



CLOCKWISE FROM FRONT:

Richard M. Levy
Chairman, President and CEO

Timothy E. Guertin
Executive Vice President

Wendy S. Reitherman
Vice President, Human Resources

John Anderson Thorson II
Vice President, Business Development

Joseph B. Phair
Vice President, General Counsel

George A. Zdasiuk
Vice President, Chief Technology Officer

Robert H. Kluge
Vice President

Elisha W. Finney
Vice President, Chief Financial Officer

TO OUR STOCKHOLDERS, CUSTOMERS, AND EMPLOYEES

Fiscal year 2004 was a rewarding year for Varian Medical Systems' stockholders, customers, and employees. We achieved impressive financial results, introduced six major new products, extended our technological and market leadership, significantly expanded three emerging business areas, completed three strategic acquisitions, entered two new markets, and enhanced our operational efficiency. These accomplishments set the stage for continued strong growth in fiscal year 2005.

PROFITABLE GROWTH

For 2004, in comparison with the previous year:

- Net orders rose 21 percent to \$1.4 billion
- Year-end backlog rose 20 percent to \$970 million
- Revenues increased 19 percent to \$1.2 billion
- Operating earnings climbed 29 percent to \$256 million
- Net earnings rose 28 percent to \$167 million

After paying a two-for-one stock dividend during the year, our company recorded annual earnings of \$1.18 per diluted share, up 28 percent from fiscal year 2003.

Annual net orders, revenues, and operating earnings rose in all three business segments. Net orders increased 20 percent in Oncology Systems, 30 percent in X-Ray Products, and 32 percent in the "Other" segment that includes the Gintzon Technology Center and BrachyTherapy products. Revenues rose 20 percent in Oncology Systems, 8 percent in X-Ray Products, and 20 percent in the "Other" segment.

Higher unit volumes and a sales mix change toward more profitable products drove the company's annual gross margin up by about 1.4 percent to a record 41.9 percent of revenue. We also reduced selling, general, and administrative expenses as a percentage of revenues by about one-half percent to 15.3 percent. Our operating earnings for fiscal year 2004 were a record 20.7 percent of revenues, up 29 percent from the previous year. In keeping with our commitment to technological leadership, we increased our research-and-development investment by about 20 percent.

For fiscal year 2004, Varian Medical Systems delivered a 27.9 percent return on equity—an increase of 2.4 percent over the prior year.

The company generated a record of \$234 million in cash from operations. We ended the year with \$393 million in cash and marketable securities after spending \$202 million to repurchase approximately 5.6 million shares of the company's common stock and another \$72 million on acquisitions.

For the year, Varian Medical Systems delivered a 27.9 percent return on equity—an increase of 2.4 percent from an already good 25.5 percent return on equity in fiscal year 2003.

MARKET LEADERSHIP

In 2004, Varian Medical Systems introduced several significant new products for more precise radiotherapy treatments that will enable better outcomes in cancer treatment. These products also address the equally important need for greater cost-efficiency in modern healthcare.

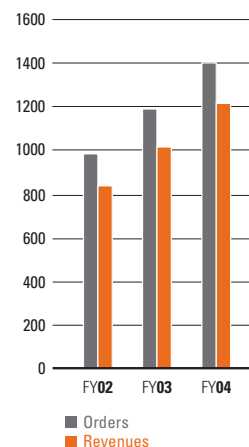
Varian developed the world's first clinically practical products for real-time, image-guided radiation therapy (IGRT), a new treatment process that addresses the problem of tumor motion. Our engineers made it possible for the equipment to track and target tumors more accurately than ever with a new On-Board Imager™ accessory that takes still, moving, or three-dimensional X rays of patients at the moment of treatment. Using these images, clinics are now able to treat patients with smaller radiation beams to concentrate higher doses in tumors while improving the protection of surrounding healthy tissue. To make our IGRT solution clinically practical, Varian has developed powerful software that integrates and automates the process so that treatments can be completed easily within a normal 15-minute session.

Annual net orders, revenues,
and operating earnings rose in
all three business segments.

NET ORDERS AND REVENUES

21 percent gain in annual net orders to \$1.4 billion.

19 percent gain in annual revenues to \$1.2 billion.



41.9% GROSS MARGIN

20.7% OPERATING MARGIN

\$1.18 EARNINGS PER SHARE

Customers welcomed our IGRT solution when it was introduced last March, and by the end of the fiscal year more than 80 clinics in North America and Europe had placed orders for the On-Board Imager product, one of the fastest new product introductions in our history. Meanwhile, clinics continued to adopt intensity-modulated radiation therapy (IMRT), a modern treatment process enabled by Varian developments over the last 15 years. Varian-equipped centers using this technique nearly doubled to more than 860 during the fiscal year.

Equally significant, in fiscal year 2004 we introduced the Trilogy™ accelerator, the most comprehensive, versatile, and cost-effective radiation treatment machine in the world—a device that can be shared by radiation oncologists and neurosurgeons to address multiple medical conditions. Trilogy is optimized for specialized radiosurgical procedures as well as all standard radiotherapies, including IGRT and IMRT. This product offers Varian a growth opportunity in the burgeoning field of radiosurgery, the substitution of focused radiation for traditional surgical techniques. Customer response again was gratifying. By the end of the fiscal year, 27 Trilogy accelerators had been ordered by centers around the world.

Fiscal year 2004 also saw the introduction of Varian's iX Series Clinac® accelerator, a modularized product designed to facilitate more rapid adoption of IMRT and IGRT. Other IGRT-related developments in the year included cone-beam CT 3D imaging on our Acuity™ simulator and the addition of Zmed's SonArray® 3D ultrasound imaging device.

Within the \$100 million Oncology Systems software product line, we added an "electronic health record" feature to our VARiS Vision™ product to support paperless clinical processes. We acquired OpTx® assets and incorporated OpTx medical oncology practice management software into our product line

for comprehensive cancer clinics. This acquisition also broadened Varian's market, giving us our first offering for stand-alone chemotherapy clinics.

Our engineers successfully developed two more precise dose calculating algorithms for our Eclipse™ treatment planning software. Varian's Eclipse product now supports stereotactic radiosurgery planning with Trilogy as well as IMRT and IGRT.

In summary, these product introductions extended Varian's technical and market leadership during fiscal 2004. Today, we offer a complete line of products that can be configured to support every type of radiation treatment within an integrated, automated, and cost-efficient system.

Progress in our X-Ray Products segment was similarly successful in 2004. A second major customer ordered a new version of the powerful anode-grounded CT scanning tube that is unique to Varian, and we successfully developed several other X-ray tubes that meet higher performance standards set by imaging equipment manufacturers.

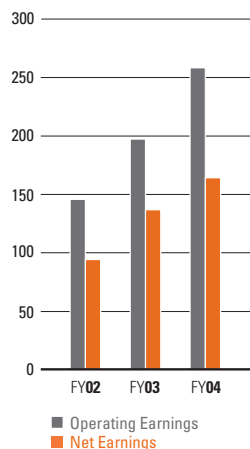
EMERGING BUSINESS AREAS AND ACQUISITIONS

For several years, Varian has been investing in three emerging product lines complementary to our core business in radiation therapy and X-ray tubes. These are brachytherapy planning and delivery systems, flat-panel detectors for X-ray imaging, and Linatron® accelerators for nondestructive testing and cargo screening. In 2004, these products contributed significantly to our growth, with orders 51 percent higher and revenues 36 percent higher than in fiscal 2003. Each of these products contributed to our profits for the year. The three emerging businesses, together with our fiscal year 2004 acquisitions—Zmed, OpTx, and Mitsubishi Electric Corporation's radiotherapy equipment service business in Japan—generated orders in excess of \$130 million during the year.

EARNINGS

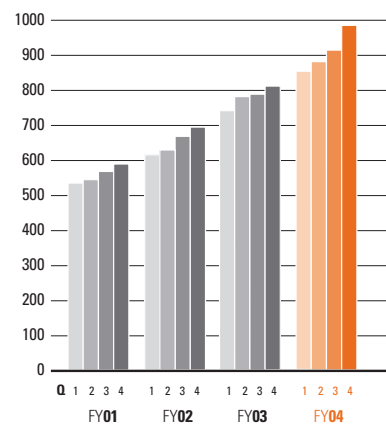
29 percent gain in annual operating earnings to \$256 million.

28 percent gain in annual net earnings to \$167 million.



BACKLOG

20 percent gain in year-end backlog to \$970 million.



\$234M OPERATING CASH FLOW

\$393M CASH AND MARKETABLE SECURITIES

\$614M SHAREHOLDER EQUITY

Our execution is leading to growth in margins. In fiscal 2004, we extended our record of continuous improvement in operations.

OPERATIONS

Our strategies are leading to growth in revenues. Our execution is leading to growth in margins. In fiscal 2004, we extended our record of continuous improvement in operations. In Oncology Systems, we stepped up production by more than 10 percent while improving operational efficiencies. We reduced production times for our accelerators and completed construction of two new test cells for expanded production in fiscal 2005 and beyond. We successfully reduced warranty costs and improved responsiveness to customer needs through expansion of our help desk and customer education programs. In our X-Ray Products segment, we enhanced efficiencies through expanded Six Sigma programs and increased inventory turns. Sales per employee rose in all of our business segments.

All of Varian Medical Systems' accomplishments in 2004 came through talented and committed employees who are inspired to help others. Above all, we owe our success to our people around the world.

WHAT'S NEXT?

We have established ambitious goals for Varian Medical Systems in 2005. We expect to:

- Increase adoption of IMRT and IGRT throughout the world
- Expand acceptance of our new products for radiosurgery and medical oncology
- Aggressively pursue growth opportunities beyond our core businesses
- Continue to enhance operational performance and customer satisfaction

From the accomplishments of fiscal year 2004, it should be clear that Varian Medical Systems has the momentum for continued growth and can make a real difference in the quality and efficiency of modern healthcare. We look forward to another rewarding year for our stockholders, customers, and employees in fiscal 2005, and we thank all of you for your continued support.

Sincerely yours,

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