

KEYSIGHT TECHNOLOGIES, INC.

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KEYSIGHT TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In millions, except per share amounts)
(Unaudited)
PRELIMINARY

	Three months ended January 31,		Percent Inc/(Dec)
	2018	2017	
Orders	\$ 964	\$ 695	39 %
Net revenue	\$ 837	\$ 726	15 %
Costs and expenses:			
Cost of products and services	410	322	27 %
Research and development	146	108	35 %
Selling, general and administrative	289	213	36 %
Other operating expense (income), net	(3)	(79)	(96)%
Total costs and expenses	<u>842</u>	<u>564</u>	49 %
Income (loss) from operations	(5)	162	(103)%
Interest income	3	1	101 %
Interest expense	(22)	(12)	87 %
Other income (expense), net	<u>1</u>	<u>1</u>	— %
Income (loss) before taxes	(23)	152	(115)%
Provision (benefit) for income taxes	(117)	43	(371)%
Net income	<u>\$ 94</u>	<u>\$ 109</u>	(14)%
Net income per share:			
Basic	\$ 0.50	\$ 0.64	
Diluted	\$ 0.50	\$ 0.63	
Weighted average shares used in computing net income per share:			
Basic	187	171	
Diluted	189	173	

KEYSIGHT TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)
PRELIMINARY

	Three months ended January 31,	
	2018	2017
Net income	\$ 94	\$ 109
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on investments	(2)	4
Unrealized gain (loss) on derivative instruments	2	2
Amounts reclassified into earnings related to derivative instruments	(2)	1
Foreign currency translation	41	(24)
Net defined benefit pension cost and post retirement plan costs:		
Change in actuarial net loss	10	28
Change in net prior service credit	(4)	(4)
Other comprehensive income	45	7
Total comprehensive income	\$ 139	\$ 116

KEYSIGHT TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(In millions, except par value and share amounts)
PRELIMINARY

	January 31, 2018	October 31, 2017
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 980	\$ 818
Accounts receivable, net	454	547
Inventory	609	588
Other current assets	232	224
Total current assets	2,275	2,177
Property, plant and equipment, net	539	530
Goodwill	1,894	1,882
Other intangible assets, net	807	855
Long-term investments	61	63
Long-term deferred tax assets	204	186
Other assets	270	240
Total assets	\$ 6,050	\$ 5,933
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 20	\$ 10
Accounts payable	229	211
Employee compensation and benefits	170	217
Deferred revenue	354	291
Income and other taxes payable	35	28
Other accrued liabilities	78	62
Total current liabilities	886	819
Long-term debt	2,028	2,038
Retirement and post-retirement benefits	315	309
Long-term deferred revenue	105	101
Other long-term liabilities	232	356
Total liabilities	3,566	3,623
Stockholders' Equity:		
Preferred stock; \$0.01 par value; 100 million shares authorized; none issued and outstanding	—	—
Common stock; \$0.01 par value, 1 billion shares authorized; 190 million shares at January 31, 2018 and 188 million shares at October 31, 2017, issued	2	2
Treasury stock at cost; 2.3 million shares at January 31, 2018 and October 31, 2017, respectively	(62)	(62)
Additional paid-in-capital	1,815	1,786
Retained earnings	1,141	1,041
Accumulated other comprehensive loss	(412)	(457)
Total stockholders' equity	2,484	2,310
Total liabilities and equity	\$ 6,050	\$ 5,933

KEYSIGHT TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions)
(Unaudited)
PRELIMINARY

	Three months ended January 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 94	\$ 109
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	78	32
Share-based compensation	19	18
Deferred tax expense (benefit)	(235)	40
Excess and obsolete inventory related charges	6	3
Gain on sale of land	—	(8)
Pension curtailment and settlement gains	—	(68)
Other non-cash expenses, net	2	—
Changes in assets and liabilities:		
Accounts receivable	99	40
Inventory	(20)	(10)
Accounts payable	14	(12)
Employee compensation and benefits	(50)	(36)
Income taxes payable	115	(15)
Retirement and post-retirement benefits	(12)	(3)
Deferred revenue	61	15
Other assets and liabilities	—	10
Net cash provided by operating activities ^(a)	171	115
Cash flows from investing activities:		
Investments in property, plant and equipment	(24)	(16)
Acquisition of businesses and intangibles assets, net of cash acquired	(3)	—
Proceeds from sale of land	—	8
Net cash used in investing activities	(27)	(8)
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	24	19
Payment of taxes on shares withheld on equity awards	(15)	(11)
Proceeds from credit facility	40	—
Repayment of credit facility	(40)	—
Net cash provided by financing activities	9	8
Effect of exchange rate movements	9	(2)
Net increase in cash and cash equivalents	162	113
Cash and cash equivalents at beginning of period	818	783
Cash and cash equivalents at end of period	\$ 980	\$ 896
^(a) Cash payments included in operating activities:		
Income tax payments, net	\$ (1)	\$ (17)
Interest payment on borrowings	\$ (2)	\$ —

KEYSIGHT TECHNOLOGIES, INC.
COMMUNICATIONS SOLUTIONS GROUP (CSG)
(Unaudited)
PRELIMINARY

(In millions, except margins data)	FY 2018				
	Q1	Q2	Q3	Q4	Total
Net revenue	\$ 420				\$ 420
Gross Margin, %	60.9%				60.9%
Income from operations	\$ 59				\$ 59
Operating Margin, %	14.0%				14.0%
	FY 2017				
	Q1	Q2	Q3	Q4	Total
Net revenue	\$ 434	\$ 424	\$ 418	\$ 462	\$ 1,738
Gross Margin, %	60.5%	61.3%	61.2%	62.9%	61.5%
Income from operations	\$ 72	\$ 75	\$ 66	\$ 98	\$ 311
Operating Margin, %	16.7%	17.6%	15.7%	21.3%	17.9%

Net revenue for Communications Solutions Group excludes the impact of fair value adjustments to acquisition related deferred revenue balances for the Anite acquisition. Segment revenue and income from operations are consistent with the respective non-GAAP measures as discussed on Page 19.

KEYSIGHT TECHNOLOGIES, INC.
ELECTRONIC INDUSTRIAL SOLUTIONS GROUP (EISG)
(Unaudited)
PRELIMINARY

(In millions, except margins data)	FY 2018				
	Q1	Q2	Q3	Q4	Total
Net revenue	\$ 203				\$ 203
Gross Margin, %	59.0%				59.0%
Income from operations	\$ 37				\$ 37
Operating Margin, %	18.5%				18.5%

	FY 2017				
	Q1	Q2	Q3	Q4	Total
Net revenue	\$ 192	\$ 220	\$ 218	\$ 206	\$ 836
Gross Margin, %	59.9%	61.8%	61.1%	61.3%	61.1%
Income from operations	\$ 42	\$ 57	\$ 55	\$ 45	\$ 199
Operating Margin, %	21.7%	26.1%	25.3%	21.8%	23.8%

Segment revenue and income from operations are consistent with the respective non-GAAP measures as discussed on Page 19.

KEYSIGHT TECHNOLOGIES, INC.
IXIA SOLUTIONS GROUP (ISG)
(Unaudited)
PRELIMINARY

(In millions, except margins data)	FY 2018				
	Q1	Q2	Q3	Q4	Total
Net revenue	\$ 127				\$ 127
Gross Margin, %	75.6%				75.6%
Income from operations	\$ 18				\$ 18
Operating Margin, %	14.5%				14.5%

	FY 2017				
	Q1	Q2^(a)	Q3	Q4	Total
Net revenue		\$ 12	\$ 120	\$ 124	\$ 256
Gross Margin, %		77.1%	77.0%	76.2%	76.6%
Income (loss) from operations		\$ (2)	\$ 24	\$ 20	\$ 42
Operating Margin, %		(12.9)%	19.9%	16.4%	16.6%

^(a) The Ixia Solutions Group operating results include activity for 13 days during the period, from the date of acquisition, April 18, 2017, through April 30, 2017.

Net revenue for Ixia Solutions Group excludes the impact of fair value adjustments to acquisition related deferred revenue balances for the Ixia acquisition. Segment revenue and income from operations are consistent with the respective non-GAAP measures as discussed on Page 19.

KEYSIGHT TECHNOLOGIES, INC.
SERVICES SOLUTIONS GROUP (SSG)
(Unaudited)
PRELIMINARY

(In millions, except margins data)	FY 2018				
	Q1	Q2	Q3	Q4	Total
Net revenue	\$ 106				\$ 106
Gross Margin, %	40.3%				40.3%
Income from operations	\$ 17				\$ 17
Operating Margin, %	15.6%				15.6%

	FY 2017				
	Q1	Q2	Q3	Q4	Total
Net revenue	\$ 100	\$ 102	\$ 107	\$ 110	\$ 419
Gross Margin, %	39.4%	40.9%	41.8%	42.6%	41.2%
Income from operations	\$ 14	\$ 17	\$ 19	\$ 18	\$ 68
Operating Margin, %	14.4%	16.2%	18.1%	16.3%	16.3%

Segment revenue and income from operations are consistent with the respective non-GAAP measures as discussed on Page 19.

KEYSIGHT TECHNOLOGIES, INC.
NON-GAAP GROSS PROFIT AND OPERATING MARGIN RECONCILIATIONS
(In millions)
(Unaudited)
PRELIMINARY

Reconciliation of Gross Profit to non-GAAP Gross Profit

	Three months ended January 31,	
	2018	2017
Gross Profit, as reported	\$ 427	\$ 404
Amortization of acquisition-related balances	77	9
Share-based compensation	3	3
Acquisition and integration costs	2	—
Northern California wildfire-related costs	5	—
Restructuring and related costs	—	1
Non-GAAP Gross Profit	\$ 514	\$ 417
GAAP Gross Margin	51.1%	55.7%
Non-GAAP Gross Margin	60.1%	57.5%

Reconciliation of Income from Operations to non-GAAP Income from Operations

	Three months ended January 31,	
	2018	2017
Income (loss) from operations, as reported	\$ (5)	\$ 162
Amortization of acquisition-related balances	89	10
Share-based compensation	19	18
Acquisition and integration costs	19	6
Separation and related costs	1	6
Pension curtailment and settlement gains	—	(68)
Northern California wildfire-related costs	7	—
Restructuring and related costs	2	2
Other	(1)	(8)
Non-GAAP income from operations	\$ 131	\$ 128
GAAP Operating Margin	(0.6%)	22.4%
Non-GAAP Operating Margin	15.4%	17.7%

Please refer Page 19 for discussion on our non-GAAP financial measures.

KEYSIGHT TECHNOLOGIES, INC.
NON-GAAP OPERATING EXPENSES RECONCILIATIONS
(In millions)
(Unaudited)
PRELIMINARY

Reconciliation of research & development expenses (R&D) to non-GAAP R&D

	Three months ended January 31,	
	2018	2017
Research & development expenses, as reported	\$ 146	\$ 108
Share-based compensation	(4)	(4)
Acquisition and integration costs	(1)	—
Northern California wildfire-related costs	(1)	—
Non-GAAP Research & development expenses	<u>\$ 140</u>	<u>\$ 104</u>

Reconciliation of selling, general & administrative expenses (SG&A) to non-GAAP SG&A

	Three months ended January 31,	
	2018	2017
Selling, general & administrative expenses, as reported	\$ 289	\$ 213
Amortization of acquisition-related balances	(12)	(1)
Share-based compensation	(12)	(11)
Acquisition and integration costs	(16)	(6)
Northern California wildfire-related costs	(1)	—
Separation and related costs	(1)	(6)
Restructuring and related costs	(2)	(1)
Other	1	—
Non-GAAP selling, general & administrative expenses	<u>\$ 246</u>	<u>\$ 188</u>

Reconciliation of other op. exp. (inc), net to non-GAAP other op. exp. (inc.), net

	Three months ended January 31,	
	2018	2017
Other operating expense (income), net, as reported	\$ (3)	\$ (79)
Pension curtailment and settlement gains	—	68
Other	—	8
Non-GAAP other operating expense (income), net	<u>\$ (3)</u>	<u>\$ (3)</u>

Reconciliation of operating expenses to non-GAAP operating expenses

	Three Months Ended January 31,	
	2018	2017
Operating expenses, as reported	\$ 432	\$ 242
Amortization of acquisition-related balances	(12)	(1)
Share-based compensation	(16)	(15)
Acquisition and integration costs	(17)	(6)
Separation and related costs	(1)	(6)
Pension curtailment and settlement gains	—	68
Northern California wildfire-related costs	(2)	—
Restructuring and related costs	(2)	(1)
Other	1	8
Non-GAAP operating expenses	<u>\$ 383</u>	<u>\$ 289</u>

Please refer Page 19 for discussion on our non-GAAP financial measures.

KEYSIGHT TECHNOLOGIES, INC.
NON-GAAP NET INCOME AND DILUTED EPS RECONCILIATIONS
(In millions, except per share amounts)
(Unaudited)
PRELIMINARY

	Three Months ended January 31,			
	2018		2017	
	Net Income	Diluted EPS ^(b)	Net Income	Diluted EPS
GAAP Net income	\$ 94	\$ 0.50	\$ 109	\$ 0.63
Non-GAAP adjustments:				
Amortization of acquisition-related balances	89	0.47	10	0.06
Share-based compensation expense	19	0.10	18	0.10
Acquisition and integration costs	19	0.10	6	0.04
Separation and related costs	1	0.01	6	0.04
Pension curtailment and settlement gains	—	—	(68)	(0.39)
Northern California wildfire-related costs	7	0.04	—	—
Restructuring and related costs	2	0.01	2	0.01
Other	—	—	(8)	(0.05)
Adjustment for taxes ^(a)	(134)	(0.72)	23	0.13
Non-GAAP Net income	<u>\$ 97</u>	<u>\$ 0.51</u>	<u>\$ 98</u>	<u>\$ 0.57</u>
Weighted average shares outstanding - diluted	189		173	

^(a) For the three months ended January 31, 2018 and January 31, 2017, management uses a non-GAAP effective tax rate of 15% and 17% respectively. Historical amounts are reclassified to conform with current presentation.

Please refer Page 19 for discussion on our non-GAAP financial measures.

KEYSIGHT TECHNOLOGIES, INC.
RECONCILIATION OF REVENUE EXCLUDING IMPACTS OF CURRENCY AND ACQUISITIONS
(In millions)
(Unaudited)
PRELIMINARY

	Q2'18 Guidance	H1'18 Guidance		Year-over-year compare		
	Midpoint	Low end	High end	Q1'18	Q1'17	Percent Inc/(Dec)
GAAP Revenue	\$ 955	\$ 1,777	\$ 1,807	\$ 837	\$ 726	15%
Amortization of acquisition-related balances	9	28	28	19	—	
Non-GAAP Revenue	<u>\$ 964</u>	<u>\$ 1,805</u>	<u>\$ 1,835</u>	<u>\$ 856</u>	<u>\$ 726</u>	18%
Less: Revenue from acquisition included in segment results				\$ (135)	\$ —	
Currency impacts				(11)	—	
Non-GAAP Core Revenue				<u>\$ 710</u>	<u>\$ 726</u>	(2)%

Please refer Page 19 for discussion on our non-GAAP financial measures.

KEYSIGHT TECHNOLOGIES, INC.
SEGMENT REVENUE RECONCILIATION
(in millions)
(Unaudited)
PRELIMINARY

Keysight

	<u>Q1'17</u>	<u>Q2'17</u>	<u>Q3'17</u>	<u>Q4'17</u>	<u>Q1'18</u>
GAAP Revenue	\$ 726	\$ 753	\$ 832	\$ 878	\$ 837
Amortization of acquisition-related balances	—	5	31	24	19
Non-GAAP/Segment Revenue	<u>\$ 726</u>	<u>\$ 758</u>	<u>\$ 863</u>	<u>\$ 902</u>	<u>\$ 856</u>

Communications Solutions Group

	<u>Q1'17</u>	<u>Q2'17</u>	<u>Q3'17</u>	<u>Q4'17</u>	<u>Q1'18</u>
GAAP Revenue	\$ 434	\$ 423	\$ 418	\$ 462	\$ 420
Amortization of acquisition-related balances	—	1	—	—	—
Segment Revenue	<u>\$ 434</u>	<u>\$ 424</u>	<u>\$ 418</u>	<u>\$ 462</u>	<u>\$ 420</u>

Electronic Industrial Solutions Group

	<u>Q1'17</u>	<u>Q2'17</u>	<u>Q3'17</u>	<u>Q4'17</u>	<u>Q1'18</u>
GAAP Revenue	\$ 192	\$ 220	\$ 218	\$ 206	\$ 203
Amortization of acquisition-related balances	—	—	—	—	—
Segment Revenue	<u>\$ 192</u>	<u>\$ 220</u>	<u>\$ 218</u>	<u>\$ 206</u>	<u>\$ 203</u>

Ixia Solutions Group

	<u>Q1'17</u>	<u>Q2'17</u>	<u>Q3'17</u>	<u>Q4'17</u>	<u>Q1'18</u>
GAAP Revenue	—	\$ 8	\$ 89	\$ 100	\$ 108
Amortization of acquisition-related balances	—	4	31	24	19
Segment Revenue	<u>\$ —</u>	<u>\$ 12</u>	<u>\$ 120</u>	<u>\$ 124</u>	<u>\$ 127</u>

Services Solutions Group

	<u>Q1'17</u>	<u>Q2'17</u>	<u>Q3'17</u>	<u>Q4'17</u>	<u>Q1'18</u>
GAAP Revenue	\$ 100	\$ 102	\$ 107	\$ 110	\$ 106
Amortization of acquisition-related balances	—	—	—	—	—
Segment Revenue	<u>\$ 100</u>	<u>\$ 102</u>	<u>\$ 107</u>	<u>\$ 110</u>	<u>\$ 106</u>

Segment revenue is consistent with the respective non-GAAP measures as discussed on Page 19.

KEYSIGHT TECHNOLOGIES, INC.
RECONCILIATION OF NON-GAAP REVENUE BY REGION
(In Millions)
(Unaudited)
PRELIMINARY

Keysight

	<u>Q1'17</u>	<u>Q2'17</u>	<u>Q3'17</u>	<u>Q4'17</u>	<u>Q1'18</u>
GAAP Revenue	\$ 726	\$ 753	\$ 832	\$ 878	\$ 837
Amortization of acquisition-related balances	—	5	31	24	19
Non-GAAP Revenue	<u>\$ 726</u>	<u>\$ 758</u>	<u>\$ 863</u>	<u>\$ 902</u>	<u>\$ 856</u>

Americas

	<u>Q1'17</u>	<u>Q2'17</u>	<u>Q3'17</u>	<u>Q4'17</u>	<u>Q1'18</u>
GAAP Revenue	\$ 261	\$ 260	\$ 328	\$ 354	\$ 343
Amortization of acquisition-related balances	—	3	19	15	11
Non-GAAP Revenue	<u>\$ 261</u>	<u>\$ 263</u>	<u>\$ 347</u>	<u>\$ 369</u>	<u>\$ 354</u>

Europe

	<u>Q1'17</u>	<u>Q2'17</u>	<u>Q3'17</u>	<u>Q4'17</u>	<u>Q1'18</u>
GAAP Revenue	\$ 144	\$ 132	\$ 138	\$ 148	\$ 169
Amortization of acquisition-related balances	—	2	12	9	8
Non-GAAP Revenue	<u>\$ 144</u>	<u>\$ 134</u>	<u>\$ 150</u>	<u>\$ 157</u>	<u>\$ 177</u>

Asia Pacific

	<u>Q1'17</u>	<u>Q2'17</u>	<u>Q3'17</u>	<u>Q4'17</u>	<u>Q1'18</u>
GAAP Revenue	\$ 321	\$ 361	\$ 366	\$ 376	\$ 325
Amortization of acquisition-related balances	—	—	—	—	—
Non-GAAP Revenue	<u>\$ 321</u>	<u>\$ 361</u>	<u>\$ 366</u>	<u>\$ 376</u>	<u>\$ 325</u>

Please refer Page 19 for discussion on our non-GAAP financial measures.

KEYSIGHT TECHNOLOGIES, INC.
RECONCILIATIONS OF NON-GAAP REVENUE BY SEGMENT AND REGION
(in millions)
(Unaudited)
PRELIMINARY

Year-over-Year									
Revenue by Segment	GAAP Revenue			Amortization of acquisition-related balances		Non-GAAP Revenue			
	Q1'18	Q1'17	YoY % Chg.	Q1'18	Q1'17	Q1'18	Q1'17	YoY % Chg.	
Communications Solutions Group	\$ 420	\$ 434	(3%)	\$ —	\$ —	\$ 420	\$ 434	(3%)	
Electronic Industrial Solutions Group	203	192	6%	—	—	203	192	6%	
Ixia Solutions Group	108	—	—	19	—	127	—	—	
Services Solutions Group	106	100	6%	—	—	106	100	6%	
Keysight	\$ 837	\$ 726	15%	\$ 19	\$ —	\$ 856	\$ 726	18%	

Revenue by Region	GAAP Revenue			Amortization of acquisition-related balances		Non-GAAP Revenue			
	Q1'18	Q1'17	YoY % Chg.	Q1'18	Q1'17	Q1'18	Q1'17	YoY % Chg.	
Americas	\$ 343	\$ 261	31%	\$ 11	\$ —	\$ 354	\$ 261	35%	
Europe	169	144	18%	8	—	177	144	23%	
Japan	75	84	(10%)	—	—	75	84	(10%)	
Asia Pacific ex-Japan	250	237	6%	—	—	250	237	6%	
Total Revenue	\$ 837	\$ 726	15%	\$ 19	\$ —	\$ 856	\$ 726	18%	
Asia Pacific	\$ 325	\$ 321	2%	—	—	\$ 325	\$ 321	2%	

Please refer Page 19 for discussion on our non-GAAP financial measures.

KEYSIGHT TECHNOLOGIES, INC.
RECONCILIATIONS OF NON-GAAP CORE REVENUE BY SEGMENT AND REGION
(in millions)
(Unaudited)
PRELIMINARY

Revenue by Segment	Year-over-Year								
	Non-GAAP Revenue			Revenue from	Currency	Non-GAAP Core Revenue			
	Q1'18	Q1'17	YoY % Chg.	acquisitions	Adjustments ^(a)	Q1'18	Q1'17	YoY % Chg.	
Communications Solutions Group	\$ 420	\$ 434	(3%)	\$ —	6	\$ 414	\$ 434	(5%)	
Electronic Industrial Solutions Group	203	192	6%	(6)	3	194	192	1%	
Ixia Solutions Group	127	—	—	(127)	—	—	—	—	
Services Solutions Group	106	100	6%	(2)	2	102	100	2%	
Keysight	<u>\$ 856</u>	<u>\$ 726</u>	18%	<u>\$ (135)</u>	<u>\$ 11</u>	<u>\$ 710</u>	<u>\$ 726</u>	(2%)	

Revenue by Region	Year-over-Year								
	Non-GAAP Revenue			Revenue from	Currency	Non-GAAP Core Revenue			
	Q1'18	Q1'17	YoY % Chg.	acquisitions	Adjustments ^(a)	Q1'18	Q1'17	YoY % Chg.	
Americas	\$ 354	\$ 261	35%	\$ (79)	\$ —	\$ 275	\$ 261	5%	
Europe	177	144	23%	(30)	8	139	144	(3%)	
Japan	75	84	(10%)	(7)	—	68	84	(18%)	
Asia Pacific ex-Japan	250	237	6%	(19)	3	228	237	(4%)	
Total Revenue	<u>\$ 856</u>	<u>\$ 726</u>	18%	<u>\$ (135)</u>	<u>\$ 11</u>	<u>\$ 710</u>	<u>\$ 726</u>	(2%)	
Asia Pacific	\$ 325	\$ 321	2%	\$ (26)	\$ 3	\$ 296	\$ 321	(7%)	

^(a) We compare the year-over-year change in revenue excluding the effect of foreign currency rate fluctuations to assess the performance of our underlying business. To determine the impact of currency fluctuations, current period results for entities reporting in currencies other than United States dollars are converted into United States dollars at the actual exchange rate in effect during the respective prior periods.

Please refer Page 19 for discussion on our non-GAAP financial measures.

KEYSIGHT TECHNOLOGIES, INC.
RECONCILIATION OF NON-GAAP REVENUE BY END MARKET
(In millions)
(Unaudited)
PRELIMINARY

	GAAP Revenue			Amortization of acquisition-related balances		Non-GAAP Revenue		
	Q1'18	Q1'17	Percent Inc/(Dec)	Q1'18	Q1'17	Q1'18	Q1'17	Percent Inc/(Dec)
Aerospace, Defense & Government	\$ 175	\$ 180	(3%)	\$ —	\$ —	\$ 175	\$ 180	(3%)
Commercial Communications	245	254	(4%)	—	—	245	254	(4%)
Electronic Industrial	203	192	6%	—	—	203	192	6%
Ixia	108	—	—	19	—	127	—	—
Services	106	100	6%	—	—	106	100	6%
Total Revenue	\$ 837	\$ 726	15%	\$ 19	\$ —	\$ 856	\$ 726	18%

Please refer Page 19 for discussion on our non-GAAP financial measures.

KEYSIGHT TECHNOLOGIES, INC.
FREE CASH FLOW
(in millions)
(Unaudited)
PRELIMINARY

	<u>Q1'18</u>	<u>Q1'17</u>
Net cash provided by operating activities	\$ 171	\$ 115
Less: Investments in property, plant and equipment	<u>(24)</u>	<u>(16)</u>
Free cash flow	<u>\$ 147</u>	<u>\$ 99</u>
Percentage of GAAP Revenue	18%	12%

Operating free cash flow is a non-GAAP measure which management believes provides useful information to management and investors about the amount of cash generated by the business after the acquisition of property and equipment, which can then be used for strategic opportunities including investing in the Company's business and making strategic acquisitions. Our management uses this measure which is a common one in our industry to compare ourselves to our competitors and to measure our own performance. A limitation of operating free cash flow is that it does not represent the total increase or decrease in the cash balance for the period. Our management compensates for this limitation by monitoring and providing the reader with a complete GAAP statement of cash flows which includes net cash provided by operating activities.

Non-GAAP Financial Measures

Management uses both GAAP and non-GAAP financial measures to analyze and assess the overall performance of the business, to make operating decisions and to forecast and plan for future periods. We believe that our investors benefit from seeing our results “through the eyes of management” in addition to seeing our GAAP results. This information enhances investors’ understanding of the continuing performance of our business and facilitates comparison of performance to our historical and future periods.

Our non-GAAP financial measures may not be comparable to similarly titled measures used by other companies, including industry peer companies, limiting the usefulness of these measures for comparative purposes.

These non-GAAP measures should be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP. The discussion below presents information about each of the non-GAAP financial measures and the company’s reasons for including or excluding certain categories of income or expenses from our non-GAAP results. In future periods, we may exclude such items and may incur income and expenses similar to these excluded items. Accordingly, adjustments for these items and other similar items in our non-GAAP presentation should not be interpreted as implying that these items are non-recurring, infrequent or unusual.

Non-GAAP Revenue includes recognition of acquired deferred revenue that was written down to fair value in purchase accounting. Management believes that excluding fair value purchase accounting adjustments more closely correlates with the ordinary and ongoing course of the acquired company’s operations and facilitates analysis of revenue growth and business trends.

Non-GAAP Core Revenue is non-GAAP revenue (see *Non-GAAP Revenue* above) excluding the impact of foreign currency changes and revenue associated with businesses acquired within the last twelve months. We exclude the impact of foreign currency changes as currency rates can fluctuate based on factors that are not within our control and can obscure revenue growth trends. As the nature, size and number of acquisitions can vary significantly from period to period and as compared to our peers, we exclude revenue associated with recently acquired businesses to facilitate comparisons of revenue growth and analysis of underlying business trends.

Non-GAAP Income from Operations, Non-GAAP Net Income and Non-GAAP Diluted EPS may include the following types of adjustments:

- *Share-based Compensation Expense:* We exclude share-based compensation expense from our non-GAAP financial measures because share-based compensation expense can vary significantly from period to period based on the company’s share price, as well as the timing, size and nature of equity awards granted. Management believes the exclusion of this expense facilitates the ability of investors to compare the company’s operating results with those of other companies, many of which also exclude share-based compensation expense in determining their non-GAAP financial measures.
- *Acquisition-related Items:* We exclude the impact of certain items recorded in connection with business combinations from our non-GAAP financial measures that are either non-cash or not normal, recurring operating expenses due to their nature, variability of amounts and lack of predictability as to occurrence or timing. These amounts may include non-cash items such as the amortization of acquired intangible assets and amortization of items associated with fair value purchase accounting adjustments, including recognition of acquired deferred revenue (see *Non-GAAP Revenue* above). We also exclude transaction and certain other cash costs associated with business acquisitions that are not normal recurring operating expenses, including amortization of amounts paid to redeem acquires’ unvested stock-based compensation awards, and legal, accounting and due diligence costs. We exclude these charges to facilitate a more meaningful evaluation of our current operating performance and comparisons to our past operating performance.
- *Separation and Related Costs:* We exclude all incremental expenses incurred to effect the separation of Keysight from Agilent. We exclude expenses that would not have been incurred if we had no plan to spin-off including, among other things, branding, legal, accounting and advisory fees, costs to resize and optimize our infrastructure and other costs to separate and transition from Agilent. We believe that these costs do not reflect expected future operating expenses and do not contribute to a meaningful evaluation of the company’s current operating performance or comparisons to our operating performance in other periods.
- *Restructuring and Related Costs:* We exclude incremental expenses associated with restructuring initiatives, usually aimed at material changes in the business or cost structure. Such costs may include employee separation costs, asset impairments, facility-related costs, contract termination fees, and costs to move operations from one location to another. These activities can vary significantly from period to period based on the timing, size and nature of restructuring plans; therefore, we do not consider such costs to be normal, recurring operating expenses. We believe that these costs do not reflect expected future operating expenses and do not contribute to a meaningful evaluation of the company’s current operating performance or comparisons to our operating performance in other periods.
- *Northern California wildfire related costs and Other Items:* We exclude certain other significant income or expense items that may occur occasionally and are not normal, recurring, cash operating from our non-GAAP financial measures. Such items are evaluated on an individual basis based on both quantitative and qualitative factors and generally represent items that we would not anticipate occurring as part of our normal business on a regular basis. While not all-inclusive, examples of certain other significant items excluded from non-GAAP financial measures would be: costs related to unusual disaster like Northern California wildfires, significant realized gains or losses associated with our employee benefit plans, significant litigation-related loss contingency accruals and settlement fees or gains associated with other disputed matters.
- *Estimated Tax Rate:* We utilize a consistent methodology for long-term projected non-GAAP tax rate. When projecting this long-term rate, we exclude any tax benefits or expenses that are not directly related to ongoing operations and which are either isolated or cannot be expected to occur again with any regularity or predictability. Additionally, we evaluate our current long-term projections, current tax structure and other factors, such as existing tax positions in various jurisdictions and key tax holidays in major jurisdictions where Keysight operates. This tax rate could change in the future for a variety of reasons, including but not limited to significant changes in geographic earnings mix including acquisition activity, or fundamental tax law changes in major jurisdictions where Keysight operates. The above reasons also limit our ability to reasonably estimate the future GAAP tax rate and provide a reconciliation of the expected non-GAAP earnings per share for the second quarter and the first half of fiscal 2018 to the GAAP equivalent.

Management recognizes these items can have a material impact on our cash flows and/or our net income. Our GAAP financial statements, including our Condensed Consolidated Statement of Cash Flows, portray those effects. Although we believe it is useful for investors to see core performance free of special items, investors should understand that the excluded costs are actual expenses that may impact the cash available to us for other uses. To gain a complete picture of all effects on the company’s profit and loss from any and all events, management does (and investors should) rely upon the Condensed Consolidated Statement of Operations prepared in accordance with GAAP. The non-GAAP measures focus instead upon the core business of the company, which is only a subset, albeit a critical one, of the company’s performance.