

BECAUSE TESTING MATTERS



Teradyne, Inc.
2006 Shareholders' Letter



To Our Shareholders



By many measures, 2006 was a standout year for Teradyne... by profit, the third best year in our history, featuring record free cash flow, increased market share, a rock solid balance sheet and continued broad deployment of our new products.

Annual sales were up 28% to \$1.38 billion. Our continuing operations generated \$203 million in net income, or \$1.03 per share on a GAAP basis and \$0.88 per share on a non-GAAP basis (the difference relating mainly to proceeds from real estate sales during the year). We ended the year with our strongest balance sheet ever, with no debt, \$945 million in cash and marketable securities, and free cash flow of \$344 million from continuing operations, 59% higher than our prior record of \$216 million.

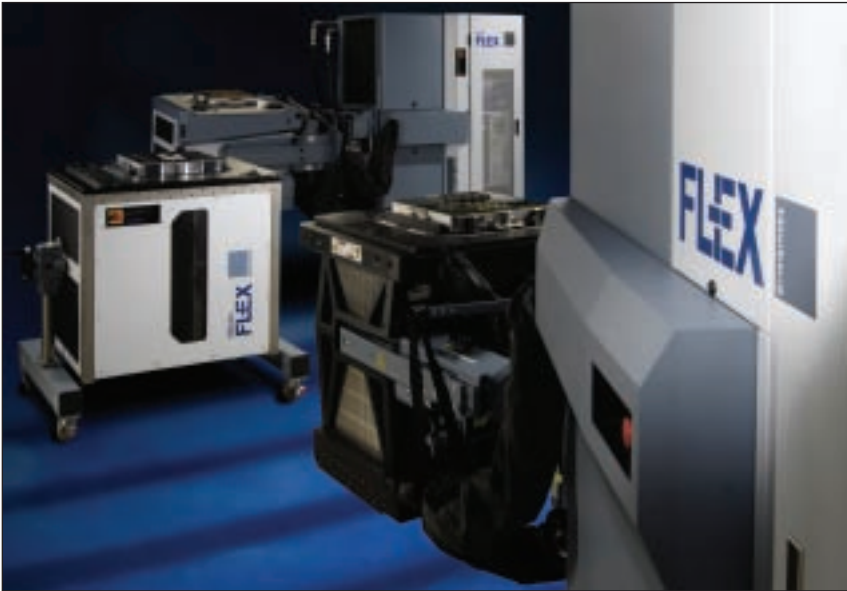
We closed 2006 as either the market leader or a strong number two in all the major markets we serve. And our financial model and disciplined approach to managing costs helped us remain profitable even when the overall semiconductor test market displayed its characteristic volatility and pulled-back almost 40% from its mid-year peak.

For 2006 as a whole, we grew revenues in our Semiconductor Test business 34% while the market grew about 20%. We also had over \$100 million of new customer wins, clear evidence that the FLEX™ and J750 products are increasingly preferred for testing the latest generation of System-On-a-Chip

Summary of Results from Continuing Operations

	2006	2005*
Net Sales	\$1,376,818,000	\$1,075,232,000
Net Income/(Loss)	\$ 202,643,000	\$ (60,457,000)
Non-GAAP Net Income/(Loss)	\$ 171,600,000	\$ (41,700,000)
Net Income/(Loss) per Common Share-Diluted	\$ 1.03	(0.31)
Non-GAAP Net Income/(Loss) per Common Share-Diluted	\$ 0.88	\$ (0.21)

*In November, 2005, Teradyne's Connection Systems Division (TCS) was sold. TCS is classified as a discontinued operation, and its results are excluded from these numbers.



(SOC) devices – the brains of the newest gaming systems, hand-held devices, HDTVs, and automotive safety electronics. We shipped about 500 of each system type last year, and now stand with more than 1,000 FLEX systems and 2,300 J750s on semiconductor production lines and in engineering labs around the world.

At the same time, our board test, automotive diagnostics, and mil/aero test businesses realized improvements in both product positioning and profitability. Commercial board test moved into the number one market share position as Asian-based customers broadened their use of our TestStation™ platform. Diagnostic Solutions, thanks to record deployment of our Vehicle Measurement Module, had an all-time-best year in profitability. And our Mil/Aero group combined key program wins in the military sector with a successful and significant push into the commercial airline test arena to again repeat as the market leader in its space.

Operationally, our focus on customers and improved productivity also yielded impressive results. Manufacturing cycle-time improvements kept product lead times under 10 weeks; and our streamlined inventory and supply-line model produced our best-ever level of inventory turns, freeing-up more than \$100 million in cash in the process.

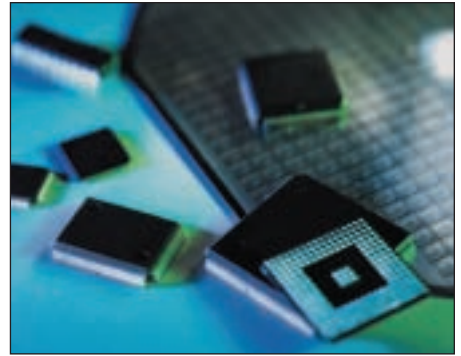
Our global workforce of approximately 3,800 employees, working closely with our worldwide supply and outsourcing partners, kept Teradyne on line around the clock in 2006. So a typical Teradyne day saw customer support operations develop test programs at our Application Development Centers in China and Singapore; repair centers in Costa Rica and the Philippines handle global parts services; and design teams in Europe, India and Japan collaborate with their North American design center counterparts.

To better foster the kind of innovation and cross-pollination that close proximity promotes, we relocated our Boston operations as planned. Our



new campus in North Reading, Massachusetts now serves as our corporate headquarters and provides our design teams with a state-of-the-art facility.

In addition, we announced a two-year stock buyback program allowing repurchases totaling \$400 million and repurchased 10.6 million shares for \$138 million by year's end. And George Chamillard, our former president and CEO, retired as chairman of our Board and was succeeded by long-time Board member Patricia Wolpert.



As we move forward, we remain mindful of our obligations... to continuously improve... to consistently drive growth, control costs, and nimbly adjust to the cyclical fluctuations of our marketplace, while constantly seeking new and better ways to increase both profitability and productivity.

To accomplish this, today's Teradyne is a more focused, more efficient competitor... concentrated on growth opportunities both within and adjacent to our core markets... armed with a battle-tested business model... and motivated by the knowledge that much of what was accomplished this past year was fueled by a relentless drive to do better what we've always done well – testing the electronics that are critical to everyday life.

It's a function we take very seriously, understanding that the electronics systems that connect us, that entertain us, that inform us, and that sometimes even rescue us, must work every time they are called upon.

Proof that today, like never before, testing matters.

Michael Bradley
President and CEO



Teradyne, Inc.
600 Riverpark Drive
North Reading, MA 01864
978.370.2700

www.teradyne.com

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