NOVELLUS SYSTEMS REPORTS FOURTH QUARTER AND YEAR-END 1998 RESULTS

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San Jose, Calif. -- Jan. 19, 1999 -- Novellus Systems, Inc. (Nasdaq NM: NVLS) today reported net sales and results of operations for its fiscal year ended December 31, 1998. Net sales for the quarter were $106.0 million, a decrease of 35 percent over fourth quarter 1997 net sales of $162.8 million. Net income of $8.1 million and $0.23 per share was recorded for the fourth quarter of 1998, down 64 percent as compared to the fourth quarter 1997 net income of $22.4 million or $0.64 per share. The per share amounts are stated on a diluted basis.

Net sales for the year were $518.8 million, a decrease of 3 percent from 1997 net sales of $534.0 million. Net income for the year was $52.8 million or $1.51 per share as compared to the net loss posted in the comparable period in 1997 of $95.7 million or $2.88 per share. Without the special pre-tax charges of $235.2 million recorded during the second quarter of 1997, net income for the comparable period would have been $75.3 million or $2.17 per share.

Cash and short-term investments at December 31, 1998 were $130.8 million, an increase of 18 percent over third quarter 1998 balances of $111.3 million. Backlog on December 31, 1998 was $108.5 million, a decrease of 52% from the $224.0 million reported on December 31, 1997. Bookings exceeded a 1:1 book to bill threshold for the fourth quarter of 1998.

"We are pleased with the continued execution of our cost control and asset management efforts during the quarter, which allowed us to realize a sequential quarterly increase in net income in spite of flat net sales," said Robert Smith, Executive Vice President and Chief Financial Officer. "In addition, cash and short-term investment balances grew for the sixth consecutive quarter. The Company will continue to tightly control its expenditures as it manages through the current business climate."

"Given the challenges during the industry slowdown, the financial performance of Novellus during 1998 is a credit to our Company-wide focus on managing a return to our shareholders," added Richard Hill, Chairman and Chief Executive Officer. "We are also pleased with the momentum in our bookings during the fourth quarter. As economic conditions continue to improve, the Company's position in emerging, leading-edge products will allow it to take advantage of the long-term growth potential of the industry."

Hill also noted, "1998 was significant for Novellus in several ways. While we were financially driven to control costs during the semiconductor capital spending slowdown in 1998, we maintained our commitment to investment in new products. We introduced Damascus™ Complete Copper™, a full spectrum of production-worthy products designed to deliver advanced copper interconnects for integrated circuit fabrication. Damascus includes not only industry-leading chemical vapor deposition (CVD) and physical vapor deposition (PVD) products, but also a revolutionary copper electrofill system called SABRE™, which was also introduced during 1998. Coupled with the announcements of our pioneering cross-industry alliances, Damascus encompasses not only deposition technologies, but also equipment and processes from other leading suppliers in etch and Chemical Mechanical Planarization (CMP). During the year we also announced our exclusive development partnership with IBM for copper electrofill. Despite this exclusive partnership, Novellus has delivered multiple SABRE™ electrofill and INOVA™ PVD systems to several leading semiconductor manufacturers around the world. The ability of Novellus to provide innovative solutions for our customers has enabled Novellus to better weather the downturn during 1998, and positions the Company for future growth."

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: The statements regarding (i) the Company's intention to tightly control its expenditures, (ii) the Company's ability to take advantage of the long-term growth potential of the industry, (iii) the momentum in the Company's bookings, and (iv) the Company's ability to continue to provide innovative solutions, positioning it or future growth, as well as other matters discussed in the news release that are not purely historical data, are forward-looking statements. The forward-looking statements involve risks and uncertainties including, but not limited to, a possible slowdown in new orders, the difficulty of curtailing expenses to necessary levels and the inability of the Company's product development efforts to continue its position as an industry leader in deposition technologies, and other risks indicated in filings with the Securities and Exchange Commission (SEC). Actual results could differ materially. Novellus assumes no obligation to update this information. For more details, please refer to Novellus' SEC filings, including its most recent Annual Report on Form 10-K and quarterly reports on Form 10-Q.

Novellus Systems, Inc. manufactures, markets, and services advanced automated wafer fabrication systems for the deposition of thin films. Novellus deposition systems are designed for high-volume production of advanced, leading-edge semiconductors at the lowest overall cost. The Company's stock trades on the Nasdaq Stock Market's National Market under the symbol "NVLS". Additional information about the company is available on the Novellus Systems home page on the World Wide Web, located at http://www.novellus.com.

NOVELLUS SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)	Three Months Ended	Year Ended

	Dec 31 1998	Dec 31 1997	Dec 31 1998	Dec 31 1997
Net Sales	$106,016	$162,830	$518,778	$534,004
Cost of Sales	49,730	73,436	237,913	243,566
Gross Profit	56,286	89,394	280,865	290,438
Operating Expenses				
Research and Development	23,463	28,134	106,510	89,830
Selling, General and Administrative	20,829	27,357	95,407	89,474
In-Process Research & Development	--	--	--	119,246
Restructuring & Other Costs	--	--	--	14,243
Litigation Settlement & Related Legal Costs	--	--	--	84,021
Bad Debt Write-off	--	--	--	17,700
Total Operating Expenses	44,292	55,491	201,917	414,514
Income (Loss) from Operations	11,994	33,903	78,948	(124,076)
Interest Income (Expense), Net	340	21	1,099	2,944
Income (Loss) before Income Taxes	12,334	33,924	80,047	(121,132)
Provision (Benefit) for Income Taxes	4,194	11,534	27,219	(25,474)

Net Income (Loss)	$8,140	$22,390	$52,828	($95,658)
Basic Net Income (Loss) Per Share	$0.24	$0.66	$1.55	($2.88)
Diluted Net Income (Loss) Per Share	$0.23	$0.64	$1.51	($2.88)
Shares Used in Basic Calculation	34,298	33,700	34,035	33,257
Shares Used in Diluted Calculation	35,384	34,984	34,987	33,257

Note: the earnings per share amounts have been adjusted for the 2-for-1 split effective October 1997

NOVELLUS SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)		
	December 31	December 31
	1998	1997
Assets		
Current Assets:		
Cash and Short-Term Investments	$130,818	$98,089
Accounts Receivable, Net	173,364	133,925
Inventories	69,223	82,133

Deferred Taxes and Other Current Assets	25,690	36,862
Total Current Assets	399,095	351,009
Property and Equipment, Net	105,579	93,340
Other Assets	47,265	48,951
Total Assets	$551,939	$493,300
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts Payable	$30,966	$22,865
Short-Term Obligations	12,986	11,652
Other Accrued Liabilities	67,522	92,782
Total Current Liabilities	111,474	127,299
Long Term Debt	65,000	65,000
Total Liabilities	176,474	192,299
Shareholders' Equity:		
Common Stock	176,140	154,167
Retained Earnings and Accumulated Other Comprehensive Income	199,325	146,834
Total Shareholders' Equity	375,465	301,001
Total Liabilities and Shareholders Equity	$551,939	$493,300

NOVELLUS SYSTEMS, INC.

SUPPLEMENTAL FINANCIAL INFORMATION (1)

(in thousands except per share amounts)

	Year Ended	
	Dec 31	Dec 31
	1998	1997
Pro forma income from operations	$78,948	$111,314
Pro forma income before income taxes	$80,047	$114,078
Pro forma provision for income taxes	27,219	38,786
Pro forma net income	$52,828	$75,292
Pro forma Basic Net Income per Share	$1.55	$2.26
Pro forma Diluted Net Income per Share	$1.51	$2.17
Shares used in Basic Calculation	34,035	33,257
Shares used in Diluted Calculation	34,987	34,703

(1) The Companys reported loss of $153.7 million or $4.66 per share for the quarter ended June 28, 1997 includes pre-tax special charges totaling $235.2 million. This supplemental financial information does not purport to be financial statements prepared in accordance with generally accepted accounting principles. The information in the tables shows operating income, net income and net income per share excluding the special charges.

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