

Varian Medical Systems, Inc., of Palo Alto, California, is the world's leading supplier of radiotherapy equipment and software for treating cancer. The company is also a premier supplier of components including X-ray tubes and digital image detectors for medical, scientific, and industrial imaging. Varian Medical Systems employs approximately 3,600 people who are located at manufacturing sites in North America and Europe and in its 56 sales and support offices around the world. Additional information is available on the company's Web site at www.varian.com.



VARIAN05
www.varian.com/investor

Total Company

(Dollars in millions)

	<i>Fiscal Years</i>		
	<i>2005</i>	<i>2004</i>	<i>2003</i>
Revenues	\$1,383	\$1,236	\$1,042
Gross margin	\$593	\$518	\$421
Operating earnings	\$305	\$257	\$198
Operating earnings as percentage of revenues	22.1%	20.8%	19.0%
Net earnings	\$207	\$168	\$130
Net earnings per diluted share	\$1.50	\$1.18	\$0.92
Net orders	\$1,591	\$1,398	\$1,152
Backlog	\$1,179	\$970	\$808

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Earnings

See the company's Fiscal Year 2005 Annual Report on Form 10-K for Consolidated Statements of Earnings

(In thousands, except per-share amounts)

	<i>Fiscal Years</i>		
	2005	2004	2003
Revenues		<i>(As adjusted)</i>	<i>(As adjusted)</i>
<i>Product</i>	\$1,161,837	\$1,058,702	\$907,668
<i>Service contracts and other</i>	220,720	176,821	133,889
<i>Total revenues</i>	1,382,557	1,235,523	1,041,557
Cost of revenues			
<i>Product</i>	662,019	604,789	531,270
<i>Service contracts and other</i>	127,517	112,565	89,194
<i>Total cost of revenues</i>	789,536	717,354	620,464
Gross margin	593,021	518,169	421,093
Operating expenses			
<i>Research and development</i>	82,063	72,106	59,176
<i>Selling, general, and administrative</i>	205,982	189,378	164,380
<i>Total operating expenses</i>	288,045	261,484	223,556
Operating earnings	304,976	256,685	197,537
Interest income	8,048	5,970	7,401
Interest expense	(4,698)	(4,668)	(4,383)
Earnings from operations before taxes	308,326	257,987	200,555
Taxes on earnings	101,750	90,300	70,200
Net earnings	\$206,576	\$167,687	\$130,355
Net earnings per share: Basic	\$1.56	\$1.23	\$0.96
Net earnings per share: Diluted	\$1.50	\$1.18	\$0.92
Shares used in the calculation of net earnings per share			
<i>Weighted average shares outstanding: Basic</i>	132,435	136,036	136,113
<i>Weighted average shares outstanding: Diluted</i>	137,835	142,215	142,153

Note: This table does not represent the company's complete set of audited financial statements, which are available together with accompanying notes in the company's Fiscal Year 2005 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission.

Except for historical information, this summary annual report contains "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements concerning industry outlook, including market acceptance of or transition to new products or technology such as intensity-modulated radiation therapy (IMRT), image-guided radiation therapy (IGRT), software, and advanced X-ray products; growth drivers; our orders, sales, backlog, or earnings growth; future financial results and any statements using the terms "set the stage," "can," "expect," "think," "should," "believe," "continue," "will," "could," "may," "would," "eliminate," "promises," "enable," "make," "might," "potential," "becoming," "transforming," "growing," "gaining," "momentum," "continued," "designed," "hope," or similar statements are forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially from those anticipated. Such risks and uncertainties include, without limitation, demand for our products; our ability to develop and commercialize new products; the impact of competitive products and pricing; the effect of economic conditions and currency exchange rates; our ability to meet demand for manufacturing capacity; the effect of environmental claims and expenses; our ability to protect our intellectual property; the impact of managed care initiatives or other healthcare reforms on capital expenditures and/or third-party reimbursement levels; our ability to meet U.S. FDA and other regulatory requirements or product clearances; our dependency on a small number of customers for a significant amount of our sales; our reliance on a limited group of suppliers, and in some cases sole-source suppliers, for some product components; the potential loss of key distributors; the possibility that material product liability claims could harm future sales or require us to pay uninsured claims; the risk of operations interruptions due to events beyond our control; and other risks detailed from time to time in our filings with the Securities and Exchange Commission. We assume no obligation to update or revise any forward-looking statements because of new information, future events, or otherwise.

Balance Sheets

See the company's Fiscal Year 2005 Annual Report on Form 10-K for Consolidated Balance Sheets

(In thousands, except par values)

	<i>Fiscal Years Ended</i>	
	<i>September 30, 2005</i>	<i>October 1, 2004</i>
		<i>(As adjusted)</i>
Assets		
Current assets		
<i>Cash and cash equivalents</i>	\$243,086	\$132,870
<i>Short-term marketable securities</i>	135,356	219,078
<i>Accounts receivable, net</i>	351,899	288,663
<i>Inventories</i>	164,873	144,389
<i>Prepaid expenses and other</i>	26,211	29,454
<i>Deferred tax assets</i>	95,470	81,130
Total current assets	1,016,895	895,584
Property, plant, and equipment, net	114,540	85,377
Long-term marketable securities	3,679	40,970
Goodwill	121,389	112,653
Other assets	60,899	46,056
Total assets	\$1,317,402	\$1,180,640
Liabilities and stockholders' equity		
Current liabilities		
<i>Accounts payable</i>	\$71,007	\$59,639
<i>Accrued expenses</i>	315,287	255,519
<i>Current maturities of long-term debt</i>	2,689	5,250
<i>Accrued product warranty</i>	39,407	40,654
<i>Advance payments from customers</i>	115,543	100,277
Total current liabilities	543,933	461,339
Long-term accrued expenses and other	57,124	41,889
Long-term debt	57,318	53,250
Total liabilities	658,375	556,478
Commitments and contingencies		
Stockholders' equity		
<i>Preferred stock of \$1 par value: 1,000 shares authorized; none issued and outstanding</i>	-	-
<i>Common stock of \$1 par value: 189,000 shares authorized; 130,715 and 134,045 shares issued and outstanding at September 30, 2005, and at October 1, 2004, respectively</i>	130,715	134,045
<i>Capital in excess of par value</i>	152,263	133,985
<i>Deferred stock compensation</i>	(1,797)	(1,110)
<i>Retained earnings</i>	383,667	357,242
<i>Accumulated other comprehensive loss</i>	(5,821)	-
Total stockholders' equity	659,027	624,162
Total liabilities and stockholders' equity	\$1,317,402	\$1,180,640

Note: This table does not represent the company's complete set of audited financial statements, which are available together with accompanying notes in the company's Fiscal Year 2005 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission.

Cash Flows

See the company's Fiscal Year 2005 Annual Report on Form 10-K for Consolidated Statements of Cash Flows

(In thousands)

	<i>Fiscal Years</i>		
	2005	2004	2003
Cash flows from operating activities		<i>(As adjusted)</i>	<i>(As adjusted)</i>
Net earnings	\$206,576	\$167,687	\$130,355
Adjustments to reconcile net earnings to net cash provided by operating activities			
<i>Tax benefits from employee stock option exercises</i>	21,993	33,916	28,142
<i>Depreciation</i>	21,458	20,751	19,482
<i>Provision for doubtful accounts receivable</i>	1,418	805	2,160
<i>Loss on disposal of property, plant, and equipment</i>	341	179	44
<i>Amortization of intangibles</i>	5,677	4,372	832
<i>Amortization of premium/discount on marketable securities, net</i>	403	795	1,359
<i>Amortization of deferred stock compensation</i>	1,113	1,171	1,055
<i>Deferred taxes</i>	5,555	8,409	(9,001)
<i>Net change in fair value of derivatives and underlying commitments</i>	4,923	1,907	(10,172)
<i>Income on equity investment in affiliate</i>	(3,391)	-	-
<i>Other</i>	194	496	(116)
<i>Changes in assets and liabilities</i>			
<i>-Accounts receivable</i>	(68,383)	(25,267)	(110)
<i>-Inventories</i>	(21,927)	(9,389)	7,954
<i>-Prepaid expenses and other current assets</i>	(1,051)	(6,180)	2,042
<i>-Accounts payable</i>	11,748	4,122	5,205
<i>-Accrued expenses</i>	52,131	15,666	25,071
<i>-Accrued product warranty</i>	(1,243)	4,256	4,912
<i>-Advance payments from customers</i>	14,958	12,964	2,657
<i>-Long-term accrued expenses and other liabilities</i>	(696)	(2,750)	(2,072)
Net cash provided by operating activities	251,797	233,910	209,799
Cash flows from investing activities			
Proceeds from maturities or sale of marketable securities	358,460	318,915	249,740
Purchases of marketable securities	(237,850)	(252,011)	(346,409)
Purchase of businesses, net of cash acquired	(12,372)	(71,770)	(135)
Purchases of property, plant, and equipment	(43,865)	(24,218)	(18,888)
Increase in cash surrender value of life insurance	(7,885)	(6,002)	(5,166)
Notes receivable from affiliate and other	(4,453)	-	-
Proceeds from disposal of property, plant, and equipment	42	311	189
Other, net	(317)	(976)	(378)
Net cash provided by (used in) investing activities	51,760	(35,751)	(121,047)
Cash flows from financing activities			
Repurchases of common stock	(227,157)	(201,807)	(105,099)
Proceeds from issuance of common stock to employees	38,161	46,099	36,654
Net repayments on bank borrowing/short-term obligations	(5,340)	-	(58)
Proceeds from sale of mandatorily redeemable financial instrument	-	13,457	-
Net cash used in financing activities	(194,336)	(142,251)	(68,503)
Effects of exchange rate changes on cash and cash equivalents	995	(2,687)	(7,012)
Net increase in cash and cash equivalents	110,216	53,221	13,237
Cash and cash equivalents at beginning of fiscal year	132,870	79,649	66,412
Cash and cash equivalents at end of fiscal year	\$243,086	\$132,870	\$79,649

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