

VARIAN
medical systems



A Partner for LIFE

Forward-Looking Statements and Non-GAAP Reconciliation

Except for historical information, the information that follows contains certain forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include the matters described in the risk factors section of our information statement and other risks detailed from time to time in the company's filings with the Securities and Exchange Commission.

The company makes reference to certain financial results in the first quarter of fiscal year 2006 which would have been consistent with GAAP if presented in prior quarters, but which are now inconsistent with GAAP due to changes in accounting standards. These results were reached by excluding non-cash, share-based compensation expenses. The company references those results to allow a better comparison of results in the current period to those in prior periods. The company's reference to these results should be considered in addition to results that are prepared under current accounting standards but should not be considered a substitute for results that are presented as consistent with GAAP. A reconciliation between GAAP and Non-GAAP numbers appears at the end of the financial section of this presentation.

VMS FY06 Profile

Orders: \$1.8 B

Sales: \$1.6 B

EPS: \$1.85

Operating Earnings % 22%

Employees: 3,935

NYSE Symbol: VAR

Note:

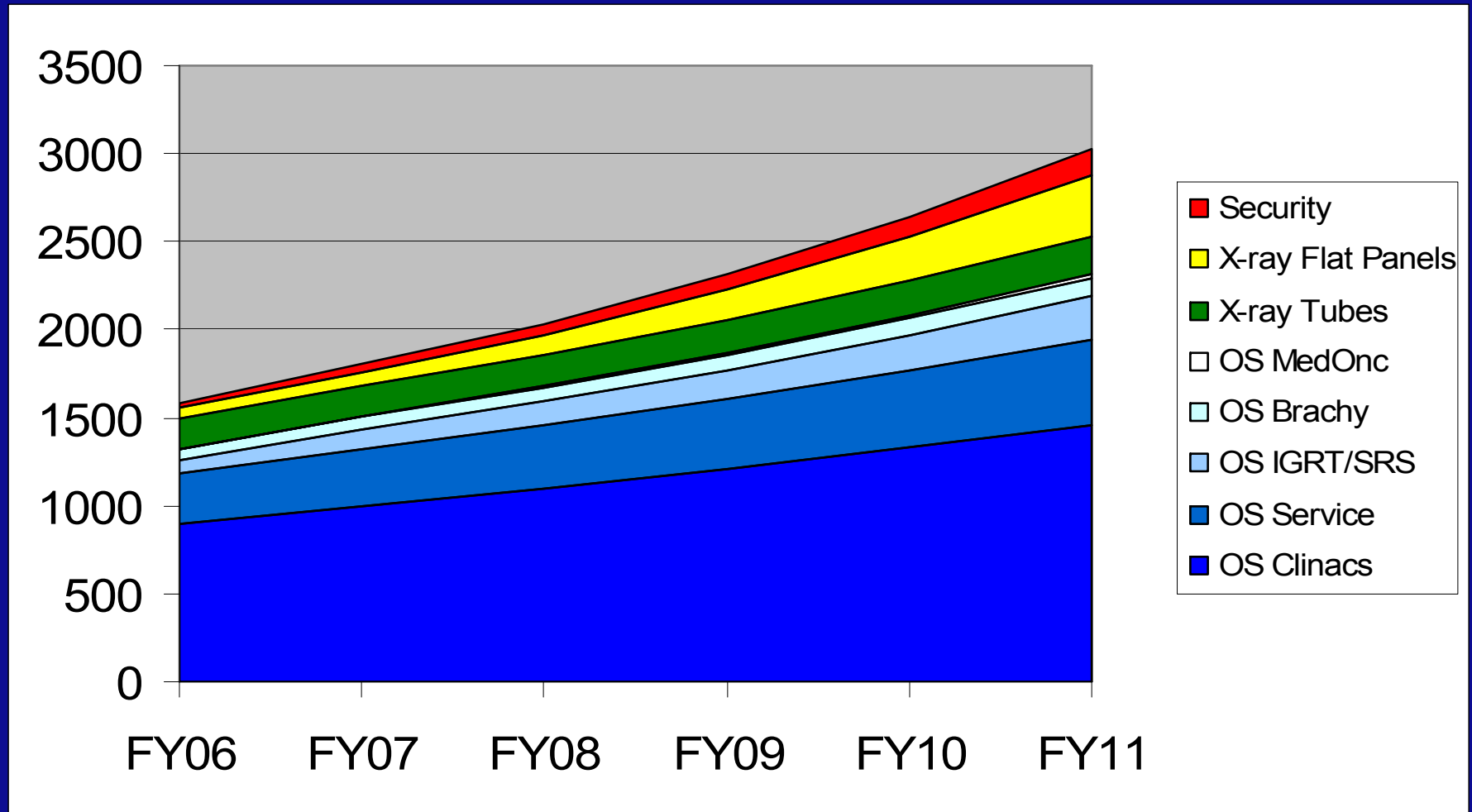
(1) FY06 EPS excludes amounts for the incremental stock options and other share-based compensation expenses, a tax benefit related to the repatriation of foreign earnings, a deferred tax asset adjustment and discontinued operations (Non-GAAP)

(2) FY06 Op Earnings excludes amounts for the incremental stock options and other share-based compensation expenses (Non-GAAP)

Business Segments - Orders

	<u>FY06</u>	<u>%</u>
<u>Oncology Systems</u>	\$1,535M	85%
Radiation Therapy		
Brachytherapy		
radiosurgery		
<u>X-Ray Products</u>	\$ 242M	13%
Tubes		
Flat Panel Imagers		
<u>Other</u>	\$ 43M	<u>2%</u>
Ginzton Technology Center		
Security and Inspection Products		
TOTAL	\$ 1,820M	100%

Five Year Growth Opportunity



Oncology Growth Drivers

- Cancer Incidence Rising
- Global Market Underserved
- Better Technology, Better Pricing

Sustaining 10%-15% Global Growth in Varian Oncology Systems

Incidence of Cancer

- **Cancer incidence rising**
 - 1.4 M new patients/yr in US.
 - 2.9 M new patients/yr in EU25
 - 6.6 M new patients/yr ROW
- **Aging Population**
 - US: 36M over 65 (4000 linacs)
 - EU25: 78M over 65 (2500 linacs)
 - China: 102M > 65 (700 linacs + 300 cobalt)

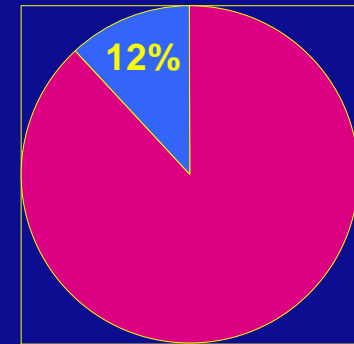
US Market Growth – 2000 to 2015

Drivers

- Growing, aging population
- Healthcare cost pressures

Rising needs: 2005 to 2015

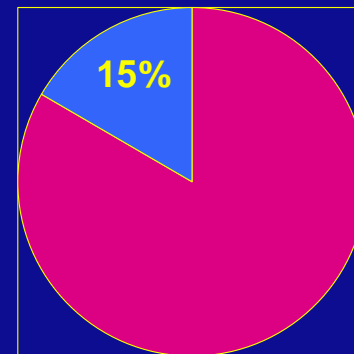
- 13 → 15 machines per million pop.
- 3600 → 4700 machines
 - 1100 new installations
 - 3600 replacements



2000 – 282 Million

U.S. Population

2015 – 323 Million



■ 0-64 ■ 65+

Sources: US Census, IMV Rad. Onc. Census Report

Radiation Therapy Commonly Used

- **Prostate**
- **Breast**
- **Head and Neck**
- **Brain**
- **Lung**
- **Cervical**
- **Esophageal**
- **Bone metastases**
- **Colorectal**

The Conformality Continuum

1960s

1980s

Late 1990s

2000s

2D

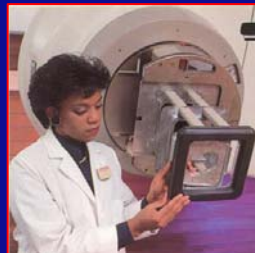
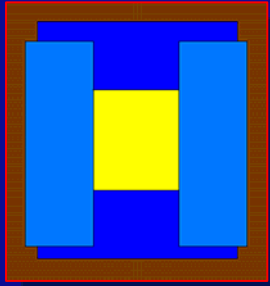
3D Conformal

IMRT

IGRT

Stereotactic
Treatments

————— T R E N D — I M P R O V I N G P R E C I S I O N —————>



Average sales price:

\$1.9 million

\$2.4 million

\$3 million

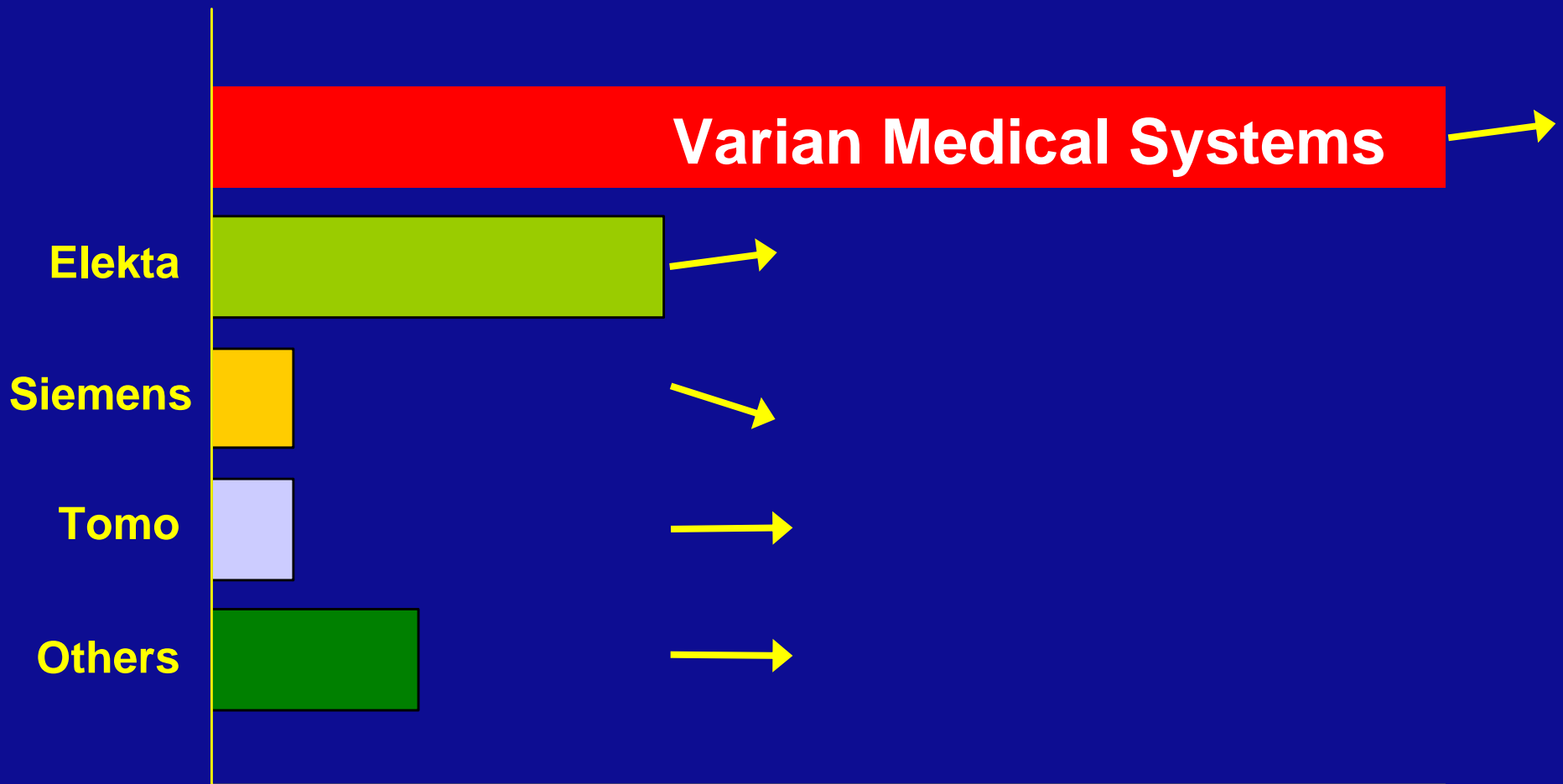
Varian's Leadership in IGRT

- 325 shipments & installations as of Q4 FY06
- Only system with kV radiographic, fluoroscopic, gated fluoroscopic, automatic marker detection, 3D CBCT, ultrasound
- Respiratory gated imaging and treatment
- Fully automated, remotely controlled, robotic imaging and delivery system

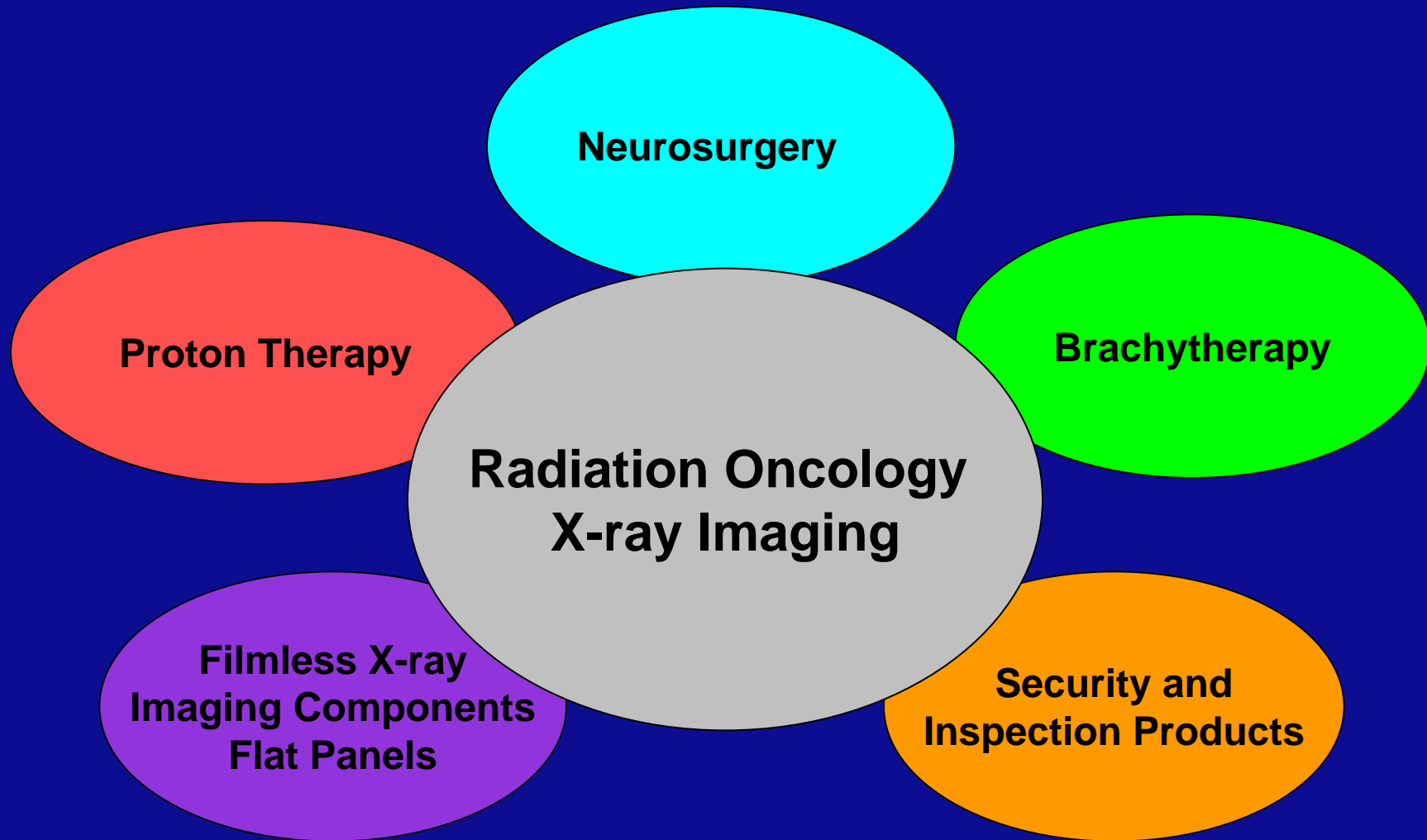


The only fully automated process
2-4 minutes: Can be done in standard appointment

Oncology Market Share



Growing Our Emerging Businesses



Emerging Businesses

Varian Surgical Sciences

- **~\$350 million market**
- **Varian advantages**
 - **Speed**
 - **Accuracy**
 - **Versatility**
 - **Cost Efficiency**



Competing Radiosurgical Technologies

	Gamma Knife	CyberKnife	Trilogy
Sites Treated	Intracranial only	Intracranial and extracranial	Intracranial and extracranial
On-Board Imaging	No	Yes	Yes
Immobilization	Frame	Frame and Frameless	Frame and Frameless
SRS Time	30-60 minutes	2-4 hours	< 30 minutes
Fractionated Therapy	Not available	Yes	Yes
Field shaping	Conical collimators	Conical collimators	Conical collimators and MLC
Multipurpose machine	Intracranial SRS only	SRS, SRT, IGRT	SRS, SRT, IMRS, 3DCRT, IMRT, IGRT, Electron RT, Gated RT, Conformal Arc Therapy

Source: *Dr. Kevin Murphy, Medical Director,
University of California at San Diego*

Varian- ACCEL Acquisition

New Proton Therapy Capability



Superconducting Cyclotron



Proton Treatment Gantry

Emerging Businesses

Flat Panel Digital Image Detectors Filmless X-ray

PaxScan Products

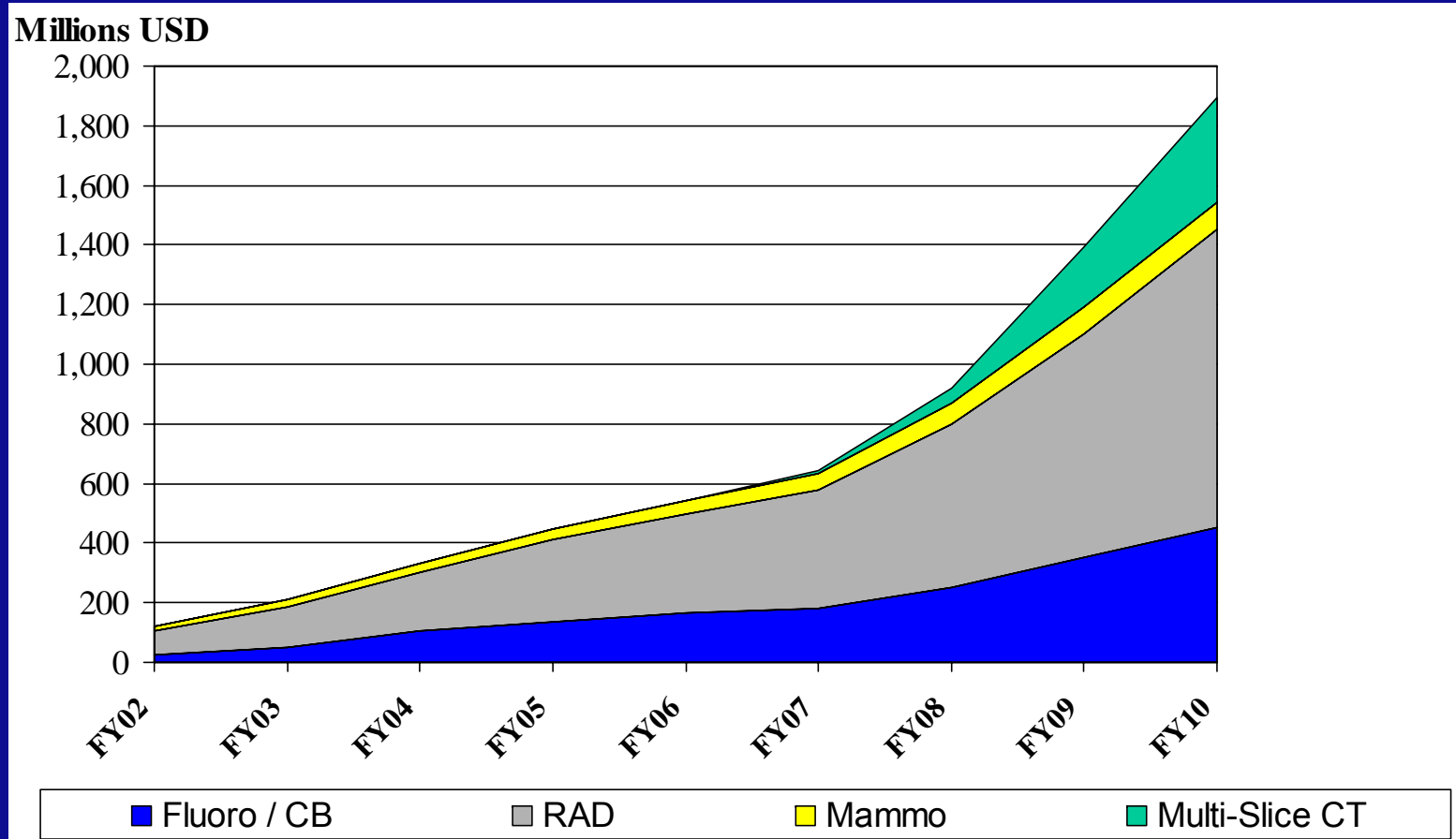
- Compact, light weight, flexible
- Excellent imaging quality across the entire panel
- Flexibility of direct to digital
 - **Eliminates camera and components**
 - **Image manipulation capability eliminates retakes**



PaxScan 2520 with Workstation

Emerging Businesses

Projected Image Detector Market



Emerging Businesses

Security & Inspection Products

Facts and Figures

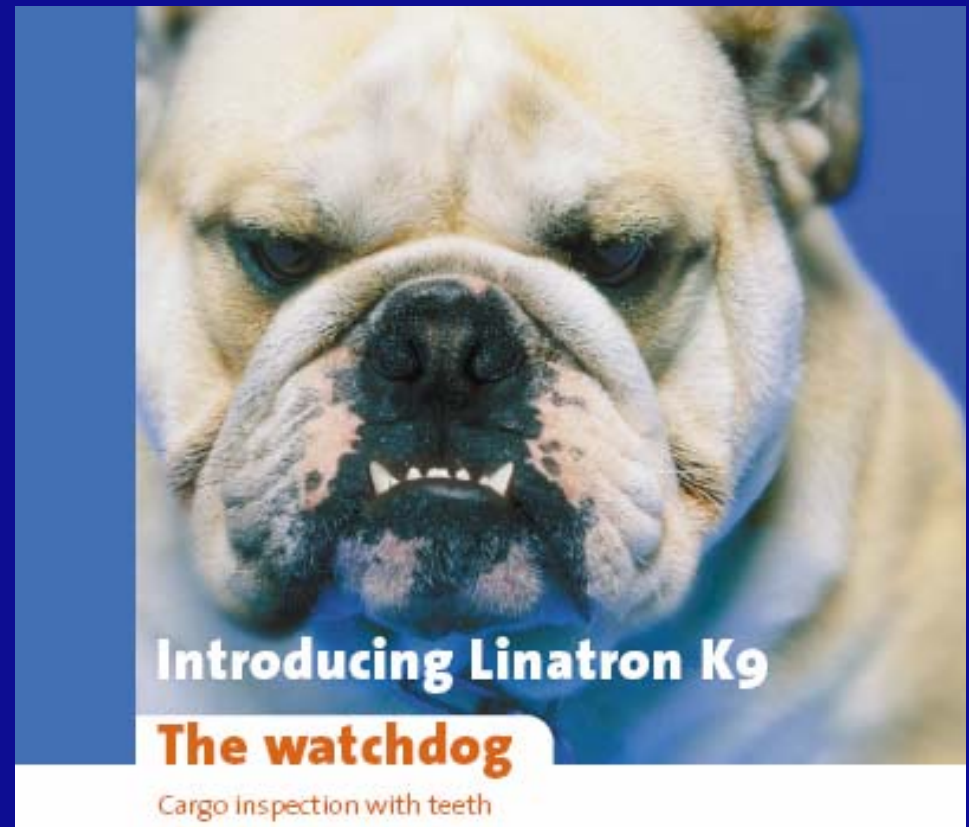
- 361 points of entry
- 20,000 containers enter per day
- 95% of containers not inspected
- **Inspection times:**
 - Manual – 5 people, 4 hours
 - Automated – 3 people, <1 min.



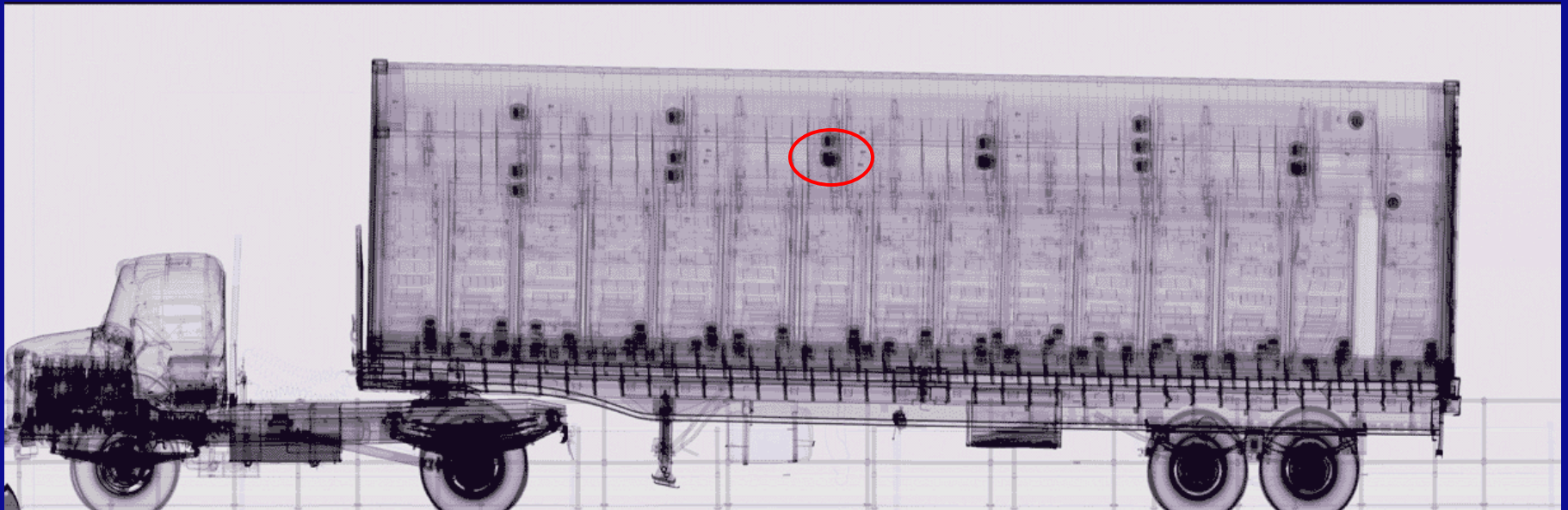
Emerging Businesses

Security & Inspection Products

- **Industrial Linear Accelerators**
 - Linatron M, K9
- **Special Purpose Inspection Tubes**
 - Explosives Detection



Automatic Detection



FY06

(\$M)	VMS	OS	XTP	Other
Net Orders	1,820 14%	1,535 13%	242 19%	42 33%
Revenues	1,598 16%	1,336 16%	228 17%	34 6%
Gross Margin ⁽¹⁾	42%	43%	35%	32%
R&D ⁽¹⁾	96			
SG&A ⁽¹⁾	224			
Op Earnings ⁽¹⁾	350 22% ROS (+15%)			
Interest Income	9			
EPS ^{(1) (2)}	\$1.85 (136M diluted shares)			

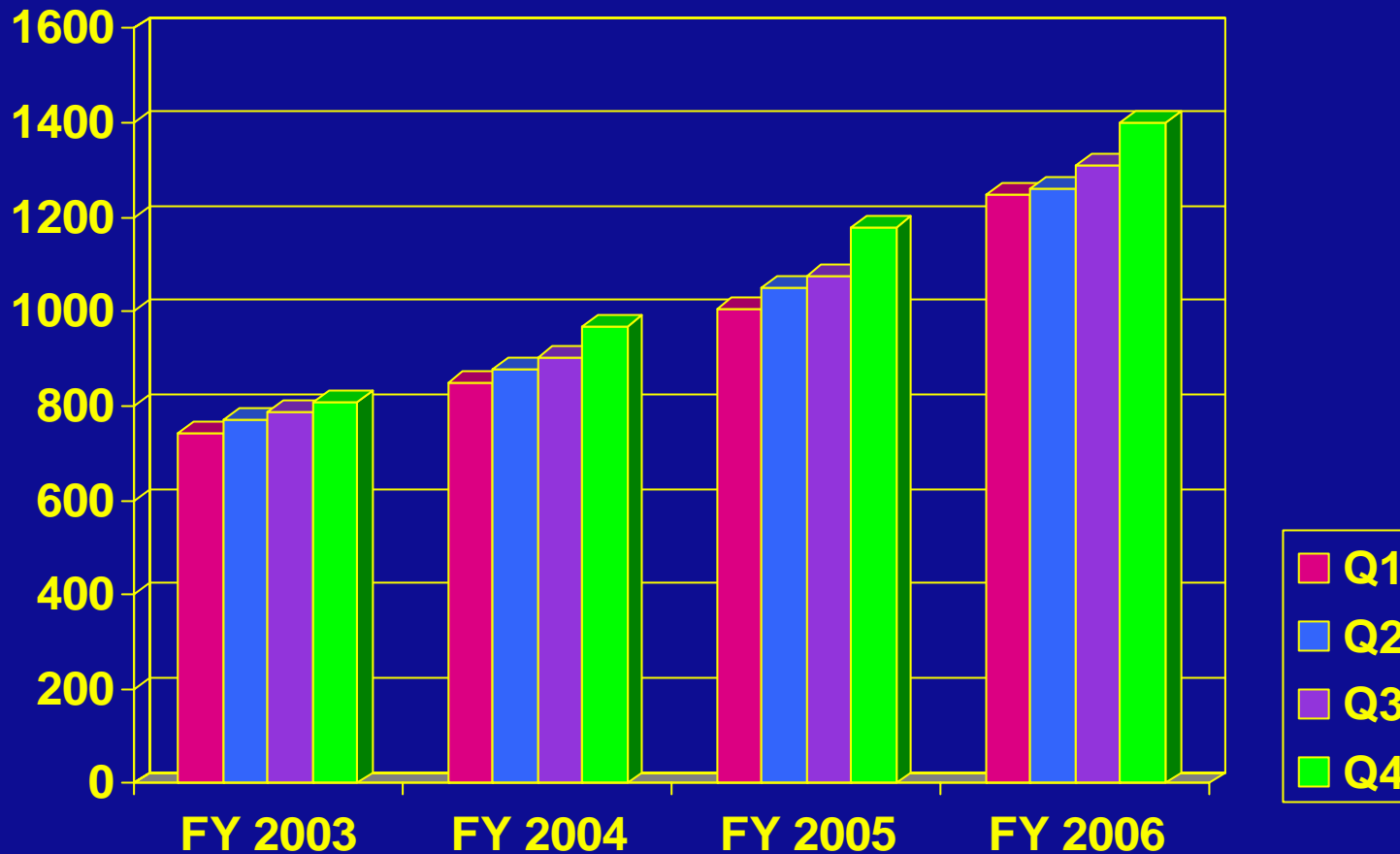
Note: (1) Excludes amounts for the incremental stock options and other share-based compensation expenses (Non-GAAP).

(2) Excludes a tax benefit related to the repatriation of foreign earnings, a deferred tax asset adjustment and discontinued operations (Non-GAAP).

Backlog

Record \$1,401M

(As of 09/29/06)



Q4 FY06 Balance Sheet / Cash Flow

Conservative balance sheet

\$366M cash and marketable securities

\$57M total debt

\$797M shareholder equity

Spent \$72M on stock buy-back

*DSO 94 days – up 12 days from year ago quarter

Strong cash flow

\$67M cash flow from operations (*Non-GAAP basis*)

Repurchase 1.5M shares during the quarter

1.5M shares remaining under the previously announced 6.0M share repurchase program in effect through December 31, 2006

**Days Sales Outstanding*

FY06 Non-GAAP to GAAP Reconciliation

Consolidated Statements of Earnings (unaudited)		
	09/29/06 GAAP	09/29/06 Non-GAAP
Operating earnings	\$309.4	\$349.8
As a percent of revenues	19.4%	21.9%
Net earnings	\$245.1	\$251.0

Cash Flows From Operating Activities (unaudited)	
	Q4 YTD 09/29/06
GAAP cash flows from operating activities	\$201.8
Excess tax benefits from share-based payments (1)	\$51.9
Non-GAAP cash flows from operating activities	\$253.7
(1) Excess tax benefits from share-based payments represent excess windfall tax benefits that are being reported as a cash inflow in financing activities and as a cash flow in operating activities under SFAS 123(R).	

Note: Dollars in millions

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