

TI Corporate Citizenship Topic Brief

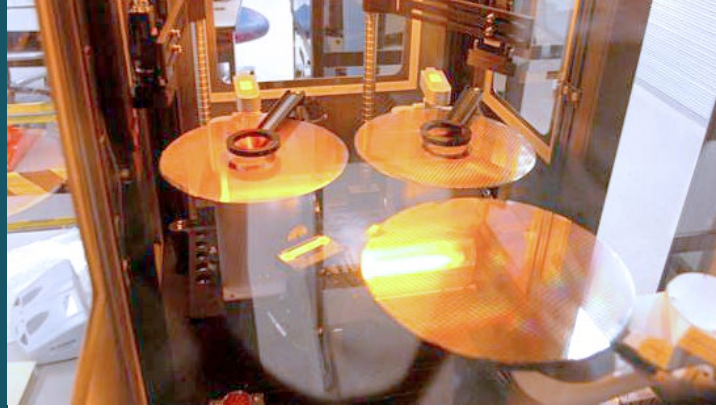


Supply chain management

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Why it matters

Across the globe, approximately 11,000 suppliers of all types and sizes deliver materials or services that help our company innovate and grow. These suppliers support us through direct materials for our fabrication processes, factory equipment and maintenance, logistics, and non-production supplies and services.



Effective supply chain management enables us to reduce costs and waste, streamline efficiencies and increase our competitiveness. Integrating responsible business practices into our supply chain also helps mitigate our vendors' business, labor and environmental risks.

Roughly 80 percent of our procurement is done with about 300 suppliers, of which about 180 are critical to supporting semiconductor manufacturing. When needed, we outsource the manufacturing of wafers or product assembly and testing.

Our approach

Management of our supply chain is led by our vice president of Worldwide Procurement and Logistics, who reports directly to the chief financial officer. Together, they oversee supply chain policies, performance and risk management. Our director of supply chain responsibility oversees supplier environmental and social responsibility, implements related programs and policies, and manages supplier diversity. This role brings greater focus to the growing importance of the supply chain when managing risks and operating conscientiously.

We continually assess risks to our supply chain, whether anticipated, such as emerging regulations, or unexpected, such as natural disasters. Our objective is to ensure that our procurement and supplier-management processes are rigorous enough to prevent shipping delays, escalated costs or reputational impacts. Risks we assess include:

- Quality of materials
- Price and trade volatility
- Availability of materials and finished goods
- Human trafficking
- Labor risks, such as forced, child or bonded labor
- Conflict minerals

Manufacturing semiconductors internally allows us to:

- Reduce costs
- Control fabrication efficiency and quality
- Better manage product supply and demand
- Protect our proprietary technology

Our goals

We seek suppliers that will strategically partner with us to create long-term shareholder value. We also aim to:

- Scale our supply chain to accommodate growth
- Cut costs, improve efficiency and drive continuous improvement
- Mitigate supply chain risks
- Develop innovative approaches to product development

Responsible sourcing

Our strategic procurement plan enables us to purchase intelligently and coordinate buying power globally. Our worldwide procurement teams oversee various categories of goods and services, set specific procurement strategies, and identify qualified suppliers and the best fulfillment methods. We consciously consider sustainability in our purchasing decisions, and have guidelines in place for purchasing and using specific resources. Our policies, contracts and purchase orders also specify our performance requirements and expectations.

We source most services and products locally to drive economic growth and support minority and women-owned business development and employment opportunities in communities where we operate. This also helps us reduce environmental and financial impacts from transporting goods.

Managing our suppliers

Our supply chain management system provides a framework to systematically manage procurement, inventory, manufacturing, quality and distribution processes. It also helps us comply with operational and regulatory standards, track costs and monitor risks.

Our management system is currently certified through:

- ISO Quality Management System 9001, which helps businesses operate efficiently and improve customer satisfaction
- ISO/TS 16949, which is a quality management system for automotive production and relevant service part organizations. We are working to be certified to the latest iteration of this standard, IATF 16949, which was developed by the International Automotive Task Force

We regularly conduct internal audits of our management system to identify and close gaps. Additionally, the International Organization for Standardization (ISO) annually evaluates the system as part of its recertification process. To date, there have been no major findings.

Codes of conduct, policies and guidance

We have a variety of guidance documents in place to ensure our standards and expectations are clearly communicated. For example, we require suppliers to comply with:

- Our [Supplier Code of Conduct](#) to ensure that working conditions in our supply chain are safe, workers are treated with respect and dignity, and that business operations are environmentally responsible and conducted ethically
- The [code of conduct](#) created by the Responsible Business Alliance (RBA), formerly known as the Electronic Industry Citizenship Coalition, which includes additional environmental, social and ethical standards applicable to the electronics industry
- Our [Supplier Environmental and Social Responsibility Policy](#), which outlines our expectations for labor, work conditions, health, safety and environmental protection
- Our [business practices statement](#), which outlines our unwavering pledge to uphold human rights, ethical practices and a safe environment
- Our [ethical](#) expectations and values

See [Environment, safety and health](#) to learn more about those standards and requirements, as well as [Product responsibility](#) to learn about our material quality and reliability expectations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires publicly traded companies to disclose the extent to which their products contain so-called “conflict minerals” (i.e., tantalum, tin, tungsten and gold) sourced from mines in the Democratic Republic of the Congo or adjoining countries. Armed groups in these areas have been fueling war and human rights abuses in these regions. Learn more about our effort to eradicate non-compliant smelters by reading our [Conflict Minerals Policy](#), [Conflict Minerals topic brief](#) and [our filing](#) to the U.S. Securities and Exchange Commission.

- Our Conflict Minerals Policy, which describes our expectations for disclosing information about minerals and metals in our supply chain

Engagement

When initiating relationships with suppliers, we educate them about our standards and expectations for safe, humane and ethical labor practices, as well as human trafficking, forced labor and workers' rights. We communicate these guidelines in meetings, on our supplier website and in purchase orders, supplier contracts and other related documents.

We also routinely engage and collaborate with industry groups such as the RBA, the Semiconductor Industry Association and SEMI to discuss and create supply chain standards and share best management practices. For example, the RBA holds regular teleconferences and webinars to help its members better understand and monitor risk associated with labor recruitment practices.

Empowering workers

Workers in our supply chain have the freedom to openly communicate and share ideas and concerns with management regarding working conditions and management practices without fear of discrimination, reprisal, intimidation or harassment.

Additionally, if suppliers have questions or concerns about doing business with TI, we make our buyers or procurement representatives available to meet with them. Our supply chain management team can also assist with identifying and addressing issues that are inconsistent with our ethics and values. If suppliers prefer, they can contact our Ethics Office to anonymously ask questions or discuss issues.

Training

We provide ongoing training and tools to help our suppliers abide by our policies and continuously improve. We deliver online and in-person training on our Supplier Code of Conduct, standards and expectations. As a member of the RBA, we also leverage its training programs to help suppliers understand its code of conduct, labor risks, respecting workers' rights, hiring migrant workers and more.

Our expectations

We expect our suppliers to exemplify good corporate

citizenship, adhere to our standards, comply with laws and regulations, and achieve and maintain benchmark levels of performance.

We also expect them to create their own sustainability policies, standards and processes, operate ethically and legally, and continuously improve performance.

Our specific mandates include:

- **Compliance** – Both TI and our suppliers must operate in full compliance with the laws and regulations of the countries in which we do business. While these vary, site leaders are responsible for monitoring local legislation and ensuring compliance.
- **Quality** – Our supplier quality guidelines outline the processes and systems that support our quality expectations. These include making sure direct material suppliers are certified to international quality standards. We also scrutinize their financial health to ensure that they can maintain product deliveries and put contingency plans in place to prevent possible interruptions.
- **Human trafficking** – We do not tolerate human trafficking of any kind, and assess global labor risks and monitor supplier performance to ensure ongoing compliance. The California Transparency in Supply Chains Act of 2010 and the United Kingdom Modern Slavery Act 2015 require companies to disclose their efforts, if any, to eradicate slavery and human trafficking from their supply chains and businesses. Our Anti-Human Trafficking Statement provides information about our efforts.
- **Forced and bonded labor** – Through our Supplier Code of Conduct and Environment, Safety and Health policy, we forbid:
 - Forced, bonded (including debt bondage) or indentured labor, involuntary prison labor, slavery or trafficking, or child labor
 - Transporting, harboring, recruiting, transferring or receiving persons by means of threat, force, coercion, abduction or fraud for labor or services
 - The holding of worker passports or the charging of fees in exchange for jobs
 - Substandard living and work conditions
 - Excessive work hours
 - Exploitation and discrimination

Through our involvement with the [RBA's Responsible Labor Initiative](#), we have access to tools and training to help our suppliers respect and promote the rights of their workers through responsible recruitment and employment practices. Where labor providers are used, we require extensive due diligence and conduct interviews with workers to identify possible exploitation. We also conduct regular assessments to evaluate employment contracts, working hours and dormitory conditions.

Environmental, safety and health

We require suppliers to have robust environmental, safety and health policies and management systems, methods to identify and control risks, and to comply with related laws and regulations. This includes proving compliance with banned substances and [restricted chemicals](#).

Transparency

We believe public reporting on sustainability increases transparency, and leads to improved sustainability and social responsibility practices. We encourage our suppliers to publish reports disclosing their own sustainability and social responsibility efforts using an internationally recognized reporting framework, such as the Global Reporting Initiative (GRI). GRI Standards include quantitative metrics on workplace safety, human and worker rights as well as environmental compliance.

We strive to provide the kind of transparency we expect from our suppliers:

- Our [Eco-Info and Lead \(Pb\)-Free website](#) and [product content database](#) allow customers to view materials contained within our products
- We provide details of our supplier management and monitoring programs, and disclose our annual performance in our Corporate Citizenship Report
- We share findings of the RBA/Global E-Sustainability Initiative's Conflict Minerals Reporting Template with customers as required
- We meet with stakeholders to address questions about our environmental, supplier management and social responsibility activities

Monitoring performance

We conduct risk assessments, factory self-assessments and third-party audits to determine how well our suppliers are complying with laws, regulations, standards and policies. Differing international regulations present challenges in determining accountability for audits and performance improvements related to supplier working conditions. We are working with our industry partners through organizations like the RBA to address and overcome this challenge.

Our primary evaluation mechanisms include:

CETRAQ scorecard

Twice a year, we measure suppliers against our cost, environmental and social responsibility, technology, responsiveness, assurance of supply and quality (CETRAQ) scorecard. We also assess suppliers' compliance to our quality, labor, ethics and human rights standards as well as their risk management performance. CETRAQ also helps us quickly identify potential risks and development opportunities, illustrates if our suppliers understand our expectations and where they need to improve. For our Education Technology suppliers, we use a similar process to verify that their products meet our deliverable specifications.

Self-assessments

We require our first-tier suppliers to complete a self-assessment questionnaire to identify their greatest social, environmental and ethical risks.

Internal audits

We conduct internal audits of critical suppliers to ensure that their qualifications, performance and business continuity plans continue to meet our standards. We also conduct worker interviews and inspect dormitories and workplace conditions.

Third-party audits

Independent auditors assess 25 percent of our high-risk supplier facilities using the RBA's Validated Assessment Process, which examines labor, ethics, health, safety and environmental conditions.

For more information about how we trace sources of conflict minerals entering our supply chain, see [Conflict Minerals](#).

Improving performance

To help suppliers enhance their performance, we collaborate with them to develop improvement plans until issues are resolved to our satisfaction. We review progress regularly to prevent recurrence. Vendors who do not comply with our standards, laws or regulations must put corrective action plans in place within a specified time or risk termination of the relationship.

We recognize outstanding suppliers each year through the TI Supplier Excellence Award. Winners are selected based on their CETRAQ performance.

A key component of our diversity program is to mentor minority and women-owned enterprises so they can operate more efficiently, grow their businesses and contribute meaningfully to the regional economy.

Diversifying our supply chain

We have had a formal program to foster diversity of our supply chain in place for more than 20 years. We benefit by receiving creative, diverse and cost-effective solutions for our business.

Our sourcing strategy is inclusive, and encompasses qualified and certified minority and women-owned enterprises (MWBEs) that have a relevant product or service to offer. Most of our engagement efforts are concentrated in North Texas, where our headquarters and several of our major manufacturing facilities are located.

Procurement managers work with prime suppliers to determine feasible spend goals for diverse suppliers and monitor progress toward those goals. We require prime suppliers to report spending with certified diverse suppliers quarterly. This initiative helps us increase the amount of MWBEs participating in our supply chain.