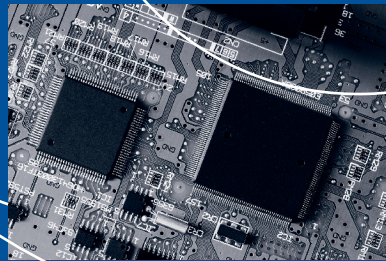
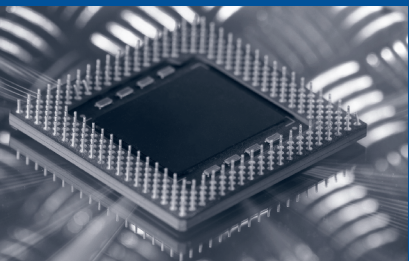


Because Testing Matters



**TERADYNE**

2007 Shareholders' Letter



Mike Bradley

## To Our Shareholders

Last year at this time, my message to shareholders reflected strong operating results, with record over-the-cycle free cash flow, increased market share and a very solid balance sheet. But all of that was accomplished in a healthy test equipment market, backed by a still robust world economy. Seasoned investors knew that the true test would come when we met the next, inevitable down-cycle.

We didn't have to wait long. That test came early in 2007 and lasted throughout the year. Yet our results, albeit down from the levels of 2006, were markedly better than in any down-cycle of the past 10 years.

### Better Results in a Down Market

As the growth rate for System-On-a-Chip (SOC) semiconductors temporarily slowed in 2007, the worldwide market for test equipment had a typical sharp adjustment. After growing to \$3.4 billion a year earlier, demand for SOC test equipment in 2007 dropped 26 percent, to \$2.5 billion.

In view of prior corrections, we might have been expected to give back most of our up-cycle gains as the industry turned downward. But that's not what happened. Instead, we stayed profitable throughout the downturn, gained market share in our core Semiconductor Test market, and closed the year poised to release our strongest set of new products in recent memory.

At the same time, we completed our \$400 million stock buy back program... announced an additional \$400 million repurchase program... and initiated our acquisition of Nextest Systems Corporation, an up-and-coming force in the flash memory test market.

### Improved Performance in a Down Year

*(Results and sales from continuing operations • In millions except earnings per share)*

	2005	2006	2007
Net Sales	\$ 1,045	\$ 1,356	\$ 1,102
(Loss)/Income	\$ (63.7)	\$ 208.2	\$ 71.9
Non-GAAP (Loss)/Income	\$ (11.8)	\$ 175.6	\$ 83.2
(Loss)/Income per Common Share-Diluted	\$ (0.32)	\$ 1.06	\$ 0.39
Non-GAAP Loss/Income per Common Share-Diluted	\$ (0.06)	\$ 0.90	\$ 0.45

*In August 2007, Teradyne sold its Broadband Test Division (BTD), and in November 2005, Teradyne sold its Connection Systems Division (TCS). BTD and TCS are classified as discontinued operations and their results are excluded from these numbers. In 2007, the difference between the GAAP and non-GAAP results relates mainly to the in-process research and development charges related to acquired technology.*



Teradyne employees with the UltraFLEX

## Increasing Shareholder Value

So my letter this year includes no explanations of why it's tough to make money in a volatile market like ours. Instead, I'll focus on what all our people are doing to increase shareholder value independent of market conditions.

Let's start with Semiconductor Test, a market that, last year, represented both 80 percent of our revenue, and 87 percent of our R&D investments. In 2007, we continued our market share momentum, tacking on close to three more points of share gain in the wake of a near three-point gain in 2006. Thus we strengthened our position as the number one player in the space, with more than a 35 percent share, almost double our closest competitor.

We saw record sales of our FLEX® family of systems combine with strong J750 system sales to give us an installed base of more than 4,000 current-generation systems. These join over 6,000 prior-generation systems deployed in advanced semiconductor facilities around the world.

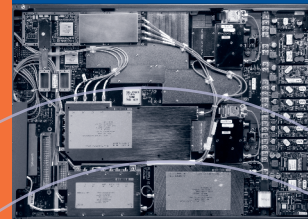
We gained a jump-start into the fast growing flash memory test market by adding an established flash memory test business to our portfolio through the acquisition of Nextest and its Magnum product line. When the acquisition was completed in early 2008, we had expanded our total served market in the semiconductor test arena by more than 25 percent.

And we entered 2008 having readied the launch of our broadest array of new products in recent memory: two new J750 models (one for image sensors and one for LCD drivers); the state-of-the-art UltraWave RF subsystem; the UltraPin800 digital option; and a high-density, smaller footprint UltraFLEX-HD. This pipeline of new products is expected to deliver between \$150 and \$200 million in additional bookings in 2008, with one-third of that coming from new customers.

In 2007, our Systems Test businesses for defense and aerospace, automotive diagnostics and circuit-board test and inspection weathered a 16 percent drop in sales. That decline was driven by a second half slowdown in the commercial board test market and reduced automotive program buying. But new growth engines for the coming years were created as well, through our expansion into commercial airline test and wins in major defense programs.

## Constant Focus on Productivity and Costs

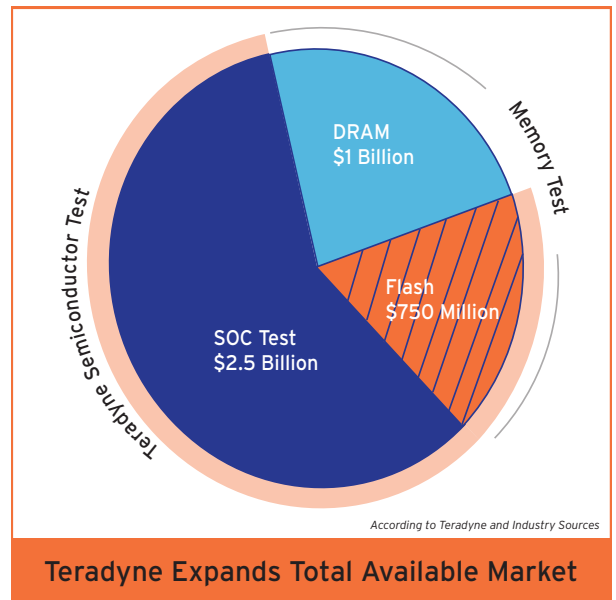
Manufacturing transfers to our Asian subcontractor partners continued on schedule in 2007 and when that program is completed with the UltraFLEX™ system transfer, we will have seen more than two points in gross margin improvement. At that point, essentially all of our Semi Test systems will be shipping to customers directly from Asia.





Our constant focus on costs, fueled by relentless attention to productivity initiatives across every function of the company, will enable us to exit 2008 with a fixed cost structure nearly identical to that at the end of 2007... despite the addition of over \$100 million in revenue from Nextest.

And the balance sheet remains rock solid. During 2007, we repurchased shares totaling \$274 million and ended the year with cash reserves of \$743 million, allowing us to complete the Nextest acquisition without a penny of debt on the books.



### Because Testing Matters <sup>SM</sup>

At Teradyne, we remain energized by our mission to improve the dependability of the billions of electronic devices that earn the Teradyne quality stamp on shop floors around the world each year.

In fact, it's likely that Teradyne testing has already affected you today... whether you were surfing the Web, making an important cell phone call, jamming on your brakes to avoid an accident, or just enjoying the latest tunes on your MP3 player. When that piece of complex technology performed the way it was designed, you were part of a global community of people who count on Teradyne® test systems to make their lives safer, more connected, more informed and more enjoyable.

In that instant, you became one of reasons why we know that testing matters today like never before.

Mike Bradley  
President and CEO



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