

06  
ANNUAL REPORT

WE APPLY  
**nanomanufacturing  
technology**  
TO IMPROVE THE WAY  
PEOPLE LIVE



## SO WHAT IS nanomanufacturing technology?

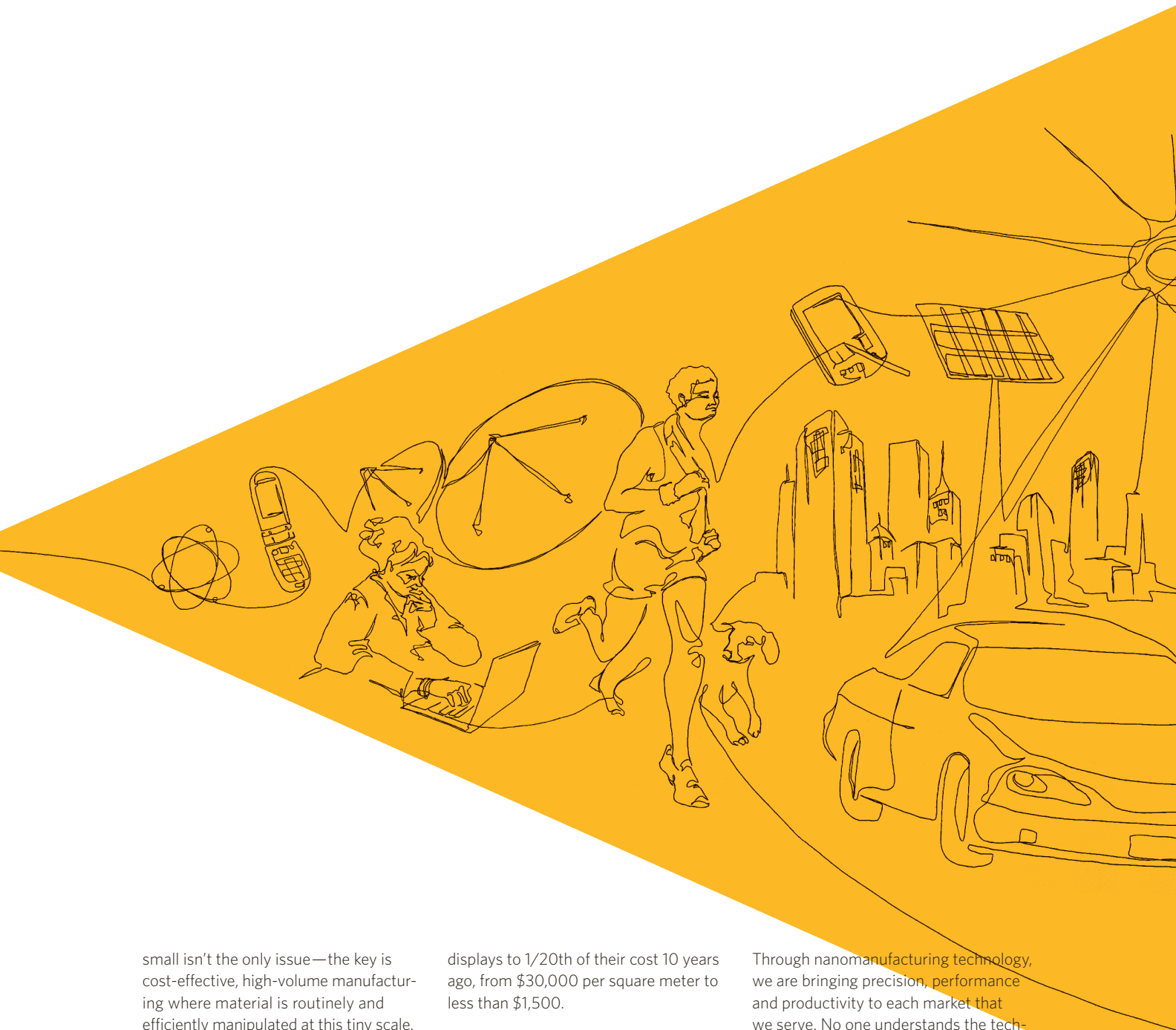


“Nanomanufacturing” combines the concept of the small dimensions delivered through our technology with the practical concept of high-volume, precision manufacturing. At Applied Materials, we provide the nanomanufacturing technology—through innovative equipment, services and software—to make nano-scale devices a reality.

This isn’t science fiction. It’s something we have been doing for nearly 40 years. For decades the strength of Applied Materials has been to commercialize innovative, technical solutions that enable customers to produce outstanding products. As the global leader in semiconductor fabrication equipment, we’ve been helping customers make chips smarter, smaller and less expensive every year. Now chips are so powerful they enable functions we could barely imagine a decade ago, and they are so tiny they are in everything from cell phones to running shoes. Chip circuits are now measured in nanometers

(nm)—or billionths of a meter. To put that in perspective, a piece of paper is about 100,000nm thick and a human blood cell is 2,000nm across.

Every day around the world, Applied Materials equipment is making transistors that are smaller than light waves—65nm and even smaller in size. Our plasma etching systems carve out structures that are less than 30nm wide and remove single-nanometer layers of material to create new chip circuits. Our equipment can deposit atoms of copper that are a mere 5nm thick. In nanomanufacturing technology,



small isn't the only issue—the key is cost-effective, high-volume manufacturing where material is routinely and efficiently manipulated at this tiny scale. And our systems perform this reliably and precisely, creating billions of structures on a single chip, at low cost, and with minimal environmental impact.

We have applied our chip manufacturing expertise to unlock the potential of more environmentally friendly—and consumer pleasing—flat panel displays to replace conventional TVs and monitors. Our systems have helped drive down the cost of flat panel

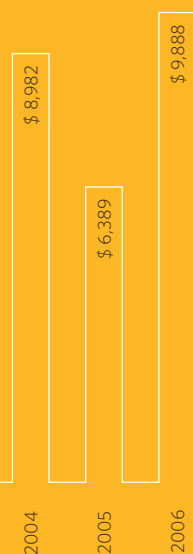
displays to 1/20th of their cost 10 years ago, from \$30,000 per square meter to less than \$1,500.

New opportunities are opening for Applied as industries look for nanomanufacturing technology solutions to bring their ideas to market. As we have done with computer chips and flat panel displays, we are using our nanomanufacturing technology to help make more efficient and affordable solar panels so that people around the world will be able to capture clean, reliable energy from the sun.

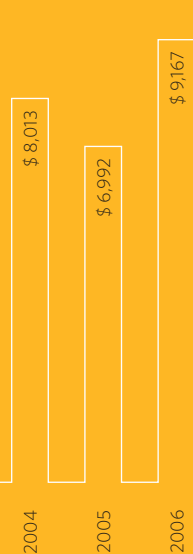
Through nanomanufacturing technology, we are bringing precision, performance and productivity to each market that we serve. No one understands the technology, the engineering, the production processes, and the lifecycle of nanomanufacturing technology better than we do. After all, we're a global leader and we've been in the business for years. And our work is certainly not done. We have more ideas to offer as applications for nanomanufacturing technology—and the opportunities to improve the way people live—continue to grow.

# Financial Highlights

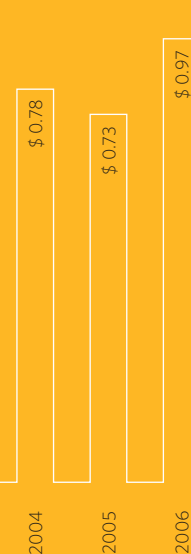
## NEW ORDERS (in millions)



## NET SALES (in millions)



## EARNINGS PER SHARE



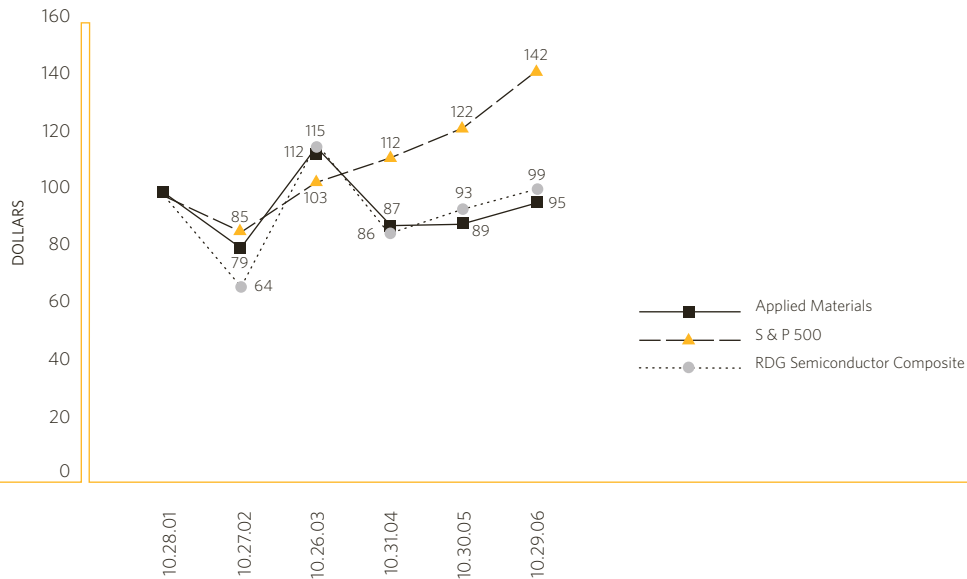
2004	2005	2006	FISCAL YEAR ENDED (In thousands, except per share amounts)
\$ 8,013,053	\$ 6,991,823	\$ 9,167,014	NET SALES
\$ 1,351,303	\$ 1,209,900	\$ 1,516,663	NET INCOME
\$ 0.78	\$ 0.73	\$ 0.97	NET INCOME PER DILUTED SHARE
1,721,645	1,657,493	1,565,072	WEIGHTED AVERAGE COMMON SHARES AND EQUIVALENTS
\$ 9,262,027	\$ 8,928,549	\$ 6,651,400	STOCKHOLDERS' EQUITY
15.6%	13.3%	19.5%	RETURN ON EQUITY*
\$ 3,368,382	\$ 2,570,808	\$ 3,398,280	ORDER BACKLOG

\*Based on net income

## Comparison of 5-Year Cumulative Total Return\*

**Among Applied Materials, Inc., the S & P 500 Index and the RDG Semiconductor Composite Index**

The RDG Semiconductor Composite Index contains 97 companies in the semiconductor equipment, semiconductor manufacturing and related industries.



\*\$100 invested on 10/28/01 in stock or on 10/31/01 in index-including reinvestment of dividends. Indexes calculated on month-end basis.

## Corporate Profile

Applied Materials creates and commercializes the **nanomanufacturing technology™** used in the production of virtually every new semiconductor chip and flat panel liquid crystal display in the world. The company also offers a portfolio of customer productivity solutions used to optimize customers' overall manufacturing operations and

enhance yields for maximum return on their investments. Building on its 40 years of experience as a leading supplier of thin film and high productivity solutions, the company also delivers equipment for manufacturing high-efficiency, lower-cost solar photovoltaic cells, energy efficient architectural glass and emerging flexible electronics.

# To Our Stockholders

Fiscal 2006 was an excellent year for Applied Materials. We grew revenue by 31 percent, gained market share and delivered on our key objectives. Our employees demonstrated their commitment throughout the year, and we would like to acknowledge their contributions to achieving these strong results.

For decades the strength of Applied Materials has been to commercialize innovative, technical solutions that enable customers to create and produce market-expanding products. In 2006, we established a new vision statement —**We apply Nanomanufacturing Technology to improve the way people live**—reflecting our aspirations as a company. This broader vision reinforces the belief that Applied's technology contributes to electronic products that people around the world use in their everyday lives, and it expands how we see ourselves serving customers with new applications in new markets. "Nanomanufacturing" combines the concept of small dimensions delivered through our technology with the practical concept of high-volume, precision manufacturing with the potential to reach and improve the lives of everyone around the globe. New opportunities are opening for Applied as industries look at nanomanufacturing technology solutions to bring exciting ideas to market.

## NEW MARKETS AND NEW OPPORTUNITIES

Today, Applied Materials is much more than a semiconductor equipment company. We report our business in four segments, reflecting the growth of our different businesses and expanding opportunities.

The **Silicon** segment is comprised of a wide range of products designed, manufactured and sold for the semiconductor chip market. We have been engaged in this area for nearly 40 years, working with customers to enable Moore's Law and lower the cost per transistor of semiconductor chips, and we are planning for continued growth in the years ahead. Today, Applied's equipment helps make virtually every new chip in the world.

The **Fab Solutions** segment is comprised of a broad range of products to maintain and optimize customers' semiconductor fabs, including: spare parts, total parts management, remanufactured equipment, maintenance agreements, total support programs, and environmental and software solutions. This business has been growing rapidly. In 2005, we outpaced the growth of silicon wafer starts by a 1.4 multiple, and in 2006 we outpaced the growth of wafer starts by a factor of 1.7.

The **Display** segment represents products which Applied designs, manufactures, sells and services for our customers who fabricate and test flat panel displays. We first established an organization in 1991 to utilize our semiconductor manufacturing processes and apply them for use by flat panel display manufacturers. Since then we have helped the industry to decrease the cost of high-quality flat panel displays to 1/20th of their cost 10 years ago.

The **Adjacent Technologies** segment consists of products which we design, manufacture, sell and service for customers who fabricate solar cells, flexible electronics and other web products, and energy-efficient glass. Through a key acquisition in mid-2006, Applied Materials has enhanced its ability to serve new, fast-growing markets and additional customers who can utilize our expertise and global capabilities.

## DELIVERING ON OUR OBJECTIVES

Throughout 2006 we focused on three key objectives and made substantial progress.

*Extend our leadership in our core business through differentiated products.* First and foremost, we look to serve our semiconductor customers with the technology to produce new generations of advanced chips at lower cost. Our priority was to increase our presence at memory manufacturers, particularly those in the fast-growing flash memory market. Through 2006 our share of the market increased as customers turned to Applied to help solve their most challenging manufacturing issues. We launched multiple products and entered new market areas, including the large and growing track market served by Sokudo, an exciting joint venture with Dainippon Screen.

As customers focus on improving productivity, they demand technically differentiated service products that allow better utilization of their factories. Coating, cleaning, wafer reclaim, abatement and software are all becoming more valuable. In 2006, we expanded our offerings for making customers' factories run more efficiently, while reducing cost and minimizing the impact on the environment.

Display markets are driven by increasing production efficiency that makes applications like LCD TVs, portable PC screens and many consumer electronics more affordable. In 2006, we expanded our offerings for displays to address the latest Generation 8.5 flat panel manufacturing requirements and broadened our market presence with new products to deposit films in color filters and array.



***Deliver world-class operational and financial performance.***

Fiscal 2006 was the second best year in Applied's history. We made good progress operationally, delivering higher margins and improved asset utilization, while assuring investment for the future. We grew both revenue and profitability, and provided value to our stockholders through strong cash generation, an increased dividend, and substantial stock repurchases, reflecting our confidence in the long-term potential and opportunities of Applied Materials. We believe in continuous improvement and an unrelenting drive for further efficiency, productivity and cycle-time gains, and have our sights set on hitting new heights this year. We now have a company-wide Business Transformation effort which should allow us to continuously improve our efficiency over the next several years.

***Grow business in new markets utilizing nanomanufacturing technology.***

Applied Materials has outstanding growth opportunities, and this past year we expanded our business into a number of adjacent markets. Using our core skills of nanomanufacturing technology and large substrate handling competencies, we are moving into the solar cell equipment market. In September we announced our strategy in this rapidly growing market. Applied Materials is providing a combination of manufacturing tools, together with device and process innovations, that are expected to increase conversion efficiency and yields, and help lower the overall cost per watt for solar electricity users. The market is expected to grow dramatically once solar cell manufacturers are able to achieve prices comparable to the cost of peak electricity prices. This is the point at which we believe that consumers will increasingly choose clean energy over traditional, nonrenewable sources. There are many new ideas and improvements in the solar field, and Applied is offering the scale, productivity and practical solutions today. The solar industry has reached an inflection point as customers seek economies of scale and look for partners who can provide global support and systems that meet goals for advancement in technology, throughput, quality and yield. Solar unlocks an opportunity for us to provide leadership at a time when this industry is poised to take off and become a more meaningful contributor to the global energy supply.

**IMPROVING THE WAY PEOPLE LIVE**

As we look around the world, we see a growing number of people who are eager to embrace the technology that Applied Materials enables. Whether using more powerful, portable and affordable chips for a widening array of applications, or recognizing the potential of solar technology to provide cost-effective, environmentally-friendly energy, billions of people around the world have yet to benefit from the advances we deliver. We see opportunity and the chance to help improve the way people live. And that provides a powerful motivator for us to drive innovative thinking and deliver new technology.

Our long-term opportunity is enormous, and the future of Applied Materials holds great promise. The global leadership that customers have come to count on will lead the way. We must extend our legacy of technology commercialization utilizing our unmatched resources, core competencies and technological breadth to bring new, winning solutions to our customers. We are enhancing our reputation as the safest choice—the choice that customers can rely on with the knowledge, insight and commitment they need to compete effectively and gain the advantage that allows them to break into new markets.

This is the Applied Materials we are building—a global competitor that is leading the way in directions that our customers want us to go with the nanomanufacturing technology solutions that help make new markets a reality. 2006 was a good year for Applied. With the support of all our stakeholders—including our customers, global employee team, suppliers, and you, our stockholders—we are moving forward with positive momentum in 2007, finding our rewards in solving the challenges ahead to unlock new opportunities.

Sincerely,

**Michael R. Splinter**  
President and  
Chief Executive Officer

**James C. Morgan**  
Chairman of the Board  
of Directors

December 14, 2006

## Stockholders' Information

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP  
Mountain View, California

### NUMBER OF REGISTERED STOCKHOLDERS

5,818 (as of October 27, 2006)

### STOCK LISTING

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

### TRANSFER AGENT

*By mail:*

Computershare Investor Services LLC  
Stockholder Services  
P.O. Box 43036  
Providence, Rhode Island 02940-3036

### Overnight delivery:

Computershare Investor Services LLC  
Stockholder Services  
250 Royall Street, M/S 1A  
Canton, Massachusetts 02021-1011  
Tel: (312) 360-5186  
or (877) 388-5186  
Fax: (312) 601-4348  
Email: [web.queries@computershare.com](mailto:web.queries@computershare.com)

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or (800) 882-0373  
Fax: (408) 563-4606  
Email: [investor\\_relations@amat.com](mailto:investor_relations@amat.com)

### CORPORATE HEADQUARTERS

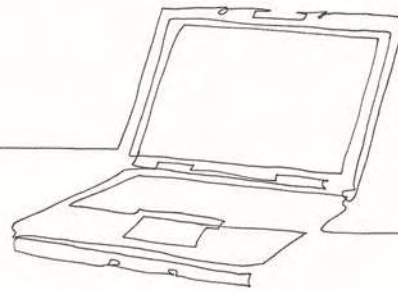
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Santa Clara, California 95054-3298

### MAIL ADDRESS AND TELEPHONE

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Fax: (408) 748-9943

### CORPORATE WEB SITE

Additional information can be found 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). The drop-down menu in the right column has options to request an electronic proxy and Annual Report. 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' technology leadership, strategic position, product capabilities, growth opportunities, entry into new markets such as track and solar, financial performance, and operational initiatives and efficiency gains; expectations for the semiconductor, display and solar industries; and all other statements that are not historical facts. 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 nanomanufacturing technology industry and broadening of demand for emerging applications such as solar, which are 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; the timing, rate, amount and sustainability of capital spending for new nanomanufacturing technology; Applied's ability to (i) successfully develop, deliver and support a broad range of products and to expand its markets and develop new markets, (ii) accurately predict the characteristics of, and capitalize on opportunities in, new markets such as solar, (iii) maintain effective cost controls and timely align its cost structure with business conditions, (iv) effectively manage its resources and production capability, including its supply chain, and (v) retain key employees; as well as other risks described in Applied's SEC filings. All forward-looking statements include the assumptions that underlie such statements and are based on management's estimates, projections and assumptions as of the date hereof. Applied undertakes no obligation to update any such statements.

## BOARD OF DIRECTORS

James C. Morgan  
Chairman of the Board of Directors  
Applied Materials, Inc.

Michael R. Splinter  
President and Chief Executive Officer  
Applied Materials, Inc.

Michael H. Armacost <sup>2,3,\*</sup>  
Shorenstein Distinguished Fellow  
Asia/Pacific Research Center,  
Stanford University

Robert H. Brust <sup>1,6</sup>  
Executive Vice President  
Eastman Kodak Company

Deborah A. Coleman <sup>1,4,5,6,‡</sup>  
General Partner  
SmartForest Ventures LLC

Philip V. Gerdine <sup>1,4,5</sup>  
Executive Director  
(Overseas Acquisitions)  
Siemens AG (retired)

Thomas J. Iannotti <sup>2,3,5</sup>  
Senior Vice President and  
Managing Director,  
Asia-Pacific and Japan  
Hewlett-Packard Company

Charles Y.S. Liu <sup>1,4,6</sup>  
Senior Managing Partner  
Hao Capital China Fund

Gerhard H. Parker <sup>1,6</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.

<sup>1</sup> Audit Committee

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

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

<sup>4</sup> Investment Committee

<sup>5</sup> Stockholder Rights Plan  
Review Committee

<sup>6</sup> Strategy Committee

\* Lead Independent Director

‡ Ethics Ombudsman

## CORPORATE MANAGEMENT

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

George S. Davis  
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 Products 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, Cleans, Front End and Implant  
Products Business Groups

Joseph J. Sweeney  
Senior Vice President, General Counsel  
and Corporate Secretary

George Alajajian  
Vice President, Operations Manager  
Thin Films Products Business Group  
and Foundation Engineering

Gilad Almogy  
Group Vice President, General Manager  
Process Diagnostics and Control  
Products Business Group

Norman Armour  
Vice President, Manager  
Corporate Asset Services

Chris Belden  
Group Vice President,  
Global Operations

Liang Chen  
Vice President, General Manager  
Chemical Mechanical  
Planarization Products Business Group

Thomas T. Edman  
Vice President  
General Manager of Mergers and  
Acquisitions and Emerging Business Group

Menachem Erad  
Group Vice President, Chief of Staff

Werner Finsterbusch  
Vice President, Business Management,  
Applied Global Services

Charlie Gay  
Vice President, General Manager  
Solar Business Group

Bradley L. Hansen  
Vice President,  
Logic Market Segment and Solar Business

In Doo Kang  
Vice President, General Manager  
Display Industry Products Groups,  
AKT

Ron Kifer  
Group Vice President and  
Chief Information Officer

Byung Ho Kwak  
Vice President, General Manager  
Samsung Account

Jeannette Liebman  
Group Vice President,  
Global Human Resources

William H. McClintock  
Vice President, Business Management,  
Thin Films Products Business Group

John McClure  
Vice President, Corporate Strategy

Hichem M'saad  
Vice President, General Manager  
Blanket DSM, Thin Films Products  
Business Group

Charlie Pappis  
Vice President, General Manager  
Core Services, Applied Global Services

Mike Rice  
Vice President, Manager  
Platform Products Engineering,  
Foundation Engineering

Avi Tepman  
Vice President,  
New Disruptive Products

Yvonne Weatherford  
Vice President, Corporate Controller

Zheng Xu  
Vice President, General Manager  
Copper, Physical Vapor Deposition  
and Integrated Systems Products Group

Erix Yu  
Vice President, General Manager,  
UMC and Taiwan Regional Accounts



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