

Prepared Remarks
Annual Meeting of Shareholders

The Sustainable Strength of Texas Instruments

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A lot of thought, energy and discipline have gone into creating the TI of today...
...a TI that is strategically and financially stronger than it has ever been...
...a TI that is using semiconductor technology to help make the world safer, greener, and healthier...
...and a TI that is generating a record level of cash and steadily returning it to you, our shareholders.

While we are pleased with the progress, we are working to insure that these improvements continue years into the future.

Today I will touch on two points:

First, I'll review why we are focused on Analog and Embedded and provide some deeper insight into our business model.

Second, I'll review how we're spending our time to get better.

Analog and Embedded

Through a series of strategic moves, both large and small, TI today is a company centered up on Analog and Embedded Processing – two of the semiconductor industry's most attractive markets.

Analog chips are used in every electronic product sold, and Embedded Processing chips are used in most. These markets are large, they are highly fragmented, and while TI has leadership positions in each, we have ample room to grow our share. In addition, Analog and Embedded use less capital-intensive manufacturing technologies and assets.

This adds up to an opportunity to grow revenue, convert it into free cash flow, and return it to our investors.

If you look closer, we have designed our business model around four attributes that, collectively, are unique to TI. These attributes are what some would call sustainable competitive advantages, and I believe they are the foundation of what will make TI a great company for many years to come.

While we've been working to develop these attributes for a long time, I believe we are just now starting to see the true potential of them. They are important to our future, we continue to invest to make them stronger, and for that reason I want to give you some deeper insight.

The first attribute is our foundation of **manufacturing and technology**. We invest in manufacturing capacity and process technologies that provide us a cost advantage, and provide us control over our own supply chain.

The most visible example of this is our 300mm wafer fab for Analog manufacturing. In 2010, we started the industry's first 300mm fab dedicated to Analog production in Richardson, Texas. We call it RFAB. A chip built on 300mm wafers costs 40 percent less than a chip built on 200mm, the most advanced size of wafer used by most of our competitors.

In 2014 RFAB produced \$2 billion of Analog revenue, about 25 percent of our total Analog business. RFAB is capable of \$5 billion of annual output when filled up. Earlier this year, we announced plans for a second fab to produce 300mm Analog wafers, also here in Dallas. Combined, these two fabs can produce \$8 billion of annual revenue on 300mm wafers.

The size, cost, and complexity of a 300mm fab make it very unlikely that our traditional Analog competitors will ever attempt to build similar factories. The net result is we have an ongoing cost advantage and more control of our supply chain to support our 100,000 customers.

The second attribute of our business model is that we have **industry's broadest portfolio of Analog and Embedded processing chips**. Our portfolio provides two benefits. First, because the products in our portfolio are differentiated, they generate high margins and good returns on investment. Second, and perhaps more interesting in terms of competitive advantage, is that the size and breadth of our portfolio create a lot of customer traffic, meaning ti.com receives more visits from our customers because we literally have more parts that might meet their needs. To give you a sense of comparison, ti.com received 70 million visits in 2014, at least 5x more than competitors.

This leads to our third attribute – **the reach of our market channels**. Our global sales force is large – two, three, sometimes five times larger than those of our competitors. We put more feet on the street and we call on more customers. Likewise, because ti.com attracts significantly more traffic as previously mentioned, every visit is an opportunity to offer not only the single chip they came for, but multiple chips that solve the multiple challenges inherent in every new electronic system a customer creates.

The net result is that the reach of our market channels gives us access to more customers and more projects, and therefore the opportunity to win more sockets in each project. At the same time, we get smarter about how to help customers in the future because with every interaction we learn more about what they need and how our products should support those needs.

The first three attributes combine to create the fourth, which is **diversity and longevity**, both in our products and in the markets we serve. Diversity means that we are not overly dependent on any one market, end-equipment, customer, or chip. This somewhat insulates TI from the rise or fall of any one customer or market, which will translate into higher and more sustainable long-term growth. Longevity means the chips we design or sockets we win live for a longer period of time. In the case of Automotive or Industrial markets, a design win could last 3-10 years. Longevity directly translates to higher returns on the investments we make.

Each of these sustainable attributes -- **manufacturing and technology, the broadest portfolio of Analog and Embedded chips, the reach of our market channels, and diversity and longevity** – has taken years to develop and hone. They are solidly in place, and we are working to make them stronger.

Getting Better

This leads to my second point today; how we are getting better.

Over the past few years, we've spent a lot of time defining, developing and implementing a plan to insure that TI keeps getting stronger for many years to come. Much of this is based on our belief that there are three keys to a success: focus, execution, and innovation.

Focus is about having your investments in the right products and markets. We've made clear choices about areas we believe have the best growth opportunities -- Analog and Embedded. I'm pleased to say that, combined, Analog and Embedded are now 85 percent of TI's revenue and likely will approach 90 percent within a few years. In terms of markets, Industrial and Automotive are now 44 percent of our revenue and will continue to grow as semiconductors enable new and revolutionize old applications in each. At the same time, we also will grow our customer diversity and increase our focus on parts that can be sold to many customers as opposed to just a few.

To translate these objectives into action, we launched a set of Playbooks and a series of company-level initiatives designed to strengthen our execution. Combined, they are changing how we work, where we spend our time, and how we judge performance.

Playbooks provide our product lines, sales force, and manufacturing teams with a common language and a baseline of what "good" looks like. In turn, this discipline has accelerated our rates of learning and improvement.

The initiatives range from acceleration of our capabilities in serving the industrial and automotive markets, to acceleration of our ability to make ti.com both the starting point and the ending point for customers as they choose chips for the new systems they are designing.

I have been impressed with the energy and adoption of Playbooks and initiatives by TIers. Our people -- inside product lines, sales, manufacturing and support functions -- have all raised the bar for Texas Instruments. My message to all TIers is thank you, and keep going.

Finally, innovation is what we do. So whether we are creating new products or taking existing products to new levels, our mission is to deliver differentiated and market-changing chips to the world's electronics makers. It's why we exist, it's what we invest in, and ultimately, it's how we are able to generate returns to our shareholders.

Summary

The ultimate measure for any enterprise is superior long-term growth of free cash flow.

In 2014, free cash flow grew 18 percent to \$3.5 billion. We have the opportunity to grow free cash flow well into the future, both through top-line growth and incremental gains in free cash flow margin. While we know there will be good and bad market environments -- there always are -- we will stay focused on the long term.

The design of our business model enables us to commit to a capital management strategy that allows us to make all the required investments in R&D, marketing, and manufacturing, yet still return 100 percent of free cash flow excluding debt repayment to our shareholders. In 2014, we returned \$4.2 billion to shareholders through dividends and share repurchases.

While we have accomplished many good things with our strategy, our work is not done. And it is critical that we, and you, understand it never will be.

In the years ahead, I expect our company to be known for its focus on the best opportunities, its flawless execution in product development and manufacturing, and its ability to use semiconductor technology to turn dreams into reality.

I thank all Tiers and our shareholders for being part of it.

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