

# Premier Laboratory Partner for a Better World

2014 ANNUAL REPORT

**AGILENT TECHNOLOGIES, INC.**

ANNUAL REPORT TO STOCKHOLDERS

ANNUAL REPORT CONSOLIDATED FINANCIAL STATEMENTS



**Agilent Technologies**



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## To our Shareholders,

On November 1, 2014, Agilent successfully completed its separation into two stand-alone, publicly traded companies through a tax-free spinoff of its electronic measurement business.

The new company, Keysight Technologies, is now a global market leader in communications, computer, semiconductors, aerospace and defense, and industrial markets. As a separate company, Keysight generated revenues of \$2.9 billion in fiscal year 2014. Agilent shareholders received all outstanding shares of Keysight's common stock in a special dividend distribution.

Agilent Technologies continues as a global leader focused on life sciences, diagnostics and applied chemical markets. As a separate company, Agilent generated revenues of \$4.0 billion in fiscal year 2014.

Mike McMullen, Agilent president and chief operating officer, becomes the company's new CEO in March 2015. William (Bill) Sullivan, who has served as Agilent CEO since 2005, remains as an advisor until his retirement at the end of fiscal 2015.

Agilent now serves a \$44 billion combined market that includes chemical, energy, pharmaceutical, food safety, environmental, forensics, life sciences research, clinical and diagnostics end markets. We work with customers in more than 100 countries, providing instruments, software, services and consumables for their entire laboratory workflow.

We are well positioned to help address some of the greatest challenges currently facing the world. With the rise of cancer and infectious pathogens, there is an urgency to improve the way we diagnose and treat diseases. As emerging economies develop and raise their standards of living, communities want to improve the quality and safety of their water, air and food. And as the world's population expands, we face a fixed and declining amount of fossil fuels, raw materials and resources. Countries need to develop new sources of energy and materials.

Agilent's mission is to be the premier partner for our laboratory customers as we work together to build a healthier world.

### **Growth through leadership in the analytical lab**

Eighty-seven percent of Agilent's business serves analytical laboratories. These include pharmaceutical and life sciences research, as well as applied chemical markets such as chemical and energy, food safety, environmental and forensics. We offer our customers a strong and comprehensive portfolio of instruments, software, consumables and services.

We will sustain share growth in the analytical lab by continuing to bring innovative new offerings to the marketplace, and by expanding our lab-wide services and consumables with a significantly differentiated customer experience.

In the past year, we launched a series of new products in our core gas chromatograph/mass spectrometer (GC/MS) and liquid chromatograph/mass spectrometer (LC/MS) platforms. These solutions are differentiated by higher performance and lower cost of ownership, making them ideally suited for applications in analytical labs. These platforms are supplemented at the high end with our ultra-high-performance triple-quadrupole (QQQ) and quadrupole time-of-flight (Q-TOF) mass spec solutions for both GC and LC.

We also introduced new inductively coupled plasma-mass spectrometer (ICP-MS) and microwave plasma-atomic emission spectrometer (MP-AES) systems, with more streamlined operational features and user-friendly interfaces. These enable a wider range of applications as well as improved accessibility to a broader range of lab personnel.

And we strengthened our industry-leading atomic spectroscopy portfolio with the launch of the Agilent 5100 Inductively-Coupled Plasma-Optical Emission Spectrometer (ICP-OES), which sets a new industry standard. Among its many innovations, the product can run analyses 55 percent faster using 50 percent less gas per sample than competitive systems. In addition, design changes have led to a 20-percentage-point gross margin improvement over the previous product.

Agilent's Cary 700 Universal Spectrophotometer was named a 2014 R&D 100 Award winner, recognizing it as one of the 100 most technologically significant products introduced in the marketplace over the past year. This marks the third consecutive year Agilent spectrophotometers have been recognized as R&D 100 Award winners.

We are also addressing the increasing need for improved operational efficiency across the analytical laboratory, and differentiated data analysis capabilities to support our customer's applications needs. Our OpenLAB informatics software is based on open architecture. This enables us to optimize our customers' laboratories, whether they bought their equipment from Agilent or someone else. Our open architecture also allows for easy development of application software.

And we are expanding our lab-wide capabilities in consumables and services to optimize our customers' laboratory operations. We are pursuing an industry-unique strategy with our CrossLab consumables and chemistries, providing the highest-quality and performance consumables to customers who may also own competitors' equipment. We are expanding our enterprise-wide services capabilities to include asset management capabilities and lab productivity solutions. We service and support not only Agilent's equipment but our competitors' equipment as well.

### **Growth by leveraging analytical strength into diagnostics**

Agilent has an opportunity to leverage our leading position in analytical laboratories to further penetrate the connected genomics, clinical research and diagnostics laboratories. We view the fast-growing diagnostics market as a complementary business, and we have already made a strong entry into this space with our acquisition of Dako. As we continue to grow our core presence in the analytical lab, we can leverage that strong position to expand in diagnostics.

In the past year we introduced ClearSeq AML, the first in a line of next-generation sequencing panels developed for cancer research. Our new family of SureSelect focused exome products provides the most comprehensive and high-performance NGS solutions for post-natal research on high-throughput and benchtop sequencers.

We also introduced the IQ FISH (fluorescent *in situ* hybridization) workflow for bone marrow and custom FISH service through our SureDesign custom target-enrichment offering. Both FISH products provide high-quality results with significantly shorter turnaround times. A 16-hour turnaround time with standard FISH technologies can be reduced to 2.5 hours with IQ FISH.

And we have signed new companion diagnostics agreements with Merck & Co. and Amgen for development products that include treatments for lung, breast and gastric cancer. Our development and commercialization agreement with Merck & Co. is for a companion diagnostics device that combines Dako's immunohistochemistry solutions with Merck's anti PD-L1 cancer drug.

### **Long-term shareholder value**

With the completion of the separation of the company, we have created two companies with greater strategic and management focus, with each company well positioned for growth and long-term shareholder value in their respective markets.

As part of the separation, Agilent retired an additional \$500 million of debt. This helps us to maintain our debt at a level consistent with our current investment-grade rating.

We remain committed to creating shareholder value by expanding our operating margins and return on invested capital, consistent with our long-term operating model. We will focus on aggressively growing our adjusted operating margins with our portfolio and order-fulfillment transformation programs. We will leverage SG&A and R&D investments, and reduce cost dis-synergies resulting from the separation of Keysight.

We will also deploy capital for long-term shareholder value, with an expected return of \$500 million to shareholders in fiscal year 2015. This includes a combination of cash dividends – approximately \$135 million – and opportunistic share buybacks.

We look forward to Agilent's historic first year as a new company focused on serving customers in life sciences, diagnostics and applied chemical markets. We are confident that the CEO transition will be smooth and seamless to the organization, customers and investors.



Bill Sullivan  
Agilent Chief Executive Officer



Mike McMullen  
Agilent President, Chief Operating Officer and CEO-Elect

February 6, 2015

# 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.

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 one that will be comprised of the electronic measurement business that will be renamed Keysight Technologies, Inc. ("Keysight"). Keysight was incorporated in Delaware as a wholly-owned subsidiary of Agilent on December 6, 2013. On November 1, 2014, we completed the distribution of 100% of the outstanding common shares of Keysight to Agilent stockholders who received one share of Keysight common stock for every two shares of Agilent held as of the close of business on the record date, October 22, 2014.

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.

The electronic measurement business conducts centralized order fulfillment and supply organizations and operations through the order fulfillment and infrastructure organization ("OFI"). OFI provide resources for manufacturing, engineering and strategic sourcing to the electronic measurement business. The electronic measurement business, together with OFI, is supported by our global infrastructure organization, which provides shared services in the areas of finance, information technology, legal, workplace services and human resources.

In addition we conduct centralized order fulfillment and supply chain operations for our life sciences and diagnostics and chemicals analysis businesses through the order fulfillment and supply chain organization ("OFS"). OFS provides resources for manufacturing, engineering and strategic sourcing to our respective businesses. Each of our businesses, together with OFS, is supported by our global infrastructure organization, which provides shared services in the areas of finance, information technology, legal, workplace services and human resources.

In November 2014, we announced a change in organizational structure designed to better serve our customers. Our life sciences business, excluding the nucleic acid solutions division, together with the chemical analysis business will merge to form a new segment called life sciences and applied markets business. Our diagnostics and genomics businesses will combine and will include the nucleic acid solutions division of our life sciences business to become the diagnostics and genomics segment. Finally, the crosslab segment will be formed from the services and consumables businesses.

In addition to our three businesses, we created the order fulfillment and supply chain organization ("OFS") to centralize all order fulfillment and supply chain operations in our life sciences and diagnostics and chemical analysis businesses. Similarly we created the order fulfillment and infrastructure ("OFI") organization to centralize all order fulfillment and supply organizations and operations within our electronic measurement business. Lastly, the Agilent Technologies Research Laboratories ("Agilent Labs") create 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. Each of our three businesses, OFS, OFI 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 \$7.0 billion for the fiscal year ended October 31, 2014, we generated 30 percent in the U.S. and 70 percent outside the U.S. As of October 31, 2014, we employed approximately 21,400 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	2014 Net Revenue	Description
Life Sciences and Diagnostics	\$2.4 billion	<p><b>Summary:</b> Our life sciences and diagnostics business provides products 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 5,800 people as of October 31, 2014 in our life sciences and diagnostics business.</p> <p><b>Markets:</b> The markets for our life sciences and diagnostics group include the pharmaceutical, biotechnology, contract research and contract manufacturing organization market, the life science research market and the diagnostics and clinical market. The former market consists of “for-profit” companies who participate across the pharmaceutical value chain in the areas of therapeutic research, discovery &amp; development, clinical trials, manufacturing and quality assurance and quality control. The life sciences research 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 pharmaceutical 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.</p> <p><b>Product areas:</b> 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 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.</p>
Chemical Analysis	\$1.7 billion	<p><b>Summary:</b> 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 4,100 people as of October 31, 2014 in our chemical analysis business.</p> <p><b>Markets:</b> 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.</p> <p><b>Product areas:</b> 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.</p>

Business Group	2014 Net Revenue	Description
Electronic Measurement	\$2.9 billion	<p><b>Summary:</b> 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, 2014.</p> <p><b>Markets:</b> 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><b>Product areas:</b> 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.</p> <p>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 create 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.</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 2014, our global infrastructure organization employed approximately 3,200 people worldwide.</p>
Agilent Order Fulfillment Organizations		<p>Beginning in fiscal year 2014, we created the order fulfillment and supply chain organization (“OFS”) to centralize all order fulfillment and supply chain operations in our life sciences and diagnostics and chemicals analysis businesses. Similarly we created the order fulfillment and infrastructure (“OFI”) organization to centralize all order fulfillment and supply organizations and operations within our electronic measurement business. Both OFS and OFI provide resources for manufacturing, engineering and strategic sourcing to our respective businesses. In general, OFS and OFI employees are dedicated to specific businesses and the associated costs are directly allocated to those businesses.</p>

## Senior Executives

William P. Sullivan\*  
Chief Executive Officer

Michael R. McMullen\*  
President and  
Chief Operating Officer

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

Richard A. Burdsall  
Senior Vice President,  
Chief Infrastructure Officer

Mark Doak\*  
Senior Vice President, Agilent  
President, Agilent CrossLab Group

Solange Glaize\*  
Vice President, Chief  
Accounting Officer

Dominique Grau\*  
Senior Vice President,  
Human Resources

Didier Hirsch\*  
Senior Vice President and  
Chief Financial Officer

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

Patrick Kaltenbach\*  
Senior Vice President, Agilent  
President, Life Sciences & Applied  
Markets

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

Darlene J.S. Solomon, Ph.D.  
Senior Vice President,  
Technology Officer and  
Research

Fred Strohmeier  
Senior Vice President

Jacob Thaysen\*  
Senior Vice President, Agilent  
President, Diagnostics & Genomics

## Officers

Guillermo Gualino  
Vice President, Treasurer

Michael Tang  
Vice President, Assistant  
General Counsel and  
Assistant Secretary

## 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.

A. Barry Rand  
Retired Chief Executive Officer  
of AARP

George A. Scangos, Ph.D.  
Chief Executive Officer  
Biogen Idec Inc.

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  
George A. Scangos, Ph.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  
George A. Scangos, Ph.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 18, 2015 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](http://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](http://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 2013 and 2014 fiscal years as reported in the consolidated transaction reporting system for the New York Stock Exchange:

<b>Fiscal 2013</b>	<b>High</b>	<b>Low</b>	<b>Dividends</b>
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
<b>Fiscal 2014</b>	<b>High</b>	<b>Low</b>	<b>Dividends</b>
First Quarter (ended January 31, 2014)	\$ 61.22	\$ 49.84	\$0.132
Second Quarter (ended April 30, 2014)	\$ 60.46	\$ 51.96	\$0.132
Third Quarter (ended July 31, 2014)	\$ 59.58	\$ 53.66	\$0.132
Fourth Quarter (ended October 31, 2014)	\$ 59.40	\$ 49.80	\$0.132

As of December 1, 2014, there were 28,341 common stockholders of record.

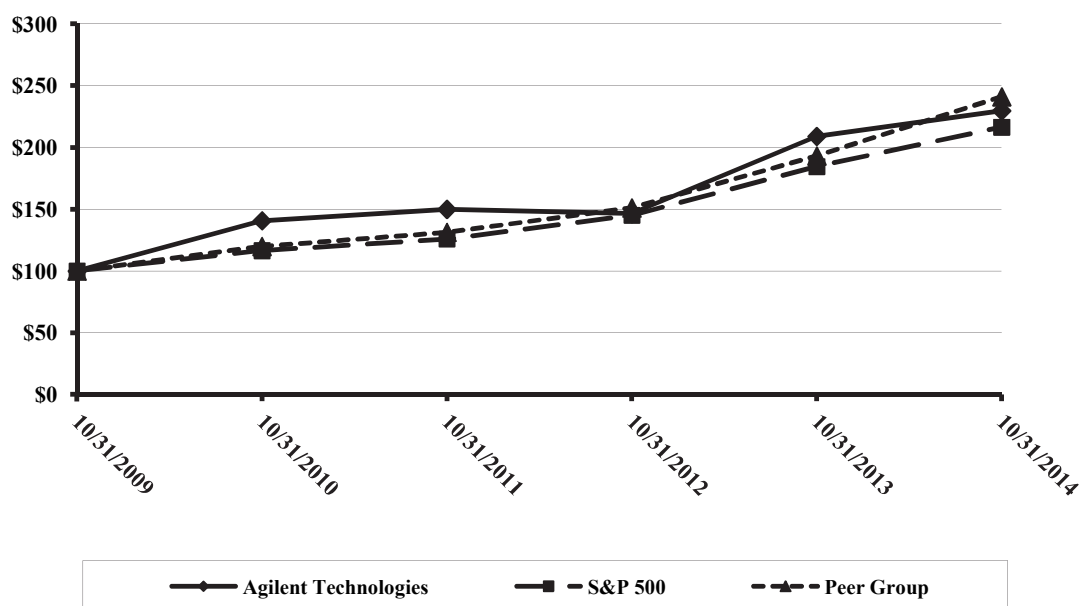
During fiscal 2014, we issued four quarterly dividends of \$0.132 per share. All decisions regarding the declaration and payment of dividends are at the discretion of our Board of Directors and will be evaluated regularly in light of our financial condition, earnings, growth prospects, funding requirements, 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 18, 2015, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

On November 1, 2014, we completed the distribution of the issued and outstanding common stock of Keysight to our shareholders. Agilent shareholders of records as of the close of business on October 22, 2014, the record date for the distribution, received one share of Keysight common stock for every two shares of Agilent common stock held as of the record date. Agilent shareholders received cash in lieu of any fractional shares of Keysight common stock.

## 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, 2009, and ending on October 31, 2014, 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 (10/31/2009 to 10/31/2014) 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	Anthem Inc
Abbott Laboratories	Apple Inc
AbbVie Inc	Applied Materials Inc.
Accenture PLC	Autodesk Inc.
Actavis PLC	Automatic Data Processing Inc.
Adobe Systems Inc	Avago Technologies Ltd
ADT Corp (The)	Bard (C.R.) Inc
Aetna Inc.	Baxter International Inc
Agilent Technologies Inc	Becton, Dickinson and Co
Akamai Technologies Inc	Biogen Idec Inc
Alexion Pharmaceuticals Inc	Boeing Co (The)
Allegion Plc	Boston Scientific Corp
Allergan Inc.	Bristol-Myers Squibb Co
Alliance Data Systems Corp	Broadcom Corp
Altera Corp	C.H. Robinson Worldwide Inc.
AmerisourceBergen Corp	CA Inc
AMETEK Inc	Cardinal Health Inc
Amgen Inc.	CareFusion Corp
Amphenol Corp	Caterpillar Inc
Analog Devices Inc.	Celgene Corp

## Peer Group

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

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

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salesforce.com inc	United Parcel Service Inc
SanDisk Corp	United Rentals Inc.
Seagate Technology Plc	United Technologies Corp
Snap-On Inc	Unitedhealth Group Inc
Southwest Airlines Co.	Universal Health Services Inc.
St. Jude Medical Inc.	Varian Medical Systems Inc
Stanley Black & Decker Inc	Verisign Inc
Stericycle Inc	Vertex Pharmaceuticals Inc
Stryker Corp	Visa Inc
Symantec Corp	Waste Management Inc.
TE Connectivity Ltd	Waters Corp
Tenet Healthcare Corp	Western Digital Corp
Teradata Corp	Western Union Co
Texas Instruments Inc	Xerox Corp
Textron Inc.	Xilinx Inc.
Thermo Fisher Scientific Inc	Xylem Inc
Total System Services Inc.	Yahoo Inc
Tyco International Plc	Zimmer Holdings Inc
Union Pacific Corp	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, and growth in, and drivers of, the markets we sell into, backlog, our strategic direction, our future effective tax rate and tax valuation allowance, earnings from our foreign subsidiaries, remediation activities, indemnification, new product and service introductions, the ability of our products to meet market needs, changes to our manufacturing processes, the use of contract manufacturers, sources and supply of materials used in our products, 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, timing, 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, transaction expenses related to the separation, post-separation expenses, exiting our Nuclear Magnetic Resonance (“NMR”) business, our new organizational structure, 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, 2014.

The materials contained in this annual report are as of December 22, 2014, 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 6, 2015.

This annual report contains Agilent’s 2014 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.

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# 2014 ANNUAL REPORT

**AGILENT TECHNOLOGIES, INC.**

ANNUAL REPORT TO STOCKHOLDERS

ANNUAL REPORT CONSOLIDATED FINANCIAL STATEMENTS



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**SELECTED FINANCIAL DATA**  
**(Unaudited)**

	Years Ended October 31,				
	2014	2013	2012	2011	2010
	(in millions, except per share data)				
<b>Consolidated Statement of Operations Data:</b>			(2)		(1)
Net revenue	\$ 6,981	\$ 6,782	\$ 6,858	\$ 6,615	\$ 5,444
Income before taxes	\$ 646	\$ 859	\$ 1,043	\$ 1,032	\$ 692
Net income	\$ 504	\$ 724	\$ 1,153	\$ 1,012	\$ 684
Net income per share — Basic:	\$ 1.51	\$ 2.12	\$ 3.31	\$ 2.92	\$ 1.97
Net income per share — Diluted:	\$ 1.49	\$ 2.10	\$ 3.27	\$ 2.85	\$ 1.94
Weighted average shares used in computing basic net income per share	333	341	348	347	347
Weighted average shares used in computing diluted net income per share	338	345	353	355	353
Cash dividends declared per common share	\$ 0.528	\$ 0.460	0.300	—	—

	October 31,				
	2014	2013	2012	2011	2010
	(in millions)				
<b>Consolidated Balance Sheet Data:</b>			(2)		(1)
Cash and cash equivalents and short-term investments	\$ 3,028	\$ 2,675	\$ 2,351	\$ 3,527	\$ 2,649
Working capital	\$ 3,798	\$ 3,381	\$ 2,736	\$ 3,732	\$ 3,086
Total assets	\$ 10,831	\$ 10,686	\$ 10,536	\$ 9,057	\$ 9,696
Long-term debt	\$ 2,762	\$ 2,699	\$ 2,112	\$ 1,932	\$ 2,190
Stockholders' equity	\$ 5,298	\$ 5,286	\$ 5,182	\$ 4,308	\$ 3,228

(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.

Note: The above consolidated financial data includes Keysight which separated from Agilent on November 1, 2014. Keysight will be presented as a discontinued operation in the first fiscal quarter of 2015.

## 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, and growth in, and drivers of, the markets we sell into, backlog, our strategic direction, our future effective tax rate and tax valuation allowance, earnings from our foreign subsidiaries, remediation activities, indemnification, new product and service introductions, the ability of our products to meet market needs, changes to our manufacturing processes, the use of contract manufacturers, sources and supply of materials used in our products, 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, timing, 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, transaction expenses related to the separation, post-separation expenses, exiting our Nuclear Magnetic Resonance ("NMR") business, our new organizational structure, 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 one that will be comprised of the electronic measurement business that will be renamed Keysight Technologies, Inc. ("Keysight"). Keysight was incorporated in Delaware as a wholly-owned subsidiary of Agilent on December 6, 2013. Agilent transferred substantially all of the assets, liabilities and operations of the electronic measurement business to Keysight as of August 1, 2014. On November 1, 2014, we completed the distribution of 100% of the outstanding common shares of Keysight to Agilent stockholders who received one share of Keysight common stock for every two shares of Agilent held as of the close of business on the record date, October 22, 2014. We incurred pre-separation expenses of approximately \$191 million in the year ended October 31, 2014. Pre-separation costs included all incremental expenses incurred by Agilent in order to effect the separation until the distribution date, November 1, 2014. They also included the cost of all new employees recruited in fiscal 2014 to operate the two separate companies. For the year ended October 31, 2014, we incurred \$89 million of non-operating expenses related to the redemption of Agilent's debt obligations as part of our debt repositioning ahead of the distribution of Keysight. We also expect to incur some post-separation costs which include all incremental expenses incurred by Agilent in order to resize our global infrastructure organization in alignment with the relatively smaller footprint of the new company. This will include expenses related to separation of IT infrastructure from Keysight until second quarter of fiscal 2015, streamlining of our residual IT infrastructure and elimination of redundant ERP (Enterprise Resource Planning) software. We also expect to incur, upon separation, transaction expenses, which, among other things, relate to investment banking and other advisory fees as well as tax costs related to the distribution. Total post-separation costs are expected to be approximately \$50 million. The historical results of operations and the financial position of Keysight are included in the consolidated financial statements of Agilent and will be reported as discontinued operations beginning in the first quarter of 2015.



In November 2014, we announced a change in organizational structure designed to better serve our customers. Our life sciences business, excluding the nucleic acid solutions division, together with the chemical analysis business will merge to form a new segment called life sciences and applied markets business. Our diagnostics and genomics businesses will combine and will include the nucleic acid solutions division of our life sciences business to become the diagnostics and genomics segment. Finally, the crosslab segment will be formed from the services and consumables businesses. Financial reporting under this new structure will begin in the first quarter of 2015 with historical financial segment information recast to conform to this new presentation in our financial statements.

In the fourth quarter of 2014, Agilent announced that it is exiting its NMR business. Agilent stopped taking new NMR system orders, but the company will continue to meet customer commitments for orders in progress and for ongoing support contracts and continue to provide service on all installed NMR systems. The company expects that this decision will eliminate about 300 jobs, mostly within the next 12 months. For the year ended October 31, 2014 charges of approximately \$68 million were incurred in respect of the exit of this business. For additional details related to the exit of the NMR business see Note 14, "Restructuring and Exit of NMR Business".

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. 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. For additional details related to the acquisition of Dako, see Note 3, "Acquisitions".

Agilent's total orders in 2014 were \$7,134 million, an increase of 4 percent when compared to 2013. Foreign currency movements had an unfavorable impact of approximately 1 percentage point for the year ended October 31, 2014 when compared to 2013. Within our life sciences and diagnostics business orders increased 5 percent in 2014 compared to 2013. Chemical analysis orders increased 6 percent in 2014 when compared to 2013 and electronic measurement businesses orders increased 3 percent when compared to 2013. 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 order growth for the year ended 2013 when compared to 2012.

Agilent's net revenue of \$6,981 million in 2014 increased 3 percent when compared to 2013. Foreign currency movements for 2014 had an unfavorable impact of approximately 1 percentage point compared to 2013. Within our life sciences and diagnostics business revenue increased 3 percent in 2014 compared to 2013. 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 life science research for the year ended October 31, 2014, when compared to the prior year. Within our chemical analysis business revenue grew 5 percent in 2014 compared with the prior year. There was a strong increase in revenue from the food safety and forensics with environmental and petrochemical markets also showing increases at a more modest level when compared to the prior year. Within electronic measurement, total revenue increased when compared to the prior year by 2 percent. General purpose markets increased with computer and semi-conductor markets improving, but aerospace and defense was down when compared to 2013. Also within electronic measurement, the communications test business increased for the year ended October 31, 2014 when compared to the prior year with wireless manufacturing growing strongly and R&D showing a moderate shortfall compared to the prior year. Agilent's net revenue of \$6,782 million decreased 1 percent in 2013 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.

Net income was \$504 million in 2014 compared to net income of \$724 million and \$1,153 million in 2013 and 2012, respectively. In 2014, 2013 and 2012 we generated operating cash flows of \$711 million, \$1,152 million and \$1,228 million, respectively. As of October 31, 2014 and 2013 we had cash and cash equivalents balances of \$3,028 million and \$2,675 million, respectively. Operating cash flows in 2014 were impacted by pre-separation costs and separation related taxes, the redemption of senior notes including payments relating to accrued interest and the timing of the purchase of shares under the employee stock purchase plan.

For the years ended October 31, 2014, 2013 and 2012 cash dividends of \$176 million, \$156 million and \$104 million were paid on the company's outstanding common stock, respectively. On November 20, 2014, we declared a quarterly dividend of \$0.10 per share of common stock, or approximately \$34 million which will be paid on January 28, 2015 to shareholders of record as of the close of business on January 6, 2015. The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

On July 14, 2014, we settled the redemption of all \$500 million outstanding aggregate principal amount of our 5.5% senior notes ("2015 senior notes") due September 14, 2015 that had been called for redemption on June 12, 2014. The redemption price of approximately \$528 million included a \$28 million prepayment penalty, \$1 million of amortization of debt issuance costs and discount, offset by the amortization of a deferred gain on the terminated interest rate swap related to those senior notes of approximately \$8 million. We also paid accrued and unpaid interest of \$9 million on the 2015 senior notes up to but not including the redemption date.

On October 20, 2014, we settled the redemption of \$500 million of the \$600 million outstanding aggregate principal amount of our 6.5% senior notes ("2017 senior notes") due November 1, 2017 that had been called for redemption on September 19, 2014.

The redemption price of approximately \$580 million included an \$80 million prepayment penalty, \$2 million of amortization of debt issuance costs and discount, offset by the amortization of a deferred gain on the terminated interest rate swap related to those senior notes of approximately \$14 million. We also paid accrued and unpaid interest of \$15 million on the 2017 senior notes up to but not including the redemption date.

On October 6, 2014 Keysight announced that it had agreed to sell \$500 million of 3.30% senior notes due 2019 ("2019 senior notes") and \$600 million of 4.55% senior notes due 2024 ("2024 senior notes"). The transaction closed on October 15, 2014. Each series of notes initially were guaranteed on an unsecured, unsubordinated basis by Agilent. The guarantees terminated upon the completion of the separation of Keysight from Agilent on November 1, 2014.

On November 22, 2013 we announced that our board of directors had authorized a new share 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 target maintaining a weighted average share count of approximately 335 million diluted shares. For the year ended October 31, 2014, we repurchased 4 million shares for \$200 million.

Looking forward, we expect positive trends to continue in our life sciences and diagnostics and chemical analysis businesses as we continue to invest in research and development and to improve our applications and solutions portfolio through the introduction of new products. We will continue to bring innovative new offerings to the marketplace, and expand our laboratory-wide services and consumables to drive growth in genomics, clinical research and diagnostic markets.

### **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. In the fourth quarter of 2014, Agilent announced it is exiting the NMR business, and as a result, recorded an excess inventory charge of \$30 million.

*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 ("LTPP") 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 historical 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 2012 to 2014, 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 2014 and 2013, 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 decreased in 2014 from the previous year.

For 2014 and 2013, the discount rate for non-U.S. plans was generally based on published rates for high quality corporate bonds and in 2014, decreased from the previous year. If we changed our discount rate by 1 percent, the impact would be \$8 million on U.S. pension expense and \$21 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 \$10 million on U.S. pension expense and \$17 million on non-U.S. pension expense. For 2014, 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 \$13 million in 2014, \$58 million in 2013, and \$52 million in 2012.

Goodwill and Purchased Intangible Assets. Under the authoritative guidance we have the option to perform a qualitative assessment to determine whether further impairment testing is necessary. The accounting standard gives

an entity the option to first assess qualitative factors to determine whether performing the 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. greater than 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 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.

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 aggregate components of an operating segment that have similar economic characteristics into our reporting units.

In fiscal year 2014, 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 four reporting units, as of September 30, 2014. 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. Each quarter we review the events and circumstances to determine if goodwill impairment is indicated. There was no impairment of goodwill during the years ended October 31, 2014, 2013 and 2012.

Purchased intangible assets consist primarily of acquired developed technologies, proprietary know-how, trademarks, and customer relationships and are amortized using the best estimate of the asset's useful life that reflect the pattern in which the economic benefits are consumed or used up or a straight-line method 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 condensed consolidated statement of operations in the period it is abandoned.

Agilent's indefinite-lived intangible assets are IPR&D intangible assets. The accounting guidance allows a qualitative approach for testing indefinite-lived intangible assets for impairment, similar to the issued impairment testing guidance for goodwill and allowed the option to first assess qualitative factors (events and circumstances) that could have affected the significant inputs used in determining the fair value of the indefinite-lived intangible asset to determine whether it is more-likely-than-not (i.e. greater than 50% chance) 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. We performed a qualitative test for impairment of indefinite-lived intangible assets as of September 30, 2014. Based on the results of our qualitative testing, we believe that it is more-likely-than-not that the fair value of these indefinite-lived intangible assets is greater than their respective carrying values. Each quarter we review the events and circumstances to determine if impairment of indefinite-lived intangible asset is indicated. In the years ended October 31, 2014, 2013 and 2012, we recorded an impairment of \$4 million, \$1 million and \$1 million, respectively due to the cancellation of certain IPR&D projects. In addition, in the year ended October 31, 2014, we also recorded \$12 million of impairment of other intangibles due to the exit of our NMR business.

Restructuring and exit of NMR business. The main components of expenses are related to workforce reductions, assets impairments and write-downs and special charges to inventory, which mainly relates to exiting of one of our businesses. Workforce reduction charges are accrued when payment of benefits that the employees are entitled to becomes probable and the amounts can be estimated. We have also assessed the recoverability of our long-lived assets, by determining whether the carrying value of such assets will be recovered through undiscounted future

cash flows. Asset impairments primarily consist of property, plant and equipment and are based on an estimate of the amounts and timing of future cash flows related to the expected future remaining use and ultimate sale or disposal of buildings and equipment net of costs to sell. The charges related to inventory include estimated future inventory disposal payments that we are contractually obliged to make to our suppliers and inventory written-down to net realizable value. 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 asset impairment 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, 2014, 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 and Exit of NMR Business

During the fourth quarter of fiscal year 2014, we made the decision to cease the manufacture and sale of our nuclear magnetic resonance (“NMR”) product line within our life sciences and diagnostics segment. The exit of the NMR business was primarily due to the lack of growth and profitability of the product line. In connection with the exit, we have recorded approximately \$68 million in restructuring and other related costs associated with the closure of NMR. These costs are comprised of severance and other personnel costs related to the workforce reduction of approximately 300 employees primarily located in the United Kingdom and California and non-cash charges related to intangible asset impairments and other asset write-downs including inventory. We expect to substantially complete these restructuring activities by the end of fiscal 2016. The exit of the NMR business is expected to result in a positive impact of approximately \$10 million in operating profit in fiscal year 2015. As of October 31, 2014, substantially all employees are pending termination under the above actions and approximately \$2 million was paid under the above actions.

In the second quarter of 2013, we accrued for a targeted restructuring program to reduce Agilent's total headcount by approximately 450 regular employees, representing approximately 2 percent of our global workforce. In the fourth quarter of fiscal year 2013, Agilent announced plans to separate the electronic measurement business from Agilent which was completed on November 1, 2014. As a result, approximately 50 employees from the targeted restructuring plan have been redeployed within the company, reducing the total headcount under this plan to 400 employees. The timing and scope of workforce reductions will vary based on local legal requirements. When completed the restructuring program expected to result in an approximately \$50 million reduction in annual cost of sales and operating expenses over the three business segments. 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, 2014 we reversed \$4 million in restructuring charges associated with employees that have been redeployed within the company. Within the U.S, we have substantially completed these restructuring activities. Internationally, we expect to complete almost all of these restructuring activities by the end of the first quarter of fiscal 2015. As of October 31, 2014, approximately 70 employees, including Keysight employees, are pending termination and approximately \$46 million was been paid under the above actions. In the year ended October 31, 2014, we have realized the expected savings within our three business segments as a result of these restructuring activities.

## 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,			2014 over 2013 % Change	2013 over 2012 % Change
	2014	2013	2012		
	(in millions)				
Orders	\$ 7,134	\$ 6,827	\$ 6,877	4%	(1)%
Net revenue:					
Products	\$ 5,686	\$ 5,534	\$ 5,659	3%	(2)%
Services and other	\$ 1,295	\$ 1,248	\$ 1,199	4%	4%
Total net revenue	\$ 6,981	\$ 6,782	\$ 6,858	3%	(1)%

	Years Ended October 31,			2014 over 2013 Ppts Change	2013 over 2012 Ppts Change
	2014	2013	2012		
% of total net revenue:					
Products	81%	82%	83%	(1) ppt	(1) ppt
Services and other	19%	18%	17%	1 ppt	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 2014 were \$7,134 million, an increase of 4 percent when compared to 2013. Foreign currency movements had an unfavorable impact of approximately 1 percentage point for the year ended October 31, 2014 when compared to 2013. Within our life sciences and diagnostics business orders increased 5 percent in 2014 compared to 2013. Chemical analysis orders increased 6 percent in 2014 when compared to 2013 and electronic measurement businesses orders increased 3 percent when compared to 2013. 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 order growth for the year ended 2013 when compared to 2012.

Agilent's net revenue of \$6,981 million in 2014 increased 3 percent when compared to 2013. Foreign currency movements for 2014 had an unfavorable impact of approximately 1 percentage point compared to 2013. Within our life sciences and diagnostics business revenue increased 3 percent in 2014 compared to 2013. 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 life science research for the year ended October 31, 2014, when compared to the prior year. Within our chemical analysis business revenue grew 5 percent in 2014 compared with the prior year. There was a strong increase in revenue from the food safety and forensics with environmental and petrochemical markets also showing increases at a more modest level when compared to the prior year. Within electronic measurement, total revenue increased when compared to the prior year by 2 percent. General purpose markets increased with computer and semi-conductor markets improving, but aerospace and defense was down when compared to 2013. Also within electronic measurement, the communications test business increased for the year ended October 31, 2014 when compared to the prior year with wireless manufacturing growing strongly and R&D showing a moderate shortfall compared to the prior year. Agilent's net revenue of \$6,782 million decreased 1 percent in 2013 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.

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 2014 as compared to 2013. The service and other revenue growth is impacted by a portion of the revenue being driven by the current and previously installed produce base. Service and other revenue increased due to increased service contract renewals and laboratory



productivity services, but revenue from the sale of extended warranties within our electronic measurement business was flat due to the extension of standard terms from one year to three years in 2013. Services and other revenue increased 4 percent in 2013 as compared to 2012.

## 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, 2014, our unfilled backlog for the chemical analysis business was approximately \$430 million, as compared to approximately \$380 million at October 31, 2013. Within our life sciences and diagnostics business, our unfilled backlog was approximately \$530 million on October 31, 2014 as compared to approximately \$520 million at October 31, 2013.

On October 31, 2014, our unfilled backlog for the electronic measurement business was approximately \$780 million, as compared to approximately \$760 million at October 31, 2013. It is expected that the unfilled backlog will be fulfilled by Keysight which separated from Agilent on November 1, 2014.

We expect that a majority of the unfilled backlog for all 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,			2014 over 2013 Change	2013 over 2012 Change
	2014	2013	2012		
Gross margin on products	53.0 %	53.5 %	53.9%	(1) ppt	— ppt
Gross margin on services and other	44.8 %	46.2 %	46.1%	(1) ppt	— ppt
Total gross margin	51.5 %	52.1 %	52.6%	(1) ppt	— ppt
Operating margin	11.9 %	14.0 %	16.3%	(2) ppts	(2) ppts

### (in millions)

Research and development	\$ 719	\$ 704	\$ 668	2%	5%
Selling, general and administrative	\$ 2,043	\$ 1,880	\$ 1,817	9%	3%

In 2014, total gross margins decreased one percentage point when compared to the same period last year. Gross margins in our life sciences and diagnostics business were relatively flat, up in our chemicals analysis business and down within our electronic measurement business for the year ended October 31, 2014 when compared to 2013. There were changes in gross margin due to higher inventory charges driven by the exit of the NMR business, expenditures to address an FDA warning letter, increased warranty costs and product discounts offset by favorable manufacturing overhead costs. Operating margins declined by 2 percentage point in the year ended October 31, 2014 when compared to the same period last year. The overall decline in operating margin for the year ended October 31, 2014 was mostly due to pre-separation costs. Operating margins within our life sciences and diagnostics business was down and in the chemical analysis business operating margins increased for the year ended October 31, 2014 when compared to 2013. Within electronic measurement operating margins was flat for the year ended October 31, 2014 when compared to 2013.

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. 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. 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 \$79 million in 2014, \$48 million in 2013 and \$30 million in 2012. Sales of previously written down inventory were \$9 million in 2014, \$7 million in 2013 and \$5 million in 2012.

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, photonics, software, systems and solutions and life sciences. 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 2 percent in 2014 compared to 2013. R&D expenditure increased within our life sciences and diagnostics and chemical analysis businesses with investments for product and software R&D together with wage increases and higher variable pay. Within our electronic measurement business there was a reduction in R&D expenditure within electronic measurement business due to savings from prior year's restructuring. 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. We remain committed to invest 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 9 percent in 2014 compared to 2013. Selling, general and administrative expenditure increased mostly due to pre-separation costs with other increases in wages, higher commissions and investments in sales channel coverage partially offset by an \$11 million gain on sale of land and savings due to restructuring charges incurred in the prior year. 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.

Interest expense for the years ended October 31, 2014, 2013 and 2012 was \$113 million, \$107 million and \$101 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, 2014, our headcount was approximately 21,400 compared to 20,600 in 2013 and 20,500 in 2012. Following the separation of Keysight from Agilent our headcount will be approximately 12,000.

### Other income (expense)

For the year ended October 31, 2014 other income (expense), net includes a net loss on the early redemption of the 2015 senior notes and partial redemption of the 2017 notes of \$89 million consisting of the prepayment penalties of \$108 million, \$3 million of accelerated amortization of debt issuance costs and discount and the accelerated amortization of interest rate swap gains of \$22 million.

### Income Taxes

	Years Ended October 31,		
	2014	2013	2012
	(in millions)		
Provision (benefit) for income taxes	\$ 142	\$ 135	\$ (110)

For 2014, the effective tax rate was 22 percent. The 22 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 impact of the tax holidays decreased income taxes by \$76 million in

2014. In the fourth quarter we recorded an out of period tax expense of \$13 million tax for corrections to U.S. deferred taxes. In the third quarter we recorded out of period adjustments consisting of a \$9 million tax benefit related to the correction of the tax basis of land in the UK and a \$3 million tax expense to correct tax related balance sheet accounts. In the second quarter we recorded an out of period adjustment to tax expense of approximately \$12 million for correction of transfer pricing for tax years 2012 and 2013. These corrections are not considered material to current or prior periods. The effective tax rate increased by 6 percent over the previous year primarily due to lower earnings in non-US jurisdictions taxed a lower statutory rates, the out of period adjustments listed above and the impact of non-deductible costs related to the separation of Keysight of \$17 million.

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 impact of the tax holidays decreased income taxes by \$127 million in 2013. 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 was 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.

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. The Keysight entity in Singapore has not obtained a tax holiday to date. Accordingly, income tax expense has been recorded on its fourth quarter earnings at the statutory rate. As a result of the incentives, the impact of the tax holidays decreased income taxes by \$76 million, \$127 million, and \$122 million in 2014, 2013, and 2012, respectively. The benefit of the tax holidays on net income per share (diluted) was approximately \$0.23, \$0.37, and \$0.35 in 2014, 2013 and 2012, 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 2008 for federal income tax purposes and the year 2000 for significant states. On January 29, 2014 we reached an agreement with the IRS for the tax years 2006 through 2007. The settlement resulted in the recognition of previously unrecognized tax benefits of \$160 million, offset by a tax liability on foreign distributions of approximately \$148 million principally related to additional foreign earnings that

were recognized in conjunction with the settlement. Agilent's U.S. federal income tax returns for 2008 through 2011 are currently under audit by the IRS.

In connection with the settlement of the 2006-2007 IRS audit, we identified during the first quarter of fiscal year 2014 an overstatement of approximately \$65 million in our long-term tax liabilities. The overstatement was recorded in 2008 as a cumulative effect of a change in accounting principle when we adopted Accounting Standard Codification 740-10, Income Taxes. Accordingly, we corrected the error by reducing long-term tax liabilities and increasing retained earnings by \$65 million in the first quarter of fiscal 2014. The correction had no impact on net income or cash flows in any prior period and is not considered material to total liabilities or equity in any prior period.

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

Through October 31, 2014, we have three business segments comprised of the life sciences and diagnostics business, the chemical analysis business and the electronic measurement business.

### 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, 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,			2014 over 2013 Change	2013 over 2012 Change
	2014	2013	2012		
	(in millions)				
Orders	\$ 2,424	\$ 2,319	\$ 1,993	5%	16%
Net revenue from products	\$ 1,914	\$ 1,868	\$ 1,578	2%	18%
Net revenue from services and other	458	432	406	6%	6%
Total net revenue	\$ 2,372	\$ 2,300	\$ 1,984	3%	16%

Life sciences and diagnostics orders in 2014 grew 5 percent compared to 2013. Foreign currency movements had a negligible impact on order growth when compared to the prior year. Order results were led by solid demand in the LC, services and consumables portfolios, along with strength in LCMS, nucleic acid, genomics and informatics. Geographically, orders grew 5 percent in the Americas, grew 9 percent in Europe, declined 9 percent in Japan, and grew 2 percent in Asia Pacific excluding Japan during 2014 when compared to 2013. Life sciences and diagnostics orders in 2013 increased 16 percent compared to 2012. Foreign currency movements had an unfavorable impact of 2 percentage points on order growth when compared to the prior year. Excluding the impact of the Dako acquisition,

order growth of 4 percent in 2013 was driven by strength in LC, genomics, services and consumables, partially offset by declines in LCMS and research products.

Life sciences and diagnostics net revenue in 2014 increased 3 percent compared to 2013. Foreign currency movements for 2013 had a negligible impact on revenue growth when compared to the prior year. Revenue growth was led by strength in genomics, LC, consumables and services portfolios. Geographically, revenue grew 3 percent in the Americas, grew 5 percent in Europe, declined 1 percent in Japan, and grew 3 percent in Asia Pacific excluding Japan during 2014 when compared to 2013. The economic recovery and improved government spending continued to drive growth in the Americas. Increased spending for life science research in China drove the moderate growth in Asia Pacific excluding Japan, while Japan reflected the unfavorable impact of currency and lower government spending. Life sciences and diagnostics revenue in 2013 increased 16 percent compared to 2012. 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 of 3 percent was led by strength in LC, consumables and services, partially offset by declines in LCMS and research products.

End market performance reflected mixed growth across markets in 2014. Pharmaceutical and biotechnology market growth was driven by technology refreshes and continued specialty pharmaceutical demand. Despite budget restrictions in most pharmaceutical companies, technology refresh programs in large and mid-size pharmaceutical companies continue to drive traditional replacement business to move to the latest technologies. In life science research, improved government spending on capital equipment in the U.S., China and Europe in the second half of 2014 was not enough to offset the softness in research in the first half and in Japan. The first half of 2014 was impacted by slow releasing budgets particularly in the U.S. and China. The diagnostics and clinical market reflected solid demand for CGH microarray and target enrichment solutions and sustained growth in pathology. Applied markets grew moderately with good demand in forensics and food boosted by increased government spending in the U.S.

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 life science research markets, but we expect businesses such as consumables and services and the continued need to refresh instrumentation with high sensitivity and increased throughput 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. We expect that there will be a positive impact of approximately 1 percentage point to operating margin in fiscal year 2015 as we complete the exit of our NMR business.

### ***Gross Margin and Operating Margin***

The following table shows the life sciences and diagnostics business' margins, expenses and income from operations for 2014 versus 2013, and 2013 versus 2012.

	Years Ended October 31,			2014 over 2013 Change	2013 over 2012 Change
	2014	2013	2012		
Total gross margin	54.1%	54.3%	53.3%	— ppt	1 ppt
Operating margin	15.8%	16.4%	14.8%	(1) ppt	2 ppts
<b>(in millions)</b>					
Research and development	\$ 244	\$ 228	\$ 195	7%	17%
Selling, general and administrative	\$ 664	\$ 645	\$ 567	3%	14%
Income from operations	\$ 376	\$ 377	\$ 295	—	28%

Gross margins in 2014 were relatively flat compared to 2013. Gross margins reflect favorable product mix, lower inventory charges, entirely offset by costs to address the FDA warning letter and higher infrastructure expenses and wage increases. Gross margins increased 1 percentage point in 2013 compared to 2012. The increase in gross margins was mainly due to the impact of the Dako acquisition, along with favorable volume and lower infrastructure expenses partially offset by unfavorable product mix.

Research and development expenses increased 7 percent in 2014 compared to 2013 due to greater investments in software and next generation products, higher infrastructure expenses, wage increases and higher variable pay. Research and development expenses increased 17 percent in 2013 compared to 2012. The increase was primarily due to the impact of the Dako acquisition.

Selling, general and administrative expenses increased 3 percent in 2014 compared to 2013 due to higher commissions, higher infrastructure expenses partially offset by workforce reductions. Selling, general and administrative expenses increased 14 percent in 2013 compared to 2012. The increase was primarily due to the impact of the Dako acquisition.

Operating margins decreased 1 percentage point in 2014 compared to 2013 on higher revenue offset by increased operating expenses. Our NMR business, which we made a decision to exit at the end of the fiscal year, had an unfavorable impact of approximately 2 percentage points on operating margin for fiscal year 2014. 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.

### *Income from Operations*

Income from operations in 2014 decreased by \$1 million on a revenue increase of \$72 million. 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. 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,			2014 over 2013 Change	2013 over 2012 Change
	2014	2013	2012		
	(in millions)				
Orders	\$ 1,747	\$ 1,642	\$ 1,604	6%	2%
Net revenue from products	\$ 1,292	\$ 1,232	\$ 1,219	5%	1%
Net revenue from services and other	384	362	340	6%	6%
Total net revenue	\$ 1,676	\$ 1,594	\$ 1,559	5%	2%

Chemical analysis orders in 2014 increased 6 percent when compared to 2013. Foreign currency movements for 2014 had an unfavorable impact of 1 percentage point compared to 2013. Order results showed positive performance in high-end gas chromatographs, spectroscopy instruments, services and consumables. Strength in these areas was offset by declines in mid-range, micro gas chromatographs and vacuum products. Geographically, orders grew 6 percent in the Americas, increased 9 percent in Europe, declined 1 percent in Japan (includes unfavorable currency impact of 11 percentage points), and grew 6 percent in Asia Pacific excluding Japan during 2014 when compared to 2013. In the Americas the performance was primarily due to the improved demand from government as well as private sector in the second half of the year. Total Asia Pacific orders reflected continued weakness in Japan orders offset by continued growth in both China and India. Chemical analysis orders in 2013 increased 2 percent compared to 2012; orders were led by positive growth in services, consumables, and ICP-MS instruments which was partially offset by declines in GC-MS systems and flat orders in vacuum pump products.

Chemical analysis revenue in 2014 increased 5 percent compared to 2013. Foreign currency movements for 2014 had an unfavorable impact of 1 percentage point compared to 2013. Revenue growth was led by strength in high-end GC's and AA-OES instruments; this was partially offset by weakness in micro/ mid-range GC's and

vacuum products. Geographically, revenue grew 4 percent in the Americas, grew 10 percent in Europe, grew 1 percent in Japan (including a 12 percentage point unfavorable currency impact), and grew 3 percent in Asia Pacific excluding Japan over 2013. Chemical analysis revenue grew 2 percent in 2013 compared to 2012. Revenue growth was led by services and consumables. In the instruments, GC and GC-MS weaknesses were offset by strength in ICP-MS and AA-OES.

Chemical analysis saw positive growth in all the key end markets. Growth was led by food testing where the demand to export safe and high quality food in emerging markets remains strong, and improved government funding in the Americas and Europe continue to drive strength for demand of spectrometers and high-end gas chromatograph instruments. Government spend in the developed countries has improved in the second half of the year, and is driving the growth in forensics and environmental markets. Chemical and energy end markets saw low single digit growth in 2014 compared to 2013, driven primarily by softness in the industrial markets. In forensics, the spread of designer drugs continues to drive the need for high-sensitivity testing which is positively impacting the growth of GC-MS systems, particularly in US and Japan. Environmental and food testing demand grew due to an increased regulatory environment in China and other developing economies.

While the economic environment still remains uncertain, the second half results of 2014 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 2014 (new 5100 ICPOES, 7010 GCMS and 7200 GC Q-TOF), should 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 2014 versus 2013, and 2013 versus 2012.

	Years Ended October 31,			2014 over 2013 Change	2013 over 2012 Change
	2014	2013	2012		
Total gross margin	52.6%	51.7%	51.4%	1 ppt	—
Operating margin	23.1%	22.3%	21.7%	1 ppt	1 ppt
<b>(in millions)</b>					
Research and development	\$ 102	\$ 94	\$ 93	8%	2%
Selling, general and administrative	\$ 393	\$ 374	\$ 371	5%	1%
Income from operations	\$ 387	\$ 355	\$ 338	9%	5%

Gross margins increased in 2014 almost 1 percentage point compared to 2013; unfavorable foreign currency movements, higher product discounts, and wage increases were more than offset by favorable manufacturing overhead costs and favorable revenue volume. Gross margins in 2013 were flat compared to 2012. Higher product discounts and unfavorable foreign currency movements were offset by favorable manufacturing overhead costs and favorable revenue volume.

Research and development expenses increased 8 percent in 2014 when compared to 2013; however remained flat as a percentage of revenue, as we continue to make investments in product R&D. Research and development expenses increased 2 percent in 2013 compared to 2012 driven by our continued investment in instrument products.

Selling, general and administrative expenses increased 5 percent in 2014 compared to 2013. The increase was mainly due to higher infrastructure expenses, wage increases, and higher commissions partially offset by favorable currency impact. 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.

Operating margins increased by 1 percentage point in 2014 compared to 2013. The increase was due to higher revenue and improved gross margins. Operating margins increased by 1 percentage point in 2013 compared to 2012.

## *Income from Operations*

Income from operations in 2014 increased by \$32 million or 9 percent compared to 2013 on a revenue increase of \$82 million, a 39 percent year-over-year operating margin incremental. Income from operations in 2013 increased by \$17 million or 5 percent compared to 2012 on a revenue increase of \$35 million, a 49 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,			2014 over 2013 Change	2013 over 2012 Change
	2014	2013	2012		
	(in millions)				
Orders	\$ 2,963	\$ 2,866	\$ 3,280	3%	(13)%
Net revenue from products	\$ 2,480	\$ 2,434	\$ 2,862	2%	(15)%
Net revenue from services and other	453	454	453	—	—
Total net revenue	\$ 2,933	\$ 2,888	\$ 3,315	2%	(13)%

Electronic measurement orders increased 3 percent in 2014 compared to 2013. Foreign currency movements had an unfavorable impact of 1 percentage point on the year-over-year compare. Orders increased in all market segments in 2014 compared to 2013 including aerospace and defense; industrial, computer, and semiconductor test; and communications test. On a geographic basis, orders grew 11 percent in Asia Pacific excluding Japan, 6 percent in Europe and 3 percent in the Americas compared to 2013. Japan orders declined 16 percent year-over-year, declining 9 percent year-over-year in local currency compared to 2013. Asia Pacific excluding Japan increased in all market segments. The increase in the Americas was driven by strong aerospace and defense orders. Electronic measurement orders declined 13 percent in 2013 compared to 2012. Orders were lower for all market segments, including aerospace and defense; industrial, computer, and semiconductor test; and communications test.

Electronic measurement revenues increased 2 percent in 2014 compared to 2013 with modest growth in industrial, computer and semiconductor test, and communication test partially offset by decline in the aerospace and defense revenue. Foreign currency movements had an unfavorable impact of 1 percentage point on the year-over-year compare. Revenue from Asia Pacific excluding Japan grew 8 percent driven by growth in communication test and industrials, computer and semiconductor test. Europe revenue increased 5 percent year-over-year from growth in communications test. Americas declined 3 percent year-over-year with lower aerospace and defense and communications test. Japan declined 9 percent year-over-year, with declines in all market segments. Revenue from products increased 2 percent in 2014 compared to 2013 while service related revenue was flat. Growth in calibration services and remarketing sales of used equipment were partially offset by declines in the equipment repair business due to the move from a one to three year product warranty. Electronic measurement revenue declined 13 percent in 2013 compared to 2012 primarily on lower wireless manufacturing and industrial, computer and semiconductor test demand.

General purpose test revenue, representing approximately 66 percent of electronic measurement business, increased year-over-year. Growth in industrial, computer, and semiconductor test demand was partially offset by declines in the aerospace and defense business. Aerospace and defense business, while down for the full fiscal year, had positive growth in the last two fiscal quarters. The computer and semiconductor increase was driven by investment in capacity growth and the overall strength in the semiconductor market. The industrial test business grew for the year with particular strength in the last fiscal quarter driven by growth in the Americas and Asia Pacific excluding Japan. In 2013, general purpose test revenue, representing approximately 66 percent of electronic measurement business, declined year-over-year on weak industrial, computer, and semiconductor test demand.



Communications test revenue, representing approximately 34 percent of total electronic measurement, increased year over year with increases in wireless manufacturing and broadband communications business partially offset by modest declines in Wireless R&D. Wireless manufacturing growth continues to be driven by 4G base station investments, mainly for China. Broadband showed solid growth impacted by demand for datacom bandwidth. Wireless R&D continues to be affected by cautious customer spending driven by consolidation and restructuring activities throughout the industry, across device, network equipment, chipset and component manufacturers. In 2013, communications test represented approximately 34 percent of total electronic measurement revenue. Revenue declined year-over-year due to significantly lower wireless manufacturing demand and modest declines in wireless R&D.

### ***Gross Margin and Operating Margin***

The following table shows the electronic measurement business's margins, expenses and income from operations for 2014 versus 2013 and 2013 versus 2012.

	<u>Years Ended October 31,</u>			<u>2014 over 2013</u> <u>Change</u>	<u>2013 over 2012</u> <u>Change</u>
	<u>2014</u>	<u>2013</u>	<u>2012</u>		
Total gross margin	55.7%	56.9%	56.9%	(1) ppt	—
Operating margin	19.1%	18.9%	22.7%	—	(4) ppts
<b>(in millions)</b>					
Research and development	\$ 358	\$ 365	\$ 375	(2)%	(3)%
Selling, general and administrative	\$ 717	\$ 733	\$ 761	(2)%	(4)%
Income from operations	\$ 559	\$ 544	\$ 751	3%	(28)%

Gross margins declined 1 percentage point in 2014 compared to 2013 on slightly higher revenue. Higher inventory charges and an increase in three year warranty costs were the primary reasons for the lower gross margins. Gross margins were flat in 2013 compared to 2012 on lower revenue. A decline in variable and incentive pay and reduced infrastructure spending were offset by higher inventory charges and wage increases.

Research and development expenses declined 2 percent in 2014 compared to 2013. Reductions were the result of lower infrastructure costs. 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.

Selling, general and administrative expenses decreased 2 percent in 2014 compared to 2013. Reductions in infrastructure costs and the favorable impact of currency movements were partially offset by increases in marketing communications and travel. 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.

Operating margins were flat in 2014 compared to 2013 with revenue growth offset by lower gross margins. Operating margins declined by 4 percentage points in 2013 compared to 2012 on lower revenue partially offset by reduced operating expenses.

### ***Income from Operations***

Income from operations in 2014 increased by \$15 million or 3 percent compared to 2013 on a revenue increase of \$45 million, a 33 percent year-over-year operating margin incremental, reflecting the impact of higher revenue and expense reductions. Income from operations in 2013 decreased 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.

## Financial Condition

### *Liquidity and Capital Resources*

Our financial position as of October 31, 2014 consisted of cash and cash equivalents of \$3,028 million as compared to \$2,675 million as of October 31, 2013.

As of October 31, 2014, approximately \$2,397 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 November 1, 2014, we completed the distribution of 100% of the outstanding common shares of Keysight to Agilent stockholders who received one share of Keysight common stock for every two shares of Agilent held as of the close of business on the record date, October 22, 2014. The separation agreement provided that prior to the distribution, Keysight made a cash distribution to Agilent in an amount equal to \$900 million. The distribution of such cash to Agilent was intended to be a return of capital to Agilent that ensures that Keysight had approximately \$700 million of total cash immediately following distribution.

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 at least the next twelve months, 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 \$711 million in 2014 as compared to \$1,152 million provided in 2013 and \$1,228 million provided in 2012. We paid approximately net taxes of \$131 million in 2014, as compared to net \$110 million in taxes in 2013 and net \$86 million in 2012. Operating cash flows in 2014 were impacted by pre-separation costs and separation related taxes, the redemption of senior notes including payments related to accrued interest and the timing of the purchase of shares under the employee stock purchase plan.

In 2014, the change in accounts receivable used cash of \$119 million, provided cash of \$14 million in 2013 and provided cash of \$19 million in 2012. Days' sales outstanding were 49 days in 2014, 47 days in 2013 and 47 days in 2012. The change in accounts payable provided cash of \$50 million in 2014, used cash of \$27 million in 2013 and used cash of \$31 million in 2012. Cash used in inventory was \$99 million in 2014, \$100 million in 2013 and \$52 million in 2012. Inventory days on-hand decreased to 106 days in 2014 compared to 118 days in 2013 and 108 days in 2012.

We contributed \$30 million to our U.S. defined benefit plans in each of 2014, 2013 and 2012. We contributed \$68 million, \$89 million and \$54 million to our non-U.S. defined benefit plans in 2014, 2013 and 2012, respectively. We contributed \$1 million to our U.S. post-retirement benefit plans in 2014 and 2013, we did not contribute to our U.S. post-retirement benefit plans in 2012. Our non-U.S. defined benefit plans are generally funded ratably throughout the year. Total contributions in 2014 were \$103 million or 14 percent less than 2013. Total contributions in 2013 were \$120 million or 43 percent more than 2012. 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 \$41 million to our U.S. and non-U.S. defined benefit plans and zero to our U.S. post-retirement benefit plans during 2015.

#### *Net Cash Provided by/Used in Investing Activities*

Net cash used in investing activities in 2014 was \$230 million and in 2013 was \$248 million as compared to net cash used of \$2,366 million in 2012 primarily due to the acquisition of Dako.

Investments in property, plant and equipment were \$205 million in 2014, \$195 million in 2013 and \$194 million in 2012. Proceeds from sale of property, plant and equipment were \$14 million in 2014, \$2 million in 2013 and zero in 2012. In 2014 we invested \$13 million in acquisitions of businesses compared to \$21 million in 2013 in acquisitions of businesses and intangible assets compared to \$2,257 million in 2012. In 2014, there were \$25 million of purchases of equity method investments including a \$3.5 million loan converted to equity compared with \$46 million of purchases of investments including \$21 million for equity method investments in 2013. Proceeds from the sale of investment securities in 2014 were \$1 million, \$12 million in 2013 and \$5 million in 2012.

On April 30, 2014, Agilent entered into a binding sales contract with real estate developers to sell land in the U.K. The contract calls for proportionate transfers and payments of three separate land tracts totaling approximately \$34 million in May 2014, November 2015 and November 2016. Under the authoritative accounting guidance the full accrual method will be used to account for these transactions and gains on the sales recognized at each sale and payment date. In the year ended October 31, 2014 we recognized \$11 million gain on sale of land in respect of the first of three land tracts in selling, general and administrative expenses. The property transfers to Keysight at distribution and the two remaining future payments in November 2015 and November 2016 from the developers will become due to and collected by Keysight.

#### *Net Cash Provided by/Used in Financing Activities*

Net cash used in financing activities in 2014 was \$97 million compared to \$554 million in 2013 and \$37 million in 2012, respectively.

#### *Treasury stock repurchases*

On January 16, 2013, our board of directors approved a 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. 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. As of October 31, 2014, there were no remaining amounts to be repurchased under the 2013 program.

On November 22, 2013 we announced that our board of directors had authorized a new share repurchase program effective upon the conclusion of the company's \$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 target maintaining a weighted average share count of approximately 335 million diluted shares.

For the year ended October 31, 2014, we repurchased 4 million shares for \$200 million. For the year ended October 31, 2013, we repurchased 20 million shares for \$900 million. For the year ended October 31, 2012, we repurchased 5 million shares for \$172 million. All such shares and related costs are held as treasury stock and accounted for using the cost method.

#### *Dividends*

During the year ended October 31, 2014, cash dividends of \$0.528 per share, or \$176 million were declared and paid on the company's outstanding 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. On November 20, 2014, we declared a quarterly dividend of \$0.10 per share of common stock, or approximately \$34 million which will be paid on January 28, 2015 to shareholders of record as of the close of business on January 6, 2015. The timing and amounts of any future dividends are subject to

determination and approval by our board of directors.

#### *Credit Facility*

On September 15, 2014, Agilent entered into a credit agreement with a financial institution which provides for a \$400 million five-year unsecured credit facility (the "Agilent Facility") that will expire on September 15, 2019. The Agilent Facility replaced the previous credit facility ("old credit facility") and provides for amounts to be borrowed for general corporate purposes. For the year ended October 31, 2014, we borrowed \$50 million under the old credit facility and repaid \$50 million by October 31, 2014. As of October 31, 2014 the company has no borrowings outstanding under the Agilent facility. We were in compliance with the covenants for the credit facilities during the year ended October 31, 2014.

On September 15, 2014, Keysight, a wholly owned subsidiary of Agilent, entered into a credit agreement with a financial institution which provides for a \$300 million five-year unsecured credit facility (the "Keysight Facility") that will expire on November 1, 2019 and provides for amounts to be borrowed for general corporate purposes. The credit agreement was initially guaranteed by Agilent. The guarantee terminated upon the completion of the separation of Keysight from Agilent on November 1, 2014. As of October 31, 2014 the company has no borrowings outstanding under the Keysight facility. We were in compliance with the covenants for the credit facility during the year ended October 31, 2014.

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, 2014 the company had no borrowings outstanding under the facility.

#### *Short-term Loan*

On July 10, 2014, a wholly owned subsidiary of Agilent in India entered into a short-term loan agreement with a financial institution, which provides up to \$50 million of unsecured borrowings. On July 25, 2014, we borrowed \$35 million against the loan agreement at an interest rate of 9.95 percent per annum. The loan was repaid during the year and as of October 31, 2014, no balance was outstanding against this credit facility.

#### *Long-term debt*

On July 14, 2014, we settled the redemption of the outstanding aggregate principal amount of our 5.5% senior notes ("2015 senior notes") due September 14, 2015, that had been called for redemption on June 12, 2014. The redemption price of approximately \$528 million included the \$500 million principal amount and a \$28 million prepayment penalty. The prepayment penalty less full amortization of previously deferred interest rate swap gain of approximately \$8 million together with \$1 million of amortization of debt issuance costs and discount was disclosed in other income (expense), net in the condensed consolidated statement of operations. The amortization of the interest rate swap gain has been recognized as an adjustment to reconcile net income to net cash provided by operating activities in the condensed consolidated statement of cash flows. We also paid accrued and unpaid interest of \$9 million on the 2015 senior notes up to but not including the redemption date.

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, 2014 was \$3 million. The gain is being deferred and amortized to interest expense over the remaining life of the 2017 senior notes.

On October 20, 2014, we settled the redemption of \$500 million of the \$600 million outstanding aggregate principal amount of our 6.5% senior notes ("2017 senior notes") due November 1, 2017 that had been called for redemption on September 19, 2014. The redemption price of approximately \$580 million included a \$80 million prepayment penalty computed in accordance with the terms of the 2017 senior notes as the present value of the remaining scheduled payments of principal and unpaid interest related to \$500 million partial redemption. The

prepayment penalty less partial amortization of previously deferred interest rate swap gain of approximately \$14 million together with \$2 million of amortization of debt issuance costs and discount was disclosed in other income (expense), net in the condensed consolidated statement of operations. We also paid accrued and unpaid interest of \$15 million on the 2017 senior notes up to but not including the redemption date.

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, 2014 was \$22 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.

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 commenced January 15, 2014.

On October 6, 2014 Keysight announced that it had agreed to sell \$500 million of 3.30% senior notes due 2019 ("2019 senior notes") and \$600 million of 4.55% senior notes due 2024 ("2024 senior notes"). The transaction closed on October 15, 2014. Each series of notes initially were guaranteed on an unsecured, unsubordinated basis by Agilent. The guarantees terminated upon the completion of the separation of Keysight from Agilent on November 1, 2014.

As of October 31, 2014, and as a result of the Dako acquisition, we have mortgage debts, secured on buildings in Denmark, in Danish Krone equivalent of \$42 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.

#### *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, 2014 for Agilent operations and excludes amounts recorded in our consolidated balance sheet (in millions):

	Less than one year	One to three years	Three to five years	More than five years
Operating leases	\$ 57	\$ 81	\$ 35	\$ 33
Commitments to contract manufacturers and suppliers	782	8	—	—
Other purchase commitments	127	—	—	—
Retirement plans	87	—	—	—
Total	<u>\$ 1,053</u>	<u>\$ 89</u>	<u>\$ 35</u>	<u>\$ 33</u>

We expect that with the separation of Keysight from Agilent on November 1, 2014 that operating lease payments will be reduced by approximately \$52 million in total for the periods presented. We also expect the transfer of approximately one quarter of the commitments to contract manufacturers and suppliers and other purchase commitments to Keysight at separation. In addition, our commitments under the retirement plans are expected to reduce by approximately \$46 million with separation of Keysight. We do not expect a material adverse change in the effect these arrangements and obligations will have on our liquidity.

*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 53 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, 2014, the liability for our firm, non-cancelable and unconditional purchase commitments was \$15 million, compared to \$5 million as of October 31, 2013 and 2012. These amounts are included in other accrued liabilities in our consolidated balance sheet. The increase when compared to the previous year was largely due to the previous commitment undertaken with suppliers to the NMR business which we are exiting.

*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 \$127 million within the next year. The increase in other purchase commitments compared with a year ago is partially due to additional contracts associated with our pre-separation costs and the duplication of a number of contracts related to the separation activities of Keysight.

*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, 2014 or October 31, 2013.

### *On Balance Sheet Arrangements*

The following table summarizes our total contractual obligations at October 31, 2014 related to our long-term debt and interest expense (in millions):

	Less than one year	One to three years	Three to five years	More than five years
Senior notes	\$ —	\$ —	\$ 600	\$ 2,100
Other debt	—	—	—	42
Interest expense	114	227	210	298
Total	<u>\$ 114</u>	<u>\$ 227</u>	<u>\$ 810</u>	<u>\$ 2,440</u>

In connection with the separation of Keysight from Agilent on November 1, 2014, our obligations for long-term debt are expected to decrease by \$1,100 million and interest payments are expected to decrease by approximately \$359 million.

Other long-term liabilities include \$289 million and \$341 million of liabilities for uncertain tax positions as of October 31, 2014 and October 31, 2013, 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 61 percent of our revenues in 2014, 63 percent of our revenues in 2013 and 63 percent of our revenues in 2012 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, 2014 and 2013, the analysis indicated that these hypothetical market movements would not have a material effect on our consolidated financial position, results of operations, statement of comprehensive income 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, 2014 and 2013, 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 the related consolidated statements of operations, comprehensive income, cash flows, and equity present fairly, in all material respects, the financial position of Agilent Technologies, Inc. and its subsidiaries at October 31, 2014 and October 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2014 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, 2014, 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.

As discussed in Note 1 to the consolidated financial statements, on November 1, 2014, the Company distributed all of the outstanding shares of Keysight Technologies, Inc., which encompasses the Company's electronic measurement business, to the Company's shareholders.

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 22, 2014



**AGILENT TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

	Years Ended October 31,		
	2014	2013	2012
	(in millions, except per share data)		
Net revenue:			
Products	\$ 5,686	\$ 5,534	\$ 5,659
Services and other	1,295	1,248	1,199
Total net revenue	<u>6,981</u>	<u>6,782</u>	<u>6,858</u>
Costs and expenses:			
Cost of products	2,673	2,576	2,608
Cost of services and other	715	671	646
Total costs	<u>3,388</u>	<u>3,247</u>	<u>3,254</u>
Research and development	719	704	668
Selling, general and administrative	2,043	1,880	1,817
Total costs and expenses	<u>6,150</u>	<u>5,831</u>	<u>5,739</u>
Income from operations	831	951	1,119
Interest income	9	7	9
Interest expense	(113)	(107)	(101)
Other income (expense), net	(81)	8	16
Income before taxes	<u>646</u>	<u>859</u>	<u>1,043</u>
Provision (benefit) for income taxes	142	135	(110)
Net income	<u>\$ 504</u>	<u>\$ 724</u>	<u>\$ 1,153</u>
Net income per share:			
Basic	\$ 1.51	\$ 2.12	\$ 3.31
Diluted	\$ 1.49	\$ 2.10	\$ 3.27
Weighted average shares used in computing net income per share:			
Basic	333	341	348
Diluted	338	345	353
Cash dividends declared per common share	\$ 0.528	\$ 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,		
	2014	2013	2012
Net income	\$ 504	\$ 724	\$ 1,153
Other comprehensive income (loss):			
Unrealized gain on investments, net of tax (expense) benefit of \$(1), \$(2) and \$8	11	7	6
Amounts reclassified into earnings related to investments, net of tax of \$0, \$0 and \$0	(1)	—	—
Gain on derivative instruments, net of tax (expense) of \$(5), \$(2) and \$(3)	8	8	7
Amounts reclassified into earnings related to derivative instruments, net of tax benefit of \$0, \$3 and \$2	1	(10)	(6)
Foreign currency translation, net of tax benefit of \$8, \$8 and \$0	(269)	1	(28)
Net defined benefit pension cost and post retirement plan costs:			
Change in actuarial net loss, net of tax (expense) benefit of \$65, \$(114), and \$61	(143)	228	(175)
Change in net prior service benefit, net of tax benefit of \$16, \$16, and \$17	(32)	(32)	(31)
Other comprehensive income (loss)	<u>(425)</u>	<u>202</u>	<u>(227)</u>
Total comprehensive income	<u>\$ 79</u>	<u>\$ 926</u>	<u>\$ 926</u>

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

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

	October 31,	
	2014	2013
	(in millions, except par value and share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,028	\$ 2,675
Accounts receivable, net	983	899
Inventory	1,072	1,066
Other current assets	417	343
Total current assets	<u>5,500</u>	<u>4,983</u>
Property, plant and equipment, net	1,101	1,134
Goodwill	2,899	3,047
Other intangible assets, net	667	916
Long-term investments	159	139
Other assets	505	467
Total assets	<u>\$ 10,831</u>	<u>\$ 10,686</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 475	\$ 432
Employee compensation and benefits	395	401
Deferred revenue	435	439
Other accrued liabilities	397	330
Total current liabilities	<u>1,702</u>	<u>1,602</u>
Long-term debt	2,762	2,699
Retirement and post-retirement benefits	422	294
Other long-term liabilities	644	802
Total liabilities	<u>5,530</u>	<u>5,397</u>
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; 608 million shares at October 31, 2014 and 602 million shares at October 31, 2013 issued	6	6
Treasury stock at cost; 273 million shares at October 31, 2014 and 269 million shares at October 31, 2013	(9,807)	(9,607)
Additional paid-in-capital	8,967	8,723
Retained earnings	6,466	6,073
Accumulated other comprehensive income (loss)	(334)	91
Total stockholders' equity	<u>5,298</u>	<u>5,286</u>
Non-controlling interest	3	3
Total equity	<u>5,301</u>	<u>5,289</u>
Total liabilities and equity	<u>\$ 10,831</u>	<u>\$ 10,686</u>

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

**AGILENT TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Years Ended October 31,		
	2014	2013	2012
	(in millions)		
Cash flows from operating activities:			
Net income	\$ 504	\$ 724	\$ 1,153
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	384	372	301
Accelerated amortization of interest rate swap gain (due to early redemption of debt)	(22)	—	—
Share-based compensation	96	85	74
Excess tax benefit from share-based plans	(1)	(2)	—
Deferred taxes	(132)	31	(158)
Excess and obsolete inventory and inventory related charges	79	48	30
Non-cash restructuring and asset impairment charges	23	3	1
Net gain on sale of investments	(1)	(1)	(4)
Net (gain) loss on sale of assets and divestitures	(10)	3	2
Other	10	3	5
Changes in assets and liabilities:			
Accounts receivable, net	(119)	14	19
Inventory	(99)	(100)	(52)
Accounts payable	50	(27)	(31)
Employee compensation and benefits	9	16	(54)
Other assets and liabilities	(60)	(17)	(58)
Net cash provided by operating activities	<u>711</u>	<u>1,152</u>	<u>1,228</u>
Cash flows from investing activities:			
Investments in property, plant and equipment	(205)	(195)	(194)
Proceeds from the sale of property, plant and equipment	14	2	—
Proceeds from lease receivable	—	—	80
Proceeds from the sale of investment securities	1	12	5
Proceeds from divestitures	2	—	—
Payment to acquire equity method investment	(25)	(21)	—
Purchase of other investments	—	(25)	—
Change in restricted cash, cash equivalents and investments, net	(4)	—	—
Acquisitions of businesses and intangible assets, net of cash acquired	(13)	(21)	(2,257)
Net cash used in investing activities	<u>(230)</u>	<u>(248)</u>	<u>(2,366)</u>
Cash flows from financing activities:			
Issuance of common stock under employee stock plans	188	161	100
Treasury stock repurchases	(200)	(900)	(172)
Payment of dividends	(176)	(156)	(104)
Issuance of senior notes	1,099	597	399
Debt issuance costs	(9)	(5)	(3)
Repayment of senior notes	(1,000)	(250)	(250)
Purchase of non-controlling interest	—	(3)	(6)
Proceeds from debts and credit facility	87	—	—
Repayment of debts and credit facility	(87)	—	(1)
Excess tax benefit from share-based plans	1	2	—
Net cash used in financing activities	<u>(97)</u>	<u>(554)</u>	<u>(37)</u>
Effect of exchange rate movements	(31)	(26)	(1)
Net increase (decrease) in cash and cash equivalents	353	324	(1,176)
Cash and cash equivalents at beginning of year	<u>2,675</u>	<u>2,351</u>	<u>3,527</u>
Cash and cash equivalents at end of year	<u>\$ 3,028</u>	<u>\$ 2,675</u>	<u>\$ 2,351</u>

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

**AGILENT TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENT OF EQUITY**

	Common Stock			Treasury Stock		Retained Earnings	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					
Balance as of October 31, 2011	590,668	\$ 6	\$ 8,265	(in millions, except number of shares in thousands)	\$ (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	—	—	—	—	—	1,153	—	1,153	—	1,153
Cash dividends declared (\$0.30 per common share)	—	—	—	—	—	(104)	—	(104)	—	(104)
Change in non-controlling interest	—	—	—	—	—	—	—	—	(5)	(5)
Share-based awards issued	4,591	—	84	—	—	—	—	84	—	84
Repurchase of common stock	—	—	—	(4,500)	(172)	—	—	(172)	—	(172)
Cumulative excess tax benefits realized from share-based awards issued	—	—	66	—	—	—	—	66	—	66
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	—	—	—	—	—	724	202	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 benefits 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
Components of comprehensive income, net of tax:										
Net income	—	—	—	—	—	504	—	504	—	504
Other comprehensive loss	—	—	—	—	—	—	(425)	(425)	—	(425)
Total comprehensive income	—	—	—	—	—	504	(425)	79	—	79
Cash dividends declared (\$0.528 per common share)	—	—	—	—	—	(176)	—	(176)	—	(176)
Adjustment to correct initial application of FIN No.48, see Note 5, "Income Taxes"	—	—	—	—	—	65	—	65	—	65
Share-based awards issued	6,261	—	170	—	—	—	—	170	—	170
Adjustment to cumulative excess tax benefits realized from share based awards issued, see Note 4, "Share-based Compensation"	—	—	(23)	—	—	—	—	(23)	—	(23)
Tax benefit from share based awards issued	—	—	1	—	—	—	—	1	—	1
Repurchase of common stock	—	—	—	(3,594)	(200)	—	—	(200)	—	(200)
Share-based compensation	—	—	96	—	—	—	—	96	—	96
Balance as of October 31, 2014	607,890	\$ 6	\$ 8,967	(272,924)	\$ (9,807)	\$ 6,466	\$ (334)	\$ 5,298	\$ 3	\$ 5,301

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 one that will be comprised of the electronic measurement business that will be renamed Keysight Technologies, Inc. ("Keysight"). Keysight was incorporated in Delaware as a wholly-owned subsidiary of Agilent on December 6, 2013. On November 1, 2014, we completed the distribution of 100% of the outstanding common shares of Keysight to Agilent stockholders who received one share of Keysight common stock for every two shares of Agilent held as of the close of business on the record date, October 22, 2014. The historical results of operations and the financial position of Keysight are included in the consolidated financial statements of Agilent and will be reported as discontinued operations beginning in the first quarter of 2015.

*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. 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. For additional details related to the acquisition of Dako, see Note 3, "Acquisitions".

*Exit of Nuclear Magnetic Resonance Business.* During the fourth quarter of fiscal year 2014, we made the decision to cease the manufacture and sale of our nuclear magnetic resonance ("NMR") product line within our life sciences and diagnostics segment. In connection with the exit from this business, we have recorded approximately \$68 million in restructuring and other related costs. For additional details related to the exit of the NMR business see Note 14, "Restructuring and Exit of a Business".

*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.

We previously recorded certain transaction tax receivables and payables on a gross basis within other current assets and other accrued liabilities, respectively, even though those balances were subject to the right of offset. During the fourth quarter of fiscal year 2014, we began recording transaction tax receivables and payables on a net basis to reflect this right of offset. If we had implemented previously, this change would have resulted in a reduction of other current assets and other accrued liabilities of \$50 million from the amounts shown in our October 31, 2013 balance sheet. This correction had no impact on net income, cash flows or equity and is not considered material to our consolidated balance sheet.

*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 U.S. GAAP 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, 2014 and 2013 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 2014, 2013 and 2012, 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 \$98 million in 2014, \$88 million in 2013 and \$76 million in 2012.

*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 to three years 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 are being 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 has not been material to the segment or consolidated revenue of Agilent and the anticipated total 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.* Under the authoritative guidance we have the option to perform a qualitative assessment to determine whether further impairment testing is necessary. The accounting standard gives an entity the option to first assess qualitative factors to determine whether performing the 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. greater than 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 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.

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 aggregate components of an operating segment that have similar economic characteristics into our reporting units. Agilent has three segments, life sciences and diagnostics, chemical analysis, and electronic measurement segments.

In fiscal year 2014, 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 four reporting units as of September 30, 2014. 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. Each quarter we review the events and circumstances to determine if goodwill impairment is indicated. There was no impairment of goodwill during the years ended October 31, 2014, 2013 and 2012.

Purchased intangible assets consist primarily of acquired developed technologies, proprietary know-how, trademarks, and customer relationships and are amortized using the best estimate of the asset's useful life that reflect the pattern in which the economic benefits are consumed or used up or a straight-line method 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 condensed consolidated statement of operations in the period it is abandoned.

Agilent's indefinite-lived intangible assets are IPR&D intangible assets. The accounting guidance allows a qualitative approach for testing indefinite-lived intangible assets for impairment, similar to the issued impairment testing guidance for goodwill and allows the option to first assess qualitative factors (events and circumstances) that could have affected the significant inputs used in determining the fair value of the indefinite-lived intangible asset to determine whether it is more-likely-than-not (i.e. greater than 50% chance) 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. We performed a qualitative test for impairment of indefinite-lived intangible assets as of September 30, 2014. Based on the results of our qualitative testing, we believe that it is more-likely-than-not that the fair value of these indefinite-lived intangible assets is greater than their respective carrying values. Each quarter we review the events and circumstances to determine if impairment of indefinite-lived intangible asset is indicated. In the years ended October 31, 2014, 2013 and 2012, we recorded an impairment of \$4 million, \$1 million and \$1 million, respectively due to the cancellation of certain IPR&D projects. In addition, in the year ended October 31, 2014, we also recorded \$12 million of impairment of other intangibles due to the exit of our NMR business.

*Advertising.* Advertising costs are generally expensed as incurred and amounted to \$57 million in 2014, \$44 million in 2013 and \$50 million in 2012.

*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 potential common shares outstanding during the period unless the effect is anti-dilutive. 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, 2014, approximately \$2,397 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 \$54 million and \$112 million as of October 31, 2014 and 2013, 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. 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, 2014, or 2013.

*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 2014, 2013 and 2012 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. In addition, we lease equipment to customers in connection with our diagnostics business using both capital and operating leases. As of October 31, 2014 and 2013 our life sciences and diagnostics segment has approximately \$8 million and \$4 million, respectively, of lease receivables related to capital leases and approximately \$33 million and \$35 million, respectively, 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 and exit of NMR business.* The main components of expenses are related to workforce reductions, assets impairments and write-downs and special charges to inventory, which mainly relates to exiting of one of our businesses. Workforce reduction charges are accrued when payment of benefits that the employees are entitled to becomes probable and the amounts can be estimated. We have also assessed the recoverability of our long-lived assets, by determining whether the carrying value of such assets will be recovered through undiscounted future cash flows. Asset impairments primarily consist of property, plant and equipment and are based on an estimate of the amounts and timing of future cash flows related to the expected future remaining use and ultimate sale or disposal of buildings and equipment net of costs to sell. The charges related to inventory include estimated future inventory disposal payments that we are contractually obliged to make to our suppliers and inventory written-down to net realizable value. 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 asset impairment 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 \$170 million and \$158 million as of October 31, 2014, and 2013, 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 non-monetary 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 \$4 million loss for fiscal year 2014, \$6 million loss for 2013 and \$19 million loss for 2012, 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 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 on 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 adopted this guidance in the first quarter of 2014. There was no impact to our consolidated financial statements due to the adoption of this guidance.

In February 2013, the FASB issued an amendment to the accounting guidance for reporting of amounts reclassified out of accumulated other comprehensive income. The amended 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. We adopted this guidance in the first quarter of 2014 and have presented the requisite disclosures in the consolidated statement of comprehensive income and in the notes to the financial statements.

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 periods beginning after December 15, 2013 and interim periods within those years. This guidance is consistent with our current practice.

In April 2014, the FASB issued amendments to the guidance on discontinued operations. The guidance changes the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. Additionally, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, expenses of discontinued operations and of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The new guidance is effective prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. We are evaluating the impact of adopting this prospective guidance to our consolidated financial statements.

In May 2014, the FASB issued an amendment to the accounting guidance related to revenue recognition. The amendment was the result of a joint project between the FASB and the International Accounting Standards Board ("IASB") to clarify the principles for recognizing revenue and to develop common revenue standards for U.S. GAAP and International Financial Reporting Standards ("IFRS"). To meet those objectives, the FASB is amending the FASB Accounting Standards Codification and creating a new Topic 606, Revenue from Contracts with Customers, and the IASB is issuing IFRS 15, Revenue from Contracts with Customers. The new guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those years. Early application is not permitted. We are evaluating the impact of adopting this guidance to our consolidated financial statements.

In June 2014, the FASB issued an amendment to the accounting guidance relating to share-based compensation to resolve what it saw as diverse accounting treatment of certain awards. With this amendment, the FASB has given explicit guidance to treat a performance target that could be achieved after the requisite service period as a performance condition that affects vesting rather than as a non-vesting condition that affects the grant-date fair value of an award. The new guidance is effective for annual periods beginning after December 15, 2015 and for the interim periods within those annual periods. Earlier adoption is permitted. We have evaluated the impact of adopting this prospective guidance to our consolidated financial statements and we believe this amendment to the accounting guidance is not applicable.

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	1,382
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	(211)
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):

	<b>Fair Value</b>	<b>Estimated Useful Life</b>
Developed product technology	\$ 287	8 - 9 yrs
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. 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 condensed consolidated statements of operations as of the beginning of fiscal 2011 (in millions, except per share amounts):

	<b>2012</b>
Net revenue	\$ 7,100
Net income	\$ 1,145
Net income per share — basic	\$ 3.29
Net income per share — diluted	\$ 3.24

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.

#### **4. SHARE-BASED COMPENSATION**

Agilent accounts for share-based awards in accordance with the provisions of the 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 1,604,406 shares for \$73 million in 2014, 1,454,724 shares for \$48 million in 2013 and 1,405,774 shares for \$47 million in 2012. As of October 31, 2014, the number of shares of common stock authorized and available for issuance under our ESPP was 39,990,573.

*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, 2014, 9,019,407 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.

In connection with the separation of Keysight Technologies on November 1, 2014 and in accordance with the Employee Matters Agreement we will make certain adjustments to the exercise price and number of our share-based compensation awards with the intention of preserving the intrinsic value of the awards prior to the separation. Exercisable and non-exercisable stock options will be converted to those of the entity where the employee is working post-separation. Restricted stock units awards and long-term performance plan grants will be adjusted to provide holders restricted stock units and long-term performance plan grants in the company that employs such employee following the separation. We believe these adjustments to our stock-based compensation awards will not have a material impact on compensation expense.

## 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,		
	2014	2013	2012
		(in millions)	
Cost of products and services	\$ 23	\$ 20	\$ 16
Research and development	14	12	10
Selling, general and administrative	61	56	50
Total share-based compensation expense	<u>\$ 98</u>	<u>\$ 88</u>	<u>\$ 76</u>

At October 31, 2014 and 2013 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 \$1 million in 2014, \$2 million in 2013 and zero in 2012, respectively. In the third quarter of 2014, an out of period adjustment was recorded to reverse previously recognized windfall tax benefits in the amount of \$12 million and was the result of the correction to the computation of a cash tax benefit realized in prior years. The correction is not considered material to current or prior periods. In addition, approximately \$11 million of previously recognized windfall tax benefits was reversed due to the favorable settlement of a tax authority examination in first quarter of 2014. The weighted average grant date fair value of options, granted in 2014, 2013 and 2012 was \$18.73, \$12.18 and \$13.69 per share, respectively.

Included in the 2014 and 2013 expense is incremental expense for acceleration of share-based compensation related to the announced workforce reduction plan of \$1 million and \$3 million, respectively. In 2012, 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,		
	2014	2013	2012
<b>Stock Option Plans:</b>			
Weighted average risk-free interest rate	1.69%	0.86%	0.88%
Dividend yield	1%	1%	0%
Weighted average volatility	39%	39%	38%
Expected life	5.8 years	5.8 years	5.8 years
<b>LTTP:</b>			
Volatility of Agilent shares	36%	37%	41%
Volatility of selected peer-company shares	13%-57%	6%-64%	17%-75%
Price-wise correlation with selected peers	47%	49%	62%

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.

In developing our estimated life of our employee stock options of 5.8 years for 2012 to 2014, 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 2014:

	Options Outstanding (in thousands)	Weighted Average Exercise Price
Outstanding at October 31, 2013	9,609	\$ 32
Granted	1,250	\$ 54
Exercised	(3,750)	\$ 30
Cancelled/Forfeited/Expired	(99)	\$ 41
Outstanding at October 31, 2014	<u>7,010</u>	<u>\$ 36</u>

Forfeited and expired options from total cancellations in 2014 were as follows:

	<u>Options Cancelled</u>	<u>Weighted Average Exercise Price</u>
	(in thousands)	
Forfeited	60	\$ 49
Expired	39	\$ 29
Total Options Cancelled during 2014	<u>99</u>	<u>\$ 41</u>

The options outstanding and exercisable for equity share-based payment awards at October 31, 2014 were as follows:

Range of Exercise Prices	Options Outstanding				Options Exercisable			
	Number Outstanding	Weighted Average Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable	Weighted Average Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
	(in thousands)	(in years)		(in thousands)	(in thousands)	(in years)		(in thousands)
\$0 - 25	690	1.9	\$ 20	\$ 24,240	690	1.9	\$ 20	\$ 24,240
\$25.01 - 30	466	4.9	\$ 29	12,032	466	4.9	\$ 29	12,032
\$30.01 - 40	4,646	5.4	\$ 35	93,664	2,612	3.8	\$ 34	54,838
\$40.01 - 50	6	7.4	\$ 45	59	3	7.4	\$ 45	29
\$50.01 & over	1,202	9.1	\$ 54	2,054	—	—	\$ —	\$ —
	<u>7,010</u>	5.7	\$ 36	<u>\$ 132,049</u>	<u>3,771</u>	3.6	\$ 31	<u>\$ 91,139</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 \$55.28 at October 31, 2014, 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, 2014 was approximately 4 million.

The following table summarizes the aggregate intrinsic value of options exercised and the fair value of options granted in 2014, 2013 and 2012:

	<u>Aggregate Intrinsic Value</u>	<u>Weighted Average Exercise Price</u>	<u>Per Share Value Using Black-Scholes Model</u>
	(in thousands)		
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
Options exercised in fiscal 2014	\$ 98,075	\$ 30	
Black-Scholes per share value of options granted during fiscal 2014			\$ 19

As of October 31, 2014, the unrecognized share-based compensation costs for outstanding stock option awards, net of expected forfeitures, was approximately \$12 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 \$188 million in 2014, \$161 million in 2013 and \$100 million in 2012. 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 2014 primarily for our LTPP and restricted stock unit awards:

	Shares (in thousands)	Weighted Average Grant Price
Non-vested at October 31, 2013	3,546	\$ 37
Granted	1,358	\$ 54
Vested	(1,324)	\$ 40
Forfeited	(104)	\$ 42
Change in LTPP shares vested in the year due to performance conditions	(43)	\$ 36
Non-vested at October 31, 2014	<u>3,433</u>	<u>\$ 44</u>

As of October 31, 2014, the unrecognized share-based compensation costs for non-vested restricted stock awards, net of expected forfeitures, was approximately \$56 million which is expected to be amortized over a weighted average period of 2.3 years. The total fair value of restricted stock awards vested was \$54 million for 2014, \$44 million for 2013 and \$54 million for 2012.

### 5. INCOME TAXES

The domestic and foreign components of income before taxes are:

	Years Ended October 31,		
	2014	2013	2012
	(in millions)		
U.S. operations	\$ (117)	\$ 39	\$ 45
Non-U.S. operations	763	820	998
Total income before taxes	<u>\$ 646</u>	<u>\$ 859</u>	<u>\$ 1,043</u>

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

	Years Ended October 31,		
	2014	2013	2012
	(in millions)		
U.S. federal taxes:			
Current	\$ 12	\$ 24	\$ 6
Deferred	(11)	48	(144)
Non-U.S. taxes:			
Current	260	77	41
Deferred	(117)	(24)	(22)
State taxes, net of federal benefit:			
Current	2	3	1
Deferred	(4)	7	8
Total provision	<u>\$ 142</u>	<u>\$ 135</u>	<u>\$ (110)</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,			
	2014		2013	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
	(in millions)			
Inventory	\$ 32	\$ —	\$ 32	\$ —
Intangibles	—	154	—	214
Property, plant and equipment	40	—	18	—
Warranty reserves	27	—	25	—
Retiree medical benefits	—	14	—	—
Pension benefits	166	—	42	—
Employee benefits, other than retirement	49	—	57	—
Net operating loss, capital loss, and credit carryforwards	209	—	263	—
Unrealized gains/losses on investments	—	—	24	—
Unremitted earnings of foreign subsidiaries	—	61	—	114
Share-based compensation	56	—	54	—
Deferred revenue	82	—	27	—
Other	21	13	36	3
Subtotal	682	242	578	331
Tax valuation allowance	(134)	—	(85)	—
Total deferred tax assets or deferred tax	\$ 548	\$ 242	\$ 493	\$ 331

The significant increase in 2014 as compared to 2013 for the deferred tax asset relating to pension benefits is due mainly to the tax effect of changes in pension plans recognized in other comprehensive income. The decrease in the deferred tax liability relating to intangible assets is due primarily to amortization of acquired intangible assets from Dako. The amortization expenses associated with acquired intangible assets are not deductible for tax purposes. In the fourth quarter we recorded a deferred tax asset and related full valuation allowance in the amount of \$43 million for a previously unrecorded Capital Loss Carryover in Australia. The loss arose in 2001 and may be carried forward indefinitely. A valuation allowance is recorded because the Australian entity has limited ability to generate taxable capital gains. This correction is not considered material to current or prior periods.

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, 2014 the Company recognized a \$61 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, 2014, the cumulative amount of undistributed earnings considered indefinitely reinvested was \$5.7 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 2014 and 2013:

	October 31,	
	2014	2013
	(in millions)	
Current deferred tax assets (included within other current assets)	\$ 160	\$ 115
Long-term deferred tax assets (included within other assets)	289	264
Current deferred tax liabilities (included within other accrued liabilities)	(6)	(4)
Long-term deferred tax liabilities (included within other long-term liabilities)	(137)	(213)
Total	<u>\$ 306</u>	<u>\$ 162</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, 2014, we continued to maintain a valuation allowance of \$134 million until sufficient positive evidence exists to support reversal. The valuation allowance is mainly related to deferred tax assets for California R&D credits, net operating losses in the Netherlands and capital losses in Australia.

At October 31, 2014, we had federal net operating loss carryforwards of approximately \$8 million and zero tax credit carryforwards. The federal net operating losses expire in years beginning 2022 through 2026. At October 31, 2014, we had state net operating loss carryforwards of approximately \$202 million which expire in years beginning 2015 through 2031, if not utilized. In addition, we had net state tax credit carryforwards of \$31 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, 2014, we also had foreign net operating loss carryforwards of approximately \$547 million. Of this foreign loss, \$227 million will expire in years beginning 2015 through 2022, if not utilized. The remaining \$320 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 \$194 million as of October 31, 2014 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 \$46 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, 2014.

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

	Years Ended October 31,		
	2014	2013	2012
	(in millions)		
Profit before tax times statutory rate	\$ 226	\$ 301	\$ 365
State income taxes, net of federal benefit	(6)	7	8
Non-U.S. income taxed at different rates	(156)	(162)	(144)
Change in unrecognized non-U.S. tax benefits	—	—	(68)
Change in unrecognized U.S. tax benefits	(160)	—	—
Repatriation of foreign earnings	149	—	—
Valuation allowances	49	(8)	(280)
Non-deductible costs related to the separation of Keysight	17	—	—
Transfer pricing adjustments for prior years	12	—	—
Other, net	11	(3)	9
Provision for income taxes	<u>\$ 142</u>	<u>\$ 135</u>	<u>\$ (110)</u>
Effective tax rate	<u>22%</u>	<u>16%</u>	<u>(11)%</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. The Keysight entity in Singapore has not obtained a tax holiday to date. Accordingly, income tax expense has been recorded on its fourth quarter earnings at the statutory rate. As a result of the incentives, the impact of the tax holidays decreased income taxes by \$76 million, \$127 million, and \$122 million in 2014, 2013, and 2012, respectively. The benefit of the tax holidays on net income per share (diluted) was approximately \$0.23, \$0.37, and \$0.35 in 2014, 2013 and 2012, respectively.

For 2014, the effective tax rate was 22 percent. The 22 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. In the fourth quarter we recorded an out of period tax expense of \$13 million tax for corrections to U.S. deferred taxes. In the third quarter we recorded out of period adjustments consisting of a \$9 million tax benefit related to the correction of the tax basis of land in the UK and a \$3 million tax expense to correct tax related balance sheet accounts. In the second quarter we recorded an out of period adjustment to tax expense of approximately \$12 million for correction of transfer pricing for tax years 2012 and 2013. These corrections are not considered material to current or prior periods. The effective tax rate increased by 6 percent over the previous year primarily due to lower earnings in non-US jurisdictions taxed at lower statutory rates, the out of period adjustments listed above and the impact of non-deductible costs related to the separation of Keysight of \$17 million.

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 was 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.

The breakdown between current and long-term income tax assets and liabilities, excluding deferred tax assets and liabilities, was as follows for the years 2014 and 2013:

	October 31,	
	2014	2013
	(in millions)	
Current income tax assets (included within other current assets)	\$ 99	\$ 42
Long-term income tax assets (included within other assets)	48	34
Current income tax liabilities (included within other accrued liabilities)	(151)	(48)
Long-term income tax liabilities (included within other long-term liabilities)	(289)	(341)
Total	<u>\$ (293)</u>	<u>\$ (313)</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:

	2014	2013	2012
	(in millions)		
Balance, beginning of year	\$ 516	\$ 464	\$ 469
Additions for acquisitions	—	—	—
Additions for tax positions related to the current year	47	53	56
Additions for tax positions from prior years	16	11	40
Reductions for tax positions from prior years	(144)	(6)	(90)
Settlements with taxing authorities	(2)	(3)	(2)
Statute of limitations expirations	(9)	(3)	(9)
Balance, end of year	<u>\$ 424</u>	<u>\$ 516</u>	<u>\$ 464</u>

As of October 31, 2014, we had \$424 million of unrecognized tax benefits of which \$405 million, if recognized, would affect our effective tax rate.

We recognized a tax benefit of \$10 million, a tax expense of \$5 million and a tax benefit \$4 million of interest and penalties related to unrecognized tax benefits in 2014, 2013 and 2012, respectively. Interest and penalties accrued as of October 31, 2014 and 2013 were \$29 million and \$39 million, respectively.

In the U.S., tax years remain open back to the year 2008 for federal income tax purposes and the year 2000 for significant states. On January 29, 2014 we reached an agreement with the IRS for the tax years 2006 through 2007. The settlement resulted in the recognition of previously unrecognized tax benefits of \$160 million, offset by a tax liability on foreign distributions of approximately \$148 million principally related to additional foreign earnings that was recognized in conjunction with the settlement. Agilent's U.S. federal income tax returns for 2008 through 2011 are currently under audit by the IRS.

In connection with the settlement of the 2006-2007 IRS audit, we identified during the first quarter of fiscal year 2014 an overstatement of approximately \$65 million in our long-term tax liabilities. The overstatement was recorded in 2008 as a cumulative effect of a change in accounting principle when we adopted Accounting Standard Codification 740-10, Income Taxes. Accordingly, we corrected the error by reducing long-term tax liabilities and increasing retained earnings by \$65 million in the first quarter of fiscal 2014. The correction had no impact on net income or cash flows in any prior period and is not considered material to total liabilities or equity in any prior period.

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.

## 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,		
	2014	2013	2012
	(in millions)		
Numerator:			
Net income	\$ 504	\$ 724	\$ 1,153
Denominators:			
Basic weighted average shares	333	341	348
Potential common shares — stock options and other employee stock plans	5	4	5
Diluted weighted average shares	<u>338</u>	<u>345</u>	<u>353</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 2014, 2013 and 2012 were 6 million, 6 million and 5 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 2014, 2013 and 2012, options to purchase 1,500, 4,200 and 436,500 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 2014, 2013 and 2012, options to purchase 383,200, 18,300 and 1,544,600 shares respectively were excluded from the calculation of diluted earnings per share.

## 7. SUPPLEMENTAL CASH FLOW INFORMATION

Net cash paid for income taxes was \$131 million in 2014, \$110 million in 2013, and \$86 million in 2012. Cash paid for interest was \$142 million in 2014, \$112 million in 2013 and \$111 million in 2012.

## 8. INVENTORY

	October 31,	
	2014	2013
	(in millions)	
Finished goods	\$ 585	\$ 552
Purchased parts and fabricated assemblies	487	514
Inventory	<u>\$ 1,072</u>	<u>\$ 1,066</u>

Inventory-related excess and obsolescence charges of \$79 million were recorded in total cost of products in 2014, \$48 million in 2013 and \$30 million in 2012, 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.

On November 1, 2014 we transferred approximately \$498 million of inventory to Keysight.

## 9. PROPERTY, PLANT AND EQUIPMENT, NET

	October 31,	
	2014	2013
	(in millions)	
Land	\$ 120	\$ 131
Buildings and leasehold improvements	1,341	1,330
Machinery and equipment	1,054	1,019
Software	410	398
Total property, plant and equipment	<u>2,925</u>	<u>2,878</u>
Accumulated depreciation and amortization	(1,824)	(1,744)
Property, plant and equipment, net	<u>\$ 1,101</u>	<u>\$ 1,134</u>

Asset impairments other than related to our exit of the NMR business were zero in 2014, \$3 million in 2013 and zero in 2012. Asset impairments in connection with the exit of the NMR business were \$7 million in 2014. Depreciation expenses were \$194 million in 2014, \$181 million in 2013 and \$171 million in 2012.

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 fair value. On April 30, 2014, Agilent entered into a binding sales contract with real estate developers to sell land in the U.K. The contract calls for proportionate transfers and payments of three separate land tracts totaling approximately \$34 million in May 2014, November 2015 and November 2016. Under the authoritative accounting guidance the full accrual method will be used to account for these transactions and gains on the sales recognized at each sale and payment date. In the year ended October 31, 2014

we recognized \$11 million gain on sale of land in respect of the first of three land tracts in selling, general and administrative expenses. The property transfers to Keysight at distribution and the two remaining future payments in November 2015 and November 2016 from the developers will become due to and collected by Keysight.

On November 1, 2014 approximately \$470 million of net book value of property plant and equipment was transferred to Keysight.

## 10. GOODWILL AND OTHER INTANGIBLE ASSETS

The goodwill balances at October 31, 2014, 2013 and 2012 and the movements in 2014 and 2013 for each of our reportable segments are shown in the table below:

	Life Sciences and Diagnostics	Chemical Analysis	Electronic Measurement	Total
	(in millions)			
<b>Goodwill as of October 31, 2012</b>	\$ 1,807	\$ 751	\$ 467	\$ 3,025
Foreign currency translation impact	63	(10)	(47)	6
Goodwill arising from acquisitions	13	4	(1)	16
<b>Goodwill as of October 31, 2013</b>	\$ 1,883	\$ 745	\$ 419	\$ 3,047
Foreign currency translation impact	(116)	(5)	(32)	(153)
Goodwill arising from acquisitions	—	—	5	5
<b>Goodwill as of October 31, 2014</b>	<u>\$ 1,767</u>	<u>\$ 740</u>	<u>\$ 392</u>	<u>\$ 2,899</u>

As of September 30, 2014, 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, 2014 and 2013 are shown in the table below:

	Other Intangible Assets		
	Gross Carrying Amount	Accumulated Amortization and Impairments	Net Book Value
	(in millions)		
<b>As of October 31, 2013:</b>			
Purchased technology	\$ 1,019	\$ 460	\$ 559
Trademark/Tradename	176	40	136
Customer relationships	401	215	186
Total amortizable intangible assets	<u>\$ 1,596</u>	<u>\$ 715</u>	<u>\$ 881</u>
In-Process R&D	35	—	35
Total	<u>\$ 1,631</u>	<u>\$ 715</u>	<u>\$ 916</u>
<b>As of October 31, 2014:</b>			
Purchased technology	\$ 1,005	\$ 589	\$ 416
Trademark/Tradename	168	53	115
Customer relationships	400	282	118
Total amortizable intangible assets	<u>\$ 1,573</u>	<u>\$ 924</u>	<u>\$ 649</u>
In-Process R&D	18	—	18
Total	<u>\$ 1,591</u>	<u>\$ 924</u>	<u>\$ 667</u>

In 2014, we recorded additions to goodwill and intangible assets of \$5 million and \$6 million, respectively related to the acquisition of one business. During the year, we also recorded \$42 million of foreign exchange

translation impact decreasing the other intangibles. In addition, we transferred \$11 million excluding currency movements from in-process R&D to purchased technology in the year ended October 31, 2014, as projects were completed. In 2014, we recorded \$12 million of impairment of other intangibles due to the exit of the NMR business. In addition, we recorded \$4 million, \$1 million and \$1 million of impairments of other intangibles related to the cancellation of in-process research and development projects during 2014, 2013 and 2012, respectively.

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.

Amortization of intangible assets was \$197 million in 2014, \$199 million in 2013, and \$136 million in 2012. Future amortization expense related to finite-lived existing purchased intangible assets is estimated to be \$173 million in 2015, \$147 million for 2016, \$101 million for 2017, \$67 million for 2018, \$51 million for 2019, and \$110 million thereafter.

## 11. INVESTMENTS

### *Equity Investments*

The following table summarizes the company's equity investments as of October 31, 2014 and 2013 (net book value):

	October 31,	
	2014	2013
	(in millions)	
<b>Long-Term</b>		
Cost method investments	\$ 40	\$ 44
Trading securities	48	51
Available-for-sale investments	35	25
Equity method investments	36	19
Total	<u>\$ 159</u>	<u>\$ 139</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 are 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, 2014 and 2013:

	October 31, 2014			October 31, 2013				
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in millions)							
Equity securities	15	20	—	35	15	10	—	25
	<u>\$ 15</u>	<u>\$ 20</u>	<u>\$ —</u>	<u>\$ 35</u>	<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,		
	2014	2013	2012
	(in millions)		
Available-for-sale investments — realized gain	\$ 1	\$ 1	\$ 2
Equity method investments - share of losses	(7)	(2)	—

Net unrealized gains on our trading securities portfolio were \$3 million in 2014, \$8 million in 2013 and \$5 million in 2012.

Realized gains from the sale of cost method securities were zero for 2014, zero for 2013 and \$2 million for 2012. Proceeds from the sale of cost method investments were zero in 2014 and \$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, 2014 were as follows:

	Fair Value Measurement at October 31, 2014 Using			
	October 31, 2014	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)	\$ 1,751	\$ 1,751	\$ —	\$ —
Derivative instruments (foreign exchange contracts)	19	—	19	—
Long-term				
Trading securities	48	48	—	—
Available-for-sale investments	35	35	—	—
Total assets measured at fair value	<u>\$ 1,853</u>	<u>\$ 1,834</u>	<u>\$ 19</u>	<u>\$ —</u>
Liabilities:				
Short-term				
Derivative instruments (foreign exchange contracts)	\$ 7	\$ —	\$ 7	\$ —
Long-term				
Deferred compensation liability	48	—	48	—
Total liabilities measured at fair value	<u>\$ 55</u>	<u>\$ —</u>	<u>\$ 55</u>	<u>\$ —</u>

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>

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, 2014, 2013 and 2012:

	Years Ended October 31,		
	2014	2013	2012
	(in millions)		
Long-lived assets held and used	\$ 23	\$ 2	\$ 1
Long-lived assets held for sale	\$ —	\$ 1	\$ —



Long-lived assets held and used with a carrying amount of \$23 million were written down to their fair value of zero, resulting in an impairment charge of \$23 million, which was included in net income for 2014. The impairment charge for 2014 includes \$19 million relating to the exit of a business and \$4 million related to various IPR&D projects that were written down to their fair value of zero. 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.

There were no impairments of long-lived assets held for sale in 2014. 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. There were no impairments of long-lived assets held for sale in 2012.

Fair values for the impaired long-lived assets were measured using level 2 and level 3 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, 2014, 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, 2014 was \$3 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, 2014 was \$22 million. All deferred gains from terminated interest rate swaps are being amortized over the remaining life of the respective senior notes. On July 14, 2014 we prepaid our 2015 senior notes and amortized the remaining \$8 million of deferred gain on the terminated interest rate swap related to those senior notes to other income (expense), net. On October 20, 2014 we prepaid \$500 million out of \$600 million principal of our 2017 senior notes and amortized \$14 million of the total \$17 million deferred gain on the terminated interest rate swap related to those senior notes to other income (expense), net. For more information see Note 19, "Long-term debt".

#### ***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 fair 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 other income (expense) 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 2014, 2013 and 2012 was not significant. For the year ended October 31, 2014, 2013 and 2012 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, 2014, was \$2 million. The credit-risk-related contingent features underlying these agreements had not been triggered as of October 31, 2014.

There were 127 foreign exchange forward contracts and 7 foreign exchange option contracts open as of October 31, 2014 and designated as cash flow hedges. There were 220 foreign exchange forward contracts open as of October 31, 2014 not designated as hedging instruments. The aggregated U.S. Dollar notional amounts by currency and designation as of October 31, 2014 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	\$ (37)	\$ —	\$ 207
British Pound	(20)	—	48
Canadian Dollar	(34)	—	(1)
Australian Dollars	6	—	18
Malaysian Ringgit	91	—	15
Japanese Yen	(140)	(50)	(5)
Other	(27)	—	45
	<u>\$ (161)</u>	<u>\$ (50)</u>	<u>\$ 327</u>

Derivative instruments are subject to master netting arrangements and are disclosed gross in the balance sheet in accordance with the authoritative guidance. The gross fair values and balance sheet location of derivative instruments held in the consolidated balance sheet as of October 31, 2014 and 2013 were as follows:

Fair Values of Derivative Instruments					
Asset Derivatives			Liability Derivatives		
Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	
	October 31, 2014	October 31, 2013		October 31, 2014	October 31, 2013
	(in millions)				
<b>Derivatives designated as hedging instruments:</b>					
<i>Cash flow hedges</i>					
Foreign exchange contracts					
Other current assets	\$ 16	\$ 4	Other accrued liabilities	\$ 2	\$ 4
	<u>\$ 16</u>	<u>\$ 4</u>		<u>\$ 2</u>	<u>\$ 4</u>
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange contracts					
Other current assets	\$ 3	\$ 3	Other accrued liabilities	\$ 5	\$ 2
Total derivatives	<u>\$ 19</u>	<u>\$ 7</u>		<u>\$ 7</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:

	2014	2013	2012
	(in millions)		
<b>Derivatives designated as hedging instruments:</b>			
<i>Fair Value Hedges</i>			
Gain on interest rate swap contracts, including interest accrual, recognized in interest expense	\$ —	\$ —	\$ —
Gain (loss) on hedged item, recognized in interest expense	\$ —	\$ —	\$ 3
<i>Cash Flow Hedges</i>			
Gain recognized in accumulated other comprehensive income	\$ 13	\$ 10	\$ 7
Gain (loss) reclassified from accumulated other comprehensive income into cost of sales	\$ (1)	\$ 13	\$ 8
<i>Treasury Lock Agreements</i>			
Gain recognized in accumulated other comprehensive income	\$ —	\$ —	\$ 3
<b>Derivatives not designated as hedging instruments:</b>			
Gain (loss) recognized in other income (expense), net	\$ (19)	\$ 7	\$ (34)

The estimated net amount of existing loss at October 31, 2014 that is expected to be reclassified from other comprehensive income to the cost of sales within the next twelve months is \$13 million.

#### 14. RESTRUCTURING AND EXIT OF NMR BUSINESS

*Exit of Nuclear Magnetic Resonance ("NMR") Business.* During the fourth quarter of fiscal year 2014, we made the decision to cease the manufacture and sale of our NMR product line within our life sciences and diagnostics segment. The exit of the NMR business was primarily due to the lack of growth and profitability of the product line. In connection with the business exit, we have recorded approximately \$68 million in restructuring and other related costs associated with the closure of NMR. These costs are comprised of severance and other personnel costs related to the workforce reduction of approximately 300 employees primarily located in the United Kingdom and California and non-cash charges related to intangible asset impairments and other asset write-downs including inventory. We expect to substantially complete these restructuring activities by the end of fiscal 2016. As of October 31, 2014, substantially all employees are pending termination under the above actions.

A summary of total "NMR" restructuring activity and other special charges is shown in the table below:

	Workforce Reduction	Impairments of Building and Other Assets	Special Charges Related to Inventory and Others	Total
	(in millions)			
<b>Balance as of October 31, 2013</b>	\$ —	\$ —	\$ —	\$ —
Income statement expense	16	19	33	68
Asset impairments/inventory charges	—	(19)	(30)	(49)
Cash payments	(2)	—	—	(2)
<b>Balance as of October 31, 2014</b>	<u>\$ 14</u>	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ 17</u>

The restructuring and other special accruals related to the NMR closure, which totaled \$17 million at October 31, 2014, are recorded in other accrued liabilities on the consolidated balance sheet. These balances reflect estimated future cash outlays.

*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. In the fourth quarter of fiscal year 2013, Agilent announced plans to separate the electronic measurement business from Agilent which was completed on November 1, 2014. As a result, approximately 50 employees from the targeted restructuring plan have been redeployed within the company, reducing the total headcount under this plan to 400 employees. 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 650 positions. Within the U.S., we have substantially completed these restructuring activities. Internationally, we expect to complete these restructuring activities by the end of the first quarter of fiscal 2015. As of October 31, 2014, approximately 70 employees, including Keysight employees, are pending termination under the above actions.

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

	<b>Workforce Reduction</b>
	<b>(in millions)</b>
<b>Balance as of October 31, 2012</b>	\$ —
Income statement expense	53
Cash payments	(29)
<b>Balance as of October 31, 2013</b>	<u>\$ 24</u>
Income statement reversal	(4)
Cash payments	(17)
<b>Balance as of October 31, 2014</b>	<u><u>\$ 3</u></u>

The restructuring reversal of 4 million recorded during fiscal year 2014 related to approximately 50 employees that had been redeployed within the company as a result of the separation announcement. The restructuring accruals, which totaled \$3 million at October 31, 2014, 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 the NMR closure and restructuring plan is shown below:

	<b>Year Ended October 31, 2014</b>	<b>Year Ended October 31, 2013</b>
	<b>(in millions)</b>	
Cost of products and services	\$ 45	\$ 19
Research and development	4	9
Selling, general and administrative	15	25
Total restructuring, asset impairments and other special charges	<u>\$ 64</u>	<u>\$ 53</u>

## 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 or the Keysight Technologies, Inc. Retirement Plan (together, the "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 and Keysight Retirement Plans is reduced by any amounts due to the eligible employee under the Agilent and Keysight defined contribution Deferred Profit-Sharing Plans (together, the "DPSP"), which were closed to new participants as of November 1993.

As of October 31, 2014 and 2013, the fair value of plan assets of the DPSP was \$520 million and \$552 million, respectively. Note that the projected benefit obligation for the DPSP equals the fair value of plan assets.

In addition to the DPSP, in the U.S., Agilent and Keysight each maintain a Supplemental Benefits Retirement Plan ("SBRP"), supplemental unfunded non-qualified defined benefit plans 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" in the tables below.

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 Agilent U.S. employees may participate in the Agilent Technologies, Inc. 401(k) Plan. Beginning on August 1, 2014, Keysight U.S. employees became eligible to participate in the Keysight Technologies, Inc. 401(k) Plan. Enrollment in the Agilent or Keysight 401(k) Plans 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. Effective November 1, 2014, new employees, new transfers to the U.S. payroll and rehires will be eligible for an enhanced 6 percent employer match in the Agilent 401(k) Plan (see Plan Amendments below). 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 \$27 million in 2014, \$25 million in 2013 and \$25 million in 2012.

*Post-retirement medical benefit plans.* In addition to receiving retirement benefits, Agilent U.S. employees who meet eligibility requirements as of their termination date may participate in the Agilent Technologies, Inc. Health Plan for Retirees. Beginning on August 1, 2014, Keysight U.S. employees may participate in the Keysight 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 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.* Effective November 1, 2014, Agilent's U.S. defined benefit retirement plan will be closed to new entrants including new employees, new transfers to the U.S. payroll and rehires. These employees will instead be eligible for an enhanced 6% employer match in the Agilent 401(k) plan. In addition, any new employee hired on or after November 1, 2014, will not be eligible to participate in the retiree medical plans upon retiring. Current eligible employees will continue to participate in the U.S. defined benefit retirement plan and retiree medical programs in place today and will remain eligible for the 401(k) plan with the current 4 percent employer match. Retirees will maintain the retirement benefits and retiree medical benefits they are eligible for today.

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.

*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, 2014, 2013 and 2012, 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			2014	2013	2012
	2014	2013	2012	2014	2013	2012			
	(in millions)								
<b>Net periodic benefit cost (benefit)</b>									
Service cost — benefits earned during the period	\$ 46	\$ 44	\$ 40	\$ 36	\$ 36	\$ 33	\$ 3	\$ 4	\$ 3
Interest cost on benefit obligation	34	24	27	74	68	74	12	12	15
Expected return on plan assets	(64)	(51)	(46)	(118)	(97)	(92)	(22)	(20)	(19)
Amortization of net actuarial loss	1	13	7	48	55	42	14	18	16
Amortization of prior service benefit	(12)	(12)	(12)	(1)	(1)	(1)	(35)	(35)	(35)
Total periodic benefit cost (benefit)	\$ 5	\$ 18	\$ 16	\$ 39	\$ 61	\$ 56	\$ (28)	\$ (21)	\$ (20)
<b>Other changes in plan assets and benefit obligations recognized in other comprehensive (income) loss</b>									
Net actuarial (gain) loss	\$ 86	\$ (122)	\$ 69	\$ 173	\$ (85)	\$ 214	\$ 12	\$ (57)	\$ 22
Amortization of net actuarial loss	(1)	(13)	(7)	(48)	(55)	(42)	(14)	(18)	(16)
Prior service cost (benefit)	—	—	—	(2)	—	—	—	—	—
Amortization of prior service benefit	12	12	12	1	1	1	35	35	35
Foreign currency	—	—	—	(28)	2	(5)	—	—	—
Total recognized in other comprehensive (income) loss	\$ 97	\$ (123)	\$ 74	\$ 96	\$ (137)	\$ 168	\$ 33	\$ (40)	\$ 41
Total recognized in net periodic benefit cost (benefit) and other comprehensive (income) loss	\$ 102	\$ (105)	\$ 90	\$ 135	\$ (76)	\$ 224	\$ 5	\$ (61)	\$ 21

*Funded status.* As of October 31, 2014 and 2013, 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	
	2014	2013	2014	2013	2014	2013
	(in millions)					
Change in fair value of plan assets:						
Fair value — beginning of year	\$ 782	\$ 654	\$ 2,045	\$ 1,801	\$ 288	\$ 261
Actual return on plan assets	64	133	180	267	18	47
Employer contributions	30	30	72	89	1	1
Participants' contributions	—	—	3	1	—	—
Benefits paid	(39)	(35)	(62)	(49)	(23)	(21)
Currency impact	—	—	(130)	(64)	—	—
Fair value — end of year	<u>\$ 837</u>	<u>\$ 782</u>	<u>\$ 2,108</u>	<u>\$ 2,045</u>	<u>\$ 284</u>	<u>\$ 288</u>
Change in benefit obligation:						
Benefit obligation — beginning of year	\$ 763	\$ 771	\$ 2,199	\$ 2,117	\$ 307	\$ 343
Service cost	46	44	36	36	3	4
Interest cost	34	24	74	68	12	12
Participants' contributions	—	—	3	1	—	—
Plan amendment	—	—	(2)	—	—	—
Actuarial (gain) loss	85	(41)	236	85	10	(31)
Benefits paid	(39)	(35)	(62)	(49)	(23)	(21)
Currency impact	—	—	(140)	(59)	—	—
Benefit obligation — end of year	<u>\$ 889</u>	<u>\$ 763</u>	<u>\$ 2,344</u>	<u>\$ 2,199</u>	<u>\$ 309</u>	<u>\$ 307</u>
Overfunded (underfunded) status of PBO	<u>\$ (52)</u>	<u>\$ 19</u>	<u>\$ (236)</u>	<u>\$ (154)</u>	<u>\$ (25)</u>	<u>\$ (19)</u>
Amounts recognized in the consolidated balance sheet consist of:						
Other assets	\$ —	\$ 34	\$ 70	\$ 60	\$ —	\$ —
Employee compensation and benefits	(2)	(2)	—	—	—	—
Retirement and post-retirement benefits	(50)	(13)	(306)	(214)	(25)	(19)
Net asset (liability)	<u>\$ (52)</u>	<u>\$ 19</u>	<u>\$ (236)</u>	<u>\$ (154)</u>	<u>\$ (25)</u>	<u>\$ (19)</u>
Amounts Recognized in Accumulated Other Comprehensive Income (loss):						
Actuarial (gains) losses	\$ 77	\$ (8)	\$ 621	\$ 525	\$ 118	\$ 119
Prior service costs (benefits)	(55)	(67)	(4)	(4)	(149)	(183)
Total	<u>\$ 22</u>	<u>\$ (75)</u>	<u>\$ 617</u>	<u>\$ 521</u>	<u>\$ (31)</u>	<u>\$ (64)</u>

In connection with the separation of Keysight Technologies on November 1, 2014, Agilent transferred certain liabilities and assets of the U.S. and Non-U.S. defined benefit pension plans, and U.S. Post-Retirement Benefit Plans to similar plans created for Keysight Technologies employees as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		U.S. Post-Retirement Benefit Plans	
	(in millions)					
Fair value of plan assets transferred to Keysight	\$	491	\$	1,318	\$	187
Benefit obligation transferred to Keysight	\$	514	\$	1,429	\$	206



The amounts in accumulated other comprehensive income expected to be recognized by Agilent (excluding Keysight plans) as components of net expense during 2015 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)	\$ (5)	\$ —	\$ (12)
Amortization of actuarial net loss (gain)	\$ 3	\$ 27	\$ 6

*Investment policies and strategies as of October 31, 2014, 2013 and 2012.* In the U.S., target asset allocations for our retirement and post-retirement benefit plans 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, 2014 and 2013 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, 2014 and 2013.

	<b>Fair Value Measurement at October 31, 2014 Using</b>			
	<b>October 31, 2014</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
	(in millions)			
Cash and Cash Equivalents	\$ 9	\$ 2	\$ 7	\$ —
Equity	668	156	512	—
Fixed Income	145	40	105	—
Other Investments	15	1	—	14
Total assets measured at fair value	<u>\$ 837</u>	<u>\$ 199</u>	<u>\$ 624</u>	<u>\$ 14</u>

	<b>Fair Value Measurement at October 31, 2013 Using</b>			
	<b>October 31, 2013</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
	(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>

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 2014 and 2013:

	<b>Years Ended October 31</b>	
	<b>2014</b>	<b>2013</b>
Balance, beginning of year	\$ 17	\$ 21
Realized gains/(losses)	(1)	4
Unrealized gains/(losses)	2	(2)
Purchases, sales, issuances, and settlements	(4)	(6)
Transfers in (out)	—	—
Balance, end of year	<u>\$ 14</u>	<u>\$ 17</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, 2014 and 2013.

	Fair Value Measurement at October 31, 2014 Using			
	October 31, 2014	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	\$ 6	\$ 3	\$ 3	\$ —
Equity	217	51	166	—
Fixed Income	53	14	39	—
Other Investments	8	—	—	8
Total assets measured at fair value	<u>\$ 284</u>	<u>\$ 68</u>	<u>\$ 208</u>	<u>\$ 8</u>

	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>

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 2014 and 2013:

	Years Ended October 31,	
	2014	2013
Balance, beginning of year	\$ 10	\$ 12
Realized gains/(losses)	(1)	2
Unrealized gains/(losses)	1	(1)
Purchases, sales, issuances, and settlements	(2)	(3)
Transfers in (out)	—	—
Balance, end of year	<u>\$ 8</u>	<u>\$ 10</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, 2014 and 2013:

	<b>Fair Value Measurement at October 31, 2014 Using</b>			
	<b>October 31, 2014</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
	(in millions)			
Cash and Cash Equivalents	\$ 10	\$ 3	\$ 7	\$ —
Equity	1,078	335	743	—
Fixed Income	974	37	937	—
Other Investments	46	—	25	21
Total assets measured at fair value	<u>\$ 2,108</u>	<u>\$ 375</u>	<u>\$ 1,712</u>	<u>\$ 21</u>

	<b>Fair Value Measurement at October 31, 2013 Using</b>			
	<b>October 31, 2013</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
	(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>

For non-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 2014. 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.

	<b>Years Ended October 31,</b>	
	<b>2014</b>	<b>2013</b>
Balance, beginning of year	\$ —	\$ —
Realized gains/(losses)	—	—
Unrealized gains/(losses)	1	—
Purchases, sales, issuances, and settlements	—	—
Transfers in (out)	20	—
Balance, end of year	<u>\$ 21</u>	<u>\$ —</u>

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, 2014 or 2013.

	2014		2013	
	Benefit Obligation PBO	Fair Value of Plan Assets	Benefit Obligation PBO	Fair Value of Plan Assets
	(in millions)			
U.S. defined benefit plans where PBO exceeds the fair value of plan assets	\$ 889	\$ 837	\$ 15	\$ —
U.S. defined benefit plans where fair value of plan assets exceeds PBO	—	—	748	782
Total	<u>\$ 889</u>	<u>\$ 837</u>	<u>\$ 763</u>	<u>\$ 782</u>
Non-U.S. defined benefit plans where PBO exceeds or is equal to the fair value of plan assets	\$ 1,865	\$ 1,559	\$ 1,697	\$ 1,482
Non-U.S. defined benefit plans where fair value of plan assets exceeds PBO	479	549	502	563
Total	<u>\$ 2,344</u>	<u>\$ 2,108</u>	<u>\$ 2,199</u>	<u>\$ 2,045</u>
	ABO		ABO	
U.S. defined benefit plans where ABO exceeds the fair value of plan assets	\$ 14	\$ —	\$ 14	\$ —
U.S. defined benefit plans where the fair value of plan assets exceeds ABO	812	837	716	782
Total	<u>\$ 826</u>	<u>\$ 837</u>	<u>\$ 730</u>	<u>\$ 782</u>
Non-U.S. defined benefit plans where ABO exceeds or is equal to the fair value of plan assets	\$ 1,795	\$ 1,559	\$ 1,533	\$ 1,380
Non-U.S. defined benefit plans where fair value of plan assets exceeds ABO	468	549	590	665
Total	<u>\$ 2,263</u>	<u>\$ 2,108</u>	<u>\$ 2,123</u>	<u>\$ 2,045</u>

*Contributions and estimated future benefit payments.* During fiscal year 2015, we expect to contribute \$15 million to the U.S. defined benefit plans, \$25 million to plans outside the U.S., and \$1 million to the Post-retirement Medical Plans. The following table presents expected future benefit payments for the next 10 years for the Agilent plans only.

	U.S. Defined Benefit Plans	Non-U.S. Defined Benefit Plans	U.S. Post-Retirement Benefit Plans
	(in millions)		
2015 \$	30	\$ 23	\$ 8
2016 \$	23	\$ 24	\$ 8
2017 \$	26	\$ 27	\$ 8
2018 \$	28	\$ 28	\$ 8
2019 \$	30	\$ 29	\$ 8
2020 - 2024 \$	177	\$ 185	\$ 39

*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, 2014 and 2013 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:

	<b>For years ended October 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
U.S. defined benefit plans:			
Discount rate	4.00-4.50%	3.25%	4.50%
Average increase in compensation levels	3.50%	3.50%	3.50%
Expected long-term return on assets	8.00%	8.00%	8.00%
Non-U.S. defined benefit plans:			
Discount rate	1.50-4.00%	1.50-4.50%	2.00-5.50%
Average increase in compensation levels	2.50-3.25%	2.50-3.00%	2.50-3.25%
Expected long-term return on assets	4.00-6.50%	4.00-6.50%	4.00-6.50%
U.S. post-retirement benefits plans:			
Discount rate	4.00-4.25%	3.50%	4.75%
Expected long-term return on assets	8.00%	8.00%	8.00%
Current medical cost trend rate	8.00-9.00%	9.00%	9.00%
Ultimate medical cost trend rate	3.50%	3.50%	4.50%
Medical cost trend rate decreases to ultimate rate in year	2028	2027	2026

Assumptions used to calculate the benefit obligation were as follows:

	<b>As of the Years Ending October 31,</b>	
	<b>2014</b>	<b>2013</b>
U.S. defined benefit plans:		
Discount rate	4.00%	4.50%
Average increase in compensation levels	3.50%	3.50%
Non-U.S. defined benefit plans:		
Discount rate	1.50-4.00%	1.75-4.25%
Average increase in compensation levels	2.50-3.25%	2.50-3.25%
U.S. post-retirement benefits plans:		
Discount rate	3.75-4.00%	4.25%
Current medical cost trend rate	8.00%	9.00%
Ultimate medical cost trend rate	3.50%	3.50%
Medical cost trend rate decreases to ultimate rate in year	2028	2028

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, 2014.

## 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,	
	2014	2013
	(in millions)	
Balance as of October 31, 2013 and 2012	\$ 69	\$ 60
Accruals for warranties including change in estimates	90	92
Settlements made during the period	(78)	(83)
Balance as of October 31, 2014 and 2013	<u>\$ 81</u>	<u>\$ 69</u>
Accruals for warranties due within one year	60	48
Accruals for warranties due after one year	21	21
Balance as of October 31, 2014 and 2013	<u>\$ 81</u>	<u>\$ 69</u>

### *Indemnifications to Keysight*

In connection with the separation of Keysight from Agilent on November 1, 2014 we agreed to indemnify Keysight and its affiliates against certain damages and expenses that might occur in the future. These indemnifications cover a variety of liabilities, including, but not limited to, employee, tax and environmental matters. The agreements containing these indemnifications have been previously disclosed as exhibits to our current report on Form 8-K filed on August 1, 2014. In our opinion, the fair value of these indemnification obligations was not material as of October 31, 2014.

### *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 connection with the separation of Keysight from Agilent, Keysight assumed the indemnification obligations to Avago. In our opinion, the fair value of these indemnification obligations was not material as of October 31, 2014.

### *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 connection with the separation

of Keysight from Agilent, Keysight assumed the indemnification obligations to Verigy. In our opinion, the fair value of these indemnification obligations was not material as of October 31, 2014.

#### ***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, 2014.

#### ***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, 2014.

#### ***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, 2014.

#### ***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, 2014.

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, 2014.

## 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, 2014 were \$57 million for 2015, \$47 million for 2016, \$34 million for 2017, \$22 million for 2018, \$13 million for 2019 and \$33 million thereafter. Future minimum sublease income under leases at October 31, 2014 was \$7 million for 2015, \$5 million for 2016, \$3 million for 2017, and \$0 million thereafter. We expect that with the separation of Keysight from Agilent on November 1, 2014 that future minimum lease payments will be reduced by approximately \$52 million and sub-lease income will increase by approximately \$50 million over the periods presented above. Certain leases require us to pay property taxes, insurance and routine maintenance, and include escalation clauses. Total rent expense was \$93 million in 2014, \$90 million in 2013 and \$84 million in 2012.

*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 conducted an investigation with the assistance of outside counsel and approached the DOD IG with a proposed methodology for resolving possible overcharges to U.S. government purchasers resulting from these sales and discussed the matter with the Department of Justice (“DOJ”). On October 31, 2014, the Company resolved the matter with the DOJ with a settlement for an amount that was not material to Agilent's financial condition, results of operations or cash flows.

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 included 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 (“SEC”) and United States Department of Justice (“DOJ”) to advise both agencies of this internal investigation. On September 15, 2014, the Company received a letter from the SEC's Division of Enforcement stating that its investigation had been completed and that the Division of Enforcement did not intend to recommend any enforcement action against the Company by the SEC. On September 24, 2014, the Company received a letter from DOJ stating that DOJ had closed its inquiry into the matter, citing the Company's voluntary disclosure and thorough investigation.

## 18. SHORT-TERM DEBT

### *Credit Facilities*

On September 15, 2014, Agilent entered into a credit agreement with a financial institution which provides for a \$400 million five-year unsecured credit facility (the “Agilent Facility”) that will expire on September 15, 2019. The Agilent Facility replaced the previous credit facility (“old credit facility”) and provides for amounts to be borrowed for general corporate purposes. For the year ended October 31, 2014, we borrowed \$50 million under the old credit facility and repaid \$50 million by October 31, 2014. As of October 31, 2014 the company has no borrowings outstanding under the Agilent facility. We were in compliance with the covenants for the credit facilities during the year ended October 31, 2014.

On September 15, 2014, Keysight, a wholly owned subsidiary of Agilent, entered into a credit agreement with a financial institution which provides for a \$300 million five-year unsecured credit facility (the “Keysight Facility”) that will expire on November 1, 2019 and provides for amounts to be borrowed for general corporate purposes. The credit agreement was initially guaranteed by Agilent. The guarantee terminated upon the completion of the separation of Keysight from Agilent on November 1, 2014. As of October 31, 2014 the company has no borrowings outstanding under the Keysight facility. We were in compliance with the covenants for the credit facility during the year ended October 31, 2014.

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, 2014 the company had no borrowings outstanding under the facility.

### ***Short-Term Loan***

On July 10, 2014, a wholly owned subsidiary of Agilent in India entered into a short-term loan agreement with a financial institution, which provides up to \$50 million of unsecured borrowings. On July 25, 2014, we borrowed \$35 million against the loan agreement at an interest rate of 9.95 percent per annum. The loan was repaid during the year and as of October 31, 2014, no balance was outstanding against this loan agreement.

## **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, 2014			October 31, 2013		
	Amortized Principal	Swap	Total	Amortized Principal	Swap	Total
	(in millions)					
2015 Senior Notes	\$ —		\$ —	\$ 500	\$ 12	\$ 512
2017 Senior Notes	100	3	103	599	22	621
2019 Senior Notes	500	—	500	—	—	—
2020 Senior Notes	499	22	521	498	26	524
2022 Senior Notes	399	—	399	399	—	399
2023 Senior Notes	598	—	598	597	—	597
2024 Senior Notes	599	—	599	—	—	—
Total	<u>\$ 2,695</u>	<u>\$ 25</u>	<u>\$ 2,720</u>	<u>\$ 2,593</u>	<u>\$ 60</u>	<u>\$ 2,653</u>

### **2015 Senior Notes**

On July 14, 2014, we settled the redemption of the outstanding aggregate principal amount of our 5.5% senior notes (“2015 senior notes”) due September 14, 2015, that had been called for redemption on June 12, 2014. The redemption price of approximately \$528 million included the \$500 million principal amount and a \$28 million prepayment penalty, computed in accordance with the terms of the 2015 senior notes as the present value of the remaining scheduled payments of principal and unpaid interest. The prepayment penalty less full amortization of previously deferred interest rate swap gain of approximately \$8 million together with \$1 million of amortization of debt issuance costs and discount was disclosed in other income (expense), net in the condensed consolidated statement of operations. We also paid accrued and unpaid interest of \$9 million on the 2015 senior notes up to but not including the redemption date.

### **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, 2014 was \$3 million. The gain is being deferred and amortized to interest expense over the remaining life of the 2017 senior notes.

On October 20, 2014, we settled the redemption of \$500 million of the \$600 million outstanding aggregate principal amount of our 2017 senior notes due November 1, 2017 that had been called for redemption on September 19, 2014. The redemption price of approximately \$580 million included a \$80 million prepayment penalty computed in accordance with the terms of the 2017 senior notes as the present value of the remaining scheduled payments of principal and unpaid interest related to \$500 million partial redemption. The prepayment penalty less partial amortization of previously deferred interest rate swap gain of approximately \$14 million together with \$2 million of amortization of debt issuance costs and discount was disclosed in other income (expense), net in the condensed consolidated statement of operations. We also paid accrued and unpaid interest of \$15 million on the 2017 senior notes up to but not including the redemption date.

### **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, 2014 was \$22 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.

### **Keysight 2019 and 2024 Senior Notes**

On October 6, 2014 Keysight announced that it had agreed to sell \$500 million of 3.30% senior notes due 2019 ("2019 senior notes") and \$600 million of 4.55% senior notes due 2024 ("2024 senior notes"). The transaction closed on October 15, 2014. Each series of notes initially were guaranteed on an unsecured, unsubordinated basis by Agilent. The guarantees terminated upon the completion of the separation of Keysight from Agilent on November 1, 2014.

All notes issued are unsecured and rank equally in right of payment with all of Agilent's other senior unsecured indebtedness.

### ***Other debt***

As of October 31, 2014, and as a result of the Dako acquisition, we have mortgage debts, secured on buildings in Denmark, in Danish Krone equivalent of \$42 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 January 16, 2013, our board of directors approved a 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. 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. As of October 31, 2014, there were no remaining amounts to be repurchased under the 2013 program.

On November 22, 2013 we announced that our board of directors had authorized a new share repurchase program effective upon the conclusion of the company's \$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 target maintaining a weighted average share count of approximately 335 million diluted shares.

For the year ended October 31, 2014, we repurchased 4 million shares for \$200 million. For the year ended October 31, 2013 we repurchased approximately 20 million shares for \$900 million. For the year ended October 31, 2012 we repurchased 5 million shares for \$172 million. All such shares and related costs are held as treasury stock and accounted for using the cost method.

### Cash Dividends on Shares of Common Stock

During the year ended October 31, 2014, cash dividends of \$0.528 per share, or \$176 million were declared and paid on the company's outstanding 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. On November 20, 2014, we declared a quarterly dividend of \$0.10 per share of common stock, or approximately \$34 million which will be paid on January 28, 2015 to shareholders of record as of the close of business on January 6, 2015. The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

### Accumulated other comprehensive income

The following table summarizes the components of our accumulated other comprehensive income as of October 31, 2014 and 2013, net of tax effect:

	<u>October 31,</u>	
	<u>2014</u>	<u>2013</u>
	(in millions)	
Unrealized gain on equity securities, net of \$(3) and \$(2) of tax expense for 2014 and 2013, respectively	\$ 17	\$ 7
Foreign currency translation, net of \$(86) and \$(94) of tax expense for 2014 and 2013, respectively	156	425
Unrealized losses on defined benefit plans, net of tax benefit of \$145 and \$64 for 2014 and 2013, respectively	(516)	(341)
Unrealized gains (losses) on derivative instruments, net of tax expense of \$(7) and \$(2) for 2014 and 2013, respectively	9	—
Total accumulated other comprehensive income (loss)	<u>\$ (334)</u>	<u>\$ 91</u>

Changes in accumulated other comprehensive income by component and related tax effects for the years ended October 31, 2014 and 2013 were as follows (in millions):

	Unrealized gain on investments	Foreign currency translation	Net defined benefit pension cost and post retirement plan costs		Unrealized gains (losses) on derivatives	Total
			Prior service credits	Actuarial Losses		
	(in millions)					
As of October 31, 2012	\$ —	\$ 424	\$ 319	\$ (856)	\$ 2	\$ (111)
Other comprehensive income (loss) before reclassifications	9	(7)	—	256	10	268
Amounts reclassified out of accumulated other comprehensive income	—	—	(48)	86	(13)	25
Tax (expense) benefit	(2)	8	16	(114)	1	(91)
Other comprehensive income (loss)	7	1	(32)	228	(2)	202
As of October 31, 2013	\$ 7	\$ 425	\$ 287	\$ (628)	\$ —	\$ 91
Other comprehensive income (loss) before reclassifications	12	(277)	—	(273)	13	(525)
Amounts reclassified out of accumulated other comprehensive income	(1)	—	(48)	65	1	17
Tax (expense) benefit	(1)	8	16	65	(5)	83
Other comprehensive income (loss)	10	(269)	(32)	(143)	9	(425)
As of October 31, 2014	\$ 17	\$ 156	\$ 255	\$ (771)	\$ 9	\$ (334)

Reclassifications out of accumulated other comprehensive income for the years ended October 31, 2014 and 2013 were as follows (in millions):

Details about accumulated other comprehensive income components	Amounts Reclassified from other comprehensive income		Affected line item in statement of operations
	2014	2013	
Unrealized gain on equity securities	\$ 1	\$ —	Other income (expense), net
	1	—	Total before income tax
	—	—	Provision for income tax
	1	—	Total net of income tax
Unrealized gains and (losses) on derivatives	(1)	13	Cost of products
	(1)	13	Total before income tax
	—	(3)	(Provision)/benefit for income tax
	(1)	10	Total net of income tax
Net defined benefit pension cost and post retirement plan costs:			
Actuarial net loss	(65)	(86)	
Prior service benefit	48	48	
	(17)	(38)	Total before income tax
	(2)	7	(Provision)/benefit for income tax
	(19)	(31)	Total net of income tax
Total reclassifications for the period	\$ (19)	\$ (21)	

Amounts in parentheses indicate reductions to income and increases to other comprehensive income.

Reclassifications of prior service benefit and actuarial net loss in respect of retirement plans and post retirement pension plans are included in the computation of net periodic cost (see Note 15 "Retirement Plans and Post Retirement Pension Plans").

## 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. Agilent has three business segments comprised of the life sciences and diagnostics business, the chemical analysis business and the electronic measurement business. 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.

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 2014, we created the order fulfillment and supply chain organization ("OFS") to centralize all order fulfillment and supply chain operations in our life sciences and diagnostics and chemicals analysis businesses. Similarly we created the order fulfillment and infrastructure ("OFI") organization to centralize all order fulfillment and supply organizations and operations within our electronic measurement business. Both OFS and OFI provide resources for manufacturing, engineering and strategic sourcing to our respective businesses. In general, OFS and OFI employees are dedicated to specific businesses and the associated costs are directly allocated to those 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.

	Life Sciences and Diagnostics	Chemical Analysis	Electronic Measurement	Total Segments
	(in millions)			
<b>Year ended October 31, 2014:</b>				
Total net revenue	\$ 2,372	\$ 1,676	\$ 2,933	\$ 6,981
Income from operations	\$ 376	\$ 387	\$ 559	\$ 1,322
Depreciation expense	\$ 74	\$ 31	\$ 89	\$ 194
Share-based compensation expense	\$ 33	\$ 23	\$ 42	\$ 98
<b>Year ended October 31, 2013:</b>				
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
<b>Year ended October 31, 2012:</b>				
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

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

	Years Ended October 31,		
	2014	2013	2012
	(in millions)		
Total reportable segments' income from operations	\$ 1,322	\$ 1,276	\$ 1,384
Restructuring and business exit related costs	(64)	(53)	—
Acceleration of depreciation for held and used assets	—	—	(15)
Asset Impairments	(4)	(3)	(1)
Transformational programs	(29)	(19)	(25)
Amortization of intangibles	(197)	(199)	(136)
Acquisition and integration costs	(12)	(29)	(74)
Acceleration of share-based compensation expense related to workforce reduction	(1)	(3)	—
One-time and pre-separation costs	(191)	(5)	—
Other	7	(14)	(14)
Interest Income	9	7	9
Interest Expense	(113)	(107)	(101)
Other income (expense), net	(81)	8	16
Income before taxes, as reported	<u>\$ 646</u>	<u>\$ 859</u>	<u>\$ 1,043</u>

*Major customers.* No customer represented 10 percent or more of our total net revenue in 2014, 2013 or 2012.



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)			
<b>As of October 31, 2014:</b>				
Assets	\$ 4,312	\$ 1,815	\$ 1,976	\$ 8,103
Capital expenditures	\$ 77	\$ 33	\$ 95	\$ 205
<b>As of October 31, 2013:</b>				
Assets	\$ 4,291	\$ 1,756	\$ 1,997	\$ 8,044
Capital expenditures	\$ 77	\$ 30	\$ 88	\$ 195

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

	<u>October 31,</u>	
	<u>2014</u>	<u>2013</u>
	(in millions)	
Total reportable segments' assets	\$ 8,103	\$ 8,044
Cash, cash equivalents and short-term investments	3,028	2,675
Prepaid expenses	241	198
Investments	159	139
Long-term and other receivables	124	162
Other	(824)	(532)
Total assets	<u>\$ 10,831</u>	<u>\$ 10,686</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, 2014	\$ 2,070	\$ 1,133	\$ 595	\$ 3,183	\$ 6,981
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
Long-lived assets:					
October 31, 2014	\$ 597	\$ 180	\$ 656	\$ 1,433	\$ 1,433
October 31, 2013	\$ 601	\$ 187	\$ 658	\$ 1,446	\$ 1,446

## QUARTERLY SUMMARY

(Unaudited)

	Three Months Ended			
	January 31,	April 30,	July 31,	October 31,
	(in millions, except per share data)			
<b>2014</b>				
Net revenue	\$ 1,679	\$ 1,731	\$ 1,766	\$ 1,805
Gross profit	883	899	914	897
Income from operations	218	210	229	174
Net income	\$ 195	\$ 139	\$ 147	\$ 23
<b>Net income per share — Basic:</b>	\$ 0.59	\$ 0.42	\$ 0.44	\$ 0.07
<b>Net income per share — Diluted:</b>	\$ 0.58	\$ 0.41	\$ 0.43	\$ 0.07
<b>Weighted average shares used in computing net income per share:</b>				
Basic	333	333	334	334
Diluted	338	337	338	338
Cash dividends per common share	\$ 0.132	\$ 0.132	\$ 0.132	\$ 0.132
Range of stock prices on NYSE	\$ 49.84-61.22	\$ 51.96-60.46	\$ 53.66-59.58	\$ 49.80-59.40
<b>2013</b>				
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
<b>Net income per share — Basic:</b>	\$ 0.52	\$ 0.48	\$ 0.50	\$ 0.64
<b>Net income per share — Diluted:</b>	\$ 0.51	\$ 0.48	\$ 0.49	\$ 0.63
<b>Weighted average shares used in computing net income per share:</b>				
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

## **RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY AFFECT FUTURE RESULTS**

### **Risks, Uncertainties and Other Factors That May Affect Future Results**

*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 of our markets. However, the markets we serve do not always experience the seasonality that we expect. Any decline in our customers' markets or in general economic conditions would likely result in a reduction in demand for our products and services. 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 to address increased competition through frequent new product and service introductions, rapid technological changes and changing industry standards, our products and services will become obsolete, and our operating results will suffer.*

We generally sell our products in industries that are characterized by increased competition through frequent new product and service introductions, rapid technological changes and changing industry standards. In addition, many of the markets in which we operate are seasonal. 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.

*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. Slower global economic growth and uncertainty in the markets in which we operate 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.

***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 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 trends in the demand for their products. 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.

***Demand for some of our products and services depends on capital spending policies of our customers, research and development budgets 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. Research and development budgets fluctuate due to changes in available resources, consolidation, spending priorities, general economic conditions and institutional and governmental budgetary policies. The timing and amount of revenues from customers that rely on government funding or research may vary significantly due to factors that can be difficult to forecast. 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.

***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.

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.

***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 an 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. 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.

***Integrating Dako A/S may be more difficult, costly or time consuming than expected and 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 difficult, 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; 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. As a result, 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.

***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 United States Food and Drug Administration (“FDA”). We also must comply with work safety rules. If we fail to adequately address any of these regulations, our businesses could be harmed.

***We are subject to extensive regulation by the FDA and certain similar foreign regulatory agencies, and failure to comply with such regulations could harm our reputation, business, financial condition and results of operations.***

A number of our products from our chemical analysis and life sciences and diagnostics businesses are subject to regulation by the 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, warning letters, 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 or foreign equivalents; seizures or recalls of our products or those of our customers; or the inability to sell our products. Any such FDA actions could disrupt our business and operations, lead to significant remedial costs and have a material adverse impact on our financial position and results of operations.

In August 2013, Dako Denmark A/S received a warning letter from the FDA relating to its quality management processes at our Glostrup facility. Although we are committed to addressing the issues raised by the FDA, there can be no assurance that the FDA will be satisfied with the steps we have taken to address the issues or that the FDA will not raise additional areas of concern. We may be subject to additional regulatory action by the FDA, including import bans, seizures, injunction and/or civil penalties and any such actions could have an adverse impact on our business, financial position and results of operations.

***Some of our chemical analysis and life sciences and diagnostics products are exposed to particular complex regulations such as regulations of toxic substances 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 ensure conformance of 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.

***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. 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.

***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.



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

The life sciences industry is intensely competitive and has been subject to increasing consolidation. 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.

***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.

***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.

***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.***

Certain properties transferred to Keysight as part of the separation 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 Keysight with respect to claims arising out of that contamination. HP will have access to those Keysight 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 Keysight to incur unreimbursed costs and could harm on-site operations and the future use and value of the properties. We cannot be sure that Keysight will not seek additional reimbursement from us for that interference or unreimbursed costs. We cannot be sure that HP will continue to fulfill its indemnification or remediation obligations, in which case Keysight may seek indemnification from us. In addition, the determination of the existence and cost of any additional contamination caused by us prior to the separation could involve costly and time-consuming negotiations and litigation.

Other than those properties currently undergoing remediation by HP, we have agreed to indemnify HP, with respect to any liability associated with contamination from past operations, and Keysight, with respect to any liability associated with contamination prior to the separation, at, respectively, properties transferred from HP to us and properties transferred by us to Keysight. 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.***

In August 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 an annual disclosure report to be filed with the SEC by May 31st, requires companies to perform due diligence, disclose and report whether or not such minerals originate from the Democratic Republic of Congo or an adjoining country. While we filed our initial report for calendar year 2013, there are costs associated with complying with these disclosure requirements, including for diligence in regards to the sources of any conflict minerals used in our products, in addition to the cost of remediation and other changes to products, processes, or sources of supply as a consequence of such verification activities. In addition, our ongoing implementation of these rules could adversely affect the sourcing, supply, and pricing of materials used in our products. 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.

***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 should cover 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 \$2.7 billion in senior unsecured notes, including \$1.1 billion in Keysight senior unsecured notes, and a \$42 million secured mortgage. We also are a party to a five-year senior unsecured revolving credit facility which expires in September 2019 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. Keysight is a party to a five-year revolving credit facility which expires in October 2019 for \$300 million, initially guaranteed by us. The guarantee was terminated upon the completion of the separation of Keysight on November 1, 2014.

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 2014, we had cash and cash equivalents of approximately \$3.0 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.

***We could incur significant liability if the distribution of Keysight common stock to our shareholders is determined to be a taxable transaction.***

We have received an opinion from outside tax counsel to the effect that the separation and distribution of Keysight qualifies as a transaction that is described in Sections 355(a) and 368(a)(1)(D) of the Internal Revenue Code. The opinion relies on certain facts, assumptions, representations and undertakings from Keysight and us regarding the past and future conduct of the companies' respective businesses and other matters. If any of these facts, assumptions, representations or undertakings are incorrect or not satisfied, our shareholders and we may not be able to rely on the opinion of tax counsel and could be subject to significant tax liabilities. Notwithstanding the opinion of tax counsel we have received, the IRS could determine on audit that the separation is taxable if it determines that any of these facts, assumptions, representations or undertakings are not correct or have been violated or if it disagrees with the conclusions in the opinion. If the separation is determined to be taxable for U.S. federal income tax purposes, our shareholders that are subject to U.S. federal income tax and we could incur significant U.S. federal income tax liabilities.

***We may be exposed to claims and liabilities as a result of the separation.***

We entered into a separation and distribution agreement and various other agreements with Keysight to govern the separation and the relationship of the two companies going forward. These agreements provide for specific indemnity and liability obligations and could lead to disputes between us. The indemnity rights we have against Keysight under the agreements may not be sufficient to protect us. In addition, our indemnity obligations to Keysight may be significant and these risks could negatively affect our 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, 2014, 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, 2014, 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, 2014.

The effectiveness of our internal control over financial reporting as of October 31, 2014 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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