

AGILENT TECHNOLOGIES INC

Form 10-Q

May 31, 2018

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-15405

AGILENT TECHNOLOGIES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE 77-0518772

(State or other jurisdiction of (IRS employer  
incorporation or organization) Identification no.)

5301 STEVENS CREEK BLVD.,  
SANTA CLARA, CALIFORNIA 95051  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (408) 345-8886

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(do not check if a smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT MAY 24, 2018
COMMON STOCK, \$0.01 PAR VALUE	319,952,126

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## PART I— FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## AGILENT TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share amounts)

(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2018	2017	2018	2017
Net revenue:				
Products	\$918	\$839	\$1,848	\$1,654
Services and other	288	263	569	515
Total net revenue	1,206	1,102	2,417	2,169
Costs and expenses:				
Cost of products	402	364	785	711
Cost of services and other	160	146	315	292
Total costs	562	510	1,100	1,003
Research and development	91	84	184	163
Selling, general and administrative	338	307	679	596
Total costs and expenses	991	901	1,963	1,762
Income from operations	215	201	454	407
Interest income	10	5	19	9
Interest expense	(19 )	(20 )	(39 )	(40 )
Other income (expense), net	21	5	26	8
Income before taxes	227	191	460	384
Provision for income taxes	22	27	575	52
Net income (loss)	\$205	\$164	\$(115 )	\$332
Net income (loss) per share:				
Basic	\$0.64	\$0.51	\$(0.36 )	\$1.03
Diluted	\$0.63	\$0.50	\$(0.36 )	\$1.02
Weighted average shares used in computing net income (loss) per share:				
Basic	322	321	323	322
Diluted	326	325	323	325
Cash dividends declared per common share	\$0.149	\$0.132	\$0.298	\$0.264

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

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AGILENT TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(in millions)

(Unaudited)

	Three Months Ended		Six Months Ended	
	April 30, 2018	2017	April 30, 2018	2017
Net income (loss)	\$205	\$164	\$(115)	\$332
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative instruments, net of tax expense (benefit) of \$1, \$0, \$(2) and \$1	4	(1)	(3)	—
Amounts reclassified into earnings related to derivative instruments, net of tax expense (benefit) of \$2, \$0, \$2 and \$(1)	3	(1)	3	(1)
Foreign currency translation, net of tax expense of \$0, \$1, \$0 and \$0	(53)	7	26	4
Net defined benefit pension cost and post retirement plan costs:				
Change in actuarial net loss, net of tax expense of \$3, \$3, \$5 and \$11	7	9	13	26
Change in net prior service benefit, net of tax benefit of \$0, \$(1), \$(1) and \$(2)	(2)	(2)	(3)	(3)
Other comprehensive income (loss)	(41)	12	36	26
Total comprehensive income (loss)	\$164	\$176	\$(79)	\$358

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

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AGILENT TECHNOLOGIES, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEET  
 (in millions, except par value and share amounts)  
 (Unaudited)

	April 30, 2018	October 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$3,011	\$ 2,678
Accounts receivable, net	754	724
Inventory	594	575
Other current assets	166	192
Total current assets	4,525	4,169
Property, plant and equipment, net	798	757
Goodwill	2,618	2,607
Other intangible assets, net	314	361
Long-term investments	139	138
Other assets	390	394
Total assets	\$8,784	\$ 8,426
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 271	\$ 305
Employee compensation and benefits	271	276
Deferred revenue	333	291
Short-term debt	315	210
Other accrued liabilities	175	181
Total current liabilities	1,365	1,263
Long-term debt	1,800	1,801
Retirement and post-retirement benefits	226	234
Other long-term liabilities	776	293
Total liabilities	4,167	3,591
Commitments and contingencies (Note 11)		
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; 322 million shares at April 30, 2018 and 322 million shares at October 31, 2017 issued	3	3
Additional paid-in-capital	5,332	5,300
Accumulated deficit	(412)	(126)
Accumulated other comprehensive loss	(310)	(346)
Total stockholders' equity	4,613	4,831
Non-controlling interest	4	4
Total equity	4,617	4,835
Total liabilities and equity	\$8,784	\$ 8,426

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

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AGILENT TECHNOLOGIES, INC.  
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
 (in millions)  
 (Unaudited)

	Six Months Ended April 30,	
	2018	2017
Net income (loss)	\$(115 )	\$332
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	101	109
Share-based compensation	43	35
Deferred taxes	(13 )	20
Excess and obsolete inventory related charges	17	15
Other non-cash expense, net	2	2
Changes in assets and liabilities:		
Accounts receivable	(21 )	(48 )
Inventory	(34 )	(29 )
Accounts payable	(14 )	6
Employee compensation and benefits	(7 )	7
Change in assets and liabilities due to Tax Act	533	—
Other assets and liabilities	26	(76 )
Net cash provided by operating activities	518	373
Cash flows from investing activities:		
Investments in property, plant and equipment	(108 )	(75 )
Payment to acquire cost method investments	(1 )	—
Payment in exchange for convertible note	(2 )	—
Change in restricted cash and cash equivalents, net	1	—
Proceeds from divestitures	—	1
Acquisitions of businesses and intangible assets, net of cash acquired	(7 )	(70 )
Net cash used in investing activities	(117 )	(144 )
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	36	26
Payment of taxes related to net share settlement of equity awards	(29 )	(13 )
Payment of dividends	(96 )	(85 )
Proceeds from revolving credit facility	356	228
Repayment of debt and revolving credit facility	(251 )	(87 )
Treasury stock repurchases	(93 )	(194 )
Net cash used in financing activities	(77 )	(125 )
Effect of exchange rate movements	9	(4 )
Net increase in cash and cash equivalents	333	100
Cash and cash equivalents at beginning of period	2,678	2,289
Cash and cash equivalents at end of period	\$3,011	\$2,389

Supplemental cash flow information:

Income tax paid, net	\$48	\$41
Interest payments	\$43	\$40
Non-cash changes in investments in property, plant and equipment - increase (decrease)	\$(21 )	\$8

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

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AGILENT TECHNOLOGIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. OVERVIEW, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview. Agilent Technologies, Inc. ("we", "Agilent" or the "company"), incorporated in Delaware in May 1999, is a global leader in life sciences, diagnostics and applied chemical markets, providing application focused solutions that include instruments, software, services and consumables for the entire laboratory workflow.

Our fiscal year-end is October 31, and our fiscal quarters end on January 31, April 30 and July 31. Unless otherwise stated, these dates refer to our fiscal year and fiscal quarters.

Basis of Presentation. We have prepared the accompanying financial data for the three and six months ended April 30, 2018 and 2017 pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") in the U.S. have been condensed or omitted pursuant to such rules and regulations. The October 31, 2017 condensed balance sheet data was derived from audited financial statements but does not include all the disclosures required in audited financial statements by U.S. GAAP. The accompanying financial data and information should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended October 31, 2017.

In the opinion of management, the accompanying condensed consolidated financial statements contain all normal and recurring adjustments necessary for a fair statement of our condensed consolidated balance sheet as of April 30, 2018 and October 31, 2017, condensed consolidated statement of comprehensive income (loss) for the three and six months ended April 30, 2018 and 2017, condensed consolidated statement of operations for the three and six months ended April 30, 2018 and 2017, and condensed consolidated statement of cash flows for the six months ended April 30, 2018 and 2017.

Revision of Services and Other, Product Net Revenue and related Cost of Sales. In 2018, we identified a stream of service revenues that had been presented as product revenue in the prior year. We have now revised prior year's presentation to show the revenue within services and other to conform with the current presentation in fiscal 2018. The cost of sales associated with these newly identified service revenues has also been revised to align with the new presentation. For the three and six months ended April 30, 2017 service and other revenue increased \$3 million and \$6 million, respectively, and service and other cost of sales increased \$2 million and \$4 million, respectively, with corresponding reductions in product revenue and cost of sales. These corrections to the classifications are not considered to be material to current or prior periods and had no impact to our results of operations previously reported in our condensed consolidated statement of operations.

Use of Estimates. The preparation of condensed consolidated financial statements in accordance with GAAP in the U.S. requires management to make estimates and assumptions that affect the amounts reported in our condensed 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, inventory valuation, share-based compensation, retirement and post-retirement benefit plan assumptions, goodwill and purchased intangible assets and accounting for income taxes.

Variable Interest Entities. We make a determination upon entering into an arrangement whether an entity in which we have made an investment is considered a Variable Interest Entity (“VIE”). The company evaluates its investments in privately held companies on an ongoing basis. We have determined that as of April 30, 2018 there were no VIE’s required to be consolidated in the company’s consolidated financial statements because we do not have a controlling financial interest in any of the VIE’s that we have invested in nor are we the primary beneficiary. We account for these investments under either the equity or cost method, depending on the circumstances. We periodically reassess whether we are the primary beneficiary of a VIE. The reassessment process considers whether we have acquired the power to direct the most significant activities of the VIE through changes in governing documents or other circumstances. We also reconsider whether entities previously determined not to be VIEs have become VIEs, based on changes in facts and circumstances including changes in contractual arrangements and capital structure. As of April 30, 2018, the carrying value of our cost method investment in Lasergen, Inc. (“Lasergen”), a VIE, was \$80 million with a maximum exposure of \$80 million. The investments are included on the long-term investments line of the condensed consolidated balance sheet. Agilent’s initial ownership stake in Lasergen was 48 percent. During the three months ended April 30, 2018, we exercised our option and signed the merger agreement to acquire all of the remaining shares of Lasergen, Inc. that we

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

did not already own for an additional cash consideration of \$105 million. The acquisition of Lasergen was completed on May 7, 2018.

**Acquisition.** On March 7, 2018 we signed an agreement to acquire Advanced Analytical Technologies, Inc ("AATI") in a merger transaction for \$250 million in cash, subject to certain purchase price adjustments. AATI, headquartered in Ankeny, Iowa, develops, manufactures and markets capillary electrophoresis based solutions for automated nucleic acid analysis. The financial results of AATI will be included within Agilent's from the date of the close. On May 31, 2018, we completed the acquisition of Advanced Analytical Technologies, Inc ("AATI").

**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. The fair value of our senior notes, calculated from quoted prices which are primarily Level 1 inputs under the accounting guidance fair value hierarchy is lower than the carrying value by approximately \$4 million as of April 30, 2018 and exceeds the carrying value by approximately \$58 million as of October 31, 2017. The change in the fair value over carrying value in the six months ended April 30, 2018 is primarily due to fluctuations in market interest rates. 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 8, "Fair Value Measurements" for additional information on the fair value of financial instruments.

## 2. NEW ACCOUNTING PRONOUNCEMENTS

There were no changes to the new accounting pronouncements not yet adopted as described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017 except for the following:

In May 2014, the Financial Accounting Standards Board ("FASB") issued new revenue recognition guidance, Accounting Standard Codification Topic 606, Revenue from contract with customers, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. The objective of the new revenue standard is to significantly enhance comparability and clarify principles of revenue recognition practices across entities, industries, jurisdictions and capital markets. The guidance is effective for us at the beginning in November 1, 2018. We expect to adopt this standard on November 1, 2018 through application of the modified retrospective method reflecting the cumulative effect of initially applying the new guidance to revenue recognition in the first quarter of fiscal 2019. Under the new guidance, there are specific criteria to determine if a performance obligation should be recognized over time or at a point in time. We expect that in some cases the revenue recognition timing under the new guidance will change from current practice. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements and disclosures.

In February 2018, the FASB issued amendments to reporting comprehensive income to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act that was enacted in December 2017 that reduced the U.S. federal corporate income tax rate and made other changes to U.S. federal tax laws. The amendments in this update also require certain disclosures about stranded tax effects. The amendments are effective for us beginning November 1, 2019, and for interim periods within that fiscal year and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. We

expect to adopt this guidance on November 1, 2018. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements and disclosures.

In February 2018, FASB issued technical corrections and improvements to amendments published in January 2016 to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The provisions under these corrections and improvements are effective for us beginning November 1, 2018, and for interim periods within that year. Early adoption is not permitted. We currently do not expect this guidance to have a material impact on our consolidated financial statements and disclosures.

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

In March 2018, FASB issued amendments to SEC Staff Accounting Bulletin (“SAB”) No. 118. These amendments modified certain SEC material in Topic 740 for the income tax accounting implications of the recently issued Tax Act and generally serves to codify the SEC’s guidance released in SAB No. 118. These amendments are effective for us beginning November 1, 2018, and interim periods with that year. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements and disclosures.

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. SHARE-BASED COMPENSATION

Agilent accounts for share-based awards in accordance with the provisions of the authoritative 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 employee stock purchase plan (“ESPP”) and performance share awards granted to selected members of our senior management under the long-term performance plan (“LTPP”) based on estimated fair values.

Participants in the LTPP 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. Certain LTPP awards are generally designed to meet the criteria of a performance award with the performance metrics and peer group comparison based on the Total Stockholders’ Return (“TSR”) set at the beginning of the performance period. Effective November 1, 2015, the Compensation Committee of the Board of Directors approved another type of performance stock award, for the company's executive officers and other key employees. Participants in this program are also entitled to receive unrestricted shares of the company's stock after the end of a three-year period, if specified performance targets over the three-year period are met. The performance target for grants made in 2016 were based on Operating Margin (“OM”) and the performance grants made in 2017 and 2018 were based on Earnings Per Share (“EPS”). The performance targets for the LTPP-EPS grants for year 2 and year 3 of the performance period will be set in the first quarter of year 2 and year 3, respectively. All LTPP awards granted after November 1, 2015, are subject to a one-year post-vest holding period.

The final LTPP award may vary from zero to 200 percent of the target award. The maximum award value for awards granted in 2016 and 2017 cannot exceed 300 percent of the grant date target value. We consider the dilutive impact of these programs in our diluted net income per share calculation only to the extent that the performance conditions are expected to be met. 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.

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

	Three Months Ended April 30, 2018	Six Months Ended April 30, 2017	Three Months Ended April 30, 2018	Six Months Ended April 30, 2017
	(in millions)			
Cost of products and services	\$3	\$3	\$10	\$9
Research and development	1	1	4	3

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Selling, general and administrative	8	11	29	24
Total share-based compensation expense	\$12	\$15	\$43	\$36

At April 30, 2018 and October 31, 2017, there was no share-based compensation capitalized within inventory.

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AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

The following assumptions were used to estimate the fair value of awards granted.

	Three Months Ended April 30,		Six Months Ended April 30,	
	2018	2017	2018	2017
<b>LTPP:</b>				
Volatility of Agilent shares	21%	23%	21%	23%
Volatility of selected peer-company shares	14%-66%	15%-63%	14%-66%	15%-63%
Price-wise correlation with selected peers	32%	36%	32%	36%
Post-vest holding restriction discount for all executive awards	4.8%	5.3%	4.8%	5.3%

Shares granted under the LTPP (TSR) were valued using a Monte Carlo simulations model. The Monte Carlo simulation fair value model requires the use of highly subjective and complex assumptions, including the price volatility of the underlying stock. For the volatility of our 2017 and 2018 LTPP (TSR) grants, we used our own historical stock price volatility.

The ESPP allows eligible employees to purchase shares of our common stock at 85 percent of the price at purchase and uses the purchase date to establish the fair market value.

The estimated fair value of restricted stock units, LTPP (OM) and LTPP (EPS) awards is determined based on the market price of Agilent's common stock on the date of grant adjusted for expected dividend yield. The compensation cost for LTPP (OM) and LTPP (EPS) reflects the cost of awards that are probable to vest at the end of the performance period.

All awards granted in 2016 and thereafter to our senior management employees have a one-year post-vest holding restriction. The estimated discount associated with post-vest holding restrictions is calculated using the Finnerty model (see table above). The model calculates the potential lost value if the employee were able to sell the shares during the lack of marketability period, instead of being required to hold the shares. The model used the same historical stock price volatility and dividend yield assumption used for the Monte Carlo simulations model and an expected dividend yield to compute the discount.

#### 4. INCOME TAXES

For the three and six months ended April 30, 2018, the company's income tax expense was \$22 million with an effective tax rate of 9.7 percent and \$575 million with an effective tax rate of 125.0 percent, respectively. For the six months ended April 30, 2018, our effective tax rate and the resulting provision for income taxes were significantly impacted by the discrete charge of \$533 million related to the enactment of the U.S. Tax Cuts and Jobs Act (the "Tax Act") as discussed below. The income tax provision for the three and six months ended April 30, 2018 also includes the excess tax benefits from stock based compensation of \$7 million and \$18 million, respectively.

For the three and six months ended April 30, 2017, the company's income tax expense was \$27 million with an effective tax rate of 14.1 percent and \$52 million with an effective tax rate of 13.5 percent, respectively. The income tax provision for the three and six months ended April 30, 2017 included net discrete tax benefits of \$1 million and \$3 million, respectively. The significant component of the net discrete tax benefit for the three months ended April 30, 2017 included \$5 million of tax benefit related to return-to-provision adjustments in foreign jurisdictions. The significant component of the net discrete tax benefit for the six months ended April 30, 2017 included a \$11 million

tax expense related to an employee pension settlement gain and \$7 million of tax benefit for the settlement of an audit in Italy, and \$5 million tax benefit related to return-to-provision adjustments in foreign jurisdictions.

#### 2017 U.S. Tax Reform - Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted into law. The Tax Act enacted significant changes affecting our fiscal year 2018, including, but not limited to, (1) reducing the U.S. federal corporate tax rate and (2) imposing a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that had not been previously taxed in the U.S.

The Tax Act also establishes new tax provisions affecting our fiscal year 2019, including, but not limited to, (1) creating a new provision designed to tax global intangible low-tax income ("GILTI"); (2) generally eliminating U.S. federal taxes on dividends from foreign subsidiaries; (3) eliminating the corporate alternative minimum tax ("AMT"); (4) creating the base erosion anti-abuse tax ("BEAT"); (5) establishing a deduction for foreign derived intangible income ("FDII"); (6) repealing domestic production activity deduction; and (7) establishing new limitations on deductible interest expense and certain executive compensation.



AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

The Tax Act reduces the U.S. federal corporate tax rate from 35 percent to 21 percent effective January 1, 2018. Due to our fiscal year end, the lower corporate tax rate will be phased in, resulting in a U.S. statutory federal rate of 23 percent for our fiscal year ending October 31, 2018 and 21 percent for subsequent fiscal years.

ASC 740, Income Taxes, requires companies to recognize the effect of the tax law changes in the period of enactment. However, the SEC staff issued Staff Accounting Bulletin 118 ("SAB 118") which allows companies to record provisional amounts during a measurement period not extending beyond one year from the Tax Act enactment date. During the three months ended January 31, 2018, the company recognized a provisional amount of \$533 million which includes (1) an estimated provision of \$480 million of U.S. transition tax and correlative items on deemed repatriated earnings of non-U.S. subsidiaries and (2) an estimated provision of \$53 million associated with the impact of decreased U.S. corporate tax rate as described below. As of April 30, 2018, the company has not completed the accounting for all the impacts of the Tax Act. We were able to reasonably estimate certain effects and, therefore, recorded provisional adjustments associated with the Tax Act in the three months ended January 31, 2018, and they remain unchanged as of April 30, 2018.

**Deemed Repatriation Transition Tax ("Transition Tax"):** The Transition Tax is based on the company's total unrepatriated post-1986 earnings and profits ("E&P") of its foreign subsidiaries and the amount of non-U.S. taxes paid (Tax Pools) on such earnings. Historically, the company permanently reinvested a significant portion of these post-1986 E&P outside the U.S. For the remaining portion, the company previously accrued deferred taxes. Since the Tax Act required all foreign earnings to be taxed currently, the company recorded a provisional income tax expense of \$643 million for its one-time transition U.S. federal tax and a benefit of \$163 million for the reversal of related deferred tax liabilities. The resulting \$480 million net transition tax, reduced by existing tax credits, will be paid over 8 years in accordance with the election available under the Tax Act. These amounts represent the best estimate of all required calculations based on currently available information and do not include any potential state tax impacts. The one-time Transition Tax is based in part on cash and illiquid asset amounts present on various comparable measurement dates, some of which are as of our future fiscal year end. As a result, the company's calculation of the Transition Tax will change as the measurement dates occur and as federal and state tax authorities provide further guidance.

**Reduction of U.S. Federal Corporate Tax Rate:** The reduction of the corporate income tax rate requires companies to remeasure their deferred tax assets and liabilities as of the date of enactment. The provisional amount recorded in the six months ended April 30, 2018 for the remeasurement due to tax rate change is \$53 million. We have not yet completed our accounting for the measurement of deferred taxes. To calculate the remeasurement of deferred taxes, we estimated when the existing deferred taxes will be settled or realized. These estimates may be affected by activities in the remaining quarters and other analysis related to the Tax Act, including, but not limited to, the impact of state conformity to the tax law change.

**GILTI:** The Tax Act subjects a U.S. corporation to tax on its GILTI. The U.S. GAAP allows companies to make an accounting policy election to either (1) treat taxes due on future GILTI inclusions in the U.S. taxable income as a current-period expense when incurred ("period cost method") or (2) factoring such amounts into a company's measurement of its deferred taxes ("deferred method"). Our analysis of the new GILTI rules and how they may impact us is incomplete. Accordingly, we have not made a policy election regarding the treatment of GILTI tax.

**Indefinite Reinvestment Assertion:** The company incurred U.S. tax on substantially all of the prior accumulated earnings of its foreign subsidiaries as part of the Transition Tax. This increased the company's previously taxed earnings and will allow for the repatriation of the majority of its foreign earnings without any U.S. federal tax.

However, any repatriation of its foreign earnings could still be subjected to withholding taxes, state taxes or other income taxes that might be incurred. The company's analysis is incomplete at this time with respect to its investments intentions for its accumulated foreign earnings. During the period prescribed by SAB 118, the company will evaluate, among other factors, the need for cash within and outside the United States, legal entity capitalization requirements, cash controls imposed in foreign jurisdictions, withholding taxes and the availability to offset with foreign tax credits in determining its investment assertion on its accumulated foreign earnings.

Our estimates as described above, may change as a result of future guidance and interpretation from the Internal Revenue Service, the SEC, the FASB and various other taxing jurisdictions. In particular, we anticipate the U.S. state jurisdictions will continue to determine and announce their conformity or decoupling from the Tax Act either in its entirety or with respect to specific provisions. All of these potential legislative and interpretive actions could result in adjustments to our provisional estimates when the accounting for the income tax effects of the Tax Act is completed.

There were no substantial changes from our 2017 Annual Report on Form 10-K to the status of the open tax years in the first six months of fiscal year 2018. In the U.S., tax years remain open back to the year 2014 for federal income tax purposes and the year 2000 for significant states. In other major jurisdictions where the company conducts business, the tax years generally remain open back to the year 2001.

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

With these jurisdictions and the U.S., it is reasonably possible 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.

## 5. NET INCOME PER SHARE

The following is a reconciliation of the numerator and denominator of the basic and diluted net income per share computations for the periods presented below:

	Three Months Ended April 30, 2018		Six Months Ended April 30, 2017	
	2018	2017	2018	2017
	(in millions)			
Numerator:				
Net income (loss)	\$205	\$164	\$(115)	\$332
Denominator:				
Basic weighted-average shares	322	321	323	322
Potential common shares— stock options and other employee stock plans <sup>4</sup>	4	—	—	3
Diluted weighted-average shares	326	325	323	325

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 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 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.

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. In addition, we exclude from the calculation of diluted earnings per share stock options, ESPP, LTPP and restricted stock awards whose combined exercise price and unamortized fair value were greater than the average market price of our common stock because their effect would also be anti-dilutive.

For the three months ended April 30, 2018, 96,800 potential common shares were excluded from the calculation of diluted earnings per share. For the six months ended April 30, 2018, the diluted net loss per share is the same as basic net loss per share as the effects of all 6.6 million potential common shares outstanding would be anti-dilutive. For the three and six months ended April 30, 2017, 1,000 and 500 potential common shares were excluded from the calculation of diluted earnings per share.

## 6. INVENTORY

April 30, October 31,  
2018 2017

	(in millions)	
Finished goods	\$ 367	\$ 363
Purchased parts and fabricated assemblies	227	212
Inventory	\$ 594	\$ 575

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AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill balances and the movements for each of our reportable segments during the six months ended April 30, 2018:

	Life Science and Applied Markets (in millions)	Diagnostics and Genomics (in millions)	Agilent CrossLab (in millions)	Total
Goodwill as of October 31, 2017	\$ 818	\$ 1,285	\$ 504	\$ 2,607
Foreign currency translation impact	1	5	—	6
Goodwill arising from acquisitions	5	—	—	5
Goodwill as of April 30, 2018	\$ 824	\$ 1,290	\$ 504	\$ 2,618

The components of other intangible assets as of April 30, 2018 and October 31, 2017 are shown in the table below:

	Purchased Other Intangible Assets		
	Gross Carrying Amount (in millions)	Accumulated Amortization	Net Book Value
As of October 31, 2017			
Purchased technology	\$ 855	\$ 646	\$ 209
Trademark/Tradename	149	73	76
Customer relationships	151	112	39
Third-party technology and licenses	27	14	13
Total amortizable intangible assets	1,182	845	337
In-Process R&D	24	—	24
Total	\$ 1,206	\$ 845	\$ 361
As of April 30, 2018			
Purchased technology	\$ 858	\$ 676	\$ 182
Trademark/Tradename	149	80	69
Customer relationships	151	124	27
Third-party technology and licenses	28	17	11
Total amortizable intangible assets	1,186	897	289
In-Process R&D	25	—	25
Total	\$ 1,211	\$ 897	\$ 314

During the six months ended April 30, 2018, we recorded additions to goodwill of \$5 million and additions to other intangible assets of \$2 million related to an acquisition. We also acquired approximately \$1 million of third party technologies and licenses during the six months ended April 30, 2018. During the six months ended April 30, 2018, other intangible assets, net increased \$2 million due to the impact of foreign exchange translation.

Each quarter we review the events and circumstances to determine if impairment of indefinite-lived intangible assets and goodwill is indicated. There were no indicators of impairments of indefinite-lived intangible assets or goodwill during the three and six months ended April 30, 2018 and 2017, respectively.

Amortization expense of intangible assets was \$26 million and \$52 million for the three and six months ended April 30, 2018, respectively. Amortization expense of intangible assets was \$32 million and \$64 million for the three and six months ended April 30, 2017, respectively.

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

Future amortization expense related to existing finite-lived purchased intangible assets for the remainder of fiscal year 2018 and for each of the five succeeding fiscal years and thereafter is estimated below:

Estimated future amortization expense:

(in millions)

Remainder of 2018	\$47
2019	\$71
2020	\$56
2021	\$42
2022	\$31
2023	\$21
Thereafter	\$21

## 8. 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.

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

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 April 30, 2018 were as follows:

	Fair Value Measurement at April 30, 2018 Using			
	April 30, 2018	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)	\$2,171	\$2,171	\$ —	\$ —
Derivative instruments (foreign exchange contracts)	6	—	6	—
Long-term				
Trading securities	30	30	—	—
Total assets measured at fair value	\$2,207	\$2,201	\$ 6	\$ —
Liabilities:				
Short-term				
Derivative instruments (foreign exchange contracts)	\$8	\$—	\$ 8	\$ —
Long-term				
Deferred compensation liability	30	—	30	—
Total liabilities measured at fair value	\$38	\$—	\$ 38	\$ —

Financial assets and liabilities measured at fair value on a recurring basis as of October 31, 2017 were as follows:

	Fair Value Measurement at October 31, 2017 Using			
	October 31, 2017	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)	\$1,659	\$1,659	\$ —	\$ —
Derivative instruments (foreign exchange contracts)	4	—	4	—
Long-term				
Trading securities	32	32	—	—
Total assets measured at fair value	\$1,695	\$1,691	\$ 4	\$ —
Liabilities:				
Short-term				
Derivative instruments (foreign exchange contracts)	\$6	\$—	\$ 6	\$ —



Long-term

Deferred compensation liability	32	—	32	—
Total liabilities measured at fair value	\$38	\$—	\$ 38	\$ —

Our money market funds and trading securities 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, which is comprised of mutual funds, bonds and other similar instruments, and deferred compensation liability are reported at fair value, with gains or losses resulting from changes in fair value recognized currently in net income.

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

Certain derivative instruments are reported at fair value, with unrealized gains and losses, net of tax, included in accumulated other comprehensive loss within stockholders' equity. Realized gains and losses from the sale of these instruments are recorded in net income.

Impairment of Investments. There were no impairments of investments for the three and six months ended April 30, 2018 and 2017.

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

For the three and six months ended April 30, 2018 and 2017, there were no impairments of long-lived assets held and used or long-lived assets held for sale.

## 9. DERIVATIVES

We are exposed to foreign currency exchange rate fluctuations and interest rate changes in the normal course of our business. As part of our risk management strategy, we use derivative instruments, primarily forward contracts, purchased options to hedge economic and/or accounting exposures resulting from changes in foreign currency exchange 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 April 30, 2018, all interest rate swap contracts had either been terminated or had expired.

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 remaining gain to be amortized at April 30, 2018 was \$9 million. All deferred gains from terminated interest rate swaps are being amortized over the remaining life of the respective senior notes.

#### Cash Flow Hedges

We enter into foreign exchange contracts to hedge our forecasted operational cash flow exposures resulting from changes in foreign currency exchange rates. These foreign exchange contracts, carried at fair value, have maturities between one and twelve months. These derivative instruments are designated and qualify as cash flow hedges under the criteria prescribed in the authoritative guidance and are assessed for effectiveness against the underlying exposure every reporting period. Changes in the time value of the foreign exchange contract are excluded from the assessment of hedge effectiveness and are recognized in other income (expense) each period. The changes in fair value of the effective portion of the derivative instrument are recognized in accumulated other comprehensive income (loss). Amounts associated with cash flow hedges are reclassified to cost of sales in the condensed 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 (loss) 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 condensed 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. For the three and six months ended April 30, 2018 and 2017 ineffectiveness and gains and losses recognized in other income (expense) 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 which is being amortized to interest expense over the life of the 2022 senior notes. The remaining gain to be amortized related to the treasury lock agreements at April 30, 2018 was \$1 million.

In February 2016, Agilent executed three forward-starting pay fixed/receive variable interest rate swaps for the notional amount of \$300 million in connection with future interest payments to be made on our 2026 senior notes issued on September 15, 2016. These derivative instruments were designated and qualified as cash flow hedges under the criteria prescribed in the

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

authoritative guidance. The swap arrangements were terminated on September 15, 2016 with a payment of \$10 million and we recognized this as a deferred loss in accumulated other comprehensive income which is being amortized to interest expense over the life of the 2026 senior notes. The remaining loss to be amortized related to the interest rate swap agreements at April 30, 2018 was \$8 million.

#### 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 condensed consolidated statement of operations, in the current period, along with the offsetting foreign currency gain or loss on the underlying assets or liabilities.

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 April 30, 2018, was \$5 million. The credit-risk-related contingent features underlying these agreements had not been triggered as of April 30, 2018.

There were 110 foreign exchange forward contracts open as of April 30, 2018 and designated as cash flow hedges. There were 156 foreign exchange forward contracts open as of April 30, 2018 not designated as hedging instruments. The aggregated notional amounts by currency and designation as of April 30, 2018 were as follows:

Currency	Derivatives	Derivatives
	as Cash Flow Hedges	Designated Not Designated as Hedging Instruments
	Forward Contracts USD	Forward Contracts USD
	Buy/(Sell)	Buy/(Sell)
	(in millions)	
Euro	\$ (67 )	\$ 77
British Pound	(48 )	(3 )
Canadian Dollar	(41 )	3

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Australian Dollar	5	15
Malaysian Ringgit	—	(1 )
Japanese Yen	(64 )	9
Danish Krone	—	26
Korean Won	(42 )	—
Singapore Dollar	15	—
Swiss Franc	—	36
Chinese Yuan Renminbi	(45 )	—
Polish Zloty	—	(8 )
Swedish Krona	—	(10 )
Other	—	(7 )
Totals	\$ (287 )	\$ 137

## AGILENT TECHNOLOGIES, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

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 April 30, 2018 and October 31, 2017 were as follows:

## Fair Values of Derivative Instruments

Asset Derivatives	Fair Value		Liability Derivatives	Fair Value	
Balance Sheet Location	April 30,	October 31,	Balance Sheet Location	April 30,	October 31,
(in millions)	2018	2017		2018	2017
Derivatives designated as hedging instruments:					
Cash flow hedges					
Foreign exchange contracts					
Other current assets	\$ 3	\$ 2	Other accrued liabilities	\$ 3	\$ 2
Derivatives not designated as hedging instruments:					
Foreign exchange contracts					
Other current assets	\$ 3	\$ 2	Other accrued liabilities	\$ 5	\$ 4
Total derivatives	\$ 6	\$ 4		\$ 8	\$ 6

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

	Three Months Ended April 30, 2018	Six Months Ended April 30, 2017	Three Months Ended April 30, 2018	Six Months Ended April 30, 2017
	(in millions)			
Derivatives designated as hedging instruments:				
Cash Flow Hedges				
Foreign exchange contracts:				
Gain (loss) recognized in accumulated other comprehensive income (loss)	\$5	\$(1)	\$(5)	\$1
Gain (loss) reclassified from accumulated other comprehensive income (loss) into cost of sales	\$(5)	\$1	\$(5)	\$2
Derivatives not designated as hedging instruments:				
Gain (loss) recognized in other income (expense)	\$(5)	\$—	\$1	\$(3)

At April 30, 2018, the estimated amount of existing net gain that is expected to be reclassified from accumulated other comprehensive income (loss) to cost of sales within the next twelve months is \$2 million.

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

## 10. RETIREMENT PLANS AND POST RETIREMENT PENSION PLANS

Components of net periodic costs. For the three and six months ended April 30, 2018 and 2017, our net pension and post retirement benefit costs were comprised of the following:

	Three Months Ended April 30,					
	U.S. Pension Plans		Non-U.S. Pension Plans		U.S. Post Retirement Benefit Plans	
	2018	2017	2018	2017	2018	2017
	(in millions)					
Service cost—benefits earned during the period	\$—	\$—	\$4	\$4	\$—	\$—
Interest cost on benefit obligation	4	5	3	3	1	2
Expected return on plan assets	(7)	(6)	(12)	(10)	(2)	(2)
Amortization:						
Actuarial losses	—	1	8	9	2	2
Prior service credits	—	(1)	—	—	(2)	(2)
Total net plan costs	\$(3)	\$(1)	\$3	\$6	\$(1)	\$—
Settlements gains	\$—	\$—	\$—	\$—	\$—	\$—

	Six Months Ended April 30,					
	U.S. Pension Plans		Non-U.S. Pension Plans		U.S. Post Retirement Benefit Plans	
	2018	2017	2018	2017	2018	2017
	(in millions)					
Service cost—benefits earned during the period	\$—	\$—	\$10	\$8	\$—	\$—
Interest cost on benefit obligation	8	8	6	6	2	3
Expected return on plan assets	(14)	(12)	(23)	(20)	(4)	(4)
Amortization:						
Actuarial losses	—	2	15	18	4	5
Prior service credits	—	(1)	—	—	(4)	(4)
Total net plan costs	\$(6)	\$(3)	\$8	\$12	\$(2)	\$—
Settlements gains	\$—	\$—	\$(5)	\$(32)	\$—	\$—

We made no contributions to our U.S. defined benefit plans during the three and six months ended April 30, 2018. We contributed \$5 million and \$11 million to our non-U.S. defined benefit plans during the three and six months ended April 30, 2018, respectively.

We contributed \$25 million to our U.S. defined benefit plans during the three and six months ended April 30, 2017. We contributed \$6 million and \$9 million to our non-U.S. defined benefit plans during the three and six months ended April 30, 2017, respectively.

We do not expect to contribute to our U.S. defined benefit plans during the remainder of 2018 and we expect to contribute \$12 million to our non-U.S. defined benefit plans during the remainder of 2018.

Japanese Welfare Pension Insurance Law. In Japan, Agilent has employees' pension fund plans, which are defined benefit pension plans established under the Japanese Welfare Pension Insurance Law (JWPIL). The plans are composed of (a) a substitutional portion based on the pay-related part of the old-age pension benefits prescribed by JWPIL (similar to social security benefits in the United States) and (b) a corporate portion based on a contributory defined benefit pension arrangement established at the discretion of the company. During the six months ended April 30, 2017, Agilent received government approval and returned the substitutional portion of Japan's pension plan to the Japanese government, as allowed by the JWPIL. The initial transfer resulted in a net gain of \$32 million which was recorded within cost of sales and operating expenses in the condensed consolidated statement of operations. The net gain consisted of two parts - a gain of \$41 million, representing the difference between the fair values of the Accumulated Benefit Obligation (ABO) settled of \$65 million and the assets transferred from the pension trust to the government of Japan of \$24 million, offset by a settlement loss of \$9 million related to the recognition of previously unrecognized actuarial losses included in accumulated other comprehensive income. In the first quarter of fiscal year 2018, after the Japanese government's final review of our initial payment, we received a refund of \$5.2 million which was recorded as a settlement gain.



AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

## 11. WARRANTIES AND CONTINGENCIES

## Warranties

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 condensed consolidated balance sheet. Our standard warranty terms typically extend to one year from the date of delivery, depending on the product.

A summary of the standard warranty accrual activity is shown in the table below:

	Six Months Ended April 30, 2018 2017 (in millions)	
Beginning balance as of November 1,	\$ 34	\$ 35
Accruals for warranties including change in estimate	25	24
Settlements made during the period	(26 )	(25 )
Ending balance as of April 30,	\$ 33	\$ 34
Accruals for warranties due within one year	\$ 33	\$ 33
Accruals for warranties due after one year	—	1
Ending balance as of April 30,	\$ 33	\$ 34

## Contingencies

We are involved in lawsuits, claims, investigations and proceedings, including, but not limited to, intellectual property, commercial and employment matters, which arise in the ordinary course of business. There are no matters pending that we currently believe are probable and reasonably possible of having a material impact to our business, consolidated financial condition, results of operations or cash flows.

## 12. SHORT-TERM DEBT

## Credit Facilities

On September 15, 2014, Agilent entered into a credit agreement with a group of financial institutions which provides for a \$400 million five-year unsecured credit facility that will expire on September 15, 2019. On June 9, 2015, the commitments under the existing credit facility were increased by \$300 million and on July 14, 2017, the commitments under the existing credit facility were increased by an additional \$300 million so that the aggregate commitments under the facility now total \$1 billion. As of April 30, 2018, the company had borrowings of \$315 million outstanding under the credit facility. We were in compliance with the covenants for the credit facility during the three and six months ended April 30, 2018. In May 2018, the outstanding balance under our existing credit facility was paid in full.

## 2017 Senior Notes

In October 2007, the company issued an aggregate principal amount of \$600 million in senior notes ("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. The remaining \$100 million in senior notes matured on November 1, 2017 and were paid in full.

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

## 13. LONG-TERM DEBT

## Senior Notes

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

	April 30, 2018			October 31, 2017		
	Amortized Principal	Swap	Total	Amortized Principal	Swap	Total
	(in millions)					
2020 Senior Notes	499	9	508	499	11	510
2022 Senior Notes	399	—	399	398	—	398
2023 Senior Notes	596	—	596	596	—	596
2026 Senior Notes	297	—	297	297	—	297
Total	\$1,791	\$ 9	\$1,800	\$1,790	\$ 11	\$1,801

All outstanding notes listed above are unsecured and rank equally in right of payment with all of Agilent's other senior unsecured indebtedness. There have been no changes to the principal, maturity, interest rates and interest payment terms of the Agilent senior notes, detailed in the table above, in the six months ended April 30, 2018 as compared to the senior notes described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017. All interest rate swap contracts have been terminated and amounts to be amortized over the remaining life of the senior notes as of April 30, 2018 and October 31, 2017 are detailed above.

## 14. STOCKHOLDERS' EQUITY

## Stock Repurchase Program

On May 28, 2015, we announced that our board of directors had approved a new share repurchase program (the "2015 repurchase program"). The 2015 repurchase program authorizes the purchase of up to \$1.14 billion of our common stock at the company's discretion through and including November 1, 2018. The 2015 repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time. During the three and six months ended April 30, 2018, we repurchased 674,000 shares for \$46 million and 1.3 million shares for \$93 million, respectively, under this authorization. During the three and six months ended April 30, 2018, we retired approximately 711,000 treasury shares for \$49 million and 1.3 million treasury shares for \$93 million, respectively. During the three and six months ended April 30, 2017, we repurchased and retired approximately 1.6 million shares for \$83 million and 4.1 million shares for \$194 million, respectively, under this authorization. As of April 30, 2018, we had remaining authorization to repurchase up to \$517 million of our common stock under this program.

## Cash Dividends on Shares of Common Stock

During the three and six months ended April 30, 2018, we paid cash dividends of \$0.149 per common share or \$48 million and \$0.298 per common share or \$96 million on the company's common stock, respectively. During the three and six months ended April 30, 2017, we paid cash dividends of \$0.132 per common share or \$43 million and \$0.264 per common share or \$85 million on the company's common stock, respectively.

On May 16, 2018, our board of directors declared a quarterly dividend of \$0.149 per share of common stock or approximately \$48 million which will be paid on July 25, 2018 to all shareholders of record at close of business on July 3, 2018. The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

## Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component and related tax effects were as follows (in millions):

			Net defined benefit pension cost and post retirement plan costs	Unrealized gains (losses) on derivatives	Total
	Foreign currency translation	Prior service credits	Actuarial Losses		
	(in millions)				
Three Months Ended April 30, 2018					
As of January 31, 2018	\$(77 )	\$139	\$(322 )	\$(9 )	\$(269)
Other comprehensive income (loss) before reclassifications	(53 )	—	—	5	(48 )
Amounts reclassified out of accumulated other comprehensive income (loss)	—	(2 )	10	5	13
Tax expense	—	—	(3 )	(3 )	(6 )
Other comprehensive income (loss)	(53 )	(2 )	7	7	(41 )
As of April 30, 2018	\$(130)	\$137	\$(315 )	\$(2 )	\$(310)
Six Months Ended April 30, 2018					
As of October 31, 2017	\$(156)	\$140	\$(328 )	\$(2 )	\$(346)
Other comprehensive income (loss) before reclassifications	26	—	(1 )	(5 )	20
Amounts reclassified out of accumulated other comprehensive income (loss)	—	(4 )	19	5	20
Tax (expense) benefit	—	1	(5 )	—	(4 )
Other comprehensive income (loss)	26	(3 )	13	—	36
As of April 30, 2018	\$(130)	\$137	\$(315 )	\$(2 )	\$(310)

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

Reclassifications out of accumulated other comprehensive income (loss) for the three and six months ended April 30, 2018 and 2017 were as follows (in millions):

Details about accumulated other comprehensive income (loss) components	Amounts Reclassified				Affected line item in statement of operations
	from other comprehensive income (loss)				
	Three Months Ended April 30, 2018	2017	Six Months Ended April 30, 2018	2017	
Unrealized gain (loss) on derivatives	\$(5 )	\$1	\$(5 )	\$2	Cost of products
	(5 )	1	(5 )	2	Total before income tax
	2	—	2	(1 )	(Provision) benefit for income tax
	(3 )	1	(3 )	1	Total net of income tax
Net defined benefit pension cost and post retirement plan costs:					
Actuarial net loss	(10 )	(12 )	(19 )	(34 )	
Prior service benefit	2	3	4	5	
	(8 )	(9 )	(15 )	(29 )	Total before income tax
	3	2	4	8	Benefit for income tax
	(5 )	(7 )	(11 )	(21 )	Total net of income tax
Total reclassifications for the period	\$(8 )	\$(6 )	\$(14 )	\$(20 )	

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

Reclassifications out of accumulated other comprehensive income (loss) 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 together with curtailments and settlements (see Note 10 "Retirement Plans and Post Retirement Pension Plans").

## 15. SEGMENT INFORMATION

Description of segments. We are a global leader in life sciences, diagnostics and applied chemical markets, providing application focused solutions that include instruments, software, services and consumables for the entire laboratory workflow. Agilent has three business segments comprised of the life sciences and applied markets business, diagnostics and genomics business and the Agilent CrossLab business each of which comprises a reportable segment. 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 applied markets business provides application-focused solutions that include instruments and software 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 and cellular level. Key product categories include: liquid chromatography ("LC") systems and components; liquid chromatography mass spectrometry ("LCMS") systems; gas chromatography ("GC") systems and components; gas chromatography mass spectrometry ("GCMS") systems; inductively coupled plasma mass spectrometry ("ICP-MS") instruments; atomic absorption ("AA") instruments; microwave plasma-atomic emission spectrometry ("MP-AES") instruments; inductively coupled plasma optical emission spectrometry ("ICP-OES") instruments; raman spectroscopy; cell analysis plate based assays; laboratory software and informatics systems; laboratory automation; dissolution testing; vacuum pumps and measurement technologies.

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

Our diagnostics and genomics business is comprised of five areas of activity providing active pharmaceutical ingredients ("APIs") for oligo-based therapeutics as well as solutions that include reagents, instruments, software and consumables, which enable customers in the clinical and life sciences research areas to interrogate samples at the cellular and molecular level. First, our genomics business includes arrays for DNA mutation detection, genotyping, gene copy number determination, identification of gene rearrangements, DNA methylation profiling, gene expression profiling, as well as next generation sequencing ("NGS") target enrichment and genetic data management and interpretation support software. This business also includes solutions that enable clinical labs to identify DNA variants associated with genetic disease and help direct cancer therapy. Second, our nucleic acid solutions business provides equipment and expertise focused on production of synthesized oligonucleotides under pharmaceutical good manufacturing practices ("GMP") conditions for use as active pharmaceutical ingredients ("API") in an emerging class of drugs that utilize nucleic acid molecules for disease therapy. Next, our pathology solutions business is focused on product offerings to cancer diagnostics and anatomic pathology workflows. The broad portfolio of offerings includes immunohistochemistry ("IHC"), in situ hybridization ("ISH"), hematoxylin and eosin ("H&E") staining and special staining. We also collaborate with a number of major pharmaceutical companies to develop new potential pharmacodiagnosics, also known as companion diagnostics, which may be used to identify patients most likely to benefit from a specific targeted therapy. Finally, the reagent partnership business is a provider of reagents used for turbidimetry and flow cytometry.

The Agilent CrossLab business spans the entire lab with its extensive consumables and services portfolio, which is designed to improve customer outcomes. The majority of the portfolio is vendor neutral, meaning Agilent can serve and supply customers regardless of their instrument purchase choices. Solutions range from chemistries and supplies to services and software helping to connect the entire lab. Key product categories in consumables include GC and LC columns, sample preparation products, custom chemistries, and a large selection of laboratory instrument supplies. Services include startup, operational, training and compliance support, software as a service, as well as asset management and consultative services that help increase customer productivity. Custom service and consumable bundles are tailored to meet the specific application needs of various industries and to keep instruments fully operational and compliant with the respective industry requirements.

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 legal, accounting, tax, real estate, insurance services, information technology services, treasury, order administration, other corporate infrastructure expenses and costs of centralized research and development. 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. In addition, we do not allocate amortization and impairment of acquisition-related intangible assets, pension curtailment or settlement gains, restructuring and transformational initiatives expenses, acquisition and integration costs, business exit and divestiture costs, special compliance costs, some nucleic acid solutions division ("NASD") site costs and certain other charges to the operating margin for each segment because management does not include this information in its measurement of the performance of the operating segments. Transformational initiatives include expenses associated with targeted cost reduction activities such as manufacturing transfers, site consolidations, legal entity and other business reorganizations, in-sourcing or outsourcing of activities.

The following tables reflect the results of our reportable segments under our management reporting system. The performance of each segment is measured based on several metrics, including segment 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.





AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

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

	Three Months Ended April 30, 2018		Six Months Ended April 30, 2017	
	2018	2017	2018	2017
	(in millions)			
Net Revenue:				
Life Sciences and Applied Markets	\$561	\$523	\$1,179	\$1,063
Diagnostics and Genomics	219	201	404	365
Agilent CrossLab	426	378	834	741
Total net revenue	\$1,206	\$1,102	\$2,417	\$2,169

## Segment Income From Operations:

Life Sciences and Applied Markets	\$119	\$110	\$278	\$236
Diagnostics and Genomics	44	49	66	72
Agilent CrossLab	98	82	186	156
Total segment income from operations	\$261	\$241	\$530	\$464

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

	Three Months Ended April 30, 2018		Six Months Ended April 30, 2017	
	2018	2017	2018	2017
	(in millions)			
Total reportable segments' income from operations	\$261	\$241	\$530	\$464
Transformational initiatives	(5 )	—	(9 )	(2 )
Amortization of intangible assets related to business combinations	(25 )	(31 )	(50 )	(62 )
Acquisition and integration costs	(4 )	(7 )	(7 )	(21 )
Business exit and divestiture costs	(8 )	—	(8 )	—
Pension settlement gain	—	—	5	32
NASD site costs	(2 )	—	(4 )	—
Special compliance costs	(1 )	—	(2 )	—
Other	(1 )	(2 )	(1 )	(4 )
Interest income	10	5	19	9
Interest expense	(19 )	(20 )	(39 )	(40 )
Other income (expense), net	21	5	26	8
Income before taxes, as reported	\$227	\$191	\$460	\$384

The following table reflects segment assets under our management reporting system. Segment assets include allocations of corporate assets, goodwill, net other intangibles and other assets. Unallocated assets primarily consist of cash, cash equivalents, the valuation allowance relating to deferred tax assets and other assets.

April 30/October 31,  
2018 2017

(in millions)

Segment Assets:

Life Sciences and Applied Markets	\$1,758	\$ 1,753
Diagnostics and Genomics	2,136	2,119
Agilent CrossLab	1,173	1,138
Total segment assets	\$5,067	\$ 5,010

16. SUBSEQUENT EVENTS

Credit Facility. In May 2018, the outstanding balance under our existing credit facility was paid in full.

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AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

**Declaration of Dividends.** On May 16, 2018, our board of directors declared a quarterly dividend of \$0.149 per share of common stock or approximately \$48 million which will be paid on July 25, 2018 to all shareholders of record at close of business on July 3, 2018.

**Acquisitions.** On May 7, 2018, we completed the acquisition of Lasergen, Inc. (Lasergen), an emerging biotechnology company focused on research and development of innovative technologies for DNA sequencing, for an additional cash consideration of \$105 million. On May 14, 2018, we acquired 100 percent of the stock of Genohm SA (“Genohm”), an international lab informatics company, for approximately \$40 million in cash. Genohm, headquartered in Switzerland, provides lab informatics services specific to compliance, traceability, and big lab data management. On May 31, 2018, we completed the acquisition of Advanced Analytical Technologies, Inc (“AATI”) for approximately \$250 million in cash.

On May 23, 2018, we signed an agreement to acquire certain assets from Young In Scientific Co. Ltd., a leading distributor of analytical and scientific instruments in South Korea, for cash. The acquisition is subject to local laws and regulations and customary closing conditions. The financial results of the business related to the acquired assets will be included within our financial results from the date of the close, which is expected to be during the fourth quarter of 2018.

On May 25, 2018, we signed an agreement to acquire substantially all of the assets and liabilities of Ultra Scientific Incorporated, a global manufacturer and supplier of analytical standards and certified reference materials, for cash. The acquisition is subject to local laws and regulations and customary closing conditions. The financial results of the business related to the acquired assets will be included within our financial results from the date of the close, which is expected to be during the third quarter of 2018.

In total, the cash payment for both asset acquisitions will be approximately \$60 million.

**Segment Reporting Changes.** In May 2018, we announced we will re-organize our microfluidics business, which currently is included in our life science and applied markets segment, will be moved to our diagnostics and genomics operating segment. Following this re-organization, Agilent will continue to have three businesses - life sciences and applied markets, diagnostics and genomics and Agilent Crosslab- each of which will comprise a reportable segment. All historical segment numbers will be recast to conform to this new reporting structure in our financial statements, beginning with our Form 10-Q filing for the third quarter of 2018.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (UNAUDITED)

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q and our Annual Report on Form 10-K. This report contains forward-looking statements including, without limitation, statements regarding trends, seasonality and growth in, and drivers of, the markets we sell into, our strategic direction, our future effective tax rate and tax valuation allowance, earnings from our foreign subsidiaries, lease and site services income from Keysight, the impact of foreign currency movements on our performance, our hedging programs, indemnification, new product and service introductions, the ability of our products to meet market needs, adoption of our products, changes to our manufacturing processes, the use of contract manufacturers, out sourcing and third-party package delivery services, source 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, including in research and development, the potential impact of adopting new accounting pronouncements, our financial results, our operating margin, our sales, our purchase commitments, our capital expenditures, our contributions to our pension and other defined benefit plans, our strategic initiatives, our cost-control activities and other cost saving initiatives, the integration of our acquisitions and other transactions, impairment of goodwill and other intangible assets, our stock repurchase program, our declared dividends, 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 Part II Item 1A and elsewhere in this Form 10-Q.

Basis of Presentation

The financial information presented in this Form 10-Q is not audited and is not necessarily indicative of our future consolidated financial position, results of operations, comprehensive income (loss) or cash flows. Our fiscal year-end is October 31, and our fiscal quarters end on January 31, April 30 and July 31. Unless otherwise stated, these dates refer to our fiscal year and fiscal periods.

Executive Summary

Agilent Technologies Inc. ("we", "Agilent" or the "company"), incorporated in Delaware in May 1999, is a global leader in life sciences, diagnostics and applied chemical markets, providing application focused solutions that include instruments, software, services and consumables for the entire laboratory workflow.

On May 14, 2018, we acquired 100 percent of the stock of Genohm SA ("Genohm"), an international lab informatics company, for approximately \$40 million in cash. Genohm, headquartered in Switzerland, provides lab informatics services specific to compliance, traceability, and big lab data management.

In May 2018, we repatriated \$1.5 billion of the \$2.98 billion of cash held outside the U.S. Also in May 2018, we repaid the outstanding balance under our existing credit facility.

During the three months ended April 30, 2018, we exercised our option and signed the merger agreement to acquire all of the remaining shares of Lasergen, Inc. that we did not already own for an additional cash consideration of \$105 million. The acquisition of Lasergen was completed on May 7, 2018.

On March 7, 2018, we signed an agreement to acquire 100 percent of the stock of Advanced Analytical Technologies, Inc ("AATI") in a merger transaction for \$250 million in cash, subject to certain purchase price adjustments. AATI, headquartered in Ankeny, Iowa, develops, manufactures and markets capillary electrophoresis based solutions for

automated nucleic acid analysis. The financial results of AATI will be included within our financial results from the date of the close. On May 31, 2018, we completed the acquisition of AATI.

On May 23, 2018, we signed an agreement to acquire certain assets from Young In Scientific Co. Ltd., a leading distributor of analytical and scientific instruments in South Korea, for cash. The acquisition is subject to local laws and regulations and customary closing conditions. The financial results of the business related to the acquired assets will be included within our financial results from the date of the close, which is expected to be during the fourth quarter of 2018. On May 25, 2018, we signed an agreement to acquire substantially all of the assets and liabilities of Ultra Scientific Incorporated, a global manufacturer and supplier of analytical standards and certified reference materials, for cash. The acquisition is subject to local laws and regulations and customary closing conditions. The financial results of the business related to the acquired assets will be included within our financial results from the date of the close, which is expected to be during the third quarter of 2018. In total, the cash payment for both asset acquisitions will be approximately \$60 million.

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Net revenue of \$1,206 million for the three months ended April 30, 2018 increased 9 percent when compared to the same period last year. Net revenue of \$2,417 million for the six months ended April 30, 2018 increased 11 percent when compared to the same period last year. Foreign currency movements for the three and six months ended April 30, 2018 had a favorable impact on revenue of approximately 4 percentage points in both periods when compared to the same period last year. Revenue in the life sciences and applied markets business for the three and six months ended April 30, 2018, increased 7 percent and 11 percent, respectively, when compared to the same periods last year. Foreign currency movements for the three and six months ended April 30, 2018 had an overall favorable impact on revenue of 4 percentage points in both periods when compared to the same periods last year. Revenue in the diagnostics and genomics business for the three and six months ended April 30, 2018, increased 9 percent and 11 percent, respectively, when compared to the same periods last year. Foreign currency movements for the three and six months ended April 30, 2018 had an overall favorable impact on revenue of 5 percentage points in both periods when compared to the same periods last year. Revenue generated by Agilent CrossLab in the three and six months ended April 30, 2018, increased 13 percent and 12 percent, respectively, when compared to the same periods last year. Foreign currency movements for the three and six months ended April 30, 2018 had an overall favorable impact on revenue of 6 percentage points and 4 percentage points, respectively, when compared to the same periods last year. We calculate the impact of foreign currency exchange rates movements by applying the actual foreign currency exchange rates in effect during the last month of the current year period to both the current year and prior year periods.

Net income for the three months ended April 30, 2018 was \$205 million compared to net income of \$164 million for the corresponding period last year. Net loss for the six months ended April 30, 2018 was \$115 million compared to net income of \$332 million for the corresponding period last year. The net loss for the six months ended April 30, 2018 was primarily from the discrete tax charge of \$533 million related to the enactment of the U.S. Tax Cuts and Jobs Act (the "Tax Act") passed on December 22, 2017. See Note 4, "Income Taxes" for more details. In the six months ended April 30, 2018, cash generated from operations was \$518 million compared to \$373 million in the same period last year.

For the six months ended April 30, 2018 and 2017, cash dividends of \$96 million and \$85 million, respectively, were paid on the company's outstanding common stock. On May 16, 2018, our board of directors declared a quarterly dividend of \$0.149 per share of common stock or approximately \$48 million which will be paid on July 25, 2018 to all shareholders of record at close of business on July 3, 2018. The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

On May 28, 2015, we announced that our board of directors had approved a new share repurchase program (the "2015 repurchase program"). The 2015 repurchase program authorizes the purchase of up to \$1.14 billion of our common stock at the company's discretion through and including November 1, 2018. The 2015 repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time. During the three and six months ended April 30, 2018, we repurchased 674,000 shares for \$46 million and 1.3 million shares for \$93 million, respectively, under this authorization. During the three and six months ended April 30, 2018, we retired approximately 711,000 treasury shares for \$49 million and 1.3 million treasury shares for \$93 million, respectively. During the three and six months ended April 30, 2017, we repurchased and retired approximately 1.6 million shares for \$83 million and 4.1 million shares for \$194 million, respectively, under this authorization. As of April 30, 2018, we had remaining authorization to repurchase up to \$517 million of our common stock under this program.

Looking forward, we continue to focus on the growth of operating margin in our businesses by simplifying our operations, differentiating product solutions and improving our customers' experience. In addition, we remain focused on returning a significant proportion of our cash flow to shareholders through our dividend and share repurchase programs. With our focus on making our company more agile and responsive to our market environment and our

growing product solutions portfolio, we remain optimistic about our growth opportunities in most of our key end markets and geographies. We expect continued strength from our pharmaceutical market and solid growth from our chemical and energy market. Geographically, we anticipate strong revenue growth from our European and American businesses but expect growth in China to be modest due to the reorganization of several government agencies. The favorable effects of changes in foreign currency exchange rates increased revenue by approximately 4 percentage points in the six months ended April 30, 2018. Costs and expenses, incurred in local currency, were subject to the unfavorable effects due to changes in foreign currency exchange rates in the six months ended April 30, 2018, increasing our overall net exposure. The impact of foreign currency exchange rates movements can be positive or negative in any period and is calculated by applying the actual foreign currency exchange rates in effect during the last month of the current year period to both the current year and prior year periods.



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### Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles ("GAAP") in the U.S. The preparation of condensed consolidated financial statements in conformity with GAAP in the U.S. requires management to make estimates, judgments and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. 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 benefit plan assumptions, goodwill and purchased intangible assets and accounting for income taxes. Other than accounting for income taxes as described below, there have been no significant changes to our critical accounting policies as described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017. 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.

**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. On a quarterly basis, we provide for income taxes based upon an estimated annual effective tax rate. The effective tax rate is highly dependent upon the geographic composition of worldwide earnings, tax regulations governing each region, availability of tax credits and the effectiveness of our tax planning strategies. We monitor the changes in many factors and adjust our effective income tax rate on a timely basis. If actual results differ from these estimates, this could have a material effect on our financial condition and results of operations.

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 deferred tax assets may not be realized, a valuation allowance must be established against such deferred tax assets. 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. At April 30, 2018, we continue to recognize a valuation allowance for certain U.S. and 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.

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.

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted into law. The Tax Act significantly changes the existing U.S. tax law and includes numerous provisions that affect our business. ASC 740, Income Taxes, requires companies to recognize the effect of the tax law changes in the period of enactment. However, the SEC staff issued Staff Accounting Bulletin 118 which allows companies to record provisional amounts during a measurement period that should not extend beyond one year from the Tax Act enactment date. We have recognized the provisional tax charge of \$480 million due to transition tax liability and \$53 million due to the impact of reduction in U.S. tax rates in the period when the tax law was enacted as a component of provision for income taxes from continuing operations. See Note 4, "Income Taxes" for more details. The company will continue to assess the impact of the enacted tax law, expected further guidance from federal and state tax authorities as well as any further guidance for the associated income tax accounting on its business and consolidated financial statements. The company will also

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continue to evaluate the impact of the tax law change as it relates to the accounting for the outside basis difference of its foreign entities. We expect to fully complete our provisional calculation within the reasonable measurement period allowed by SEC staff guidance.

## Adoption of New Pronouncements

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

## 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. The favorable effects of changes in foreign currency exchange rates has increased revenue by approximately 4 percentage points in the six months ended April 30, 2018. Costs and expenses, incurred in local currency, were subject to the unfavorable effects due to changes in foreign currency exchange rates in the six months ended April 30, 2018, increasing our overall net exposure. We calculate the impact of foreign currency exchange rates movements by applying the actual foreign currency exchange rates in effect during the last month of the current year period to both the current and prior year periods. 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 condensed 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, we 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

## Net Revenue

	Three Months Ended		Six Months Ended		Year over Year Change	
	April 30, 2018	2017	April 30, 2018	2017	Three Months	Six Months
	(in millions)					
Net revenue:						
Products	\$918	\$839	\$1,848	\$1,654	9%	12%
Services and other	288	263	569	515	10%	11%
Total net revenue	\$1,206	\$1,102	\$2,417	\$2,169	9%	11%

Net revenue of \$1,206 million for the three months ended April 30, 2018 increased 9 percent when compared to the same period last year. Revenue in the three months ended April 30, 2018 was negatively impacted by the Lunar New Year due to fewer selling days and lower shipment volume as some customers requested earlier delivery resulting in revenue being recognized in the first quarter instead of the second quarter of fiscal 2018. Net revenue of \$2,417 million for the six months ended April 30, 2018 increased 11 percent when compared to the same period last year. Foreign currency movements for the three and six months ended April 30, 2018 had a favorable impact on revenue of approximately 4 percentage points in both periods when compared to the same period last year.

Services and other revenue increased 10 percent and 11 percent for the three and six months ended April 30, 2018, respectively, when compared to the same periods last year. Services and other revenue primarily consists of revenue generated from Agilent CrossLab services and services in the diagnostics and genomics business including consulting services related to the companion diagnostics and nucleic acid businesses. Some of the prominent services include repair and maintenance on multi-vendor instruments, compliance services and installation services. For the three months ended April 30, 2018, Agilent CrossLab business service revenue increased 12 percent, with a 6 percentage point favorable currency impact when compared to the same period last year. Agilent CrossLab business service revenue increased 12 percent, with a 5 percentage point favorable currency impact, for the six months ended April 30, 2018 when compared to the same period last year. A broad spectrum of service order types and nearly all end markets contributed to the growth for both the three and six months ended April 30, 2018. For the three

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and six months ended April 30, 2018, the diagnostics and genomics services increase was driven by higher services revenue in pathology and genomics businesses due to higher instrument base compared to last year.

## Net Revenue By Segment

	Three Months Ended		Six Months Ended		Year over Year Change	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017	Three Months	Six Months
(in millions)						
Net revenue by segment:						
Life sciences and applied markets	\$561	\$523	\$1,179	\$1,063	7%	11%
Diagnostics and genomics	219	201	404	365	9%	11%
Agilent Crosslab	426	378	834	741	13%	12%
Total net revenue	\$1,206	\$1,102	\$2,417	\$2,169	9%	11%

Revenue in the life sciences and applied markets business for the three and six months ended April 30, 2018, increased 7 percent and 11 percent, respectively, when compared to the same periods last year. Foreign currency movements for the three and six months ended April 30, 2018 had an overall favorable impact on revenue of 4 percentage points in both periods when compared to the same periods last year. For the three and six months ended April 30, 2018, our performance within the life sciences market showed continued solid revenue growth from our pharmaceutical and biotechnology market and strong revenue growth in our life science research market. Within the applied markets, there was strong revenue growth in the chemical and energy markets and modest growth in our environmental and forensics market in the three and six months ended April 30, 2018, when compared to the same period last year. Revenue growth was partially offset by the decline in the food market in the three months ended April 30, 2018; however, revenue related to the food market contributed to the revenue growth in the six months ended April 30, 2018.

Revenue in the diagnostics and genomics business for the three and six months ended April 30, 2018, increased 9 percent and 11 percent, respectively, when compared to the same periods last year. Foreign currency movements for the three and six months ended April 30, 2018 had an overall favorable impact on revenue of 5 percentage points in both periods when compared to the same periods last year. For the three months ended April 30, 2018, revenue growth was strong in our pharmaceutical markets and diagnostics and clinical markets led by our reagent partnership and genomics businesses offset by softness in other areas of our business when compared to the same period last year. For the six months ended April 30, 2018, revenue growth was strong in our pharmaceutical markets and diagnostics and clinical markets led by our reagent partnership, genomics businesses and our pathology and companion diagnostics businesses.

Revenue generated by Agilent CrossLab in the three and six months ended April 30, 2018, increased 13 percent and 12 percent, respectively, when compared to the same periods last year. Foreign currency movements for the three and six months ended April 30, 2018 had an overall favorable impact on revenue of 6 percentage points and 4 percentage points, respectively, when compared to the same periods last year. For the three and six months ended April 30, 2018, revenue grew across nearly all key markets led by strong growth in the pharmaceutical and biotechnology markets and life science research markets primarily driven by our consumables portfolio.

## Operating Results

	Three Months Ended	Six Months Ended	Year over Year Change
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	April 30,	April 30,	Three	Six
	2018	2017	2018	2017
			Months	Months
Total gross margin	53.4 %	53.7 %	54.5 %	53.8 %
Operating margin	17.8 %	18.2 %	18.8 %	18.8 %

(in millions)

Research and development	\$91	\$84	\$184	\$163	8%	13%
Selling, general and administrative	\$338	\$307	\$679	\$596	10%	14%

Total gross margin for the three and six months ended April 30, 2018 was flat and increased 1 percentage point, respectively, when compared to the same periods last year. Gross margins for the three months ended April 30, 2018 reflects higher sales volume,

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lower amortization expense offset by increased wages and variable pay, higher inventory charges and unfavorable currency movements. The increase in gross margins for the six months ended April 30, 2018 reflects higher sales volume, favorable business mix, lower manufacturing material costs and lower amortization expense of intangible assets partially offset by increased wages, variable pay and inventory charges.

Total operating margin for the three and six months ended April 30, 2018 was relatively flat in both periods when compared to the same periods last year. The increase in operating margins for the three and six months ended April 30, 2018 was impacted by lower acquisition and integration costs and lower amortization expense offset by increased wages and variable pay, research and development costs, general administrative costs and unfavorable currency movements.

Research and development expenses in the three and six months ended April 30, 2018 increased 8 percent and 13 percent, respectively, when compared to the same periods last year. Research and development expenses increased due to increased program spending on new products related to all of our businesses in addition to higher wages and variable pay and unfavorable currency movements when compared to spending in the same period last year. We remain committed to invest significantly 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 10 percent and 14 percent in the three and six months ended April 30, 2018, respectively, when compared to the same periods last year. The increase in selling, general and administrative expenses for the three months ended April 30, 2018 was due to higher wages and variable pay, higher selling costs and transformational initiative costs partially offset by lower share-based compensation expense. The increase in selling, general and administrative expenses for the six months ended April 30, 2018 was due to higher wages and variable pay, increased corporate costs, higher share-based compensation expense, higher selling and administrative costs and unfavorable currency movements.

At April 30, 2018, our headcount was approximately 14,000 as compared to approximately 12,900 at April 30, 2017.

### Other income (expense), net

In the three and six months ended April 30, 2018, other income (expense), net, includes approximately \$15 million of income related to a special one-time settlement with a third-party. In the three and six months ended April 30, 2018 and 2017, other income (expense), net, also includes \$3 million and \$6 million of income in both periods related to the provision of site service costs to, and lease income from Keysight. The costs associated with these services are reported within income from operations.

### Income Taxes

For the three and six months ended April 30, 2018, the company's income tax expense was \$22 million with an effective tax rate of 9.7 percent and \$575 million with an effective tax rate of 125.0 percent, respectively. For the six months ended April 30, 2018, our effective tax rate and the resulting provision for income taxes were significantly impacted by the discrete charge of \$533 million related to the enactment of the U.S. Tax Cuts and Jobs Act (the "Tax Act") as discussed below. The income tax provision for the three and six months ended April 30, 2018 also includes the excess tax benefits from stock based compensation of \$(7) million and \$(18) million, respectively.

For the three and six months ended April 30, 2017, the company's income tax expense was \$27 million with an effective tax rate of 14.1 percent and \$52 million with an effective tax rate of 13.5 percent, respectively. The income tax provision for the three and six months ended April 30, 2017 included net discrete tax benefits of \$1 million and \$3

million, respectively. The significant component of the net discrete tax benefit for the three months ended April 30, 2017 included \$5 million of tax benefit related to return-to-provision adjustments in foreign jurisdictions. The significant component of the net discrete tax benefit for the six months ended April 30, 2017 included a \$11 million tax expense related to an employee pension settlement gain and \$7 million of tax benefit for the settlement of an audit in Italy, and \$5 million tax benefit related to return-to-provision adjustments in foreign jurisdictions.

#### 2017 U.S. Tax Reform - Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted into law. The Tax Act enacted significant changes affecting our fiscal year 2018, including, but not limited to, (1) reducing the U.S. federal corporate tax rate and (2) imposing a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that had not been previously taxed in the U.S.

The Tax Act also establishes new tax provisions affecting our fiscal year 2019, including, but not limited to, (1) creating a new provision designed to tax global intangible low-tax income ("GILTI"); (2) generally eliminating U.S. federal taxes on dividends



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from foreign subsidiaries; (3) eliminating the corporate alternative minimum tax (“AMT”); (4) creating the base erosion anti-abuse tax (“BEAT”); (5) establishing a deduction for foreign derived intangible income (“FDII”); (6) repealing domestic production activity deduction; and (7) establishing new limitations on deductible interest expense and certain executive compensation.

The Tax Act reduces the U.S. federal corporate tax rate from 35 percent to 21 percent effective January 1, 2018. Due to our fiscal year end, the lower corporate tax rate will be phased in, resulting in a U.S. statutory federal rate of 23 percent for our fiscal year ending October 31, 2018 and 21 percent for subsequent fiscal years.

ASC 740, Income Taxes, requires companies to recognize the effect of the tax law changes in the period of enactment. However, the SEC staff issued Staff Accounting Bulletin 118 (“SAB 118”) which allows companies to record provisional amounts during a measurement period not extending beyond one year from the Tax Act enactment date. During the three months ended January 31, 2018, the company recognized a provisional amount of \$533 million which includes (1) an estimated provision of \$480 million of U.S. transition tax and correlative items on deemed repatriated earnings of non-U.S. subsidiaries and (2) an estimated provision of \$53 million associated with the impact of decreased U.S. corporate tax rate as described below. As of April 30, 2018, the company has not completed the accounting for all the impacts of the Tax Act. We were able to reasonably estimate certain effects and, therefore, recorded provisional adjustments associated with the Tax Act in the three months ended January 31, 2018, and they remain unchanged as of April 30, 2018.

Deemed Repatriation Transition Tax (“Transition Tax”): The Transition Tax is based on the company’s total unrepatriated post-1986 earnings and profits (“E&P”) of its foreign subsidiaries and the amount of non-U.S. taxes paid (Tax Pools) on such earnings. Historically, the company permanently reinvested a significant portion of these post-1986 E&P outside the U.S. For the remaining portion, the company previously accrued deferred taxes. Since the Tax Act required all foreign earnings to be taxed currently, the company recorded a provisional income tax expense of \$643 million for its one-time transition U.S. federal tax and a benefit of \$163 million for the reversal of related deferred tax liabilities. The resulting \$480 million net transition tax, reduced by existing tax credits, will be paid over 8 years in accordance with the election available under the Tax Act. These amounts represent the best estimate of all required calculations based on currently available information and do not include any potential state tax impacts. The one-time Transition Tax is based in part on cash and illiquid asset amounts present on various comparable measurement dates, some of which are as of our future fiscal year end. As a result, the company’s calculation of the Transition Tax will change as the measurement dates occur and as federal and state tax authorities provide further guidance.

Reduction of U.S. Federal Corporate Tax Rate: The reduction of the corporate income tax rate requires companies to remeasure their deferred tax assets and liabilities as of the date of enactment. The provisional amount recorded in the six months ended April 30, 2018 for the remeasurement due to tax rate change is \$53 million. We have not yet completed our accounting for the measurement of deferred taxes. To calculate the remeasurement of deferred taxes, we estimated when the existing deferred taxes will be settled or realized. These estimates may be affected by activities in the remaining quarters and other analysis related to the Tax Act, including, but not limited to, the impact of state conformity to the tax law change.

GILTI: The Tax Act subjects a U.S. corporation to tax on its GILTI. The U.S. GAAP allows companies to make an accounting policy election to either (1) treat taxes due on future GILTI inclusions in the U.S. taxable income as a current-period expense when incurred (“period cost method”) or (2) factoring such amounts into a company’s measurement of its deferred taxes (“deferred method”). Our analysis of the new GILTI rules and how they may impact us is incomplete. Accordingly, we have not made a policy election regarding the treatment of GILTI tax.

Indefinite Reinvestment Assertion: The company incurred U.S. tax on substantially all of the prior accumulated earnings of its foreign subsidiaries as part of the Transition Tax. This increased the company's previously taxed earnings and will allow for the repatriation of the majority of its foreign earnings without any U.S. federal tax. However, any repatriation of its foreign earnings could still be subjected to withholding taxes, state taxes or other income taxes that might be incurred. The company's analysis is incomplete at this time with respect to its investments intentions for its accumulated foreign earnings. During the period prescribed by SAB 118, the company will evaluate, among other factors, the need for cash within and outside the United States, legal entity capitalization requirements, cash controls imposed in foreign jurisdictions, withholding taxes and the availability to offset with foreign tax credits in determining its investment assertion on its accumulated foreign earnings.

Our estimates as described above, may change as a result of future guidance and interpretation from the Internal Revenue Service, the SEC, the FASB and various other taxing jurisdictions. In particular, we anticipate the U.S. state jurisdictions will continue to determine and announce their conformity or decoupling from the Tax Act either in its entirety or with respect to specific provisions. All of these potential legislative and interpretive actions could result in adjustments to our provisional estimates when the accounting for the income tax effects of the Tax Act is completed.

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There were no substantial changes from our 2017 Annual Report on Form 10-K to the status of the open tax years in the first six months of fiscal year 2018. In the U.S., tax years remain open back to the year 2014 for federal income tax purposes and the year 2000 for significant states. In other major jurisdictions where the company conducts business, the tax years generally remain open back to the year 2001.

With these jurisdictions and the U.S., it is reasonably possible 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.

## Life Sciences and Applied Markets

Our life sciences and applied markets business provides application-focused solutions that include instruments and software 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 and cellular level. Key product categories include: liquid chromatography ("LC") systems and components; liquid chromatography mass spectrometry ("LCMS") systems; gas chromatography ("GC") systems and components; gas chromatography mass spectrometry ("GCMS") systems; inductively coupled plasma mass spectrometry ("ICP-MS") instruments; atomic absorption ("AA") instruments; microwave plasma-atomic emission spectrometry ("MP-AES") instruments; inductively coupled plasma optical emission spectrometry ("ICP-OES") instruments; raman spectroscopy; cell analysis plate based assays; laboratory software for sample tracking, information management and analytics; laboratory automation and robotic systems; dissolution testing; vacuum pumps and measurement technologies.

## Net Revenue

	Three Months Ended		Six Months Ended		Year over Year Change	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017	Three Months	Six Months
Net revenue	\$561	\$523	\$1,179	\$1,063	7%	11%

(in millions)

Life sciences and applied markets business revenue for the three and six months ended April 30, 2018 increased 7 percent and 11 percent, respectively, when compared to the same periods last year. Foreign currency movements for the three and six months ended April 30, 2018 had an overall favorable impact on revenue of 4 percentage points in both periods when compared to the same periods last year. Geographically, revenue increased 10 percent in the Americas with no currency impact, increased 22 percent in Europe with a 12 percentage point favorable currency impact and was flat in Asia Pacific with a 3 percentage point favorable currency impact for the three months ended April 30, 2018 compared to the same period last year. Revenue increased 9 percent in the Americas with a 1 percentage point favorable currency impact, increased 25 percent in Europe with a 10 percentage point favorable currency impact and increased 5 percent in Asia Pacific with a 2 percentage point favorable currency impact for the six months ended April 30, 2018 compared to the same period last year. During the three months ended April 30, 2018, liquid chromatography mass spectrometry and spectroscopy had solid growth helped by strong product offerings. During the six months ended April 30, 2018, the primary drivers of growth were gas chromatography, liquid chromatography mass spectrometry spectroscopy and gas chromatography mass spectrometry.

For the three months ended April 30, 2018, end market performance was led by growth in chemical and energy markets. Pharmaceutical markets continued to demonstrate solid growth as did life science research. The food market declined primarily due to delays in revenue related to the reorganization of several governmental agencies in China. For the six months ended April 30, 2018, chemical and energy and pharmaceutical markets led the growth fueled by new product offerings in liquid chromatography mass spectrometry and spectroscopy.

Looking forward, we are optimistic about our growth opportunities in the life sciences and applied markets as our broad portfolio of products and solutions are well suited to address customer needs. We anticipate strong sales funnels given new product introductions as we continue to invest in expanding and improving our applications and solutions portfolio. While we anticipate volatility in our markets, we expect continued growth across most end markets.

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## Operating Results

	Three Months Ended		Six Months Ended		Year over Year Change	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017	Three Months	Six Months
Gross margin	59.5 %	59.9 %	60.7 %	59.8 %	—	1 ppt
Operating margin	21.2 %	21.1 %	23.6 %	22.3 %	—	1 ppt
(in millions)						
Research and development	\$55	\$52	\$110	\$102	6%	8%
Selling, general and administrative	\$160	\$151	\$328	\$297	6%	10%

Gross margin for products and services for the three and six months ended April 30, 2018, was flat and increased 1 percentage point, respectively, when compared to the same periods last year. Gross margin for the three months ended April 30, 2018 was impacted by unfavorable currency movements offset by efficiencies from higher volume. The increase in gross margin for the six months ended April 30, 2018 was due to increased volume, lower manufacturing material and logistics costs, partially offset by unfavorable impact of currency movements.

Research and development expenses for the three and six months ended April 30, 2018, increased 6 percent and 8 percent, respectively, when compared to the same periods last year. The increase in research and development for the three and six months ended April 30, 2018 was due to higher program funding in product development as well as wage and variable pay increases and unfavorable currency related effects.

Selling, general and administrative expenses for the three and six months ended April 30, 2018, increased 6 percent and 10 percent, respectively, when compared to the same periods last year. The increase in selling, general and administrative expenses for the three months ended April 30, 2018 was due to increased marketing and sales force investments as well as wage and variable pay increases and unfavorable currency related effects. The increase in selling, general and administrative expenses for the six months ended April 30, 2018 was due to increased marketing and sales force investments as well as wage and variable pay increases, higher share-based compensation expense and unfavorable currency related effects.

Operating margin for product and services for the three and six months ended April 30, 2018 was flat and increased 1 percentage point, respectively, when compared to the same periods last year. Operating margin for the three months ended April 30, 2018 was impacted by unfavorable impact of currency on material purchases and operating expenses. The increase in operating margin for the six months ended April 30, 2018 was due to revenue growth and improved gross margin.

## Income from Operations

Income from operations for the three and six months ended April 30, 2018, increased \$9 million and \$42 million, respectively, on a corresponding revenue increases of \$38 million and \$116 million, respectively.

## Diagnostics and Genomics

Our diagnostics and genomics business includes the genomics, nucleic acid contract manufacturing and research and development, pathology, companion diagnostics and reagent partnership businesses.

Our diagnostics and genomics business is comprised of five areas of activity providing active pharmaceutical ingredients ("APIs") for oligo-based therapeutics as well as solutions that include reagents, instruments, software and consumables, which enable customers in the clinical and life sciences research areas to interrogate samples at the cellular and molecular level. First, our genomics business includes arrays for DNA mutation detection, genotyping, gene copy number determination, identification of gene rearrangements, DNA methylation profiling, gene expression profiling, as well as next generation sequencing ("NGS") target enrichment and genetic data management and interpretation support software. This business also includes solutions that enable clinical labs to identify DNA variants associated with genetic disease and help direct cancer therapy. Second, our nucleic acid solutions business provides equipment and expertise focused on production of synthesized oligonucleotides under pharmaceutical good manufacturing practices ("GMP") conditions for use as API in an emerging class of drugs that utilize nucleic acid molecules for disease therapy. Next, our pathology solutions business is focused on product offerings to cancer diagnostics and anatomic pathology workflows. The broad portfolio of offerings includes immunohistochemistry ("IHC"), in situ hybridization ("ISH"), hematoxylin and eosin ("H&E") staining and special staining. We also collaborate with a number of major pharmaceutical companies to develop new potential pharmacodiagnosics, also known as companion diagnostics, which may be used to identify

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patients most likely to benefit from a specific targeted therapy. Finally, the reagent partnership business is a provider of reagents used for turbidimetry and flow cytometry.

## Net Revenue

	Three Months Ended		Six Months Ended		Year over Year Change	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017	Three Months	Six Months
Net revenue	\$219	\$201	\$404	\$365	9%	11%

(in millions)

Diagnostics and genomics business revenue for the three and six months ended April 30, 2018 increased 9 percent and 11 percent, respectively, when compared to the same periods last year. Foreign currency movements for the three and six months ended April 30, 2018 had an overall favorable impact on revenue of 5 percentage points in both periods when compared to the same periods last year. Geographically, revenue increased 3 percent in the Americas with no currency impact, increased 26 percent in Europe with a 13 percentage point favorable currency impact and decreased 9 percent in Asia Pacific with a 3 percentage point favorable currency impact for the three months ended April 30, 2018 compared to the same period last year. Revenue increased 9 percent in the Americas with no currency impact, increased 18 percent in Europe with a 10 percentage point favorable currency impact and decreased 2 percent in Asia Pacific with a 2 percentage point favorable currency impact for the six months ended April 30, 2018 compared to the same period last year. During the three months ended April 30, 2018, Europe led revenue growth assisted by continued momentum in our genomics business and growth in sales in our pathology business. The results in Americas were supported by strength in our genomics business. Asia Pacific, our relatively smaller region, declined due to lower shipment volumes in Japan and Korea driven by our pathology business partially offset by strength in genomics in China. During the six months ended April 30, 2018, Americas and Europe saw growth in our genomics and pathology businesses in target enrichment portfolio and OMNIS platforms, respectively. Asia Pacific declined because of weakness in the pathology business and in the genomics market in Japan.

For the three months ended April 30, 2018, our performance was led by revenue growth in our next generation solution portfolio offering within the genomics business, mainly driven by Sure Select NGS target enrichment, our reagent partnership business and pathology business due to strong adoption of Agilent's Dako OMNIS platform and strength in our PD-L1 assays. The end markets in diagnostics and clinical research remain strong with continued growth driven by an aging population and lifestyle. For the six months ended April 30, 2018, our improved performance was due to strength in our target enrichment portfolio in the genomics business and pathology instruments and reagents business, and revenue growth in our reagent partnership business.

Looking forward, we are optimistic about our growth opportunities in the diagnostics markets and continue to invest in expanding and improving our applications and solutions portfolio. We remain positive about our growth in these markets, as our Dako OMNIS products, PD-L1 assays and SureFISH continue to gain strength with our customers in clinical oncology applications and our next generation sequencing (target enrichment solutions) continue to be adopted. Market demand in the nucleic acid solutions business related to therapeutic oligo programs continues to be strong. We are investing in building further capacity in our nucleic acid business to address the demand for the oligos. We will continue to invest in research and development, and seek to expand our position in developing countries and emerging markets.





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## Operating Results

	Three Months Ended		Six Months Ended		Year over Year Change	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017	Three Months	Six Months
Gross margin	54.9%	57.6%	54.7 %	56.4%	(3) ppts	(2) ppts
Operating margin	20.2%	24.2%	16.3 %	19.7%	(4) ppts	(3) ppts

(in millions)

Research and development	\$23	\$19	\$46	\$39	19%	19%
Selling, general and administrative	\$53	\$48	\$109	\$95	11%	15%

Gross margin for products and services for the three and six months ended April 30, 2018, decreased 3 percentage points and 2 percentage points, respectively, when compared to the same periods last year. The decrease in gross margin for the three months ended April 30, 2018 was primarily due to a cancellation payment received from a customer in our nucleic acid business last year that we benefited from. The decrease was also due to increased wages and variable pay and higher inventory charges in our pathology business. The decrease in gross margin for the six months ended April 30, 2018 was mainly driven by the cancellation payment received last year and mentioned above, higher trading expense and inventory charges in pathology and wage increases and variable pay.

Research and development expenses for the three and six months ended April 30, 2018, increased 19 percent in both periods when compared to the same periods last year, however remained flat as a percentage of revenue. The increase in research and development for the three and six months ended April 30, 2018 was due to increase in wages and variable pay, unfavorable currency movements and increased spending around the development of clinical applications and solutions.

Selling, general and administrative expenses for the three and six months ended April 30, 2018 increased 11 percent and 15 percent, respectively, when compared to the same periods last year. The increase in selling, general and administrative expenses for the three months ended April 30, 2018 was due to higher infrastructure expenses, increase in wages and variable pay, and unfavorable currency movements. The increase in selling, general and administrative expenses for the six months ended April 30, 2018 was due to higher infrastructure expenses, increase in wages and variable pay, unfavorable currency movements and spending increase caused by our acquisition of Multiplicom.

Operating margin for product and services for the three and six months ended April 30, 2018 decreased 4 percentage points and 3 percentage points, respectively, when compared to the same period last year. The decrease in operating margin for the three months ended April 30, 2018 was due to the cancellation payment received from a customer that we benefited from in our nucleic acid business last year, inventory charges in pathology, higher research and development expenses and wage increases and variable pay partially offset by the gains from higher revenue. The decrease in operating margin for the six months ended April 30, 2018 was due to the addition of the cost structure of the Multiplicom acquisition expenses, the cancellation payment received from a customer in our nucleic acid business last year, inventory charges in pathology, higher research and development expenses and wage increases and variable pay partially offset by the gains from higher revenue.

## Income from Operations

Income from operations for the three and six months ended April 30, 2018, decreased \$5 million and \$6 million, respectively, on a corresponding revenue increases of \$18 million and \$39 million, respectively.

#### Agilent CrossLab

The Agilent CrossLab business spans the entire lab with its extensive consumables and services portfolio, which is designed to improve customer outcomes. The majority of the portfolio is vendor neutral, meaning Agilent can serve and supply customers regardless of their instrument purchase choices. Solutions range from chemistries and supplies to services and software helping to connect the entire lab. Key product categories in consumables include GC and LC columns, sample preparation products, custom chemistries, and a large selection of laboratory instrument supplies. Services include startup, operational, training and compliance support, software as a service, as well as asset management and consultative services that help increase customer

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productivity. Custom service and consumable bundles are tailored to meet the specific application needs of various industries and to keep instruments fully operational and compliant with the respective industry requirements.

## Net Revenue

	Three Months Ended		Six Months Ended		Year over Year Change	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017	Three Months	Six Months
Net revenue	\$426	\$378	\$834	\$741	13%	12%

(in millions)

Agilent CrossLab business revenue for the three and six months ended April 30, 2018 increased 13 percent and 12 percent, respectively, when compared to the same periods last year. Foreign currency movements for the three and six months ended April 30, 2018 had an overall favorable impact on revenue of 6 percentage points and 4 percentage points, respectively, when compared to the same periods last year. Geographically, revenue increased 7 percent in the Americas with no currency impact, increased 18 percent in Europe with a 12 percentage point favorable currency impact and increased 14 percent in Asia Pacific with a 6 percentage point favorable currency impact for the three months ended April 30, 2018 compared to the same period last year. Revenue increased 7 percent in the Americas with a 1 percentage point favorable currency impact, increased 16 percent in Europe with a 11 percentage point favorable currency impact and increased 16 percent in Asia Pacific with a 4 percentage point favorable currency impact for the six months ended April 30, 2018 compared to the same period last year. During the three months ended April 30, 2018, LC columns, compliance services, maintenance services and specialty chemistries had some of the highest revenue growth percentages and revenue growth dollar impact within the Agilent CrossLab business. During the six months ended April 30, 2018, compliance services, specialty chemistries, maintenance services and nearly every other product family in the consumables and services portfolio contributed to the growth.

For the three months ended April 30, 2018, revenue growth for both services and consumables was strongest from a growth percentage perspective in the pharmaceutical and biotechnology market, as well as the life science research market. For the six months ended April 30, 2018, the services business saw its strongest growth in the pharmaceutical market, while the consumables business saw its strongest growth in the life science research, food and pharmaceutical markets.

Looking forward, we anticipate that balanced strength in nearly all key end markets will continue to drive the growth in the near term. Geographically, we remain optimistic on the market growth and market penetration opportunities in China and the emerging markets. Other factors for near term revenue growth include upcoming product launches from our consumables pipeline, as well as investment in our laboratory enterprise offerings.

## Operating Results

	Three Months Ended		Six Months Ended		Year over Year Change	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017	Three Months	Six Months

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Gross margin	50.2 %	49.7%	50.4 %	49.1 %	1 ppt	1 ppt
Operating margin	23.1 %	21.6%	22.3 %	21.0 %	2 ppts	1 ppt

(in millions)

Research and development	\$ 14	\$ 12	\$ 28	\$ 24	11%	15%
Selling, general and administrative	\$ 102	\$ 94	\$ 206	\$ 184	8%	12%

Gross margin for products and services for the three and six months ended April 30, 2018, increased 1 percentage point in both periods when compared to the same periods last year. The increase in gross margin for the three months ended April 30, 2018 was primarily driven by faster growth of the higher margin consumables business relative to the lower margin service business, as well as logistics cost savings, but those margin improvements were partially offset by losses on currency hedge contracts. The increase in gross margin for the six months ended April 30, 2018 was primarily driven by faster growth of the higher margin consumables business relative to the lower margin service business, as well as logistics cost savings.

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Research and development expenses for the three and six months ended April 30, 2018, increased 11 percent and 15 percent, respectively, when compared to the same periods last year, with a 3 percentage point unfavorable currency impact in both comparison periods. The increase in research and development for the three and six months ended April 30, 2018 was primarily due to increased headcount primarily in software development, iLab development and curriculum development.

Selling, general and administrative expenses for the three and six months ended April 30, 2018, increased 8 percent and 12 percent, respectively, when compared to the same periods last year, with a 4 percentage point unfavorable currency impact in both comparison periods. The increase in selling, general and administrative expenses for the three months ended April 30, 2018 was due to higher wages and selling costs, which were partially offset by lower share-based compensation expense. The increase in selling, general and administrative expenses for the six months ended April 30, 2018 was due to higher wages, sales force investments, share-based compensation expense and administrative costs.

Operating margin for product and services for the three and six months ended April 30, 2018 increased 2 percentage points and 1 percentage point, respectively, when compared to the same periods last year. The increase in operating margin for the three and six months ended April 30, 2018 was primarily driven by faster growth of the higher margin consumables business relative to the lower margin service business.

### Income from Operations

Income from operations for the three and six months ended April 30, 2018, increased \$16 million and \$30 million, respectively, on corresponding revenue increases of \$48 million and \$93 million, respectively.

## FINANCIAL CONDITION

### Liquidity and Capital Resources

Our financial position as of April 30, 2018 consisted of cash and cash equivalents of \$3,011 million as compared to \$2,678 million as of October 31, 2017.

As of April 30, 2018, approximately \$2,980 million of our cash and cash equivalents was held outside of the U.S. in our foreign subsidiaries. In May 2018, we repatriated \$1.5 billion of the cash held outside the U.S. The cash remaining outside the U.S. can be repatriated to the U.S. as local working capital and other regulatory conditions permit. As a result of the Tax Act, our cash and cash equivalents are no longer subjected to U.S. federal tax on repatriation into the U.S. We utilize a variety of funding strategies to ensure that our worldwide cash is available in the locations in which it is needed.

As a result of the Tax Act, we are required to pay a one-time transition tax of \$440 million on deferred foreign income not previously subject to U.S. federal income tax. The transition tax is payable, beginning in fiscal year 2019 over eight years with 8 percent due in each of the first five years, 15 percent in year six, 20 percent in year seven and 25 percent in year eight.

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 inflow from operating activities was \$518 million for the six months ended April 30, 2018 compared to cash inflow of \$373 million for the same period in 2017. In the six months ended April 30, 2018, we paid approximately \$69 million under our variable and incentive pay programs, as compared to a total of \$58 million paid during the same period of 2017. Net cash paid for income taxes was approximately \$48 million and \$41 million in the six months ended April 30, 2018 and 2017, respectively. For the six months ended April 30, 2018, the net change in tax-related assets and liabilities of \$533 million was due to the enactment of the U.S. Tax Cuts and Jobs Act and primarily consisted of an estimated provision of \$480 million of U.S. transition tax on deemed repatriated earnings of non-U.S. subsidiaries as well as an estimated \$53 million associated with the impact of the decreased U.S. corporate income tax rate. For the six months ended April 30, 2018, other assets and liabilities provided cash of \$26 million compared to cash used of \$76 million for the same period in 2017. Cash provided in the six months ended April 30, 2018 in other assets and liabilities was related to changes in the transaction taxes and deferred revenue. The usage of cash in the six months ended April 30, 2017 in other assets and liabilities was largely the result of income tax payments, transaction taxes, interest payments on senior notes and the employee pension settlement gain of \$32 million.

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In the six months ended April 30, 2018, accounts receivable used cash of \$21 million compared to cash used of \$48 million for the same period in 2017. Days' sales outstanding increased due primarily to increased sales to 56 days as of April 30, 2018 from 55 days compared to a year ago. Accounts payable used cash of \$14 million for the six months ended April 30, 2018 compared to cash provided of \$6 million in the same period in 2017. Cash used for inventory was \$34 million for the six months ended April 30, 2018 compared to cash used of \$29 million for the same period in 2017. Inventory days on-hand decreased to 95 days as of April 30, 2018 compared to 97 days as of the end of the same period last year.

We contributed approximately \$11 million and \$34 million to our defined benefit plans in the six months ended April 30, 2018 and 2017, respectively. 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 \$12 million to our defined benefit plans during the remainder of 2018.

### Net Cash Used in Investing Activities

Net cash used in investing activities was \$117 million for the six months ended April 30, 2018 as compared to net cash used in investing activities of \$144 million. Investments in property, plant and equipment were \$108 million for the six months ended April 30, 2018 compared to \$75 million in the same period of 2017. The increase in property, plant and equipment in 2018 was related to the capacity expansion for our nucleic acid solutions facility. We expect that total capital expenditures for the current year will be approximately \$200 million. In the six months ended April 30, 2018, we invested \$7 million in acquisition of businesses, net of cash acquired, compared to \$70 million related to the acquisition of Multiplicom in the same period last year.

### Net Cash Used in Financing Activities

Net cash used in financing activities for the six months ended April 30, 2018 was \$77 million compared to cash used of \$125 million for the same period of 2017.

### Treasury stock repurchases

On May 28, 2015, we announced that our board of directors had approved a new share repurchase program (the "2015 repurchase program"). The 2015 repurchase program authorizes the purchase of up to \$1.14 billion of our common stock at the company's discretion through and including November 1, 2018. The 2015 repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time. During the six months ended April 30, 2018, we repurchased and retired approximately 1.3 million shares for \$93 million under this authorization. During the six months ended April 30, 2017, we repurchased and retired approximately 4.1 million shares for \$194 million, under this authorization. As of April 30, 2018, we had remaining authorization to repurchase up to \$517 million of our common stock under this program.

### Dividends

During the six months ended April 30, 2018, we paid cash dividends of \$0.298 per common share or \$96 million on the company's common stock. During the six months ended April 30, 2017, we paid cash dividends of \$0.264 per common share or \$85 million on the company's common stock.

On May 16, 2018, our board of directors declared a quarterly dividend of \$0.149 per share of common stock or approximately \$48 million which will be paid on July 25, 2018 to all shareholders of record at close of business on July 3, 2018. The timing and amounts of any future dividends are subject to determination and approval by our board

of directors.

#### Credit Facilities

On September 15, 2014, Agilent entered into a credit agreement with a group of financial institutions which provides for a \$400 million five-year unsecured credit facility that will expire on September 15, 2019. On June 9, 2015, the commitments under the existing credit facility were increased by \$300 million and on July 14, 2017, the commitments under the existing credit facility were increased by an additional \$300 million so that the aggregate commitments under the facility now total \$1 billion. During the six months ended April 30, 2018, the company had borrowings of \$356 million and repaid \$151 million. As of April 30, 2018, the outstanding balance was \$315 million under the credit facility. We were in compliance with the covenants for the credit facility during the six months ended April 30, 2018. In May 2018, the outstanding balance under our existing credit facility was paid in full.



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### Short-term debt and Long-term debt

In October 2007, the company issued an aggregate principal amount of \$600 million in senior notes ("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. The remaining \$100 million in senior notes matured on November 1, 2017 and were paid in full.

There have been no other changes to the principal, maturity, interest rates and interest payment terms of the Agilent outstanding senior notes in the six months ended April 30, 2018 as compared to the senior notes as described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017.

### Other

As of April 30, 2018, our contractual obligations reported under "other purchase commitments" were approximately \$47 million, an increase of approximately \$7 million in the first six months of fiscal year 2018. There were no other substantial changes from our 2017 Annual Report on Form 10-K to our contractual commitments in the first six months of fiscal 2018. We have contractual commitments for non-cancelable operating leases. We have no other material non-cancelable guarantees or commitments.

Other long-term liabilities as of April 30, 2018 and October 31, 2017 include \$233 million and \$131 million, respectively, related to uncertain tax positions of continuing operations. 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.

## ITEM 3. 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. To the extent that we are required to pay for all, or portions, of an acquisition price in foreign currencies, we may enter into foreign exchange contracts to reduce the risk that currency movements will impact the cost of the transaction.

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 52 percent of our revenue was generated in U.S. dollars during both the six months ended April 30, 2018 and 2017, respectively. The favorable effects of changes in foreign currency exchange rates, principally as a result of the weakening of the U.S. dollar, has increased revenue by approximately 4 percentage points in the six months ended April 30, 2018. We calculate the impact of foreign currency exchange rates movements by applying the actual foreign currency exchange rates in effect during the last month of the current year period to both the current and prior year periods.

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 April 30, 2018, the analysis indicated that these hypothetical market movements would not have a material effect on our condensed 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 April 30, 2018, 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.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective at ensuring that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding such required disclosure to the SEC.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended April 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in lawsuits, claims, investigations and proceedings, including, but not limited to, intellectual property, commercial and employment matters, which arise in the ordinary course of business. There are no matters pending that we currently believe are probable or reasonably possible of having a material impact to our business, consolidated financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

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 revenue 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 as customer spending policies and budget allocations, particularly for capital items, may change. 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 may become obsolete, and our operating results may 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. Without the timely introduction of new products, services and enhancements, our products and services may become technologically obsolete over time, in which case our revenue and operating results could suffer. The success of our new products and services will depend on several factors, including our ability to:

- properly identify customer needs and predict future needs;
- innovate and develop new technologies, services and applications;
- appropriately allocate our research and development spending to products and services with higher growth prospects;
- successfully commercialize new technologies in a timely manner;
- manufacture and deliver new 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.

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In addition, if we fail to accurately predict future customer needs and preferences or fail to produce viable technologies, we may invest in research and development of products and services that do not lead to significant revenue, which would adversely affect our profitability. Even if we successfully innovate and develop new and enhanced products and services, we may incur substantial costs in doing so, and our operating results may suffer. In addition, promising new products may fail to reach the market or realize only limited commercial success because of real or perceived concerns of our customers. Furthermore, as we collaborate with pharmaceutical customers to develop drugs such as companion diagnostics assays or providing drug components like active pharmaceutical ingredients, we face risks that those drug programs may be cancelled upon clinical trial failures.

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 United States. 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 accurately 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 experienced 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. If demand for our products is less than we expect, we may experience additional excess and obsolete inventories and be forced to incur additional expenses.

Demand for some of our products and services depends on the 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. Many factors, including public policy spending priorities, available resources, mergers and consolidations, spending priorities, institutional and governmental budgetary policies and product and economic cycles, have a significant effect on the capital spending policies of these entities. Fluctuations in the research and development budgets at these organizations could have a significant effect on the demand for our products and services. 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 revenue from customers that rely on government funding or research may vary significantly due to factors that can be difficult to forecast, including changes in spending authorizations and

budgetary priorities for our products and services. If demand for our products and services is adversely affected, our revenue and operating results would suffer.

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Economic, political, foreign currency 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. International revenue and costs are subject to the risk that fluctuations in foreign currency exchange rates could adversely affect our financial results when translated into U.S. dollars for financial reporting purposes. The favorable effects of changes in foreign currency exchange rates has increased revenues by approximately 4 percentage points in the six months ended April 30, 2018. In addition, many of our employees, contract manufacturers, suppliers, job functions, outsourcing activities and manufacturing facilities are located outside the United States. Accordingly, our future results could be harmed by a variety of factors, including:

- interruption to transportation flows for delivery of parts to us and finished goods to our customers;
- changes in a specific country's or region's political, economic or other conditions;
- changes in diplomatic and trade relationships, including new tariffs, trade protection measures, import or export licensing requirements, trade embargoes and sanctions and other trade barriers;
- tariffs imposed by the U.S. on goods from other countries and tariffs imposed by other countries on U.S. goods, including the tariffs recently proposed by the U.S. government on various imports from China and by the Chinese government on certain U.S. goods, the scope and duration of which, if implemented, remains uncertain;
- negative consequences from changes in tax laws;
- difficulty in staffing and managing widespread operations;
- differing labor regulations;
- differing protection of intellectual property;
- unexpected changes in regulatory requirements; and
- geopolitical uncertainty or turmoil, including terrorism and war.

We centralized most of our accounting and tax processes to two locations: India and Malaysia. These processes include general accounting, cost accounting, accounts payable, accounts receivables and tax 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.

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. 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 strategic initiatives to adjust our cost structure could have long-term adverse effects on our business and we may not realize the operational or financial benefits from such actions.

We have implemented multiple strategic initiatives across our businesses to adjust our cost structure, and we may engage in similar activities in the future. These strategic initiatives and our regular ongoing cost reduction activities may distract management, could slow improvements in our products and services and limit our ability to increase



production quickly if demand for our products increases. In addition, delays in implementing our strategic initiatives, unexpected costs or failure to meet targeted improvements may diminish the operational and financial benefits we realize from such actions. Any of the above circumstances could have an adverse effect on our business and operating results and financial condition.

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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 hire and retain our key employees.

Our acquisitions, strategic investments and alliances, joint ventures, exiting of businesses 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 investments and alliances, joint ventures and divestitures, and generally expect to complete several transactions per year. In addition, we may decide to exit a particular business within our product portfolio. 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. 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. Acquired businesses may also expose us to new risks and new markets and we may have difficulty addressing these risks in a cost effective and timely manner. Transactions such as acquisitions have resulted, and may in the future result in, unexpected significant costs and expenses. In the future, we may be required to record charges to earnings during the period if we determine there is an impairment of goodwill or intangible assets, up to the full amount of the value of the assets, or, in the case of strategic investments and alliances, consolidate results, including losses, of third parties or write down investment values or loans and convertible notes related to the strategic investment.

Integrating the operations of acquired businesses within Agilent could be a difficult, costly and time-consuming process that involves a number of risks. Acquisitions and strategic investments and alliances may require us to integrate and collaborate with a different company culture, management team, business models, business infrastructure and sales and distribution methodologies and assimilate and retain geographically dispersed, decentralized operations and personnel. Depending on the size and complexity of an acquisition, our successful integration of the entity depends on a variety of factors, including introducing new products and meeting revenue targets as expected, the retention of key employees and key customers, increased exposure to certain governmental regulations and compliance requirements and increased costs and use of resources. Further, the integration of acquired businesses is likely to result in our systems and internal controls becoming increasingly complex and more difficult to manage. 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.

Even if we are able to successfully integrate acquired businesses within Agilent, we may not be able to realize the revenue and other synergies and growth that we anticipated from the acquisition in the time frame that we expected, and the costs of achieving these benefits may be higher than what we expected. As a result, the acquisition and integration of acquired businesses may not contribute to our earnings as expected, we may not achieve our operating margin targets when expected, or at all, and we may not achieve the other anticipated strategic and financial benefits of this transaction.

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. In exiting a business, we may still retain liabilities associated with the support and warranty of those businesses and other indemnification obligations. All of these efforts require varying levels of management resources, which may divert our attention from other business operations. If we do not realize the expected benefits or synergies of such transactions, our consolidated financial position, results of operations, cash flows and stock price could be negatively impacted.

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If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results, which could lead to a loss of investor confidence in our financial statements and have an adverse effect on our stock price.

Effective internal controls are necessary for us to provide reliable and accurate financial statements and to effectively prevent fraud. We devote significant resources and time to comply with the internal control over financial reporting requirements of the Sarbanes Oxley Act of 2002 and continue to enhance our controls. However, we cannot be certain that we will be able to prevent future significant deficiencies or material weaknesses. Inadequate internal controls could cause investors to lose confidence in our reported financial information, which could have a negative effect on investor confidence in our financial statements, the trading price of our stock and our access to capital.

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 regulations in the areas of health and safety, packaging, product content, employment, labor and immigration, import/export controls, trade restrictions and anti-competition. In addition, as a global organization, we are subject to data privacy and security laws, regulations, and customer-imposed controls in numerous jurisdictions as a result of having access to and processing confidential, personal, sensitive and/or patient health data in the course of our business. The EU's General Data Protection Regulation (GDPR), which became effective in May 2018, applies to all of our activities related to products and services that we offer to EU customers and workers. The GDPR established new requirements regarding the handling of personal data and includes significant penalties for non-compliance (including possible fines of up to 4 percent of total company revenue). Other governmental authorities around the world are considering similar types of legislative and regulatory proposals concerning data protection. Each of these privacy, security and data protection laws and regulations could impose significant limitations and increase our cost of providing our products and services where we process end user personal data and could harm our results of operations and expose us to significant fines, penalties and other damages.

We must also 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, anti-competition regulations and sanctions imposed by the U.S. Office of Foreign Assets Control and other similar laws and 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.

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 any violations of these regulations. Any failure by us to comply with applicable government regulations could also result in the 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 operating

results and 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 FDA. We also must comply with work safety rules. If we fail to adequately address any of these regulations, our businesses could be harmed.

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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 are subject to regulation by the FDA and certain similar foreign regulatory agencies. In addition, a number of our products may in the future be 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 or other regulatory agency 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.

Some of our products are subject to particularly complex regulations such as regulations of toxic substances and failure to comply with such regulations could harm our business.

Some of our products and related consumables 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 under 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 the import and export of chemicals. The Toxic Substances Control Act prohibits persons from manufacturing any chemical in the United States 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 subject to civil penalties, criminal prosecution and, in some cases, prohibition 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 revenue 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 reputation, ability to do business and financial statements may be harmed by improper conduct by any of our employees, agents or business partners.

We cannot provide assurance that our internal controls and compliance systems will always protect us from acts committed by employees, agents or business partners of ours (or of businesses we acquire or partner with) that would violate U.S. and/or non-U.S. laws, including the laws governing payments to government officials, bribery, fraud,

kickbacks and false claims, pricing, sales and marketing practices, conflicts of interest, competition, export and import compliance, money laundering and data privacy. In particular, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business, and we operate in many parts of the world that have experienced governmental corruption to some degree. Any such improper actions or allegations of such acts could damage our reputation and subject us to civil or criminal investigations in the United States and in other jurisdictions and related shareholder lawsuits, could lead to substantial civil and criminal, monetary and non-monetary penalties and could cause us to incur significant legal and investigatory fees. In addition, the government may seek to hold us liable as a successor for violations committed by companies in which we invest or that we acquire. We also rely on our suppliers to adhere to our supplier standards of conduct, and material violations of such standards of conduct could occur that could have a material effect on our business, reputation and financial statements.

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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 plan 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 may exceed our production requirements. If during an economic downturn we had excess manufacturing capacity, then our fixed costs associated with excess manufacturing capacity would adversely affect our gross margins, and operating results. 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 may 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.

Dependence on contract manufacturing and outsourcing other portions of our supply chain, including logistics and third-party package delivery services, 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. If one or more of the third-party



package delivery providers experiences a significant disruption in services or institutes a significant price increase, we may have to seek alternative providers, our costs could increase and the delivery of our products could be prevented or delayed. Additionally, changing or replacing our contract manufacturers, logistics providers 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 revenue and unexecuted efficiencies, and impact our results of operations and our stock price.

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Environmental contamination from past and ongoing operations could subject us to substantial liabilities.

Certain properties we have previously owned or leased are undergoing remediation for subsurface contaminations. Although we are indemnified for any liability relating to the required remediation, we may be subject to liability if these indemnification obligations are not fulfilled. Further, other properties we have previously owned or leased or facilities we have operated in the past, may be contaminated based on our operations. In some cases, we have agreed to indemnify the current owners of certain properties for any liabilities related to such contamination, including companies that we used to be affiliated with such as HP, Inc., Hewlett-Packard Enterprise (formerly Hewlett-Packard Company) and Varian Medical Systems, Inc. While we are not aware of any material liabilities associated with any potential environmental contamination at any of those properties or facilities, we may be exposed to material liability if such environmental contamination is found to exist. In addition, in connection with the acquisition of certain companies, we have assumed the costs and potential liabilities for environmental matters. Any significant costs or liabilities could have an adverse effect on results of operations.

Our current and historical manufacturing processes and operations involve, or have involved, the use of substances regulated under various foreign, federal, state and local environment protection and health and safety laws and regulations. As a result, we may become subject to liabilities for environmental contamination and these liabilities may be substantial. Although our policy is to apply strict standards for environmental protection and health and safety at our sites inside and outside the United States, we may not be aware of all conditions that could subject us to liability. Failure to comply with these environmental protection and health and safety laws and regulations could result in civil, criminal, regulatory, administrative or contractual sanction, including fines, penalties or suspensions. If we have any violations of, or incur liabilities pursuant to these laws or regulations, our financial condition and operating results could be adversely affected.

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.

We are subject to the rules of the Securities and Exchange Commission (“SEC”) which require 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 rule, which requires an annual disclosure report to be filed with the SEC by May 31st of each year, 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. 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 rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products, including tin, tantalum, 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 the 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 continue to be available to us in the future or can be expanded to cover new products on favorable terms or at all.

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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, 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 with a significant competitive advantage.

We may need to spend significant resources monitoring our intellectual property rights and we may not be aware of or able to detect or prove 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 may allow them to compete with us using that intellectual property.

Changes in tax laws, unfavorable resolution of tax examinations, or exposure to additional tax liabilities could have a material adverse effect on our results of operations, financial condition and liquidity.

We are subject to taxes in the U.S., Singapore and various foreign jurisdictions. Governments in the jurisdictions in which we operate implement changes to tax laws and regulations periodically. Any implementation of tax laws that fundamentally change the taxation of corporations in the U.S. or Singapore could materially impact our effective tax rate and could have a significant adverse impact on our financial results.

The 2017 United States Tax Cut and Jobs Act (“Tax Act”) significantly changed the taxation of U.S. based multinational corporations. Our compliance with the Tax Act will require the use of estimates in our financial statements and exercise of significant judgment in accounting for its provisions. The implementation of the Tax Act will require interpretations and implementing regulations by the Internal Revenue Service, as well as state tax authorities. The legislation could be subject to potential amendments and technical corrections, any of which could materially lessen or increase certain adverse impacts of the legislation. As regulations and guidance evolve with respect to the Tax Act, and as we gather information and perform more analysis, our results may differ from previous estimates and may materially affect our financial position.

We are also subject to examinations of our tax returns by tax authorities in various jurisdictions around the world. We regularly assess the likelihood of adverse outcomes resulting from ongoing tax examinations to determine the adequacy of our provision for taxes. These assessments can require a high degree of judgment and estimation. 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 financial results and condition.

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

We benefit from tax incentives extended to our foreign subsidiaries to encourage investment or employment. Several jurisdictions have granted us 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. Our taxes could increase if the incentives are not renewed upon expiration. If we cannot or do 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.

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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 \$1.8 billion in senior unsecured notes. We also are party to a five-year unsecured revolving credit facility which expires in September 2019. On June 9, 2015, we increased the commitments under the existing credit facility by \$300 million and on July 14, 2017, the commitments under the existing credit facility were increased by an additional \$300 million so that the aggregate commitments under the facility now total \$1 billion. As of April 30, 2018, we had \$315 million outstanding under the credit facility. We may borrow additional amounts in the future and use the proceeds from any future borrowing for general corporate purposes, other future acquisitions, expansion of our business or repurchases of our outstanding shares of common stock.

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

- increasing our vulnerability to downturns in our business, to competitive pressures and to adverse economic and industry conditions;
- requiring the dedication of an increased portion of our expected cash flows from operations to service our indebtedness, thereby reducing the amount of expected cash flows available for other purposes, including capital expenditures, acquisitions, stock repurchases and dividends; 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 laboratories in California, and our production facilities in Japan, are all located in areas with above-average seismic activity. If any of our 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, because we have consolidated our manufacturing facilities and we may not have redundant manufacturing capability readily available, 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.



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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. Our information technology systems also may experience interruptions, delays or cessations of service or produce errors in connection with system integration, software upgrades or system migration work that takes place from time to time. 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 April 30, 2018, 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 operating 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 cannot assure that we will continue to pay dividends on our common stock.

Since the first quarter of fiscal year 2012, we have paid a quarterly dividend on our common stock. The timing, declaration, amount and payment of any future dividends fall within the discretion of our Board of Directors and will depend on many factors, including our available cash, estimated cash needs, earnings, financial condition, operating results, capital requirements, as well as limitations in our contractual agreements, applicable law, regulatory constraints, industry practice and other business considerations that our Board of Directors considers relevant. A change in our dividend program could have an adverse effect on the market price of our common stock.





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## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## ISSUER PURCHASES OF EQUITY SECURITIES

The table below summarizes information about the Company's purchases, based on trade date, of its equity securities registered pursuant to Section 12 of the Exchange Act during the quarterly period ended April 30, 2018.

Period	Total Number of Shares of Common Stock Purchased (1)	Weighted Average Price Paid per Share of Common Stock (2)	Total Number of Shares of Common Stock Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Approximate Dollar Value of Shares of Common Stock that May Yet Be Purchased Under the Plans or Programs (in millions) (1)
	(a)	(b)	(c)	(d)
February 1, 2018 through February 28, 2018	218,110	\$ 69.93	218,110	\$ 548
March 1, 2018 through March 31, 2018	249,885	\$ 68.92	249,885	\$ 531
April 1, 2018 through April 30, 2018	206,005	\$ 66.71	206,005	\$ 517
Total	674,000	\$ 68.57	674,000	\$ 517

On May 28, 2015, we announced that our board of directors had approved a new share repurchase program (the "2015 repurchase program"). The 2015 repurchase program authorizes the purchase of up to \$1.14 billion of our (1) common stock at the company's discretion through and including November 1, 2018. The 2015 repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time. As of April 30, 2018, all repurchased shares have been retired.

(2) The weighted average price paid per share of common stock does not include the cost of commissions.

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ITEM 6. EXHIBITS

(a) Exhibits:

Exhibit

Number Description

10.1 Form of Stock Award Agreement under the 2018 Stock Plan for Standard Awards granted to Employees\*

10.2 Form of Stock Award Agreement under the 2018 Stock Plan for Long-Term Performance Program Awards\*

11.1 See Note 5, "Net Income Per Share", to our Condensed Consolidated Financial Statements.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS  
Instance Document  
XBRL

101.SCH  
Schema Document  
XBRL

101.CAL  
Calculation Linkbase Document  
XBRL

101.LAB  
Labels Linkbase Document  
XBRL

101.PRE  
Presentation Linkbase Document  
XBRL

101.DEF  
Definition Linkbase Document  
XBRL

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AGILENT TECHNOLOGIES, INC.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 31, 2018 By: /s/ Didier Hirsch

Didier Hirsch  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

Dated: May 31, 2018 By: /s/ Rodney Gonsalves

Rodney Gonsalves  
Vice President, Corporate Controllershship  
(Principal Accounting Officer)

