Fellow Shareholders,

Our company rests on a firm foundation of automating complex test processes that allow our customers to routinely produce billions of high-quality electronic devices every year. These include the semiconductors, circuit boards, and wireless products that power the global economy and inform, enhance, and protect our lives. As you’ll read later in this letter, our test businesses are stronger than ever. But in 2015, we made a significant move to expand that foundation to include automation beyond electronic test with the purchase of Universal Robots.

Universal Robots (UR) is the technology, market share, and profit leader in the rapidly growing collaborative robot (cobot) space. Cobots are robotic arms that work safely side by side with humans, performing repetitive workplace tasks. On top of this base capability, UR adds an intuitive, easy-to-use interface which allows the robot to be “trained” and “re-trained” for tasks without the need for complex software programming. The combination of low capital cost and ease of deployment results in a very fast return on investment for our customers. Applications include automotive manufacturing, food packaging, medical labs, and electronics manufacturing. The addition of UR provides Teradyne with a leading position in this nascent market and we are investing to extend this strong position.

UR has grown at a 67% compounded rate for the last three years and today holds about a 60% share of the estimated $100 million cobot market. We expect the market to continue to grow 50% or more per year for the foreseeable future, resulting in a very exciting new business for Teradyne that can drive meaningful growth for many years to come.

At the company level, 2015 was a very good year for Teradyne. We delivered revenue of $1.64 billion, our second consecutive year of over $1.6 billion and the first time we’ve had such strong back-to-back performances since the boom times of the tech bubble 15 years ago. Our efficient operating model continued to deliver industry-leading results as we expanded operating margins for the third consecutive year to 21%, generated $323 million in free cash flow², and earned $1.27 in non-GAAP income per share.

We closed 2015 with a rock-solid balance sheet and we remain committed to a balanced approach to capital allocation that includes both cash returns to shareholders and disciplined mergers and acquisitions (M&A). In 2015, we purchased $300 million in Teradyne stock, reducing our shares by 6% on a net basis, and paid $51 million in dividends to shareholders. We also purchased Universal Robots for $284 million³ and finished the year with a strong capital position of $1 billion in cash and marketable securities. This provides us the power to continue our share repurchase program, our quarterly dividend, and still have the capacity to act on attractive M&A opportunities.

In our largest business, semiconductor test, we continued our steady growth in market share, finishing 2015 with a record high 47%, a 25 point gain over the last 10 years. Sales in the System-on-a-Chip (SOC) segment of our business were down 9% from 2014, while the market was down 12%, repeating the familiar on-year/off-year market pattern we’ve seen in recent years. This annual pattern mirrors

1 A non-GAAP measure.
2 A non-GAAP measure. Teradyne calculates free cash flow as cash flow from operations less capital additions.
3 Universal Robots was purchased for $284 million in cash and up to $65 million in potential earn-outs through 2018.
relative differences in complexity advances in the premium smart phone market. We outperformed the market on the strength of UltraFLEX SOC and IP-750 image sensor test system sales.

Our memory test business also contributed to the semiconductor test share gains with strong results from our flagship Magnum V tester for flash memory and low-speed DRAM test. Memory test sales were up 3% from 2014 while the market was down 2%. The NAND flash market is in the midst of a technology transition to the much higher interface speeds needed for premium smart phones and solid state drives (SSD) and our Magnum tester is positioned right in the sweet spot of this change. As we exited 2015, we counted five of the top six flash memory makers as Magnum V customers.

In our System Test Group (STG), the standouts for the year were our storage test products: Neptune for SSD test and Saturn for 3.5” hard disk drive (HDD) test. Storage Test sales more than doubled to over $80 million as the SSD industry unit volumes continued to grow, and multi-terabyte HDDs for the enterprise and cloud storage market pushed test times higher. Storage Test’s strong results drove STG sales up 30% to $212 million for the year.

LitePoint, our wireless test business, performed very well, delivering above model profits while holding revenues flat in a market that shrank 15%. This puts our share in wireless production test at over 40%, our highest ever. The wireless test market is characterized by incremental steps up in complexity, followed by step function jumps from new standards such as 4G LTE or 802.11ac for Wi-Fi. We’re now in a period of incremental change with lower growth in test demand while the market anticipates the next step increase later this decade. However, at LitePoint, we have an R&D pipeline that will deliver new products through 2016 that both expand our served market and reinforce our core wireless production test business.

As we look ahead, we’ll continue the strategy that has served us so well to date: steady, profitable share gains in all the markets we serve; balanced use of capital for dividends, share repurchases, and accretive growth-focused M&A; and an efficient operating model across the business.

Teradyne has evolved continuously over its 55-year history, and that evolution continued in 2015 with the growing success of our test businesses and the addition of Universal Robots. Although UR offers an entirely new axis for growth, at its core it uses complex technology to solve challenging production problems for high-volume manufacturers, a mission that is very familiar to the rest of Teradyne. So while we’ll continue to evolve from a position of strength, the DNA of Teradyne remains unchanged: innovative teams of employees focused on solving test, and now automation, challenges for customers around the clock and around the world...and delivering attractive returns to our shareholders.

Thank you for your investment in Teradyne.

Mark E. Jagiela
Chief Executive Officer and President, Teradyne, Inc.
March 2016

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<thead>
<tr>
<th></th>
<th>Net Sales ($mm)</th>
<th>Operating Income ($mm)</th>
<th>Operating Margin</th>
<th>Net Income ($mm)</th>
<th>Earnings Per Share</th>
<th>Free Cash Flow ($mm)</th>
<th>Number of Employees</th>
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<tbody>
<tr>
<td>2015</td>
<td>1,640</td>
<td>337</td>
<td>21%</td>
<td>271</td>
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<tr>
<td>2014</td>
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<td>216</td>
<td>$1.06</td>
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Summary of Non-GAAP Operating Results