

Fellow Shareholders,

2014 was a very good year for Teradyne. Led by strong performance in Semiconductor Test, company revenue grew by 15%, operating profit was up more than 25%, and we generated over \$320 million in free cash flow¹. We also delivered a 19% profit rate - the 5th consecutive year that we've earned above our baseline 15% rate². Looking at 2015, we expect the familiar cycle of softer Semiconductor Test demand that follows a year of strong tester investments. However, the longer term outlook for our business is bright.

Electronics enrich, improve, and extend our lives, and Teradyne is at the very center of the action. For over 50 years, we've enabled the electronics industry to ensure that high-quality electronics reach the hands of consumers. In 2014, over \$2 trillion of electronics were purchased worldwide, about 3% of global GDP, and sales are forecast to continue to grow faster than the rest of the global economy. New product categories continue to drive both semiconductor device and tester demand. Tablets are a great example; five years ago they didn't exist, and in 2014 over 240 million were sold. Similarly, 1.2 billion smart phones were sold in 2014, 272 million more than in 2013, and we're on the edge of entirely new categories of smart devices. The Internet of Things will wirelessly connect, monitor, and optimize countless applications, including temperature control, security, transportation systems, and personal health. The combination of low-cost computing power, virtually free bandwidth, easy-to-use software tools, and high reliability are expected to drive the future growth of connected devices. Industry analysts forecast over 50 billion of these devices will be installed by 2020, more than three times the number in 2013.



Mark Jagiela, Teradyne CEO

This is good news for Teradyne as we have high market share in testing the building blocks of these products; we test the chips, the completed circuit boards, the storage, and the wireless data links that collectively make these devices the powerful and reliable systems we all depend upon.

At Teradyne, the biggest story of 2014 was Semiconductor Test where revenues were up 27% and profits were up 55% from 2013. Our strength in testing the chips for mobile products drove those strong financial results and lifted our share in System-on-a-Chip (SOC) test to 50%, memory test share to 27%, and our combined share of the semiconductor test market to 46%; all record levels. In SOC, unit shipments for our flagship UltraFLEX product increased more than 75% year over year driven by strong demand for smart phones. In Memory Test, our Magnum V tester, one of seven new products introduced in Semiconductor Test, won significant design-ins at key flash memory makers. The Magnum V delivers an industry-leading combination of high frequency and high channel count, critical requirements for economically testing the higher speed memories used in Solid State Drives (SSDs), smart phones, and other mobile products.

	2013	2014
Net Sales	\$1,428	\$1,648
Profit Before Interest and Tax ²	\$255	\$321
Net Income ³	\$215	\$266
Earnings Per Share ³	\$1.06	\$1.23
Free Cash Flow ¹	\$162	\$323
Number of Employees	3,751	3,840

Summary of Operating Results

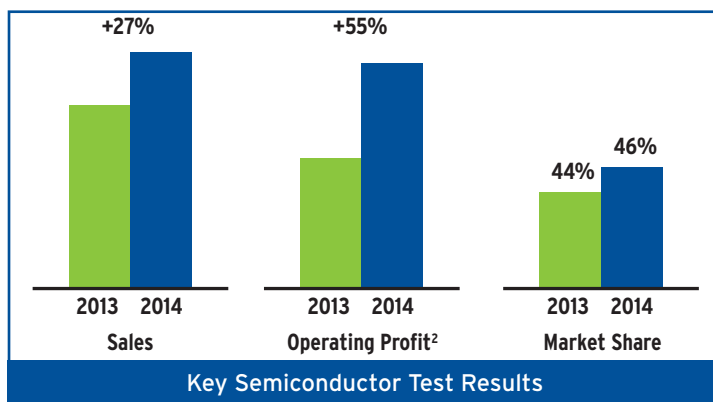
Our Semiconductor Test team is dedicated to building both great products and great customer loyalty. I'm very proud that, for the second year in row, we've won the top spot in VLSIResearch's customer satisfaction survey. In fact, in 2014 we scored the highest rating of any equipment supplier in the survey's history. In 2015, we'll continue to keep our R&D programs laser focused on the most attractive semiconductor markets and our sales and support teams tightly aligned to the needs of our customers.

The wireless production test market, served by LitePoint, contracted in 2014 by an estimated 50% as the impact of more productive testers and the re-use of installed testers buffeted the market for the second year in a row. LitePoint's revenue for the year declined, although less than the market as we continued to grow share. Our new cellular test product, the IQxstream, chalked up six additional design wins and is positioned to grow at major U.S. and Asian handset makers. The fast-paced evolution of the wireless market continues to offer us other new growth opportunities as well. For example, the use of Near Field Communications (NFC) expanded during the year as device makers and retailers

¹ Teradyne calculates free cash flow as cash flow from operations less capital additions
² Non-GAAP operating profit before interest and tax
³ A non-GAAP measure

began to adopt the standard for mobile payment systems. LitePoint's IQnfc, the industry's only production tester that verifies this standard wirelessly, shipped in high volume in 2014.

In System Test, revenues grew 6% in 2014 driven by our Storage Test and Production Board Test businesses. The highlight in Storage Test was the early success of new products for the 3.5" Hard Disk Drive and SSD markets. After an unprofitable 2013, Storage Test revenues more than doubled in 2014 and we were profitable for the second half of the year. We expect the business to continue to grow revenue and profits in 2015. New products were also the driver behind double-digit growth in our Production Board Test business. In March, we introduced the TestStation Multi-Site, a product that allows customers to test more than one circuit board at a time. The new TestStation won ten competitive design-ins during 2014, and served notice that Teradyne is the technology and cost performance leader in the board test market.



The Defense and Aerospace segment of System Test saw revenue soften in 2014 as some Department of Defense programs wound down. However, new program wins in 2014, including the selection of our digital subsystem for a U.S. Army next generation test platform, should return the group to growth in 2015. Aiding in that growth is the addition of Avionics Interface Technologies (AIT), a maker of specialized instruments for testing high speed serial interfaces that we acquired in late 2014. AIT's modular instruments complement our bus test product lineup, allowing us to provide complete test solutions to our avionics customers.

At Teradyne, we've built a disciplined strategy of targeting the most attractive segments of the electronics market, while operating a lean business model that can thrive amidst large swings in customer demand. In 2014 that strategy continued to deliver strong returns. We generated \$323 million in free cash flow, the highest since 2010, and ended the year with about \$1.3 billion in cash and no debt. This was after we settled our \$190 million convertible debt, invested about \$75 million in tester leases for a major customer, fully funded our U.S. pension program, and returned \$37 million to shareholders through our first regular quarterly dividend in history. From a balance sheet perspective we're stronger than ever, and in January 2015 we announced a \$500 million share repurchase program. We expect to repurchase \$300 million of our shares during 2015 as well as to continue our regular quarterly dividend.

Growing the company for the benefit of our shareholders, customers, and employees will continue to be our focus. We have funded R&D investments to both increase our share in core markets and to expand into new ones. Our strong balance sheet enables select acquisitions to further enhance our earning power. We can do all of this and continue to return capital to shareholders through a balance of dividends and share repurchases.

Teradyne employees, nearly 4,000 strong, are focused each day on delivering innovative, cost-effective test solutions to our customers worldwide. This focus delivers strong operating profits, new products, high customer satisfaction, and market share gains across our business. As 2014 fades in the rear view mirror, we continue to race down the road ahead. We've got the best team in the industry to navigate the route and look forward to an exciting ride.

Thank you for your investment in Teradyne and your support on the drive forward.

Mark E. Jagiela
Chief Executive Officer and President, Teradyne, Inc.
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TERADYNE

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