Capital Management Strategy

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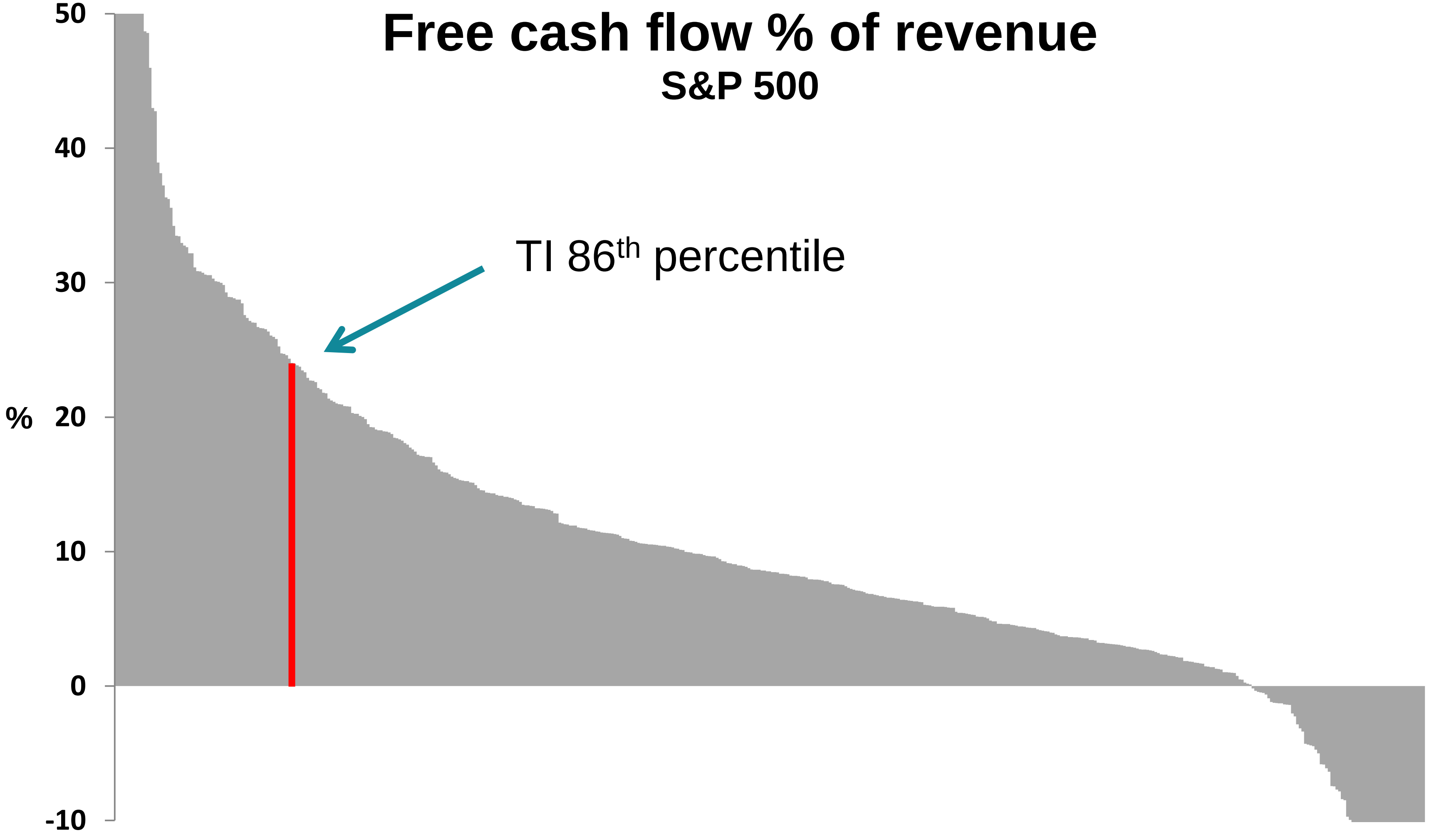
Generate *and* return

- TI is in a unique class of companies – able to grow, generate cash and return it to shareholders for a long time to come
- Our business model focuses on diverse markets and customers, where we have:
  - Assets and products with long life cycles (high terminal value)
  - Differentiated positions
  - Sustainable revenue growth and returns
- Our capital management strategy reflects our beliefs that:
  - Free cash flow* growth is most important to maximizing shareholder value in the long term
  - Free cash flow will be valued only if it is returned to shareholders or productively invested in the business

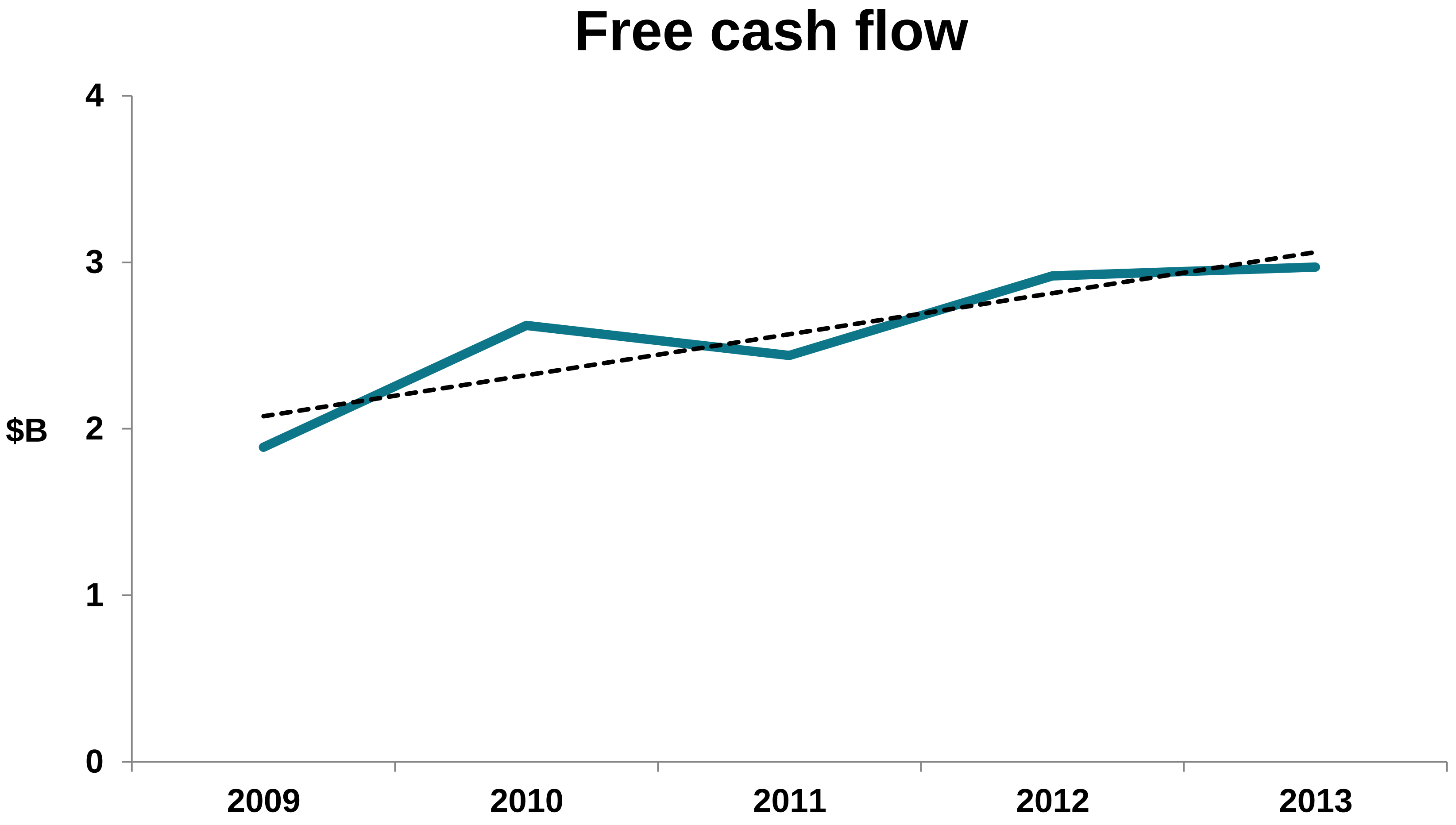
*Free cash flow (FCF) = cash flow from operations minus capital expenditures

Generate



Source: Factset, data is last 4 reported quarters as of 2/28/14

Generate



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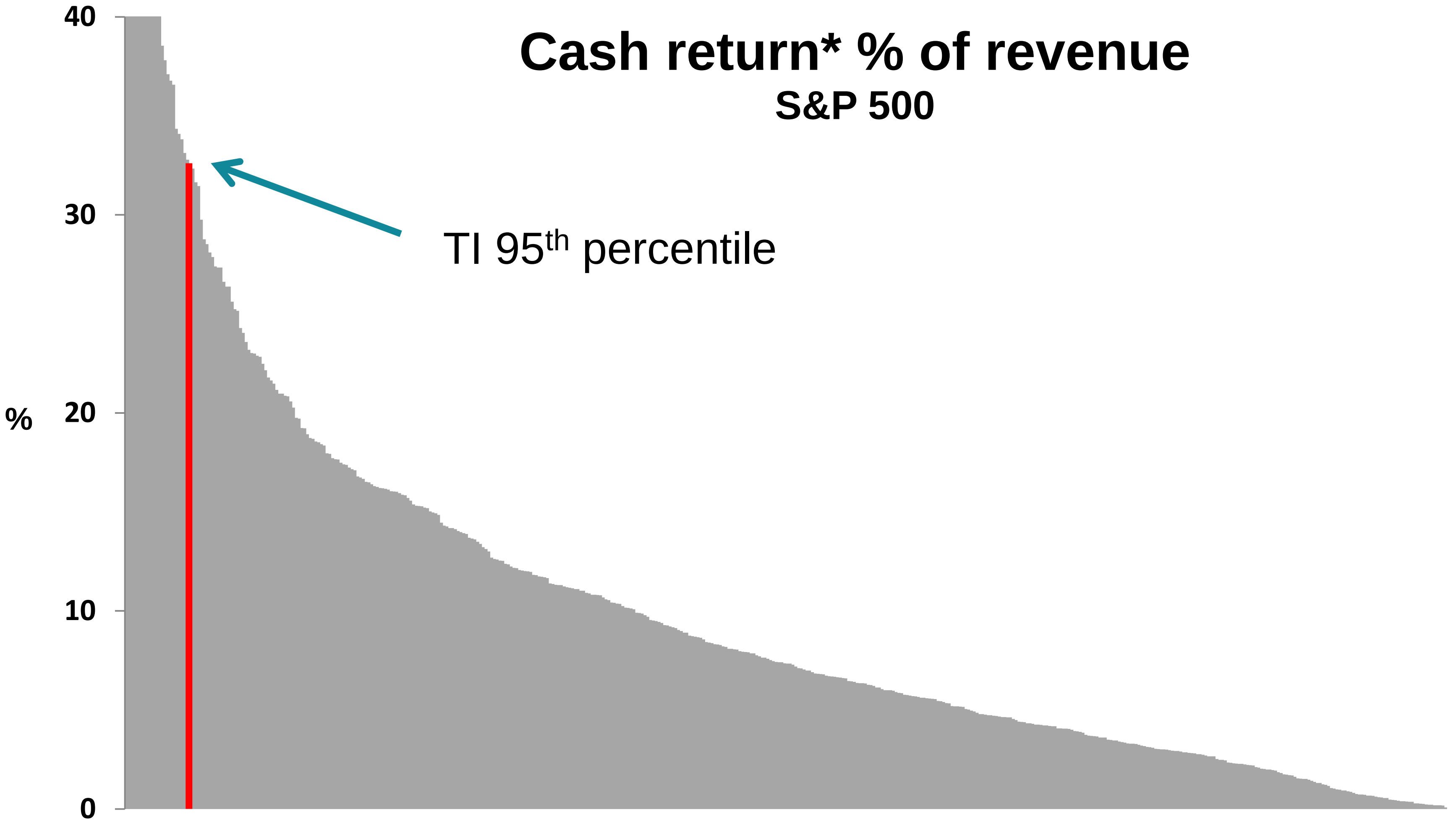
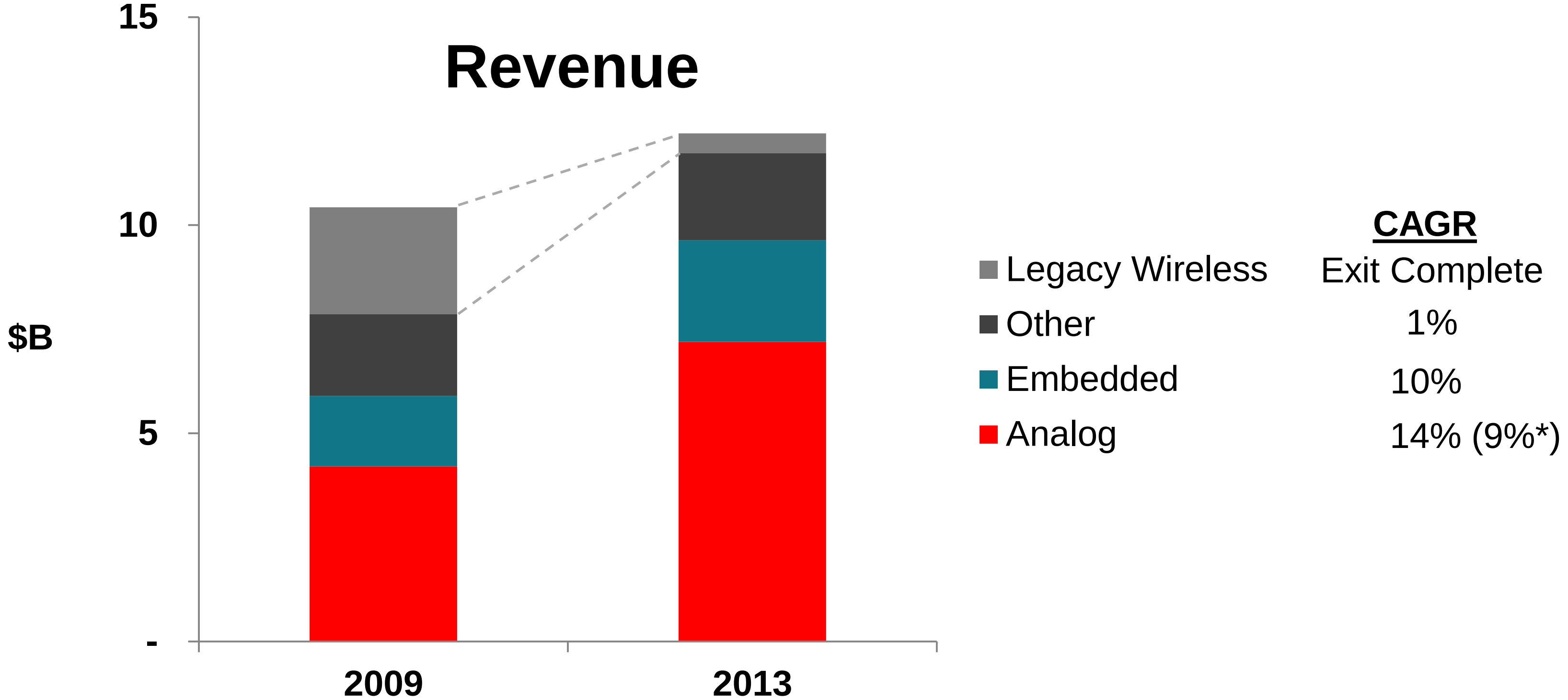
Return



* Cash return = dividends + share repurchases
Source: Factset, data is last 4 reported quarters as of 2/28/14

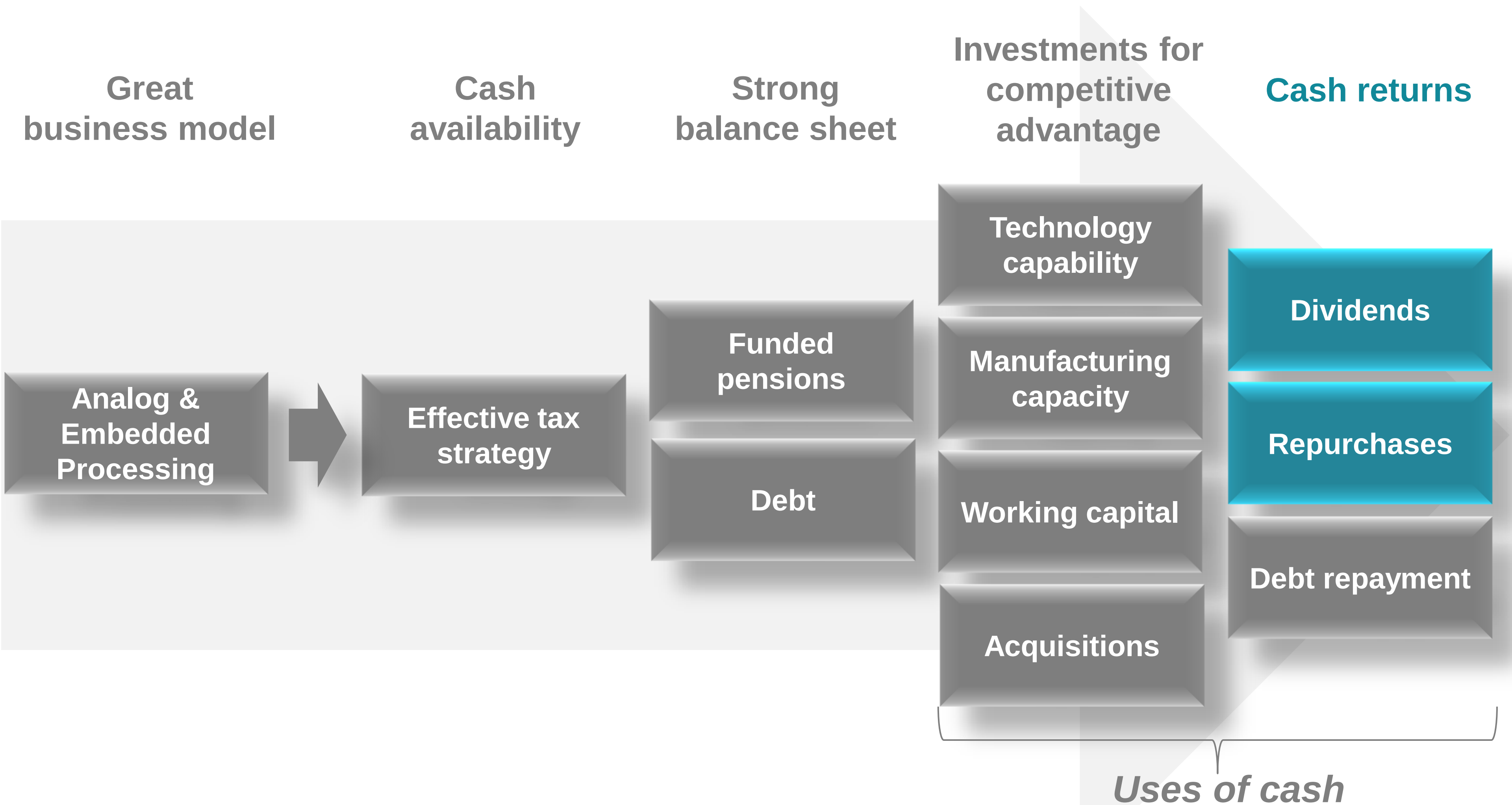
Transformation complete
Higher TI growth ahead



- Focusing on Analog and Embedded Processing semiconductors
  - 79% of TI revenue in 2013, up from 57% in 2009
- $2.5B in organic Analog* and Embedded Processing revenue growth
  - 40% from share gains

*Organic Analog: HVAL + Power + HPA

Capital management strategy



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2013 capital management results

Metric	2013 target	Result	
Free cash flow generation	20-25% of revenue	24%	✓
Cash plus short-term investments	10% TTM revenue + NTM dividends + NTM debt	109%	✓
Cash owned by U.S. entities	>80%	82%	✓
Pensions	Fully fund on tax-efficient basis	97%	✓
Debt	When economics make sense	$5.6B @ average 2.0%	✓
Capital expenditures	~4% of revenue	3%	✓
Inventory	105 – 115 days	112 days	✓
Cash return	FCF – net debt retirement	164%	✓
Dividends	~50% trailing 4 years average FCF	53%	✓
Repurchases	FCF – net debt retirement – dividends	224%	✓

Cash availability

- Repatriate cash at lowest possible tax rates so it can be invested in business or returned to shareholders
  - >80% owned by U.S. entities
- Have cash on hand to meet operational needs, pay dividends and repay debt
  - Model:

10% of TTM revenue + NTM dividends and debt

- Annual effective tax rate guidance is 27% for 2014, about 3 percentage points higher than 2013
  - If R&D tax credit is reinstated, 2014 rate would be 2 percentage points lower
  - Assume 35% tax on incremental profit for future years

Strong balance sheet

Pension strategy

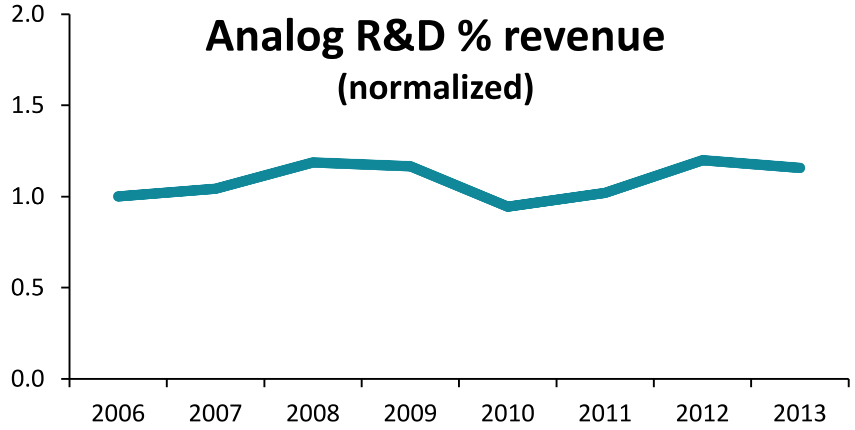
- Fully fund on a tax-efficient U.S. GAAP basis, minimize risk of overfunding, and invest using asset-liability matching principles

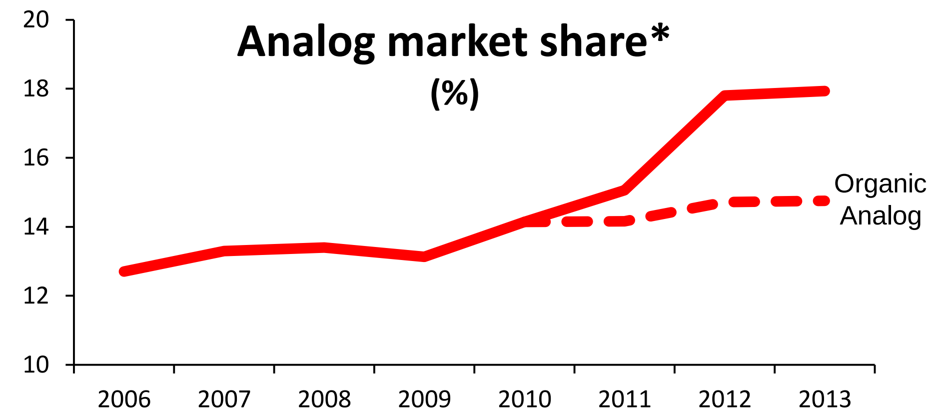
Debt strategy

- Long-term debt will be part of capital structure when borrowing economics make sense
  - Debt balance not to impact credit ratings
  - Consider rollover when interest rates are less than inflation or dividend yield; target maturities in any one year not to exceed $1B
- Maintain current shelf registration for short lead times to raise capital and keep long-term credit lines with diverse set of banks

Investments for competitive advantage

Winning in Analog and Embedded Processing





- Analog R&D % revenue consistent and producing market share gains
  - Analog R&D dollars increased 77% 2006 – 2013
- Efficient R&D investments fund continued share gains
  - 87% of 2013 R&D focused on Analog and Embedded
  - Emphasis on catalog and application-specific standard products for industrial and automotive
- Analog market share up 520 basis points since 2006; Embedded market share up 200 basis points since 2009**

* Source: WSTS ** TI Embedded Processing revenue unavailable prior to 2009

Investments for competitive advantage

- Extend our competitive advantage with manufacturing assets, analog process technologies and packaging technologies
- Objective is to maximize long-term free cash flow, not near-term utilization
  - Opportunistically acquire used manufacturing assets at heavily discounted prices, when they are available
- CapEx model (~4% of revenue) supports technology and growth
  - 2013 CapEx was 3% of revenue, including:

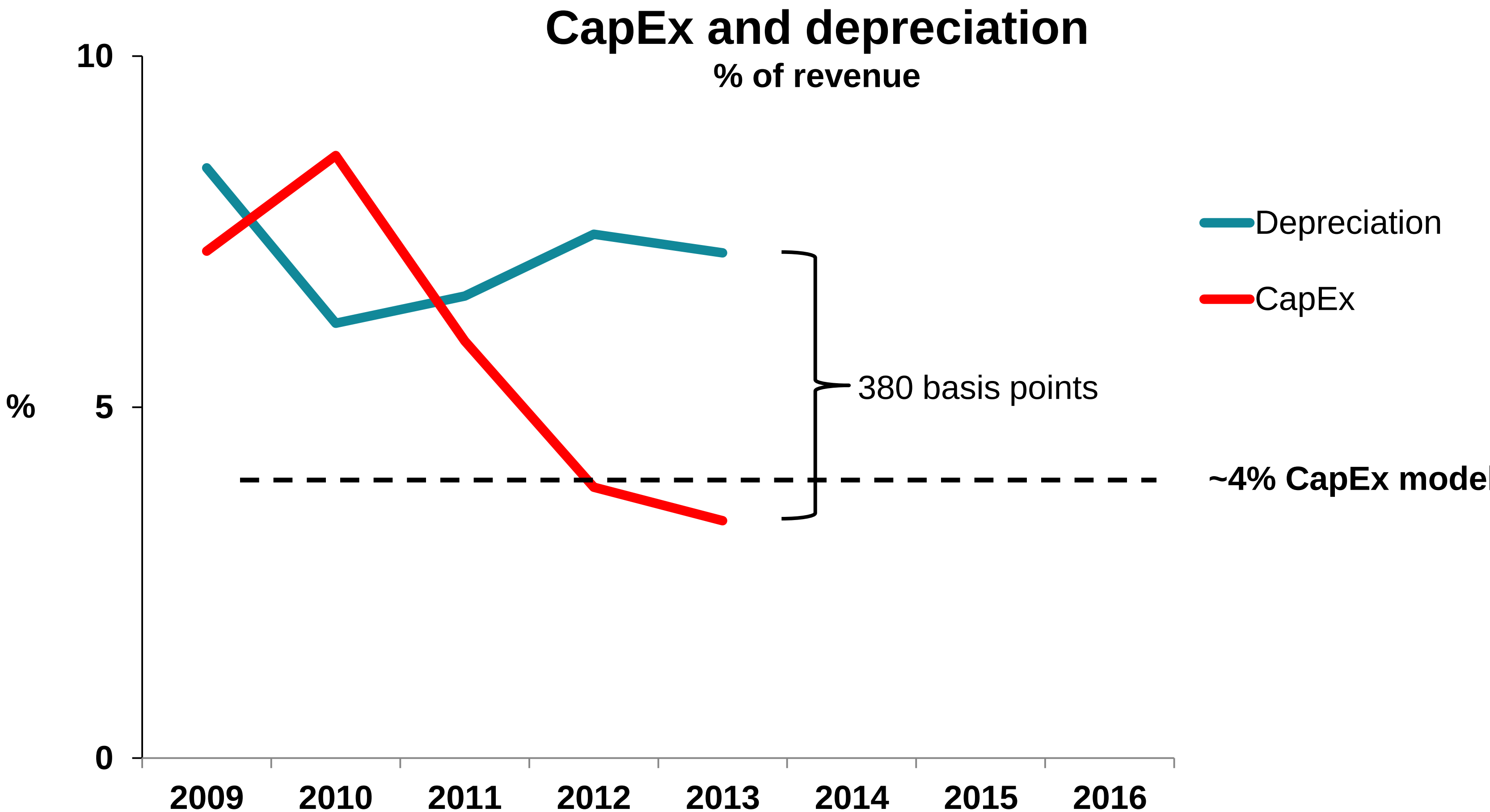
<u>Capacity</u>

- Acquired assembly/test facility
- Upgraded assembly/test for improved productivity with wide leadframe
- Purchased 300mm wafer fab equipment

<u>Technology</u>

- Non-volatile memory, including FRAM
- GaN reactor for high voltage
- Magnetics

Lower capital requirements



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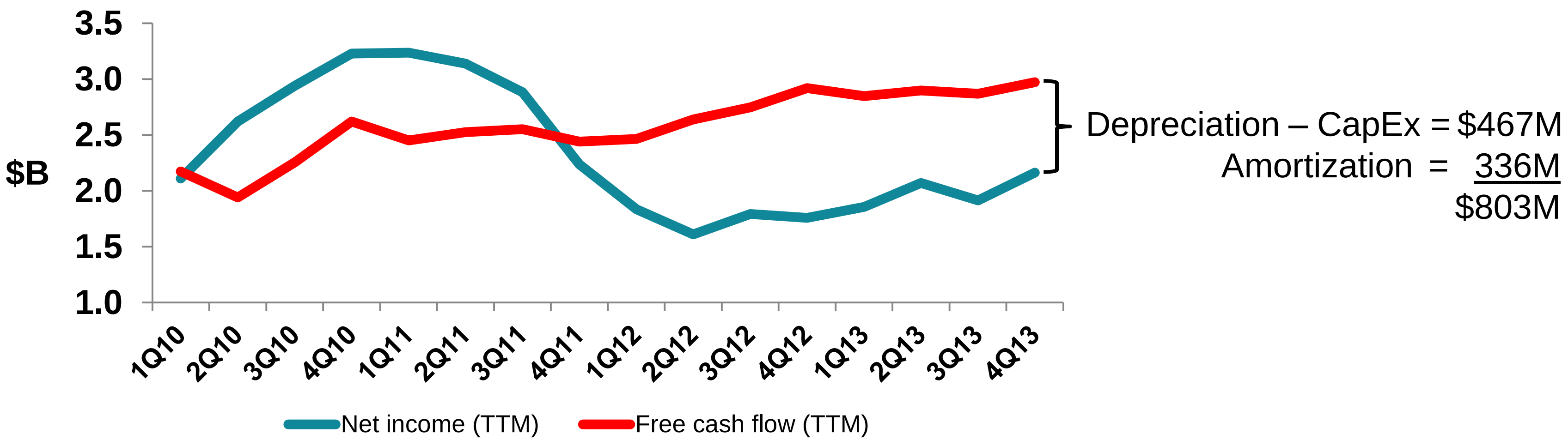
Valuation: Free cash flow vs. earnings



- 2013 free cash flow exceeded net income by 37%, or $810M, and a gap will continue
  - Non-cash accounting items have created a significant, ongoing gap

	TXN	S&P 500 (median)**	TXN vs. S&P 500 (percentile)
P/E (TTM)*:	24	21	62
P/FCF (TTM)*:	17	21	32

* Source: S&P Capital IQ, as of March 6, 2014 ** Median calculation comprehends negative multiples as most expensive

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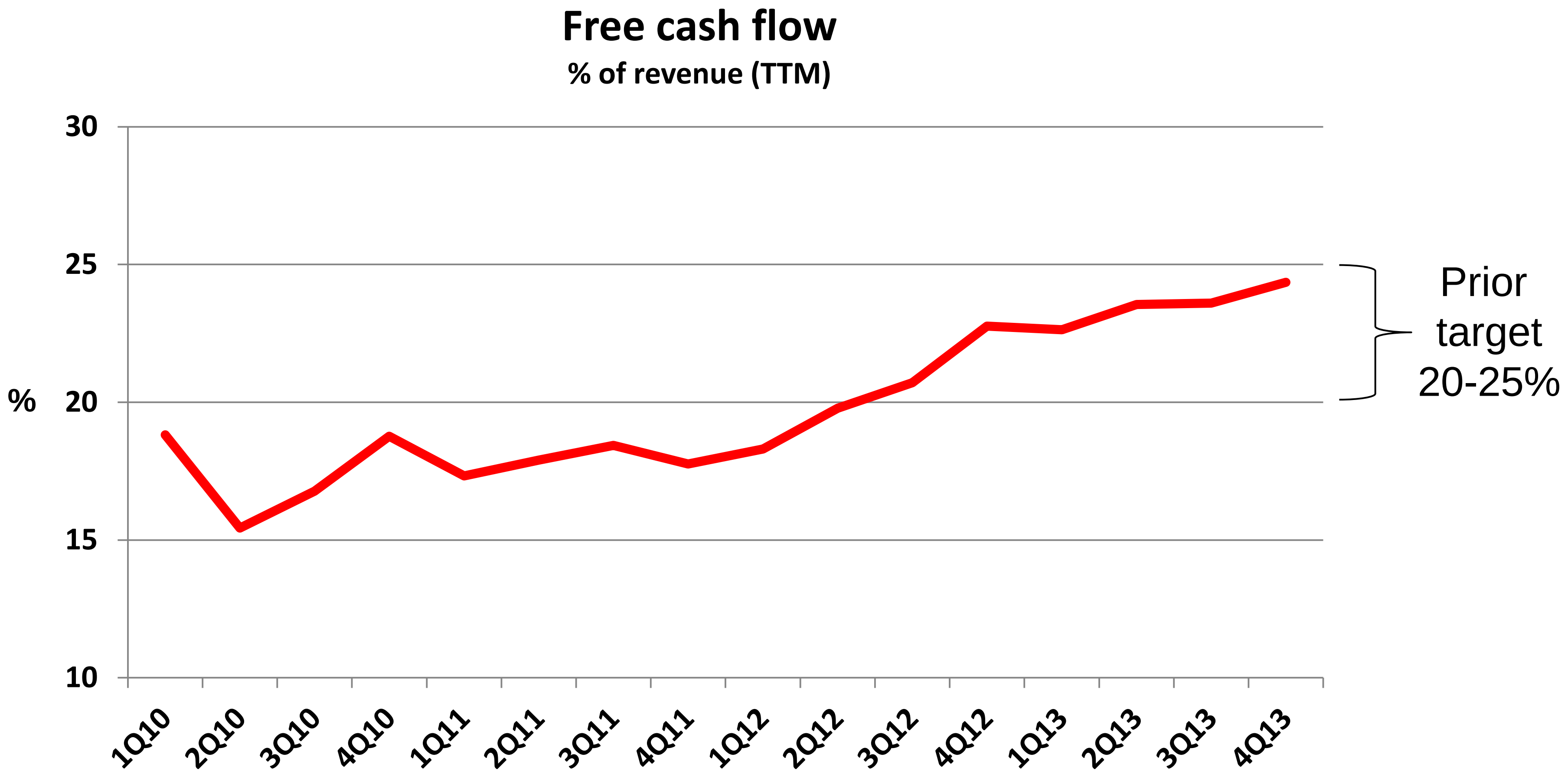
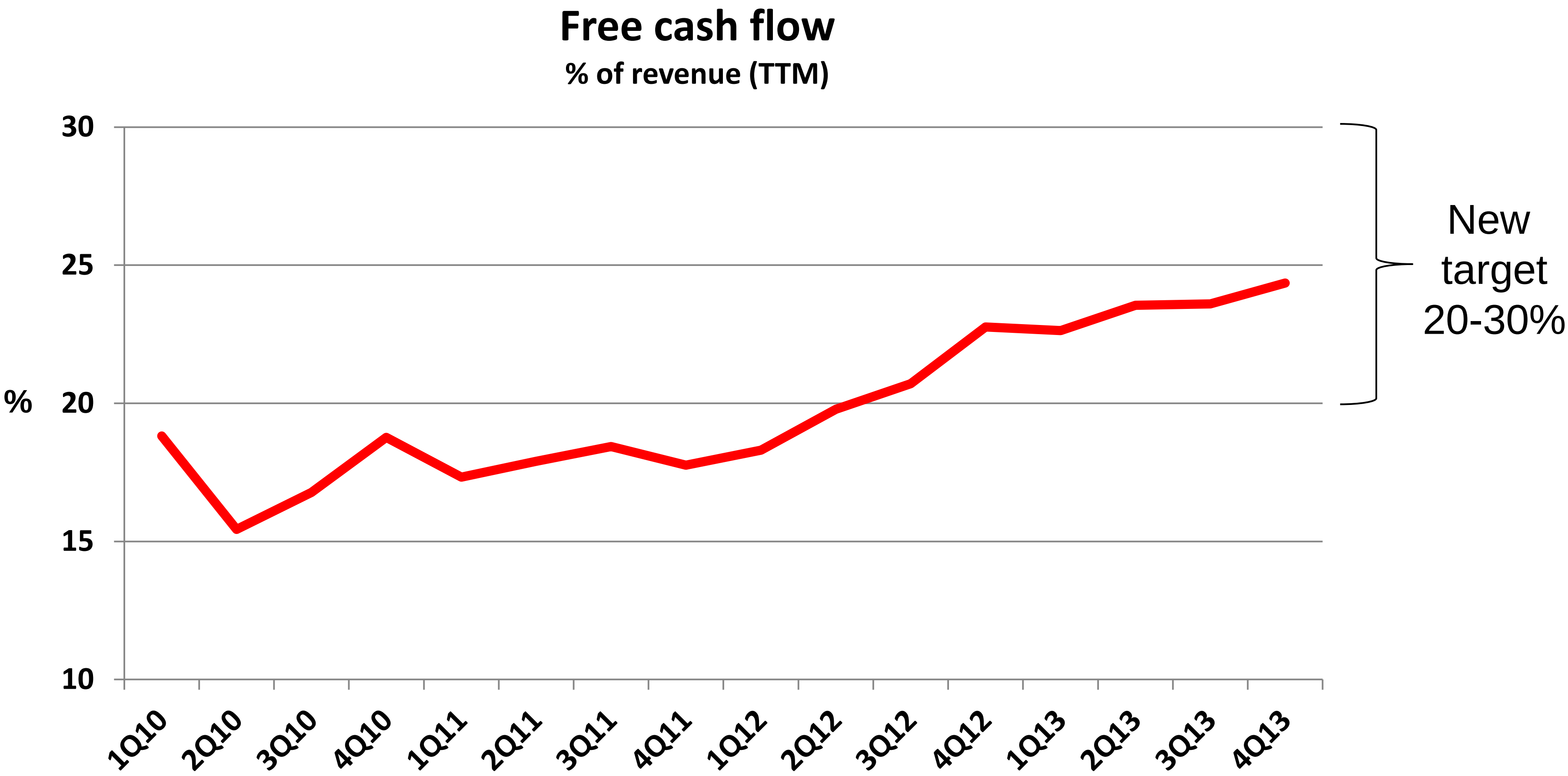
Expanding free cash flow margin



Expanding free cash flow margin



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Drivers of higher free cash flow margin

+ Portfolio continues to get stronger

- Growing percentage of revenue from:
  - Analog and Embedded
  - Industrial and automotive
  - Catalog
- Improvements from restructuring in Embedded and Japan underway

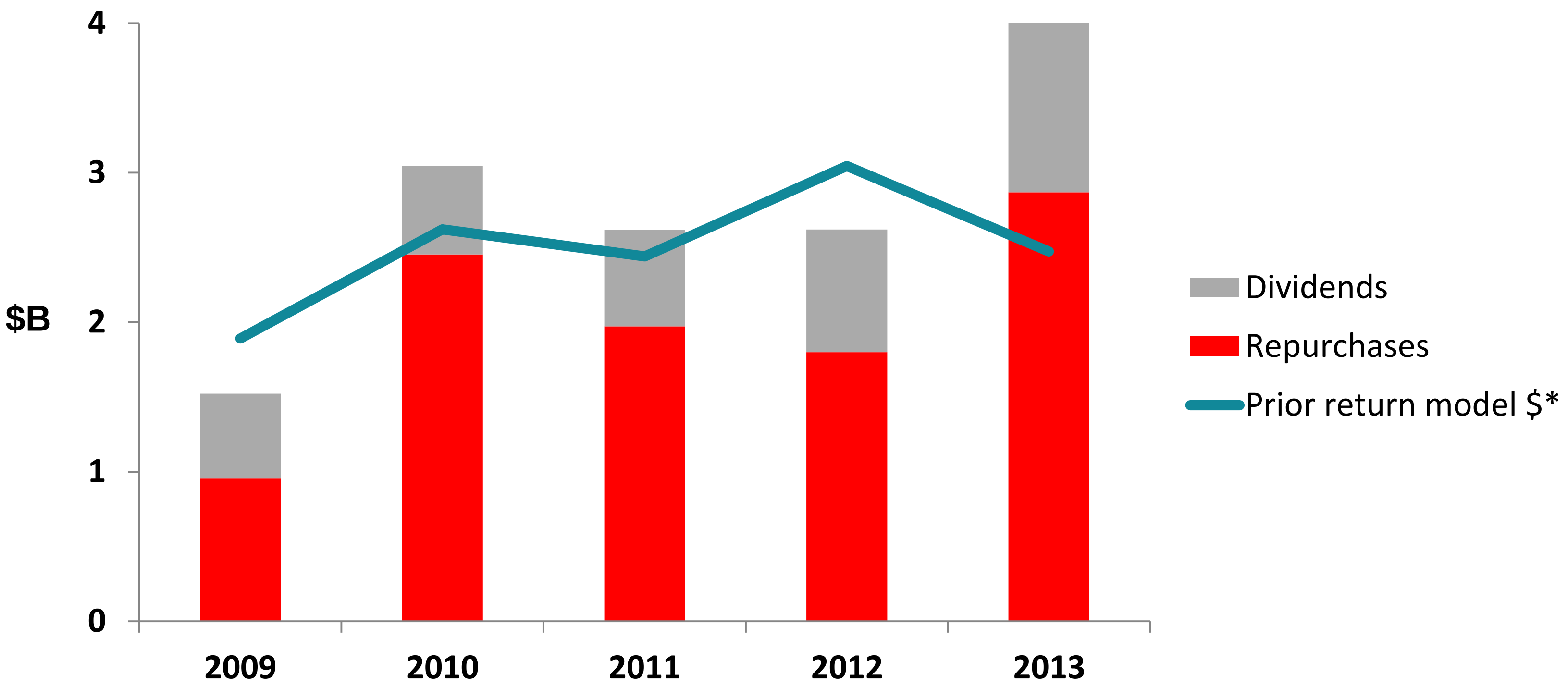
+ Manufacturing costs are lower

- Low capital spending
- More efficient factories, e.g., 300mm
- Closed older, less cost-effective fabs, i.e., 150mm
- Incrementally higher utilization

(-) Higher tax rate (R&D tax credit expired)

Depreciation decline will improve gross/operating margin, but not affect free cash flow

Cash return



- Prior cash return model = Free cash flow – net debt retirement
  - Past five years' return averaged 113% of prior targeted return (cumulative $14B)

* Excludes 2011 debt issuance associated with National Semiconductor acquisition

Updated cash return model

100% of free cash flow − Net debt retirement + Proceeds from exercises*

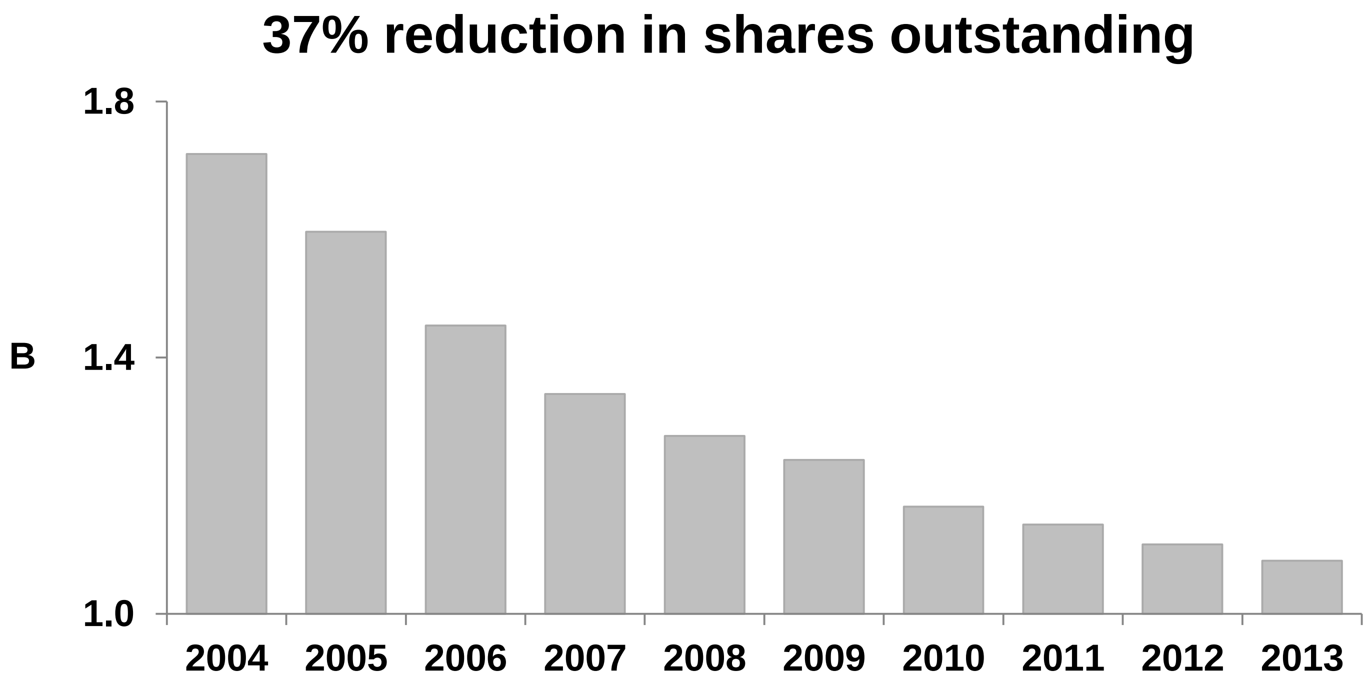
- Exercises dilute shares outstanding, yet are an additional source of cash
- We have increased the cash return formula to include proceeds from exercises
- The objective is to reduce shares outstanding every year, regardless of exercises**
- We believe this is a more valuable outcome for shareholders

* Exercises of equity compensation. Dilution is from stock options, restricted stock units and employee stock purchase plan.
** When discounted cash flow value exceeds stock price

TI remains disciplined on dilution from equity compensation

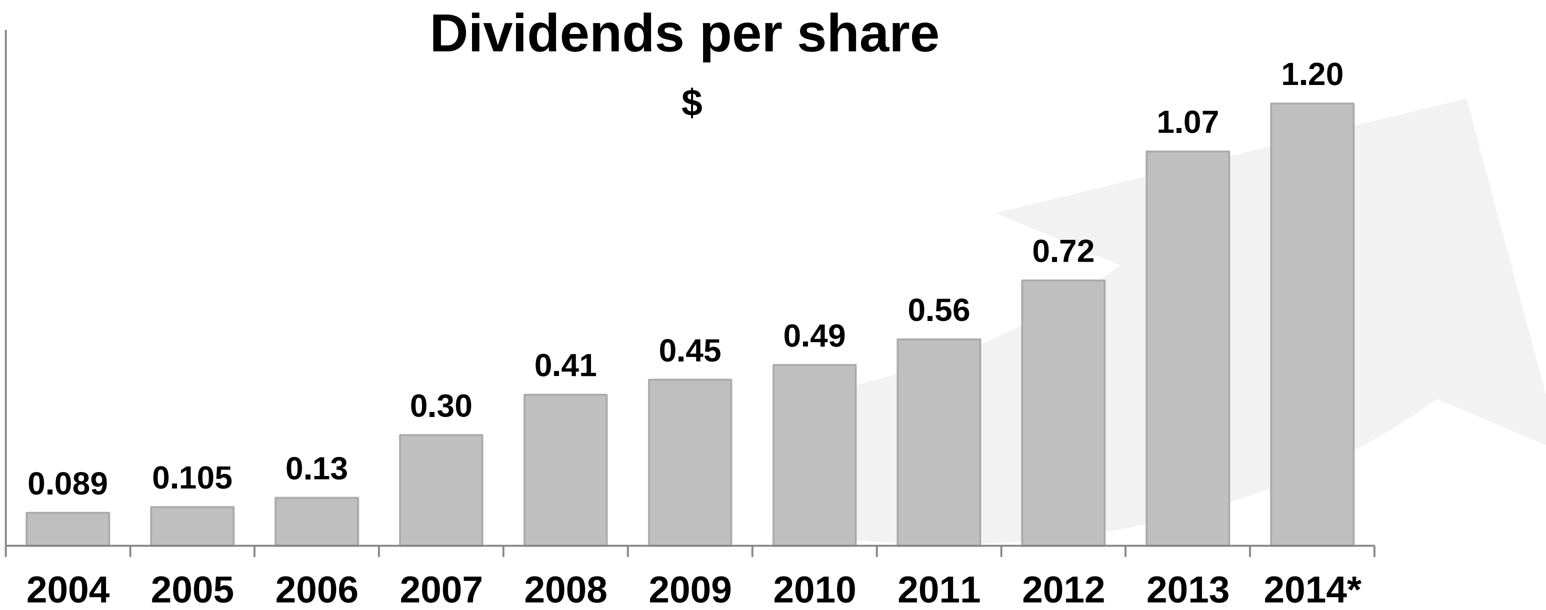
- Goal is to keep net annual dilution from equity compensation grants under 2%
  - 2013 net dilution was 1.3%
- Exercises in 2013 were unusually high – 3x the five-year average – and would have resulted in 5.0% dilution
- Expect future average exercise dilution to decline to 1-2% per year

Share repurchase strategy



- Repurchase steadily when discounted cash flow value exceeds stock price
- 2013 shares outstanding reduced by 2.3%
- Total remaining authorization is $6.0B (12/31/13)

Dividend strategy



- Increased dividend for 10 consecutive years; 22% average annual growth over last 5 years
- Target dividend budget: ~50% of trailing 4 years' average free cash flow
  - Current is 53%
- 2013 dividend payment used 40% of 2013 free cash flow
- Yield is 2.6%**

*1Q14 dividend rate x 4 **As of March 6, 2014

Summary

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- Our business model focuses on diverse markets and customers, where we have:
  - Assets and products with long life cycles (high terminal value)
  - Differentiated positions
  - Sustainable revenue growth and returns
- Our capital management strategy reflects our beliefs that:
  - Free cash flow growth is most important to maximizing shareholder value in the long term
  - Free cash flow will be valued only if it is returned to shareholders or productively invested in the business
    - Increased targeted free cash flow margin range to 20-30% of revenue from 20-25%
    - Updated targeted cash returns to include proceeds from exercises
      - Cash return = 100% FCF – net debt retirement + proceeds from exercises

Risk factor summary

This presentation is a statement of management's intentions and describes a strategy that TI intends to pursue as management, in its judgment, deems appropriate. The application of this strategy during any given period may vary depending on market conditions and other factors that management deems relevant. This presentation includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. See Item 1A of TI's most recent Form 10-K for a detailed discussion of risk factors that may cause results to differ materially from the forward-looking statements. TI undertakes no obligation to update forward-looking statements to reflect subsequent events or circumstances.

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