Investor overview

Texas Instruments

At Texas Instruments, our focus is on building a better future as we design, make and sell semiconductors. We have about 100,000 customers all over the world who use our “chips.”

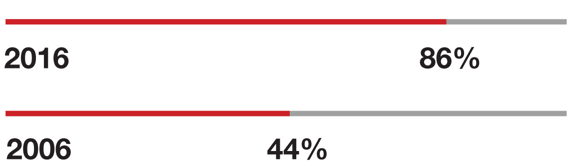
For more than 85 years, we’ve combined our engineering know-how with technological innovation to change our world. Every day, our products help electronics designers unlock new possibilities that make the world safer, greener, healthier, smarter and more connected than ever before.

TI focuses on what we believe to be two of the best market opportunities in the semiconductor industry – analog and embedded processing – which offer compelling financial characteristics, growth, diversity and stability. They also provide excellent exposure to the growing opportunities inside of the industrial and automotive markets, both in the early stages of semiconductor adoption. We expect Analog and Embedded Processing to be our primary growth engines in the years ahead and are focusing our resources on these core businesses.

Our business model

Through a series of strategic moves over several years, we have re-shaped our business model to put Analog and Embedded Processing at its core. In 2016, 86 percent of our revenue came from these businesses, and we expect that number to increase in the years ahead.

Revenue focused on Analog and Embedded Processing



Analog and Embedded Processing share characteristics that make them very attractive businesses:

- Both are pervasive technologies. Every electronics device made uses some form of analog, and most use embedded processing.
- Both markets are large and highly fragmented, and while we enjoy strong positions in each, we have ample room to grow our share.
- Both are highly diversified, with tens of thousands of customers who use these technologies in a wide range of applications. Moreover, they both can be produced with long-lived manufacturing technologies and facilities.
- Both have product life cycles that are measured in years, if not decades, enabling a stable base of revenue and solid returns on investment.

Our strategic focus on Analog and Embedded Processing has created a company designed to deliver sustainable revenue growth and generate strong, long-term returns.

Our unique, sustainable attributes

Our business model is built upon a unique collection of four sustainable attributes that separate us from peers. These are:

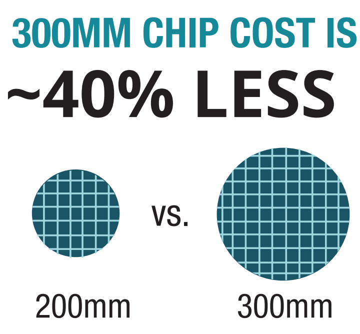
- a strong foundation of manufacturing and technology with a cost advantage
- the industry’s broadest portfolio of differentiated Analog and Embedded Processing chips
- the industry’s largest market channels with the broadest reach, and
- the diversity and longevity of our products and the markets we serve.

Manufacturing and technology

Our first attribute is our approach to manufacturing and technology. We invest in manufacturing technologies that differentiate the features of our chips, and we do most of our own production in-house as opposed to outsourcing it. By owning our own factories, we have more control over our supply chain that supports our approximately 100,000 customers.

How and when we chose to strategically add to this capacity also benefit us. In recent years, we've opportunistically purchased capacity and equipment at deep discounts, often well ahead of demand. We're able to do this because our Analog and much of our Embedded chips can be made using mature manufacturing assets. Consequently, we have been able to maintain modest levels of capital expenditures, while investing for future growth. We've done this while, keeping capital expenditures well within our guidance of about 4 percent of revenue.

We opened the industry's first 300-millimeter wafer fab for Analog manufacturing in 2009, and it remains the world's largest 300-millimeter fab dedicated to analog technology. This larger wafer size translates into more chips per wafer and cost advantages because a chip built on 300-millimeter wafers costs about 40 percent less than an unpackaged chip built on 200-millimeter wafers, the size used by most of our competitors.



We are also expanding our manufacturing footprint by ramping an existing 300-millimeter fab to Analog wafer production. Together, these two fabs will be able to support about $8 billion of annual Analog revenue on 300-millimeter wafers, and we expect the vast majority of our future Analog growth will occur on this cost-advantaged capacity.

Broadest portfolio of differentiated Analog and Embedded Processing chips

The second attribute is the breadth of our product portfolio. With leadership positions in most analog categories, we have more differentiated parts to meet our customers' needs than any of our competitors. It gives us the opportunity to offer not only the single chip our customers' design engineers originally seek, but many of the other chips they need to solve the multiple challenges inherent in every new electronic system. This product breadth gives us access to more customers and the opportunity to generate more revenue per system, putting us in a position to grow revenue faster than our competitors.

We invest more than $1 billion in R&D each year to develop new products, and because we focus on the quality of that portfolio, our products remain differentiated, generating high margins and good returns.

Market channel reach

Our third attribute is the size and reach of our market channels. Our global sales and applications support is large – two, three and sometimes five times larger than those of our competitors. This allows us to put more feet on the street to call on more customers and to sell into more of their projects.

We invest more than $1 billion in R&D each year to develop new products.

Moreover, many engineers begin their design process using the web by searching for the best chips suited for their systems. The breadth of our product offerings draws more design engineers to TI.com, which in 2016 had 3x more visits than our competitors.

The net result is that the reach of our market channels, whether it is through our direct sales force or our website, gives us access to more customers and more projects, and therefore, the opportunity to win more sockets in each project. It also allows us to get smarter about what our customers want because with every interaction we learn more about what customers need and how our chips can support those needs.

Diversity and longevity

Our fourth attribute is the diverse and long-lived positions inherent in our markets and products. Diversity means we are not overly reliant on any one market, application, customer or product. We view this diversity as highly desirable because, with it, our success is not singularly dependent on choosing the next winning application or market. Instead, we can participate in both high-profile opportunities and innumerable smaller-scale applications that can span many markets and thousands of customers. A more diverse customer base means less dependency on any single customer and a longer tail of revenue coming from the broader market. Our strategic focus on the industrial market, which is highly diverse, reinforces this outcome. In total, diversity somewhat insulates us from the rise or fall of any one customer or market, which translates into higher and more sustainable long-term growth.

> **Longevity means the chips we design and the sockets we win live for a long period of time.**

Longevity means the chips we design and the sockets we win live for a long period of time. The chips used in industrial and automotive markets, two areas we are targeting, have long life cycles lasting for years, especially when compared with the more turbulent profile of customized chips for short-lived consumer products.

In addition, the process technologies and assets used to produce our chips have long life spans. This longevity translates into higher returns on our investments, with the added benefit of creating high terminal value.

We believe the combined effect of these attributes – manufacturing and technology, a broad differentiated product portfolio of Analog and Embedded Processing chips, market channel reach, and diversity and longevity – sets TI apart from our competitors and will for a long time to come.

Our capital management strategy

The choices we have made as we have developed and honed our strategy have produced positive results: over time, we've invested for growth, gained share, expanded our profitability and created a portfolio that generates sustainable free cash flow* growth.

Long term, we believe the ability to generate cash, and specifically free cash flow growth, is what matters most to any business. In 2013, we introduced investors to our capital management strategy. The strategy codified some past practices, while reaffirming our belief that these practices were sustainable well into the future.

Our capital management strategy reflects our belief that free cash flow growth, especially on a per-share basis, is most important to maximizing shareholder value over the long term, and that free cash flow will be valued only if it is productively reinvested in the business or returned to shareholders.

Number of consecutive years TI has increased its dividend

At the core of our capital management strategy is our business model, which is firmly rooted in Analog and Embedded Processing. This business model, combined with a series of strategic decisions made over the years, has resulted in a set of unique attributes that we believe are sustainable over the long term: our approach to manufacturing and technology, the breadth of our differentiated product portfolio, the reach of our market channels, and the diversity and longevity of our markets and product positions.

The net result is the sustainable capability for strong cash generation. This business model and its resulting attributes have enabled our company consistently to convert 20-30 percent of our revenue into free cash flow, and we believe we can deliver at the top of that range – sustain 30 percent free cash flow margins – in good markets. Our free cash flow has been steady and growing over the past 10 years despite, at times, difficult macroeconomic or market environments.

** Free cash flow = cash flow from operations less capital expenditures*

Moreover, our tax strategy is structured so that our cash is readily available to return to shareholders with about 80 percent of our cash held by U.S. subsidiaries. Our strong balance sheet enables us to fully fund pensions and have access to low-cost debt. With interest rates at historical lows, we plan to continue to hold debt as long as it makes economic sense.

$ 4.1 BILLION
free cash flow generated in 2016
8% CAGR since 2004

Combined, these elements allow us to invest for our future and still have excess cash available to return to shareholders. Over a 10-year period, 2007-2016, we allocated $73 billion across these areas:

- $32 billion on R&D, sales and marketing, capital expenditures, and cash used for inventory. All of these support the organic growth of our businesses. Our R&D expenditures are disciplined and focused on markets we believe have the greatest growth potential. While every market has areas of opportunity that are important to us, we believe industrial and automotive will be key drivers for semiconductor growth in the years ahead, and therefore, are focusing more resources here.
- $25 billion on consistent share repurchases, intended to generate the accretive capture of free cash flow for long-term investors.
- $9 billion on dividends, designed to appeal to our broader set of investors.
- $7 billion on acquisitions to fund inorganic growth, such as our 2011 acquisition of National Semiconductor.

Our goal is to return all of our free cash flow (plus the proceeds from exercises of equity compensation minus net debt retirement) to our shareholders in the form of dividends and stock repurchases. This strategy reflects management's confidence in our business model, and importantly, our commitment to shareholder returns.

In 2016, TI generated $4.1 billion of free cash flow, or 30.5 percent of revenue, and we returned $3.8 billion in total to shareholders. In 2016, we raised our quarterly dividend 32 percent, our 13th consecutive year of dividend increases. We also paid $1.65 billion in dividends, while consuming only 40 percent of our trailing 12-month free cash flow in that same timeframe. This shows there is still plenty of runway ahead of us to support our objective of dividend sustainability and growth. Since 2004, we have reduced our shares outstanding by 42 percent. In fact, we have reduced shares every quarter year-on-year for 51 consecutive quarters as of the end of 2016. We also passed an important milestone in the fourth quarter of 2016, reducing our outstanding share count to fewer than 1 billion shares.

TI is one of the few companies that is both a top cash generator and returner among S&P 500 companies. We believe TI is able to grow, generate cash and return it to shareholders in a way that few companies can match.

Our financial segments

TI has three segments: Analog, Embedded Processing and Other. Our segments align with how we manage the company. We view Analog and Embedded Processing as our core businesses. Both offer us the opportunity for growth, solid profits, greater stability and compelling cash generation. Our Other segment also adds value to TI. Although the product lines and revenue streams in this segment tend to have lower growth rates, they provide high returns given the relatively low level of investment they require.

Analog

Analog is our largest segment with 2016 revenue of $8.5 billion, or 64 percent of our total revenue. The market is large – about $48 billion in 2016 according to external sources – and growing, but it is very fragmented. We hold the No. 1 position in this market with about 18 percent share, and we believe that we are well positioned to increase our share over time. We view Analog as a growth opportunity for TI.

Every electronics product requires analog technology because analog is fundamental to how technology interfaces with human beings and the real world. These are chips that change real-world signals – such as sound, temperature, pressure or images – by conditioning them, amplifying them and often converting them into a stream of digital data that can be processed by other semiconductors, such as embedded processors. They are also used to manage power in all electronic equipment by converting, distributing, storing, discharging, isolating and measuring electrical energy, whether the equipment is plugged into a wall or run off a battery.

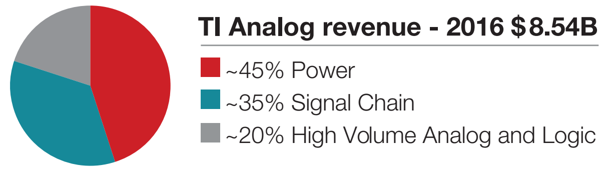
#1

ranked analog supplier by revenue in the industry

Our Analog business includes Power, Signal Chain and High Volume Analog and Logic products.

At the beginning of 2017, we simplified the product lines inside our Analog and Embedded businesses to align with the categories our customers think about when performing their own work. This new structure should make it easier for customers to search for and select our products, while allowing us to become more efficient in how we operate.

Analog is now comprised of three product lines instead of four: Power, Signal Chain, and High Volume Analog and Logic. If we were to apply these categories to our 2016 Analog revenue, Power would comprise about 45 percent of the segment; Signal Chain about 35 percent; and High Volume Analog and Logic the remaining 20 percent.



Beginning with our first-quarter 2017 earnings, we will use these product lines to describe the performance of our business segments.

While we have many products optimized for specific applications, most of our Analog business focuses on catalog products that can be sold to many different customers who use them in a wide range of applications. We intend to increase our catalog presence as the diversity and long life cycles typical of these products are advantageous.

Embedded Processing

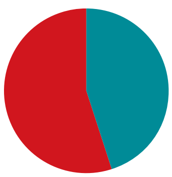
Embedded Processing is also one of our core businesses with 2016 revenue of $3.02 billion, or 23 percent of our total revenue. Like Analog, this is a large, attractive market – according to external resources about $18 billion in 2016 – with a fragmented competitor base and a proven track record of profitability. We are a market leader in embedded processing with 17 percent market share. Our Embedded Processing business has a proven history of outperforming the market.

Embedded processors are the “brains” of many types of electronic equipment. They are designed to handle specific tasks and can be optimized for various combinations of performance, power and cost, depending on the application.

As in Analog, we simplified the product lines inside our Embedded Processing business, and went from three product lines to two. Embedded now consists of Connected MCU, which merged the previous Connectivity and Microcontrollers product lines, and Processors, which is essentially unchanged.

Looking back at our 2016 Embedded revenue, Connected MCU would have been about 55 percent of the total, with Processors comprising the remaining 45 percent.

An important characteristics of our Embedded products is that our customers often invest their own R&D to write software that runs on our chips. Once a customer writes software on our platform, they tend to want to re-use that software investment from generation to generation of their product. As a result, relationships with these customers tend to be long-lasting and strategic. Success in this business is about having a large customer base and large software base per architecture.



TI Embedded Processing revenue - 2016 $3.02B

~55% Connected MCU

~45% Processors

We are focusing our investments in this business on areas where we have potential for sustainable growth, meaningful returns and differentiated positions. For example, several years ago, we invested in microcontrollers and now are seeing those investments delivering growth in Connected MCU in an increasingly connected world. In Processors, we have our resources focused on growth opportunities in industrial, automotive and communications. Given our focused investments, we expect Embedded Processing to continue to grow and its profitability to continue to improve.

Other

We group all our remaining revenue in a segment called "Other." This segment's revenue was $1.81 billion in 2016, or 13 percent of our total revenue.

"Other" adds significant value to TI. Although there are some differences in the various business models represented in this segment, in general, these product lines have a profit contribution that is attractive, where our investments are minimal and aligned with our growth expectations.

"Other" includes product lines such as DLP® products, calculators and custom ASIC products as well as royalties. In addition, it can include other items such as acquisition charges, restructuring charges, and certain corporate-level items.

Our end markets

We sell our products into a diverse set of six end markets that we have identified and grouped by their life cycles and market characteristics. We also have identified more than 35 subcategories, or sectors, that go into these six end markets, reflecting the diversity of the markets and applications we serve. For example, in industrial we have 14 sectors, with no single sector having more than a mid-single digit percentage of TI revenue in 2016.

In 2016, industrial was 33 percent of TI revenue, automotive was 18 percent, personal electronics was 26 percent, communications equipment was 13 percent, enterprise systems was 6 percent and other, which includes calculators and royalties, was 4 percent. Together, industrial and automotive, which are areas of strategic emphasis for TI, represented 51 percent of our revenue, an increase of nine percentage points since 2013.

Our continuing commitment to improvement

Over the past few years, we've spent a lot of time defining, developing and implementing plans to ensure TI keeps getting stronger for many years to come. We intend to continue to focus our investments in the right products and markets. This means pursuing growth opportunities in Analog and Embedded Processing, which we expect to generate 90 percent of our revenue in the next few years.

51%

2016 revenue

coming from industrial and automotive end markets

We want industrial and automotive to be a bigger part of our future because of the anticipated diversity, long product lives, growth opportunities and solid returns on investments they will provide.

We are making good progress in building a larger presence in these important markets.

We want more revenue coming from catalog and application-specific standard products as they have attributes that matter to us: long product lives, many customers, good profitability and great representation in industrial and automotive.

We also would like to see more diversity in our customer base as this provides more stability and growth opportunities. This means more engagements with small customers and new wins with large customers.

To help translate these objectives into actions, we have launched a number of company-level initiatives to take execution to the next level and make it a consistent advantage for TI. To cite a few examples, we have created playbooks for our product lines, sales force and manufacturing teams so we can infuse all our people with a common language and a baseline of best practices. This discipline has increased our rates of learning and improvement, and is helping us get to market faster and accelerate our product launches. We are also working to make TI.com the starting point and the ending point for design engineers as they choose chips for their systems.

3x more
number of visits **ti.com** had in 2016 vs. our competitors

We are reinvigorating our commitment to innovation. Whether we are creating new products or taking existing products to a new level, we want 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

We believe the ultimate measure for any enterprise is superior long-term growth of free cash flow. In 2016, our free cash flow grew 6 percent to $4.1 billion. We have the opportunity to grow free cash flow well into the future both through top-line revenue growth and incremental gains in free cash flow margin.

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 and then return all of our free cash flow and proceeds from exercises of equity compensation, excluding debt repayment, to our shareholders.

Our work is not done, nor will it ever be. In the years ahead, we expect TI to be known for its flawless execution in product development and manufacturing, its superior cash generation and cash return practices, its facility to create new and better product solutions to address our customers' needs and its ability to make the world and people's lives better through our innovations and technologies. As we pursue these objectives, the people of TI will continue to adhere to the high ethical standards that have been a hallmark of TI since its earliest days and remain an integral element of TI culture.

February 2017