MORE USERS 〉 APPLICATIONS 〉 CHIPS 〉

New users of semiconductor chips are everywhere. In China alone, cell phone usage has climbed to nearly 200 million subscribers, the largest number of any country in the world. Innovative chip-powered products appear practically every day. Consider the latest cell phones that boast Internet access and a digital camera—ready to snap a picture and e-mail it instantly to family and friends. As the world becomes more connected, new users and silicon applications are fueling demand for billions of microchips every year—each generation more powerful and less expensive than the last.

Applied Materials, the largest semiconductor manufacturing solutions provider, makes the systems that produce virtually every new microchip in the world. With our innovative technology, global infrastructure and global culture, we are enhancing the capabilities of our customers—opening an era of Information for Everyone and serving new markets with Applied Materials' products and services.

CHIP ADVANCES ARE DRIVING THE WORLD'S ECONOMIES

Not only are semiconductor chips helping to create a more connected world—they play a powerful role in global economic growth. Chip-based products are the engine driving an enormous expansion of the consumer electronics, computer and communications industries. Indirectly, they have enabled huge productivity gains in virtually every sector of the economy.

Applied Materials is a global leader in developing the semiconductor manufacturing breakthroughs that have made these advances possible. The depth and breadth of our current technology is unparalleled in our industry and includes a product portfolio that spans a majority of the process steps needed to create chips. Our leadership is the result of an unrelenting focus on innovation, commercialization and quality, supported by research, development and engineering investments that exceeded $1 billion for the third year in a row.

In 2002, we opened the Maydan Process Module Technology Center—a key investment to design the manufacturing technologies needed to create more powerful, portable and affordable chips in the future. As the semiconductor equipment industry's most advanced facility for process technology integration and control development, the Maydan Center is enabling us to develop capabilities that go well beyond providing individual chip fabrication systems.

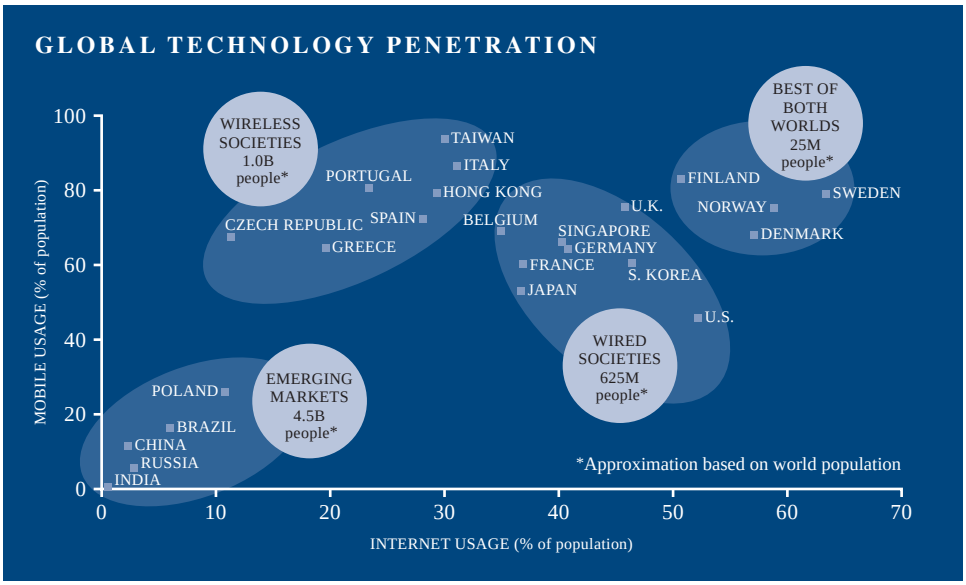
Our goal is to offer customers process integration knowledge and services, assisting them with the complex steps required to combine multiple systems into a fully qualified and production-ready process flow. This unique expertise has driven the development of Process Modules, new integrated products and services to help our customers realize major productivity gains and cost advantages including accelerated fab start-up times, increased manufacturing throughput and improved yields.

〉 MAJOR NEW MARKET OPPORTUNITIES LIE AHEAD

The expansion of wired and wireless communications capabilities around the world is unprecedented. Yet mobile and Internet users today still comprise only a fraction of the world's population. While both wired and wireless societies will continue to expand, some of the biggest drivers of future semiconductor growth are in emerging markets like China, India, Russia and Brazil, which include nearly three-quarters of the world's population. In China, with cell phone, PC and Internet usage rising rapidly, domestic semiconductor consumption is expected to grow much faster throughout this decade than the worldwide semiconductor market. At the same time, China's domestic semiconductor production currently satisfies only a small portion of this growing demand, as the foundations of its semiconductor manufacturing industry are still in the early stages of being built.

Applied Materials is well positioned to gain a major share of future equipment sales and service in China, due to the strength of our global infrastructure and our long-standing presence in this market. Between 2000 and 2002, our sales in China more than doubled. With local sales, training and service facilities, we offer customers unrivaled support. Whether equipping new fabs or supporting the manufacturing capabilities of existing ones, we have spent nearly two decades developing the relationships, trust and infrastructure needed to be successful in China.

Additional market opportunities in Asia and elsewhere are being created by the growth of "foundry" fabs that operate as contract manufacturers. In order to reduce their costs and operate more competitively, these high-volume manufacturers have begun outsourcing many of their service and support activities. The result has been substantial growth in Applied Materials' Total Support Package programs, which cover all the service and parts needed to operate and maximize the productivity of Applied Materials' equipment.



Source: EMC Wireless, IDC, 2001

WE'RE INVESTING FOR LONG-TERM ADVANTAGE

In our business, technology change has become permanent—which means that competitive advantages are, by definition, all temporary. Operating in this world of unceasing change, the way we have succeeded is by building a global culture of innovation and continuous improvement. We have fostered this culture over the past 35 years in important ways:

BY BUILDING ON DIVERSITY We have invested in a highly skilled workforce that brings together some of the most talented scientists, engineers and managers in the world. Developing their technical, business and leadership capabilities to the fullest is one of our highest priorities. Experienced local managers are empowered to take initiative so that we can fully understand and rapidly respond to customers' requirements around the globe—within a framework of ethical, social and environmental responsibility.

BY ENCOURAGING COLLABORATION In an industry as complex as semiconductor manufacturing, innovation only flourishes when people work collaboratively. We have developed a global knowledge base of product and industry information and best practices, all accessible online, to help our employees work closely with each other and with customers.

BY CONTINUOUS IMPROVEMENT We are continuously expanding our capabilities in light of changing circumstances and our customers' ever-evolving needs. Our people are highly motivated and capable of taking decisive action to meet a wide variety of challenges.

Our global culture has given us the drive to be an early leader during key technology transitions—capturing leading market positions in almost every area in which we compete. It also gives Applied Materials the agility and flexibility to adjust our business to changing levels of customer demand in order to strive for profitability in all business cycles.

Just as we seek new ways to strengthen our global culture, we will continue to make investments in innovative technology and global infrastructure. These foundations will keep us at the forefront of our industry over the long term. By meeting—and exceeding—our customers' needs, we aim to capture a major share of the growth in semiconductor manufacturing that lies ahead.

(In thousands, except per share amounts)	2000	2001	**2002**
Net sales	$9,564,412	$7,343,248	**$5,062,312**
Income from operations before cumulative effect of change in accounting principle*	$2,063,552	$ 775,228	**$ 269,004**
Income from operations before cumulative effect of change in accounting principle per diluted share	$ 1.20	$ 0.46	**$ 0.16**
Net income**	$2,063,552	$ 507,829	**$ 269,004**
Net income per diluted share	$ 1.20	$ 0.30	**$ 0.16**
Weighted average common shares and equivalents	1,718,338	1,694,658	**1,701,557**
Stockholders' equity	$7,104,348	$7,606,737	**$8,019,649**
Order backlog	$4,381,768	$2,725,406	**$3,190,459**

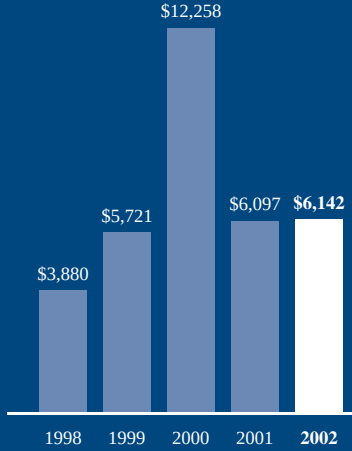
Share and per share amounts prior to fiscal 2002 have been restated to reflect a two-for-one stock split in the form of a 100 percent stock dividend, effective April 16, 2002.

* Income from operations before cumulative effect of change in accounting principle included net one-time items, on an after-tax basis, of: $9,911 income for fiscal 2000, $158,871 expense for fiscal 2001 and $67,528 expense for fiscal 2002.

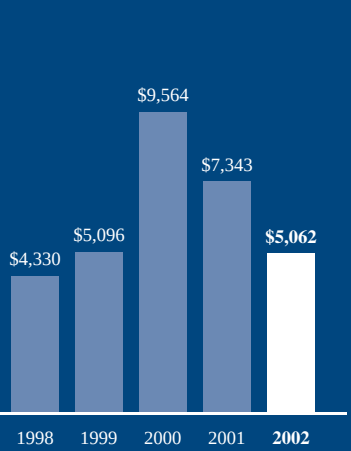
** In addition to the net one-time items included in income from operations before cumulative effect of change in accounting principle, net income also included after-tax expense of $267,399 from a cumulative effect of change in accounting principle for fiscal 2001. For further details regarding the cumulative effect of change in accounting principle, see Note 1 of Notes to Consolidated Financial Statements.

*** Based on income from continuing operations before cumulative effect of change in accounting principle.

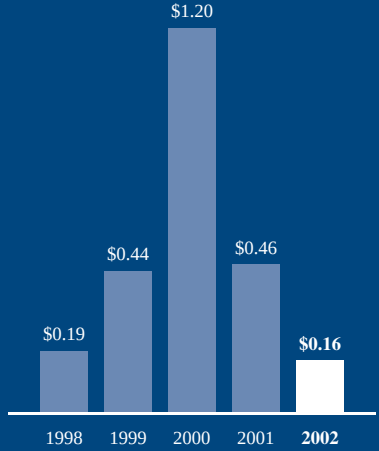
NEW ORDERS (in millions)



NET SALES (in millions)



EARNINGS PER SHARE***



TO OUR STOCKHOLDERS,

Fiscal 2002 was another difficult year for the semiconductor industry and for Applied Materials. In the spring there were expectations that an industry recovery was underway; however, uncertainties in the global economic environment prolonged the downturn for the semiconductor capital equipment market.

Financial results for fiscal 2002 reflected the weaker than expected economic recovery—net sales of $5.06 billion were down 31% from $7.34 billion the previous year. Net income was $269 million, or $0.16 per diluted share, down from $508 million, or $0.30 per diluted share in fiscal 2001. New orders were slightly up at $6.14 billion, stronger earlier in the year but declining sharply in the fourth quarter, as customers reacted to slower economic growth by postponing or canceling orders.

As we write this letter to our stockholders, the near term outlook for capital spending by our customers, and thus the outlook for our orders, remains unclear. Continued uncertainties surrounding a global economic recovery and lower visibility in overall demand for electronics products are holding back the upturn. While we wait for an inflection point, our entire organization is focused on activities we can do something about.

During these difficult times, we do what we always do in downturns—focus on profitability today and prepare the company to emerge once again as a stronger competitor when business conditions improve. We have continued to make the strategic investments in advanced technology, information technology infrastructure, global resources and service solutions that will help our customers to make more powerful, portable and affordable chips.

TECHNOLOGY LEADERSHIP

The penetration of semiconductors into new applications is an unrelenting force, continuing to drive end-user benefits by leveraging rapid progression in technical capability and capital efficiency. This force provides Applied Materials with major opportunities to drive our customers' productivity through unique solutions for enabling smaller device structures, implementing new materials and transitioning to the larger 300mm wafer size.

Leading-edge semiconductor devices today require improved interconnect (copper wires with highly efficient insulators), novel transistor structures (requiring advanced—"atomic layer"—deposition techniques), alternative base materials (including silicon-on-insulator) and advanced lithography (requiring innovative reticle writing, anti-reflective films and wafer planarization and inspection solutions).

The implementation of these new, highly interdependent production technologies presents our customers with an extraordinary integration challenge. Given the competitive pressures facing semiconductor manufacturers today, it is critical

for them to leverage process integration capabilities provided by equipment suppliers in order to accelerate their time to market and to reduce costs. Applied Materials is able to provide such integration knowledge and expertise through its Maydan Process Module Technology Center. Customers who take advantage of this capability are better able to reduce their costs and get new products to market faster. Furthermore, Applied Materials' evolution from discrete technologies to integrated solutions allows each of our individual products to be more integration-ready and thus more valuable to our customers.

REGIONAL LEADERSHIP

As the semiconductor industry migrates to new geographic regions, Applied Materials has always been first to recognize these shifts and use the "first mover" advantage to gain market share. Initially, it was Japan, then Korea, Taiwan, Singapore and now China. Applied Materials' significant capabilities in China made it possible for us to gain early market share and help a major customer start up its new fabrication plant in record time.

The continuing shift and concentration of semiconductor manufacturing to Asia represents the largest move in the history of the industry. For the majority of new entrants, this is their first major semiconductor manufacturing ramp. Therefore, they need not only technology, but also on-site 24-hour support to get their fabs up and running and keep them at peak performance. To service the growing number of customers in Asia, we have created a new regional infrastructure—Applied Materials Asia—to optimize our resources throughout the region and to provide the most comprehensive support possible to our customers there.

LEADERSHIP IN SERVICE

In this changing world, companies must be able to provide value and support customers on a global basis. At Applied Materials, we have led the industry in delivering the best global support. Over the past several years, we have introduced a number of innovative service solutions to increase efficiency for our customers on a factory-wide level—Total Support Package, Total Parts Management, Total Kit Management and now our new Process Excursion Control. These services are part of our "Total Solutions" approach—listening to what customers need and targeting our product and service plans to allow customers to boost their efficiency and advance their technology capabilities.

We also believe the culture of Applied Materials is vital to supporting our customers on a global basis. Our product development teams are multi-cultural and multi-disciplined, providing the broadest possible exchange of ideas in designing and supporting a new system or process application. Our regional teams are composed of local people who build relationships with customers over time, assisted by account teams to manage customer support activities on a global basis. We believe this approach allows us to leverage our product innovation and operational skills for mutual benefit with customers. Helping our customers to succeed is Applied Materials' prime objective.

OPERATIONAL AND FINANCIAL LEADERSHIP

What gives Applied Materials the resources and flexibility to continue to innovate is the strength of our balance sheet. Our balance sheet is the strongest in our industry, allowing us to focus on the future—and on opportunities to increase our business leadership when conditions improve.

Fiscal 2002 was a challenging year operationally, as we responded to rapidly changing business conditions. Despite changing volume requirements for manufacturing, we were still able to improve product cost and quality and achieve industry "best in class" for safety and on-time delivery. In addition, we continued to spend throughout this period on critical information technology to enable a better interface with our customers and suppliers on a global real time basis.

With the industry's best information technology capability, major improvements in manufacturing efficiencies, ramp readiness, and all 300mm programs transferred to volume manufacturing, our business model is highly leveraged for an industry improvement.

THE SEMICONDUCTOR INDUSTRY—A GROWTH INDUSTRY

The semiconductor industry has made a huge contribution to the U.S. economy over the past 10 years, adding over $500 billion, or almost one-third of all productivity gains since the mid-1990s alone. The rapid penetration of technology into our everyday lives has been astounding. The first billion people were connected to each other via the Internet and mobile phone by the end of the first quarter of 2001. The next billion people are expected to connect just four short

〉 GLOBAL LEADERSHIP

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 take the leadership 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.

years later, by 2005. Products and technology applications to support this rapid penetration must surely lead to further growth of semiconductors. And critical to the continuation of this growth is the enabling technology provided by Applied Materials and the wafer equipment segment.

Applied Materials is ready. When the economy improves, we are ready to support our customers in increasing their production for copper, 130 nanometer technology and 300mm. And we're ready for the next technology generation—most of our products are shipping now for 90 and 65 nanometer development and production work. We have a full pipeline of new products, with plans to roll out about one major product a month over the current fiscal year. Our manufacturing capacity is in place, and we've significantly increased our service and support capabilities all over the globe.

At Applied Materials, one of our key sayings is that "change is the medium of opportunity." Over the past 35 years, we have witnessed great change in our industry and benefited from it. The strategic investments we have made during this long downturn have not only increased our leadership position in the industry today, but have given us a great launching point to capitalize on a stronger market for chips in the future. This is why we believe that Applied Materials will remain one of the great global competitors of the still-young Information Age.

We would like to thank our customers, investors, employees, partners and suppliers around the world for their patience and support during these challenging times.

Sincerely,

James C. Morgan
Chairman and Chief Executive Officer

Dan Maydan
President

APPLIED MATERIALS' MISSION Applied Materials' mission is to be the leading supplier of semiconductor fabrication solutions worldwide—through innovation and enhancement of customer productivity with systems, process modules and service solutions.

CORPORATE PROFILE Applied Materials is a leader of the Information Age and the largest supplier of manufacturing systems and related services to the global semiconductor industry. The Company supplies wafer 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), wafer wet cleaning; maskmaking equipment; CVD and test systems used to produce flat panel displays (FPDs); and manufacturing execution system (MES) software for semiconductor factory automation. Services include systems integration, yield enhancement, productivity support and parts management for Applied Materials wafer processing equipment.

STOCKHOLDERS' INFORMATION

LEGAL COUNSEL

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
San Jose, California

NUMBER OF REGISTERED STOCKHOLDERS

6,937 (as of October 27, 2002)

STOCK LISTING

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

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RESOURCE INFORMATION

Additional information can be found on the Applied Materials corporate website at **www.appliedmaterials.com**.

For information on the **Company**, go to
www.appliedmaterials.com/**about**

For information on **Products**, go to
www.appliedmaterials.com/**products**

For information on **News**, go to
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Except for historical information, matters discussed in this Annual Report are forward-looking statements based on management's estimates, projections and assumptions as of the date hereof. Applied Materials assumes no obligation to update this information. Forward-looking statements may contain words such as "expects," "anticipates," "believes," "may," "should," "will," "estimates," "forecasts" or similar expressions. Forward-looking statements also include the assumptions that underlie such statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those stated or implied. Risks and uncertainties include, but are not limited to, Applied Materials' ability to quickly and effectively align its cost structure with market conditions; the length and severity of the economic and industry downturn; global uncertainties; the demand for electronic products; changes in customer capacity requirements and demand for semiconductors, including capacity utilizing the latest technology; changes in the timing and amount of customers' investments in new technology; Applied Materials' ability to develop, deliver and support a broad range of competitive products and services on a timely basis; Applied Materials' successful and timely development of new markets, products, processes and services; and other risks described in Applied Materials' filings with the Securities and Exchange Commission.

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Officer, Applied Materials Asia

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