



APPLIED MATERIALS

2005 annual report

# Moving ideas to market.

NANOMANUFACTURING TECHNOLOGY TO IMPROVE THE WAY PEOPLE LIVE.

The world of semiconductors and related products is increasingly being shaped by the emerging culture of eLifestyle—a trend toward rapid adoption of electronic products by individuals. The performance features of these products reflect the tremendous technological changes taking place at the nanoscale level, deep within each device. Consumers' drive for more powerful, portable and affordable products creates increasing pressures of costs and complexity for our customers and brings a new set of opportunities for Applied Materials.

With our achievement-oriented culture, Applied Materials is focused on finding new approaches to meet the most challenging nanomanufacturing requirements. At the heart of the Company's success is the passion of our employees—the key to our industry-leading products, ideas and performance. We believe that if customers can imagine it, we can apply our unique talent, knowledge, technology and global infrastructure to make it a reality.





think it. apply it.™

# Financial Highlights

FISCAL YEAR ENDED  
(In thousands, except percentages and per share amounts)

*net sales*

*net income/(loss)*

*net income/(loss) per diluted share*

*weighted average common shares and equivalents*

*stockholders' equity*

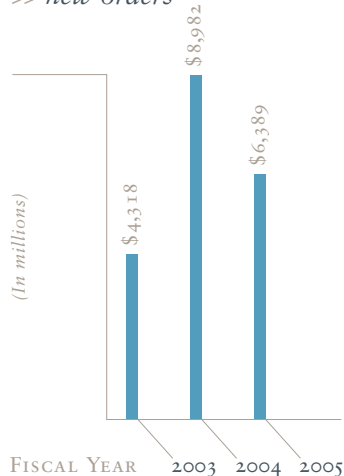
*return on equity\**

*order backlog*

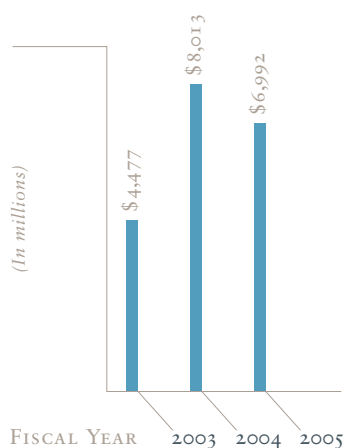
*\*Based on net income*

	2003	2004	2005
<i>net sales</i>	\$4,477,291	\$8,013,053	\$6,991,823
<i>net income/(loss)</i>	\$ (149,147)	\$ 1,351,303	\$ 1,209,900
<i>net income/(loss) per diluted share</i>	\$ (0.09)	\$ 0.78	\$ 0.73
<i>weighted average common shares and equivalents</i>	1,659,557	1,721,645	1,657,493
<i>stockholders' equity</i>	\$8,068,034	\$9,262,027	\$8,928,549
<i>return on equity*</i>	(1.9)%	15.6%	13.3%
<i>order backlog</i>	\$2,495,115	\$3,368,382	\$2,570,808

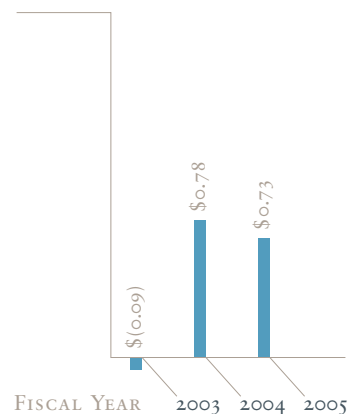
>> *new orders*



>> *net sales*



>> *earnings per share*



## Corporate Profile

Applied Materials is the largest supplier of integrated circuit manufacturing systems and related services to the worldwide semiconductor and semiconductor-related industry. The Company supplies fabrication systems that perform atomic layer deposition (ALD), chemical vapor deposition (CVD), physical vapor deposition (PVD), epitaxial and polysilicon deposition, rapid thermal processing (RTP), plasma etching, electrochemical plating (ECP), ion implantation, metrology, inspection, chemical mechanical polishing (CMP) and wafer wet cleaning; maskmaking equipment; CVD and test systems used to produce flat panel displays (FPDs); waste treatment systems; and manufacturing execution system (MES) software for semiconductor factory automation. Applied's service products include equipment maintenance, materials supply and management, parts refurbishment, equipment remanufacturing, yield enhancement, training and other solutions for increasing semiconductor manufacturing productivity.





MICHAEL R. SPLINTER  
PRESIDENT AND  
CHIEF EXECUTIVE OFFICER

JAMES C. MORGAN  
CHAIRMAN OF THE  
BOARD OF DIRECTORS

## To Our Stockholders,

APPLIED MATERIALS ENDED FISCAL 2005 WITH SOLID PERFORMANCE, POISED TO EXTEND THIS YEAR'S SUCCESSES AND TO FOCUS ON THE OPPORTUNITIES AHEAD. OUR CUSTOMERS ARE AGGRESSIVELY PURSUING ADVANCED TECHNOLOGIES TO PRODUCE NEW SEMICONDUCTOR AND SEMICONDUCTOR-RELATED PRODUCTS ALIGNED WITH THE REQUIREMENTS OF INDIVIDUAL CONSUMERS AND GLOBAL BUSINESSES, AS WELL AS EMERGING ECONOMIES. THESE NEW TECHNOLOGIES REQUIRE INNOVATIVE, COST-EFFECTIVE NANOMANUFACTURING SOLUTIONS AND APPLIED IS DEMONSTRATING THAT WE HAVE THE CAPABILITIES TO BE THE BEST PARTNER TO MOVE CUSTOMERS' IDEAS TO MARKET.

Applied's core capabilities—our broad and deep technologies that address customers' key roadmaps, our worldwide network for the distribution and on-site support of sophisticated technology, and our global culture—have made us the leader in our industry. A good partner also needs to have the financial strength and operational excellence to stand behind customers' ideas. We have developed these capabilities and strengths through decades of experience and investment, and they will serve us well as we grow through innovation.

## GROWING THROUGH INNOVATION

The shrinking size of transistors and complex web of circuitry connecting them are driving the innovative use of materials, new processes and an increased number of production steps—all with the aim of keeping Moore's Law alive as the industry moves to 65 nanometer (nm) and below. In an era where multiple processes and broad integration knowledge are needed to solve advanced manufacturing challenges, customers continue to turn to Applied for solutions that match their requirements, from strained silicon to advanced transistor and interconnect applications to cutting-edge defect inspection.

In fiscal 2005, Applied invested nearly \$1 billion in research, development and engineering and approximately 700 patents were issued on the inventions of our employees, growing our intellectual property portfolio to more than 5,000 patents globally. Through the year, we introduced 10 industry-leading products, focused on three engines of growth—increasing share in existing markets, expanding into related markets, and using our nanomanufacturing expertise to cultivate new markets and new business models.

In June, we entered the brightfield inspection market with the introduction of the *Applied UVision* system, the industry's first laser 3D brightfield tool. This system allows customers to rapidly identify and resolve performance-limiting defects on their wafers and achieve greater chip yields. And, we introduced the *Applied SEMVision G2* family of defect review systems, enabling more rapid elimination of root cause defects. These products combine the power of Applied's process and inspection expertise to help chipmakers achieve faster time to resolution.

Adding to our extensive line of transistor solutions, we introduced the *Applied Vantage RadOx RTP* system that deposits the reliable, high quality oxide film needed for fabricating flash memory chips—a rapidly growing part of the industry. We also launched the *Applied Centura AdvantEdge Silicon Etch* system that delivers precise dimension control of the transistor gate, reducing variation by up to 50 percent over competing offerings.

For speedier, more powerful interconnects at the 65nm level and below, Applied offered breakthrough barrier/seed applications with its *Applied Endura CuBS* system and the industry's most advanced, manufacturable low  $\kappa$  dielectric film, the *Applied Producer Black Diamond II* with innovative *NanoCure UV* curing technology.

To expand our portfolio of solutions for streamlining customers' fab operations, Metron Technology, a wholly-owned subsidiary of Applied, operates as an independent provider of multi-vendor solutions on a worldwide scale. Metron's newly-acquired *EcoSys* products provide a broad range of optimized gas abatement solutions that help customers assure environmental compliance.

For flat panel display manufacturing, AKT is providing enabling technology that allows display manufacturers to move to larger panel generations—making AKT the undisputed leader in flat panel CVD equipment for the past 12 years. Our latest *AKT-50K PECVD* system can process up to six 52-inch flat panel LCD-TV screens on one glass substrate, doubling the capacity of previous generations for that screen size.

As the pace of technology change accelerates, so does the adoption of 300mm wafers, driven by the economic benefit the larger wafer size brings to chipmakers. There are approximately 50 fab projects expected in 2006, and these are becoming increasingly more complex and represent significant, strategic capital investments by our customers. Today's most advanced fabs, running sub-65nm processes, require an estimated 63 percent increase in process steps over the industry average at 130nm processing. Applied is committed to helping customers maximize the effectiveness of these investments.

Wherever chipmakers are investing, they know that they can count on Applied to be there. This year we established a holding company in China, a strategic market for chips and one to which more of our customers are turning. Applied's strategy reflects the commitment that forms our core values of being close to the customer, demonstrating mutual trust and respect, and pursuing world-class performance in everything we do.

#### DELIVERING A CAPITAL-EFFICIENT BUSINESS MODEL

Fiscal 2005 was a year of lower semiconductor capital investment, as customers brought chip inventories in-line with demand. Applied's net sales of \$6.99 billion were 13 percent lower than revenue of \$8.01 billion in 2004, and net income was \$1.21 billion or \$0.73 per share, down from \$1.35 billion or \$0.78 per share in 2004. New orders declined to \$6.39 billion for fiscal 2005, down 29 percent from \$8.98 billion in fiscal 2004. Despite the challenging market environment, the Company's scorecard shows high marks with operating margin and net margin performance delivering to our published financial model.

We generated strong cash flow, well above our industry's average, and we are using our financial strength to grow the Company and deliver improving stockholder value. In fiscal 2005, we initiated a cash dividend and repurchased 101 million shares of Applied stock for \$1.7 billion, decreasing outstanding shares by 6 percent. Between the dividend and share repurchase program, Applied returned \$1.8 billion to stockholders. We believe in using cash balances to support our core business, pursue strategic opportunities and return value to investors—all while maintaining a strong balance sheet.

During fiscal 2005, we made progress in optimizing our manufacturing operations, further shortening cycle time to minimize the time required from order placement to equipment start-up at customer manufacturing sites around the world. Our customers face narrower windows of profitability and Applied's manufacturing excellence offers them a key cycle-time advantage.

Across the company we are focused on not just offering more differentiated products, but also on streamlining our operations performance and making efficiency gains. Through fiscal 2005, we drove parts and platform commonality across our product portfolio, reducing the unique parts content in the top 20 high usage parts by 90 percent. We also put our global strengths to use making strides in lower cost region component sourcing and further developing our equipment refurbishment and 24x7 engineering capabilities. Key metrics, such as inventory turns and continuous quality and system reliability, all improved, further positioning the company for strong future growth.

#### PURSuing NEW OPPORTUNITIES

Viewed on a global scale, the applications for silicon technology are still in their infancy. A world of opportunity remains, waiting for innovative technology and new approaches to further unlock the electronics industry's potential. Looking ahead on the technology roadmap, Applied Materials is ready to take advantage of changes as devices continue to shrink and find a home in emerging markets around the world. In 2006, we expect our company to outgrow and outperform the industry by offering more to customers. We believe our technology investments and operational improvements position us to bring better returns, with more opportunity ahead.

Our success relies on the support we have earned from all our stakeholders—our customers, investors, employees and suppliers. We are committed to being a leadership company, partnering with customers to solve their toughest challenges, investing to deliver earnings growth, maintaining a strong balance sheet and returning value to stockholders for years to come.

Sincerely,



MICHAEL R. SPLINTER

PRESIDENT AND CHIEF EXECUTIVE OFFICER



JAMES C. MORGAN

CHAIRMAN OF THE BOARD OF DIRECTORS

## Stockholders' Information

### LEGAL COUNSEL

Orrick, Herrington & Sutcliffe LLP  
San Francisco, California

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP  
Mountain View, California

### NUMBER OF REGISTERED STOCKHOLDERS

6,301 (as of October 30, 2005)

### STOCK LISTING

Applied Materials, Inc. is traded on  
The NASDAQ Stock Market®  
NASDAQ Symbol: AMAT

### TRANSFER AGENT

Computershare Investor Services, LLC  
Stockholder Services  
P.O. Box A3504  
Chicago, Illinois 60690-3504  
Tel: (312) 360-5186 or (877) 388-5186  
Fax: (312) 601-4348  
Email: [web.queries@computershare.com](mailto:web.queries@computershare.com)

### INVESTOR CONTACT

Investor Relations  
Applied Materials, Inc.  
3050 Bowers Avenue  
P.O. Box 58039, M/S 2038  
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Tel: (408) 748-5227 or (800) 882-0373  
Fax: (408) 563-4606  
Email: [investor\\_relations@amat.com](mailto:investor_relations@amat.com)  
Web site: [www.appliedmaterials.com](http://www.appliedmaterials.com)

### CORPORATE HEADQUARTERS

Applied Materials, Inc.  
3050 Bowers Avenue  
Santa Clara, California 95054-3298

### MAIL ADDRESS AND TELEPHONE

Applied Materials, Inc.  
3050 Bowers Avenue  
P.O. Box 58039  
Santa Clara, California 95052-8039  
Tel: (408) 727-5555  
Fax: (408) 748-9943

### CORPORATE WEB SITE

Additional information can be found on the  
Applied Materials corporate Web site at  
[www.appliedmaterials.com](http://www.appliedmaterials.com).

## Electronic Proxy Delivery

Applied Materials is pleased to offer you the opportunity to electronically receive future Proxy Statements and Annual Reports on the Internet. We encourage you to take advantage of these convenient online services:

- Electronic delivery of the Proxy Statement, Annual Report and related materials
- Online proxy voting

Electing to receive these materials online saves in two important ways. It conserves natural resources and allows us to trim operational costs associated with printing and mailing.

To enroll in the online program, go to the Investors section of the Applied Materials' Web site, [www.appliedmaterials.com](http://www.appliedmaterials.com). Click on "Get your proxy statement online" to request electronic enrollment. Follow the directions provided to complete your enrollment. This will remain in effect as long as your account remains active or until you cancel your enrollment.

This report contains forward-looking statements, including those regarding Applied Materials' growth opportunities, technology leadership, strategic position, financial performance, operational efficiency, cash deployment strategies and delivery of stockholder value; customers' investments in manufacturing capacity and new technology; and all other statements that are not historical facts. These forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. These statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements, including but not limited to: the sustainability of demand in the semiconductor and semiconductor-related industry, which is subject to many factors, including global economic conditions, business spending, consumer confidence, demand for electronic products and integrated circuits, and geopolitical uncertainties; customers' capacity requirements, including capacity utilizing the latest technology, which depend in part on customers' inventory levels relative to demand for their products; the timing, rate, amount and sustainability of capital spending for new technology, such as 300mm and sub-100 nanometer applications; Applied's ability to develop, deliver and support a broad range of products and to expand its markets and develop new markets; Applied's ability to timely align the company's cost structure with business conditions; Applied's ability to effectively manage its resources and production capacity, including its supply chain; and other risks described in Applied's SEC filings. Applied undertakes no obligation to revise or update any forward-looking statements.



# Global Leadership

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**VALUES** Build a culture of achievement based on a set of core values—Close to the Customer, Mutual Trust and Respect, World-Class Performance—shared by employees around the world.

**WORLD-CLASS WORKFORCE** Attract, retain and develop the best people in the world and provide a global knowledge base for collaboration and effective decision-making.

**VISION OF INNOVATION** Create a shared vision and commitment to innovation in all organizations and activities.

**MARKET LEADERSHIP** Early leaders win. Focus on markets where it's possible to deliver technology leadership to gain share.

**GLOBAL PRESENCE** Control our destiny in global markets with strong local management and capabilities.

**MANAGEMENT EXCELLENCE** Develop a capable management team that can translate vision into performance. Leverage scale and profitability to invest strategically.

**JAMES C. MORGAN**

Chairman  
Applied Materials, Inc.

**MICHAEL R. SPLINTER**

President and Chief Executive Officer  
Applied Materials, Inc.

**MICHAEL H. ARMACOST<sup>1,2,4</sup>**

Shorenstein Distinguished Fellow  
Asia/Pacific Research Center,  
Stanford University

**DEBORAH A. COLEMAN<sup>1,2</sup>**

General Partner  
SmartForest Ventures LLC

**HERBERT M. DWIGHT, JR.<sup>2,3,5</sup>**

Chief Executive Officer  
Optical Coating Laboratory, Inc.  
(retired)

**PHILIP V. Gerdine<sup>1,2</sup>**

Executive Director (Overseas Acquisitions)  
Siemens AG (retired)

**THOMAS J. IANNOTTI<sup>2,3</sup>**

Senior Vice President Business Operations,  
Technology Solutions Group  
Hewlett-Packard Company

**CHARLES Y.S. LIU<sup>1</sup>**

Senior Managing Partner  
Hao Ran China Fund

**PAUL R. LOW<sup>2,3</sup>**

Chief Executive Officer  
P.R.L. Associates

**DAN MAYDAN**

Director  
Applied Materials, Inc.

**GERHARD H. PARKER<sup>1,2</sup>**

Executive Vice President,  
New Business Group  
Intel Corporation (retired)

**WILLEM P. ROELANDTS<sup>2,3</sup>**

Chairman, President and  
Chief Executive Officer  
Xilinx, Inc.

**JAMES C. MORGAN**

Chairman of the Board of Directors

**MICHAEL R. SPLINTER**

President and Chief Executive Officer

**FRANZ JANKER**

Executive Vice President,  
Sales and Marketing

**NANCY H. HANDEL**

Senior Vice President,  
Chief Financial Officer

**MANFRED KERSCHBAUM**

Senior Vice President, General Manager  
Applied Global Services

**FARHAD MOGHADAM**

Senior Vice President, General Manager  
Thin Films Product Business Group  
and Foundation Engineering

**MARK R. PINTO**

Senior Vice President, Chief Technology  
Officer and General Manager  
New Business and New Products Group

**THOMAS ST. DENNIS**

Senior Vice President, General Manager  
Etch and Front End Products  
Business Groups

**JOSEPH J. SWEENEY**

Senior Vice President, General Counsel  
and Corporate Secretary

**GEORGE ALAJAJIAN**

Vice President, Operations Manager  
Thin Films Product Business Group  
and Foundation Engineering

**GILAD ALMOGY**

Group Vice President, General Manager  
Process Diagnostics and Control  
Product Business Group

**NORM ARMOUR**

Vice President, Manager  
Corporate Asset Services

**CHRIS BELDEN**

Group Vice President, General Manager  
Global Operations

**WENDELL T. BLONIGAN**

Group Vice President, General Manager  
AKT

**GEORGE S. DAVIS**

Group Vice President, General Manager  
Corporate Business Development

**MENACHEM ERAD**

Group Vice President, Chief of Staff

**BRADLEY L. HANSEN**

Vice President, General Manager  
Planarization, Plating and Clean,  
Thin Films Product Business Group

**IN DOO KANG**

Vice President, General Manager  
Display Industry Product Groups,  
AKT

**RAYMOND L. LEUBNER**

Vice President,  
Global Materials Operations

**JEANNETTE LIEBMAN**

Group Vice President,  
Global Human Resources

**WILLIAM H. MCCLINTOCK**

Vice President, Business Management,  
Thin Films Product Business Group

**JOHN MCCLURE**

Vice President, Corporate Strategy

**HICHEM M'SAAD**

Vice President, General Manager  
Blanket DSM, Thin Films Product  
Business Group

**CHARLIE PAPPIS**

Vice President, General Manager  
Core Services, Applied Global Services

**MIKE RICE**

Vice President, Manager  
Platform Product Engineering,  
Foundation Engineering

**SEIJI SATO**

Vice President, Applied Materials Japan

**AVI TEPMAN**

Vice President, Manager  
New Disruptive Products

**YVONNE WEATHERFORD**

Vice President, Corporate Controller

**ZHENG XU**

Vice President, General Manager  
Copper, Physical Vapor Deposition  
and Integrated Systems,  
Thin Films Product Business Group

<sup>1</sup> Audit Committee

<sup>2</sup> Corporate Governance and Nominating Committee

<sup>3</sup> Human Resources and Compensation Committee

<sup>4</sup> Ethics Ombudsman

<sup>5</sup> Lead Independent Director

