Entering a new age in cancer treatment with radiotherapy

Varian Medical Systems (VMS) is the world's leading manufacturer of integrated radiotherapy systems for treating cancer and other diseases, and a leading supplier of X-ray tubes for imaging in medical, scientific, and industrial applications. Established in 1948, the company employs approximately 2,300 people at manufacturing sites in North America and Europe and in 40 sales and support offices worldwide.

Highlights

<table>
<thead>
<tr>
<th>Fiscal Years</th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$590.4</td>
<td>$541.5</td>
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<tr>
<td>Net Earnings from Continuing Operations— as Reported</td>
<td>$8.2</td>
<td>$26.1</td>
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<tr>
<td>Net Earnings from Continuing Operations— Pro Forma</td>
<td>$39.1</td>
<td>$36.0</td>
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<tr>
<td>Net Earnings per Share from Continuing Operations— Diluted, as Reported</td>
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<td>$0.86</td>
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<tr>
<td>Net Earnings per Share from Continuing Operations— Diluted, Pro Forma</td>
<td>$1.28</td>
<td>$1.18</td>
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<tr>
<td>Shares Outstanding at Year End (in thousands)</td>
<td>30,563</td>
<td>29,743</td>
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<tr>
<td>Net Orders</td>
<td>$638.3</td>
<td>$546.5</td>
</tr>
<tr>
<td>Backlog</td>
<td>$400.2</td>
<td>$352.4</td>
</tr>
</tbody>
</table>

Pro forma net earnings assume a 35 percent tax rate and exclude incremental expenses and gains on sales of assets related to the spin-off of the Company's instruments and semiconductor equipment businesses on April 2, 1999.

RISK FACTORS RELATING TO FORWARD-LOOKING INFORMATION

This summary Annual Report contains certain “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995, which provides a “safe harbor” for these types of statements. These forward-looking statements are subject to risks and uncertainties that could cause the actual results of Varian Medical Systems, Inc. (the “Company” or “VMS”) to differ materially from management’s current expectations. These risks and uncertainties include, without limitation, product demand and market acceptance risks; the effect of general economic conditions and foreign currency fluctuations; the impact of competitive products and pricing; new product development and commercialization; reliance on sole-source suppliers; the Company’s ability to attract and retain key employees; the Company’s ability to collect amounts owed in a timely manner; the Company’s ability to increase operating margins on higher sales; the impact of managed care initiatives in the United States on capital expenditures and resulting pricing pressures on medical equipment; fluctuations in the market for capital equipment; successful implementation by the Company and certain third parties of corrective actions to address the impact of the Year 2000; successful consolidation of the Company’s X-ray tube manufacturing operations; the Company’s ability to operate as a smaller and less diversified business entity; following its recent reorganization the Company’s ability to realize anticipated cost savings; the Company’s potential responsibility for liabilities arising out of or relating to the reorganization; the Company’s potential responsibility for liabilities arising out of or relating to the reorganization that were not expressly assumed by the Company; the possibility that indemnification for certain liabilities arising out of or relating to the reorganization will not be available to the Company due to the indemnifying party’s insolvency or legal prohibition; increased debt leverage resulting from the reorganization; possible exposure to fraudulently conveyed assets arising out of the reorganization; possible exposure to additional tax obligations in connection with the reorganization; and risks detailed in the Company’s other filings with the Securities and Exchange Commission. The Company assumes and undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.
### Business Overview

**X-Ray Products**

X-Ray Products is the world's largest supplier of X-ray therapy systems for treating cancer. Its integrated medical systems include sales and service of linear accelerators, oncology accessories, and software for treatment planning, delivery, quality assurance, and patient record management. Thousands of cancer patients around the world are treated daily on X-Ray Products systems. Oncology Systems works closely with healthcare professionals in clinics, hospitals, and universities worldwide, addressing their requirements for continually improving treatment efficacy and cost containment.

**1999 Highlights**

- **Pretax Earnings**—Pro Forma: $17 million (8.6% of sales), $20 million (15.2% of sales), $23 million (17.3% of sales)
- **Backlog**: $29 million, $30 million, $33 million
- **Capital Expenditures**: $10 million, $7 million, $5 million
- **Depreciation & Amortization**: $9 million, $8 million, $7 million

**Prospects & Services**

- **Clinical** radiation therapy linear accelerators
- **Millennium™** MLC
- **Exact™** treatment couches
- **Varian®** treatment planning software
- **Varian®** data management software
- **Varian** customer service and product support

**Facilities**

- **Baden, Switzerland**
- **Buc, France**
- **Charleston, South Carolina**
- **Charlottesville, Virginia**
- **Crawley, England**
- **Espoo, Finland**
- **Milpitas, California**
- **Palo Alto, California**
- **Tokyo, Japan**
- **Zug, Switzerland**

### Corporate Overview

- **1999 Sales**: $459 million, $405 million, $337 million
- **Net Orders**: $304 million, $413 million, $329 million
- **Operating Earnings**—as Reported: (8) million, (9) million, (7) million
- **Backlog**: $29 million, $30 million, $33 million

The Ginzton Technology Center acts as Varian Medical Systems’ research and development facility for breakthrough technologies and operates a brachytherapy business for the delivery of internal radiation to treat cancer. In addition to brachytherapy, current efforts are focused on emerging biotechnologies that shrink tumors by triggering therapeutic gene activity with radiation beams. This business also conducts externally funded research related to medical technology, which leads to long-term partnerships and new business opportunities.

**Varian’s** high-dose-rate *BrachyTherapy delivery systems*

**Varian’s** high-dose-rate *BrachyTherapy treatment planning software for seed placement*

**Varisource™** low-dose-rate *BrachyTherapy treatment planning software for seed placement*

### 1999 Financial Highlights

- **Net Orders**: $304 million, $413 million, $329 million
- **Sales**: $459 million, $405 million, $337 million
- **Operating Earnings**—as Reported: (8) million, (9) million, (7) million
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- **Capital Expenditures**: $10 million, $7 million, $5 million
- **Depreciation & Amortization**: $9 million, $8 million, $7 million

**Oncology Systems** set records for sales, operating earnings, and net orders in fiscal 1999. It introduced several important products for high-resolution MRT (intensity-modulated radiation therapy), including the Millenium MLC-120 modular collimator and Helios software that work with next-generation CanPlan PLUS software to provide optimized treatment plans. It also established long-term contracts with several major purchasing groups and organizations that together represent a significant portion of the hospitals and clinics in North America.

A record backlog has set the stage for continued strong growth in fiscal 2000, driven by demand for equipment and system upgrades that enable hospitals and clinics to offer patients advanced therapies, including high-resolution MRT. Product development efforts will continue to focus on enhancing system integration, beam accuracy, patient positioning, safety systems, and process efficiency.

Demand for minimally invasive procedures is expected to lead to sales growth of products for high- and low-dose-rate brachytherapy, particularly in international markets. The new Varisource software tool for low-dose-rate prostate cancer brachytherapy planning will serve as a new revenue source for this business.

**Oncology Systems**

- **13.9%** sales growth
- **15.5%** operating earnings growth
- **15.2%** net orders growth

**Varian Oncology Systems**

- **15.5%** sales growth
- **14.8%** operating earnings growth
- **14.1%** net orders growth

**Sales & Orders**

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- **Net Orders**: $304 million, $413 million, $329 million
- **Operating Earnings**—as Reported: (8) million, (9) million, (7) million
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### Net Orders

- **1999**: $304 million
- **1998**: $413 million
- **1997**: $329 million

### Sales

- **1999**: $459 million
- **1998**: $405 million
- **1997**: $337 million

### Operating Earnings—as Reported

- **1999**: (8) million
- **1998**: (9) million
- **1997**: (7) million

### Backlog

- **1999**: $29 million
- **1998**: $30 million
- **1997**: $33 million

### Net Orders

- **1999**: $12 million
- **1998**: $8 million
- **1997**: $7 million

### Sales

- **1999**: $12 million
- **1998**: $8 million
- **1997**: $7 million

### Operating Earnings—as Reported

- **1999**: (8) million
- **1998**: (9) million
- **1997**: (7) million

### Backlog

- **1999**: $12 million
- **1998**: $8 million
- **1997**: $7 million

### Net Orders

- **1999**: $10 million
- **1998**: $7 million
- **1997**: $5 million

### Sales

- **1999**: $10 million
- **1998**: $7 million
- **1997**: $5 million

### Operating Earnings—as Reported

- **1999**: (8) million
- **1998**: (9) million
- **1997**: (7) million

### Backlog

- **1999**: $10 million
- **1998**: $7 million
- **1997**: $5 million

### Net Orders

- **1999**: $9 million
- **1998**: $8 million
- **1997**: $7 million

### Sales

- **1999**: $9 million
- **1998**: $8 million
- **1997**: $7 million

### Operating Earnings—as Reported

- **1999**: (8) million
- **1998**: (9) million
- **1997**: (7) million

### Backlog

- **1999**: $9 million
- **1998**: $8 million
- **1997**: $7 million

### Net Orders
LETTER TO STOCKHOLDERS:

that’s making a dramatic difference in the fight against cancer.

During fiscal 1999 we spun off the semiconductor equipment and instruments businesses, changed our name to Varian Medical Systems, Inc., and created a focused, stand-alone medical business. We have put a strong management team in place, consolidated real estate, and updated our enterprise systems and benefit plans. We’ve also marched through a myriad of logistical and financial details that had to be addressed in order to complete this transformation. Today, Varian Medical Systems is an entirely new company that is in the unique position of being well established as the world’s market and technology leader for radiotherapy systems and X-ray tubes.

Varian Medical Systems reported a record $530 million in sales of products and services in fiscal 1999, pushing sales up 9 percent over fiscal 1998. Net orders reached a record $638 million, up 17 percent, and backlog finished at a near record $400 million, up 14 percent from the previous year-end. Demonstrating the fundamental earnings power of the business, we generated $39 million or $1.28 per diluted share of pro forma net earnings that assume a 35 percent tax rate and exclude incremental costs and gains on sales of assets related to the spin-off. After accounting for the fundamental earnings power of the business, we generated $39 million or $1.28 per diluted share of pro forma net earnings that assume a 35 percent tax rate and exclude incremental costs and gains on sales of assets related to the spin-off. After accounting for an unusual 55 percent tax rate and other spin-off-related costs, reported net earnings from continuing operations for the year were $8 million or $0.27 per diluted share.

The Oncology Systems business, which comprised 78 percent of our sales in fiscal 1999, drove the company’s growth in sales and orders during the year. Oncology Systems generated $459 million in sales, up 13 percent from fiscal 1998, and $504 million in net orders, up an impressive 22 percent from the prior year. Through this business, Varian Medical Systems is supplying hospitals and clinics around the world with the most advanced systems for radiotherapy, including the very promising high-resolution IMRT (intensity modulated radiation therapy).

In fiscal 1999 we announced the addition of several powerful new elements to our Genie 6 system of equipment and software that operates off a single shared database for planning, delivering, and verifying treatment. Some key additions include our Millennium MLC-120 multileaf collimator for finely shaping and targeting beams of radiation, our Helios inverse planning software that increases hospital margins and contributes to the operating profits of the company despite declines in sales and orders for its X-ray tubes. Its fiscal 1999 sales and net orders each totaled $123 million, down 6 percent and 4 percent, respectively, from fiscal 1998 levels. Consolidation among original equipment manufacturers led to the declines. However, several new products should begin to put this business back onto a modest growth track. During fiscal 1999, the X-Ray Products team began shipping the world’s most powerful tube for high-speed CT scanning. Shipments also began on two products with high growth potential: Varian Medical Systems’ proprietary cost-reduced, air-cooled X-ray tube and our amorphous-silicon-based imaging subsystems.

We have given the Ginzton Technology Center, our premier research and development facility, the mission of serving as an incubator and launchpad for breakthrough businesses, including our current BrachyTherapy and Biosynergy enterprises. Fiscal 1999 sales, principally from BrachyTherapy products, totaled $8 million, and net orders totaled $12 million. Our acquisition in fiscal 1999 of the Therapy Planning Systems Division of Multimedia Medical Systems extends our reach from high-dose-rate to low-dose-rate brachytherapy with treatment planning for permanent seed implants.

We have also opened the door to the possibility of treating coronary artery disease with radiotherapy. Work during fiscal 1999 culminated in a recent agreement with Cordis Corporation, a Johnson and Johnson company, to supply and service brachytherapy systems that complement angioplasty for clearing blocked arteries. We hope to begin supplying the system to markets outside the United States in 2000. Pending FDA clearance, the system also will be marketed in the United States.

As you will see in the following pages, leading physicians are beginning to talk about dramatic outcomes using high-resolution IMRT, and the medical community is moving to put these systems in place for patients. New studies involving the treatment of prostate cancer with IMRT are showing substantial gains in cure rates with fewer complications for selected patient populations. Clinics are now using IMRT to treat other cancers, including breast cancer and head and neck tumors. The work is just beginning, but it is the most exciting and promising development that I have seen in more than 30 years of working with radiotherapy. The potential of IMRT is tremendous and Varian Medical Systems is at the forefront of this revolution in cancer treatment.

We ended fiscal 1999 with strong forward momentum that we’re carrying into fiscal 2000. Our employees have done extraordinary work, persevering through a spin-off while successfully developing and shipping technological products that are advancing medical science. It’s clear from the many successes of the last year that this company has the team and the technology to make a big difference in how patients are treated for cancer and heart disease—two of the most devastating illnesses in the world. Varian Medical Systems has emerged as a company focused on life with committed people who share a passion for contributing to the betterment of our world. We are entering fiscal 2000 with enthusiasm, great confidence, and high hopes.

Richard M. Levy, President and CEO
December 17, 1999
Of any ten people...

Eventually, three will be diagnosed with cancer. Strangers, friends, family members. Any three people out of ten.

The good news is that their chances of surviving, of beating cancer, have greatly improved, thanks to recent advances in radiation therapy—many of which have been led by Varian Medical Systems.

Success has become a matter of focus. A focus on outcomes, on resolution, and on integration. A focus on global access and on excellence. And ultimately, a focus on life.
Focus on outcomes.

The odds of beating some cancers have improved dramatically in recent years, thanks to new techniques in radiotherapy, specifically 3-D conformal radiotherapy and high-resolution IMRT, which control tumors locally before the disease can spread. Today, clinicians can shape a beam to deliver a precise radiation dose to the tumor volume, while significantly reducing the exposure of healthy organs and tissue. This has enabled radiation oncologists to increase the cancer-killing radiation dose directed at tumors while reducing adverse complications. Dose escalation studies at leading institutions show that cure rates in some cancer patients are being dramatically improved with the use of these advanced techniques. For example, with prostate cancer patients at Memorial Sloan-Kettering Cancer Center in New York, raising the radiation dose from traditional dose levels of 64.8–70.2 Gy to 81 Gy increased the control rate defined by biopsies of the prostate from 55 percent to 94 percent—an almost 71 percent improvement. Using IMRT techniques, clinicians were able to deliver these high doses while actually reducing the rate of normal tissue complications from 10 percent to 2 percent.¹

“With high-resolution IMRT, the clinician can use a computer to optimize millions of treatment options. The risks and benefits of a range of radiation doses can be examined, so that the maximum, most effective dose of radiation can be delivered to the tumor while the minimum amount reaches healthy tissue. For cancer patients, this is a revolutionary development.”

Geoffrey Dalbow, VMS Physicist and IMRT Product Manager

**Zeroing in on cancer with high-resolution IMRT**

Advances in radiotherapy over the last 40 years have made it possible to increase the radiation dose applied to tumors, while reducing complications by minimizing the dose to surrounding healthy tissue. Varian Medical Systems has helped to drive the evolution of this technology, from developing the first isocentric linear accelerator to launching today’s SmartBeam™ system for high-resolution IMRT, introduced in early fiscal year 2000. Varian’s SmartBeam technology provides clinicians with the most advanced treatment equipment and software for the highest-resolution IMRT ever. For the first time, treatments can be digitally matched to diagnostic images that reveal disease activity within the cells. Using computer-generated 3-D images, physicians can now place precisely shaped volumetric beams of radiation into tumors and concentrate the dose to cancerous hot spots while targeting lower doses more broadly to prevent the disease from spreading. This precise control is enabling physicians to deliver more effective treatments with significantly higher cure rates.

Benefits of IMRT include:

- minimal invasiveness
- fewer complications
- faster recovery
- same or better outcomes
- lower costs

Where the choice is between radiotherapy or surgery, high-resolution IMRT offers many benefits for some patients.

“With high-resolution IMRT, the clinician can use a computer to optimize millions of treatment options. The risks and benefits of a range of radiation doses can be examined, so that the maximum, most effective dose of radiation can be delivered to the tumor while the minimum amount reaches healthy tissue. For cancer patients, this is a revolutionary development.”

Geoffrey Dalbow, VMS Physicist

Focus on resolution.
In the 1960s, Varian introduced its first medical linear accelerators, which greatly reduced complications endured during conventional cobalt treatments for cancer. A typical treatment field for prostate cancer would have covered the entire pelvis.

In the 1970s, Varian introduced its first high-energy radiation therapy machine for treatment of deep-seated tumors. Clinicians began to narrow radiation fields by using lead alloy blocks to reduce radiation hitting healthy tissue by as much as 10 to 15 percent.

In the 1980s, treatment fields were further reduced, thanks to the diagnostic capabilities of CT scanners, and to computer planning tools and the multileaf collimator (MLC). Together, they made it possible to deliver conformal therapy to minimize normal tissue exposure and permit dose escalation. The first dose escalation studies show improved cure rates.

Today, True high-resolution IMRT uses Varian's new 120-leaf dynamic MLC and Helios inverse treatment planning software to create smaller subfields than ever before possible (2 mm x 5 mm pixels), increasing both resolution and dose conformity. Clinics continue to escalate doses safely, achieving higher cure rates with reduced complications.

Radiation therapy has evolved from treating large fields that covered entire sections of the patient's body to delivering pixel-sized beams into the tumor using high-resolution IMRT. This pinpoint focus is enabling radiation oncologists to increase doses and achieve higher cure rates, while reducing complications by minimizing doses to healthy tissue. A key component of Varian's IMRT SmartBeam system is the new MLC-120 dynamic multileaf collimator, which provides the precise beam control that enables clinicians to "paint" tumors with prescribed radiation doses. The SmartBeam system works with CadPlan PLUS and Helios, Varian's innovative inverse planning system for dose optimization, to deliver the highest-resolution treatment available for cancer.
Embedded within VMS systems for advanced radiotherapy cancer care, Generation 6 is an integrated system of software and hardware products that includes:

- The Vision suite of imaging products for radiation oncology
- VARiS information management systems
- CadPlan PLUS and Helios treatment planning software
- Ximatron treatment accelerators
- Clinac accelerators
- Millennium multileaf collimators
- RPM respiratory gating system
- Exact patient positioning couches

Cancer radiotherapy is a sophisticated process that requires various healthcare professionals—oncologists, physicists, dosimetristas, and others—to coordinate efforts and interact with different systems, sometimes at different facilities. Effective, efficient treatment of patients, especially in the case of advanced protocols, such as IMRT and brachytherapy, requires a degree of integration that has been virtually impossible to achieve until early in fiscal year 2000 when VMS introduced its Generation 6 technology. Generation 6 is the first centralized data management and control system that supports every function of the radiation treatment process. It seamlessly links each step to ensure highly efficient clinical operations, innovative treatment techniques, uniform and consistent user interfaces, and cost-effective business practices. Some key benefits include the following:

- Fully integrated data and images
- Easier incorporation of new treatment technology and methods
- Faster patient throughput
- Reduction in computer space requirements
- Ease of use

“The more truly integrated the process and technology are, the more effective and efficient the treatment delivery can be.”

Lawrence W. Davis, M.D.
“With the technology developed in the last few years we are able to achieve higher control rates for cancerous tumors, and radiation oncologists around the world have a more compelling case for upgrading the radiotherapy systems that are available for their patients.”

Prof. Volker Budach

Medical resources everywhere are being stressed by rising levels of diseases that typically develop over lifetimes—cancer, for example. In many parts of the globe, resources for radiotherapy are limited. Still, leading institutions around the world are achieving encouraging clinical results with advanced techniques, such as 3-D conformal therapy and high-resolution IMRT.

News of this work is spreading through scientific meetings among the global community of radiation oncologists. Seeing these results many radiation oncologists are convinced that, in a significant number of cases, advanced radiotherapy can be more effective for local control of tumors and substantially more economical than alternatives.

For increasing numbers of institutions, this justifies investment in new systems to give patients better access to the new treatment modalities.

Focus on global access.
When success is measured in the number of lives that are being saved, terms like innovation and quality take on a different meaning. For example, Varian Medical Systems' new high-power CT scanning tube, which is capable of performing at almost twice the sustained output of any other tube in the medical imaging industry, makes possible improved images in the next generation of half-second CT scanning. This allows for better care and helps to raise hope all over the world for millions of patients who will benefit from the innovation.

At Varian Medical Systems, pursuing excellence means helping our customers to achieve better patient outcomes, increase patient throughput, and reduce treatment costs. Tubes made by Varian X-Ray Products are now used in nearly one-half of the mammography systems and in nearly one-fourth of the CT scanners worldwide, accounting for more than 2.2 billion diagnostic medical exposures a year.
In 1999 in the United States alone, approximately 37,000 deaths resulted from prostate cancer, and an estimated 179,300 new cases were diagnosed—more than for any other type of cancer in either men or women. Thanks largely to prostate-specific antigen (PSA) blood test screenings and earlier detection in general, the survival rate for all stages of prostate cancer increased from 67% to 93% over the past 20 years.2

20

Advance into the 21st century

In 1999, the American Cancer Society

Focus on life.

For 17 years he has sold radiation therapy systems—suddenly he finds himself in dire need of them. Don Mills, 50, is a Varian Medical Systems salesman. A gentle and reserved man with a wife and two daughters, he is fit as only a 30-mile-per-week runner (sun, rain, or snow) can be.

He's also a prostate cancer patient who, having considered his family, lifestyle, and the available remedies, chose intensity modulated radiation therapy. Don is one of a growing number of patients who have chosen IMRT for treating their breast, prostate, lung, or head and neck cancer. “Before I was ever diagnosed I was amazed by IMRT,” Mills explains. “It’s the most dramatic advance in the 20 years I’ve been involved with radiotherapy.” Living in New York during his treatment at Memorial Sloan-Kettering Cancer Center, he runs at dawn through Central Park and gets therapy later in the morning. “I’m being treated from five angles,” Mills says, “yet I’m in and out in 10 minutes. Before IMRT this would have been impossible.” “I’m sticking my life on this technology. I have complete confidence in it, and in the therapists and professionals helping me.”

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“Intensity modulated radiation therapy is a paradigm shift in the way that radiotherapy planning is performed. In terms of the delivery of dose, IMRT is the fulfillment of the original promise of the merger of computer technology and advanced imaging.”

Roger Macklis, M.D., Chairman, Department of Radiation Oncology, Cleveland Clinic, Ohio

“The benefit of IMRT is that we can escalate our doses to the tumor while at the same time keeping treatments practical. Ultimately this should allow us to cure more patients.”

Adrian Oliver, Medical Physicist, Thompson Cancer Survival Center, Tennessee

“I think the public should know that there is a new modality available that is one of the greatest advancements in cancer treatment in a long time.”

Michael J. Greenberg, M.D., Medical Director, Pocono Cancer Center, Pennsylvania
## CONSOLIDATED STATEMENTS OF EARNINGS

<table>
<thead>
<tr>
<th>Fiscal Years</th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
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<td>Sales</td>
<td>$590,440</td>
<td>$541,461</td>
<td>$474,300</td>
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<tr>
<td>Operating costs and expenses</td>
<td></td>
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<td>Cost of sales</td>
<td>380,435</td>
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</tr>
<tr>
<td>Reorganization</td>
<td>29,668</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total operating costs and expenses</td>
<td>566,129</td>
<td>503,081</td>
<td>441,969</td>
</tr>
<tr>
<td>Operating earnings</td>
<td>24,311</td>
<td>38,380</td>
<td>32,331</td>
</tr>
<tr>
<td>Interest expense, net</td>
<td>6,072</td>
<td>2,417</td>
<td>3,179</td>
</tr>
<tr>
<td>Earnings from continuing operations before taxes</td>
<td>18,239</td>
<td>35,963</td>
<td>29,152</td>
</tr>
<tr>
<td>Taxes on earnings</td>
<td>10,021</td>
<td>9,819</td>
<td>9,183</td>
</tr>
<tr>
<td>Earnings from continuing operations</td>
<td>8,218</td>
<td>26,144</td>
<td>19,969</td>
</tr>
<tr>
<td>Earnings (loss) from discontinued operations— net of taxes</td>
<td>(32,456)</td>
<td>47,696</td>
<td>95,591</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>$24,238</td>
<td>$73,840</td>
<td>$115,560</td>
</tr>
<tr>
<td>Average shares outstanding— basic</td>
<td>30,219</td>
<td>29,910</td>
<td>30,451</td>
</tr>
<tr>
<td>Average shares outstanding— diluted</td>
<td>30,527</td>
<td>30,419</td>
<td>31,446</td>
</tr>
<tr>
<td>Net earnings (loss) per share— basic</td>
<td>$0.79</td>
<td>$2.43</td>
<td>$3.57</td>
</tr>
<tr>
<td>Continuing operations</td>
<td>$0.27</td>
<td>$0.86</td>
<td>$0.64</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>(0.52)</td>
<td>1.57</td>
<td>3.03</td>
</tr>
<tr>
<td>Net earnings (loss) per share— diluted</td>
<td>$0.27</td>
<td>$2.43</td>
<td>$3.57</td>
</tr>
<tr>
<td>Continuing operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discontinued operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net earnings (loss) per share— diluted</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The operations of the Company's former instruments and semiconductor equipment businesses which were spun off on April 2, 1999, are reflected as discontinued operations for all periods presented.

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**Financial Review**

The intent of this summary Annual Report is to provide useful information on Varian Medical Systems, Inc. in a format that is both concise and cost-effective. It is not intended as a substitute for the Company's quarterly and annual filings with the Securities and Exchange Commission. The Company's complete audited financial statements are included in the Company's fiscal year 1999 Form 10-K.

**Consolidated Statements of Earnings**

**Consolidated Balance Sheets**

**Consolidated Statements of Cash Flows**
### Varian Medical Systems, Inc. and Subsidiary Companies

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<table>
<thead>
<tr>
<th>Fiscal Years</th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash (used)/provided by operating activities</td>
<td>$(33,557)</td>
<td>$127,753</td>
<td>$44,939</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant, and equipment</td>
<td>54,260</td>
<td>2,321</td>
<td>2,220</td>
</tr>
<tr>
<td>Proceeds from sale of Thin Film Systems business</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of property, plant, and equipment</td>
<td>(39,402)</td>
<td>(46,954)</td>
<td>(55,087)</td>
</tr>
<tr>
<td>Purchase of businesses, net of cash acquired</td>
<td>(5,849)</td>
<td>(105,470)</td>
<td>(34,272)</td>
</tr>
<tr>
<td>Other, net</td>
<td>3,851</td>
<td>7,035</td>
<td>(6,685)</td>
</tr>
<tr>
<td>Net cash provided/(used) by investing activities</td>
<td>12,860</td>
<td>(143,068)</td>
<td>49,676</td>
</tr>
<tr>
<td>Net borrowings on short-term obligations</td>
<td>11,253</td>
<td>27,624</td>
<td>2,305</td>
</tr>
<tr>
<td>Proceeds from long-term borrowings</td>
<td>—</td>
<td>38,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Principal payments on long-term debt</td>
<td>(12,138)</td>
<td>(96)</td>
<td>(71)</td>
</tr>
<tr>
<td>Proceeds from common stock issued to employees</td>
<td>15,667</td>
<td>19,732</td>
<td>38,183</td>
</tr>
<tr>
<td>Purchase of common stock</td>
<td>—</td>
<td>(54,276)</td>
<td>(94,730)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(2,991)</td>
<td>(14,348)</td>
<td>(10,399)</td>
</tr>
<tr>
<td>Cash distributed in spin-off of businesses</td>
<td>(119,273)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other, net</td>
<td>2,792</td>
<td>2,692</td>
<td>(245)</td>
</tr>
<tr>
<td>Net cash (used)/provided by financing activities</td>
<td>(104,690)</td>
<td>19,328</td>
<td>(39,957)</td>
</tr>
<tr>
<td>Effects of exchange rate changes on cash</td>
<td>846</td>
<td>3,356</td>
<td>4,965</td>
</tr>
<tr>
<td>Net (decrease) increase in cash and cash equivalents</td>
<td>(124,541)</td>
<td>19,328</td>
<td>(39,957)</td>
</tr>
</tbody>
</table>

Cash and cash equivalents at beginning of fiscal year | $149,667 | $142,298 | $82,675 |

Cash and cash equivalents at end of fiscal year | $25,126 | $149,667 | $142,298 |

### VARIAN MEDICAL SYSTEMS, INC. AND SUBSIDIARY COMPANIES

**CONSOLIDATED BALANCE SHEETS**

<table>
<thead>
<tr>
<th>(Dollars in thousands, except par values)</th>
<th>October 1, 1999</th>
<th>October 2, 1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$25,126</td>
<td>$149,667</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>233,785</td>
<td>392,596</td>
</tr>
<tr>
<td>Inventories</td>
<td>78,324</td>
<td>204,464</td>
</tr>
<tr>
<td>Other current assets</td>
<td>45,011</td>
<td>93,054</td>
</tr>
<tr>
<td>Total current assets</td>
<td>382,246</td>
<td>839,781</td>
</tr>
<tr>
<td>Property, plant, and equipment</td>
<td>200,036</td>
<td>509,089</td>
</tr>
<tr>
<td>Accumulated depreciation and amortization</td>
<td>(120,138)</td>
<td>(294,867)</td>
</tr>
<tr>
<td>Net property, plant, and equipment</td>
<td>80,248</td>
<td>214,222</td>
</tr>
<tr>
<td>Other assets</td>
<td>76,869</td>
<td>164,292</td>
</tr>
<tr>
<td>Total assets</td>
<td>$539,183</td>
<td>$1,218,295</td>
</tr>
<tr>
<td><strong>Liabilities and stockholders’ equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes payable</td>
<td>$35,587</td>
<td>$46,842</td>
</tr>
<tr>
<td>Accounts payable—trade</td>
<td>40,141</td>
<td>76,166</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>121,165</td>
<td>282,647</td>
</tr>
<tr>
<td>Product warranty</td>
<td>18,152</td>
<td>44,153</td>
</tr>
<tr>
<td>Advance payments from customers</td>
<td>54,757</td>
<td>55,081</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>269,802</td>
<td>504,889</td>
</tr>
<tr>
<td>Long-term accrued expenses</td>
<td>25,890</td>
<td>44,771</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>50,900</td>
<td>111,090</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>354,192</td>
<td>660,750</td>
</tr>
<tr>
<td>Stockholders’ equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized 1,000,000 shares, par value $1, issued none</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Authorized 99,000,000 shares, par value $1, issued and outstanding 39,563,000 shares at October 1, 1999, and 29,743,000 shares at October 2, 1998</td>
<td>30,563</td>
<td>29,743</td>
</tr>
<tr>
<td>Capital in excess of par value</td>
<td>20,185</td>
<td>73,790</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>134,243</td>
<td>327,082</td>
</tr>
<tr>
<td>Total stockholders’ equity</td>
<td>184,991</td>
<td>557,543</td>
</tr>
<tr>
<td>Total liabilities and stockholders’ equity</td>
<td>$539,183</td>
<td>$1,218,295</td>
</tr>
</tbody>
</table>

The October 1, 1999 balance sheet reflects the spin-off of the Company’s instruments and semiconductor equipment businesses on April 2, 1999.
OFFICERS & DIRECTORS

Officers
Richard M. Levy, Ph.D.
President and Chief Executive Officer

Elisha W. Finney
Vice President, Finance
Chief Financial Officer and Treasurer

John C. Ford, Ph.D.
Vice President, International Marketing Operations

Timothy E. Guertin
Vice President, President, Oncology Systems

Robert H. Kluge
Vice President, President, X-Ray Products

Joseph B. Phair
Vice President, Administration: General Counsel and Secretary

Duan A. Walstrom
Corporate Controller

Board of Directors
Richard W. Vieser
Chairman of the Board, Varian Medical Systems, Inc.
Chairman, CEO, and President (Retired), Lear Siegler, Inc.

John Seely Brown, Ph.D.
Director, Xerox Palo Alto Research Center; Chief Scientist and Vice President, Xerox Corporation

Samuel Hellman, M.D.
A.N. Pritzker Distinguished Service Professor, Department of Radiation and Cellular Oncology, University of Chicago.

Terry R. Lautenbach
Senior Vice President (Retired), International Business Machines Corporation

Richard M. Levy, Ph.D.
President and Chief Executive Officer, Varian Medical Systems, Inc.

David W. Martin, Jr., M.D.
President and Chief Executive Officer, EOS Biotechnology, Inc.

Burton Richter, Ph.D.
Paul Pignot Professor in Physical Sciences, Stanford University; Director Emeritus, Stanford Linear Accelerator Center

STOCKHOLDER INFORMATION

World Headquarters
Varian Medical Systems, Inc.
3100 Hansen Way
Palo Alto, CA 94304-1038
650.493.4000

Stockholder Relations
Copies of Varian’s Form 10-K report filed with the Securities and Exchange Commission and other current financial information are available without charge by contacting Stockholder Relations:
Varian Medical Systems, Inc.
3100 Hansen Way, M/S E-210
Palo Alto, CA 94304-1038
650.424.5855

To obtain information over the Internet, type http://www.varian.com/vms at the URL prompt.

Listings
Varian’s common stock is listed on the New York and Pacific Stock Exchanges. The symbol is VAR.

Transfer Agent and Registrar
First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, NJ 07303
1.800.756.8200

Stockholders’ Meeting
The annual meeting of stockholders will be held February 17, 2000, at 1:30 p.m., at the Sheraton Palo Alto Hotel, 625 El Camino Real, Palo Alto, California 94301

Stockholders of Record
There were 5,211 stockholders of record of the Company’s common stock on December 1, 1999.