

NOVELLUS SYSTEMS, INC.

PRINCIPLES OF CORPORATE GOVERNANCE

As amended and restated on February 11, 2011

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors (the “Board”) represents the interests of the shareholders of Novellus Systems, Inc. (the “Company”) in perpetuating a successful business. It is the responsibility of the Board of Directors to provide guidance to management and to monitor the effectiveness of management's policies and decisions, including the execution of its strategies, with a view toward enhancing shareholder value over the long term. These Principles of Corporate Governance reflect the Board's commitment to monitoring policies and decisions at the Board, Committee and management levels, with a view to enhancing the long-term value of the Company. In the event of a conflict between these Principles of Corporate Governance, on the one hand, and any provisions of applicable law or the Articles of Incorporation (as it may be amended and/or restated from time to time) or Bylaws (as it may be amended and/or restated from time to time) of the Company, on the other, the latter shall take precedence.

BOARD MEMBERSHIP

1. SIZE OF THE BOARD

The Board believes that maintaining the effective working relationship that has developed on the Board and ensuring the selection of the most outstanding candidates as new Directors is more important than achieving any specified Board size. Therefore, the Board intends that any changes in the size of its membership will be made in a manner consistent with these objectives.

2. COMPOSITION AND INDEPENDENCE

As a matter of policy, the Board intends to maintain its independent character. Thus, at least a majority of the members of the Board will be independent, non-employee Directors. All members of the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee will be independent Directors. The Corporate Governance and Nominating Committee will review the independence of each Board member annually, and refer its conclusions to the Board for full discussion and approval.

The Board will annually determine the independence of each director and identify them as such in the proxy statement.

An “independent” Director means a person other than an executive officer or employee of the Company or any other individual having a relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the

responsibilities of a Director. To assist it in making its determination regarding independence, the Board will consider, at a minimum, the following categorical standards:

- No Director who is an employee, or whose immediate family member is an executive officer of the Company, will be considered “independent” until three years after the end of such employment relationship.
- No Director who receives, or whose immediate family member receives, more than \$120,000 in compensation from the Company during any twelve month period will be considered “independent” until three years after he or she received such compensation, provided that such threshold shall not include (i) compensation for Board or committee service, (ii) compensation paid to an immediate family member who is an employee (other than an executive officer) of the Company and (iii) benefits under a tax-qualified retirement plan, or non-discretionary compensation.
- No Director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed by, a present or former internal or external auditor of the Company will be considered "independent" until three years after the end of the affiliation or the employment or auditing relationship.
- No Director who is employed, or whose immediate family member is employed, as an executive officer of another entity where any of the Company’s executive officers serve on that entity’s compensation committee will be considered “independent” until three years after the end of such service or the employment relationship.
- No Director who is, or whose immediate family member is, (i) a partner in, (ii) a controlling shareholder of, or (iii) an executive officer of, any organization, including a charitable organization, that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$200,000 and 5% of such other organization’s consolidated gross revenues for that year will be considered “independent” until three years after falling below such threshold, provided that such threshold shall not include payments arising solely from investments in the Company’s securities or payments under non-discretionary charitable contribution matching programs.

For the purposes of the above independence standards in this Section 2, “Company” includes any parent or subsidiary of the Company, and an “immediate family member” means a person’s spouse, parents, children and siblings, whether by blood, marriage or adoption, or anyone residing in such person’s home.

In addition, each member of the Company's Audit Committee must (i) be “independent” as determined by the Board; (ii) meet the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended (subject to the exemptions provided in Rule 10A-3(c)), (iii) not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years; and (iv) be able to read and understand fundamental

financial statements, including a Company's balance sheet, income statement, and cash flow statement. Additionally, at least one member of the Audit Committee must have accounting or related financial management expertise and qualify as an audit committee financial expert; provided, however, that the Board will consider any Audit Committee member who satisfies the Securities and Exchange Commission's definition of audit committee financial expert to have the requisite expertise.

The Company's annual proxy statement will disclose whether the Directors meet the categorical standards for independence set forth above, which include the specific requirements with respect to Audit Committee members set forth above. Each of these standards will be interpreted and applied by the Board in its business judgment and in a manner consistent with applicable NASDAQ and Securities and Exchange Commission guidance. If the Board determines that a Director who does not meet the standards set forth above is independent, the Company's annual proxy statement will disclose the basis for the Board's determination.

3. MEMBERSHIP CRITERIA

The Corporate Governance and Nominating Committee is responsible for reviewing with the Board, on at least an annual basis, the need for new members and the appropriate skills and characteristics required of potential new Board members in the context of the current make-up of the Board. This assessment should include desired skills (such as industry knowledge or specific expertise, such as financial expertise), core competencies, willingness to devote adequate time to Board duties, good judgment, issues of diversity and independence, legal requirements and other relevant factors.

4. SELECTION OF NEW MEMBERS

The Board is responsible for selecting its own members and for recommending them for election by the shareholders. Any Director may propose a candidate for consideration consistent with the above-described criteria. Any shareholder may nominate a candidate in accordance with the procedures as they may be in effect from time to time. The Board has delegated the search process to the Corporate Governance and Nominating Committee. The invitation to join the Board should be extended on behalf of the Board by the Chairman of the Board and, if the Chairman and CEO hold the same position, jointly by the Chairman of the Board and the Chairman of the Corporate Governance and Nominating Committee. The Company has an orientation process for new Directors that includes background materials, meetings with senior management, and visits to Company facilities.

5. CONTINUING EDUCATION

Although the Company does not mandate a specific level of continuing education for Board members, the Company is supportive of and will reimburse Directors for any reasonable expenses associated with Director continuing education courses. Each Director shall, from time to time, attend director education programs and shall report

attendance at such programs to the Company. In addition, management routinely presents the Board with updates on governance matters, legal requirements, accounting developments and other relevant topics.

6. MULTIPLE BOARD MEMBERSHIPS

Directors are encouraged to limit the number of other public boards on which they serve to six, taking into account potential board meeting attendance, participation and effectiveness of the various boards. Directors also should advise the Chairman of the Board and the Chairman of the Corporate Governance and Nominating Committee in advance of accepting an invitation to serve on another board so that the Board can continue to monitor its ongoing independence. If any member of the Audit Committee simultaneously serves on the audit committees of more than three public companies, such Director will not be permitted to serve on the Company's Audit Committee unless the Board determines annually that such simultaneous service will not impair the ability of such Director to effectively serve on the Company's Audit Committee. Any such determinations by the Board will be disclosed in the Company's annual proxy statement.

BOARD LEADERSHIP

Whether the roles of the Chairman and Chief Executive Officer should be separated is a matter which the Board intends to address in the way which seems best for the Company under the circumstances at the time. In circumstances in which the Chairman of the Board is an employee of the Company, the non-employee Directors will elect one of their members to act as a Lead Director with such responsibilities as the non-employee Directors as a whole may designate from time to time.

BOARD TERMS AND COMPENSATION

1. RETIREMENT AGE

The term of office of the directors shall begin immediately upon their election and shall continue until their respective successors have been elected and qualified provided that a director shall not be eligible for election at any meeting of shareholders if the director will, on or prior to the date of such meeting of shareholders, have reached an anniversary exceeding his or her 70th anniversary of birth. If during any term of office a director reaches an anniversary exceeding his or her 70th anniversary of birth, said director shall be allowed to complete his or her term in office but shall not be eligible to seek election to the Board for a subsequent term.

2. TERM LIMITS

The Board does not consider arbitrary term limits to be consistent with its primary governance objectives or to promote the long-term interests of the shareholders.

3. JOB CHANGE

The Board does not believe that independent Directors who retire or change the job responsibilities they held when last elected to the Board should necessarily leave the Board. However, upon such event, the Director shall be required to submit a resignation from the Board so that the Corporate Governance and Nominating Committee will have the opportunity to review the continued appropriateness of Board membership of the Director.

4. COMPENSATION

Directors who are employees of the Company will not receive additional compensation for their service as Directors.

The Board believes that compensation of non-employee Directors should be competitive with that paid by other comparable companies and that equity or equity-based components should comprise a portion of Director compensation to encourage increased alignment with shareholders.

Director compensation will be reviewed to ensure that it remains competitive. Changes in Director compensation will be made by the Board.

MEETING PROCEDURES

1. AGENDAS

The Chairman of the Board and the Chief Executive Officer (if different) will, in consultation with the Lead Director, establish the agenda for each Board meeting. Any Board member may request the inclusion of a matter on any agenda.

2. DISTRIBUTION OF MATERIALS

Background information that is important to the Board's understanding of the matters to come before it will be distributed to the Board as early as practicable, usually approximately one week prior to a meeting. As a matter of practice, management will endeavor to include summaries of lengthy materials in the distribution.

3. PRESENTATIONS

As a rule, the text of presentations on specific subjects should be sent to the Board members in advance so that the Board meeting time may be conserved and discussion time focused on questions that the Board has about the material.

4. ATTENDANCE BY NON-DIRECTORS

It is anticipated that officers of the Company will attend portions of the Board meetings. The Chief Executive Officer may, from time to time, bring other individuals into the Board meeting who can provide additional insight into the matters being discussed and/or have future potential and should be given exposure to the Board.

5. EXECUTIVE SESSIONS

The non-employee Directors of the Board will meet in Executive Session without management at the regularly scheduled Board meetings. The Lead Director, if one has been selected, will preside at all Executive Sessions. If a Lead Director has not been selected the non-employee Directors will choose a non-employee Director to preside at the Executive Sessions.

COMMITTEE MATTERS

1. COMMITTEE STRUCTURE

There are currently three standing Committees: Audit, Compensation and Corporate Governance and Nominating. From time to time there may be occasions in which the Board may want to form a new Committee or disband a current Committee, depending upon the circumstances. The charter of each Committee will be developed by the Committee and recommended to the full Board for approval.

2. COMMITTEE ASSIGNMENTS

The Corporate Governance and Nominating Committee is responsible, with consideration for the desires of individual Directors, for recommending to the Board the assignment of Board members to various Committees (including Committee Chairs). The Corporate Governance and Nominating Committee also will recommend to the Board the Directors to fill any vacancies on the Committees. Committees will be composed of at least two members, except the Audit Committee, which will be composed of at least three members, and will consist of independent Directors only. Committees will be organized and Committee assignments made once each year by the Board at its annual meeting. The Board believes that consideration should be given to rotating Committee members from time to time; however, the Board does not consider that such a rotation should be mandated as policy since there may be reasons to maintain an individual Director's Committee membership. The Board may remove a member from membership on any Committee at any time, with or without cause.

3. COMMITTEE PROCEDURES

The Chairman of the Committee, in consultation with the appropriate members of management and input from Committee members, will develop the Committee's procedures and agenda. Typically, each Committee will develop a schedule of agenda

subjects to be discussed for the ensuing year at the beginning of each year (to the degree these can be foreseen). This forward agenda will also be shared with the Board.

BOARD PERFORMANCE ASSESSMENT

The Board will conduct an annual self-evaluation, which will incorporate a self-evaluation by each Board Committee. The Corporate Governance and Nominating Committee is responsible for establishing the evaluation criteria and implementing the process for the evaluation. Based on the results of the evaluation, the Corporate Governance and Nominating Committee will report annually to the Board on the performance of the Board and each Committee, including areas where a greater contribution to Board and/or Committee effectiveness can be made. These assessments should be of the contributions of the Board and the Committees as a whole and should specifically review areas in which the Board members and/or the management believe a better contribution could be made.

MANAGEMENT ASSESSMENT

1. CEO EVALUATION

The non-employee Directors should participate in a periodic evaluation of the performance of the Chief Executive Officer based on established criteria. The process for conducting such evaluation will be developed and implemented by the Compensation Committee. The evaluation will be used by the Compensation Committee when considering the compensation of the Chief Executive Officer.

2. MANAGEMENT SUCCESSION AND DEVELOPMENT

There will be an annual report from the Chief Executive Officer to the Board on succession planning for all officers of the Company and management development.

In addition to a long-term succession plan and report on management development, the annual succession planning report from the Chief Executive Officer will include a short-term succession plan outlining a temporary delegation of authority to certain officers of the Company in case the Chief Executive Officer should unexpectedly become unable to perform the duties of that office. The short-term succession plan will be in effect until the Board has the opportunity to consider the situation and take action. The short-term succession plan will be updated as needed and provided to the Board.

3. ACCESS TO MANAGEMENT AND ADVISORS

Board members have complete access to members of management. In addition, the Board has access to such independent advisors as it determines is necessary and appropriate from time to time. The Company will provide such funding as the Board determines is necessary for payment of compensation to any counsel or other advisors employed by the Board.

OTHER MATTERS

Individual Board members may from time to time at the request of management meet or otherwise communicate with various constituencies that are involved with the Company. If public statements from the Board are appropriate, they should, in most circumstances, come from the Chairman.