NOVELLUS SYSTEMS REPORTS FOURTH QUARTER AND YEAR-END RESULTS

SAN JOSE, Calif., January 27, 2005--Novellus Systems, Inc. (Nasdaq: NVLS) today reported net sales and results of operations for its fourth quarter and year ended December 31, 2004. Net sales for the fourth quarter were $340.3 million, down 18.2 percent from $415.9 million in the third quarter 2004 and up 50.2 percent from net sales of $226.5 million for the fourth quarter 2003. Net income for the quarter was $37.5 million or $0.27 per diluted share, down $27.1 million or 42.0 percent from the third quarter 2004 net income of $64.7 million or $0.45 per diluted share. Net income for the fourth quarter increased by 259.1 percent from the fourth quarter net income of $10.5 million or $0.07 per diluted share in the prior year.

The fourth quarter results include restructuring and other charges of $2.4 million. Without these charges, net income would have been $39.2 million, or $0.28 per diluted share. The third quarter 2004 results included a cash receipt of $8.0 million, and the reversal of $8.1 million in previously accrued royalty payments, as a result of the settlement of litigation with Applied Materials, Inc. The third quarter 2004 results also included a pre-tax charge of $2.9 million related to the settlement of litigation with Semitool, Inc. and the reversal of a previously recorded restructuring accrual of $0.9 million. Without these net benefits, third quarter 2004 net income would have been $54.7 million, or $0.38 per diluted share. The fourth quarter 2003 results do not include any unusual charges or benefits.

Net sales for the fiscal year 2004 were $1.4 billion, up 46.7 percent from $925.1 million in fiscal year 2003. Net income for the year was $156.7 million, or $1.06 per diluted share, compared with the fiscal year 2003 net loss of $67.8 million, or $0.45 per diluted share.

The fiscal year 2004 results include net restructuring and other charges of $1.5 million, acquired in-process research and development write-offs of $6.1 million, net recovery from legal settlements of $2.6 million and the reversal of previously accrued royalty payments of $8.1 million. Without these charges and benefits, net income for fiscal year 2004 would have been $156.3 million, or $1.06 per diluted share. In comparison, the fiscal year 2003 net loss of $67.8 million includes restructuring and other charges of $62.5 million and a non-cash charge of $62.8 million, net of tax, recorded as a cumulative effect of a change in accounting principle to consolidate properties previously accounted for as synthetic leases. Without these charges, net income for fiscal year 2003 would have been $35.9 million, or $0.23 per diluted share.

Shipments of $335.1 million in the fourth quarter represent a decrease of $47.2 million or 12.3 percent from $382.2 million reported in the third quarter 2004. Deferred revenue at the end of the quarter was $140.8 million, a decrease of $6.6 million or 4.5 percent from $147.4 million at the end of the third quarter 2004.

The financial measures, which present net income excluding unusual charges and benefits and revenue on a shipments basis, are not in accordance with U.S. generally accepted accounting principles (GAAP). The Company believes that these non-GAAP financial measures provide further insight into the results of ongoing operations and enhance the comparability of those results to results in prior periods because they assist shareholder understanding of the effects of unusual charges and benefits on the quarter's and the year's results and allow comparability to revenue recognition on a shipments basis.

Cash, cash equivalents, restricted cash and short-term investments as of December 31, 2004 were $759.7 million, an increase of $71.7 million or 10.4 percent from the third quarter 2004 ending balance of $688.0 million.

"Fourth quarter bookings came in slightly better than the $325 - $330 million that we communicated in our last mid-quarter update. Still, we continue to contend with a choppy bookings environment, a trend that began back in September. While we believe the worst is behind us, many of our customers are dealing with declining utilization rates," said Richard S. Hill, chairman and chief executive officer of Novellus Systems, Inc. "This near term uncertainty, however, should not cloud the progress we've made on our product portfolio. Specifically, we are pleased with our improved position within the PVD product category."

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995:

The statements regarding the Company's (i) belief that the worst is behind it with regard to bookings, (ii) progress on its product portfolio, and (iii) satisfaction with its improved position within the PVD product category, as well as other matters discussed in this 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, inaccurate assessment of future demand for the Company's products, unanticipated technical difficulties with new products, competitor introduction of superior PVD products that take market share from the Company's products, and other risks indicated in our filings with the Securities and Exchange Commission (SEC). Actual results could differ materially. We assume no obligation to update this information. For more details, please refer to our SEC filings, including our Annual Report on Form 10-K for the year ended December 31, 2003, our Quarterly Reports on Form 10-Q for the quarters ended March 27, 2004, June 26, 2004 and September 25, 2004, and our Current Reports on Form 8-K filed July 12, 2004, September 10, 2004, September 24, 2004, December 2, 2004 and December 15, 2004.

About Novellus:

Novellus Systems, Inc., an S&P 500 company, manufactures, markets and services advanced deposition, surface preparation and chemical mechanical planarization equipment for today's advanced integrated circuits. Our products are designed for high-volume production of advanced, leading-edge semiconductor devices at the lowest possible cost. Headquartered in San Jose, Calif., with subsidiaries throughout the United States, as well as in the United Kingdom, France, Germany, the Netherlands, Ireland, Italy, Israel, India, China, Japan, Korea, Malaysia, Singapore and Taiwan, we are a publicly traded company on the Nasdaq stock exchange (Nasdaq: NVLS) and a component of the Nasdaq-100 Index®. Additional information about Novellus is available on our home page at www.novellus.com.

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