

TO OUR STOCKHOLDERS,

Welcome to '02 *Varian*, a magazine and summary annual report highlighting the achievements of Varian Medical Systems in fiscal year 2002. We have a lot to talk about. Fiscal 2002 was a highly productive and successful year for our company.



Levy Wieser

For fiscal year 2002, the company reported:

- A 13 percent increase in net orders to \$974 million
- A 13 percent increase in sales to \$873 million
- A 2 point boost in the gross margin to 39 percent
- A 2 point increase in our return on sales to 16.6 percent
- A 17 percent increase in our year-ending backlog to a record \$698 million
- A 31 percent increase in net earnings to \$93.6 million (\$1.33 per diluted share) compared to prior year pro-forma earnings⁽²⁾

We increased our year-end cash and marketable securities by 36 percent to \$299 million, even after spending \$55 million to repurchase 1.4 million shares of common stock. The company generated operating cash flow of \$156 million for the year, helped in part by a sharp reduction in days sales outstanding, which stood at 80 days at the end of the year. Shareholder equity was \$473 million at the end of the fiscal year, up 20 percent from the prior year.

All three of our business segments achieved success during the year, but in different ways. The Oncology Systems unit capitalized on a booming radiation oncology market, which is well funded and supported by reimbursement rates that are favorable to Intensity Modulated Radiation Therapy (IMRT), the most advanced form of modern radiotherapy. Our X-Ray Products group responded effectively to tough economic conditions including difficult challenges in Japan by improving factory efficiency, enhancing product quality, and introducing new products that opened

new market opportunities. The Ginzton Technology Center put our emerging BrachyTherapy business on its feet and extended our technical capabilities. While varied, these achievements come by virtue of a characteristic that is shared throughout our company – the ability to execute.

ONCOLOGY SYSTEMS

Oncology Systems boosted annual sales and net orders by 18 percent over the previous year and managed a 40 percent increase in operating profits. This growth came from market expansion and an increase in our already significant market leadership position.

As of the end of the fiscal year, we had equipped many more radiation oncology clinics for Varian SmartBeam™ IMRT, which enables doctors to improve outcomes by focusing higher doses of radiation more precisely on tumors while reducing complications by avoiding surrounding healthy tissue. The number of clinics treating patients with IMRT had jumped to 188 – more than double the number that were offering this treatment last year. With ongoing product enhancements, growing media coverage, and stronger patient demand, the pace of adoption remains rapid.

Our commitment to provide a “best-in-class” product for every facet of radiotherapy and to integrate these products into a user-friendly, fast, reliable system has proven to be a winning strategy. We consider ourselves to be second to none in software for treatment planning and management and in image-guided three-dimensional radiotherapy systems components.

At the annual meeting of the American Society of Therapeutic Radiology and Oncology (ASTRO), we introduced our Acuity™ planning, simulation, and verification system, which will make it substantially easier for clinics to begin treating patients with IMRT. We also gave customers a glimpse of the future by displaying a prototype Clinac® linear accelerator with an on-board imaging system, which will enable clinics to track and adjust for tumor motion during treatment. With IMRT, this is becoming an essential capability. Both Acuity and the on-board imaging system feature a flat panel imager and X-ray tube built by our X-Ray Products business.

X-RAY PRODUCTS

Our X-Ray Products group overcame a very tough first half and got back onto the growth track in the second half, creating new market opportunities while tightly controlling costs to maintain profitability. In the second half this group reached new agreements with two major customers who have committed to buying more tubes. Our engineers developed several new products, including X-ray tubes for CT scanning and airport explosive detection systems, in record time. These new products are already being shipped to customers. The group also initiated production of our new PaxScan® 4030A flat-panel X-ray imager, a significant entry in what is expected to be a large market in the future. With disciplined management, X-Ray Products also cut the cost of product failures and improved factory efficiency.

GINZTON TECHNOLOGY CENTER

The Ginzton Technology Center successfully fulfilled its incubation mission with our BrachyTherapy business. We acquired the GammaMed® business from MDS Nordion, creating a \$30 million annual brachytherapy business with a strong global presence. Our BrachyTherapy group also introduced a new version of the VariSeed™ software product, which enables doctors to improve treatment precision through intra-operative planning. The Ginzton group passed several milestones in key research

projects. Engineers demonstrated the feasibility of cone beam CT scanning on our Clinac and Acuity products, real-time respiratory gating, and the use of marker seeds to track prostate tumor movements.

We reshaped the organization through several key management appointments designed to build upon our talent, consolidate and streamline operations, accentuate and share best practices, and better focus resources into emerging enterprises. Timothy E. Guertin, president of Oncology Systems and a 25-year veteran of the business, has been made executive vice president of the company. We expect that the new structure will serve us well as our orders approach the \$1 billion mark.

In '02 *Varian*, we highlight the technologies that we expect will carry us forward in our ongoing campaign to expand a highly profitable business based on fighting cancer, improving X-ray imaging, and enhancing inspection and security capabilities. We expect that you will find the information herein as compelling as we do.

Before signing off, we must acknowledge the fine work of our employees. They have executed our strategies with a commitment and passion that come from knowing that we are making a difference for the better. Their many achievements in fiscal 2002 have positioned our company for another excellent year in fiscal 2003. We all look forward to sharing our progress with you and we thank you for your support.

Sincerely,



Richard M. Levy
President and CEO



Richard W. Vieser
Chairman of the Board

\$156M

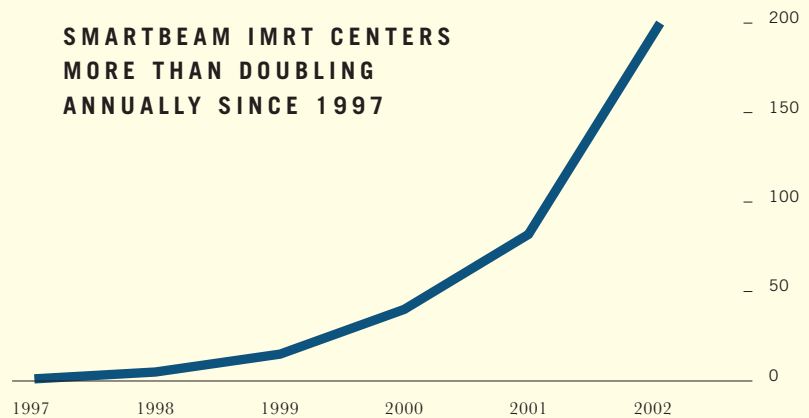
**OPERATING
CASH FLOW**

\$698M

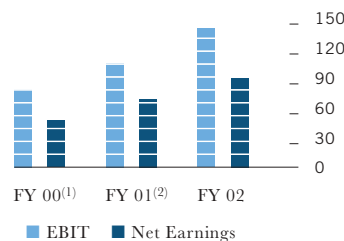
**RECORD
BACKLOG UP 17%**

188

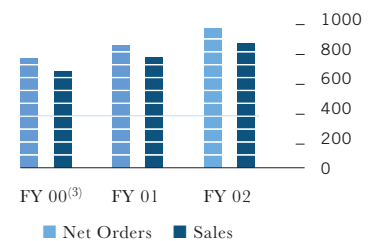
**SMARTBEAM IMRT CENTERS
MORE THAN DOUBLING
ANNUALLY SINCE 1997**



**>30% GAIN
IN EBIT AND
NET EARNINGS**
(Dollars in millions)



**13% GAIN
IN NET ORDERS
AND SALES**
(Dollars in millions)



(1) FY00 is presented on a pro forma basis (assuming SAB 101 was applied retroactive to prior periods) for comparison purposes.
 (2) Excludes the effect of the \$5 million dpiX investment write-off and the cumulative effect of an accounting change (SAB 101).
 (3) FY00 sales are presented on a pro forma basis (assuming SAB 101 was applied retroactive to prior periods) for comparison purposes.