Agilent Technologies
2001 Year in Review

Agilent Technologies

2001 Financial Overview*

For the years ended October 31
In millions

	2001	2000	Percent change
Net revenue	$8,396	$9,361	(10)
(Loss) earnings from operations	(778)	924	(184)
Other income (expense), net	301	94	220
(Benefit) provision for taxes	(71)	346	(121)
(Loss) earnings from continuing operations	$(406)	$672	(160)

*All figures have been restated to reflect the impact of the sale of our healthcare solutions business to Philips. The sale was completed on August 1, 2001.

The following tables summarize the high and low stock prices by quarter for Agilent's common stock.

Fiscal 2000

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

Fiscal 2001

	High	Low
First quarter (ended January 31, 2001)	$68.00	$38.06
Second quarter (ended April 30, 2001)	$55.00	$25.00
Third quarter (ended July 31, 2001)	$41.18	$26.20
Fourth quarter (ended October 31, 2001)	$32.70	$18.00

To Our Shareholders

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

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

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

A Very Difficult Year

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

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

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

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

Our employees did a great job all year in reducing discretionary spending. By the fourth quarter, total selling, general and administrative spending was down 30 percent, on an earnings-before-goodwill basis, from the fourth quarter of 2000. We expect the workforce reduction of about 8,000 people—along with related site consolidations, ongoing progress on operations and other process improvements—to eliminate about $1.2 billion in annualized costs starting in the second half of fiscal 2002.

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

Appropriate Investments for Growth

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

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

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

Making Agilent Easier to Do Business With

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

For example, we streamlined our information technology (IT) systems and cut spending on legacy IT systems by 50 percent as we implemented the first

"We faced substantial challenges this year, but our enduring strengths are intact."

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

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

Making Agilent a High-performance Company

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

We worked to implement the pay cuts and workforce reductions in ways that were consistent with our commitment to treat people fairly and with dignity. We expanded our efforts to strengthen workforce diversity and inclusiveness that are so crucial to our ability to innovate. Again this year we won substantial industry recognition for the culture we're building. We were No. 46 on *Fortune* magazine's "100 Best Companies to Work for in America." Our Singapore operations were ranked No. 1, and Malaysia No. 4, in the "Best Employers in Asia" survey done by Hewitt Associates and Dow Jones Publications. Agilent was No. 8 overall in a survey of France's best employers in the high-tech industry conducted by Electronique International.

Senior Management Changes

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

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

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

Priorities for 2002

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

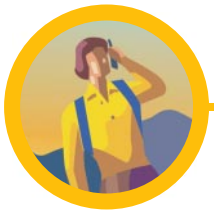
Finally, we will be guided in everything we do by our values—innovation, integrity, trust and respect for all our people as well as speed, focus and accountability. This was a very trying year for Agilent's customers and employees. The challenges we faced were substantial, but our enduring strengths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

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

Ned Barnholt
President and Chief Executive Officer

Agilent in Communications and Electronics

Agilent is revolutionizing the way people live and work through technology. Think of CD players, computers, satellites, high-speed networks and the Internet. Agilent provides innovative test and measurement technologies and semiconductor components that enable our customers to create products like these. Our communications and electronics products, services and support solutions facilitate the entire product life cycle—design, build, manufacture, test, install, maintain and manage. During the severe business downturn in 2001, we focused even more on customers' urgent needs to reduce costs, increase efficiency and get to market quickly. As just one example of our contributions in communications and electronics, Agilent enables a wireless phone call through every step of a very complicated process.



At a height of nearly 4,000 meters, Annette admires the mountain vistas before heading down her final ski run for the day in Zermatt, Switzerland. To share this experience, she pulls her mobile phone out of her pocket to dial her friend Patricia, who is just starting her day at work in Santa Rosa, California.

EQUIPMENT MANUFACTURERS

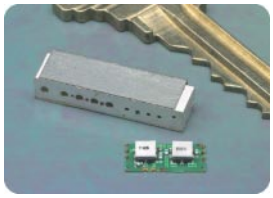
Helping Engineers Quickly Design Phones and Networks

When R&D engineers plan phones like Annette's, they use tools such as the Agilent Advanced Design System. This computer-aided design software enables engineers to simulate the high-frequency wireless components of the phone, verify the design and link it to Agilent test equipment.

Agilent develops technology to drive smaller, more efficient mobile phones and makes a wide range of components for them. For example, the miniature FBAR duplexer allows simultaneous transmission and reception of calls. Agilent's FBAR duplexer won *EDN* magazine's Innovation Award and *Wireless Design & Development* magazine's Technology Award. Another technology, called E-pHEMT, will improve mobile phone battery life by up to 15 percent. Both of these technologies were initially developed by our central research facility, Agilent Laboratories.

When Annette dials her call, she taps into a complex wireless network that transmits it.

Agilent works with equipment manufacturers to plan, design, simulate and test all the parts of the network infrastructure that carry a mobile phone call. In 2001 Agilent introduced the industry's first



Agilent's miniature film bulk acoustic resonator (FBAR) duplexer (in front) is one-fifth the size of a traditional ceramic duplexer (middle of photo) used in mobile phones and other wireless communications devices.

Equipment manufacturers developing very high speed routers choose Agilent's parallel optics modules to ease congestion at switching points in a communications network.

Agilent drove the XENPAK optical standard and introduced the industry's first 10 Gb/s Ethernet transceiver based on this standard. A transceiver is a combination transmitter/receiver in a single package.

automatic solution to help wireless network equipment manufacturers and service providers quickly plan and design networks using all major wireless technologies. This tool simplifies the intricate task of cell planning and network design while minimizing infrastructure costs.

As Annette makes her call, her voice travels through the air over radio signals to connect to a base station, which is essentially a larger radio that transmits to and receives signals from her phone.

Designers of base stations depend on products such as Agilent's new spectrum analyzers, awarded Top Product of the Year by *Microwaves & RF* magazine. These verify that the signals meet regulatory standards for crispness and clarity, a task becoming increasingly complex with high-speed networks.

The base station connects Annette's call to the wired network through a fiber optic cable to the telecom service provider's central office. Then her call travels in digital packets over a long haul optical network across France, under the Atlantic Ocean and across the United States.

To speed Annette's message to its destination, high-speed routers receive, process and forward billions of bits per second in a dynamic environment where thousands of new destinations are added, deleted or changed each second. Agilent provides critical components for these routers. We're the world's leading supplier of fiber optic transceivers that transform electrical data streams into light, and vice versa. These transceivers can send optical data streams many kilometers to the next node on the network. Agilent also provides a range of integrated circuit (IC) solutions that format and process data in the electrical area inside the router. Because Agilent is one of few companies with cutting-edge technology in both the optical and IC realms, we offer network equipment manufacturers highly integrated solutions that speed time to market.

The Agilent RouterTester Optical Test Solution is the industry's leading system for testing high-speed, optical routing control functions. It simulates real-world network conditions to verify performance of high-speed routers and optical switches under demanding conditions with speeds varying from billions to trillions of bits per second. The International Engineering Consortium awarded RouterTester an InfoVision Award for innovation.

Helping Manufacturers Save Time and Money

Agilent provides test solutions for the entire manufacturing process—from testing wafers that contain thousands of tiny ICs, to final test of each IC, to testing and inspecting printed circuit (PC) boards, to assembly into mobile phones and base stations. As the world leader in test solutions, we test everything except the plastic case and display.

The Versatest Series Model V4400 offers manufacturers of flash memory for wireless devices a choice of performance on a single test platform that can grow with their needs.

The 5DX automated x-ray inspection system tests the very large and densely packed printed circuit boards for base stations. Agilent leads the imaging test system market with more than 25 percent share.

The Agilent 93000 system-on-a-chip platform enables customers to add test capabilities easily to their existing systems. This platform offers the widest application coverage and range of performance of any test family offered today.

Agilent lowers cost of test for manufacturing customers by creating product families that offer a wide range of test capability. For example, our 93000 platform tests complex ICs that combine multiple functions on a single chip, known as system-on-a-chip (SOC). To meet new test challenges, customers can add test capabilities easily to existing 93000 systems. An industry-first addition helps customers save test time—up to 50 percent—and money by testing multiple functional blocks of an SOC simultaneously. Another example of cost-effective

manufacturing test is our V4400 flash memory test system. Because mobile phone features such as voice recognition and Internet access require ever larger amounts of flash memory, manufacturers need to test increasingly diverse IC memory devices. The V4400 allows customers to change capabilities to match their testing needs without any downtime.

PC boards in mobile phones and base stations require different approaches to testing. Boards in mobile phones are too small and densely packed with tiny components to inspect visually, so Agilent provides market-leading automated optical inspection (AOI) systems. The SJ50, Agilent's newest AOI system, inspects PC boards at speeds up to 20 percent faster than the previous generation. Boards for base stations are so large and complex that they often have

thousands of connections, with many hidden from view. Agilent's x-ray inspection, the 5DX Series 3, sees through obstacles and provides the highest proven levels of test coverage for complex boards.

Manufacturers also have to test tiny handset components to see if they work together correctly when transmitting and receiving radio frequency (RF) signals. These customers helped us define the capabilities for our latest series of high-performance RF network analyzers, which also won a *Microwaves & RF* magazine Top Product award. These enable manufacturers to increase their measurement output by more than 300 percent compared to competing instruments. This increase is another way we help customers lower cost of test and increase manufacturing competitiveness.

SERVICE PROVIDERS

Helping Communication Providers Cut Costs and Deliver New Services Quickly

As Annette's call travels over different networks, service providers rely on new testers and network management systems to ensure that the call is completed correctly.

Telecommunication service providers plan, build, install, maintain and manage the networks and services

Agilent's 40 Gb/s Parallel Bit Error Ratio Test (ParBERT) platform enables R&D engineers to simulate and analyze real-world conditions of very high data rates for next-generation communication transmission lines.

Agilent's rugged, portable 10 Gb/s and 2.5 Gb/s testers allow service providers and network equipment manufacturers to dramatically reduce installation and maintenance test time and cost of test for optical transmission systems.

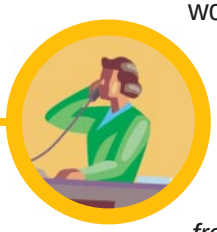
The Agilent 1680 and 1690 series logic analyzers make it easy for digital designers to examine relationships of time or data on an integrated circuit.

that carry wireline and wireless voice calls as well as the rapidly growing volume of Internet traffic. After we help customers deploy all parts of the network quickly and efficiently, we provide tools to add new capacity and tune the network to provide the right amount of coverage.

As service providers install next-generation networks, they need to keep test costs low and contend with a shortage of skilled technicians. That's why demand is very strong for Agilent's industry-first, all-channel 10 Gb/s and 2.5 Gb/s testers that can simultaneously monitor up to 192 network paths. These rugged, portable testers allow network equipment manufacturers and service providers to complete their installation and maintenance tests more quickly and cost effectively.

Helping Manage Networks to Lower Costs and Grow Revenue

Annette's call takes a complicated route over thousands of miles to reach Patricia in a matter of seconds.



Even before the call takes place, Annette's service provider uses our management solutions to ensure that all of the complex configurations are in place so she can make phone calls when she is traveling in different countries. As the call travels over the network, the service providers monitor and manage the complex flow of information required to set up the call quickly and with the highest quality. Managing is becoming more complicated because of complex services as well as multiple standards and protocols that have to work together. Service providers typically use separate operations-support-system (OSS) software applications for each service and standard.

We're making that job easier. Service providers can integrate these separate applications with a single management framework offered by Agilent and its expanded OSS team based on the acquisition of Objective Systems Integrators (OSI). Now communication service providers can more easily manage complex, multi-vendor networks and services, bring new services to market quickly, and protect and increase their revenue.

The Agilent NgN Analysis System is the telecommunications industry's first network monitoring and OSS solution that gives a complete view of signaling across the public switched telephone networks (PSTN) and voice-over-packet (VoP) networks. This system, which received a Best of Show award at the Internet Telephony Conference and Expo, enables service providers to accelerate rollout of new services and increase customer satisfaction.

Annette's mobile phone call has gone from her wireless handset, to a base station, to a wired and/or optical network, through switches and routers, and on to Patricia.

"Hi, Patricia, this is Annette. Thanks to your help planning my trip, I'm looking out at the majestic Matterhorn, and the view is spectacular. Thank you, my friend."

Agilent's high-performance spectrum analyzers streamline design and testing of wireless base station components and systems. Designers can analyze any RF signal environment in minute detail to evaluate component or system performance.

Agilent's new 83453A high-resolution spectrometer provides 1,000 times better resolution than conventional instruments. Now designers can measure precise characteristics of laser spectra for next-generation networks.

The Agilent Photonic Foundation Library software allows optical component manufacturers to reduce test costs substantially by speeding up the design and implementation of test solutions.

Agilent in Life Sciences

The race for the cure is a slow, grueling, full-length marathon. There's a lot of ground to cover. And the answers could be anywhere. With disease and drug discovery solutions from Agilent, researchers can analyze genes and proteins to discover the cause and cure of disease faster than ever before. We're accelerating progress to make the marathon more like a 100 meter dash.

Discovering Genetic Clues to Detect and Treat Disease

Gene expression, the process by which genes give instructions in cells, provides clues for detection and treatment of diseases such as cancer. Researchers at the National Human Genome Research Institute used mathematical methods and Agilent's detection tools to identify gene expression patterns associated with mutations in genes known to increase the risk of breast cancer. Similar studies using microarray technology have identified gene expression patterns associated with pancreatic cancer, lymphomas and melanomas. As researchers uncover new information about different types of cancer, the medical profession brings closer the dream of truly personalized medicine.

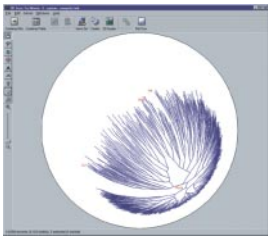
"The potential of genome-wide views to influence the diagnosis of cancer seems a certainty," said Jeffrey M. Trent, Ph.D., scientific director at the National Human Genome Research Institute. "We now have sufficient confidence in genomic techniques to begin incorporating them into the design of clinical trials."

Agilent's gene expression solutions can also be applied in other areas of the life sciences and are enabling researchers in plant biology to improve agriculture. Paradigm Genetics, Inc.—an integrated life sciences company developing novel technologies to speed the discovery of products for the advancement of human health, agriculture and nutrition—recently developed a comprehensive DNA microarray chip for *Magnaporthe grisea,* a devastating fungus that destroys rice. These postage-stamp-sized chips analyze up to thousands of genes in one step, a vast improvement over previous one-at-a-time techniques. Agilent manufactures this microarray for Paradigm using proprietary gene sequence information. The microarray will allow Paradigm to do the most complete analysis of this fungus to date.

Biotech and pharmaceutical—from research to prescription

DNA microarrays consist of microscopic sets of DNA fragments attached to a glass slide. When genetic material from diseased cells is applied to the microarray, copies of expressed genes characteristic of the diseased functions will bind to the array, allowing scientists to define disease pathways and identify new drug targets.

Agilent's DNA microarray scanner—an automated, walkaway scanner that images up to 48 standard 1-inch x 3-inch microarray glass slides—allows researchers to monitor genes in order to better understand the cause of disease and, in turn, help find new cures.



This computer output illustrates how Agilent's alliance with Rosetta Inpharmatics provides researchers with bioinformatics tools that enable researchers to store, retrieve and analyze the large quantities of data generated by microarrays.

"The new array is a dramatic improvement over our early generation chip," said Jeff Shuster, Ph.D., director of Microbial Research for Paradigm Genetics. "It is an important milestone in our ongoing efforts to discover novel targets, characterize new fungicidal chemistries and develop novel anti-fungal compounds."

Discovering the Role of Proteins in Disease and Drug Discovery

Agilent's application solutions for proteomics help researchers delve even deeper into the role of proteins in complex biochemical processes, such as the development of a disease and its cure. Studying a protein challenges the researcher's most sophisticated equipment, because each human cell potentially contains hundreds of thousands of other proteins.

One research approach in proteomics identifies the proteins present in a tissue sample and the concentration of each. To learn more about a diseased liver, for example, a researcher determines the level of various proteins present in a diseased cell and contrasts that with the protein level in a healthy cell. Administering a drug to the diseased cells may cause the protein profile to develop toward that of the healthy cells.

Another approach in proteomics determines the biochemical function and structure of a protein to see what parts of a protein molecule are likely to interact with a potential drug. From this information, researchers can design and test new chemical compounds for potential drugs. They can also improve the efficacy of these potential drugs and reduce undesired side effects.

Agilent contributes to research in gene expression and proteomics with application solutions based on key technology platforms—liquid chromatography, mass spectrometry, microfluidics (lab-on-a-chip) and microarrays. This research is expected to open entirely new vistas into complex biological processes related to the diagnosis and treatment of disease.

Agilent offers a wide range of instruments, consumables, systems and services to help scientists acquire and interpret genetic and chemical information—from sample handling, to analysis, to data management and reporting. In 2001, we built on our leadership in the chemical, petrochemical and environmental markets while increasing our focus on offerings to the pharmaceutical, biopharmaceutical and bioagricultural markets. Our life sciences business performed quite well in a tough economic year.

Lab-on-a-chip technology (microfluidics), pioneered by our collaboration partner Caliper Technologies, enables researchers to perform multiple laboratory functions on a small disposable LabChip® device.

The Agilent 1100 Series LC/MSD Trap, a high-performance ion trap mass spectrometer, is a powerful tool for proteomics and drug discovery. It can identify minute quantities of proteins, drugs and other organic compounds based on their molecular masses and chemical structures.

Agilent 1100 Series liquid chromatographs combine modules and software into well-integrated systems that address a wide range of analytical problems including disease and drug discovery, pharmaceutical quality control, environmental testing and forensics.

Agilent Laboratories

Innovative technology is a competitive advantage for Agilent, and our central research organization, Agilent Laboratories, provides the spark for our company growth. Technology innovations from Agilent Labs create new businesses and enhance existing ones. Agilent Labs is leading the company into the future of communications, electronics and life sciences by encouraging multidisciplinary teams of scientists to explore uncharted areas in search of advanced solutions.

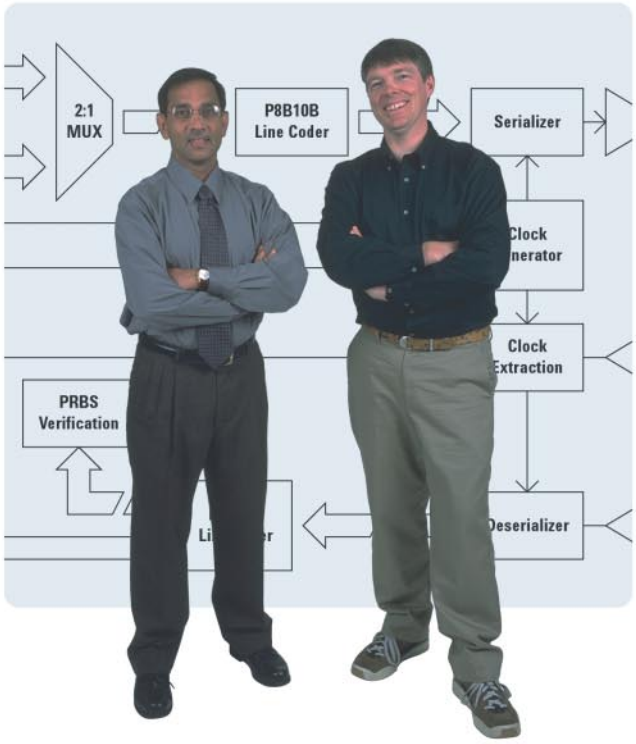
About 60 to 70 percent of our current businesses were enabled by Agilent Labs. That's why Agilent continues to invest appropriately in fundamental research in a wide number of disciplines—even during economic downturns. In 2001, we focused on highest priority investments while trimming some programs and delaying others to reduce costs. Agilent Labs continued to tighten its links with our businesses to enhance Agilent's ability to compete more effectively now and in the future.

"To find the next breakthrough, we encourage researchers to put together different technical disciplines. This synergy often creates a completely new way to solve a problem."

Tom Saponas, senior vice president and chief technology officer of Agilent, and director, Agilent Laboratories

Accelerating Progress in Communications and Electronics

Even though 2001 marked the largest downturn of the communications industry in recent memory, optical component and network equipment manufacturers continued to invest in the research and development of new communications products to ensure a strong market position when the market upturn arrives. In preparation for the upswing, the scientists at Agilent Labs accelerated their pace of inventing groundbreaking technologies to help customers design tomorrow's networks.



Francis Joseph and Hugh Wallace, researchers in the Systems and Solutions Laboratory, are developing methods for high-volume semiconductor test. The diagram represents a high-speed serial integrated circuit (IC), a critical component of communication systems. These ICs can be embedded cost effectively into complex ICs, called systems-on-a-chip, that are manufactured in standard semiconductor processes. Serial interfaces are becoming pervasive in communication and computation systems because they enable higher performance at lower cost. Agilent invests in this research, which builds on the company's strengths in IC design as well as test, so future test solutions will be ready when customers need them.

Company announcements in 2001 illustrate the role of Agilent Labs in bringing innovative technologies to market. The new optical spectrometer can measure wavelengths of laser spectra with 1,000 times better resolution than conventional instruments. Optical sampling technology will offer designers important insight into components under development for very high-speed transmissions. Today's optical networks operate at 10 gigabits per second (Gb/s), but the industry is quickly moving to 40 Gb/s channels. Agilent's new technology marks the first time designers of optical components will have an instrument that has enough bandwidth to measure signals from 40 to 160 Gb/s.

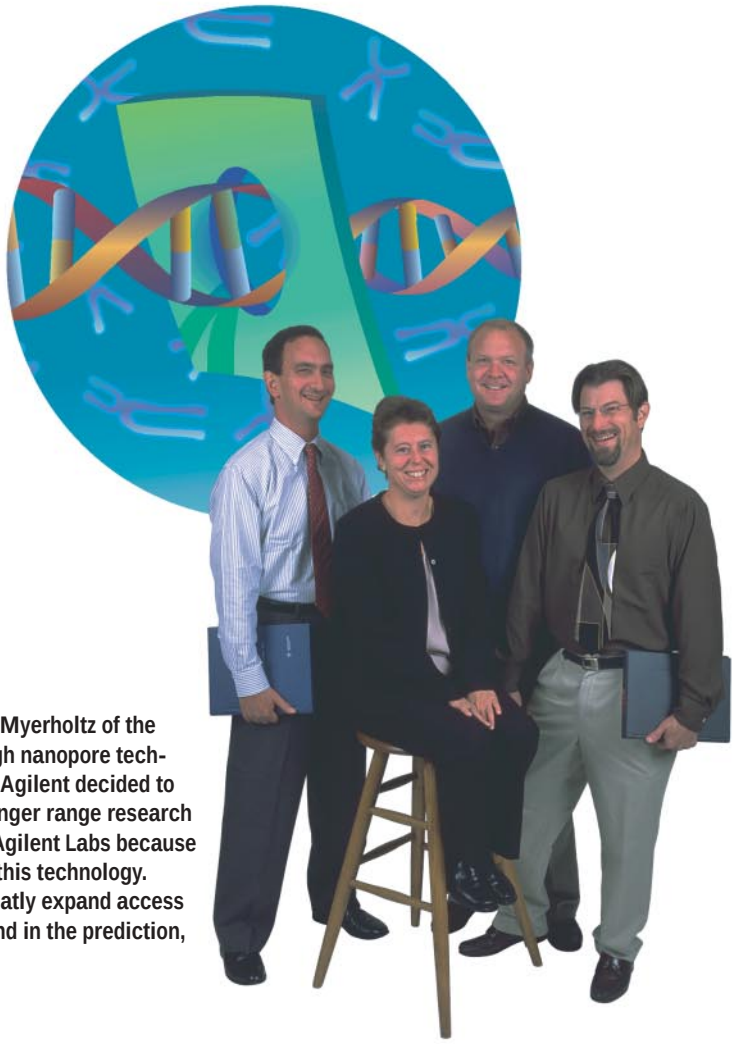
Agilent Labs was also instrumental in helping establish an industry standard that was key in bringing to market the world's first serial 10 Gb/s Ethernet transceiver. This new network component allows manufacturers of servers, switches and routers to provide 10 times more bandwidth at lower cost compared to current technology.

Accelerating Progress in Life Sciences

Agilent Labs is developing tools to help biologists collect and analyze complex research data from multiple sources to further our understanding of cellular processes in living organisms. Research in molecular biology is advancing rapidly because of new sources of data, new tools and new ways to organize work. The human genome project has created huge new data sources. Biologists using tools like Agilent's DNA microarray systems are exploring relationships among genes and generating trillions of bytes of data. In addition, collaborations among industries, universities and government agencies require new methods to organize, interpret and share this information. Life sciences research has become the work of interdisciplinary teams that include molecular biologists, biochemists, chemists, engineers, computer scientists, physicists and mathematicians.

To address these challenges, Agilent Labs brought together a multidisciplinary team of biologists, anthropologists and computer scientists to study the tremendous changes in data, tools and organizations that will structure work in the life sciences. For example, as biologists study the functions of genes and proteins, they need tools to visualize, manipulate and integrate large amounts of information. So computer scientists have to work with biologists to try out new forms of analysis. The most useful tools will connect people from different disciplines so they can share perspectives and contributions productively.

Labs is Agilent's secret weapon. It's the innovation engine that will accelerate the company out of poor economic conditions and generate new revenue through superior research and development.



Darlene Solomon (seated), Steve Laderman, Jeff Sampson and Carl Myerholtz of the Life Science Technologies Laboratory are researching a breakthrough nanopore technology to speed the analysis of nucleic acids, such as DNA. In 2001, Agilent decided to license this technology from Harvard University and invest in this longer range research and business opportunity. Harvard was excited to collaborate with Agilent Labs because of Labs' multidisciplinary expertise that's required to help advance this technology. Faster, easier and lower cost sequencing of nucleic acids would greatly expand access to genetic information for use in drug discovery and development, and in the prediction, diagnosis and treatment of disease.

Agilent Operations

Since Agilent separated from Hewlett-Packard, we've been working on a major effort to align our operations with the needs of our businesses and to make our systems and processes world-class. Over the last 18 months, this work has made it much easier for customers to do business with Agilent across multiple channels—both online and offline. At the same time, we're enabling our businesses to intensify their focus on customers, markets and competitors. "Our operational transformation is all about simplifying, being even more externally focused and being more efficient," said Alain Couder, executive vice president and chief operating officer.

major improvements and created a foundation for future progress:

- **We measurably improved** on-time delivery, customers' ability to reach the right Agilent person quickly and the cost-effectiveness of many functions;
- **We redesigned and streamlined** hundreds of IT systems and business processes, and we consolidated a number of facilities;
- **We reduced** Agilent's total selling, general and administrative costs by several hundred million dollars in fiscal 2001.

Our operational transformation is all about simplifying, being even more externally focused and being more efficient.

When we launched Agilent, we knew that the systems and processes in key functions—including customer service and support, manufacturing, information technology (IT), procurement, human resources (HR) and others—were not well-suited to Agilent's needs as an independent company. In mid-2000 we began to transform how we manage and perform these functions and the systems that support them. We rolled out more than a dozen separate programs focused on customers, company-wide processes and employees.

All these programs share two fundamental goals. The first is to make Agilent easier for customers to work with by standardizing and simplifying our processes. These and other efforts, such as outsourcing to partners who are leaders in their fields, are helping us reach our second goal, which is to improve our operational efficiency across the company.

During 2001 we added, completed and refocused operational initiatives as different efforts reached their goals and as we navigated the sharp downturn in the communications and semiconductor markets. From mid-2000 through fiscal 2001, we delivered

During 2001 we made substantial progress in a range of customer-facing activities. We consolidated from 40 customer business centers worldwide to five regional centers. We made it a lot easier for customers to do business with us online by customizing Web pages for 13 major customers and by improving our Web site's overall performance and availability. We also improved our on-time delivery rate substantially after making customer requested delivery dates the metric for progress.

These accomplishments helped us win important recognition in 2001. We won the President's Customer Satisfaction Award from Cisco Systems Inc., which is that company's highest supplier honor. Nortel Networks, Celestica Inc. and CIENA Corporation also recognized Agilent as an outstanding supplier.

In manufacturing, we increased our use of contract manufacturers (CMs) while lowering the number of strategic CMs to five. The result is greater manufacturing flexibility while optimizing our processes with fewer CMs. We also continued to move manufacturing to lower-cost regions, such as Southeast Asia.

In IT we're improving how customers, employees, suppliers and shareholders interact with Agilent. We completed more than 60 initiatives designed to improve IT efficiency and effectiveness in areas such as the administration of our voice and data networks and the delivery of help desk services to employees. We consolidated under-utilized servers and moved data and applications to them, and the result was that we freed more than 200 servers for other business needs. These and related efforts enabled us to achieve overall IT savings of about $160 million over 18 months.

In 2001 we also made substantial progress in a major initiative to deploy a new, global enterprise resource planning (ERP) system. Our plan is to implement a single, company-wide infrastructure that will replace hundreds of legacy IT systems and applications and will span many functions, such as order management, manufacturing operations and product introduction. The phased ERP rollout, which will occur in 2002 and 2003, will make Agilent faster and more responsive to customers by delivering up-to-the-minute information to customers and employees anywhere in the world.

In procurement we achieved great results from our work to simplify, standardize and consolidate. We reduced our supplier base worldwide by more than 50 percent, achieved significant reductions in spending on materials, and rolled out a single, company-wide banking and procurement card solution for the thousands of small transactions that take place every month at Agilent. Over 18 months we have achieved total net savings in procurement of more than $300 million, from a combination of direct materials savings in our business units and company-wide purchases.

In human resources we made it easier for employees to access and use a broad range of information. We consolidated the Human Resources Management System into a single, Web-based system that enables worldwide delivery of services and consistent HR transactions within Agilent. This effort allowed us to implement a major rollout of HR services to the Web, including, where feasible, training services that had previously been done in person. These and other actions helped us reduce per-employee spending on HR by 50 percent compared with a year ago.

We also achieved significant recognition as an employer of choice. We were No. 46 on *Fortune* magazine's "100 Best Companies to Work For in America" list. Agilent ranked No. 2 in "20 Best Companies to Work For" published by the Cahners Electronic Group, a major high-technology periodical publisher. Agilent's operations were ranked No. 1 in Singapore and No. 4 in Malaysia on the inaugural list of "Best Employers in Asia" in a study done by Dow Jones Publications and Hewitt Associates. We were also named the 13th best place to work in the United Kingdom in a survey of more than 200 companies by *The Sunday Times* (UK).

We're greatly encouraged by our results in making Agilent's operations more effective and efficient. We're focusing on inventory reduction as a major opportunity, and we'll continue to make customer satisfaction, on-time delivery and manufacturing efficiency key priorities.

From mid-2000 through fiscal 2001, we've delivered major improvements and created a foundation for future progress.

Our ability to be a high-performance company depends on how well we perform the operational functions that enable us to be fast and focused. During 2001 we made substantial progress on many fronts, and we're determined to extend this progress in 2002 and beyond.

Agilent in Citizenship

In a year marked by a severe and prolonged economic downturn, Agilent continued to initiate and extend leading practices as a global corporate citizen. This attention to our economic, social and environmental impact is consistent with building a long-term, sustainable business even in the face of the most challenging circumstances.

Both the Dow Jones Sustainability World Index and the FTSE4Good (Financial Times Stock Exchange) U.S. 100 Index included Agilent for the first time in 2001. These stock market indices identify well-managed companies with strong environmental and socially responsible programs. Agilent's listing underscores the fact that we are responding effectively to rising stakeholder expectations regarding our citizenship-related performance.

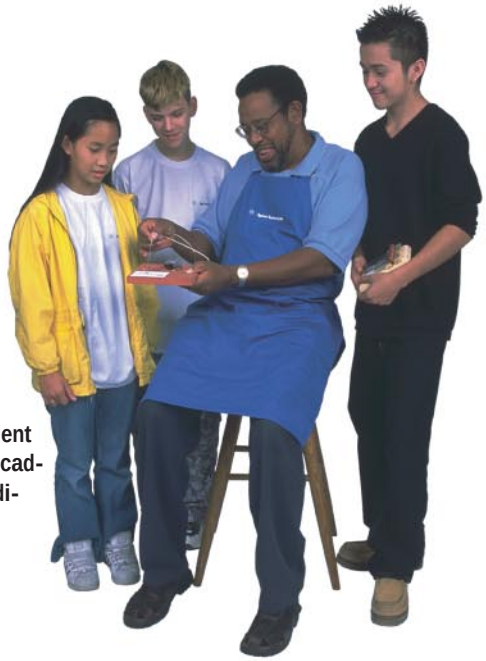
Agilent's strong corporate values—including trust, respect and teamwork—drive the way we treat our employees, customers, partners and the communities in which we do business. Our supplier diversity program, which focuses on minority-, women- and disabled-veteran-owned business enterprises, is a good example. In 2001 Agilent received two U.S. Corporation of the Year awards from affiliate councils of the National Minority Supplier Development Council—the Northern California Supplier Development Council and the Rocky Mountain Minority Supplier Development Council. This recognition highlights Agilent's initial successes in supplier diversity.

Managing for Environmental Sustainability

In 2001 Agilent took its first step toward company-wide ISO 14001 registration, recognized worldwide as a demonstration of a company's effectiveness in environmental management. Agilent registered, under a single certificate, its company-wide Environmental Health and Safety (EHS) Management System, along with systems at the San Francisco Bay Area Semiconductor Products Group and the Ipswich, England Components Operation. The South Queensferry, Scotland site and portions of the Boeblingen, Germany site have been registered independently and will be converted to the single company-wide certificate in 2002. Agilent has committed to complete worldwide registration by December 2003. The certification process includes a comprehensive audit by a third party (Bureau Veritas Quality International) and employee interviews regarding Agilent's environmental policies and practices.

Reaching Out to Our Communities

Agilent's global community relations programs, activities and events—known collectively as Agilent Action—tangibly demonstrate the company's values and its commitment to corporate citizenship. These programs focus on education and healthy communities. In 2001 Agilent launched its Agilent AfterSchool hands-on science program around the world. Five hundred Agilent employee volunteers worked with 28,000 children worldwide through Agilent AfterSchool.



Thousands of students around the world are staying after school and enjoying it more, thanks to the global Agilent AfterSchool program. Agilent supplies hands-on science kits so that students can learn about basic scientific principles. Students from Andrew Hill High School's Biotechnology Academy and Sylvandale Middle School, both in San Jose, California, visited Agilent headquarters this year to explore the science kits with teacher sponsors and Agilent employee and retiree mentors. Agilent donated $30,000 to the Andrew Hill Biotechnology Academy in 2001, one of the few programs in the U.S. dedicated to promoting careers in biotechnology.

FORTUNE® 100 BEST COMPANIES TO WORK FOR 2001

BEST EMPLOYERS IN ASIA — Hewitt · The Asian Wall Street Journal · Asiamoney

THE SUNDAY TIMES 50 BEST COMPANIES TO WORK FOR 2001

Agilent joined the ranks of elite employers by placing No. 46 on *Fortune* magazine's list of the "100 Best Companies to Work for in America" in January 2001. Agilent was named to other prestigious "best lists" in 2001, including "Best Employers in Asia," "Best Places to Work in France's High-tech Sector," "50 Best Companies to Work for in the UK," and "Best Places to Work in Silicon Valley." Employee responses to surveys from list sponsors play a key role in Agilent's ranking.

In other community outreach efforts, Agilent responded immediately to the tragic events of September 11. In addition to the local efforts of many of our employees, the company established a Disaster Relief Employee Matching Program, donating more than $600,000 to the American Red Cross and the United Way September 11th Fund.

Agilent also gave $5.3 million in equipment to 25 universities in seven countries. In addition, the company funds Ph.D. fellowships for top technical students around the world.

Building a Culture that Values All Employees

"Diversity and inclusion are key imperatives that influence all aspects of our business," said Ned Barnholt, Agilent president and CEO, in launching the company's Diversity Made Real program with employees in early 2001. The goal of this global initiative is to make diversity and inclusion an even more integral part of Agilent's culture, business and management practices worldwide.

In addition to introducing Diversity Made Real, Agilent underscored its commitment to valuing all employees by hosting the first Agilent Women's Conference in 2001. The conference drew 1,500 Agilent women (and a few men) from around the world to hear Agilent business leaders and notable guest speakers such as poet and author Maya Angelou. The conference provided an opportunity for building leadership through personal and professional development, networking and sharing.

Finding More About Agilent's Citizenship Programs

Agilent has just released its second annual Environment and Social Responsibility Report. The report details how we fulfill our corporate citizenship objective, which is "to be an economic, intellectual and social asset to each nation and community in which we operate." You can view the just published Environment and Social Responsibility Report 2001 at http://www.agilent.com/go/sustainability.

Agilent at a Glance

Test and Measurement

2001 Net Revenue: $5.4 Billion

Agilent creates and enables emerging technologies and solutions that make the next communications and electronics transformation real. As the leading provider of test and measurement equipment for the electronics industry, Agilent's test and measurement business enables designers and manufacturers of semiconductors, computers, peripherals, consumer-electronics and communications solutions to accelerate the high-volume delivery of their next-generation products.

Products: We produce current- and next-generation test products and solutions in fiber optics, broadband, radio frequency and microwave; network service testing, management and monitoring; general-purpose instruments; automated test equipment for semiconductors and printed circuit boards; high-frequency electronic design tools.

Markets and Customers: Communications network equipment manufacturers and service providers; component manufacturers and contract manufacturers; semiconductor manufacturers, aerospace and defense suppliers and information processing providers. Examples include Samsung, Verizon, General Electric, Ericsson, NEC, Solectron, Mitsubishi, Infineon, Motorola, Murata, Boeing, IBM and Hewlett-Packard.

Semiconductor Products

2001 Net Revenue: $1.9 Billion

The semiconductor products business is a leading supplier of semiconductor components, modules and assemblies for high-performance communications systems. The semiconductor products business designs, develops and manufactures products for the networking, wireless, computing and printing markets.

Products: Fiber optic communications devices and integrated circuits (ICs) for high-speed local-, metropolitan- and wide-area networks; radio-frequency, microwave and infrared devices and ICs for wireless communications products and infrastructure; application-specific ICs for computing and printing; optical image and position sensors for digital cameras and computer mice; optoelectronic devices.

Markets and Customers: A broad array of original equipment manufacturers and contract manufacturers in the communications and computing industries, including Cisco, Hitachi, EMC, Hewlett-Packard, Solectron, Logitech, Nokia, Alcatel, Huawei Technologies and Samsung.

Chemical Analysis

2001 Net Revenue: $1.1 Billion

The chemical analysis business provides applications, solutions, and services that enable customers to identify, quantify, analyze and test the biological or atomic, molecular and physical properties of substances and products.

Products: Microarrays, bioanalyzers, bioinformatic software, gas and liquid chromatographs, mass spectrometry systems and related supplies and consumables, such as LabChips,® chromatograph columns, and chemical and biological reagents.

Markets and Customers: A broad array of customers in the pharmaceutical, chemical and environmental industries, including Merck, GlaxoSmithKline, Amgen, Monsanto, Bayer and the U.S. Department of Agriculture.

One of the world's leading industrial research centers, **Agilent Laboratories** creates technological innovations that drive growth and profitability for Agilent. Agilent Labs draws on the talents of more than 425 researchers and support staff around the world. Its research staff is tightly aligned with the research and development teams of our businesses. Agilent Labs is a key contributor to the company's new business generation effort.

Agilent sells and distributes its products and services through its direct sales force as well as a number of alternate channels, including distributors, mail order, telephone and electronic commerce. Our businesses provide a range of services and customer support, including systems integration, technical and product support, consulting and knowledge services.

Shareholder Information

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

Investor Information
To receive paper copies of the annual report, proxy statement, Form 10-K, earnings announcements and other financial information, people in the United States and Canada should call our toll-free number: (877) 942-4200. People calling from outside the United States should dial (402) 573-9919.

You can also access financial information at Agilent's Investor Relations Web site. The address is http://www.investor.agilent.com.

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

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Chicago, IL 60690-3504

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

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

The e-mail address for general shareholder inquiries for Computershare is: web.queries@computershare.com.

Common Stock
Agilent is listed on the New York Stock Exchange, and our ticker symbol is ''A.'' There were approximately 74,768 registered shareholders as of Dec. 26, 2001. Since we plan to retain future earnings to maximize the growth and development of our company, we do not anticipate paying cash dividends in the foreseeable future. We do not currently offer direct purchase of Agilent shares from the company or a dividend re-investment plan (DRIP).

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You can also contact the Investor Relations Department via e-mail at the Agilent Investor Relations Web site at http://www.investor.agilent.com. Click on ''Contact Us'' to send a message.

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This document, including the letter titled ''To Our Shareholders,'' contains forward-looking statements (including, without limitation, information regarding projected reductions in costs, projected profitability, and projected operational transformations such as systems transformation, improvements in manufacturing, on-time delivery and procurement), that involve risks and uncertainties that could cause results of Agilent Technologies to differ materially from management's current expectations.

These risks include: the ability to execute successfully through the current economic downturn; the effects of the actions we have taken in response to the recent slowdown, including implementing workforce reductions; the timely ability to adapt manufacturing capacity to weak industry orders; the ability to quickly adapt cost structures to align with decreased levels of business; the ability to manage inventory levels to adapt to the current economic slowdown and setbacks in our customers' businesses; the successful redesign and implementation of our business processes and systems; our ability to successfully introduce new products; and other risks detailed in the company's filings with the U.S. Securities and Exchange Commission, including, without limitation: our Annual Report on Form 10-K for the year ended Oct. 31, 2000, Quarterly Report on Form 10-Q for the quarter ended July 31, 2001, and Current Reports on Form 8-K filed June 29, 2001, Aug. 15, 2001, Nov. 13, 2001, Nov. 16, 2001, Nov. 19, 2001, Nov. 20, 2001 and Nov. 27, 2001, as well as any subsequent filings made after Jan. 2, 2002.

The materials contained in this document are current as of Dec. 26, 2001, unless otherwise noted. The content of this document contains time-sensitive information that is accurate only as of this date. If any portion of this document is redistributed at a later date, Agilent will not be reviewing or updating the material in this presentation.

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