

TO OUR STOCKHOLDERS, CUSTOMERS, AND EMPLOYEES



Varian Medical Systems passed a major milestone in fiscal year 2003, becoming a billion dollar company in both sales and net orders. It was a record-setting year marked by important product developments, improved operations, and excellent financial results. The company is succeeding in its mission to deliver true customer solutions, market leadership, and profitable growth.

\$210M

**OPERATING
CASH FLOW**

\$808M

**RECORD
BACKLOG UP 16%**

TRUE CUSTOMER SOLUTIONS

We have built a business that is helping patients around the world to beat cancer. During fiscal year 2003, the number of radiation oncology centers treating patients with Varian’s SmartBeam™ IMRT (intensity modulated radiation therapy) grew by more than two and a half times to 472. As a rising number of clinical papers and media reports showed, this advanced treatment is resulting in better outcomes and fewer complications in prostate, head and neck, breast, and many other types of cancer.

We concentrated during the year on expanding the use of computer automation and better software integration as well as incorporating new X-ray imaging technology to create a versatile radiation oncology system capable of treating more patients in less time with greater precision.

The company introduced new VARiS/Vision™ software that coordinates all members of the medical staff and all parts of the treatment process through a shared database and retooled user interface. New IMRT quality assurance software was developed to cut the time for plan verification from several hours to 15 minutes.

Combining technologies from our Ginzton Technology Center, our X-Ray Products business, and our Oncology Systems business, we developed important new products for Dynamic Targeting™ IGRT (image-guided radiation therapy), a more precise treatment technique that can adjust for daily changes and movements in tumors. IGRT makes it possible to treat tumors with

higher, more effective doses of radiation while sparing more of the surrounding healthy tissue.

Shortly after the year ended, we acquired Zmed, Inc., which adds three-dimensional ultrasound imaging and products for precise targeting of tumors to our radiotherapy treatment systems. Separately, we announced an agreement in which we will initially form a joint venture with Mitsubishi Electric Corp., the leader in the Japanese radiotherapy business, and eventually acquire its linear accelerator service business in Japan and other countries in Asia.

MARKET LEADERSHIP

Since the 1950s, Varian has been a pioneer and leader in radiation therapy, a treatment which is used for as many as 60 percent of all patients in modern cancer care. Today, Varian supplies a significant percentage of all the radiation oncology equipment in the world.

Strong execution and a commitment to continuous improvement in all operations contributed to our success in fiscal 2003. The company increased inventory turns for the year to 3.82, up from 3.23 last year. Our year-ending accounts receivable days sales outstanding was reduced to 73, an improvement from 80 days in fiscal 2002.

We reduced warranty costs as a percentage of sales, particularly in our X-Ray Products business, which enhanced products through “Six Sigma” programs. Several X-ray tubes were developed in record time by cross-functional teams.

The Oncology Systems business initiated remote servicing via telephone and the Internet to improve response time and system reliability. These and other factors enhanced our market leadership in fiscal 2003. Our technology in X-ray tubes, imaging subsystems, and in radiation oncology systems broadened the gap between Varian and other companies in the business.

PROFITABLE GROWTH

Varian Medical Systems earned \$1.84 per diluted share in fiscal year 2003, up an outstanding 38 percent over fiscal year 2002.

We reported sales of \$1.0 billion for the fiscal year, up 19 percent from the previous fiscal year, including an 18 percent sales gain in our Oncology Systems segment, a 25 percent rise in X-Ray Products, and a 28 percent boost in the Ginzton Technology Center/Brachytherapy business.

The company's gross margin for the fiscal year was a record 40.5 percent of sales, approximately 160 basis points higher than the fiscal year 2002 level, due in part to higher volumes in our X-Ray Products segment and to favorable product mix and higher volumes in the Oncology Systems business.

We increased operating earnings to 19.0 percent of sales in fiscal year 2003, up from 16.6 percent of sales in fiscal year 2002, while increasing our investment in research and development and reducing selling, general, and administrative expenses as a percentage of sales. Research and development spending rose by nearly \$11 million to \$59 million or 5.7 percent of sales in fiscal year 2003, up from 5.5 percent of sales in fiscal year 2002.

Our net orders positioned the company for further growth, totaling \$1.2 billion for fiscal year 2003, an 18 percent increase from fiscal year 2002. Our backlog reached \$808 million at the end of fiscal year 2003, up 16 percent from the end of fiscal 2002.

The company had record operating cash flows in fiscal 2003, averaging more than \$50 million per quarter and contributing to our fiscal year-ending total of \$407 million in cash and marketable securities.

'03 VARIAN

In '03 *Varian*, our focus is on true customer solutions, including Dynamic Targeting IGRT, the evolution of IMRT; superb engineering in X-Ray Products; and our emerging technologies in flat panel imaging, security and inspection, and brachytherapy that together grew combined sales by more than 50 percent during the year. We hope to show you how Varian Medical Systems' accomplishments in fiscal year 2003 are leading to better cancer care and new possibilities in the security industry.

THE FUTURE

Our major goals for the future are clear:

- Increase the availability of IMRT to cancer patients by continually improving software, training, and process automation;
- Develop and deliver practical clinical IGRT products and processes for improved targeting of primary tumors and metastases;
- Combine IMRT and IGRT to significantly improve cancer control and launch a new era in which the most advanced, modern radiation oncology is routinely available to all patients around the world.

Our fiscal year 2003 achievements were made possible by talented and dedicated employees who share an intense drive to achieve our goals, a commitment to continuous improvement, the intuition to make the right decisions for the right reasons, and the ability to inspire others to do the same. With their efforts, we are achieving our mission and we are looking forward to even greater success in fiscal year 2004.

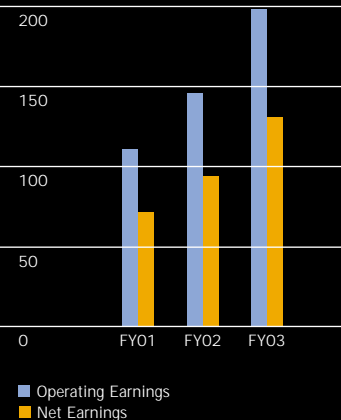
Sincerely yours,



Richard M. Levy
Chairman and CEO
Varian Medical Systems, Inc.

37% GAIN IN OPERATING EARNINGS AND 40% GAIN IN NET EARNINGS

(Dollars in Millions)



18% GAIN IN NET ORDERS AND 19% GAIN IN SALES

(Dollars in Millions)

