S. The continued economic downturn may adversely impact our business resulting in:

- reduced demand for our products, delays in the shipment of orders, or increases in order cancellations;
- increased risk of excess and obsolete inventories;
- increased price pressure for our products and services; and
- greater risk of impairment to the value, and a detriment to the liquidity, of our investment portfolio.

Our operating results and financial condition could be harmed if the markets into which we sell our products decline or do not grow as anticipated.

Visibility into our markets is limited. Our quarterly sales and operating results are highly dependent on the volume and timing of orders received during the fiscal quarter, which are difficult to forecast and may be cancelled by our customers. In addition, our revenues and earnings forecasts for future fiscal quarters are often based on the expected seasonality or cyclical nature of our markets. However, the markets we serve do not always experience the seasonality or cyclical nature that we expect. Any decline in our customers' markets or in general economic conditions, including declines related to the current market disruptions described above, would likely result in a reduction in demand for our products and services. The broader semiconductor market is one of the drivers for our electronic measurement business, and therefore, a decrease in the semiconductor market could harm our electronic measurement business. Also, if our customers' markets decline, we may not be able to collect on outstanding amounts due to us. Such declines could harm our consolidated financial position, results of operations, cash flows and stock price, and could limit our profitability. Also, in such an environment, pricing pressures could intensify. Since a significant portion of our operating expenses is relatively fixed in nature due to sales, research and development and manufacturing costs, if we were unable to respond quickly enough these pricing pressures could further reduce our operating margins.

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. In addition, many of the markets in which we operate are seasonal and cyclical. 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 products and services 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 and on time;
- differentiate our offerings from our competitors' offerings;
- price our products competitively;

- anticipate our competitors' development of new products, services or technological innovations; and
- control product quality in our manufacturing process.

We are pursuing a plan to spin-off our electronic measurement business into a new, independent publicly traded company. The proposed separation may not be completed on the currently contemplated timeline or at all and may not achieve the intended benefits.

In September 2013, we announced a plan to separate into two independent public companies through a spin-off of our electronic measurement business. Unanticipated developments, including possible delays in obtaining various tax rulings, regulatory approvals or clearances and trade qualifications, uncertainty of the financial markets and challenges in establishing infrastructure or processes, could delay or prevent the proposed separation or cause the proposed separation to occur on terms or conditions that are less favorable and/or different than expected. Even if the transaction is completed, we may not realize some or all of the anticipated benefits from the spin-off. Expenses incurred to accomplish the proposed separation may be significantly higher than what we currently anticipate. Executing the proposed separation also requires significant time and attention from management, which could distract them from other tasks in operating our business. Following the proposed separation, the combined value of the common stock of the two publicly-traded companies may not be equal to or greater than what the value of our common stock would have been had the proposed separation not occurred.

Failure to adjust our purchases due to changing market conditions or failure to estimate our customers' demand could adversely affect our income.

Our income could be harmed if we are unable to adjust our purchases to reflect market fluctuations, including those caused by the seasonal or cyclical nature of the markets in which we operate. The sale of our products and services are dependent, to a large degree, on customers whose industries are subject to seasonal or cyclical trends in the demand for their products. For example, the consumer electronics market is particularly volatile, making demand difficult to anticipate. During a market upturn, we may not be able to purchase sufficient supplies or components to meet increasing product demand, which could materially affect our results. In the past we have seen a shortage of parts for some of our products. In addition, some of the parts that require custom design are not readily available from alternate suppliers due to their unique design or the length of time necessary for design work. Should a supplier cease manufacturing such a component, we would be forced to reengineer our product. In addition to discontinuing parts, suppliers may also extend lead times, limit supplies or increase prices due to capacity constraints or other factors. In order to secure components for the production of products, we may continue to 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 when demand for our communications and electronics products has decreased. If demand for our products is less than we expect, we may experience additional excess and obsolete inventories and be forced to incur additional charges.

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

Because 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 majority of our total revenue. In addition, many of our employees, contract manufacturers, suppliers, job functions and manufacturing facilities are located outside the U.S. 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, economic or other conditions;

- trade protection measures and import or export licensing requirements;
- negative consequences from changes in tax laws including changes to U.S. tax legislation that could materially increase our effective tax rate;
- difficulty in staffing and managing widespread operations;
- differing labor regulations;
- differing protection of intellectual property;
- unexpected changes in regulatory requirements; and
- geopolitical turmoil, including terrorism and war.

We centralized most of our accounting processes to two locations: India and Malaysia. These processes include general accounting, cost accounting, accounts payable and accounts receivables functions. If conditions change in those countries, it may adversely affect operations, including impairing our ability to pay our suppliers and collect our receivables. Our results of operations, as well as our liquidity, may be adversely affected and possible delays may occur in reporting financial results.

Additionally, we must comply with complex foreign and U.S. laws and regulations, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and other local laws prohibiting corrupt payments to governmental officials, and anti-competition regulations. Violations of these laws and regulations could result in fines and penalties, criminal sanctions, restrictions on our business conduct and on our ability to offer our products in one or more countries, and could also materially affect our brand, our ability to attract and retain employees, our international operations, our business and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies. See Item 3. "Legal Proceedings". If government action results from our China investigation, we could face possible fines and penalties, criminal or civil sanctions, or other consequences, and our business could suffer.

In addition, although the majority of our products are priced and paid for in U.S. dollars, a significant amount of certain types of expenses, such as payroll, utilities, tax, and marketing expenses, are paid in local currencies. Our hedging programs reduce, but do not always entirely eliminate, within any given twelve month period, the impact of currency exchange rate movements, and therefore fluctuations in exchange rates, including those caused by currency controls, could impact our business operating results and financial condition by resulting in lower revenue or increased expenses. However, for expenses beyond that twelve month period, our hedging strategy does not mitigate our exposure. In addition, our currency hedging programs involve third party financial institutions as counterparties. The weakening or failure of financial institution counterparties may adversely affect our hedging programs and our financial condition through, among other things, a reduction in available counterparties, increasingly unfavorable terms, and the failure of the counterparties to perform under hedging contracts.

Significant key customers or large orders may expose us to additional business and legal risks that could have a material adverse impact on our operating results and financial condition.

Certain significant key customers have substantial purchasing power and leverage in negotiating contractual arrangements with us. These customers may demand contract terms that differ considerably from our standard terms and conditions. Large orders may also include severe contractual liabilities for us if we fail to provide the quantity and quality of product at the required delivery times. While we attempt to contractually limit our potential liability under such contracts, we expect to be forced to agree to some or all of these types of provisions to secure these orders and to continue to grow our business. Such actions expose us to significant additional risks which could result in a material adverse impact on our operating results and financial condition.

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. The markets in which we operate are very dynamic, and our businesses continue to respond with reorganizations, workforce reductions and site closures. We believe our pay levels are very competitive within the regions that we operate. However, there is also intense competition for certain highly technical specialties in geographic areas where we continue to recruit, and it may become more difficult to retain our key employees, especially in light of our ongoing restructuring efforts.

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, and generally expect to complete several transactions per year. For example in the past we completed various acquisitions, including Dako A/S, Halo Genomics AB and the test systems division of AT4 wireless. As a result of such transactions, our financial results may differ from our own or the investment community's expectations in a given fiscal quarter, or over the long term. Such transactions often have post-closing arrangements including but not limited to post-closing adjustments, transition services, escrows or indemnifications, the financial results of which can be difficult to predict. 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 different geographic areas;
- the retention of key customers;
- the compatibility of our sales programs and facilities with those of the acquired company; and
- the compatibility of our existing infrastructure with that of an acquired company.

In addition, effective internal controls are necessary for us to provide reliable and accurate financial reports and to effectively prevent fraud. The integration of acquired businesses is likely to result in our systems and controls becoming increasingly complex and more difficult to manage. We devote significant resources and time to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley Act of 2002. However, we cannot be certain that these measures will ensure that we design, implement and maintain adequate control over our financial processes and reporting in the future, especially in the context of acquisitions of other businesses. Any difficulties in the assimilation of acquired businesses into our control system could harm our operating results or cause us to fail to meet our financial reporting obligations. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock and our access to capital.

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.

In addition, if customers of the divested business do not receive the same level of service from the new owners, this may adversely affect our other businesses to the extent that these customers also purchase other Agilent products. All of these efforts require varying levels of management resources, which may divert our attention from other business operations. Further, if market conditions or other factors lead us to change our

strategic direction, we may not realize the expected value from such transactions. If we do not realize the expected benefits or synergies of such transactions, our consolidated financial position, results of operations, cash flows and stock price could be negatively impacted.

If we do not achieve the contemplated benefits of our acquisition and integration of Dako A/S, our business and financial condition may be materially impaired.

We may not achieve the desired benefits from our acquisition and integration of Dako. In addition, the operation of Dako within Agilent could be a costly and time-consuming process that involves a number of risks, including, but not limited to:

- difficulties in the assimilation of different corporate cultures, practices and sales and distribution methodologies, as well as in the assimilation and retention of geographically dispersed, decentralized operations and personnel;
- increased exposure to certain governmental regulations and compliance requirements;
- the potential loss of key personnel who choose not to remain with Dako or Agilent;
- the potential loss of key customers or suppliers who choose not to do business with the combined business; and
- the use of cash resources and increased capital expenditures on additional investment or research and development activities in excess of our current expectations, which could offset any synergies resulting from the Dako acquisition and limit other potential uses of our cash, including stock repurchases and retirement of outstanding debt.

Even if we are able to successfully operate Dako within Agilent, we may not be able to realize the revenue and other synergies and growth that we anticipate from the acquisition in the time frame that we currently expect, and the costs of achieving these benefits may be higher than what we currently expect, because of a number of risks, including, but not limited to:

- the possibility that the acquisition may not further our business strategy as we expected;
- the possibility that we may not be able to expand the reach and customer base for Dako current and future products as expected;
- the possibility that we may not be able to expand the reach and customer base for Agilent products as expected;
- the possibility that the carrying amounts of goodwill and other purchased intangible assets may not be recoverable; and
- the fact that the acquisition will substantially expand our diagnostics business, and we may not experience anticipated growth in that market.

As a result of these risks, the Dako acquisition and integration may not contribute to our earnings as expected, we may not achieve expected revenue synergies or our return on invested capital targets when expected, or at all, and we may not achieve the other anticipated strategic and financial benefits of this transaction.

The impact of consolidation and acquisitions of competitors is difficult to predict and may harm our business.

The electronic measurement and life sciences industries are intensely competitive and have been subject to increasing consolidation. For instance, Danaher Corporation completed its acquisition of IRIS International in November 2012; Thermo Fisher Scientific announced its acquisition of Life Technologies in April 2013 and completed its acquisitions of Doe & Ingalls in May 2012 and One Lambda in September 2012; and PerkinElmer completed its acquisition of Haoyuan Biotech in November 2012. Consolidation in our industries could result in

existing competitors increasing their market share through business combinations and result in stronger competitors, which could have a material adverse effect on our business, financial condition and results of operations. We may not be able to compete successfully in increasingly consolidated industries and cannot predict with certainty how industry consolidation will affect our competitors or us.

Our customers and we are subject to various governmental regulations, compliance with or changes in such regulations 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 customers and we are subject to various significant international, federal, state and local regulations, including but not limited to health and safety, packaging, product content, labor and import/export 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. We develop, configure and market our products to meet customer needs created by these regulations. Any significant change in these regulations could reduce demand for our products, force us to modify our products to comply with new regulations or increase our costs of producing these products. If demand for our products is adversely affected or our costs increase, our business would suffer.

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

Some of our chemical analysis and life sciences and diagnostics products are exposed to particular complex regulations such as regulations of toxic substances and medical devices, and failure to comply with such regulations could harm our business.

Some of our chemical analysis products and related consumables marketed by our chemical analysis and life sciences and diagnostics businesses are used in conjunction with chemicals whose manufacture, processing, distribution and notification requirements are regulated by the U.S. Environmental Protection Agency ("EPA") under the Toxic Substances Control Act, and by regulatory bodies in other countries with similar laws. The Toxic Substances Control Act regulations govern, among other things, the testing, manufacture, processing and distribution of chemicals, the testing of regulated chemicals for their effects on human health and safety and import and export of chemicals. The Toxic Substances Control Act prohibits persons from manufacturing any chemical in the U.S. that has not been reviewed by EPA for its effect on health and safety, and placed on an EPA inventory of chemical substances. We must conform the manufacturing, processing, distribution of and notification about these chemicals to these laws and adapt to regulatory requirements in all applicable countries as these requirements change. If we fail to comply with the notification, record-keeping and other 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 or marketing our products until the products or component substances are brought into compliance.

A number of our products from our chemical analysis and life sciences and diagnostics businesses are subject to regulation by the United States Food and Drug Administration ("FDA") and certain similar foreign regulatory agencies. In addition, a number of our products may be in the future subject to regulation by the FDA and certain similar foreign regulatory agencies. These regulations govern a wide variety of product related activities, from quality management, design and development to labeling, manufacturing, promotion, sales and distribution. If we or any of our suppliers or distributors fail to comply with FDA and other applicable regulatory requirements or are perceived to potentially have failed to comply, we may face, among other things, adverse publicity affecting both us and our customers; investigations or notices of non-compliance, fines, injunctions, and civil penalties; import or export restrictions; partial suspensions or total shutdown of production facilities or

the imposition of operating restrictions; increased difficulty in obtaining required FDA clearances or approvals; seizures or recalls of our products or those of our customers; or the inability to sell our products.

Our business may suffer if we fail to comply with government contracting laws and regulations.

We derive a portion of our revenues from direct and indirect sales to U.S., state, local, and foreign governments and their respective agencies. Such contracts are subject to various procurement laws and regulations, and contract provisions relating to their formation, administration and performance. Failure to comply with these laws, regulations or provisions in our government contracts could result in the imposition of various civil and criminal penalties, termination of contracts, forfeiture of profits, suspension of payments, or suspension from future government contracting. On March 4, 2013, we made a report to the Inspector General of the Department of Defense regarding pricing irregularities relating to certain sales of electronic measurement products to U.S. government agencies. See Item 3. "Legal Proceedings". If our government contracts are terminated, if we are suspended from government work, or if our ability to compete for new contracts is adversely affected, our business could suffer.

Dependence on contract manufacturing and outsourcing other portions of our supply chain may adversely affect our ability to bring products to market and damage our reputation. Dependence on outsourced information technology and other administrative functions may impair our ability to operate effectively.

As part of our efforts to streamline operations and to cut costs, we outsource aspects of our manufacturing processes and other functions and continue to evaluate additional outsourcing. If our contract manufacturers or other outsourcers fail to perform their obligations in a timely manner or at satisfactory quality levels, our ability to bring products to market and our reputation could suffer. For example, during a market upturn, our contract manufacturers may be unable to meet our demand requirements, which may preclude us from fulfilling our customers' orders on a timely basis. The ability of these manufacturers to perform is largely outside of our control. Additionally, changing or replacing our contract manufacturers or other outsourcers could cause disruptions or delays. In addition, we outsource significant portions of our information technology ("IT") and other administrative functions. Since IT is critical to our operations, any failure to perform on the part of our IT providers could impair our ability to operate effectively. In addition to the risks outlined above, problems with manufacturing or IT outsourcing could result in lower revenues, unexecuted efficiencies, and impact our results of operations and our stock price. Much of our outsourcing takes place in developing countries and, as a result, may be subject to geopolitical uncertainty.

If we are unable to successfully manage the consolidation and streamlining of our manufacturing operations, we may not achieve desired efficiencies and our ability to deliver products to our customers could be disrupted.

Although we utilize manufacturing facilities throughout the world, we have been consolidating, and may continue to consolidate, our manufacturing operations to certain of our plants to achieve efficiencies and gross margin improvements. Additionally, we typically consolidate the production of products from our acquisitions into our supply chain and manufacturing processes, which are technically complex and require expertise to operate. If we are unable to establish processes to efficiently and effectively produce high quality products in the consolidated locations, we may not achieve the anticipated synergies and production may be disrupted, which could adversely affect our business and operating results.

Our operating results may suffer if our manufacturing capacity does not match the demand for our products.

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. If, during a general market upturn or an upturn in one of our segments, we cannot increase our manufacturing capacity to meet product demand, we will not be able to fulfill orders in a timely manner which could lead to order cancellations, contract breaches or indemnification

obligations. This inability could materially and adversely limit our ability to improve our results. By contrast, if during an economic downturn we had excess manufacturing capacity, then our fixed costs associated with excess manufacturing capacity would adversely affect our income, margins, and operating results.

Demand for some of our products and services depends on capital spending policies of our customers and on government funding policies.

Our customers include pharmaceutical companies, laboratories, universities, healthcare providers, government agencies and public and private research institutions. Fluctuations in the research and development budgets at these organizations could have a significant effect on the demand for our products and services. Many factors, including public policy spending priorities, available resources, mergers and consolidation, spending priorities, institutional and governmental budgetary policies and product and economic cycles, have a significant effect on the capital spending policies of these entities. These policies in turn can have a significant effect on the demand for our products and services. If demand for our products and services is adversely affected, our revenue and operating results would suffer.

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

Some of our properties are undergoing remediation by the Hewlett-Packard Company ("HP") for subsurface contaminations that were known at the time of our separation from HP. HP 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. HP will have access to our properties to perform remediation. While HP 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 HP will continue to fulfill its indemnification or remediation obligations. In addition, the determination of the existence and cost of any additional contamination caused by us could involve costly and time-consuming negotiations and litigation.

We have agreed to indemnify HP for any liability associated with contamination from past operations at all other properties transferred from HP to us, other than those properties currently undergoing remediation by HP. While we are not aware of any material liabilities associated with any potential 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.

Our current and historical manufacturing processes involve, or have involved, the use of substances regulated under various international, federal, state and local laws governing the environment. As a result, we may become subject to liabilities for environmental contamination, and these liabilities may be substantial. While we have divested substantially all of our semiconductor related businesses to Avago and Verigy and regardless of indemnification arrangements with those parties, we may still become subject to liabilities for historical environmental contamination related to those businesses. Although our policy is to apply strict standards for environmental protection at our sites inside and outside the U.S., even if the sites outside the U.S. are not subject to regulations imposed by foreign governments, we may not be aware of all conditions that could subject us to liability.

As part of our acquisition of Varian, we assumed the liabilities of Varian, including Varian's costs and potential liabilities for environmental matters. One such cost is our obligation, along with the obligation of Varian Semiconductor Equipment Associates, Inc. ("VSEA") (under the terms of a Distribution Agreement between Varian, VSEA and Varian Medical Systems, Inc. ("VMS")) to each indemnify VMS for one-third of certain costs (after adjusting for any insurance proceeds and tax benefits recognized or realized by VMS for such costs) relating to (a) environmental investigation, monitoring and/or remediation activities at certain facilities previously operated by Varian Associates, Inc. ("VAI") and third-party claims made in connection with environmental conditions at those facilities, and (b) U.S. Environmental Protection Agency or third-party claims alleging that VAI or VMS is a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended ("CERCLA") in connection with certain sites to which

VAI allegedly shipped manufacturing waste for recycling, treatment or disposal (the "CERCLA sites"). With respect to the facilities formerly operated by VAI, VMS is overseeing the environmental investigation, monitoring and/or remediation activities, in most cases under the direction of, or in consultation with, federal, state and/or local agencies, and handling third-party claims. VMS is also handling claims relating to the CERCLA sites. Although any ultimate liability arising from environmental-related matters could result in significant expenditures that, if aggregated and assumed to occur within a single fiscal year, could be material to our financial statements, the likelihood of such occurrence is considered remote. Based on information currently available and our best assessment of the ultimate amount and timing of environmental-related events, management believes that the costs of environmental-related matters are unlikely to have a material adverse effect on our financial condition or results of operations.

New regulations related to "conflict minerals" may cause us to incur additional expenses and could limit the supply and increase the cost of certain metals used in manufacturing our products.

On August 22, 2012, the SEC adopted a new rule requiring disclosures by public companies of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The new rule, which went into effect for calendar year 2013 and requires a disclosure report to be filed with the SEC by May 31, 2014, will require companies to perform due diligence, disclose and report whether or not such minerals originate from the Democratic Republic of Congo or an adjoining country. The new rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products, including tin, gold and tungsten. The number of suppliers who provide conflict-free minerals may be limited. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to the due diligence process of determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. As our supply chain is complex and we use contract manufacturers for some of our products, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we implement, which may harm our reputation. We may also encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free, which could place us at a competitive disadvantage if we are unable to do so.

Our retirement and post retirement pension plans are subject to financial market risks that could adversely affect our future results of operations and cash flows.

We have significant retirement and post retirement pension plans assets and obligations. The performance of the financial markets and interest rates impact our plan expenses and funding obligations. Significant decreases in market interest rates, decreases in the fair value of plan assets and investment losses on plan assets will increase our funding obligations, and adversely impact our results of operations and cash flows.

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 or services.

From time to time, third parties may claim that one or more of our products or services infringe their intellectual property rights. We analyze and take action in response to such claims on a case by case basis. Any dispute or litigation regarding patents or other intellectual property could be costly and time-consuming due to the complexity of our technology and the uncertainty of intellectual property litigation and could divert our management and key personnel from our business operations. A claim of intellectual property infringement could force us to enter into a costly or restrictive license agreement, which might not be available under acceptable terms or at all, could require us to redesign our products, which would be costly and time-consuming, and/or could subject us to significant damages or to an injunction against development and sale of certain of our products or services. Our intellectual property portfolio may not be useful in asserting a counterclaim, or negotiating a license, in response to a claim of intellectual property infringement. In certain of our businesses we rely on third party intellectual property licenses and we cannot ensure that these licenses will be available to us in the future on favorable terms or at all.

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

Our success depends in large part on our proprietary technology, including technology we obtained through acquisitions. We rely on various intellectual property rights, including patents, copyrights, trademarks and trade secrets, as well as confidentiality provisions and licensing arrangements, to establish our proprietary rights. If we do not enforce our intellectual property rights successfully our competitive position may suffer which could harm our operating results.

Our pending patent applications, and our pending copyright and trademark registration applications, may not be allowed or competitors may challenge the validity or scope of our patents, copyrights or trademarks. In addition, our patents, copyrights, trademarks and other intellectual property rights may not provide us a significant competitive advantage.

We may need to spend significant resources monitoring our intellectual property rights and we may or may not be able to detect infringement by third parties. Our competitive position may be harmed if we cannot detect infringement and enforce our intellectual property rights quickly or at all. In some circumstances, we may choose to not pursue enforcement because an infringer has a dominant intellectual property position or for other business reasons. In addition, competitors might avoid infringement by designing around our intellectual property rights or by developing non-infringing competing technologies. Intellectual property rights and our ability to enforce them may be unavailable or limited in some countries which could make it easier for competitors to capture market share and could result in lost revenues. Furthermore, some of our intellectual property is licensed to others which allow them to compete with us using that intellectual property.

We are subject to ongoing tax examinations of our tax returns by the Internal Revenue Service and other tax authorities. An adverse outcome of any such audit or examination by the IRS or other tax authority could have a material adverse effect on our results of operations, financial condition and liquidity.

We are subject to ongoing tax examinations of our tax returns by the U.S. Internal Revenue Service and other tax authorities in various jurisdictions. We regularly assess the likelihood of adverse outcomes resulting from ongoing tax examinations to determine the adequacy of our provision for income taxes. These assessments can require considerable estimates and judgments. Intercompany transactions associated with the sale of inventory, services, intellectual property and cost share arrangements are complex and affect our tax liabilities. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in multiple jurisdictions. There can be no assurance that the outcomes from ongoing tax examinations will not have an adverse effect on our operating results and financial condition. A difference in the ultimate resolution of tax uncertainties from what is currently estimated could have an adverse effect on our operating results and financial condition.

If tax incentives change or cease to be in effect, our income taxes could increase significantly.

Agilent benefits from tax incentives extended to its foreign subsidiaries to encourage investment or employment. Several jurisdictions have granted Agilent tax incentives which require renewal at various times in the future. The incentives are conditioned on achieving various thresholds of investments and employment, or specific types of income. Agilent's taxes could increase if the incentives are not renewed upon expiration. If Agilent cannot or does not wish to satisfy all or parts of the tax incentive conditions, we may lose the related tax incentive and could be required to refund tax incentives previously realized. As a result, our effective tax rate could be higher than it would have been had we maintained the benefits of the tax incentives.

We have substantial cash requirements in the United States while most of our cash is generated outside of the United States. The failure to maintain a level of cash sufficient to address our cash requirements in the United States could adversely affect our financial condition and results of operations.

Although the cash generated in the United States from our operations covers our normal operating requirements and debt service requirements, a substantial amount of additional cash is required for special purposes such as the maturity of our debt obligations, our stock repurchase program, our declared dividends and

acquisitions of third parties. Our business operating results, financial condition, and strategic initiatives could be adversely impacted if we were unable to address our U.S. cash requirements through the efficient and timely repatriations of overseas cash or other sources of cash obtained at an acceptable cost.

We have outstanding debt and may incur other debt in the future, which could adversely affect our financial condition, liquidity and results of operations.

We currently have outstanding an aggregate principal amount of \$2.6 billion in senior unsecured notes and a \$46 million secured mortgage. We also are a party to a five-year senior unsecured revolving credit facility which expires in October 2016 and under which we may borrow up to \$400 million and a Danish Krone denominated credit facility equivalent to \$9 million. We may borrow additional amounts in the future and use the proceeds from any future borrowing for general corporate purposes, other future acquisitions, expansion of our business or repurchases of our outstanding shares of common stock.

Our incurrence of this debt, and increases in our aggregate levels of debt, may adversely affect our operating results and financial condition by, among other things:

- increasing our vulnerability to downturns in our business, to competitive pressures and to adverse economic and industry conditions;
- requiring the dedication of an increased portion of our expected cash from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures, acquisitions and stock repurchases; and
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry.

Our current revolving credit facility imposes restrictions on us, including restrictions on our ability to create liens on our assets and the ability of our subsidiaries to incur indebtedness, and requires us to maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control. In addition, the indenture governing our senior notes contains covenants that may adversely affect our ability to incur certain liens or engage in certain types of sale and leaseback transactions. If we breach any of the covenants and do not obtain a waiver from the lenders, then, subject to applicable cure periods, our outstanding indebtedness could be declared immediately due and payable.

If we suffer a 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 locations. Our production facilities, headquarters and Agilent Technologies Laboratories in California, and our production facilities in Japan, are all located in areas with above-average seismic activity. 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. If such a disruption were to occur, we could breach agreements, our reputation could be harmed, and our business and operating results could be adversely affected. In addition, since we have consolidated our manufacturing facilities, we are more likely to experience an interruption to our operations in the event of a catastrophe in any one location. Although we carry insurance for property damage and business interruption, we do not carry insurance or financial reserves for interruptions or potential losses arising from earthquakes or terrorism. Also, our third party insurance coverage will vary from time to time in both type and amount depending on availability, cost and our decisions with respect to risk retention. Economic conditions and uncertainties in global markets may adversely affect the cost and other terms upon which we are able to obtain third party insurance. If our third party insurance coverage is adversely affected, or to the extent we have elected to self-insure, we may be at a greater risk that our operations will be harmed by a catastrophic loss.

If we experience a significant disruption in, or breach in security of, our information technology systems, or if we fail to implement new systems and software successfully, our business could be adversely affected.

We rely on several centralized information technology systems throughout our company to provide products and services, keep financial records, process orders, manage inventory, process shipments to customers and operate other critical functions. Our information technology systems may be susceptible to damage, disruptions or shutdowns due to power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors, catastrophes or other unforeseen events. If we were to experience a prolonged system disruption in the information technology systems that involve our interactions with customers or suppliers, it could result in the loss of sales and customers and significant incremental costs, which could adversely affect our business. In addition, security breaches of our information technology systems could result in the misappropriation or unauthorized disclosure of confidential information belonging to us or to our employees, partners, customers or suppliers, which could result in our suffering significant financial or reputational damage.

Adverse conditions in the global banking industry and credit markets may adversely impact the value of our cash investments or impair our liquidity.

As of October 31, 2013, we had cash and cash equivalents of approximately \$2.68 billion invested or held in a mix of money market funds, time deposit accounts and bank demand deposit accounts. Disruptions in the financial markets may, in some cases, result in an inability to access assets such as money market funds that traditionally have been viewed as highly liquid. Any failure of our counterparty financial institutions or funds in which we have invested may adversely impact our cash and cash equivalent positions and, in turn, our results and financial condition.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of October 31, 2013, pursuant to and as required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (“Exchange Act”). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of October 31, 2013, the company's disclosure controls and procedures, as defined by Rule 13a-15(e) under the Exchange Act, were effective and designed to ensure that (i) information required to be disclosed in the company's reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of this evaluation, our management concluded that our internal control over financial reporting was effective as of October 31, 2013.

The effectiveness of our internal control over financial reporting as of October 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in this annual report.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during Agilent's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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