

**Tax Basis Allocation and Holding Period
for Varian, Inc. Shareholders Who Held Shares of Varian Associates, Inc.
Immediately Prior to Spin-Off Transaction on April 2, 1999**

Until April 2, 1999, the business of Varian, Inc. was operated as the Instruments Business of Varian Associates, Inc. (“Varian Associates”). On that date, Varian Associates distributed to the holders of its common stock one share of common stock of Varian, Inc. and one share of common stock of Varian Semiconductor Equipment Associates, Inc. (“Varian Semiconductor”), which was formerly operated as the Semiconductor Equipment business of Varian Associates, for each share of Varian Associates common stock (the “Distribution”). Varian Associates retained its Health Care Systems business and changed its name to Varian Medical Systems, Inc. (“Varian Medical”).

If you acquired your shares in Varian, Inc. through the Distribution on April 2, 1999 because you held shares in Varian Associates, you need to allocate your tax basis to your shares in Varian, Inc. The tax basis in your Varian Associates common stock before the Distribution generally is equal to the cost of such shares, including commissions. If you acquired those shares at different times or at different costs, you will need to make separate basis calculations for each block of shares. You should consult your tax advisor to determine your tax basis in each block of Varian Associates common stock to be allocated.

Based upon the averages of the high and low trading prices of Varian Associates common stock on April 1, 1999 and April 5, 1999 (the trading days before and after the date of the Distribution) as reported on the New York Stock Exchange Composite Transactions reporting system, your tax basis in the shares of Varian Associates you held at the Distribution on April 2, 1999 should be allocated as follows:

- 24.21% of that tax basis should be allocated to your Varian, Inc. stock;
- 45.64% of that tax basis should be allocated to your Varian Medical stock; and
- 30.15% of that tax basis should be allocated to your Varian Semiconductor stock.

Your holding period for U.S. federal income tax purposes for your Varian, Inc. stock is deemed to have commenced on the same date as your holding period for the Varian Associates stock, provided that you held the Varian Associates stock as a capital asset on April 2, 1999.

Again, the foregoing applies only to shareholders who acquired their Varian, Inc. stock in the Distribution.

EXAMPLE

Assume that on March 24, 1999 (the record date for the Distribution) you owned 100 shares of Varian Associates common stock with a tax basis of \$30.00 for each share, for a total tax basis of \$3,000.00. You would have been entitled to receive 100 shares of Varian, Inc. common stock and 100 shares of Varian Semiconductor common stock in connection with the Distribution. You also would continue to own 100 shares of common stock of Varian Medical (the new name for Varian Associates).

Calculation of New Tax Basis

	<u>% of Basis Allocable</u>	<u>Original Cost Basis in Varian Associates Common Stock</u>	<u>Total Allocated Basis</u>	<u>Number of Shares of Varian, Inc., Varian Medical and Varian Semiconductor Common Stock Received</u>	<u>New Tax Basis Per Share</u>
Varian, Inc. common stock (NasdaqGS: VARI)	24.21% x	\$3,000 =	\$726.30 ÷	100 =	\$7.26
Varian Medical common stock (NYSE: VAR)	45.64% x	\$3,000 =	\$1,369.20 ÷	100 =	\$13.69
Varian Semiconductor common stock (NasdaqGS: VSEA)	30.15% x	\$3,000 =	\$904.50 ÷	100 =	\$9.05

Your tax basis in the 100 shares of Varian, Inc. common stock received would be \$726.30.

Your new tax basis in your 100 shares of Varian Medical common stock (formerly Varian Associates common stock) would be \$1,369.20.

Your tax basis in the 100 shares of Varian Semiconductor common stock received would be \$904.50.