

2009 ANNUAL REPORT

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# Dear Fellow Stockholders,

Fiscal 2009 was an unprecedented year for the global economy, our customers and Applied Materials. I am proud of how our team performed. We ended fiscal 2009 with higher share in the semiconductor and flat panel display equipment sectors and were recognized as the leading photovoltaic equipment supplier to the solar industry. Yes, it was a challenging year, but we have emerged in a stronger position as we enter 2010.

Applied Materials took early action in response to the economic crisis, reducing our cost structure and aggressively managing working capital. We ended the year with a profitable fourth quarter, generating more than \$300 million in operating cash flow. Staying true to our belief that we must continue to invest in our future regardless of near-term economic circumstances, we invested more than \$900 million in R&D programs to maintain and extend our technology leadership.

The economic crisis accelerated several key trends that have been transforming the markets we serve over the past several years. Our semiconductor customers are consolidating and an increasing portion of their operations are moving to Asia. The ubiquity of mobile technology is driving greater demand for advanced chips and chipsets. And our customers are increasingly focused on developing lower-cost, value-added products to target consumers in emerging economies.

As a result of these trends, we are driving organizational transformation and positioning the company for future growth. A key to our success will be bolstering our manufacturing and supply chain capability in Asia in order to both better serve our customers and improve our profitability. We are also streamlining our global sales and support organizations to get closer to our customers and ensure better alignment with their changing needs.

## SEGMENT OVERVIEW

### Silicon Systems Group

The Silicon Systems Group extended its technology leadership, delivering the sophisticated systems to make today's most advanced semiconductor chips used in everything from the microprocessors that run your personal computer to the memory in your iPod®. This year, the

semiconductor equipment market was particularly hard hit as the global economic downturn arrived at the end of an already difficult, multi-quarter industry down-cycle. Throughout, Applied stayed focused on delivering the solutions our customers need to help them move to their next chip generations. I am pleased to report that we are seeing the early stages of recovery in this market. We are optimistic about the future as we believe many factories need to be upgraded or replaced with more technically advanced and productive equipment. Our semiconductor business model is strong and we are well positioned to increase profit as the industry begins to grow again in 2010.

### Display

Following a difficult year, our liquid crystal display (LCD) equipment business is benefiting from a return of strong consumer demand for LCD TVs, monitors and notebook computers, particularly in China and the United States. The Display group's variable cost model helped limit losses to a single quarter in fiscal 2009, despite annual revenue declining 49 percent. We invested in developing new products for the world's most advanced LCD manufacturing lines to produce larger, more cost-effective displays. While maintaining our leadership in chemical vapor deposition, we expanded our served market with superior physical vapor deposition equipment. As we enter 2010, we expect display equipment spending to recover, driven by new factory investments in China by major LCD manufacturers to support enormous demand in that market.

### Energy and Environmental Solutions

We achieved several milestones in our Energy and Environmental Solutions (EES) group in 2009. We reached \$1 billion in revenue and were named the number one equipment supplier to the global photovoltaics (PV) industry based on our strong positions in both the thin film and crystalline silicon (c-Si) markets. We also built upon our leadership in the c-Si segment with new products and the acquisition of Advent Solar, and we now have seven customer factories featuring the Applied SunFab™ Thin Film Line in volume production with over 260MW of capacity. In fiscal 2010, EES is focused on achieving profitability and reaching technical milestones for its products.

The thin film solar market was pressured this year by a rapid decline in c-Si module prices and tight credit markets. However, government incentive programs in China, India and the United States are expected to lead to increased demand. Applied continues to make advances in enhancing thin film efficiency and in reducing module production costs, resulting in growing interest from utilities and independent power providers.

China has emerged as the global leader in solar module manufacturing, growing from 5 percent of worldwide production in 2007 to 45 percent last year. Also, nearly all new solar manufacturing capacity additions in 2009 were in China — with Applied's technology winning a leading share of these sales. There is also growing domestic demand for solar panels in the China market. We are focused on extending our leadership position in China with the recent opening of the world's largest commercial solar research and development center in Xi'an, demonstrating our substantial commitment to this important market.

Outside of solar, EES is focused on delivering new energy conservation technologies, including products for low emissivity (low-E) glass.

### **Applied Global Services**

Applied Global Services customers across all of our segments experienced low utilization rates in 2009. For the first time in many years, there was a net reduction in capacity in the semiconductor segment as 200mm factories went offline. However, our penetration in Asia and the solar manufacturing service segment increased. We now cover 100% of the SunFab lines in production with service contracts. Looking forward, we see growth as wafer starts, factory utilization and new system shipments increase. Our services business will focus on growth in Asia and expanding service opportunities in LCD display and solar factories worldwide.

### **2010 AND BEYOND**

Applied Materials has been built on our ability to recognize and capitalize on technology inflection points. We have been a catalyst for many of the key technology revolutions of the past 40 years including computing, wireless

communications and digital entertainment — areas that continue to grow. Today, we stand before another major inflection point: a clean energy revolution. I believe clean energy will be the greatest producer of jobs and economic development for generations to come.

Making clean energy a reality will require the expertise that has made Applied Materials a leader in past technology transformations. Our systems will allow customers to industrialize emerging technologies such as solar PV by innovating the thin films that make them work and scaling manufacturing to drive down costs and increase adoption. Our global reach, combined with the innovation and spirit of our people, will allow us to forge new solutions to energy and environmental problems.

Challenging economic times affect not only our stockholders and customers, but also our employees. I want to thank our employees for their extraordinary contributions this year. It is a testament to both our culture and our people that they remained focused on the needs of customers and the ambitious goals we have set to help build long-term value for our stockholders.

As we look to the future, Applied Materials is strategically positioned to capitalize on some of the major trends shaping our world, as well as a projected upswing in the semiconductor and display markets. We have the right team and the right strategy in place to continue driving leading-edge technology that will transform markets, create opportunities and offer a cleaner and brighter future that will improve the way we all work and live.

Thank you for your investment in Applied Materials.

Sincerely,



Michael R. Splinter  
Chairman, President and  
Chief Executive Officer

December 11, 2009

The stockholder letter contains forward-looking statements, including those regarding Applied's performance, strategic position, cost structure, profitability, operational initiatives, strategies, products and growth opportunities, as well as industry trends and outlooks. Forward-looking 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 level of demand for Applied's products, which is subject to many factors, including uncertain global economic and industry conditions, demand for electronic products and semiconductors, governmental renewable energy policies and incentives, customers' ability to acquire affordable capital, and customers' requirements for new technology and capacity; the variability of operating expenses and results among the company's segments caused by differing conditions in the served markets; Applied's ability to (i) develop, deliver and support a broad range of products, expand its markets and develop new markets, (ii) implement and maintain effective cost reduction programs, and align its cost structure with business conditions, (iii) plan and manage its resources and production capability, including its supply chain, (iv) implement initiatives that enhance global operations and efficiencies, (v) obtain and protect intellectual property rights in key technologies, (vi) effectively integrate, and realize expected benefits from, acquired businesses, and (vii) attract, motivate and retain key employees; and other risks described in Applied's SEC filings. All forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof, and Applied undertakes no obligation to update any forward-looking statements.

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## STOCKHOLDERS' INFORMATION

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP  
Mountain View, California

### NUMBER OF REGISTERED STOCKHOLDERS

4,616 (as of December 31, 2009)

### 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  
PO Box 43078  
Providence, Rhode Island 02940-3078

### *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  
*E-mail:* web.queries@computershare.com

### INVESTOR CONTACT

Investor Relations  
Applied Materials, Inc.  
3050 Bowers Avenue  
PO Box 58039, M/S 2038  
Santa Clara, California 95052-8039  
*Tel:* (408) 748-5227 or (800) 882-0373  
*Fax:* (408) 563-4606  
*E-mail:* investor\_relations@amat.com

### CORPORATE HEADQUARTERS

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

### MAILING ADDRESS AND TELEPHONE

Applied Materials, Inc.  
3050 Bowers Avenue  
PO Box 58039  
Santa Clara, California 95052-8039  
*Tel:* (408) 727-5555

### CORPORATE WEB SITE

Additional information can be found at  
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3050 BOWERS AVENUE  
PO BOX 58039  
SANTA CLARA, CALIFORNIA  
95052-8039  
TEL: (408) 727-5555