

**Prepared Remarks**  
**2014 Annual Meeting of Stockholders**  
**Rich Templeton**  
**Chairman, President and CEO**  
**Texas Instruments Incorporated**  
**April 17, 2014**

When we met here last year, I told you about our vision for building a stronger TI – a company grounded in semiconductor technologies that are at the heart of tomorrow’s electronics... a company that is more diverse in the markets and customers it serves... a company rich in innovation that makes our world healthier, greener, safer, and yes, even more fun... a company that provides superior returns to you – its shareholders.

And that is indeed, what we’ve been working on.

Our ability to build a stronger TI is based on our strong positions in Analog and Embedded Processing semiconductors. I’d like to remind you why we find these markets so appealing.

Plainly said, there are four really important adjectives that describe the attractiveness of Analog and Embedded: large, diverse, long-lived, and rewarding.

**Large market:** virtually every electronic product needs at least one analog chip, and probably 60% of these applications need an embedded processor. This translates to a market of almost \$60 billion dollars in 2013. So while our \$10 billion of revenue in 2013 makes us number 1 in this combined space, with just over 15% share we have ample room to still grow.

**Diverse:** we like the diversity that Analog and Embedded offer in markets, in customers, and in products. Today our largest customer is only a single digit percentage of our revenue. Further, no sector of the market is more than 8% of our revenue, we have over 100,000 products, and we enjoy revenue from almost 100,000 customers. This diversity means that TI is not exposed to the ups and downs of any one thing, which we believe translates into higher long-term growth. This may seem counter-intuitive, meaning many people assume that high

exposure to the latest and hottest products results in higher growth. But we've learned that diverse positions let us produce foundations of revenue upon which we can continuously build. Diverse markets also have less competitive turbulence since the concentration of revenue per customer is lower.

**Long-lived:** it is reasonably logical that if a product lives for a long time, meaning 5 or maybe 10 years, its returns will be higher than a product that lives for only 18 months. The same applies to design wins at our customers, and also to our manufacturing investments. Our Analog and Embedded focus gives us long-lived positions which in turn means the return on our investments is high.

**Rewarding:** Bottom line, we like the growth, the sustainability, the differentiation, and the strong long-term returns that Analog and Embedded Processing intrinsically provide. That is why we have methodically and deliberately positioned TI to focus on these technologies and markets.

Just as important as where we've chosen to focus, is how we manage our business.

While we are a technology company and we love innovation, we try to base our approach to business on just a few important principles:

1. Invest in the best opportunities.
2. Maximize the growth of free cash flow, especially on a per-share basis. This is the most important driver to increase shareholder value over the long term.
3. Recognize that free cash flow will only be valued if it is wisely invested or returned to shareholders for them to invest.

The combination of doing these well will result in superior returns for our shareholders.

A year ago, we introduced our capital management strategy. In many ways, it connected these 3 principles and also reflected what we had already been doing for a number years. But, by formalizing it, we gave investors more insight into our

thought process and also reinforced our belief that these elements were sustainable into the future. That belief is just as certain a year later.

It may be helpful to offer a few examples of how we have applied these principles.

The first example is our decision to focus the company on Analog and Embedded. As I described earlier, our Analog and Embedded businesses give us clear and sustainable competitive advantages that have the ability to produce superior returns over time. So while it is hard work to transition a company, it is also highly rewarding.

The second example involves how we have invested in manufacturing equipment. As I described above, another benefit of Analog and Embedded is that manufacturing equipment to produce these chips has a very long life. We recognized at the depths of the 2009 recession that we could purchase equipment at a steep discount to its original value – at about 10 cents on the dollar. Today, we continue to purchase capacity well in advance of our needs, which means we can still make our purchases selectively and at comparatively low prices. The net result of this strategy is that we are increasing our competitive technology advantages at the same time enjoying lower manufacturing costs and lower capital expenditures. Our 300mm wafer fab here in Richardson is testimony to all three. Our capital expenditures in 2013 were under 4 percent of revenue, yet we continued to expand our technology capability and our capacity to grow in the future. Our objective is to maximize long-term free cash flow, not short-term utilization.

The final example is in the area of making the cash useful, either for productive investments or returning it to shareholders. In order for our cash to be useful, the majority of it needs to be held on-shore; meaning it is owned by U.S. entities and is not stranded overseas like the cash at many of our technology peers. Our objective is to manage access to cash at the lowest possible tax rate – not just minimize our tax rates – so we closed out 2013 with 82 percent of our cash on-shore. This accessible cash means we can use it to invest in R&D, fund our pension plans, make acquisitions and to pay dividends and repurchase stock.

To this end, let's look at some of what TI delivered in 2013. We converted 24 percent of our revenue into free cash flow, ranking us in the top 15 percent of S&P 500 companies. Because we generate more cash than we need to grow the business, we've been systematically returning to our shareholders through stock repurchases and higher dividends that cash we don't need for new technology, manufacturing equipment, working capital or acquisitions. And we've done this in both up and down markets. In fact, in 2013 among S&P 500 companies, we ranked in the top 5 percent of cash returners. Few companies generate and return significant amounts of cash. When you combine these metrics, TI is in the top 4 percent of the S&P 500 firms for cash generation and return.

We did make two updates to our capital management strategy just last month.

First, our free cash flow margin has continued to expand as our portfolio becomes stronger, our manufacturing costs get lower, and a growing portion of our revenue is coming from long-lived markets such as industrial and automotive. Because we can generate more cash than before, we increased the range at which we believe we will convert revenue to free cash flow to 20 percent to 30 percent.

Second, we committed to return more cash to shareholders by updating the formula by which we determine how much to return. While our previous goal was to return 100 percent of free cash flow, less the amount used to retire debt, we are now also including the proceeds from exercises of employee stock options. Our objective is to reduce shares outstanding each year as long as we believe the intrinsic value of TI stock exceeds its market value. 2013 marked the 9<sup>th</sup> consecutive year in which we reduced shares outstanding through stock repurchases, and our total share count is down 37 percent over that period. Over that same timeframe, we have also steadily increased our dividend, with 2013 marking the 10<sup>th</sup> consecutive year of dividend increases.

I am excited by what we see ahead of us. Analog and Embedded Processing chips are showing up in more and more things, with large new markets like industrial and automotive still in their early stages of adoption. Our portfolio is improving at a faster pace than originally planned. We've got a comprehensive and

transparent capital management strategy that tells a new class of investors what we value, and how we hope they will value us in return.

But as thrilled as I am about the strength and prospects of our company, the thing that continues to excite me most are the people I get to work with – our technologists on the forefront of new innovation... our business managers and sales force who are taking new products to new customers and markets every day... our manufacturing teams all over the world who are making and testing almost 30 billion chips each year... and our staff who make sure we have the best facilities for our work, hire great people, and launch great marketing plans.

Collectively, we are focused on building a stronger TI for the long term – one that will remain an industry leader... one that builds upon our 84 years of history... one that is ever-ready to make the changes required to stay strong.

On behalf of all TIers, I thank you for being a shareholder in our company.